



Grant Thornton

May 13, 2016

International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

Kenneth C. Sharp
Global Leader – Assurance Services
Grant Thornton International Ltd
Grant Thornton House
22 Melton, Street, Euston Square
London NW1 2EP
T +1.704.632.3500
F +1.704.334.7701
www.GTI.org

Via IAASB website at www.iaasb.org

Re: Invitation to Comment: Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Audits

Dear Board Members and Staff:

Grant Thornton International Ltd appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's ("IAASB" or "Board") Invitation to Comment: Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Audits (the ITC).

We respectfully submit our responses to the Board's requests for comments and our specific-paragraph level comments, which are enclosed. We would be pleased to discuss our comments with you. If you have any questions, please contact Sara Ashton at sara.hm.ashton@uk.gt.com or at +44 207 728 2236.

Sincerely,

Kenneth C. Sharp
Global Leader – Assurance Services
Grant Thornton International Ltd

Enc Responses to request for comments

Responses to request for comments

The following provides our comments and recommendations in response to the IAASB's requests for specific comments in respect of the Invitation to Comment: Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Audits (the ITC)

GENERAL QUESTIONS

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

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

(b) Are there other public interest issues relevant to these topics? If so, please describe them and how, in your view, they relate to the specific issues identified

(c) Are there actions you think others need to take, in addition to those by the IAASB, to address the public interest issues identified in your previous answers? If so, what are they and please identify who you think should act.

We agree that the public interest issues as outlined in Table 1 of the ITC are relevant to the projects discussed therein. With respect to the topic of professional skepticism in particular, we view the question of what constitutes sufficient appropriate audit evidence, especially in the area of new and emerging technology and practices, such as "big data" or "data analytics," to be an important topic in the public interest that crosses all the current projects on the IAASB Work Plan and as such should be given priority. Although often intertwined with the notion of professional skepticism, we encourage the IAASB to explore whether further standard-setting or guidance with respect to audit evidence would be beneficial, or necessary to address the changes to business models and financial reporting processes and related support as discussed further in the questions below.

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

We agree with the topics included in the current work plan and believe they are the appropriate priorities for the board. We understand that these projects will require significant staff and board resources for the next several years and therefore, we question whether the IAASB has the capacity to take on further topics at this time. We believe it is important for the IAASB to have the capacity to respond to emerging developments, issues or areas of concern and adding further topics to an already full agenda may jeopardize the board's ability to respond timely to emerging issues.

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

GTIL, in association with the ACCA, held a series of roundtable events covering multiple countries (South Africa, UAE, UK, Ukraine, China, Singapore, European Union (Brussels)). The roundtable events looked at investors need to know about their client base and the degree of reliance placed on that information. A [report](#) of the findings was published in March 2016.

The key findings indicated that "countries without a longstanding tradition of audit were of the view that developing a capacity in audit is essential for underpinning and enhancing economic growth. The financial statement audit is seen as a gateway to a stronger accountancy profession and, with it, greater prosperity. By contrast, in countries where the audit is more established, the view is that audit itself must develop. The suggestion is that new differentiated types of reporting and new assurance offerings will keep the financial statement audit relevant for users.

Auditors will need to keep their skills up to date to respond to the challenges created by heightened expectations of the profession. The digital age creates opportunities and threats."

The report includes changes that affect the profession, suggestions of ways to respond to those changes and recommendations for standard setters and regulators to support better global outcomes.

Based on responses to the outreach, the report identifies maintaining a stable body of standards as essential. For developing countries this is seen as a means to foster understanding and improvement in audit quality and for countries with a mature audit, only marginal gains in the usefulness of an audit were thought to be possible, which may be out of proportion to the effort required to make those gains. The report also notes the importance of articulating the benefits to businesses of changes to the International

standards. The report further suggest that regulators need to recognize the balance between audit quality, consistency and innovation, allowing firms flexibility to apply the International Standards in new ways that maintain or improve audit quality.

PROFESSIONAL SKEPTICISM

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

We believe that the definition of professional skepticism in the ISAs does not contain all the relevant elements and it would be appropriate to consider a revision of the definition of professional skepticism to provide greater clarity to practitioners before considering if changes to the ISAs are required. This could include application material to the definition that explicitly recognizes personal biases. The definition is inconsistently understood, making it difficult to apply in practice. We note that inspection findings often indicate that a lack of professional skepticism contributed to the deficiency but that it could have been manifested in several different ways. Clarity around the definition and better insight into the nature of the deficiencies would be meaningful in driving audit quality. Further, we believe that there needs to be a consistent definition of the term across all of the standard setters (IAASB, IESB and IESBA).

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

Professional skepticism is the cornerstone of a quality audit, however difficulty in its application arises in a number of areas:

- Stages of the audit – The ISAs include more substantive discussion of professional skepticism in ISA 200 and ISA 240. This encourages the auditor to consider skepticism at the planning stage of the audit, with other ISAs including reminders that the auditor should apply professional skepticism in the performance of their procedures (for example, ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, paragraph A40; ISA 550, *Related Parties*, paragraph 7 and A9; and ISA 610, *Using the Work of Internal Auditors*, paragraph A14 and A26. However, referencing professional skepticism in the ISAs that address the performance and completion of the audit is not consistent through the ISAs and may not result in its application being in the forefront of the auditor's mind when performing audit procedures.
- Pressures – There may be a limited amount of time in which to complete the audit procedures due to either tight deadlines and/or budgetary constraints.

Also, certain interactions with the client may give the auditor a more accepting mindset, for example, the client's management may put pressure on, or persuade, less experienced auditors to accept its position as the appropriate or only position. It is also more difficult for the auditor to apply professional skepticism when assessing facts and circumstances that management has not considered than in situations where the auditor is assessing facts and circumstances that management has considered.

- Culture – Some jurisdictions or firms may have a culture in which questioning client policies, procedures and judgments is not considered to be acceptable. Applying the appropriate level of professional skepticism in such circumstances may be virtually impossible.
- Personal traits – Not all personnel will have the same starting point when applying professional skepticism, some will naturally be more accepting of a client explanation whilst others will naturally ask more questions. Thus two individuals could likely exercise different levels of professional skepticism to the same situation if they are unaware of their natural tendencies.
- Independent reviews – Independent review, performed subsequent to an audit may erroneously attribute any findings to the lack of application of professional skepticism due to the benefit of hindsight.
- Technology – As technology within the profession develops, it facilitates the completion of audit procedures with less face to face contact both within the team and with management of the client, thus subtleties in behavior and questions resulting from those behaviors may be missed. Further, training is becoming more web-based resulting in less on-site coaching and mentoring, thus reducing the opportunities to share personal experience through open discussion.
- Client relationships – Engagement teams may have a tendency to identify the client as the management of the company rather than its shareholders, and teams might find it more difficult to challenge management if management is viewed as the key to client retention.

With respect to personal bias, the IAASB may want to consider further research and outreach regarding how auditors can become more cognizant of their personal bias towards accepting information as true. This investigation on self-awareness of personal biases may be more relevant and useful than trying to train a professional on the broad topic of professional skepticism. However, caution should be exercised when analyzing the results of such efforts and determining the appropriate actions.

Firm culture and the provision of training, however, do have an impact on the level of professional skepticism exercised by team members in the performance of an audit. The

IAASB might want to consider further exploration of the role of coach and mentoring in the development and application of professional skepticism. However, we do not believe that the inclusion of requirements for firm training or governance regarding professional skepticism in the ISAs is appropriate. We are of the view that responsibility should still lie with the firms to ensure that their partners and staff are well trained and have the appropriate level of experience to demonstrate professional skepticism for the work assigned to them. It may therefore be appropriate, as part of the project to revise ISQC 1, to incorporate guidance for firms to develop appropriate policies and procedures that allow for the application of professional skepticism in the performance of an engagement.

Further, to clarify how professional skepticism may be applied through all stages of the audit, practical examples could be incorporated into the ISAs to demonstrate how professional skepticism may be applied.

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

We believe the areas being explored in paragraphs 38 - 40 are appropriate. Given the conceptual nature of professional skepticism, the IAASB may want to consider the development of a framework for practitioners to provide guidance in concluding whether professional skepticism was appropriately exercised during the performance of the audit. The framework could be included in the application material to the ISAs or it could be an alternative form of guidance, however, any such framework will need to have authority to facilitate a perceivable impact to audit quality at the engagement level.

This framework could incorporate guidance as to the necessary factors to consider to demonstrate and document the application of professional skepticism when determining the sufficiency and appropriateness of audit evidence gathered during the audit and the mindset of the auditor during the performance of these audit procedures. Any such guidance would also need to be balanced with the fact that the auditor is a trained and experienced professional and as such it would be inappropriate to document every auditor judgment and consideration made during the completion of the audit.

We agree that the application of professional skepticism in the audit of estimates is an important area. The ISAs currently encourage the notion of "anchor thinking" requiring auditors to understand the methods and models used by management in developing the estimate. This may result in the search for evidence that supports management assertions and assumptions rather than the search for contradictory evidence.

The auditor is currently trained to approach the audit with a neutral mindset. Depending on the assertion and audit response selected, this may result in obtaining confirmation of the evidence management has presented. However, a change in the requirements to mandate a search for evidence that contradicts management's position would have

unintended consequences and result in increased fees without commensurate increase in audit quality. We recommend that the goal is to continue to emphasize in the standards and other guidance, that the auditor is to approach the audit with a skeptical mindset, and the audit response and related evidence deemed necessary is driven by the risk assessment specific to the area under audit. We agree with the notion that contrary evidence always needs to be considered, but would be cautious in mandating “fishing expeditions” for such evidence.

Professional skepticism is also an area where we believe that data analytics may be helpful as the evidence obtained from the performance of such analytics will naturally be more objective in nature as it provides an objective view of data patterns. However, auditors will still need to exercise skepticism in the interpretation and investigation of the data patterns. Also, changes may be needed in the standards to update for, and clarify, the acceptability of new forms and sources of audit evidence. In evaluating the sufficiency of evidence, new forms and sources of evidence that may give the auditor greater assurance could be considered to be less acceptable, if these new forms and sources are not addressed by standards and other guidance.

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

The current potential actions as described in the ITC are directionally appropriate, although we question whether inserting additional language in the ISAs will actually drive a change in the application of skepticism. As noted above, the definition of professional skepticism needs to be clarified and we need better insight into the nature of the deficiencies that have been noted in the application of professional skepticism before changes to the ISAs are made.

Additionally, we understand that a number of accounting firms have undertaken projects to develop professional judgment frameworks to assist their auditors in the application and documentation of professional skepticism during the performance of audit procedures. It is not clear that these frameworks have resulted in a change auditor's behavior or in an appreciable difference in audit quality. We encourage the IAASB to perform outreach to the accounting firms that have developed these frameworks to learn more about the results of their efforts to date.

Whilst we believe clarifying the definition of professional skepticism would be helpful, we believe that in practice, the main issue is the documentary evidence of the application of professional skepticism, rather than the definition of professional skepticism and its actual application. We recommend that focusing on the documentation of the application of professional skepticism should be a priority. Further, the IAASB should also consider, as part of its further research if better linkage or amendments to ISA 500, *Audit Evidence* would be appropriate.

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

Professional skepticism may be promoted effectively through careful consideration by firms of their business models and of their cultures. For example, in jurisdictions where it is only acceptable for more experienced team members to question management of the client, the business model would provide for more senior people to be allocated to the engagement. The business model and culture of the firms should also be closely monitored such that appropriate actions can be, and are, taken to improve the approach to, and application of, professional skepticism.

Changes in professional education and education by the firms themselves could also be considered, including ensuring that only individuals with appropriate characteristics and qualifications are recruited and that the appropriate amount of time and support is provided to those individuals to help them develop critical thinking skills and to exercise those skills.

In conjunction, these actions would drive professional skepticism from the bottom of the firm upwards and from the top of the firm downwards.

The IAESB recently published a Consultation Paper: *Meeting Future Expectations of Professional Competence: A Consultation on the IAESB's Future Strategy and Priorities*, in which it posed the question of "what action, if any, should the IAESB take to improve professional competence related to the appropriate exercise of professional skepticism and professional judgment?" If a project is undertaken as a result of this consultation, the IAASB should ensure that it works with the IAESB to develop an appropriate and coordinated approach to professional skepticism.

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

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

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

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

We support a broader revision and restructure of ISQC 1 to a QMA, as described in paragraph 64 and table 3, and we agree that it may be a way to respond to the diverse challenges discussed in the ITC. We are supportive of an approach that will incorporate the areas noted in paragraph 59 and in table 2.

We do have some concerns with respect to the scalability of a QMA. The ITC notes that scalability could be embedded in a QMA by including factors to consider to support the achievement of quality objectives. Firms would be expected to apply the factors in identifying risks and in determining the nature and extent of responsive policies and procedures. The ITC also acknowledges in table 2 that this QMA approach “could explicitly acknowledge that responsive policies and procedures would likely vary depending on the nature and assessment of the related risks of the firm not achieving its quality objectives, benefiting firms of all sizes.” We agree that allowing firms to identify risks specific to their practice and to develop responsive policies and procedures to those risks will improve the ability of the standard to be easily scalable to all size firms and we support this approach. However, we are concerned with the wording in paragraph 54, which seems contradictory to the discussion of scalability within the ITC and in table 2. Paragraph 54 indicates that “while retaining robust requirements, incorporating a QMA into ISQC 1...” This paragraph could be read to mean that the revised ISQC 1 will retain many specific requirements which would seem to be contrary to a QMA. The reference to ISQC 1 retaining “robust” requirements has generated much discussion within our network and has caused confusion over the concept of a QMA.

It would seem that to arrive at a true QMA, the specific requirements would need to be kept to a minimum number of “core” requirements determined to be appropriate and

applicable for all firms of all sizes. The standard could acknowledge that in addition to the core requirements applicable to all firms, “conditional” requirements may apply. For example, if a firm audits listed entities, the firm would be expected to develop policies and procedures specific to the delivery of these services, which generally carry higher levels of risk. This approach is consistent with the concept of a QMA as firms would be expected to develop policies and procedures responsive to higher levels of identified risks, while allowing smaller firms to more easily demonstrate their responses to lower levels of risk in their practices. The application material could provide further explanation of how appropriately responding to identified risks is scalable and can be applied by firms of all sizes.

QC2. Engagement Partner Roles and Responsibilities

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

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

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

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

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

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

We believe that providing further clarity on what is meant by direction, supervision, performance and review by engagement partners is important. There should be clarification that these responsibilities should be assumed throughout the audit. Currently, no explicit reference is made to the planning stages of an audit. Further, there should be clarification on how these responsibilities may be appropriately undertaken in engagements of different sizes. Including further guidance on how the engagement partner evidences the fulfillment of these responsibilities would also be helpful.

Providing more clarity and guidance in the application and evidence of appropriate direction supervision, performance and review at all stages of the engagement may also address some of the issues experienced in engagements where the engagement partner is not located where the majority of the work is performed. However, care should be taken that any further guidance added can be implemented, where appropriate, by smaller firms that are not part of a network.

It is likely appropriate that the added guidance be developed from the concepts already discussed in the IAASB's *A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality* publication, however, it would be important that this guidance is incorporated into ISA 220 and ISQC 1, as appropriate, to ensure that it carries with it an appropriate level of authority.

We do not believe that the addition of an appendix to ISA 220 and ISA 600 identifying where the specific responsibilities of the engagement partner are located within the ISAs will be particularly useful. A review of the standards indicates that of the 45 requirements and responsibilities specific to the engagement partner, only 7 of those are located in standards other than ISQC 1, ISA 220 and ISA 600. As such, it would seem that this would have little impact on audit quality.

Further, the ITC, in this area, only appears to include potential actions in relation to ISA 220 (and in some cases ISA 600). It will be important for the IAASB to consider any impacts to ISQC 1 (either in extant form or as a QMA standard), if any, when proposing additional guidance in ISA 220.

The ISAs and ISQC 1 are currently silent on specifically who should sign the auditor's report. ISA 700 (Revised) merely states that the auditor's report should be signed, and the related application material states that the signature is either the name of the firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction. Further, the definition of auditor specifically states that where the ISA expressly intends that a requirement of responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "auditor" is used. It further allows for a definition of auditor to encompass a "person or persons." As such, the ISAs do not expressly require an engagement partner to sign the auditor's report nor do they prohibit more than one auditor signing the auditor's report. We believe that this level of flexibility should continue to be permitted, thus allowing local laws and regulations to determine with more specificity the customs and practices for each individual jurisdiction. This in turn may facilitate a broader adoption of the ISAs. We do not believe that there is any evidence to suggest that including acknowledgment of such situations in the ISAs will improve audit quality and may be confusing to those jurisdictions where the practice of multiple signatures on an auditor's report does not exist. It also has the potential to further extend a standard that many of the smaller firms already find cumbersome.

QC3. Others Involved in the Audit**(a) Paragraphs 87-104 set out matters relating to involvement of others in the audit:**

(i) Which of the actions outlined in paragraphs 100–104 would be most meaningful to address issues related to others participating in the audit?

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

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

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

(b) Should we develop further requirements or application material for circumstances when other auditors are involved in an audit engagement (i.e., auditors that don't meet the definition of component auditors)?

Where other auditors, that are not component auditors, are involved in the audit, we believe that focus on the appropriate direction, review and supervision by the engagement partner is the most appropriate action. Focusing on these requirements will also encompass the assessment of the necessary professional competence and capabilities of the other auditors. Understanding that the core principles may lie in ISA 220, the impact, if any, on ISQC 1 should also be considered.

Whilst greater transparency in the auditor's report is desirable, we do not believe that reference to other auditors, that are not component auditors, involved in the audit will necessarily be beneficial and may be more confusing to readers. However, we do support the exploration of the ability to support the use of the auditor's report of the other auditor as part of the totality of the audit evidence gathered for an engagement. Such an auditor's report may not be sufficient in and of itself, however, we see no reason why this, in conjunction with other procedures performed by the auditor, cannot form part of the body of audit evidence which the auditor can then assess for sufficiency. We believe that the responsibility for collection of sufficient, appropriate audit evidence lies with the engagement partner and should not be passed to other auditors for specific accounts or balances.

In respect of the use of experts in an engagement, we believe that there are opportunities to improve the clarity of the requirements and application material around the adequacy of the procedures performed and the evidence of those procedures, concerning

understanding the expert's field of expertise and evaluating the adequacy of the expert's work. We would therefore agree with consideration by the IAASB in its future Work Plan, of a project on the use of experts in audits.

The ITC suggests looking at instances where the term auditor is used and determining if this should be more specifically characterized as responsibilities of the engagement partner or those of the engagement team in three specific standards, namely ISQC 1, ISA 200 and ISA 600. Whilst understanding that the ITC is focused on these particular International Standards, it would seem that this would be equally applicable to the other standards currently issued by the IAASB and as such may constitute a separate project in and of itself. We believe that the focus should be more on the engagement partner being held accountable for the auditor's report that is issued being appropriate in the circumstances. We believe that this would be the outcome from the appropriate application of the requirements to direct, supervise, perform and review the audit contained in ISQC 1 and in ISA 220.

QC4. *The Firms' Role in Supporting Quality*

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

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

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

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

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

(b) Specifically:

(i) What could we do to address the issues identified in the context of networks of firms? For example, should we develop more detailed requirements and application material to address reliance on network-level policies and procedures at a firm or engagement level?

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

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

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

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

Given the disparity of arrangements, operations and cultures that exist within firms that operate as a network, we do not believe that it is possible to develop requirements within the International Standards that can be operated at a "network level." Further, even if such requirements were to be developed, it would be necessary for the network to have control over the member firms to enforce these requirements and also for local laws and regulations in individual jurisdictions to allow access to information by firms from outside the jurisdiction. These prerequisites may not exist in all network arrangements and in all jurisdictions. Including such requirements would result in the International Standards having authority over how a firm chooses to structure itself. We do not believe that this would be appropriate. The ultimate responsibility for quality should remain with the member firm and not with the network.

However, we do believe that it is possible to develop requirements, at the member firm level, that would require the firm to document the basis for reliance on processes and procedures performed by the network entity. For example, if a firm intends to rely upon the results of inspections performed by the network entity in considering the effectiveness of processes and controls in place in other firms or offices within the network, the basis for that reliance would need to be documented. A further consideration for incorporation into ISA 220, would be the procedures that should be performed at the engagement level in situations where an engagement team intends to use another firm or office within its network. Such requirements should result in the engagement team evidencing a demonstrable basis for using the work performed by that firm or office.

In respect of ADMs, we are of the view that the exposure lies more around the documentation of how the quality control processes and controls apply to the ADM structures. ADMs are typically subject to the same quality control processes and controls as other offices of the firm and are often treated as an extension of the engagement team itself. We are of the view that the principles in IQSC 1 adequately address ADM related activities.

However, some challenges may arise in the practicalities of exercising those principles, for example, adequate review and supervision at a location that is remote from the core engagement team presents additional difficulties and considerations in carrying out those responsibilities. As such, this may be an area where practical guidance could be helpful, particularly in the area of documentation of the review and supervision.

Irrespective of whether the audit evidence is generated from a network firm, from an ADM or from other auditors, the engagement partner still remains responsible for obtaining sufficient appropriate evidence on which to base the audit opinion.

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

(a) Paragraphs 125-135 set out matters relating to governance of firms, including leadership responsibilities for quality.

(i) Which of the possible actions outlined in paragraphs 131–135 would be most meaningful in addressing issues related to firm governance and leadership responsibility for quality?

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

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

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

(b) Specifically:

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

(ii) Should ISQC 1 specifically address accountability of firm leadership, or appropriate personnel within firm leadership, for matters related to quality, including independence-related matters? If so, how should this be done, and what direction should ISQC 1 provide to firms in appointing appropriate individuals to assume these responsibilities?

(iii) Would the use by firms of a QMA provide better support or context for the importance of quality-related responsibilities for firm leadership, and related accountability, and therefore better facilitate the ability of firms to address these matters?

We agree that firm leadership has a vital role in promoting quality and that leadership of firms should be addressed by ISQC 1. Firm leadership should be held accountable for quality, however, we strongly believe that ISQC 1 is not an appropriate place to include requirements for the governance of firms and that this should be the remit of local laws and regulations. We do not believe that the requirements in ISQC 1 should be so specific as to determine how firms organize their internal leadership, for example, the International Standards should not dictate that a firm should identify a specific individual within leadership for any specific area of quality control, i.e. independence. This may be something that is not practical to implement for smaller firms

We agree with emphasis being given to senior firm leadership setting the appropriate culture for the firm and driving an appropriate “tone at the top” with regards to audit quality, however, it is also important that a firm possess an appropriate tone throughout the organization. For members of an engagement team, most of their daily interactions will not be with members of senior level leadership, so it is important that personnel at all levels within a firm positively reinforce and promote the quality culture.

The concept of public interest is important, however, it is not clear that merely adding emphasis to this in an International Standard would have any perceivable effect on quality.

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

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

(i) Which of the possible actions outlined in paragraphs 143–146 would be most meaningful in addressing issues related to EQC reviews and EQC reviewers?

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

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

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

(b) Specifically:

(i) Should ISQC 1 mandate the performance of EQC reviews beyond audits of listed entities? If yes, what other entities should be

considered and how could we best define these entities? If no, please explain your reasoning.

(ii) Do you believe it is necessary for ISQC 1 to require that firms define the minimum period of time between when an individual has been the engagement partner and when that individual would be eligible to serve as the EQC reviewer on the same engagement? If yes, how do you think this should be done and why? If no, please explain why.

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

In considering potential amendments to ISQC 1 and ISA 220, it is important to keep in mind the respective roles and responsibilities of the engagement partner and the EQC reviewer. If a separate standard for the EQC review was to be created, care would be needed to maintain the appropriate balance between the roles and responsibilities of the engagement partner and of the EQC reviewer. ISQC 1 and ISA 220 already include requirements in respect of the appointment and the role of the EQC reviewer illustrating the relative importance of the two roles. As such, any additional requirements expanding the roles and responsibilities of the EQC reviewer relative to those of the engagement partner should be carefully considered. However, we do believe that the role of the EQC review relative to other quality control processes that many firms have adopted, such as pre-issuance reviews or hot reviews, should be further explained and clarified

Further, we do not agree that there should be a mandated list of entities that are required to be subject to a quality control review. Such a list would be a further step towards a rules based rather than principles based approach in ISQC 1. By mandating a list of entity types or industry types subject to an EQC review, some entities would inevitably be scoped in that do not have the risk profile to warrant the appointment of an EQC reviewer. Further, smaller firms or sole practitioners, who are unlikely to be taking on higher-risk clients, may be required to appoint an EQC reviewer simply because they have a client in an industry determined to need the appointment of an EQC reviewer. This will further add to the burden already faced by the smaller practices. A firm's policies for requiring an EQC reviewer need to be scalable and adaptable to changes in circumstances. For example, if the economy is declining, firms may require an EQC reviewer on more engagements, or if an industry specific issue arises, firms may want to appoint an EQC reviewer on all engagements in that particular industry.

Because the addition of an EQC reviewer to an engagement is currently a risk based decision, there is nothing in the standard that would prohibit such a reviewer being appointed as determined necessary by the firm. Including parameters for consideration of the addition of an EQC reviewer may provide value in making the assessment, but the ultimate decision to add the reviewer should lie with the firm. Such parameters could be worded as such so that the higher risk clients (such as financial institutions / depository taking institutions) would likely always require the EQC review. Alternatively, national auditing standard setters could also determine additional engagements to those specified in the ISA, if any, for which a firm should appoint an EQC reviewer.

In respect of the requirements and related application material establishing the criteria for the eligibility of the EQC reviewer, we would also recommend further explanation and clarity around what is meant by the requirement in paragraph 39(a) of ISQC 1 for the EQC reviewer to have the necessary ... authority. Experience has indicated that regulators interpret this in a manner different to firms.

We agree that there should be a "cooling off" period for a partner between serving as the engagement partner and as the EQC reviewer on the same engagement. The purpose of an EQC review is to provide an objective evaluation of the significant judgments made by the engagement team, inclusive of the engagement partner. It would be difficult for an engagement partner, subsequent to serving on the engagement, to objectively review significant judgments that had been made when performing the role of engagement partner. We suggest that a cooling off period should be of sufficient length to ensure that the EQC reviewer does not have to review judgments made in their previous role as engagement partner. However, we do not believe that is appropriate for the IAASB to establish a specific time period related to a cooling off period and that establishment of specific periods should be left to the IESBA or local jurisdictions.

QC7. Monitoring and Remediation

(a) Paragraphs 147-159 set out matters relating to monitoring and remediation.

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

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

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

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

(b) Specifically:

(i) Do you support the incorporation of a new requirement(s) in ISQC 1 for firms to understand the causal factors of audit deficiencies relating to inspection findings and other reviews? If not, why? Are there any potential consequences or other challenges of taking this action that you believe we need to consider?

(ii) Do you support the incorporation of a new requirement(s) in ISQC 1 for the results of the firm's monitoring of the effectiveness and appropriateness of the remedial actions to be considered in the

design and assessment of the effectiveness of the firm's system of quality control? Please provide further detail to explain your response.

We support the incorporation of new requirements for firms to understand the causal factors of audit deficiencies for all types of engagement reviews performed, including those performed internally by the firm and regulated external reviews. It is important that any such additional requirements lead a firm to perform this analysis at an appropriate level. This analysis should not be performed at too granular a level that requires detailed documentary evidence of the causal factors of all individual deficiencies on an engagement basis, or at too high a level such that no useful information is obtained from the performance of the review. The analysis of deficiencies noted from pre-release or post-release reviews could be done, for example, by identifying deficiencies by theme and performing causal analysis on those themes. Further guidance on the appropriate level of documentation of the performance and results of this analysis would also be helpful, provided the guidance is not overly prescriptive. We further support including requirements that the firm address the findings of the causal analysis on a firm-wide basis. This should also include monitoring the effectiveness of the remedial actions taken by the firm to address the deficiencies and the effectiveness of the overall quality management system.

If a QMA is adopted, the performance of engagement reviews is potentially an area that can be made more scalable for smaller practices, by allowing some level of flexibility for the performance of internal reviews based on the level of risk associated with the engagement.

QC8. *Engagement Partner Performance and Rewards Systems*

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

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

(b) What actions (if any) do you believe we should take in this regard? Are there potential consequences of possible actions that you believe we need to consider?

ISQC 1 should address the linkage between quality and performance evaluations and compensation for engagement partners. Engagement partners will often be motivated by compensation, so relating quality to how compensation is ultimately determined will likely change behavior. The standard could contain a general conditional requirement for the firm to develop a framework that recognizes quality as a meaningful part of a partners' performance evaluation and compensation.

Further, guidance outside of the standard, for example through a staff practice note or through the Forum of Firms, could be provided on how to apply such a framework that allows for equitable compensation for engagement partners in audit, assurance and other

related services with engagement partners in other practice areas. It could also include considerations of how to apply this framework on a scalable basis.

Human Resources and Engagement Partner Competency

(a) Paragraphs 171-187 set out matters relating to human resources and engagement partner competency.

(i) Which of the possible actions outlined in paragraphs 176–178 and 187 would be most meaningful in addressing issues relating to human resources and engagement partner competency?

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

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

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

(b) Specifically, which of the possible actions outlined, or other actions not described, in paragraphs 176–178 and 187 would most positively impact audit quality:

(i) Arising from issues related to knowledge, skills, competence and availability of a firm's partners and staff?

(ii) Related to engagement partner competency?

(iii) Why do you believe these actions are necessary? If you would not support a particular action, please explain why, including any potential consequences of those actions that you believe we need to consider.

We view the career development and promotion of staff as an important aspect of a good system of quality control for a firm. Having timely performance reviews as part of that system makes good business sense and is likely already in place at many firms. We have no strong views on the inclusion of application material or otherwise in respect of highlighting such aspects of a system of quality control. However, if application material were to be included, care should be taken to make this viable for smaller practices.

We would expect that most firms have already developed adequate continuity plans and as such we have no strong views on its inclusion or otherwise in ISQC 1. In the context

of firms assessing associated risk and required responses in this area, we are of the view that this would naturally form part of a QMA.

Partner competency is implicit within the current standards and does not need to be revisited. However, strong links to the Education Standards, especially in the area of partners acting as role models, and in a mentoring or coaching capacity to the engagement team may be beneficial.

QC9. Transparency Reporting

Paragraph 188-190 set out matters relating to transparency reporting

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

(b) If you would not support us taking actions as described in paragraph 190(b), please explain why, including any potential consequences of those actions that you believe we need to consider.

Transparency reports have been published in the UK for a number of years. Research has indicated that these reports are mainly used by the regulatory community and by other similar firms. As such we see limited value to transparency reporting for stakeholders in general. Further, requirements incorporated into ISQC 1 to produce transparency reports may be difficult to implement by smaller firms and by auditors in the public sector. We believe that requirements with respect to transparency reporting is better considered by local laws and regulations.

QC10. Are there any other issues relating to quality control that we have not identified? If yes, please provide details. What actions should we take to address these issues?

Refer to responses on the detailed questions, we have no other issues to include.

QC11. Are there any other specific actions that others could take in relation to quality control? If yes, please provide details.

Refer to responses on the detailed questions, we have no other actions to include.

QC12. 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.

Refer to responses on the detailed questions, we have no other considerations to include.

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

Refer to responses on the detailed questions, we have no other issues or considerations to include.

GROUP AUDITS

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

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

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

We agree that issues raised in the application of ISA 600 need to be addressed by the IAASB. ISA 600 is usually easier to apply in circumstances where the group has strong management controlling the components and those components are located in jurisdictions whose laws and regulations allow for appropriate sharing of information between the group and the component auditors. However, it is a difficult standard to apply and auditor's struggle with what "applying all relevant ISAs" actually means in practice. To address the issues identified in the ITC we believe that a more substantive review of the standard, in particular application material that provides additional

guidance clarifying how other ISAs, especially ISA 315 (Revised), *Identifying and Assessing Risk of Material Misstatement through Understanding the Entity and Its Environment* apply in a group audit is warranted.

We believe that further guidance would be particularly appropriate in assisting engagement teams with scoping a group audit. This is an area in practice that proves troublesome to engagement teams. In providing further guidance, the definition of a component should be revisited by the IAASB. A component is currently defined as "an entity or business activity for which group or component management prepares financial information that should be included in the group financial statements." Consideration should be given as to whether the definition of a component (and thus whether the engagement is a group engagement) should be based on whether other (component) auditors are used on the engagement and not based on the structure of the entity itself. If this approach is not taken, we believe that clarity needs to be added to the definition as to what should or should not be considered a component in a group situation, for example, should an investment be considered in the same way as a subsidiary? We also believe that further clarity is required on when it is appropriate to not perform audit procedures on amounts in the group financial statements that exceed materiality.

In all engagements, the engagement team is required to obtain sufficient appropriate audit evidence on which to base the opinion. However, the nature, timing and extent of audit work performed and audit evidence obtained can differ greatly between an audit of a group and an audit of a stand-alone entity. However, in both a group audit and a single entity audit, the auditor's report is the same. It is not clear if the users of the auditor's reports understand the differences in the audit underlying these reports. For example, would a user of a group auditor's report understand that all the audit work, and in some cases the majority of the audit work was not directly performed by the group audit team.

Consistent with our response to question QC 3 above, we believe that greater transparency in the auditor's report is desirable. There are differing views on how this may be best achieved through the auditing standards. We recommend that the IAASB consider whether existing initiatives in certain jurisdictions on transparency could be adopted in the ISAs, including whether these initiatives could be applied to a wide range of companies' auditor's reports, for example, in the UK certain companies are required to include a discussion in the auditor's report of the scope of the audit and how it addresses the identified risks of material misstatement. This could typically include the components selected for audit or for other types of procedures and the procedures performed on the remaining components; the coverage of revenue, total profits and tax achieved; the proportion of the number of locations visited by the auditor; the effect of the group structure on the scope of the audit and the extent and nature of the group auditor's involvement in the component auditor's work.

GA2. Acceptance and Continuance of the Group Audit Engagement

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

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

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

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

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

(b) Specifically:

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

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

(iii) Would expanding the understanding required for acceptance and continuance, as described in paragraph 215 (b), be achievable in the case of a new audit engagement?

Groups of companies are structured in many and varied ways, often based on tax, legal or other business considerations. The jurisdictions in which the component entities of a group are located will each have their own laws and regulations concerning access to component entity management and books and records; component auditors; and audit working papers. We do not believe that strengthening the client acceptance and continuance requirements in such situations will address these issues. ISA 600 already requires that the group engagement team obtain an understanding of the group, adding examples in the application material of matters that the auditor should consider in gaining that understanding in order to determine whether the engagement should be accepted or continued, however, may assist the auditor with clarity around that decision.

In the jurisdictions in which we have group engagements, our experience to date, has generally not identified issues with access to information from either component management or from the component auditor that we could not address. However, in situations where the working papers have to stay in their jurisdiction of origin there may be serious impediment to gaining access to those working papers. Access may also be challenging when the group does not control the component and only has significant influence, for example, components that are accounted for using the equity method. In those circumstances where the group engagement partner does not believe that it is necessary to physically visit the component auditor, or cannot access the component auditor's working papers, we believe that requesting a detailed memo with appropriate follow up discussions with the component auditors would achieve the same objective.

We also question the value perceived by some stakeholders from the performance of a review of the component auditor's working papers by the group auditor.

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

(a) Paragraphs 218-225 set out matters relating to communications between the group engagement team and component auditors.

(i) Which of the possible actions outlined in paragraph 224 would be most meaningful in addressing issues relating to communication between the group engagement team and the component auditor?

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

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

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

We believe that guidance for the component auditor may prove useful provided that it does not create an adversarial relationship between the component and group auditors. The IAASB could consider the development of a framework providing guidance on how to respond to the group auditor in certain situations, especially in instances where there are disagreements between the group and the component auditor, allowing access to the working papers / client database and the various types of reporting packages, including flash reporting packages and IFRS reporting packages that will be received by the group auditor. Current experience indicates an inconsistency on how and which types of reporting packages are received, including when and how inter-firm reports are used. Further guidance would also be useful in situations where the component auditor is auditing to a

dual materiality with multiple sign off deadlines, usually group and statutory. This guidance does not necessarily need to be in the form of a separate standard but could form part of the existing ISA or be another form of IAASB publications such as an IAPN or a staff publication.

We believe that it is important that any changes to ISA 600 emphasize the importance of two-way communication between the group and component auditor. This is especially important in the audit of a group where there is little activity in the group company and a substantial portion of the operations are undertaken in the subsidiary entities. In such situations, the component auditors may be better placed to obtain a full understanding of the business in accordance with ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, and to identify the appropriate significant risks at the component level. Communication of this understanding will help the group engagement team in making a determination of significant risks that are group wide and risks, significant or otherwise, that are specific to a component of the group.

Further clarification of the requirements for the provision of group instructions from the group auditor to the component auditor would also be useful. Situations have been encountered where the group instructions are generic and do not contain sufficient specificity for the audit of the component receiving the instructions.

GA4. Using the Work of the Component Auditors

(a) Paragraphs 226-242 set out matters relating to using the work of the component auditors.

- (i) Which of the possible actions outlined in paragraph 234 and 242 would be most meaningful in addressing issues related to using the work of the component auditor?**
- (ii) Why do you believe these actions are necessary?**
- (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.**
- (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.**

(b) Specifically:

- (i) Should the nature, timing and extent of involvement of the group engagement team in the work of the component auditor vary depending on the circumstances? If yes, how could changes to the standard best achieve this objective?**

(ii) Should ISA 600 be strengthened to require the group engagement partner to make an explicit determination about whether the group engagement team can use the work of a potential component auditor?

In practice, challenges exist around the criteria by which the group auditor judges the sufficiency and the appropriateness of both the competency of the component auditor and the audit evidence required to meet the objective of gaining sufficient appropriate audit evidence on which to base the audit opinion. We do not believe that strengthening the requirements in ISA 600 for the group auditor to obtain an understanding of the component auditors would necessarily address the challenges of assessing their competency. The requirements currently include the appropriate factors that the auditor should consider and whilst we are not opposed to a requirement to make an "explicit determination" we do not believe that it will necessarily result in a change in the procedures performed by the group auditor. However, the inclusion of further application material may help the auditor in considering the individual elements of each factor and thus being able to more robustly challenge the competence of the component auditors. For example, this could include guidance on the factors the group engagement team should consider when assessing the component auditor's knowledge of auditing and accounting standards applicable to the group, including understanding their professional qualifications, practical experience and technical training undertaken.

The nature, timing and extent of the group auditor's involvement in the work of the component auditor should vary based on the circumstances specific to the individual group engagement. The competence of the component auditor and the commonality of methodologies, quality control policies and procedures and the legal and business environment are all factors that should be weighed when considering the appropriate level of involvement. In practice, there is a vast spectrum of views about the appropriate nature, timing and extent of audit evidence needed. On one end of the spectrum is the view that no direct testing of the component information by the group auditor is needed, whilst on the other end of the spectrum, the view is that the group auditor needs to perform direct testing of component information, at a minimum, for those risks assessed as significant risks. Further, we understand that from the perspective of certain stakeholders, there is little value in the current approach of requiring the group auditor to be involved in the audit of the component as it is seen as a duplication of effort, especially when the component auditor is also the statutory auditor. We do not believe that strengthening the requirements in ISA 600 with respect to the nature, timing and extent of the group auditor's involvement with the component auditor will be of value. However, further guidance helping the auditor in making the determination of what is appropriate and when more work is required for a given set of circumstances may be useful. This could include better linkage between paragraphs within ISA 600 and other relevant ISAs and specific consideration as to whether the component auditor is a member of the same firm, is located in the same jurisdiction or has the same policies and procedures. This would be especially important in the audit of some of the more complex group structures, where components identified by the group auditors are also in

fact groups of components. In these circumstances, the ISA does not make it clear if the group auditors' responsibilities end with the components that the group auditor identified or with the components of that component.

Further guidance providing examples on the level of documentation required in this area may also assist the group auditor in demonstrating compliance with ISA 600, including the level of detail required when recording discussions with the component auditor, the level of detail required when recording follow up actions on issues identified by the component auditor or the level of detail required when recording review procedures performed on the component auditors audit procedures. There may also be some merit to the IAASB further exploring the a group audit model that is based on ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*, and ISAE 3402, *Assurance Reports on Controls at a Service Organization*, such that the component auditor would report in detail to the group auditor with respect to the work performed and the results of that work.

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

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

(i) Which of the possible actions outlined in paragraphs 251–253 would be most meaningful to address issues relating to identifying significant risks for the group audit?

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

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

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

We agree with the issues identified in this area and believe that providing further guidance and clarification may assist the group and component auditors in assessing significant risks and whether it is a group significant risk or is specific to the component.

Also see the comment under GA3.

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

- (a) Paragraphs 254-261 set out issues relating to applying the concept of materiality in a group audit. Do you agree with the possible actions recommended in paragraph 261 to clarify the different aspects of materiality in a group audit? If not, please indicate which actions are not appropriate and describe why.**
- (b) Recognizing that significant changes to ISA 320 will not be contemplated until a review of ISA 320 has been performed in its entirety (potentially as part of a future project to address 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.**

Understanding that materiality is a project currently under consideration by the International Accounting Standards Board which may result in the IAASB making amendments to ISA 320, *Materiality in Planning and Performing an Audit*, we support the development of further guidance in ISA 600 to assist group auditors in the determination of component materiality. This is one aspect of group audits that practitioners find difficult to apply and there appears to be significant inconsistencies in firms including when component materiality needs to be determined and how component materiality is calculated and applied. Specifically, guidance addressing the levels at which to set component materiality in relation to overall materiality calculated for the group, how allocation of materiality should be considered when the group consists entirely of multiple non-significant components and the practical application of aggregation risk would be most useful.

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

- (a) Paragraphs 262-292 set out matters relating to responding to identified risk of material misstatement in a group audit (including the group engagement team's involvement in the consolidation process).**
- (i) Which of the actions outlined in paragraphs 272–273, 279, 288 and 292 would be most meaningful to address issues relating to responding to identified risks of material misstatement in a group audit?**
- (ii) Why do you believe these actions are necessary?**

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

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

(b) Specifically:

(i) What are your views on scoping the audit based on identifying and assessing the risks of material misstatement for the group as a whole, rather than focusing the determination of the necessary work effort on the determination of whether components are considered significant or non-significant? Are there any practical challenges that we need to consider further?

(ii) Are there other possible actions related to auditing groups where there are a large number of non-significant components that we should explore? Are there other approaches to auditing such groups that need to be considered? Do the possible actions presented lead to any additional practical challenges?

(iii) Should the standard be strengthened for the group engagement team to be more involved at the sub-consolidation level in the appropriate circumstances? Are there further issues or practical challenges that have not been considered?

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

We agree that the requirements and related application material addressing the types of work required for significant and non-significant components need to be revisited, especially in circumstances where the group is composed almost entirely of non-significant components. It is currently unclear what is meant by an "audit of financial information." If a component auditor is performing audit procedures for group reporting purposes, clarification that all of the ISAs may not need to be applied in all circumstances would be helpful. This is especially difficult in situations where the group auditor requires the component auditor to perform an audit of a specific account or balance. For example, in an audit of a specific account or balance, it is unlikely that ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* will apply. It is also unclear if full planning and completion procedures in accordance with the ISAs would actually be required.

With respect to providing examples of specified audit procedures or specified procedures in specific circumstances, we question the usefulness of providing such examples given the wide range of circumstances that may exist. However, clear differentiation of the difference of specified procedures from the audit of one or more account balances may be helpful in guiding the group auditor.

In groups that consist entirely of non-significant components we agree that it would be helpful to provide further guidance for the group auditor to assist in both the consideration of the components at which procedures should be performed to support the group audit and the types of procedures that would be appropriate to perform at those components. Further, clarification of the role of entity-level controls and analytical procedures performed at the group level as part of the body of evidence obtained by the group auditor would also be useful.

We agree that the scope of ISA 600, in reference to fund of funds and investments carried at cost or at fair value should be clarified. It should be made clear that financial statements that only contain investments, i.e., no other components are identified, are not considered group financial statements for the purposes of ISA 600. Further, it should also be clarified in ISA 600, that some of the principles may be applied when the determination of fair values is based on information received directly or indirectly from the components.

We also believe that the group auditor's responsibilities in respect of sub-consolidations should be clarified. There should be flexibility in the level of involvement required from the group auditor in any sub-consolidations to reflect the circumstances specific to each engagement. This should take into account factors such as practical access issues, the level of knowledge required to perform detailed audit procedures on the sub-consolidation and the level of assessed risk at the sub-consolidation level. In many instances component auditors at the sub-consolidation level may be better placed to perform these procedures.

We question whether elevating the status of application material would result in a significant change in behavior.

In respect to subsequent event procedures required to be performed by the component auditor, where the component auditor is performing procedures other than the audit of the component financial information, ISA 600 requirement is for "the component auditor to inform the group auditor if they [presumably the component auditor] become aware of subsequent events that might require adjustment or disclosure in the financial statements." The IAASB could consider strengthening this requirement to require the group instructions to the component auditor to contain specific procedures in respect of the identification of subsequent events consistent with ISA 560, *Subsequent Events* in circumstances where subsequent events need to be performed.

GA7. Review and Evaluation of the Work of Component Auditors by the Group Engagement Team

(a) Paragraphs 293-303 set out matters relating to the review and evaluation of the work of component auditors by the group engagement team.

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

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

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

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

We do not believe that strengthening the requirement in paragraph 42 (b) to make a determination as to whether it is necessary to review other relevant parts of the component auditors documentation is necessary, however, we do believe that further guidance on the matters that the group auditor should take into consideration when making this determination would be helpful.

Also, see response to GA 3 on communications between the group and component auditors and GA 4 on using the work of component auditors.

We note that ISA 600 does not contain any guidance on how to apply the concept of sufficient appropriate audit evidence required by ISA 500, *Audit Evidence*. Many of the concepts discussed in ISA 500 around the sufficiency and the appropriateness of audit evidence are difficult to apply in a group situation, especially where the work is being performed by another (component) auditor.

Of further consideration, when assessing whether sufficient appropriate audit evidence has been obtained in order to support the group auditor's opinion, it should be noted, that there is currently an inconsistency in what constitutes such evidence. For example, an audited set of financial statements may provide strong audit evidence when opining on an investment accounted for in accordance with the equity method of accounting and where access to the component is restricted. However, this would not be considered sufficient appropriate audit evidence in other group situations. We believe that potential updates to ISA 600 should result in consistency of conclusions when considering the sufficiency of similar types of evidence.

We agree with the strengthening of the documentation requirements in ISA 600 in respect of the review of the component auditor's work, and in particular the documentation of

significant judgments made by the group auditor based on the review of the findings of the component auditor. For example, whether findings at a specific component will have broader implications for the other components within the group or for the group as a whole.

GA8. *The Impact of New and Revised Auditing Standards*

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

In respect of consideration of the impact of component financial statement information on the disclosures in the group financial statements, we believe that the requirement to consider all types of disclosures is adequately considered in ISA 700, *Forming an Opinion and Reporting on the Financial Statements* paragraph 13 and related application material.

We do agree that further guidance relating to the communication of key audit matters by the group engagement team in a group audit situation would be useful.

GA9. Are there any other issues relating to group audits that we have not identified? If yes, please provide details. What actions should we take to address these issues?

We believe that ISA 600 should better address the identification of components based on the way that many organizations actually structure and manage themselves. For example, many entities may have a shared service center that is used to process transactions that relate to accounts and balances included in the financial information of a number of components. It would be helpful to provide clarification in ISA 600 of whether a shared service center is considered a component with its own materiality and of the extent of the group auditor's involvement in the work performed at the shared center.

GA10. Are there any other specific actions that others could take in relation to group audits? If yes, please provide details.

Refer to responses on the detailed questions, we have no other issues or considerations to include.

GA11. 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, provide details and views about these matters.

Refer to responses on the detailed questions. SMPs are often the auditor of a component of a group that is audited by a different firm. Difficulties are often encountered in

communications with the group auditor, including the level of detail and specificity included in the instructions provided to the component auditor.

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

Refer to responses on the detailed questions, we have no other issues or considerations to include.