



Kathleen Healy  
Technical Director, IAASB

Submitted online:  
[www.ifac.org](http://www.ifac.org)

Brussels, 18 May 2016

**Subject: Response to the IAASB's Invitation to Comment on Enhancing Audit Quality**

Dear Ms Healy,

- (1) The Federation of European Accountants (the Federation) is pleased to provide you with its comments on the International Auditing and Assurance Standards Board (IAASB) Invitation to Comment (ITC): *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*.
- (2) This comment letter has been prepared by the Auditing Subgroup on IAASB Exposure Drafts that consists of practitioners and experts from our member bodies.
- (3) A number of important issues have been identified in the ITC and we support most of the actions aimed at enhancing audit quality. We note, though, that it was challenging to respond to the consultation given its voluminous content and the significance of all three areas, particularly as the detailed wording is yet to be developed. We would recommend not using such approach of requesting massive combined comments in the future.
- (4) We are concerned that, as noted within the consultation, a large number of the issues are predominantly regulatory-driven and thus are likely to have been developed from observations regarding large and complex audits. Also, the spirit of the clarity project is gradually getting lost; the IAASB should be careful not to end up at a point where standards will become overly complex. In addition, while we consider many of the issues to be valid, many of them relate to the application of the standards, rather than flaws in the standards per se. Although it is right that high quality standards should enable effective application and lend themselves to regulatory enforcement, the IAASB should be careful not to develop endless standards and requirements of unworkable length that perhaps are only relevant to large complex audits. The standards should be kept flexible enough for small- and medium-sized practitioners (SMPs) and have sufficient room so as not to inhibit innovations that will happen in the near future.
- (5) Furthermore, we encourage the IAASB to step back and look at each proposal in the context of its overall impact on the practitioner, and assess the consequences of the length and detail involved.

- (6) We agree that the ITC addresses the most relevant public interest issues. The fundamental public interest angle is public confidence in high quality financial reporting, and therefore audit quality. To this end, audit firms of all sizes have a role to play in designing policies and procedures to enhance confidence in financial reporting and address the underlying public interest issue.
- (7) Last but not least, the standards need to continue emphasising the need for professional scepticism and professional judgement to be applied, especially in the context of accounting estimates. We very much welcome the current project on revising International Standard on Auditing (ISA) 540 Auditing accounting estimates, including fair value accounting estimates, and related disclosures and the coordination that will take place between the task forces dealing with both projects. Also, the IAASB should encourage others to develop practical case studies illustrating how professional scepticism should be applied in practice, and should continue liaising with accounting standard setters on challenging areas.

### **Professional Scepticism**

- (8) We agree with the areas explored around the concept of professional scepticism. One important point is that the IAASB could clarify that, even if, with the benefit of hindsight, a judgment turns out to be different, this does not necessarily mean that the auditor did not apply professional scepticism at the time when the work was carried out; nor that there was any error in judgement at the time it was made. It may just be a consequence of the uncertain nature of specific assumptions.
- (9) Additionally, the definition of professional scepticism could perhaps be enhanced by including more explicitly the concept of the 'right attitude' and what is entailed by applying a 'questioning mind'. This is often in relation to understanding the significance of what documentation and information is already on the audit file.
- (10) We consider the auditor's personal characteristics to be a vital driver in exercising professional scepticism. Enhancing these characteristics could be strategically addressed with training, education, and mentoring.
- (11) Lastly, the link between professional judgement and scepticism is helpful to understand. The auditor must balance the need to be professionally sceptical against applying professional judgement in practice, taking account of the facts and circumstances particular to a specific engagement at a particular point in time. We also encourage further discussion around good documentation of key professional judgements, particularly on challenging areas.

### **Quality Control**

- (12) We support the Quality Management Approach (QMA) as it is designed to be more flexible and more responsive to risks. It also has the potential to better address the issue of proportionality for SMPs; this is difficult with International Standard on Quality Control (ISQC) 1. For this to be successful, however, the IAASB must give examples of just how this framework could be effectively applied in a small practice scenario. In order to convince SMPs of this, an impact assessment might also be useful. Lastly, the IAASB should reflect on proactive aspects of QMA that could potentially prevent audit deficiencies.
- (13) "Engagement Partner Roles and Responsibilities" seems to be central to many of the issues raised and as such could possibly be developed further. It would be particularly useful to have more clarity on what is meant by performance, direction, supervision, and review from the engagement partner. This matter also needs careful consideration in the context of a second signing partner; caution needs to be taken not to undermine the responsibility of the engagement partner.

- (14) Regarding “Others Involved in the Audit”, we do not support reopening the recent debate of disclosing them in the auditor’s report. However, including a detailed reference in the scope section describing what has been covered during the audit should not be excluded. We note that this has happened in a number of instances in the UK’s reporting regime and it has been presented in a way that generally does not name the ‘other’ auditor, nor does it undermine the fact that the group auditor is solely responsible for the group opinion. Also, in the Netherlands there is a separate section in the auditor’s report where the scope of the group audit can be explained.
- (15) One of the most pressing issues for networks is in the section “The firm’s Role in Supporting Quality”. Further clarity in ISQC 1 and ISA 220 *Quality Control for an Audit of Financial Statements* about what should be considered and documented by the individual firm in terms of reliance on network policies and procedures will be helpful, provided the IAASB maintains its principles-based approach in this context.
- (16) In addition, the issues identified in the context of network firms could be tackled by enhancing the ISQC 1 requirements on documentation, as well as on the work expected to be performed at the firm level and at the engagement level. We do caution against prescription; however, as a flexible approach is needed to take into account the very different circumstances of individual firms and networks, especially in relation to audit delivery models (ADMs).
- (17) With respect to the “Governance of the Firm, Including Leadership Responsibilities for Quality” section, we agree that one of the most important actions would be to incorporate specific references such as the “tone at the top” and “lead by example” in ISQC 1, and also to require accountability for firm leadership and the use of appropriate personnel.
- (18) We agree with most actions proposed in the section “Engagement Quality Control (EQC) Reviews and Engagement Quality Control Reviewers (EQCR)”, except for the development of a separate EQC review standard. This would perhaps result in a disproportionate focus and expectations compared with the audit engagement partner, who of course is not the subject of a specific auditing standard. We also do not believe it is appropriate to have the EQCR ‘announced’ in the auditor’s report. The IAASB should be bold in the approach of keeping the EQCR as an internal role without having any link with the client. Lastly, EQC reviews should be considered for entities such as those with public exposure and high risk areas for society.
- (19) The “Monitoring and Remediation” section effectively completes the circle of the QMA and we agree that the firms should be required to consider external findings. Perhaps the key aspect though is ensuring the firm deliberates what to do thereafter in order to address the issues identified from these findings. It is also important to understand the causal factors of audit deficiencies relating to inspection findings and other reviews, and the root cause, if possible.
- (20) With reference to the “Engagement Partner Performance and Rewards Systems”, although we can appreciate the plausible link, and we do agree with the importance of aligned incentives, developing standards at this stage would seem inappropriate if for no other reason than because the measurement criteria of audit quality have not been universally agreed.
- (21) In general, the IAASB should concentrate on the key matters relevant to quality such as human resources, behavioural management, and root cause analysis. Other players could also contribute to improving audit quality while focusing on other important parts of the issue. For instance, audit inspection authorities should develop a consistent approach to reporting of audit deficiencies and other shortcomings.

- (22) Last but not least, we consider that public perception of the audit as a high quality and valuable service needs to be encouraged by all stakeholders including management, but also regulators.

### Group Audits

- (23) ISA 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* is not a standalone standard for group audits; it should be emphasised that all relevant ISAs have to be applied as well. It would be beneficial for instance to cross reference ISA 600 to ISA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* and ISA 330 *The Auditor’s Responses to Assessed Risks* so as to help reinforce the need to consider the wider suite of ISAs. Practical sources of guidance and illustrative examples, to be developed outside of the standards, may also be key information, in most cases, to the development of better quality group audits.
- (24) The need for a timely and two-way communication between the group auditor and component auditors should be emphasised. We favour a bold approach in recognising the role of the component auditor and hence add more requirements and/or guidance for component auditors to communicate issues to the group auditors.
- (25) We agree with the actions proposed in the section “Using the Work of Component Auditors”. The timing, nature, and extent of the group engagement team’s involvement in the work of component auditors should be flexible enough to accommodate individual circumstances.
- (26) Care should be taken with regards to ISA 600 addressing financial statement materiality since primarily these issues should be the focus of ISA 320 *Materiality in Planning and Performing an Audit*. Nevertheless, it is a difficult area, and provided that component materiality is not addressed in ISA 320, additional guidance would be welcome in ISA 600 on what the component materiality allocation should be and how the group auditor could be guided to determine it.
- (27) To respond to identified risks of material misstatement in a group audit, it would be important to clarify how to scope the work that needs to be done at group level on non-significant components. The main problem is not the identification of components per se but the combination of a ‘bottom up’ and ‘top down’ approach to the assessment of the risks of material misstatement. The IAASB should be careful not to impose too many fully-scoped non-significant components, which may be of only marginal benefit to the group auditor.
- (28) We should not ignore the access problem for regulators when it comes to the cross-border visibility of the working papers of component auditors. This issue makes them exaggerate the importance of documentation by the group auditor in order to be able to demonstrate how sufficient audit evidence has been obtained in such cases. However, in our view it would be inappropriate for the IAASB to take sole responsibility for solving this structural issue.
- (29) Finally, auditing standards are silent when it comes to the use of a shared service centre (SSC), or reliance upon the work performed by an SSC. This lack of proper guidance should be tackled, noting that this is an area challenged by regulators. Nevertheless, this may not be seen as a group audit issue.

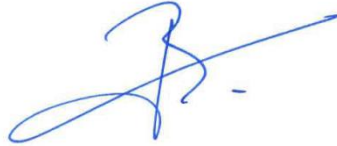
(30) For further information on this letter, please contact Noémi Robert from the Federation's team on +32 2 285 40 80 or via e-mail at [noemi.robert@fee.be](mailto:noemi.robert@fee.be).

Kind regards,

On behalf of the Federation of European Accountants,



Petr Kriz  
President



Olivier Boutellis-Taft  
Chief Executive

### **About the Federation of European Accountants**

The Federation of European Accountants represents 50 professional institutes of accountants and auditors from 37 European countries, with a combined membership of over 875,000 professional accountants working in different capacities. As the voice of the European profession, the Federation recognises the public interest.

## Appendix

### GENERAL QUESTIONS

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

*a) Are these public interest issues relevant to our work on these topics?*

- (31) The issues described in table 1 of the ITC are relevant to professional scepticism, quality control and group audits.
- (32) We especially consider the final bullet point in “Reinforcing the need for robust communication and interactions during the audit” to be vital; for instance, regarding its potential to giving more junior staff insight into the mind and focus of the audit partner and the benefit of his/her experience and expertise. This bullet point also includes all other communications such as the ones issued to those charged with governance, the auditor report etc. We recommend that the IAASB also considers barriers that might exist to the application of these principles in practice, for instance by acknowledging that there are disincentives, time constraints, or commercial pressure which could detract any form of proper communication.
- (33) The second bullet point “Enhancing documentation of the auditor’s judgement” is also important. Recognising that documentation can be a powerful tool will help auditors to have more fortitude when carrying out an audit. However, enhancing documentation should be understood in terms of quality not quantity, as it would not be appropriate for auditors to have to document every thought process in arriving at a particular judgement. In addition, care needs to be taken to ensure that the project on professional scepticism is not confused with professional judgment.
- (34) Bullet 1, “Fostering an appropriately independent and challenging sceptical mindset of the auditor”, might warrant further thought since it perhaps focusses too much on engagement partners. Although we agree that sceptical engagement partners are pivotal to a quality audit, one should not underestimate the importance of instilling scepticism at lower staff levels as well and in particular via a proper ‘tone at the top’. In particular, the IAASB could consider how more senior staff who ask more searching questions in more specific areas can help junior staff develop these attributes. A great deal of important work underlying the ITC relates to behavioural issues including the importance of ‘group think’, the adverse effects of resource constraints, and the mechanisms that can be put in place by firms to mitigate their effects. The ITC and auditing standards should explicitly acknowledge these important issues.

*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.*

- (35) Many of the challenges regarding professional scepticism manifest themselves in the context of accounting estimates and, as such, the revision of ISA 540 is very relevant to the topics discussed. We very much welcome the fact that the IAASB is working on it and that coordination will take place between the task forces dealing with both projects.
- (36) We also consider the revision of ISA 315 important.

(37) Furthermore, we consider the evolving role of the auditor, such as to provide assurance on other information than the financial statements, to be a relevant public interest issue.

*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.*

(38) The fundamental public interest angle is public confidence in audit quality. To this end, audit firms of all sizes have a role to play in designing policies and procedures to enhance public interest issues. These policies and procedures would focus on their individual facts and circumstances. In this way the scalability issue, also closely linked to the SMPs, is important. Although the full complement of this spectrum of audits might not be the focus of some of the regulators, we applaud the IAASB for recognising the importance of this in the ITC. Even if this consultation is a regulatory-driven piece, we should keep in mind that the revised requirements would need to be applied in less complex and smaller audits as well. In addition, we consider that all stakeholders in the financial reporting chain should contribute to this project.

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**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?**

(39) The IAASB should encourage others to develop practical case studies illustrating how professional scepticism should be applied in practice, focusing on various areas such as documentation.

(40) Furthermore, the IAASB should continue liaising with accounting standard setters to encourage discussion on the areas of materiality and going concern areas.

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

(41) Yes. In relation to the planned academic research, one of our UK member bodies, ICAS, undertook joint research with the UK Financial Reporting Council (FRC) on the skills required in an audit team for it to perform high quality public interest audits in a modern and complex global business environment. Two academic research teams were commissioned to perform this research and their findings have recently been published<sup>1</sup>.

(42) In addition, there is potentially other academic research available in Europe. The European Accounting Association (EAA)<sup>2</sup> could be a good reference for inquiry.

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<sup>1</sup> Further information is available at: <https://www.icas.com/technical-resources/major-icas-frc-research-explores-audit-skills-of-the-future>

<sup>2</sup> <http://www.eaa-online.org/r/default.asp?id=FDJHJD>

## PROFESSIONAL SCEPTICISM

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### 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?

- (43) The way in which scepticism is linked to professional judgements and then prompts actions and documentation is a useful construct, although care should be taken so as to not underplay the role of 'mindset'. In addition, more emphasis can be given to the professional part rather than the sceptical one. The definition of professional scepticism should include the concept of the 'right attitude' that should be applied and what is entailed by applying a 'questioning mind'. Also, the IAASB should try to understand where the barriers to professional scepticism are and engage with the regulators to identify which areas need to be enhanced further. Paragraphs 28 et seq. provide a good basis on which to build this line of thinking.
- (44) Furthermore, it is worth pointing out that scepticism is about understanding the significance of what is already on the audit file. The defining issue is often uncertainty and/or complexity. For example, auditors, including senior staff, need to be encouraged to ask for more resources when they struggle to understand technically complex issues. Because of resource constraints, they should not be forced to being satisfied with simply understanding the issue. Auditing standards and any discussion of professional scepticism needs to recognise that audit teams need to have the time and confidence to question the evidence received.
- (45) In addition, we note that because the definition of professional scepticism is an 'ISA driven matter', the impact of any change to other standards should also be considered. Perhaps the IAASB could work with the IESBA to also clarify the relationship of professional scepticism to the various ethical principles such as objectivity, independence of mind, professional competence, and professional due care.
- (46) Moreover, the connection of, yet distinction between, professional judgement and scepticism could be helpful given that the former is associated more with documentation and the latter is more about attitude. Judgement should not be restricted to documentation though: it is a process followed to arrive at a conclusion as to whether sufficient appropriate audit evidence exists to support an assertion – with the documentation being the output of that process. The definition in ISAs could also usefully clarify that professional scepticism is an epistemic issue, i.e. that it is always related to justification based on grounds or evidence.
- (47) Given the proposed linkage between professional judgment and professional scepticism, we would encourage further discussion around good documentation of key professional judgements which could potentially exhibit that professional scepticism is applied. Perhaps disciplines such as 'forcing' auditors to go through a step-by-step thought process and document this might help demonstrate professional scepticism. In this way, they could better assess 'what was given' and 'what could have been given' to them, when it would be appropriate to challenge in this way. This is also directly linked to a risk-based assessment where the auditor should be encouraged to question, as a starting point, where the material misstatement risk areas lie and decide thereafter whether it is appropriate to challenge within those areas or not. Care should be taken not to imply that challenge ought to be required in every situation, as this could lead to an audit becoming impracticable, and extend the likelihood of regulatory challenge over some of these judgments even further.



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

- (48) We agree that the concept of professional scepticism should be considered pervasively across the spectrum of professional standards and guidance. As such, we strongly support the approach of a joint working group aimed at ensuring a coordinated approach.
- (49) All the areas discussed in paragraph 37 are important. Although the link to professional judgement is important, the concept of scepticism is still somewhat nebulous and hence success will only result if all facets are considered. Having said that, perhaps priority should be given to “how auditors can be effectively trained and how their competencies can be further developed to enhance the application of professional skepticism”, albeit that the effect of all the other areas will need to be fully understood before this can be realised.
- (50) It will also be important to recognise the impact that local norms and cultures have in the application of professional scepticism. While acknowledging that this is difficult in practice and needs to be handled with care, we need to recognise and understand the influence that the different cultures might have on an audit engagement, and what safeguards might need to be put in place. Regardless of cultural impact, the IAASB could highlight how important the senior members of the team are to the overall scepticism applied by the engagement team, i.e. in shaping and developing the natural professional scepticism of less experienced staff.
- (51) Important drivers of scepticism, and at the same time impediments, are specific to an engagement, a client, and the firm. It includes availability of resources, budgets, staff workload, reporting deadlines and stringent timetables, as well as the clients’ environment. We acknowledge that it might not be possible for the IAASB to address all of these factors, but the auditor should be encouraged to recognise when such threats to scepticism exist and exercise professional scepticism upon acceptance/continuance of an audit engagement, or put in safeguards to ensure that sufficient scepticism is applied.
- (52) Another important driver is the diversity of backgrounds of the engagement team members. Individuals from different backgrounds can bring a diverse range of skills and experiences which can add value when exercising professional scepticism.
- (53) Furthermore, auditors’ personal characteristics are vital drivers to the application of professional scepticism. These characteristics ought to be considered as part of a firm’s recruitment decisions. For instance, an auditor having developed a questioning mind will be better equipped to apply professional judgment. Audit firms should encourage right behaviours via proper disincentives and incentives within their quality control systems.

- (54) Professional scepticism is an attitude ('state of mind') that is subject to behavioural factors and personal traits. It is therefore crucial to consider the behavioural aspects given the huge variations in people's natural levels of professional scepticism. Strategic ways to address this issue could be through training, education, and mentoring, as well as incentives and disincentives within a firm's system of quality control. The training and mentoring elements might be provided by the firm; however, the education element might be best provided by professional bodies. In any case, what would be most useful would be the opportunity to share experiences and encourage more senior members to share their experiences on instances where they have been faced with an issue that required their scepticism and/or judgement. Especially, it would be incredibly valuable to impart where things have gone wrong and not only focus to those that resulted in positive outcomes.

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

- (55) While we agree with the areas explored in paragraphs 38-40, we have identified additional areas that also merit consideration. Additionally to paragraph 38 (a) (ii) stating "how a firm's policies and procedures reward and incentivize auditors who demonstrate sceptical behaviour in performing audits", the IAASB and the Joint Working Group should consider the "outcome effect", as indicated in the "State of the Art Research Related to Auditor Professional Skepticism", whereby seniors of the audit team appraise the employees on the outcome of their sceptical behaviour at a time adjacent to the audit work. Specifically, it should be clarified that even if, in hindsight, the auditor comes to the wrong audit judgement it does not necessarily mean that he/she did not apply professional scepticism at the time of the work.
- (56) Regulators have been significant contributors to the professional scepticism debate; we suggest that the IAASB should continue liaising with them in order to have more insight into external inspection findings, especially in the area of accounting estimates, which seems to be one of the main causes from which professional scepticism criticism derives. Notwithstanding this, we consider that dialogue with the firm is an important source of knowledge, particularly in relation to the results of their root cause analysis.
- (57) ISA 701 (*New*), *Communicating Key Audit Matters in the Independent Auditor's Report*, encourages the auditor to demonstrate professional scepticism and explain the professional judgement applied in the auditor's report. From matters that required significant auditor attention, the auditor is required to determine which of these were of most significance in the audit and, therefore, which key audit matters have to be included in the auditor's report.
- (58) Finally, we would have liked recognition that professional scepticism is a concept that needs to be considered alongside other factors. The auditor must balance the need to be professionally sceptical against applying professional judgement in practice, taking account of the facts and circumstances particular to that engagement at that point in time. The IAASB itself should consider how its standard setting is affected, for example an emphasis on corroborating evidence might be seen as precluding the exercise of professional scepticism.

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

- (59) Yes, taking these possible actions could be effective in promoting improved application of professional scepticism.

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

- (60) We have identified several actions that others, such as audit committees, regulators, and national auditing standard setters, could take to enhance the application of professional scepticism. For example, audit committees have a strategic role in asking the auditor to explain where and how professional scepticism has been exercised. Audit committees could establish procedures to provide feedback to the external auditor as to whether they have delivered high quality work, which would include observations regarding the application of professional scepticism.
- (61) As far as the regulator community is concerned, co-operation between standard setters (IAASB, IESBA, and IAESB) and practitioners to establish a joint definition and a common understanding of their expectations as to how the concept of professional scepticism should be applied in practice would be very welcome.
- (62) With regards to the auditing standard setters, structuring standards in a way that instils a sceptical mind-set, for example urging auditors to consider ‘what could go/went wrong’, to understand if a quality control finding, i.e. wrong risk assessment, was caused by inappropriate application of professional scepticism, and encourage auditors to challenge management. In relation to the latter point, the IAASB should explicitly state that caution needs to be taken on the auditor’s perspective to focus only on those areas where they feel that challenge is the most warranted, i.e. consider the risk-based approach and areas where material misstatements could be identified. Introducing too much of professional scepticism would lead to challenging everything, which will be impractical from an audit point of view.

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

### 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?*

(63) Yes, the use of a QMA approach would improve audit quality. Such an approach is designed to be more flexible and more responsive to risks. In addition, a QMA approach could facilitate the move away from a focus on detective measures to a preventive approach. It might also better address the issue of proportionality for SMPs which was difficult with ISQC 1.

(64) It is our understanding that approaches similar to a QMA are already used by the largest firms. Although as noted above, a QMA might be capable of more proportionate application than was the case with ISQC 1, its application might still be a challenge for smaller firms; the IAASB would be in a good position to help and make clear how smaller firms might apply a QMA, since they will likely face different challenges than those experienced by larger firms. In order to convince SMPs of this, an impact assessment might also be useful.

(65) We have some reservations and hence would welcome more specificity in relation to how corporate governance principles can be useful and relevant in the context of identifying, assessing, and responding to quality risks as mentioned in paragraph 53. Corporate governance principles mentioned in this paragraph were not designed with SMPs and their activities in mind. A QMA should be related to the nature and size of the firm, as well as to the services offered by that firm.

(66) Finally, paragraph 63 merits further clarification on the “sufficient and appropriate resources” required to have an effective operation of the quality system. As acknowledged in the ITC, we reiterate that the IAASB will need to ensure that there is flexibility to allow the audit firm to tailor a QMA to their individual needs and circumstances.

*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?*

(67) Table 3 demonstrates all the relevant elements that should be taken into consideration while restructuring ISQC 1.

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

(68) Any restructuring to ISQC 1 should also be reflected in ISA 220 since, for instance, the latter is premised on the basis of the firm-wide quality control environment.

*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?*

(69) We are supportive of a QMA approach.

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## QC2. Engagement Partner Roles and Responsibilities

e) *Paragraphs 69-86 set out matters relating to the roles and responsibilities with 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?*

(70) The assumption of a leading role associated with the responsibility of the engagement partner is pivotal to the behaviour and attitude of audit team members and should be emphasised. More clarity on what is meant by performance, direction, supervision, and review from the engagement partner, as mentioned in paragraph 85, would help auditors apply these principles better in practice and would also help the engagement partner document and demonstrate that these steps have been achieved. As acknowledged in the ITC, the particular facts of individual audits often make the design and construct of audit teams complex. These complexities include the sheer size and geographical spread of multinational audits plus the way in which the audit firm in question delivers the service, including through using structures such as ADMs. Such situations do, in reality, complicate responsibilities between different partners and staff; the expectations as to how the overall engagement partner demonstrates supervision and control is often far from clear. Therefore, the standards should develop the requirements about the level of supervision in order to get a common understanding about the conditions and factors necessary to ensure a qualitative audit.

(ii) *Why do you believe these actions are necessary?*

(71) As noted above, these actions are predominantly necessary to recognise complex situations where it might not be clear how the engagement partner is expected to comply with all the standard's requirements (e.g. because of locational aspects). This is important since clarification of how these responsibilities are to be complied with could potentially affect the acceptance of the engagement, although we caution against the standards requiring, or presuming, access to full information prior to client acceptance. Information at tendering or client acceptance is invariably limited to some extent.

(72) It is worth highlighting that in situations where the majority of the audit work is performed overseas, then all other things being equal, it is not expected that an engagement partner will go above and beyond those applicable to an engagement partner who is in the same location. Furthermore, whilst it is still expected for the engagement partner to meet the standard's requirements, it is essential to be realistic and recognize that there are situations, for instance, where the engagement partner will not have access to the working papers. This would be a result of restrictions from local laws and regulations, which will inevitably lead to the engagement partner having to rely on the work performed by others. In any case, the engagement partner should be able to document what audit work was reviewed, who reviewed such work, and when it was reviewed. This does not necessarily mean that the auditor has any restriction on his audit scope; it is a matter of judgement as to the level of involvement that is necessary given the particular facts and circumstances.

(73) These actions also underline the importance of the engagement partner having a leading role in ensuring audit quality. A proactive stance that fosters audit quality before an auditor's report is issued is preferable to any after the event monitoring or inspection.

(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.*

(74) No other relevant issues identified.

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

(75) The identity of the engagement partner who has taken responsibility for the engagement should be clear, and, if a second partner also signs the auditor's report, the responsibilities of this second partner should also be clear. In practice, we believe that a second signing partner not taking responsibility for the overall audit engagement would likely correspond to performing similar procedures as an EQC reviewer would perform. This should not, however, detract from the overall responsibility of the engagement partner regarding the audit and not undermine the responsibility of the engagement partner resulting in any potential loss of his authority.

*f) 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).*

(76) We refer to our answer above, although we are not clear as to how widespread such occurrences are. We think that it may be worthwhile for the IAASB to find out whether there is proper ground for doing so. Nonetheless, potential consequences of doing so should also be considered.

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### QC3. Others Involved in the Audit

*g) 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?*

(77) As referred to in paragraph 101, we do not support reopening the recent debate of disclosing in the auditor's report the involvement of other auditors.

(78) However, we do believe that paragraph 102, suggesting a detailed reference to the involvement of another auditor or expert to enhance transparency as to the audit approach and the extent of the use and reliance on other auditors and experts, should be considered; but in light of not undermining the group auditor's sole responsibility for the audit opinion. According to article 27 of the Audit Directive, Member States shall ensure that in the case of a statutory audit of the consolidated financial statements of a group of undertakings, in relation to the consolidated financial statements, the group auditor bears the full responsibility for the audit report referred to in Article 28 of this Directive<sup>3</sup>. As mentioned in our response to question GA1 (c), auditors may choose to make a very general reference to the involvement of another auditor in the scope section of the auditor's report in explaining their approach to the audit. Whilst such reference may be helpful in cases where the group auditor believes that it would lead to more transparency, this should remain a non-mandatory option and not include detail such as audit firms' or individuals' names, extent of work performed, etc.

*(ii) Why do you believe these actions are necessary?*

(79) As stated above, whilst some explanation could possibly enhance transparency of the main auditor's approach by involving other auditors/experts during the engagement, it could be seen as diminishing the auditor's sole responsibility. We note that such references to other auditors have been made in the context of the UK extended audit report regime, however, this has typically referred to 'others' without reference to the actual name of the individual or firm.

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<sup>3</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02006L0043-20140616&from=EN>.

(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.*

(80) No, we did not identify any other relevant issues or actions.

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

(81) We have not identified any potential consequences.

h) *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)?*

(82) As discussed in paragraph 100, clarification would be useful where other auditors are involved (who are not component auditors), as this is not sufficiently clear in the existing standards.

(83) However, we do not believe that we should develop further requirements or application material for circumstances when other auditors are involved in an audit engagement as the purpose should not be to extend the definition of component auditors to include other auditors.

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#### QC4. The Firms' Role in Supporting Quality

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

(i) *Which of the actions outlined in paragraphs 114–116 and 122–123 would be most meaningful to address issues related to firms operating as part of a network of firms and firms' changing business models and structures?*

(84) One particularly important issue in our view is the one described in paragraph 114 which refers to providing further clarity in ISQC 1 and ISA 220 about what should be considered and documented by the individual firm in terms of reliance on network policies and procedures, provided the IAASB maintains its principles-based approach in this context.

(ii) *Why do you believe these actions are necessary?*

(85) These actions are needed in order to keep the standards relevant in the context of continually increasing complexities of international businesses combined with the evolving audit models needed to audit related financial statements. The proposed flexible approach is necessary to address the individual circumstances of each network, and the existence of networks is important to recognise within the standards. Nevertheless, given the current jurisdictionally-focussed audit regulatory system, regulation on a network-wide level is still a challenge. The level of organisation greatly varies: it can go from a branding tool to very stringent procedures. After giving proper consideration and documentation, it seems right that firms can rely on aspects of the network organisation, systems, and controls. Networks are necessary and their complexity is expected to evolve in order to follow the economic trends whereby operating and corporate models are becoming more and more complex, using for instance off-shoring, shared-service centres, etc.

(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.*

(86) An effective action would be for the firms to be required to ensure that the work that fundamentally needs significant professional judgment is not outsourced without explicit consideration as to why this is appropriate. The perception of responsibility and accountability is also important, also bearing in mind the fact that there are cases where the engagement team may not be able to visit specific locations in order to easily demonstrate sufficient interaction.

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

(87) Most of the issues recognised in this section are linked to the application of the standard and how it has been interpreted rather than a specific need for a revision of the standard. Enhancing the standards and application material in the manner described might help achieve the desired outcome. However, the effect on the length and comprehensibility of the resulting standard will need to be considered further.

*j) 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?*

(88) As discussed in paragraph 114 (a), ISQC 1 should more clearly describe “what the firm is required to do at the firm level, and at the engagement level, to appropriately rely on network firm quality control and monitoring policies and procedures”. In addition, requirements with respect to documentation should be clarified.

*(ii) Do you think it would be feasible for us to develop requirements and guidance for networks? Please provide a basis for your views.*

(89) Although high level principles may be helpful, care should be taken as to detailed requirements since we do not believe that it would be feasible for the IAASB to develop requirements and guidance for networks for the reasons explained in paragraph 116.

*(iii) Paragraphs 117–123 set out matters relating to the use of ADMs and related issues.*

*i. How should our standards emphasize the importance of appropriate quality control processes in relation to use of ADMs?*

(90) We think that the importance of appropriate quality control processes in relation to ADMs could be emphasized by requiring the firms’ documented systems of quality control to include the use of ADMs and the necessary safeguards and quality control policies required for effective oversight, as stated in paragraph 122 (c). A flexible approach is needed to take into account the very different circumstances of individual firms and networks. The relative significance of risk, rather than just location, should also be a driving factor. It is also important to include policies and procedures for “minimum education and experience requirements for personnel at the centralized location or other centralized resources”, as indicated in bullet 1 in paragraph 120.

*ii. Are you aware of ADMs that raise issues not discussed in paragraphs? If so, please provide details.*

(91) No, we are not aware of ADMs that raise issues other than the ones discussed in the ITC.



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

k) *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?*

(92) In general, the IAASB should be clear on the fact that the governance aspects discussed in the ITC are in relation to the audit practice part of the firm. It is in this remit that ISQC 1 revision would be influential.

(93) In relation to firm governance, it will be helpful to “evaluate whether and, if so, how firm governance could be best addressed in ISQC 1, including through the use of a QMA”, as stated in paragraph 131.

(94) In addition, it would be useful to incorporate specific references such as the “tone at the top” and “leading by example”, as indicated in paragraph 132, and address the relationship between firm’s culture and ‘tone at the top’ for an effective quality control system. It would also be beneficial to require accountability for firm leadership, as stated in paragraph 133. Nevertheless, the guidance provided should be flexible enough to make it capable of consistent global application, stating the objective and the means to achieve it.

(95) A reference to the importance of recognizing the public interest in the context of an audit could be included in a standard’s introduction or application material.

(96) Last but not least, it is important to tackle the independence issues as mentioned in paragraph 134. Although the concept of independence partners is already established in some jurisdictions and indeed works well, we do not believe that having someone responsible for independence is a whole encompassing solution. It is more important to have a proper system in place than a responsible person. Each engagement team member needs to take its own responsibility for independence.

(ii) *Why do you believe these actions are necessary?*

(97) It is essential to address how firms’ governance best fits in ISQC 1 – or somewhere else in the suite of IAASB standards – so as to demonstrate whether and how corporate governance principles may be useful or applicable in the context of identifying, assessing, and responding to quality risks. Leadership should be addressed as part of a governance aspect.

(98) Also, using terminology which is easily recognized and understood by users of the standards will highlight the importance of having an appropriate culture for an organization.

(99) Moreover, addressing the concept of accountability of firm leadership will help leaders understand the importance of the role they are playing in supporting and continually enhancing the audit quality through effective leadership.

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

(100) In addition, governance is very important considering that leaders can have a great effect on staff behaviour.

(101) As governance in smaller firms may be different from that in the context of very large firms, the IAASB should be careful not to require excessive documentation of governance procedures that are effectively, but perhaps more implicitly, considered in a smaller firm environment.

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

(102) Nothing to report.

l) *Specifically:*

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

(103) Yes, we believe that it is necessary for the IAASB to explore how the governance of a firm could be addressed in ISQC 1, as long as the IAASB focusses on the interaction between firm governance and audit quality and the role of the engagement quality control reviewer, and does not result in more onerous responsibilities for SMPs.

(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?*

(104) Yes. ISQC 1 revision should reinforce the requirements on accountability of firm leadership and the use of appropriate personnel since, in general, it may be effective when individuals can be held accountable for any deficiencies identified in meeting quality related matters. For instance, this could be done through strengthening the requirements on documentation of the work they have performed to address quality.

(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?*

(105) Yes, we believe that it would as part of the implementation of quality control activities through the development of appropriate policies and procedures.

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

m) *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?*

(106) All the areas discussed in paragraphs 143 and 145 should be enhanced. Examples of such actions would include strengthening the requirements and application material to specify the scope of engagement subject to EQCR and to the selection of reviewers, i.e. to ensure that they have the appropriate expertise. Also, it is important to reinforce the material so as to ensure that sufficient time is allocated to the reviewer to perform their tasks and also to consider the timing of the performance of the EQCR. Furthermore, it would in some instances be desirable to have more robust documentation as well as to have a proper distinction as to the role of the engagement partner and the role of the engagement quality reviewer.

(107) As EQCR is however only one part of quality control, a separate standard is not appropriate; but we very much support enhancements to existing standards, primarily to ISA 220. Our concern with such a proposal would be partly repetition in that significant material would need to be stated in two different places, and secondly, the relative importance of the role of the engagement partner might be lost due to the over-emphasised role of the EQC. In addition, in the Code of Ethics dealing with long association of personnel, the IAASB should concentrate on the role and responsibilities of the EQCR and how it is articulated with the ones of the engagement partner. SMP concerns will need to be taken into account

in this context. They are less likely to have a pool of suitable EQCR candidates than larger firms, so care needs to be taken not to impact audit quality by forcing a potentially less suitable EQCR to assume this important role.

- (108) For similar reasons, we do not believe that it would be appropriate to have an EQCR ‘announced’ in the auditor’s report, as discussed in paragraph 144. Reporting publicly on what is actually a ‘firm-internal monitoring process’ could send the wrong signal about the audit, and whether users would actually benefit from such information remains unclear. However, as part of the firm’s quality monitoring, EQCR is an issue that ought to be of interest to those charged with governance, and its application should be reported to them.

*(ii) Why do you believe these actions are necessary?*

- (109) If these actions are taken, then it is more likely that the EQCR review will provide better and timelier insights which will help towards the improvement of the quality of the audit engagements.

*(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.*

- (110) Paragraph 146 refers to mixed views heard regarding whether it is appropriate to have communication between the EQC reviewer and those charged with governance. We believe that the IAASB should be bold in the approach of keeping the EQCR as an internal role without having any link with the client, its management, but also those charged with governance. No external reporting should be foreseen, enabling the EQC reviewer to focus on internal quality control procedures.

- (111) It is important to also prompt the EQC reviewer to refer to Article 8 in the Regulation (EU) No 537/2014<sup>4</sup> which relates to the public-interest entities and which provides explicit elements that need to be assessed during an EQCR for those entities. The regulation is in the course of being implemented in June 2016.

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

- (112) A possible consequence of enhancing the requirements and application material of an EQCR is that it may result in the EQC reviewer having responsibilities not balanced in comparison with those of the engagement partner; this should be considered when making the relevant amendments. Furthermore, in adding responsibilities to the EQCR, caution should be taken not to create a role so difficult or broad that no individual could meaningfully fulfil it.

*n) 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.*

- (113) Mandating EQC reviews for listed entities should be the minimum requirement. Other entities to be considered should be those with public exposure and high risk areas for society, causing an engagement to have higher misstatement compliance, liability, or reputational risk. According to the IAASB’s recent discussions concerning key audit matters reporting, there may be a similar need for flexibility in determining which engagements should be subject to EQCR. The best solution may be to let national jurisdictions decide on the scope beyond audits of listed entities.

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<sup>4</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0537&from=EN>

(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.*

(114) Yes, the minimum period of time should be defined because a new engagement quality reviewer will carry out the audit with 'fresh eyes' to maintain objectivity, and it is more possible to spot issues than if he/she was involved as an engagement partner in the latest engagements. The IESBA is now dealing with this issue, and we very much support a flexible approach allowing firms to adopt the optimum solution in terms of quality for their circumstances.

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

(115) No, because of the reasons noted in paragraph 144. As mentioned above, primarily ISA 220 documentation related to EQC reviews should be reinforced. While we acknowledge that the standard is already prescriptive and could be followed thoroughly by an effective EQC reviewer, still it would be beneficial to better articulate what the responsibilities of the EQC reviewer are and how they are linked to the engagement partner's ones.

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## QC7. Monitoring and Remediation

*o) 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?*

(116) As noted in paragraph 148, the Federation believes that so-called 'hot reviews' that prevent audit deficiencies are superior measures. It is also important to require firms to consider external findings, as mentioned in paragraph 156. What is most essential though is not only to conduct an analysis of the external findings and policies and procedures, but also to consider what the audit firm will do to address the issues identified from these findings.

*(ii) Why do you believe these actions are necessary?*

(117) We believe that by considering external findings, an entity will be able to understand whether an issue was a result of factors which are outside the firm, i.e. client's pressure for deliverables, or whether a finding relates to an internal factor which can be resolved by the audit firm.

(118) It is also important to consider what steps need to be taken to avoid recurrence of the issue.

*(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.*

(119) A relevant issue to consider when reflecting on the causal factors of audit deficiencies, as described in bullet 1 in paragraph 157, is that many of these root causes are structural and may not be able to be solved.

(120) Technological developments also ought to be considered in this context.

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

(121) We have not identified any potential consequences.

p) *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?*

(122) Yes, it is important to understand the causal factors of audit deficiencies relating to inspection findings and other reviews, and the root cause if possible. This will help prevent similar deficiencies occurring in future engagements.

(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.*

(123) Yes, we support the incorporation of such requirements because if audit deficiencies are not remediated they will most probably appear again in future engagements. We also believe that this section completes the circle of the QMA.

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## QC8. Engagement Partner Performance and Rewards Systems

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

q) *Do you believe that establishing a link between compensation and quality in ISQC 1 would enhance audit quality? Why or why not?*

(124) Yes, it is important to reward quality. However, while remuneration policy and related incentives should be linked to the organisation's overall strategy – in which quality plays an important role – quality is still very subjective. It is therefore difficult to directly link quality to compensation.

r) *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?*

(125) The standards should clarify that quality considerations and measures are an important part of performance assessment. This is particularly crucial in forming the desirable 'tone at the top'. A flexible approach is called for, given the broad differences in firms' structures, sizes, etc.

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## QC9. Human Resources and Engagement Partner Competency

s) *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?*

(126) We think that the most meaningful action would be aligning IES 8 with ISQC 1 and ISA 200 per paragraph 187 would be beneficial.

(ii) *Why do you believe these actions are necessary?*

(127) These actions are necessary because human resources, and thus personnel management, is a primary factor in achieving a high quality audit.

(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.*

(128) No, we did not identify any other relevant issues or actions.

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

(129) We have not identified any potential consequences.

*t) 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?*

(130) Special consideration should be placed on staff retention, which is a major issue for many firms. Audit is increasingly not seen as an attractive long term career option for many of the most talented young professionals. This has the potential to seriously affect the long term sustainability of the profession and is a longer term public interest issue.

(131) Also, additional application material addressing this issue “to support the requirements for a firm to have sufficient personnel with appropriate competence, capabilities and commitment to ethical principles” would lead to a positive impact to audit quality in the longer term.

(132) Similarly, continuity planning, as discussed in paragraph 178, may be quite challenging for SMPs. Albeit SMPs may face less risk caused by high staff turnover levels often experienced by larger firms.

*(ii) Related to engagement partner competency?*

(133) We believe that bullet 3 in paragraph 187 to “updating application in ISQC1 or ISA 220 concerning the EP responsibilities to include the concepts of leading by example and of mentoring” would most positively impact audit quality. It is also important to consider the need for the engagement partner to be accessible too.

(134) Moreover, “updating requirements and application material in ISA 220 to make engagement partner’s responsibilities for leadership and project management more explicit”, as stated in bullet 4 in paragraph 187, would have a constructive effect on audit quality.

*(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.*

(135) The absence of qualified and experienced internal personnel makes it challenging to conduct complex work on accounting and auditing issues as well as later on to correct any identified audit deficiencies. Furthermore, specifying required competences will provide audit firms the prospect to consider whether their existing methodology to staff employment and training is the right one.

(136) In relation to engagement partner competency, we believe that an engagement partner should lead by example, and appropriately mentor the junior staff and managers in order to gain respect; this will possibly lead to the creation of a better working environment and to more constructive work being produced.

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## QC10. Transparency Reporting

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

*u) 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?*

(137) The IAASB is able to positively contribute to the evolution of transparency reporting despite the fact that this is primarily a matter for local laws and regulations. Keeping abreast of what is happening around the world with transparency reporting and how the demand of such information is evolving would be seen as a good first step forward.

(138) The importance of transparency reporting is also demonstrated in an information paper published by the Federation on *Overview of Audit Quality Indicators (AQI)*<sup>5</sup>. Transparency reporting is the preferred tool to communicate on AQIs.

*v) 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.*

(139) Nothing to report.

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## 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?

(140) In our view a critical overriding consideration of these proposals should be that the IAASB should take care not to lengthen the standards considerably without any guarantee that it will lead to real enhancement of audit quality. The IAASB should concentrate on the key matters relevant to quality:

- Proactive aspects of QMA that could potentially prevent audit deficiencies – after the event, measures can only detect it
- Human resources and behavioural management is key, since the right skillset amongst individuals is crucial
- Root cause analysis has a key role in prevention of recurring future audit deficiencies

(141) Even if all of the proposals in isolation can be justified as having value, we encourage the IAASB to step back and look at them in the context of their overall impact to the practitioner, and assess whether or not unnecessary length and detail detracts from their principles-based roots and in reality is a threat to audit quality.

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

(142) The IAASB should encourage others to seek improved jurisdictional cooperation in order to address issues about the access to working papers that are very common today.

(143) Audit inspection authorities should also develop a consistent approach to reporting of audit deficiencies and other shortcomings. The statistics quoted by IFIAR do have a number of caveats attached to them in terms of not depicting consistent patterns, but nevertheless they can unduly damage trust in the profession.

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<sup>5</sup>

[http://www.fee.be/images/publications/auditing/1511\\_Overview\\_of\\_Audit\\_Quality\\_Indicators\\_Initiatives.pdf](http://www.fee.be/images/publications/auditing/1511_Overview_of_Audit_Quality_Indicators_Initiatives.pdf)

- (144) Last but not least, we consider that public perception of the audit as a high quality and valuable service needs to be encouraged by all stakeholders, including management, but also regulators.

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

- (145) The scalability issue will need to be tackled in a fair manner by the IAASB, but not to the extent that it impairs quality. A level playing field should be found for all auditors in relation to quality control, but scalability should not lead to a reduction in audit quality. It is therefore suggested that scalability should be driven by the types of clients that are being audited as opposed to the size of the firms.
- (146) Also, applying the QMA might be a challenge for smaller firms; the IAASB will therefore need to be particularly clear on how smaller firms can apply a QMA. An impact assessment might be necessary on this part of the market. Please refer to our response in QC1 for further details.

*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.*

- (147) Nothing to report.

## GROUP AUDITS

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

w) *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?*

- (148) Yes. Adding emphasis to the need to apply all relevant ISAs will reinforce the fact that ISA 600 is not a standalone standard for group audits. It is particularly important to illustrate how the different standards work together so that we alleviate any concerns that engagement teams performing group audits use only ISA 600 for guidance and compliance.

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

- (149) We would welcome retaining as much information as possible in the standard itself provided that the standard is not enlarged so much as to be unwieldy and detract from its principles-based origins.
- (150) More practical sources of guidance could be developed and produced in the form of International Auditing Practice Notes (IAPNs) or Staff Papers for example. These practice notes and examples do not impose additional requirements on auditors beyond those included in the ISAs, but rather provide practical guidance on specific subject matters and could be semi-educational.
- (151) In addition, this type of guidance could produce ‘application scenarios’, possibly outside ISA 600. The complexities of international organisations are ever increasing. In the near future, there may be other developments and challenges arising from areas linked to group audits that would benefit from further guidance; a mechanism for addressing such needs without re-opening a complex standard might be a



desirable option. Illustrative examples may be the key, in most cases, to the development of better quality group audits.

(152) Also some of the guidance may well have application outside of a strict group scenario, e.g. those when addressing the entity's use of a Shared Service Centre (SSC) mentioned in paragraph 194; we believe that the use of SSC by clients might also be part of a statutory audit, and thus should not solely be a group audit issue.

y) *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?*

(153) This matter was considered extensively when ISA 600 was last revised. It needs to be considered in light of the risk of undermining the group auditor's sole responsibility for the audit opinion. The most efficient way of including the work of another auditor may be, as mentioned in our response to question QC3 (iii), to make a general reference to the involvement of another auditor in the scope section of the auditor's report in explaining the audit approach. As stated in our response to QC3, whilst some explanation could enhance transparency as to the main auditor's approach involving other auditors/experts during the engagement, it could be seen as diminishing the auditor's sole responsibility.

z) *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?*

(154) We have no further comments.

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

aa) *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?*

(155) We accept the issues that have been identified and the possible actions that are included in paragraphs 215 and 217 are well considered and seem sensible. However, given the issues noted, thought should be given as to whether the underlying causes are perhaps more linked to issues about application of the standards. We agree that high quality standards should enable effective application; however equally, poor application does not necessarily imply poor quality standards.

(ii) *Why do you believe these actions are necessary?*

(156) Paragraph 207 notes that the main issues have been identified during inspection findings and that regulators are concerned with respect to client acceptance.

(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.*

(157) It would be beneficial to split requirements between controlling and non-controlling investments of a group of companies that would be part of a group audit. ISA 600 could therefore feature a specific section applicable to the non-controlling ones.

(158) In those entities, practical issues are sometimes encountered around the group engagement team's access to management, those charged with governance, or the local auditor when applicable.

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

(159) We do not believe it is necessary for the IAASB to emphasize the need for an explicit conclusion as described in paragraph 216, given that a conclusion has already been made implicitly upon acceptance or continuance of the engagement.

*bb) Specifically:*

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

(160) The issues noted in paragraph 208 are not encountered for the majority of group audits. However, there are a number of jurisdictions with privacy laws or regulations that are complex and in effect make access to information difficult, and in some instances impracticable. This issue also arises where group management have limited control or leverage over the entities that appear within their financial statements, such as where the group has non-controlling equity investments or in 'fund of fund' structures. The standards recognise that auditors may face scope limitations and so standard setters will not be able to solve such issues, but should encourage legislators etc. to act instead.

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

(161) Although the requirements already require the auditor to make such assessments, we acknowledge the statement that regulators find that inadequate consideration is made in practice and/or that documentation is insufficient. Strengthening the requirements may go some way to improving this area, as well as giving more guidance wherever possible.

(162) We also note that, although required by Article 27 of the Statutory Audit Directive applicable in the EU, national laws and regulations in relation to professional secrecy of statutory auditors and audit firms; certain EU Member States are not conducive to make auditors of components or subsidiaries share information with the group auditor. This has been experienced especially in cases where the group and component auditors are not of the same audit network. This accessibility issue is exacerbated when the component is based outside the EU.

*(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?*

(163) Expanding the application material in the way suggested would emphasise the importance of acceptance and continuance. However, any strengthening of the standard should recognise that the auditor is not able to perform a full audit (i.e., the degree of understanding will not equate to reasonable assurance) of a potential audit engagement before acceptance. Practical difficulties exist to obtaining all information before acceptance of a client because the previous auditor will, for example, only provide certain limited data that allow the potential new auditor to assess acceptance of this new client. Additionally, certain barriers such as national laws and regulations linked to professional secrecy are also in place and not consistent at international level. This inconsistency cannot be overcome by international auditing standards. The effect of expanding the understanding required for acceptance and continuance will remain limited as a potential client will find an audit firm eventually. The IAASB may explore ways to respond to the challenge of getting a client 'acceptable' in order to arrive to the right level of auditability.

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

cc) 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?

(164) Measures enhancing a timely and two-way communications between the group engagement team and component auditors would be the most impactful. We would favour a bolder approach in adding more requirements and/or guidance for component auditors to communicate issues to the group auditor. Even if the group auditor holds the ultimate responsibility for the group audit, it should be clear that component auditors have responsibilities in the process as well. When considering this approach, the IAASB should evaluate whether it would be workable in practice, especially with the different legislative contexts.

(ii) Why do you believe these actions are necessary?

(165) These actions are necessary to make clear that, despite the fact that the group audit is the ultimate responsibility of the group auditor, it should not be as a one-way communication channel, i.e. from the top down only.

(166) In addition, while it is important to adhere to the group auditor’s instructions, it is expected that component auditors will exercise professional judgement and communicate to the group auditor any additional issues identified or further risks that should be considered at the group level or in other similar components.

(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?

(167) We do not believe that there is a need to further develop ISA 600 on audit documentation requirements. ISA 230 already includes a thorough rules-based approach with many mandatory conclusions to be disclosed with regard to audit documentation. Re-emphasising the fact that other ISAs apply when conducting a group audit under ISA 600 may be sufficient and lead to the desired outcome.

(168) In paragraph 234 where it is stated that we should “make an explicit determination about whether it is appropriate to use the work of the component auditor”, it is important to also primarily consider whether the group auditor can rely on its network. We expand on this matter in our response to question GA4 below.

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

(169) Nothing to report.

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#### GA4. Using the Work of the Component Auditors

*dd) 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?*

(170) All actions outlined in paragraphs 234 and 242 are meaningful, except perhaps for paragraph 242 (c) for which the reason is elaborated further in (iii). Nevertheless, all of these actions would need to be considered in concert in order not to take restrictive measures that would be burdensome whereas one of these actions could be the most impactful.

(171) We note that the existing Staff Audit Practice Alert “Responsibilities of the Engagement Partner in Circumstances when the Engagement Partner Is Not Located Where the Majority of the Audit Work is Performed” can be used for the situations described in paragraph 238.

*(ii) Why do you believe these actions are necessary?*

(172) These actions are necessary since the identification of significant versus non-significant components poses application issues.

(173) In addition, it should be noted that some networks are more binding than others; the individual circumstances of each network should therefore be explored further. A sliding scale approach might need to be defined in order to assess whether reliance on the network can be used or not. When conducting a group audit, the reasons why the group auditor has decided to rely on the network, or not, should be clear.

(174) Additionally, the IAASB should think about how the group auditor should demonstrate his/her involvement in the work of component audits in practice. We agree that the important point is that the group auditor should be able to explain, and be made accountable to, their rationale behind deciding on the level of involvement and why it is sufficient to conclude on this part of the group audit.

*(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*

(175) We do not support the inclusion of further examples in the application material as indicated in paragraph 242 (c). It is not that we doubt the value of such examples, but rather we believe that it would be better placed in case studies or examples in practice notes so that, as already mentioned previously, the standard does not become too lengthy or cumbersome.

(176) When using the work of component auditors, it is important to consider situations when component auditors are requested to report to the group auditor before they have completely finalised their work locally. There is a risk in such situations that time pressure is such that the ability to step back and apply a sound professional judgement may be overlooked. ISA 600 could provide practical application material to explain how to deal with these situations.

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

(177) Notwithstanding some of the issues and concerns we have raised, we still believe that the main issue is regarding the application of the standard, and perhaps its interpretation, rather than a specific need for a revision of the standard per se. ISA 600 already has requirements to address most of the issues raised and it seems that it is the quality of application that is varied in practice, the root cause of which might lie elsewhere than in the standard itself.

ee) 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?*

(178) Yes, it is without doubt that the timing, nature, and extent of this involvement should be appropriate in light of the individual circumstances. Providing illustrative examples in practice notes could help distinguish the varying levels of involvement of the group engagement team that may be appropriate in different circumstances as stated in paragraph 242 (c). For example, it is not always necessary to have a full scope audit since specified procedures might be sufficient. In addition, whether this is an issue for the ISA wording to be changed or whether this is a training issue that could be addressed outside of the ISA is worth debating.

(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?*

(179) No, we do not consider this possible action to be of value. This determination is already part of the requirements included in ISA 600. In any case, it should be stated that the professional judgement of the group auditor will still be part of assessing whether the work of a component auditor can be used or not.

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

ff) *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?*

(180) The cross referencing of ISA 600 to the existing requirements and application material already included in ISA 315 and ISA 330 will help reinforce the need to consider the wider suite of ISAs.

(ii) *Why do you believe these actions are necessary?*

(181) These actions are necessary because of the observed difficulties in practice as noted in the ITC.

(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.*

(182) The analysis made in the ITC captures the relevant topics.

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

(183) The standard needs to continue emphasising the need for professional scepticism and professional judgement to be applied, rather than for the application of strict rules. Even when the IAASB provides clarification on the issues identified, the auditor should keep in mind that he/she needs to exercise professional scepticism and professional judgement when deciding whether a component is considered as significant or not, and thus consider each situation on a case-by-case basis depending on all the facts and circumstances of a specific group engagement.

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

*gg) 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.*

(184) Yes, we agree that the matter needs to be considered in parallel with ISA 320. The suggestions regarding specific guidance are well-considered; however, it is not clear whether it is anticipated that these are training material or application material for the standards. We consider that the need is more aligned to the former.

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

(185) There is a need to stress that determination of materiality is addressed in ISA 320, whereby the materiality for the financial statements is set as a whole, and hence ISA 600 should not add anything more in respect to determining the financial statement materiality. The issue in practice seems to be the variation of ‘allocating’ component materiality since it involves a high degree of judgement due to various group structures, divergent component sizes, differing statutory audit requirements, differing risk, and deviating country-specific rules. In order to have a consistent and proper allocation of the component materiality, it would be helpful to include additional guidance in ISA 600 on what this allocation should be and how the group auditor could be guided to determine it.

(186) Drawing from the above observation, there are perhaps two additional areas which, in our opinion, appear to cause particular difficulties. First, we believe that additional guidance or application material to address how to calculate component materiality would be helpful and might eliminate the extent of variation in judgement in practice. Second, further guidance and application material should be given as to which component materiality would need to be used when auditing parts of the component and non-controlling entities. However, we acknowledge that any additional guidance in ISA 600 would not be able to address every conceivable scenario; therefore, the auditor would still need to refer to the fundamental principles of materiality in ISA 320 and exercise their judgement over the appropriate level of materiality to be applied.

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## 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)

*ii) 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?*

(187) The most meaningful action would be the one outlined in paragraph 272 (b) suggesting that some application material should be clarified. We highlight in particular the note (v) in this paragraph, which calls for further clarification on “the expected work effort to analytical procedures at the group level for components that are not identified as significant”. It is also important to clarify when it will be necessary to perform any further procedures in such a case.

(188) The action outlined in paragraph 279 (b) should be addressed in order to provide further guidance on “how the group engagement team should determine which non-significant components would require procedures and how to determine when a sufficient number of components have been selected [...]”. Addressing the differences identified in application material in this area would result in improvements. In any case, the IAASB should urge the auditor to apply professional judgement when faced with such decisions.

*(ii) Why do you believe these actions are necessary?*

(189) This will help distinguish the scope and work effort involved for both significant and non-significant components.

*(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.*

(190) There seems to be evidence that in a number of cases in practice the group auditor does not take sufficient time to step back, after scoping the significant components and the procedures to be performed, to ascertain whether they have gathered sufficient audit evidence.

(191) Furthermore, the main problem is not the identification of components per se but the combination of ‘bottom up’ and ‘top down’ approaches to the assessment of the risks of material misstatement, especially in cases where there are numerous non-significant components involved.

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

(192) We have no further comments.

*jj) 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?*

(193) The approaches to group audits are not mutually exclusive, but rather complement each other. Scoping the audit based only on the risks of material misstatement at the group level might have the consequence to overlook potential risks of material misstatement at the component level, some of which might, when consolidated from different components having the same risks, have a significant impact on the group activities and the group auditor’s opinion. Conversely, an audit strategy looking from the ‘bottom up’ risks missing out group wide risks that are difficult to identify at a component level. The reality is likely to be a blended approach based on the understanding of the entity and the application of professional judgement with the relevant weighting depending on the particular facts and on the structure of the group. ISA 600 should recognise the importance of marrying the requirements of the work effort with the risk-based approach.

*(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?*

(194) We acknowledge the issue for practitioners to determine the appropriate approach to scope a group audit when a company has a large number of non-significant components. Nevertheless, the IAASB should be careful that the overly prudent solution of imposing too many fully scoped non-significant components is taken; this would be only marginal benefit to the group auditor at unnecessary cost.

(195) In this respect, we consider that it would be helpful to enhance application material and encourage the audit firms to invest in training, and take into account that the application of professional judgement, the skills, and the experience of the personnel are crucial elements to this decision making process.

*(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?*

(196) We recognise that there are many factors which may affect the appropriate level of involvement of the group engagement team in sub-consolidations. The approach to be applied should be as principles-based as possible to adapt to any circumstances, and indeed perhaps the existing requirements are too inflexible in this regard. It is necessary to consider what guidance and in particular what practical documentation should be included in the standard or outside the standard so as to improve the fact that sub-consolidations are missing in principle.

*(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?*

(197) Yes, it will be useful to develop the application material in relation to subsequent events procedures. Timing issues should be acknowledged, some of which may be anticipated but still may be practically difficult due to the large number of components and others that may be unforeseen, e.g. due to a delay in audit sign-off. The answer to both of these is principles-based guidance dependent on individual facts and circumstances. To this end, it is important to note that procedures around the subsequent events procedures need to be flexible enough so that the group engagement time has sufficient time to carry out its review properly.

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

*kk) Paragraphs 293–303 set out matters relating to the review and evaluation of the work of component auditors by the group engagement team.*

*(i) Which of the actions outlined in paragraphs 299 and 303 would be most meaningful in addressing issues relating to the review and evaluation of the work of component auditors by the group engagement team?*

(198) Bullet point 1 in paragraph 299, to clarify the necessary work effort, and the importance of clear documentation in respect of that work effort, of the engagement team to review the component auditor's working papers.

(199) Bullet point 1 in paragraph 303 to strengthen the communication and dialogue between group and component auditors to a two-way exchange.

*(ii) Why do you believe these actions are necessary?*

(200) Clarification of the extent of the review of the component auditors' work will enable a flexible approach to be adapted according to the circumstances and the significance of the component to the group. Facilitating a two-way dialogue will help the group auditor's understanding of the component's activities and environment thus resulting in a more efficient and better quality audit.



*(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.*

- (201) The way in which the group auditor uses the work of component auditors is, in practice, critical. Perhaps the greatest area of uncertainty is whether the group auditor should visit the premises of the component auditors – provided that they are able to do so – or only review their files and send questionnaires. This is an area where illustrative examples of different scenarios are needed.
- (202) It is important to consider the timing issues involved when the component auditors provide their “memorandum of work performed”, as referred to in ISA 600. If the outcome of the audit of the component is delivered shortly before the sign-off of the group auditor’s report, the group auditor may not be able to take time to step back and consider the implications for the group audit because of time sensitivity.
- (203) Correspondingly, because it is difficult to exercise a sound professional judgement and consider these implications for the group audit as a whole, it is important to emphasise the fact that it would be appropriate for staff with seniority to review the memorandum rather than more junior staff. Lastly, it should be clarified that a memorandum should not be perceived as a substitute to the review of the component auditor’s work.
- (204) We also need to acknowledge that there is an actual problem for regulators when it comes to the visibility of the working papers of component auditors. For that reason, ISA 600 should emphasise that the group auditor needs to evaluate whether enough information has been obtained to constitute appropriate sufficient evidence.
- (205) The group auditor faces serious difficulties in cases where it is impossible to receive working papers from the component auditors, and especially when some authorities prohibit any access to the working papers because of jurisdictional restrictions. In such cases, carrying out the audit is challenging and the group auditor must use judgement to determine the best way to review the component auditors’ work. Recognising this challenge within the standards could be helpful provided that flexibility and room for judgement is maintained.

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

- (206) ISA 600 can only highlight further the need for proper documentation. As noted earlier in our response, the fact that component auditors could be based in different jurisdictions, with differing laws and regulations could be a practical barrier for the group auditor to obtain certain documentation.
- (207) When considering the visibility issues, and how these can be addressed, we should be careful not to result in an opposite impractical situation of expecting the group auditors to review all the working papers of the component auditors. The importance is for the group auditor to demonstrate how sufficient audit evidence has been obtained in cases where it was not feasible to review the working papers in practical terms.

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## 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?*

- (208) In relation to the Disclosures project, we do not consider necessary to complicate ISA 600 in this area. The emphasis that all other ISAs apply in addition to ISA 600 when performing a group audit should be enough.
- (209) As far as it concerns paragraph 305, we do not consider that the right approach would be to have communications between the group engagement team and the component auditors to determine the key audit matters. We believe that the key audit matters are identified by the group auditor via the matters reported to those charged with governance. What would be more beneficial in the process is for the component auditors to help the group auditor identify what is necessary to be reported to the audit committee.

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## 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?

- (210) We would like to point out that the standards are silent when it comes to auditing the use of an SSC, or reliance upon the work performed by an SSC, and that this lack of proper guidance should be tackled, noting that this is an area challenged by regulators.
- (211) As a starting point, consideration should be given to the standard in which such information should be included. While paragraph 244 mentions that it is not clear how ISA 600 applies to situations linked to the use of an SSC, there is still a need to consider whether these situations should be dealt with in ISA 315 and/or in ISA 402 *Audit Considerations Relating to an Entity Using a Service Organization*.
- (212) Moreover, as an SSC can have different influences on an audit, it would be of value to provide some guidance on the different kinds of situations where the auditor might quite rightly be able to rely on the work performed in/by an SSC. This guidance could be part of a specific practice note. By providing scenarios and practical examples, it would help the group auditor deal with the risks resulting from the use of an SSC and help the group auditor give more comfort in deciding whether the work performed is sufficient or not.
- (213) A second issue we have identified relates to non-controlling investments which are mentioned in the ITC on the subject of access issues. In our opinion, this is a broader issue which deserves much more attention.
- (214) We have identified a third issue on groups that are registered in one jurisdiction for statutory purposes and have operations in another jurisdiction. We would thus welcome more guidance in this respect.

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

- (215) We have no further comments.

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

- (216) The IAASB will need to ensure that the changes made to ISA 600 and other standards can be applied in the audit of smaller groups. There are very many such audits performed on a world-wide basis.
- (217) In addition, SMPs are often involved in group audits in the capacity of component auditors. It is important that the IAASB bears in mind the need to ensure that, under its standards, audit firms that are not part of a network are not treated differently from auditors that are.

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

- (218) We have no further comments.