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Submitted electronically at www.iaasb.org, and to kathleenhealy@iaasb.org

Ms Kathleen Healy
Technical Director
International Auditing and Assurance Standards Board (IAASB)
545 Fifth Avenue
New York
10017 USA

Dear Kathleen

SAICA COMMENT LETTER ON THE IAASB'S INVITATION TO COMMENT, *ENHANCING AUDIT QUALITY IN THE PUBLIC INTEREST: A FOCUS ON PROFESSIONAL SKEPTICISM, QUALITY CONTROL AND GROUP AUDITS*

The South African Institute of Chartered Accountants (SAICA) is the home of chartered accountants in South Africa – we currently have 40,318 members of which 32,550 are resident in South Africa and 7,768 are international members. Being a membership organisation, SAICA's primary role is to serve, represent and promote the interests of its members and associates. In meeting this objective, our long-term professional interests are always in line with public interest and responsible leadership. SAICA is currently the only professional accountancy organisation that has been accredited by the Audit Regulator in South Africa, the Independent Regulatory Board for Auditors (IRBA).

In response to your request for comments on the Invitation to Comment, *Enhancing audit quality in the public interest – a focus on professional skepticism, quality control and group audits* (the ITC), find attached the comment letter prepared by SAICA. We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Willie Botha (at willieb@saica.co.za) or Julius Mojapelo (at juliusm@saica.co.za).

Yours sincerely

Willie Botha
Senior Executive – Assurance and Practice

INTRODUCTION

1. The IAASB has recognised that relevant, robust, fit-for-purpose professional standards are fundamental to ensuring that quality audits are performed on a consistent basis. We are supportive of initiatives to enhance audit quality. The IAASB must be commended for the extensive research and information-gathering that it has done and the manner in which it has been able to capture and describe the issues and possible actions relating to the three focus areas of the ITC.
2. Efforts to enhance the International Standards on Auditing (ISAs), supplemented by other (non-authoritative) guidance, ultimately lead to improvements in the reliability of, and confidence in the auditors' work. Seeking ways to ensure consistent and sustainable high audit quality is in the interest of both the auditing profession, as well as other stakeholders in the financial reporting supply chain.
3. The SAICA Standards division, Assurance and Practice, had identified its participation in commenting on the IAASB's Invitation to Comment, *Enhancing audit quality in the public interest – a focus on professional skepticism, quality control and group audits*, (the ITC) as one of its priority projects for 2016.

SAICA's approach to respond to the ITC

4. SAICA's approach to informing our members about the ITC and its contents, and to gather information to inform our comment letter can be summarised as follows:
 - A SAICA internal working group studied and debated the ITC and proceeded to prepare the course material for the *SAICA Enhancing Audit Quality Seminar*, and the *SAICA online survey on the IAASB's ITC*.
 - We participated in a number of sessions that the IRBA arranged as part of their work plan to comment on the ITC; in particular, two internal information sessions on quality control and group audits, respectively. We also attended a session with 10 audit firms (including the big four firms) where each firm made a presentation on selected topics from the quality control section of the ITC.
 - SAICA presented a seminar to members on 17 March 2016 (live audience and webcast), *Enhancing audit quality – The IAASB's Invitation to Comment – A focus on professional skepticism, quality control and group audits*. The webcast recording was also made available to all members after the seminar (<https://www.saica.co.za/Technical/Assurance/QualityControl/tabid/2945/language/en-ZA/Default.aspx>).
 - We requested members to provide their input through the *SAICA online survey on Enhancing Audit Quality in the Public Interest (the IAASB's ITC)*. The survey link was sent to all members, as well as certain targeted groups, including SAICA committees and certain audit firms.
 - SAICA hosted a discussion session for members on 14 April 2016 (live audience event). This was an opportunity for members to voice their opinions and to discuss the identified issues and proposed actions, and to raise additional concerns as may be necessary. Attendees were also guided through and completed the *SAICA online survey*.

- A Task Group of SAICA's Assurance Guidance Committee considered all inputs received and provided their views and comments in finalising the SAICA comment letter.
5. Our interactions with members were targeted as follows (this is the description that was used in our communications to members):
- The issues are of particular relevance to auditors and assurance practitioners, and their engagement staff.
 - Furthermore, the IAASB is also seeking feedback from stakeholders that have a more general and broad interest in audit-related matters, including financial statement users, preparers, audit committees and organisations representing these groups.
 - Therefore, SAICA is inviting all interested parties to attend and participate.

Results of the SAICA online survey

6. The *SAICA online survey* was completed by 48 SAICA members and 5 SAICA associate members and members from other professional accountancy organisations. 58.5% of the survey respondents indicated that they are professional accountants and auditors in public practice or employed in public practice. Of these, 25.8% were from large firms and 74.2% from small and medium-sized firms. The 41.5% survey respondents not in public practice, represented preparers of financial statements, users of financial statements, boards of directors, the regulator, professional accountancy organisations, academia and consultants.
7. Throughout this comment letter we present the results from the survey by referring to "**survey respondents**". The survey results have not been analysed statistically and cannot be extrapolated. The results are presented as perceptions and views that have been observed, and although not representative of a general or common view, provide some insights into the issues and possible actions discussed in the ITC.

THE SAICA COMMENT LETTER IS FURTHER ORGANISED IN A NUMBER OF SECTIONS AND SUB-SECTIONS, AS FOLLOWS

	<i>Question in the ITC</i>
A. Quality Control topics /themes /areas	
a. Quality Management Approach (QMA)	QC 1
b. Engagement partner roles and responsibilities	QC 2
c. Firm governance, including leadership responsibilities	QC 5
d. Networks of firms and the use of Audit Delivery Models (ADMs)	QC 4
e. Engagement quality control reviews (EQCRs) and reviewers	QC 6
f. Monitoring and remediation	QC 7

g.	Specific matter considered with respect to “Others involved in the audit” – using another auditor’s report as audit evidence	part of QC 3
h.	Some observations with respect to transparency reporting	part of QC 10
B.	Professional Skepticism – Areas to explore and possible way forward	PS 1 to PS 5
C.	Group Audits topics /themes /areas	
a.	Strengthening and clarifying how the ISAs, including ISA 220, apply to a group audit	GA 1
b.	Acceptance and continuance of the group audit engagement	GA 2
c.	Communication between the group engagement team and component auditors	GA 3
d.	Using the work of the component auditors	GA 4
e.	Identifying and assessing the risks of material misstatement in a group audit	GA 5
f.	Issues relating to component materiality and other aspects of materiality relevant to group audits	GA 6
g.	Responding to identified risks of material misstatement in a group audit	GA 7
h.	Review and evaluation of the work of component auditors by the group engagement team	GA 8

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A. QUALITY CONTROL TOPICS /THEMES /AREAS

8. Taking into account the nature of our activities regarding the IAASB's ITC, including the nature of our engagements with members (as discussed in the introduction section above) and certain limitations with respect to the timing of our response, we decided to specifically select certain Quality Control topics /themes /areas.
9. We decided to primarily focus on those quality control topics that have been addressed in more detail in the ITC in relation to their scope and the extent to which issues and proposed possible actions have been discussed (in the context of the project involved in developing the ITC and the related report-backs and discussions that took place at IAASB meetings). Furthermore, we considered topics that have been highlighted by the inspections findings of regulators and oversight bodies (in South Africa and internationally).
10. We present our comments on the following selected Quality Control topics /themes /areas in the sub-sections that follow:
 - a. Quality Management Approach (QMA) [**QC 1**]
 - b. Engagement partner roles and responsibilities [**QC 2**]
 - c. Firm governance, including leadership responsibilities [**QC 5**]
 - d. Networks of firms and the use of Audit Delivery Models (ADMs) [**QC 4**]
 - e. Engagement quality control reviews (EQCRs) and reviewers [**QC 6**]
 - f. Monitoring and remediation [**QC 7**]
 - g. Specific matter considered with respect to "Others involved in the audit" – using another auditor's report as audit evidence [part of **QC 3**]
 - h. Some observations with respect to transparency reporting [part of **QC 10**]
11. We have not specifically commented on **QC 11** and **QC 12**. Our comments are limited to those Quality Control topics /themes /areas that we have selected. However, some of our comments presented in the various sub-sections that follow, could also inform the identification of other quality control issues, and make reference, in certain instances, to actions that others (other than standard-setters) could consider to further enhance audit quality.
12. With respect to **QC 13**, we have included considerations specific to SMPs as part of the Quality Control topics /themes /areas that we have selected (i.e. QC 13 as it relates to, for example, QC 2).
 - a. **Quality Management approach (QMA)**
13. Probably the most challenging issue regarding a QMA is to understand (and be able to visualise) how this will impact the standards, and more importantly, the firm in managing audit quality at both a firm level and at an engagement level.
14. We have contextualised a QMA as in essence referring to the application of a risk management approach to quality control. Extant ISQC 1 and ISA 220 provide generic requirements ("the auditor shall ...") in order to achieve overall (broad; generic) objectives. In proposing a QMA, the IAASB is considering the question: What if this could be made more firm-specific and more engagement-specific? A QMA would

integrate a firm's policies and procedures within its system of quality control through identification of relevant risks to quality and design of appropriate policies and procedures to address those risks.

QC 1(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?*

15. **Survey respondents** were asked to indicate on a scale of 1 to 6 whether they strongly agree (6) or strongly disagree (1) with the following statement (i.e. the extent to which you agree or do not agree): *I have a clear understanding of how a QMA would be different from the current approach of specifying the elements for a quality control system and setting requirements in relation to those elements.*

68.2% of **survey respondents** indicated that their understanding is at a level of 4 and above. This may also be a reflection of the fact that risk management as such is a familiar concept and subject-field to most chartered accountants and auditors. However, the response observed can be interpreted at a conceptual level, but not necessarily as indicating a general understanding of the particular challenges involved in incorporating a QMA in the standards (and its implementation by firms).

16. In our interpretation of a QMA as it has been presented in the ITC, we have formulated the following advantages to the adoption of a QMA (in no particular order):

Advantages to a QMA

- a. Quality control policies and procedures will be more firm-specific and engagement-specific; responses to quality risks would be more direct and focussed.
- b. Although the requirements in ISQC 1 will be retained, the standards will allow for more flexibility and scalability (i.e. could be effectively implemented by firms of all sizes and performing different types of engagements).
- c. Firm leadership will be "closer" to the issues; they will be more directly involved in identifying quality risks and designing responses, which will enhance responsibility and accountability.
- d. A firm's quality control policies and procedures would be more easily adaptable to change (more responsive to change) – the changing business environment and the changing audit environment.
- e. Many firms have already moved to a more pro-active and responsive approach to managing quality risks. The adoption of a QMA by the standard-setter will formalise such practices and provide a clearer framework and guidance for all.
- f. The adoption of a QMA will support the notion that a firm is a business and businesses are run on recognised principles of risk management, including allowing the more direct incorporation of principles of good corporate governance.

- g. A QMA represents the application of the foundation principles established in the IAASB Framework for Audit Quality – it is conceptually sound and represents a more principles-based approach.

We requested **survey respondents** to identify which one of these advantages they believe is the most important in considering whether or not to adopt a QMA. The results can be summarised as follows:

- Items **a.** received the most votes, with 26.2% of survey respondents indicating that this would be the most important advantage to be taken into account.
- Item **b.** received the second most votes (21.4%)
- Items **e.** and **f.** are tied for third place, with 14.3% votes each.

Although not borne out by the survey, our participation in other forums has indicated that item **c.** above is also a prominent advantage to be considered (in our survey it was selected by 11.9% of **survey respondents**). A QMA will be a more principles based approach. It may very well result in a situation where leadership is closer to the issues and where firm governance can come to the fore more prominently. Audit quality should be emphasised and practised as part of a holistic approach to firm management and not as a separate element (which also speaks to aspects of firm governance and leadership responsibilities that are addressed as a separate quality control theme in the ITC).

17. Similar to paragraph 16 above, we also formulated the following disadvantages or concerns to the adoption of a QMA (in no particular order):

Disadvantages or concerns to a QMA

- a. If not properly understood and implemented in terms of being firm-specific and engagement-specific it could have an adverse effect on audit quality.
- b. Small and medium-sized firms may find the implementation and continuing application of a QMA more onerous than a system of complying with set /stated requirements.
- c. An element of judgement is introduced that could lead to inconsistency in practice (i.e. variability or flexibility versus the general principle to ensure consistency in practice).
- d. Judgement decisions around quality risks and responses reduce measurability for purposes of internal monitoring procedures and external inspections.
- e. Adaptability and scalability could lead to numerous changes within the same firm; even within a relatively short period. This may be difficult to manage across the firm and may adversely affect the consistency of quality.
- f. Firms that may already have moved towards a QMA in practice, are mainly larger firms and there is little guidance or support for small and medium-sized firms.
- g. Additional demands being placed on resources, time and cost (i.e. it will be adding an additional layer of requirements on top of the requirements that already exist and that will be retained).

We requested **survey respondents** to identify which one of these disadvantages or concerns they believe is the most important in considering whether or not to adopt a QMA. The results can be summarised as follows:

- Items **a.** received the most votes, with 23.3% of survey respondents indicating that this would be the most important disadvantage or concern to be taken into account.
- Item **g.** received the second most votes (18.6%)
- Items **b.** and **c.** are tied for third place, with 16.3% votes each.

18. 79.1% of **survey respondents** indicated that they believe that the advantages to adopting a QMA exceed the disadvantages or concerns. Although we have come across different positions and views, our participation in other forums also indicated support for the adoption of a QMA, subject to taking into account and addressing, as may be appropriate, the concerns that have been raised.
19. Consistent with the above, **survey respondents** also expressed their view that the adoption of a QMA would, over time, result in improved quality. On a scale of 1 to 6, 71.4% indicated their agreement with the related statement at a level of 4 and above (with 19% indicating a level of 6).
20. The IAASB has indicated that most of the content of ISQC 1 and ISA 220 will be retained, but the standards will be restructured in accordance with a QMA. Therefore, in addition to the current requirements and application material the standards concerned will *also* have to present the requirements (and application guidance) for actually establishing, implementing and maintaining a QMA. Application material would probably also have to be relatively extensive in providing examples of considerations in terms of setting quality objectives, risk factors (and the assessment of likelihood and impact), and risk responses. These (and other) considerations could contribute to the redrafting and restructuring of ISQC 1 and ISA 220 being fairly challenging.
21. Furthermore, in retaining the current requirements linked to identified elements of a quality control system, but restructuring them in terms of a QMA, including providing for scalability and conditional requirements, some of what is currently minimum requirements will in essence be scaled down and will only apply in certain instances as responses to assessed quality risks. However, there may also be an argument that the requirements that will be affected would in most instances in any case be those requirements that have been designed to address increased levels of quality risk.
22. It would be important that minimum requirements be retained, consistent with the principle that certain quality risks are inherent in any context and require a certain basic response in order to mitigate the threats to relevant quality objectives.

QC 1(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?*

23. The ITC, paragraph 64 and Table 3 present the elements of a QMA that is based on recognised frameworks and principles of risk management. We have not identified any other elements that should be included.

QC 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?

24. We have come across concerns whether the distinction (in all facets) between the adoption of a QMA at firm level and at engagement level is understood well enough. This is mostly related to comprehending how this approach will practically be applied for every engagement, including the documentation requirements that would be involved. The IAASB has appropriately mentioned that some firms have already moved to a more pro-active and responsive approach to managing quality risks. These firms could provide the IAASB with valuable input in this regard.
25. The adoption of a QMA is expected to impact IQSC 1 and ISA 220 in terms of their structure and layout. This is owing to these standards being “audit firm focussed” in terms of the firm’s responses to address the firm’s quality objectives. The other ISAs are “audit process and audit client focussed” in terms of performing the audit in order to achieve the auditor’s overall objectives as stated in ISA 200, and the specific objectives stated with respect to each audit theme dealt with by the individual ISAs. These standards should not be affected directly by the adoption of a QMA. If there are specific factors relating to individual audit areas that impact the auditor’s identification, assessment and response to quality risks, these should be incorporated in the quality control standards.

QC1 (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?

26. The matters in paragraph 59 and Table 2 of the ITC are examples of matters that have been identified by the IAASB as representing specific in-practice challenges with regard to the application of the requirements for a quality control system. In particular, these matters are linked to if, and how, ISQC 1 cater for different circumstances or situations that are encountered in today’s business and audit environment(s), the scalability of the standard’s requirements from the perspective of small and medium-sized firms in general (but also taking into account certain audit firm and audit client characteristics), and the balance between a principle-based approach and providing sufficient application material to promote consistency in practice.
27. We are of the view that the IAASB should otherwise address the matters described in paragraph 59 and Table 2, if the decision is taken not to adopt a QMA. Indications of how this may be achieved are encapsulated in our comments that deal with the other quality control topics /themes /areas that are presented in the sections of our comment letter that follow.

QC 13 as it relates to QC 1:

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.

28. Refer to the disadvantages or concerns to a QMA and the **survey respondents'** views in this regard, as discussed in paragraph 17 above.

The concern raised as per item **b.** relates to the possible implications for SMPs, and when combined with item **g.** indicate that SMPs in particular may experience the adoption of a QMA as placing additional demands on resources, time and cost (i.e. adding an additional layer of requirements on top of the requirements that already exist). In addition to clear standard-setting, SMPs may find the implementation and maintenance of a QMA particularly challenging in the absence of additional guidance and support.

b. Engagement partner roles and responsibilities

29. The overall concern presented in the ITC relates to how engagement partners, in certain situations, are meeting their overall responsibility for the performance of audits and demonstrating appropriate direction, supervision and review throughout the audit.

QC 2(a) Paragraphs 69–86 set out matters relating to the roles and responsibilities of the engagement partner.

QC 2(a)(i) Which of the actions outlined in paragraphs 85–86 would be most meaningful to address issues related to engagement partner responsibilities?

QC 2(a)(ii) Why do you believe these actions are necessary?

QC 2(a)(iv) Describe any potential consequences of possible actions that you believe we need to consider further.

30. The general view is that the proposed possible actions in paragraphs 85-86 of the ITC are supported. In terms of which of these actions would be most meaningful in addressing the identified issues related to engagement partner responsibilities, **survey respondents** indicated the following order of priority [the most meaningful listed first, from (1) to (5)]:

- (1) Add an appendix to ISA 220 that provides a summary of where in the ISAs responsibilities of the engagement partner are addressed (i.e. consolidating in one place all the responsibilities addressed throughout the ISAs)
- (2) Add more specificity in terms the meaning of “active involvement” in the engagement and the responsibilities of the engagement partner at all stages of the audit

- (3) Place more emphasis on the documentation that is required to be reviewed by the engagement partner and the nature of the engagement partner's review procedures
 - (4) Place more emphasis on the responsibility of the engagement partner to evaluate whether sufficient time and resources are available to perform the audit
 - (5) Add more specificity around the engagement partner's involvement in and decisions regarding client acceptance and continuance requirements
31. Further to items (2) and (3) in the previous paragraph, there is support for strengthening the minimum requirements in ISA 220 (together with appropriate application material) with respect to performing and demonstrating appropriate direction, supervision and review throughout the audit.
32. In order to further assist the IAASB in exploring the issues and possible actions that have been proposed, we include the following matters that have been raised by some **survey respondents**. Although not representative of a general or common view, these comments could provide further context and insight into some of the issues and possible actions, or additional issues and possible actions.
- In strengthening requirements and enhancing application material, the standards must also preserve the exercise of professional judgment. Although minimum requirements are essential, creating more "rules" could inadvertently erode the exercise of professional judgement.
 - Consider strengthening engagement partner responsibilities (also in the context of exercising professional skepticism and professional judgement) by enhancing certain elements of engagement performance that are already addressed in the standards, such as consultation and the use of experts.
 - Consider including /highlighting relevant factors that may have a bearing on the engagement partner's decisions regarding the nature and depth of partner involvement that is required. For example, engagements can differ significantly based on years of involvement, industry specific expertise, levels of technicality required in assessing financial information, etc.
 - More focus should be placed on the engagement partner and his/her engagement team (really) fully understanding the entity and its environment.
 - Recognising the value and importance of engagement partners having deep industry specific knowledge. The absence of suitable knowledge (understanding) and experience could probably never be compensated for by additional requirements in the standards.
 - Related to the timing of involvement, emphasise the role and responsibilities of the engagement partner *throughout the audit process* – direction, supervision and review is required throughout.
 - The engagement partner has to use, and rely on the resources that are available, including staff (trainees and professional staff). Quality staff will enhance a quality audit, still recognising that the engagement partner has to adequately discharge his/her responsibilities for the performance of the audit. In this context there may also be a need to consider education and training programmes in terms of developing "quality staff" (knowledge, skills and attitudes).

QC 2(a)(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.

33. **Survey respondents** indicated the following order of priority with respect to which situations /circumstances described pose the greatest challenges in terms of the engagement partner being sufficiently involved in the audit [the most challenging listed first, from (1) to (5)]:

- (1) Group structures that include non-controlled entities or shared service centres
- (2) The engagement partner is not located where the majority of the audit work is performed
- (3) Using the work of another auditor in an engagement that is not a group audit
- (4) Group audits where component auditors are involved
- (5) Use of various audit delivery models (ADMs), sometimes referred to as audit firm shared service centres or on-shoring or offshoring or outsourcing (in essence, using centralized resources for certain audit activities)

The ranking at position (5), above, for ADMs should be interpreted in the context that 46% of **survey respondents** indicated that ADMs do not affect them or their firms (which is not unexpected, since a large portion of the respondents come from the small and medium-sized firm constituency).

34. **Survey respondents** were not completely decided on whether they believe it is appropriate that the standards address certain specific situations /circumstances encountered in practice, such as those that have been mentioned in the previous paragraph (i.e. strengthening the requirements and/or enhancing the application material). 55.3% answered “Yes” and 44.7% answered “No”.

Also, refer to the “Networks and ADMs”-section later in this comment letter that provides further information in this regard.

35. It is recognised that the standards cannot be expected to address all specific /individual situations /circumstances. However, one must also recognise that the standards are not static and part of ensuring that they remain sufficiently robust and fit-for-purpose includes their periodic review and, if required, their revision. This should include recognising, at a point in time, the realities of the environment of businesses that are subject to audit, as well as the realities of the audit firms’ environment(s). Therefore, it is appropriate to strengthen requirements and enhance application material in the context of considering specific circumstances or situations, provided that this can continue to be done in accordance with a principles-based approach and in the interest of enhancing consistency in practice. In those cases where these “boundaries” are tested, standard-setting may not be the appropriate response and other courses of action such as those listed in the ITC (page 3) may be more appropriate.

QC 2(b) *Do you think it is necessary for the ISAs to include requirements or otherwise address the circumstances described in paragraph 79 in which an individual other than the engagement partner is required to or otherwise customarily sign(s) the auditor's report or is named therein? If yes, please explain why, and provide your views about how this could be done (including describing the work effort you believe would be necessary for such an individual).*

36. With respect to the current situation in South Africa as it relates to auditors (in South Africa, Registered Auditors (RAs)), it is not necessary that the IAASB further enhance the requirements or otherwise address the circumstances described in paragraph 79.

The Independent Regulatory Board for Auditors (IRBA), *Code of Professional Conduct for Registered Auditors* (the Code), requires the disclosure of the name of the individual engagement partner (registered auditor) when signing any audit, review and other assurance report. With respect to the signing itself there are no specific requirements; therefore the auditor's signature is either in the name of the audit firm or the personal name of the auditor (as provided for in ISA 700 (Revised), paragraphs 46 and A59-A60).

QC 13 as it relates to QC 2:

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.

37. We have noted the following considerations related to SMPs (including matters raised and comments made by **survey respondents**)
- Enhancing the application material by including *considerations specific to SMPs* could add value in alerting SMPs to the typical circumstances and factors that may be relevant to their practice environment. For example, that more engagement partner time will be required in instances of increased client complexity compared to the normal client profile for the particular firm, and when the engagement partner in essence has to compensate for certain limitations within the engagement team. However, this also relates back to the considerations, in the first instance, of engagement acceptance and continuance, time and resources, etc.
 - In addition, considerations relevant to sole proprietors, where the practitioner performs all the work, could be addressed.
 - If the IAASB adopts a QMA, guidance (in the form of application material or by other means) will have to be specific and clear in order to ensure that SMPs in particular are able to appropriately "scale" their responses to quality risks in their particular environments (otherwise, additional requirements will simply add additional demands in terms of resources, time and cost).

- A number of survey respondents have raised concerns relating to the notions of disproportionate focus on compliance with the standards; requirements disproportionate to the levels of risk involved; the balance between quality value-add and the cost of compliance in certain circumstances.
- Quality control in particular may require interventions other than standard-setting to assist SMPs – staff publications and other non-authoritative guidance. Other stakeholders, such as professional accountancy organisations, should also be concerned with how such content is disseminated to members (e.g. through communication and continuing professional development).
- Suggestions that, other than standard-setting, SMPs could be assisted by professional accountancy organisations (and other providers), for example by way of SMP forums, additional guidance material and training sessions.
- Guidance for SMPs /*considerations specific to SMPs* could address concerns around inconsistencies in practice.

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c. Firm governance, including leadership responsibilities

38. The overall concern presented in the ITC is that ISQC 1 addresses leadership responsibilities to a limited extent only, and that it does not address firm governance.

- QC 5(a) *Paragraphs 125–135 set out matters relating to governance of firms, including leadership responsibilities for quality.*
- QC 5(a)(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?*
- QC 5(a)(ii) *Why do you believe these actions are necessary?*
- QC 5(a)(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.*
- QC 5(a)(iv) *Please also describe any potential consequences of possible actions that you believe we need to consider further.*

And specifically

- QC 5(b)(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?*

39. In terms of indicating which of the possible actions proposed by the IAASB would be most meaningful to address issues related to leadership responsibilities for quality, the **survey respondents** indicated their preference for the following three actions [the most meaningful listed first, from (1) to (3)]:

- (1) ISQC 1 to require accountability of firm leadership, or appropriate personnel within firm leadership, for matters related to quality
- (2) Give more emphasis in ISQC 1 to the importance of firm leadership setting an appropriate culture for the firm and for extending that culture throughout the firm
- (3) ISQC 1 to more specifically require a firm to identify appropriate personnel within firm leadership to be responsible and accountable for independence matters

40. A significant number of **survey respondents** (32.4%) indicated that they do not support the following possible action as being particularly meaningful in addressing issues related to leadership responsibilities: Enhance ISQC 1 to more explicitly incorporate commonly used and familiar terminology such as “tone at the top”, “leading by example”, etc. It would appear that is mostly in the context that these terms are in the first instance associated with firm governance, including firm culture (see discussion in paragraphs that follow).

41. Further to possible action (3), above, pertaining to independence matters, we have identified views that in today’s business and audit environment(s) the consideration of independence (and independence decision-making) has become a specialist area.

This would support the IAASB’s proposed action for ISQC 1 to more specifically require a firm to identify appropriate personnel within firm leadership to be responsible and accountable for independence matters.

42. We have observed mixed views with respect to how accountability for matters related to quality, including independence- related matters could be addressed. Some suggest that such matters remain part of roles and responsibilities at executive level, while others suggest that certain matters must be addressed above “the service level”. Practical issues such as different authority levels linked to certain engagement and audit client characteristics could also be considered.
43. In order to further assist the IAASB in exploring the issues and possible actions that have been proposed, we include the following matters that have been raised by some **survey respondents**. Although not representative of a general or common view, these comments could provide further context and insight into some of the issues and possible actions, or additional issues and possible actions.
- With respect to enhancing the accountability of firm leadership, a number of practical questions have been raised, including how does a firm ensure accountability of leadership and consequences for action?; how is, or how best could accountability be demonstrated (i.e. the matter of providing evidence; documentation)?, etc.
 - Even though audit quality is ultimately the responsibility of firm leadership, all staff is responsible for audit quality (i.e. associated with the concept of firm culture).
 - There are a number of recognised frameworks /codes of corporate governance which should be referred to in order to establish proper firm governance, without the need to duplicate the details in the IAASB standards.

*QC 5(b) Specifically:
QC 5(b)(i) Do you believe it is necessary for us to explore how the governance of a firm could be addressed in ISQC 1?*

44. There is a general appreciation and recognition of the importance of firm culture and extending that culture throughout the firm. Firm governance, overall (which includes firm culture), is essential in enabling a firm to achieve its objectives, and in creating an environment and providing the structures and process that assist all in the firm to properly discharge their responsibilities and to accept accountability at the appropriate level.
45. The concept of firm governance is logically associated with the overall concept of good corporate governance. In South Africa the focus on, and importance of good corporate governance have been reinforced by the release, in March 2016, of the *Draft King IV Report on Corporate Governance in South Africa*. Good governance is about effective leadership, and the principles and practices that assist any organisation (also an audit firm; audit firms are businesses) to improve its ability to sustain itself and the environments in which it operates.

46. The consideration of firm governance inevitably also brings to the fore the consideration of competing goals, such as a firm performing audit and assurance services in the public interest, while at the same time striving to achieve the firm's commercial goals. Although these goals may naturally result in a degree of "tension", it is precisely this tension that should drive a firm to achieve the appropriate balance, since these goals are interrelated and the one cannot be achieved without the other. Through our participation in various forums we believe that there is a general view that "quality trumps all else"; i.e. if what the profession does and delivers is not "quality" and is not seen to be "quality" the profession's (and in particular, the external audit's) continued relevance could be in jeopardy. Again, it is about getting the balance right.

47. **Survey respondents** were asked to indicate the extent to which corporate governance principles have been formalised within their firms (formal structures, policies, procedures and processes), using a scale of 1 to 6, where (1) means corporate governance occurs in a highly informal and non-structured way and (6) means it has been fully implemented and formalised (structured and documented) and forms an integral part of "doing business" and exercising oversight.

23.5% of **survey respondents** indicated "6" and 29.4% indicated "1" or "2". The highest number of respondents indicated their assessment as "4" (38.2%). This shows a relatively wide spread, that is, amongst other, a product of the fact that 74% of practitioner respondents categorised themselves as being from the small and medium-sized firm constituency.

It is clear that a large portion of firms have already taken steps (or are in the process of taking steps) to pro-actively formalise and implement principles and practices of corporate governance within their firm structures. These firms could provide the IAASB with valuable input in this regard.

48. In line with recognising the importance of firm governance, 56.8% of **survey respondents** indicated that they believe it is appropriate to include the governance of firms in ISQC 1; i.e. incorporating requirements and application material that specifically addresses aspects of firm governance.

However, it is clear from the responses that there is a qualification to this answer, namely that although ISQC 1 could be enhanced by incorporating the principles of firm governance, the ability (or acceptability) of setting detailed requirements in this regard would probably be limited. There exist numerous recognised corporate governance frameworks or codes that should be applied by audit firms, without the need to bring the detail into the auditing standards.

Any enhancements to ISQC 1 in this regard must be in accordance with a principles-based approach. Most of the enhancements would probably have to be included as part of an introduction to the requirements, as well as application material to clarify a limited number of principles-based requirements (e.g. around a firm developing its own governance code).

49. On the other hand, it should be noted that a significant portion of **survey respondents** (43.2%) did not agree with the approach addressed in the previous paragraph. As far as could be ascertained the concerns of these respondents relate primarily to the following:

- The boundaries of addressing matters of firm governance in accordance with a principles-based approach should be clear, since it would be inappropriate to address in the auditing standards actual firm structure and the management of the firm. This is also related to the fact that firm structures are affected by law or regulation in the jurisdiction(s) in which the firm operates.
- Concerns by SMPs regarding flexibility and scalability based on firm size, client profile, etc. (refer to separate paragraph below that addresses specific considerations for SMPs).

*QC 5(b) Specifically:
QC 5(b)(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?*

50. We support the view that we had identified during our consultations and participation in various forums that firm governance principles (i.e. principles of good corporate governance) will probably come to the fore more prominently in the context of the adoption a QMA.

QC 13 as it relates to QC 5:

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.

51. We have noted the following considerations related to SMPs (including matters raised and comments made by **survey respondents**)
- Firm governance and leadership responsibilities are equally important for firms of all sizes. It would probably add value if SMPs could be alerted to those matters that could potentially be scalable depending on certain firm characteristics. Enhancing the application material by including *considerations specific to SMPs* could add value in this regard.
 - Highlight the matter of succession planning and its relevance to ensuring continuity in the interest of audit quality.
 - Again, SMPs have raised concerns regarding requirements that may be disproportionate in terms of the balance between quality value-add (i.e. addressing actual quality risks) and the cost of compliance in certain circumstances.
 - Suggestions regarding additional guidance and support for SMPs, outside of the standards, to be provided by the IAASB, professional accountancy organisations

and other providers. For example, staff publications, SMP forums, support material or guides, training, etc.

d. Networks of firms and the use of Audit Delivery Models (ADMs)

52. We present our comments under two sub-headings dealing with Networks and ADMs, respectively. The questions included as part of **QC 4** have been split and are addressed separately for each of these topics.

Networks

53. The overall concern presented in the ITC relates to instances where there may be undue reliance by individual firms on the network's system of quality control.

QC 4(a)	<i>Paragraphs 106–123 set out matters relating to networks of firms and use of ADMs.</i>
	[Networks are addressed in paragraphs 106-116]
QC 4(a)(i)	<i>Which of the actions outlined in paragraphs 114–116 [related to Networks] would be most meaningful to address issues related to firms operating as part of a network of firms?</i>
QC 4(a)(ii)	<i>Why do you believe these actions are necessary?</i>
QC 4(a)(iii)	<i>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.</i>
QC 4(a)(iv)	<i>Describe any potential consequences of possible actions that you believe we need to consider further.</i>
	<i>And specifically</i>
QC 4(b)(i)	<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?</i>

54. **Survey respondents** were first asked to indicate on a scale of 1 to 6 whether they strongly agree (6) or strongly disagree (1) with the following statement (i.e. the extent to which you agree or do not agree): *I believe there is a common understanding and sufficient consistency in application of the terms “network” and “network firm”.*

60.5% of **survey respondents** indicated their disagreement with the above statement at a level of 3 and below.

- This confirms the IAASB's observations regarding network and firm structures being highly flexible and being influenced by the particular business and audit environment, including local laws and regulations.

- At the same time, this could also indicate that there exists a need to explore the option that the standards (ISQC 1 and ISA 220) may have to more directly address considerations specific to networks.
55. The ITC has specifically raised concerns relating to instances where there may be undue reliance by individual firms on the network’s system of quality control. The IAASB could consider an approach where the relevant standards (ISQC 1 and ISA 220 and possibly other standards, including ISA 600) include additional application material relating to “*Considerations specific to networks*” that cover the relevant elements of a quality control system.
56. We support the proposed possible actions in paragraph 114 of the ITC. In this context, **survey respondents** were requested to rank in order of priority which of the actions would be most meaningful to address issues related to reliance on the network’s system of quality control. The resultant ranking is as follows [the most meaningful listed first, from (1) to (3)]:
- (1) Describing more clearly what the firm is required to do at the firm level, and the engagement level, to appropriately rely on the network entity (network-wide) quality control and monitoring policies and procedures
 - (2) Incorporating in ISQC 1 and ISA 220 policies and procedures derived from the “service organisation” concept (applying principles similar to those in ISA 402 and ISAE 3402)
 - (3) Strengthening ISQC 1 in relation to inspections that have taken place across the network and related communications (the impact for and communication to the individual firms in the network)
57. Further to the results in the previous paragraph:
- Appropriate focus should be placed on both the responsibilities and considerations at the network-entity level *and* at the level of individual firms within the network. Using principles from ISA 402 and ISAE 3402 could be an appropriate means to address relevant concerns from both perspectives.
 - The aspect of documentation should be emphasised in the context of demonstrating that the appropriate considerations were applied and providing support for the “reliance”-decision at the level of individual firms.

QC 4(b) *Specifically:*
 QC 4(b)(ii) *Do you think it would be feasible for us to develop requirements and guidance for networks? Please provide a basis for your views.*

58. Networks of firms are a reality of today's audit environment. We believe that it is outside the ambit of the standards to set requirements in relation to networks themselves (as discussed in paragraph 116 of the ITC). However, it should still be possible to incorporate requirements and application material relating to what is required by the network entity *and* by individual firms to appropriately rely on the network entity (network-wide) quality control and monitoring policies and procedures. Therefore, still applying a principles-based approach.

ADMs

59. ADMs are sometimes referred to as audit firm shared service centres or on-shoring or offshoring or outsourcing (in essence, using centralized resources for certain audit activities). The overall concern relates to how an engagement team addresses the requirements for retaining responsibility for the direction, supervision, performance and review of the work performed at ADMs.

- QC 4(a) *Paragraphs 106–123 set out matters relating to networks of firms and use of ADMs.*
[ADMs are addressed in paragraphs 117-123]
- QC 4(a)(i) *Which of the actions outlined in paragraphs 122-123 [related to ADMs] would be most meaningful to address issues related to firms operating as part of a network of firms?*
- QC 4(a)(ii) *Why do you believe these actions are necessary?*
- QC 4(a)(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.*
- QC 4(a)(iv) *Describe any potential consequences of possible actions that you believe we need to consider further.*

60. **Survey respondents** indicated the following priority in terms of which of the identified issues pose the greatest threat/s to audit quality when ADMs are used in performing audit work (i.e. relating to the engagement team retaining responsibility for the work performed) [the greatest threat listed first, from (1) to (4)]:

- (1) Concerns around sufficient and appropriate documentation in relation to the procedures performed, evidence of the review of work performed and demonstrating how the engagement team assessed the work in relation to the audit being performed
- (2) Insufficient supervision over, and the review of procedures performed (concerns whether such is sufficient and as rigorous as for other members of the engagement team)
- (3) Remoteness challenges – competence of personnel performing procedures; being removed from the engagement team it is supporting; inability to interact with the management of the audit client

- (4) Concerns around whether quality control and monitoring policies and procedures are sufficient in terms of ensuring that the firm’s leadership and oversight are extended to centralized locations or over centralized resources

These results should be interpreted in the context that **survey respondents** were in agreement with all of the issues identified, with a limited differentiation between the various issues in arriving at the prioritised list above.

61. Remoteness challenges are inherent in using ADMs. The IAASB’s proposed possible actions in terms of strengthening the auditor’s consideration of the following would be meaningful to address the related threats to audit quality:
- Assessing the complexity of the audit procedures to be performed and the level of judgement required in performing those procedures.
 - Whether the audit procedure can be performed remotely; in particular not requiring face-to-face interaction with management.
 - Whether the audit procedure can be directed and supervised remotely (and how this could be achieved).
 - Whether the use of a remote location would result in a breach of client confidentiality, or any legal or cross-border restrictions.
 - The nature and extent of documentation required by those performing the audit procedures at a remote location, as well as by those directing, supervising and reviewing their work.

QC 4(b)(iii)(a) How should our standards emphasize the importance of appropriate quality control processes in relation to use of ADMs?

62. 64.9% of **survey respondents** indicated that they believe it is appropriate that the standards incorporate considerations specific to ADMs. Also refer to our comments in paragraphs 33 to 35 under “Engagement partner roles and responsibilities” in this regard.
63. Although the use of ADMs may not by themselves create the need for additional requirements, we agree it would be useful to explore how ISQC 1 and the ISAs could acknowledge the use of ADMs, and emphasize the need for appropriate policies and procedures for these structures as part of the firm’s system of quality control. As mentioned in relation to networks, the IAASB could consider an approach where the relevant standards (ISQC 1 and ISA 220 and possibly other standards, including ISA 600) include additional application material relating to “*Considerations specific to ADMs*” that cover the relevant elements of a quality control system.
64. The IAASB has appropriately noted that firms are applying ISQC 1 and ISA 220 in situations involving ADMs and continue to develop their own internal methodologies in respect of the types of work that may be performed at centralized locations or by other centralized resources, as well as guidelines as to how that work should be performed. These firms could provide the IAASB with valuable input in this regard.

QC 4(b)(iii)(b) Are you aware of ADMs that raise issues not discussed in paragraphs? If so, please provide details.

65. We did not specifically identify ADMs other than those discussed in the ITC, or issues other than those addressed by our comments above.

e. Engagement quality control reviews (EQCRs) and reviewers

66. The overall concern presented in the ITC is that engagement quality control reviews (EQCRs) are not sufficiently robust.

67. External inspections performed by the audit regulator in South Africa have raised significant findings with respect to EQCRs (as per the IRBA Public Inspections Report 2014/2015), as have indeed also been noted internationally in relevant surveys of inspection findings conducted by the International Forum for Independent Audit Regulators (IFIAR).

QC 6(a) Paragraphs 136–146 set out matters relating to engagement quality control reviews and engagement quality control reviewers.

QC 6(a)(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?

QC 6(a)(ii) Why do you believe these actions are necessary?

QC 6(a)(iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.

68. With respect to the issues raised and possible actions pertaining to the performance of EQCRs and the EQC reviewers that perform them (as addressed in paragraphs 137-139 and 143 of the ITC), **survey respondents** indicated their views as follows in terms which of the following factors pose the biggest impediment /threat(s) to an effective EQCR [the greatest threat listed first, from (1) to (5)]:

- (1) Appropriate selection of an EQC reviewer (taking into account qualifications, experience, objectivity, own inspection results)
- (2) Insufficient depth and focus of the review in terms of the nature and extent of matters to be considered by the EQC reviewer
- (3) Timing of the EQCR – when the EQC reviewer becomes involved and the time allocated for the EQCR
- (4) Improper application of the requirement that the EQC reviewer does not otherwise participate in the engagement (maintaining objectivity)

- (5) Inadequate documentation, including with respect to the timing and substance of EQC review procedures performed and discussions amongst the EQC reviewer and the engagement partner

These results should be interpreted in the context that **survey respondents** were in agreement with all of the issues identified, with a limited differentiation between the various issues in arriving at the prioritised list above. Therefore, all off these matters are valid concerns in terms of responding to the quality risks involved.

69. With reference to item (4) in the previous paragraph, it should be noted that some **survey respondents** have linked the matter of the EQC reviewer's objectivity to the issue of selection of the EQC reviewer (the eligibility of the EQC reviewer), and are of the view that these requirements should be strengthened.
70. With reference to item (2) in paragraph 68 above, 97.4% of **survey respondents** agreed that strengthening the requirements and application material in ISA 220 by further specifying the nature and extent of matters to be considered by the EQC reviewer is expected to have a positive impact in terms of addressing issues related to the depth and focus of EQCRs.

The following matters have been noted by some **survey respondents** in answering this question:

- This could certainly contribute to more focussed reviews and thereby enhancing the effectiveness of EQCRs. Furthermore, it will narrow any gaps that may exist in relation to what is expected, and it would promote consistency in practice.
 - This action is subject to also addressing the issues relating to the skills of the EQC reviewer and the timing of the EQCR (refer to items (1) and (3) in paragraph 68 above) (i.e. "timing and technical skills remain an issue in the industry").
 - Amendments must be principles-based and further application material could be added to clarify matters and considerations, and to provide examples of relevant factors and circumstances that may be encountered. However, a balance must be maintained in terms of the required work effort (i.e. "the review should not become a second audit").
 - There is support for clarifying that the responsibilities of the EQC reviewer also extend to evaluating the risk assessment judgments made by the engagement team (and not only focussing on risk response).
 - EQCRs could probably also be scoped more appropriately (in terms of when they are required and the scope of individual reviews in certain circumstances) in the context of the adoption and application a QMA.
71. 66.7% of **survey respondents** agreed that the following could have a positive impact in terms of addressing issues related to the depth and focus of an EQCR: Adding application material to ISA 220 for the use, by the EQC reviewer, of subject-matter experts or other qualified individuals, separate from subject-matter experts that assisted the engagement team, to assist an EQC reviewer where appropriate.

However, the positive response is qualified by some concerns noted by **survey respondents** that can be summarised as follows:

- Provided that this is limited to application material only. There is a risk that the expected work effort in an EQCR could be expanded to an extent where it no longer makes sense in terms of the balance between quality value-add relating to engagement performance and the demand on resources and cost.
 - There appears to be a real concern that this could be going a step too far – the notion of “not re-performing the audit” (also in the context of the roles and responsibilities of the engagement partner and that of the EQC reviewer).
 - There is a view that this also speaks to the eligibility of an EQC reviewer and the selection of an EQC reviewer for a particular audit (including a suggestion of a distinction between “generalist” reviewers and “specialist” reviewers).
72. Further to the results above, we are of the view that the possible action suggested in paragraph 145 of the ITC is crucial in that an appropriate distinction between the responsibilities of the engagement partner and those of the EQC reviewer must be maintained in light of the objectives of the respective roles. We are aware of concerns raised by firms, that have also been observed in inspection findings in South Africa, that the engagement partner on occasion places undue reliance on the EQCR process and, as a result does not fully discharge his/her responsibility for the engagement and its performance (sometimes referred to as “stepping away”).
73. 65.8% of **survey respondents** indicated that they do not support the proposal for the IAASB to further explore the possibility of communicating in the auditor’s report that a particular audit was subject to an EQCR.
74. Our further consultations, including attending a discussion forum of larger audit firms also indicated that there appears to be little support for this option.
75. We agree with a view that the EQCR is a matter, like numerous others, that relate to the auditor’s and the firm’s quality control policies and procedures. It is not something that has a bearing on the auditor’s opinion as communicated in the auditor’s report and how such opinion should be received and interpreted by the users of the financial statements and the auditor’s report thereon. We believe that there is a real risk, as stated in paragraph 144 of the ITC, that users of the auditor’s report could inadvertently form a negative view about the quality of an audit that has not been subject to an EQCR notwithstanding that such an audit may not have met the firm’s criteria for selection.
76. Some of the **survey respondents** also raised an additional concern with respect to the possible consequences of creating different “grades” (or categories) of audits, namely that audit clients (and users) may start requesting (or insisting) on EQCRs for engagements that would not otherwise qualify for an EQCR. This could result in disproportionate demands in terms of resources required and the cost of some audits.

QC 6(a)(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.

77. The majority of **survey respondents** (57.9%) indicated that they believe that an EQCR is an effective measure in enhancing quality at the engagement level (i.e. it effectively contributes to improve quality of audits, taking into account an appropriate balance between value-add and cost). 28.9% noted their *strong* agreement with this statement, while 10.5% noted their *strong* disagreement.

We deduce from these results that there is an acknowledgement of the important role that EQCRs play (and should continue to play) in mitigating relevant quality risks, but that there is also scope to further clarify or enhance the requirements and application material (or to provide other supporting material or non-authoritative guidance).

78. Furthermore, it may be necessary to explore the possibility that the current definition and objectives of an EQCR as contained in ISQC 1 and ISA 220 may no longer be sufficient to address what is expected of an EQCR (or what has become to be expected from an EQCR since it has been implemented). Alternatively, there could be an expectation gap and it may be necessary to revisit and reconfirm the fundamental “building blocks” of an EQCR in terms of being a quality safeguard with respect to engagement performance.

QC 6(b) Specifically:
QC 6(b)(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.

79. With reference to the possible actions proposed in paragraph 143 of the ITC relating to extending the scope of EQCRs beyond audits of listed entities, the Code of Professional Conduct for Registered Auditors in South Africa have recently been changed to enhance the criteria and characteristics for identifying public interest entities and have, in essence, adopted a minimum definition for entities to be considered as public interest entities (refer to *Changes to the IRBA Code of Professional Conduct – Public Interest Entities*, IRBA, March 2016). This expanded definition should also assist firms in developing policies and procedures for identifying audits that should be subject to an EQCR.
80. **Survey respondents** were asked to rank the remaining possible actions discussed in paragraph 143 of the ITC in order of priority in terms of which would be most meaningful to ensure that EQCRs properly extend to entities other than listed entities. The results are as follows [the most meaningful listed first, from (1) to (3)]
- (1) Strengthening ISQC 1 in relation to the establishment of criteria by the firm for selecting those engagements that require an EQCR
 - (2) Adding new requirements or clarifying existing requirements in terms of focussing on the selection of engagements based on identified risks – audit risks and quality risks
 - (3) Elevating the application material in ISQC 1 and ISA 220 concerning criteria for selecting those engagements subject to EQCR to requirements in the standards

QC 6(b)(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.

81. The principle of requiring a “cooling off period” in certain instances is already well established within the Code of Ethics. It is a recognised safeguard to independence threats.
82. We support this proposed action, based on concerns that have been raised with respect to the eligibility of the EQC reviewer and the selection of an EQC reviewer, as well as the identified need to strengthen the requirements and application material with respect to the EQC reviewer maintaining his/her objectivity.

QC 6(b)(iii) Would you support the development of a separate EQC review standard? Please explain the reasoning for your response.

83. In different forums and discussion sessions we have attended, we were left with the overall sense that there are mixed views in terms of a separate standard for EQCR; views motivated in terms of the interpretation and weight assigned to the various advantages and disadvantages noted in paragraph 144 of the ITC.
84. **Survey respondents** also indicated these “mixed views”, with 52.6% supporting and 47.4% not supporting the development of a separate standard for Engagement Quality Control Review.

QC 13 as it relates to QC 6:

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.

85. We have noted the following considerations related to SMPs (including matters raised and comments made by **survey respondents**)
- The challenges for SMPs as mentioned in paragraph 140 of the ITC are real and will continue. The IAASB could explore the possibility to provide application material in terms of highlighting considerations of scalability (which may also become more apparent if a QMA is adopted). However, if the requirements and application material in ISQC 1 and ISA 220 are strengthened, including the

selection criteria for audits that require an EQCR, firms will also have to accept that compliance with the EQCR requirements are inherent in those types of engagements.

- SMPs in particular would value additional clarification and guidance with respect to setting criteria for engagements that should be subject to an EQCR (other than listed entities). This would also contribute to consistency in practice.
- SMPs would benefit from additional application material (or other supporting material /practice guidance) that addresses the outsourcing of EQCRs (i.e. the quality risks involved and safeguards that could address such risks).
- The outsourcing of the EQCR could also be relevant in the context of maintaining the objectivity of the EQC reviewer in instances where an SMP firm only has a few partners.

f.\...

f. Monitoring and remediation

86. The overall concern presented in the ITC relates to a lack of consistency in practice in terms of responding to all feedback on quality control (internal and external), and the appropriateness and robustness (nature and depth) of responses to address deficiencies.

QC 7(a) *Paragraphs 147–159 set out matters relating to monitoring and remediation.*

QC 7(a)(i) *Which of the possible actions outlined in paragraphs 156–159 would be most meaningful in addressing issues related to monitoring and remediation?*

QC 7(a)(ii) *Why do you believe these actions are necessary?*

QC 7(a)(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.*

QC 7(a)(iv) *Please also describe any potential consequences of possible actions that you believe we need to consider further.*

87. Overall, **survey respondents** are supportive of the proposed possible actions in paragraphs 156-159 of the ITC.
88. In terms of indicating which of the possible actions proposed by the IAASB would be most meaningful to address issues relating to monitoring and remediation, the **survey respondents** indicated their preference for the following four actions [the most meaningful listed first, from (1) to (4)]:
- (1) ISQC 1 to require that a firm develop policies and procedures to require that audit deficiencies should be subject to further analysis to understand their root causes, and that corrective measures that should be designed, implemented and monitored to assess their effectiveness
 - (2) ISQC 1 (and ISA 220) to require obtaining an understanding of causal factors of audit deficiencies identified by all types of monitoring reviews (*internal and external*)
 - (3) ISQC 1 to address the analysis of any external inspection findings and appropriate responses thereto, in the same way that internal monitoring results are considered
 - (4) Strengthen ISQC 1 for the consideration of how pre-issuance reviews and post-issuance reviews, and the results thereof, may factor into the firm's system of quality control (i.e. ensuring the investment of appropriate time and resources in internal monitoring activities)
89. Also refer to our comments below on the specific questions included as part of QC 7.
90. We have not specially identified any other issues related to monitoring and remediation, or any other potential consequences to proposed possible actions.

- QC 7(b) Specifically:*
- QC 7(b)(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?*
- QC 7(b)(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.*

91. In the South African context these matters have been very much in the “auditor’s eye”, owing to the IRBA’s introduction of its Remedial Action Process in 2014/2015 (the IRBA is the audit regulator and perform external inspections at firm level and at engagement level). The Remedial Action Process has been introduced to drive appropriate firm and auditor behaviour in the interest of enhancing sustainable audit quality; i.e. ensuring that the root causes of deficiencies are isolated and that proper (and effective) remedial actions are implemented to increase the likelihood of satisfactory inspections or re-inspections.
92. A number of the possible actions in paragraphs 156-159 in the ITC relate to whether matters regarding the analysis of root causes and the implementation of remedial actions should be formalised in the standards (ISQC 1 and ISA 220). We support a holistic approach to the monitoring of audit quality that takes into account all monitoring results and that ensures appropriate responses, not only to individual findings, but across the firm in terms of considering the possible impact on other engagements, on other firms and on the firm’s quality control system. This would contribute to maximising the likelihood that quality audits are performed on a consistent basis (as envisaged in the IAASB Framework for Audit Quality).

QC 13 as it relates to QC 7:

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.

93. We have noted the following considerations related to SMPs (including matters raised and comments made by **survey respondents**)
- The challenges for SMPs as mentioned in paragraphs 152-153 of the ITC are real. The IAASB could explore the possibility to provide application material in terms of highlighting considerations of scalability (which may also become more apparent if a QMA is adopted). The call for scalability is strong in the context of what is stated in paragraph 153 of the ITC, namely whether “the layers of quality control,

combined with external inspections, when taken in total, may be excessive in certain circumstances.”

- If the IAASB adopts a QMA, guidance (in the form of application material or by other means) will have to be specific and clear in order to ensure that SMPs in particular are able to appropriately “scale” their responses to quality risks in their particular environments (otherwise, additional requirements will simply add additional demands in terms of resources, time and cost).
- SMPs would benefit from additional application material (or other supporting material or guidance) that addresses the outsourcing of monitoring procedures (i.e. the quality risks involved and safeguards that could address such risks).
- Although this cannot be addressed in the standards directly, a need has been identified for support to SMPs in designing and carrying out an appropriate remedial action plan. This could require interventions from professional accountancy organisations (and other providers).

g. Specific matter considered with respect to “Others involved in the audit” – using another auditor’s report as audit evidence

Refer to **QC 3(a)** – In particular, **paragraph 101** in the ITC.

We posed the following question to **survey respondents**:

Do you believe that it is appropriate for the IAASB to re-explore the possibility of allowing the auditor to use another auditor’s report (directly) as audit evidence in certain circumstances (including questions related to when doing so might be appropriate, what the responsibilities of the engagement team should be, and whether it might be necessary to make reference in the auditor’s report to the report of another auditor)?

94. **Survey respondents** were clearly divided, with 48.6% answering “Yes” and 51.4% answering “No”. These mixed views would suggest that this could very well be a contentious issue which will require careful consideration if it is decided to explore the matter further.
95. In order to further assist the IAASB, we include our additional observations as follows, including comments and issues that have been raised by some **survey respondents**. Although not representative of a general or common view, these comments could provide further context and insights into some of the issues involved.
- On face-value the possible action could serve to address various practical challenges encountered regarding, for example, non-controlled entities and certain components in group audits. However, this must be balanced with the consideration whether audit quality will be achieved; in particular, to ensure that the auditor’s report issued is appropriate in the circumstances. It will require revisiting certain fundamental concepts, including the needs of the users of the financial statements and the so-called sole responsibility concept that is encapsulated in the ISAs (in particular in ISA 600).

- It would appear that there has been general acceptance of the principle in ISA 600.3 that allow for the group auditor to decide to use the audit evidence on which the audit opinion on the financial statements of the component is based to provide audit evidence for the group audit. However, there is a level of discomfort associated with using such audit opinion directly as audit evidence for the group audit.
- The proposed option could apply “in certain circumstances”. It will be challenging, but essential, to provide an unambiguous description of such circumstances, as well as the considerations and decisions that are required by the group engagement partner and group engagement team, communications between the group auditor and the component auditor, and documentation requirements.
- It will be important to explore and understand the consequences relating to an inappropriate group audit opinion, owing to an inappropriate audit opinion for an individual component(s) (including aspects relating to auditor liability).
- Questions regarding how the group engagement team would reduce group audit risk to an acceptable low level would need to be addressed – clear requirements and application material.

Overall, the option is not dismissed outright, but it needs to be explored with care.

h. *Some observations with respect to transparency reporting*

QC 10(a) Do you believe we are able to positively contribute to the evolving developments related to transparency reporting? If so, what, in your view, would be the most appropriate action we could take at this time?

96. We did not select transparency reporting as a topic for purposes of the *SAICA seminar* on the ITC or for the *SAICA online survey*. However we wish to provide some input on this topic (also informed by our participation in other forums).
97. Transparency reporting is very much an emerging area and a formal response by way of international standard-setting would not be appropriate at this stage; rather allow practice to develop, including how national regulators and oversight bodies choose to address transparency reporting at the jurisdictional level.
98. The most appropriate action for the IAASB at this stage would be to continue with information-gathering, including related outreach activities and research. As stated in the ITC (paragraph 189), “seek to understand the demand and requirements for transparency reporting around the world, and how investors, regulators and others are using these reports.”
99. In South Africa currently there are no specific transparency reporting requirements. There may be some communication /disclosure of certain elements of what could be encapsulated in the broader context of transparency reporting, but this has not been formalised as a reporting practice for firms.

100. In principle there is an appreciation for the fact that transparency reporting could be a means to enhance communication with relevant stakeholders; however, it is an evolving area that should be approached with due care and flexibility. Some of the questions that have come to our attention that illustrate these early stages of development include (not an exhaustive list):
- What is the purpose of transparency reporting and is this commonly understood from the perspective of the firms reporting the information and the users of the information? Are the need and demand for transparency reporting, and the opportunities and risks understood well enough?
 - Who are the users of transparency information and what are their information needs (including the message that is intended to be communicated versus the message as it is being received and used)? How do transparency reports influence stakeholder behaviour, as well as internal behaviour within firms?
 - What are the considerations around fair and balanced reporting (including the public interest perspective)?
 - What is the common terminology to describe the principles of transparency reporting and the elements of such reports (including considerations regarding measurement and disclosure)?
 - How to address jurisdictional variation in laws and regulations?

B.\...

B. PROFESSIONAL SKEPTICISM – AREAS TO EXPLORE AND POSSIBLE WAY FORWARD

101. Our comments to the questions in the ITC relating to professional skepticism are presented in the following sequence:

PS 1, PS 2, PS 5, and our combined comments on PS 3 and PS 4.

PS 1 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?

The comments in paragraphs 102 to 110 below also serve to provide a broader context in answering the other PS-questions that follow.

102. There can be little doubt that professional skepticism and professional judgement are the fundamental concepts that drive decision-making and actions during any audit and assurance engagement. Professional skepticism is an attitude that is applied in making appropriate professional judgements.

103. ISA 200, *Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing*, establishes professional skepticism as a fundamental and pervasive concept and sets the overall requirement that the auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated (ISA 200.15). The standard includes application material that provides further guidance with respect to the meaning of professional skepticism and the mind-set that is required from the auditor (refer to ISA 200.A18-A22). Furthermore, the exercise of professional skepticism is reinforced throughout the ISAs in the 200 to 700 series.

104. Notwithstanding the above, professional skepticism remains a challenging area:

- Questions remain whether there is a common understanding of what it really means and what is expected in terms of considerations, actions and decisions of the engagement partner and of the engagement team.
- How does one demonstrate the application of professional skepticism (i.e. the matter of documentation) and conclude that an appropriate level of professional skepticism has been applied?
- How to further clarify and emphasise the link between professional skepticism and sufficient appropriate audit evidence. The auditor's evidence is what gives the auditor confidence to conclude and to form an audit opinion, but only if such evidence has been obtained objectively, without bias, and is sufficiently persuasive.

- Considerations relating to whether the IAASB's standards are clear and sufficient, coupled with what can be expected of those standards in terms of additional requirements and application material (i.e. how far can the standards really go).
 - Is professional skepticism as a behavioural phenomenon understood well enough?
 - Considering how to best instil and cultivate appropriate behaviour from auditors, including reflecting on the skills and attitudes of auditors (i.e. aspects of auditor competencies).
 - Considering that it is not just the behaviour of the auditor that is of concern, but also the behaviour and attitudes of those being audited (in particular, those charged with governance).
105. Ultimately, it is in the execution – how well the auditor has succeeded to exercise professional skepticism. External inspection findings in South Africa (similar to what has been noted internationally) have identified the lack of exercise of sufficient levels of professional skepticism as a root cause with respect to numerous inspection findings (as per the IRBA Public Inspections Report 2014/2015).
106. We have no doubt that enhancing the exercise of professional skepticism requires a holistic approach (an integrated approach) in which standard-setting should contribute to the solution, but can never provide the full solution. We commend the efforts of the IAASB in this regard (including those of the working group that comprises representatives from the IAASB, IESBA and IAESB). Considerable and significant ground work has been done already. We generally support the areas that the IAASB has identified to explore further, and offer our further input in this regard in answering questions PS 1 to PS 5.
107. **Survey respondents** were divided when asked to indicate the extent to which they agree with the following statement (“6” indicates strongly agree and “1” indicates strongly disagree): *The international standards are sufficiently clear with respect to what is meant by “professional skepticism” – overall and in relation to individual audit topics or areas, including its link to other concepts.*
- 51.7% of **survey respondents** recorded an assessment at a level of “3” and below (indicating primarily disagreement) and 48.3% recorded an assessment at a level of “4” and higher (indicating primarily agreement). There was almost an equal split between respondents across the entire scale (1, 2, 3, 4, 5 and 6).
108. Auditors could certainly benefit from additional descriptions of professional skepticism in terms of the behaviour and attitudes that are inherent in exercising professional skepticism, and the factors and characteristics that influence these (i.e. enhancing the application material in the standards). However, the ability of the standards to sufficiently address this is limited, and additional support material and guidance will probably be required (also refer to our comments with respect to question PS 5 below).
109. The promotion of a more neutral mentality deserves attention. In gathering sufficient appropriate audit evidence, the auditor must not be unduly influenced by a belief that management and those charged with governance are honest and have integrity. However, this does not mean that the auditor must assume the opposite, until proven

otherwise (as was suggested by a question we received from an attendee during one of our sessions). It simply requires the auditor to be neutral in his/her approach; i.e. let the evidence speak for itself – exercise professional skepticism and do not be satisfied with less than persuasive audit evidence.

110. We support a clearer and more direct link between professional skepticism and other concepts, as highlighted in paragraph 37 of the ITC (1st bullet point), including links across the international standards of the IAASB, IESBA and IAESB.

PS 2 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?

111. **Survey respondents** agreed in general with the examples of factors that can inhibit the auditors' application of professional skepticism, as discussed in paragraph 31 of the ITC. From these, the most prominent were identified as tight financial reporting deadlines and auditors' time and resource constraints.

112. In addition to the factors in paragraph 31 of the ITC, we have identified the following inhibiting factors:

- Ineffective audit committees, referring to the important role that those charged with governance have to play in effective two-way communication between the auditor and those charged with governance and in evaluating the auditor's level of professional skepticism.
- Mounting audit fee pressure and declining profit levels.
- Pressure relating to client retention.

113. In terms of indicating how the IAASB should prioritise the areas to be explored as identified in paragraph 37 of the ITC, the **survey respondents** indicated their preference for the following four areas [listed in descending order from (1) to (4)] (*excluding*, the issue around providing clarity with respect to what is meant by "professional skepticism", which has already been discussed as part of our response to question PS1, above):

- (1) How auditors can be effectively trained and how their competence can be further developed
- (2) Actions that firms should take to address professional skepticism, including consideration of the effect of firm culture on the application of professional skepticism
- (3) The role of: Engagement partners, EQC reviewers, audit committees, oversight bodies and others in influencing the application of professional skepticism
- (4) Whether the International Standards are clear as to what is expected of the auditor – the current requirements and guidance

PS 5 *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?*

114. 68.8% of **survey respondents** agreed that possible actions *other than standard-setting* should be considered to improve auditors' understanding and application of professional skepticism during an audit.
115. With reference to the discussion in paragraphs 33-34 of the ITC, **survey respondents** indicated the following priority in terms of which stakeholders, *other than the IAASB*, could potentially add the most value in reinforcing professional skepticism in an audit of financial statements [listed in descending order from (1) to (5)]:
- (1) Audit firms
 - (2) Professional Accountancy Organisations (e.g. in SA, SAICA)
 - (3) Education institutions (i.e. universities in terms of the formal education programme)
 - (4) Regulators and standard setters (e.g. in SA, the IRBA)
 - (5) Other training providers (i.e. in terms of continuing professional development)
 - (6) Those charged with governance of audit clients (e.g. the audit committee)
116. We have identified the following possible actions that, together with standard-setting, should be considered as part of a holistic /integrated approach to enhance the understanding and exercise of professional skepticism:
- Strengthening competence as part of the formal education programme (i.e. ensuring proper focus on the appropriate mind-set and attitudes at the foundation stage).
 - Strengthening competence as part of the training programme of candidate auditors (i.e. building on the foundation and further cultivating appropriate skills and attitudes).
 - Additional support material /additional guidance to practitioners, for example IAASB staff publications or other non-authoritative guidance (such as the Staff Questions and Answers publication, February 2012, *Professional skepticism in an audit of financial statements*). Projects to develop such material should take into account the identified need to more directly address the behavioural aspects of professional skepticism. This could be achieved by focussing on appropriate attitudes of the auditor, the auditor's response to the attitudes and behaviour of the audit client, and by providing illustrative examples or case studies.

- Support material /guidance /practical training material developed, for example, by local professional accountancy bodies. Apart from building on available standards and other material, such guidance can cater for the local environment, including laws and regulations, business practices and local norms and culture.
- Guidance to firms, in particular smaller firms, that may have specific challenges in implementing and maintaining programmes and policies and practices that cultivate the exercise of professional skepticism.
- Audit firms are in a good position to provide further insights through case studies (i.e. they deal with these matters in-practice and they have to take the “difficult” decisions). In addition, regulators and oversight bodies that perform external inspections observe these cases across all firms and industries and can provide invaluable input in this regard.
- Encouraging academic research and other thought leadership.
- Presenting continuous professional development content that focusses on, or is informed by matters relating to professional skepticism.
- Strengthening the link to /providing more clarity and guidance with respect to the link between the IAASB standards and the Code of Ethics (or even, ethical behaviour in general).

PS 3	<i>Is the listing of areas being explored in paragraph 38–40 complete? If not, what other areas should we or the Joint Working Group consider and why? What do you think are the most important area to be considered?</i>
PS 4	<i>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?</i>

117. We support the areas being explored under the heading “Our current projects – A step forward” in paragraphs 38-40 of the ITC. While various other possible actions are relevant and should be explored (as discussed in our comments to the other PS questions above), it makes sense to simultaneously ensure that the IAASB’s standards are being enhanced as part of its projects to develop new or revised standards. In this regard strengthening professional skepticism as part of the IAASB’s projects relating to quality control and group audits should receive priority, followed by other projects in accordance with the IAASB’s work plan.
118. We have also identified the following areas that could be considered in addressing professional skepticism as part of the current IAASB standards, and the IAASB’s projects to develop new and revised standards:
- Strengthening the exercise of professional skepticism and professional judgement by enhancing certain elements of engagement performance that are already addressed in the standards, such as consultation and the use of experts.
 - The possibility to include in each ISA a “professional skepticism” heading. This section could reinforce the *basic requirement* to exercise professional skepticism

and include additional application material relevant to the exercising professional skepticism in relation to the particular audit area and the objectives of the auditor in that ISA.

- Enhancing the documentation requirements and application material with respect to adequately evidencing the exercise of professional scepticism.

C.\...

C. GROUP AUDITS TOPICS /THEMES /AREAS

119. We present our comments on the following group audits topics /themes /areas in the sub-sections that follow:

- a. Strengthening and clarifying how the ISAs, including ISA 220, apply to a group audit **[GA 1]**
- b. Acceptance and continuance of the group audit engagement **[GA 2]**
- c. Communication between the group engagement team and component auditors **[GA 3]**
- d. Using the work of the component auditors **[GA 4]**
- e. Identifying and assessing the risks of material misstatement in a group audit – Issues relating to the group engagement team’s understanding of the components and identifying significant risks for the group **[GA 5]**
- f. Identifying and assessing the risks of material misstatement in a group audit – Issues relating to component materiality and other aspects of materiality relevant to group audits **[GA 6]**
- g. Responding to identified risks of material misstatement in a group audit (including issues relating to the group engagement’s team involvement in the consolidation process) **[GA 7]**
- h. Review and evaluation of the work of component auditors by the group engagement team **[GA 8]**

a. Strengthening and clarifying how the ISAs, including ISA 220, apply in a group audit

GA 1(a) Should we increase the emphasis in ISA 600 on the need to apply all relevant ISAs in an audit of group financial statements? Will doing so help to achieve the flexibility that is needed to allow for ISA 600 to be more broadly applied in a wide range of circumstances (see paragraphs 194-198)? If not, please explain why. What else could we do to address the issues set out in this consultation?

120. 69.0% of the **survey respondents** agreed that increasing emphasis in ISA 600 on the need to apply all relevant ISAs in an audit of group financial statements will increase the flexibility that is needed to allow for ISA 600 to be more broadly applied in a wide range of circumstances.

121. **Survey respondents** also indicated that adding such emphasis will enhance consistency in the application of ISA 600.

GA 1(c) Should we further explore making reference to another auditor in an auditor’s report? If yes, how does this impact the auditor’s work effort?

122. 53.1% of the **survey respondents** indicated support for the IAASB to further explore making reference to another auditor in an auditor’s report.

123. Supporters of this proposed action indicated that it will promote more transparency to the users of the financial statements at group level so that they are aware of the instances where group auditors relied on the work of component auditors.
124. Those who are not in favour of the proposed action indicated that the group auditor takes responsibility for the group audit opinion and adding any reference to another auditor may cause confusion in the market and detract from such responsibility. It could also make the auditor's report longer than is necessary if all component auditors in a complex group structure have to be listed in the report.
125. This matter is also related to the discussion in paragraph 101 of the ITC (as part of the quality control section – Others involved in the audit). Refer to section Ag. of this comment letter (above) that discusses the possibility of using another auditor's report directly as audit evidence.
126. If the IAASB explores these possible actions further, the standard should preferably deal with reliance on the audit opinion of a component auditor and reliance on the work performed by a component auditor separately as these two scenarios present different challenges. Extant ISA 600 deals with reliance on the work performed by a component auditor and it provides for an instance where the group auditor decides to use, for the group audit, the audit evidence on which the audit opinion of the component auditor is based, but with little application material or guidance for the latter. The standard makes no provision for relying directly on the audit opinion of another auditor.

GA 1(d) What else could the IAASB do to address the issues highlighted or other issues of which you are aware? Why do these actions need priority attention?

127. 82.1% of the **survey respondents** indicated that they do not believe that there are other actions that the IAASB can take to address the issues highlighted in this section.
128. However some of the individual comments indicate that the development of a separate standard on the roles and responsibilities of component auditors should be considered or, alternatively, expand ISA 600 with respect to "Reliance on the work of other auditors" to pin down responsibilities of each auditor, as well as what documentation is needed as evidence of the reliance-decision.
129. There was also an indication that additional guidance is required in the following areas:
 - Group and component auditor responsibilities where the group includes non-controlled entities.
 - Guidance for joint auditors (not component auditors).
 - Guidance for component auditors (specifically relating to additional documents /communications that need to be submitted to the group auditor and consolidation packs).

b. Acceptance and Continuance of the group audit engagement

GA 2(a)(i) Which of the possible actions outlined in paragraphs 215–217 would be most meaningful in addressing issues related to acceptance and continuance procedures?

130. In terms of indicating which of the possible actions proposed by the IAASB would be most meaningful to address issues related to engagement and continuance procedures, the **survey respondents** indicated their preference for the following four actions [the most meaningful listed first, from (1) to (4)]:

- (1) Strengthening the requirements in ISA 600 to drive earlier identification by auditors of those situations where there is:- No reasonable way of obtaining sufficient appropriate audit evidence, and clarifying what to do in such situations - Likely to be significant complexity or difficulty in obtaining sufficient appropriate audit evidence.
- (2) Clarifying the existing application material and providing additional application material, for matters that may need to be considered in obtaining an understanding of the group, its components and their environments, as well as the component auditors, and as required by paragraph 12 of ISA 600
- (3) Emphasizing that the agreed terms of the engagement include that group management agree to the preconditions for the group audit, including agreeing to provide the auditor with access to all information relevant for the group audit (i.e., consistent with ISA 210).
- (4) Strengthening the link in ISA 600 to the requirements in ISQC 1 that address the firm's acceptance and continuance policies and procedures, and the requirements in ISA 220 that address the engagement partner's related responsibilities for quality at the engagement level

GA 2(a)(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.

131. 93.1% of the **survey respondents** indicated that they do not believe that there are other issues that the IAASB should consider relating to this section.

132. However the need to expand on roles and responsibilities of component auditors, including the auditors of joint ventures and associates was highlighted.

GA 2(b)(i) Are access issues as described in paragraph 207(a) still frequently being experienced in practice? If yes, please provide details and, where possible, explain how these are being addressed today.

133. 55.6% of **survey respondents** indicated that access issues are no longer being experienced in practice. This is by no means a conclusive response, since 44.4% are still of the view that access issues remain a challenge.

134. Some of the issues that are still being experienced include:

- Gaining access to component auditor working papers where the component is a non-controlled entity.
- Access to information of joint ventures and associates where management do not control the component, but the financial information included in the group accounts are material especially where the entities are in different jurisdictions and local regulations do not allow for access to information before other shareholders can gain access.

GA 2(b)(ii) Do you agree that ISA 600 can or should be strengthened in relation to addressing access issues as part of acceptance and continuance?

135. 100% of the **survey responds** indicated that they agree that ISA 600 should be strengthened in relation to addressing access issues as part of acceptance and continuance. This is also linked to the responses observed with respect to question GA 2(a)(i), above, regarding view's on which of the proposed possible actions would be most meaningful.

GA 2(b)(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?

136. 76.9% of **survey respondents** indicated that expanding the understanding required for acceptance and continuance, as described in paragraph 215(b), will be achievable in the case of a new audit engagement.

c. Communication between the group engagement team and component auditors

GA 3(a)(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?

137. In terms of indicating which of the possible actions proposed by the IAASB would be most meaningful to address issues related to communication between the group

engagement team and the component auditor in group audits, the **survey respondents** indicated their preference for the following two actions [the most meaningful listed first, from (1) to (2)]:

- (1) More clearly explaining and setting forth the requirements for the component auditor in making and participating in communications to the group engagement team
- (2) Adding application material to emphasize the importance of applying the requirements of ISA 230 in documenting significant communications between the group engagement team and component auditors (including two-way dialogue), and not just focusing on the inclusion of written communications in the audit documentation.

GA 3(a)(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?

138. 93.1% of **survey respondents** indicated that they are not aware of other issues that the IAASB should consider relating to this section.
139. 86.2% of **survey respondents** indicated that they do not believe that there are other actions that the IAASB can take to address the issues highlighted in this section of the ITC.
140. Suggestions were made for consideration of a separate standard or, alternatively, a separate section in ISA 600 that gives guidance to the component auditor on communications with the group auditor, performance of the additional work /procedures set forth by the group audit engagement team and presenting specific conclusions on work performed to the group auditor. If such enhancements are to be implemented, the IAASB should consider renaming the standard to ensure that it is applicable to both the group auditor and component auditors.
141. Some support was also indicated for the IAASB to consider the development of a separate standard dealing with the roles and responsibilities of the component auditor. Alternatively the IAASB should consider addressing more clearly, and distinguishing, the roles and responsibilities of the group auditor and component auditors in ISA 600.

d. Using the work of the component auditors

GA 4(a)(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?

142. In terms of indicating which of the possible actions proposed by the IAASB would be most meaningful to address issues related to using the work of the component auditor, the **survey respondents** indicated their preference for the following four actions [the most meaningful listed first, from (1) to (4)]:
- (1) Strengthening ISA 600 to provide more clarity as to how the group engagement team determines the nature, timing and extent of the necessary involvement in the work of the component auditors, including more explicit focus on demonstrating why the involvement of the group engagement team is appropriate in light of all relevant considerations and the application of appropriate professional skepticism.
 - (2) Including an objective or strengthening the requirements in ISA 600 to clarify that the group engagement team should make an explicit determination about whether it is appropriate to use the work of a component auditor.
 - (3) Developing additional application material to address the impact on the understanding of the competence of the component auditors if there are different or no national or jurisdictional licensing requirements.
 - (4) More explicitly explaining the interactions between the group engagement team and the component auditors in varying circumstances (e.g., in different group structures or in jurisdictions where restrictions on access exist).

GA 4(a)(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.

143. 92.9% of **survey respondents** indicated that they are not aware of other issues that the IAASB should consider relating to this section of the ITC.
144. 88.9% of **survey respondents** indicated that they are not aware of other actions that the IAASB could take to address the issues highlighted in this section of the ITC.
145. As indicated in our comments to question GA(1)(c) above (section Ca. of this comment letter) the standard should preferably deal with reliance on the audit opinion of a component auditor and reliance on the work performed by a component auditor separately as these two scenarios present different challenges. Extant ISA 600 deals with reliance on the work performed by a component auditor and it provides for an instance where the group auditor decides to use, for the group audit, the audit evidence on which the audit opinion of the component auditor is based, but with little application material or guidance for the latter.
- e. *Identifying and assessing the risks of material misstatement in a group audit – Issues relating to the group engagement team’s understanding of the components and identifying significant risks for the group***

GA 5(a)(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?

146. In terms of indicating which of the possible actions proposed by the IAASB would be most meaningful to address issues related to identifying significant risks for group audits, the **survey respondents** indicated their preference for the following four actions [the most meaningful listed first, from (1) to (4)]:

- (1) Improvements to provide more explicit reference to the principles, requirements and related application material in ISA 315 (Revised) and in ISA 330 to support application of those ISAs in group audit engagements.
- (2) Providing further clarification about how significant risks that are pervasive to the group (and therefore exist at all components) impact whether a component is to be considered significant.
- (3) Clarifying or adding to the requirements or application material to emphasize that significant risks identified by component auditors for a specific component should also be considered at the group level by the group engagement team, to determine whether those risks may apply more broadly to some, or all, of the other components or for the group overall.
- (4) Developing additional application material to further clarify the meaning of the phrase “of financial significance to the group,” as this may also help address some of the challenges in identifying significant components.

GA 5(a)(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.

147. 92.6% of **survey respondents** indicated that they are not aware of any other issues that the IAASB should consider relating to this section of the ITC.

148. 85.2% of **survey respondents** indicated that they are not aware of other actions that the IAASB could take to address the issues highlighted in this section of the ITC.

149. The need for additional guidance for the determination of *significance* for investments that are not consolidated but equity accounted was highlighted.

150. A concern was also raised that if most of the possible actions are addressed through application material, behaviours will not change until they are actually included in the requirements of the standard.

f. Identifying and assessing the risks of material misstatement in a group audit – Issues relating to component materiality and other aspects of materiality relevant to group audits

GA 6(a) Paragraphs 254–261 set out issues relating to applying the concept of materiality in a group audit. Do you agree with the possible actions recommended in paragraph 261 to clarify the different aspects of materiality in a group audit? If not, please indicate which actions are not appropriate and describe why.

151. 85.7% of **survey respondents** indicated that they agree with the possible actions recommended in paragraph 261 to clarify the different aspects of materiality in group audits.

152. It was further suggested that topic-specific guidance on component materiality and materiality in a group audit be included in ISA 600, and that the overall project on materiality is important and should not be delayed.

GA 6(b) Recognizing that significant changes to ISA 320 will not be contemplated until a review of ISA 320 has been performed in its entirety (potentially as part of a future project to address materiality more broadly), please describe any other relevant 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.

153. The following additional matters were raised by **survey respondents**:

- Further clarity regarding what the maximum aggregate component materiality should be limited to.
- How to determine materiality on a divisional level in a company and how this relates to the overall company materiality.
- How to deal with implications of Key Audit Matters.

154. The latter point in the previous paragraph relates to the discussion in paragraph 305 of the ITC and indicates support for the IAASB to consider including in ISA 600 additional application material to assist group engagement teams and component auditors in having effective communications so as to ultimately support the identification, where applicable, by the group engagement team of those matters that might be considered and ultimately determined to be key audit matters in the context of the group audit.

g. Responding to identified risks of material misstatement in a group audit (including issues relating to the group engagement’s team involvement in the consolidation process)

GA 7(a)(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?

155. In terms of indicating which of the possible actions proposed by the IAASB would be most meaningful to address issues related to responding to identified risks of material misstatement in a group audit, the **survey respondents** indicated their preference for the following nine actions [the most meaningful listed first, from (1) to (9)]:

- (1) Challenge whether the requirement to perform an audit of the financial information of significant components using component materiality is appropriate in all cases, or whether it should be made more flexible.
- (2) More clearly distinguishing between the types of procedures that could be performed and in which circumstances they might be appropriate.
- (3) Providing application material to clarify that the manner in which the requirement to perform an “audit of financial information of the component using component materiality” is applied may vary depending on the specific circumstances.
- (4) Clarifying the distinction between work performed for the purposes of the group audit and work performed to support, for example, a standalone auditor’s report at the component level. Application material could also be provided on relevant considerations for the component auditor in different circumstances.
- (5) Providing 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 for the performance of such procedures.
- (6) Clarification in the requirements, or additional application material, about the implications in situations where audit work is performed on balances in the aggregate, or processed centrally, would also help clarify the procedures to be performed at the components (including in situations when the work is supporting standalone component auditor’s reports in addition to the report on the group financial statements).
- (7) Strengthening the requirements (with related application material) to address the group engagement team’s considerations about the work to be performed on non-significant components, in addition to the work to be performed on significant components.
- (8) Clarifying the expected work effort related to analytical procedures at the group level for components that are not identified as significant, including providing additional application material as to how to plan and perform such procedures, and how to use the results in supporting conclusions that risks of material misstatement related to the group financial statements have been addressed.

- (9) Revisiting and providing further clarification as to what the various terms mean in the context of ISA 600.

GA 7(a)(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.

156. 96.2% of **survey respondents** indicated that they are not aware of other issues that the IAASB should consider relating to this section of the ITC.
157. 92.0% of the **survey respondents** indicated that they are not aware of other action that the IAASB could take to address the issues highlighted in this section of the ITC
158. A suggestion was raised that there is a need to require basic training in the following areas by professional accountancy bodies for their members who are required to comply with the requirements of the standards. These may also be areas to emphasise in relation to the formal education and training programmes for auditors.
- Project management (i.e. a group audit requires sound project management skills)
 - Change management
 - Process mapping
 - People and relationship management
 - Ethics, etc.

GA 7(b)(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?

159. Some **survey respondents** indicated that scoping of group audits based on risks of material misstatement (RoMM approach) instead of the significance of components would provide more clarity as it may be a more straightforward determination, compared to "Significant" being open to interpretation. Others believe that it is adequate to focus on significant vs non-significant components.
160. Supporters of the RoMM approach also stated that RoMM will already take into account the significance of the component. Other **survey respondents** indicated efforts should rather be directed towards clarifying what significance means as referred in the standard.
161. Further views indicated that it is better to rather retain the current approach with respect to the categorisation of components, but clarify this in terms of some of the

possible actions that have been proposed, including the appropriate consideration of significant risks identified at component level (effect on the group and other components) and identified as pervasive at the group level (effect on components). Furthermore, addressing the issues relating to non-significant components as described in the ITC paragraphs 275-279 could also contribute to improve the situation.

162. A view was raised that the IAASB should take into account that the current approach was probably the result of practical challenges in terms of identifying and assessing risks of material misstatement for the entire group (the group as a whole). The complexities that could be encountered in terms of components should not be underestimated and the solution must still be a practical one while at the same time achieving the overall objectives of the audit and ensuring audit quality.

GA 7(b)(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?

163. 72.0% of **survey respondents** indicated that they are not aware of other possible actions related to auditing groups where there are a large number of non-significant components that should be explored.

164. Comments provided by some **survey respondents** further indicated that smaller /insignificant components in aggregate may be material /significant; thus more clarity /guidance on how to consider such components should be available.

GA 7(b)(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?

165. 57.1% of **survey respondents** indicated that they would not support the strengthening of the standard for the group engagement team to be more involved at the sub-consolidation level in the appropriate circumstances. Responses are divided, and therefore we are of the view that the IAASB should consider how the matter of involvement at sub-consolidation level could rather be addressed in terms of ensuring an appropriate response to identified risks of material misstatement at the group level.

GA 7(b)(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?

166. 55.6% of **survey respondents** indicated that they do not think that the requirements or application material relating to subsequent event procedures should be strengthened or clarified (not a conclusive response).
167. **Survey respondents** who indicated that the standard should be strengthened or clarified cited that subsequent events can change significantly over a short period of time at the entity, industry, country and international level and so constant review is necessary and hence the need to ensure that this is done by strengthening or clarifying the requirements and application material in the standard.

h. Review and evaluation of the work of component auditors by the group engagement team

GA 8(a)(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?

168. In terms of indicating which of the possible actions proposed by the IAASB would be most meaningful to address issues related to the review and evaluation of the work of component auditors by the group engagement team, the **survey respondents** indicated their preference for the following four actions [the most meaningful listed first, from (1) to (4)]:
- (1) Strengthening the requirement in paragraph 42(b) of ISA 600, and the related application material, to clarify the necessary work effort of the group engagement team in relation to reviewing the component auditor's working papers.
 - (2) Strengthening the communication requirements between the group engagement team and the component auditors and emphasizing the importance of ongoing two-way dialogue.
 - (3) Strengthening the documentation requirements for the group engagement team, emphasizing the importance of appropriately documenting significant judgments relating to the findings of the component auditors.
 - (4) Strengthening the documentation requirements regarding the group engagement team's evaluation of the component auditors' communication.

GA 8(a)(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.

169. 92.6% of the **survey respondents** indicated that they are not aware of other issues that the IAASB should consider relating to this section.

170. 88.9% of **survey respondents** indicated that they are not aware of other actions that the IAASB could take to address the issues highlighted in this section of the ITC.