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May 16, 2016

Ms. Kathleen Healy

Technical Director

International Auditing and Assurance Standards Board

International Federation of Accountants

529 5th Avenue, 6th Floor

New York, NY 10017 USA

Dear Ms. Healy,

Re: JICPA Response to Invitation to Comment,  
*Enhancing Audit Quality in the Public Interest*

The Japanese Institute of Certified Public Accountants (“we”, “our,” or “JICPA”) is grateful for the opportunity to respond to the Invitation to Comment, *Enhancing Audit Quality in the Public Interest* (“ITC”). Our comments below focus on the questions from the ITC we would like to respond to. Some of our comments cover a broader scope and relate to several questions from the ITC altogether.

We hope that our views below will be of assistance to the IAASB.

Sincerely yours,

Sayaka Sumida

Executive Board Member - Auditing Standards

The Japanese Institute of Certified Public Accountants

## GENERAL QUESTIONS

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

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

G1(a)	Yes, we believe that these public interest issues described in table 1 are relevant to the IAASB's work on these topics.
G1(b)	No. We believe that table 1 includes all important issues that should be addressed.
G1(c)	<p>We recognize that the IAASB has been conducting outreach activities to engage in dialogue with various stakeholders. Though not directly relevant to the question in G1(c) on specific actions that others need to take, we expect that the IAASB dialogues facilitate the view that the response to the changes should be discussed in terms of the financial reporting supply chain as a whole. We believe that it is especially important to engage in dialogue with representatives of those charged with governance and groups that promote corporate governance, in addition to the dialogues with the regulators, accounting standard setters, and investor groups.</p> <p>The IAASB's Framework for Audit Quality ("the AQ Framework") stated that while primary responsibility for audit quality rests with auditors, the interactions within the financial reporting supply chain and contextual factors have the potential to impact, directly or indirectly, audit quality. We strongly agree with this statement. An audit is an important but one part of the financial reporting supply chain. It is essential, for a sound financial reporting system, that all stakeholders in the financial reporting supply chain have balanced responsibilities and fulfill their responsibilities as intended.</p> <p>While audits should be relevant in changing environment, the revision of the auditing standards is only one of several means to respond. The interactions within the financial reporting supply chain become more important in the evolutionary phases: maintaining good balance between contextual factors, including a consideration of cost benefit, will be essential for successful evolution and adaptation.</p>

## PROFESSIONAL SKEPTICISM

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

PS1	Yes. Our current interpretation of the concept of professional skepticism is consistent with how it is defined and referred to in the ISAs. With regard to the auditor's mindset on a neutral stance on the integrity of management, please see our response to PS2 below.
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PS2. What do you believe are the drivers for, and impediments to, the appropriate application of professional skepticism? What role should we take to enhance those drivers and address those impediments? How should we prioritize the areas discussed in paragraph 37?

PS2	<p>We believe that one of the key drivers for the appropriate application of professional skepticism is the firm culture. Therefore, we support that the IAASB is planning to address it in the revision of ISQC 1. Also, to facilitate common understanding of auditors and other stakeholders, we believe it is appropriate that the IAASB's explains its views on the following two areas discussed in paragraph 37, in the non-authoritative guidance (such as an International Auditing Practice Note (IAPN)), but not in the standards:</p> <ul style="list-style-type: none"><li>• The nature of auditor's personal traits and biases that may inhibit the appropriate application of professional skepticism</li><li>• How the technical nature of these concepts can be better brought to life in the auditor's understanding of the purpose of an audit and with respect to stakeholders' expectations about how professional skepticism is to be applied.</li></ul> <p>On the first bullet, we believe that the insights into the nature of auditor's personal traits and cognitive biases (including judgment traps and tendencies) not only helps an individual auditor to look back himself/herself, but also helps to improve the training and capability development system that facilitates the exercise of professional skepticism.</p> <p>On the second bullet, linking the role of the audit (i.e., to enhance the degree of confidence in the financial statements by expressing the opinion of the independent auditor) to the concept of professional skepticism would facilitate a common understanding of the level of professional skepticism that the auditor is expected to apply. For this purpose, the explanation should cover the following:</p> <ul style="list-style-type: none"><li>• The audit is conducted for the users of the auditor's report, and the auditor is in a position to challenge management assertions on behalf of the users of the auditor's report.</li><li>• The question as to whether the auditor appropriately applies professional skepticism should be considered in light of whether the auditor, as a professional, can be accountable to the users in his or her claim that the audit evidence obtained was persuasive.</li></ul> <p>Explanations such as these help remind the auditors that the customers of the audit services are the users of the auditor's report, not the management of the entity being audited. They may also help alleviate the weaknesses of the current audit fee model (in which the auditors receive the audit fees from the audited entities).</p> <p>Further, we believe that the following are important areas to consider:</p> <ul style="list-style-type: none"><li>◆ <i>Application of professional skepticism in risk assessment</i> The application of professional skepticism is critically important in risk assessment</li></ul>
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	<p>procedures, given that the risk assessment affects the entire audit process and determines how the rest of the audit is conducted. We therefore propose that the IAASB explore how the application of professional skepticism is strengthened in the risk assessment.</p> <p>◆ <i>The relationship between the result of the risk assessment and the neutral stance</i>  We understand that the current ISAs are written based on a neutral perspective on professional skepticism, where the auditor neither assumes that management is dishonest nor assumes unquestioned honesty. We recognize, however, that there are mixed views and various interpretations between stakeholders on the relationship between the assessed risk and the auditor’s basic mindset. If, for example, the auditor assesses that a risk of fraud exists (or risk of fraud is high) on a specific assertion on a specific account, there are mixed views as to whether the auditor’s mindset should still be considered “neutral.” If the auditor assesses that a risk of fraud exists, the standards require the auditor to obtain more persuasive audit evidence. However, the standards do not explicitly clarify whether this affects how the auditor obtains audit evidence (i.e., whether the auditor should design audit procedures to obtain audit evidence that contradicts the management’s assertions). The answer to this issue relates to the fundamental concept of professional skepticism and affects the requirements in the ISAs. We therefore propose that the IAASB explore this issue and clarify the IAASB’s view.</p> <p>◆ <i>Constraining factors (including audit time)</i>  As explained in paragraph 31, other factors related to the audit can inhibit the auditor’s application of professional skepticism. In particular, we have heard concerns that the following factors may have such an inhibitory effect:</p> <ul style="list-style-type: none"> <li>- Time and resource pressures</li> <li>- Tight deadlines in the financial reporting schedule</li> <li>- Increased staff workload (including necessary audit documentation) incurred by the auditing standard enhancements. The clarified ISAs, for example, not only clarify but also add significant new requirements.</li> </ul> <p>We understand that the IESBA recently established the Fees Working Group (WG). One of the objectives of the WG is to undertake fact finding on fee-related matters to identify whether there are trends or other factors that indicate a relationship between fees and threats to auditor independence and compliance with the fundamental principles such as objectivity and professional competence and due care. Audit fees are usually calculated based on the level of experience of audit team members and time spent. The WG’s fact finding results on a relationship between fees and due care could lead to findings on environmental factors that inhibit the auditor’s application of professional skepticism. We expect that the finding results will be communicated to various stakeholders through the IAASB’s and IESBA’s outreach activities, to help improve the audit environment.</p>
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PS3. Is the listing of areas being explored in paragraph 38–40 complete? If not, what other areas should we or the Joint Working Group consider and why? What do you think are the most important area to be considered?

PS3	Please see our comment on PS2.
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PS4. Do you believe the possible actions we might take in the context of our current projects relating to quality control and group audits will be effective in promoting improved application of professional skepticism? If not, why?

PS4	<p>Yes, we believe that the possible actions the IAASB might take in the context of quality control and group audits projects will be effective in promoting improved application of professional skepticism. At the same time, however, failures or lack of professional skepticism revealed in inspection findings mainly seem to be issues to do with the implementation of the auditing standards. We therefore doubt that substantial improvements could be achieved merely by changing the wordings used in ISQC 1 and the ISAs, and recommend that the IAASB clearly explains the following in revising the standards:</p> <ul style="list-style-type: none"><li>• Specific circumstances that are observed on the issues, and analysis of causal factors</li><li>• Why the IAASB believes these issues should be resolved by revision to the standards</li></ul>
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**QUALITY CONTROL (INCLUDING QUESTIONS EXPLORING CROSSOVER ISSUES/ISSUES RELEVANT TO MORE THAN ONE PROJECT)**

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

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

QC1(a)	<p>We agree that the use of a QMA would help improve audit quality. Specifically, it would provide the following benefits:</p> <ul style="list-style-type: none"> <li>• It would clarify the linkage between the elements contained in the current ISQC 1.</li> <li>• It would emphasize that fostering quality is at the core of a firm’s quality control system.</li> <li>• It would assist the IAASB in revising ISQC 1 using a principle-based approach.</li> <li>• It would make it easier for firms to explain their quality control systems to stakeholders, which in turn would stimulate dialogue. Revising ISQC 1 to incorporate the use of a QMA would entail an approach similar to that used for the principles in the existing risk management and governance frameworks of the quality control systems (see paragraph 64).</li> </ul>
QC1(b)	<p>“Firm Culture and Strategy that Foster Quality” appears in the center of the circle in the chart in paragraph 64. However, Table 3 “Relevant Activities in Support of Elements of a QMA” offers no descriptions relevant to firm culture. We believe that the “control environment” provides the most important basis for QMA. We therefore propose the following changes:</p> <ul style="list-style-type: none"> <li>• “Firm Culture and Strategy that Foster Quality” in the chart in paragraph 64 should be changed to “Control Environment that Fosters Quality.”</li> <li>• Table 3 should also explain the “Control Environment that Fosters Quality” as an element of a QMA, with relevant activities.</li> </ul> <p>The elements in the chart in paragraph 64 are connected with arrowed lines. These lines, however, do not necessarily show the process flow and the relationship between the elements is not easily understandable from the chart. This chart serves as a very important tool for educating stakeholders about the concept of QMA. We therefore propose that the IAASB consider the following:</p> <ul style="list-style-type: none"> <li>• Change “Design and implement responses to quality risks” to “Design and implement control activities responsive to assessed quality risks”</li> <li>• Change “Implement quality control activities” to “Perform(Operate) quality control activities”</li> <li>• Change the element “Inform, communicate and document” to “Information and</li> </ul>

	Communication” and move it out of the process flow connected by the arrowed lines. Instead, reposition it as an element of QMA in an outer ring of the circle “Control Environment that Foster Quality“(“Firm Culture and Strategy that Foster Quality” in the current chart).
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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).

QC2(a)	<p>We agree that ISQC 1 and the ISAs should be principle-based, but are concerned that the actions outlined in paragraphs 85 to 86 may be closer to being rule-based.</p> <p>We also believe, however, that the action outlined in the 4<sup>th</sup> bullet in paragraph 85 (strengthening the requirements or enhancing the application materials that discuss the responsibilities of the firm and engagement partner in relation to decisions regarding acceptance and continuance of client relationships and specific engagements) would be meaningful. The descriptions in the AQ Framework relating to “values, ethics and attitudes” include good concepts (e.g., “Financial Considerations Do Not Drive Actions and Decisions that Impair Audit Quality”) that could be built into ISQC 1 in relation to engagement acceptance and continuance decisions.</p>
QC2(b)	<p>We see no need for the ISAs to include requirements or otherwise address the circumstances described in paragraph 79, where an individual other than the engagement partner is required to or otherwise customarily sign(s) the auditor’s report or is named therein. Such practices seem to be fairly uncommon. Acknowledging them in the ISAs could create confusion. These cases should be addressed by local laws or regulations instead.</p>

QC3. *Others Involved in the Audit*

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

QC3(a)	<p>We believe it would be meaningful to explore whether greater transparency about the involvement of other in the group audit may be beneficial (paragraph 102). During our outreach activities, the users of financial statements in Japan have told us that they view such transparency as valuable. In some circumstances, however, reporting deadline and cost to collect information may make it difficult to provide such transparency in an auditor's report. The auditor's report is not the only means of providing transparency to users. We therefore propose that the IAASB broadly explore the means for providing such transparency.</p> <p>We do not support the following actions:</p> <ul style="list-style-type: none"> <li>◆ <i>Exploring making reference to the report of another auditor (paragraph 101)</i> We see no benefit in again discussing the concepts of sole responsibility and divided responsibility. Addressing both concepts in ISA 600 would create confusion. It would be more valuable for users if we could provide greater transparency about the involvement of others in the group audit, given the current concept of sole responsibility.</li> <li>◆ <i>Considering whether certain responsibilities attributed to the "auditor" should be more specifically characterized as responsibilities of the engagement partner or the engagement team in ISQC 1, ISA 220 and ISA 600 (paragraph 103)</i> The engagement partner is clearly responsible for the engagement. We see no benefit in making a distinction between the responsibilities of the engagement partner and engagement team.</li> </ul>
QC3(b)	<p>It would be meaningful to explore the development of further requirements or application materials for cases where other auditors are involved in an audit engagement, given that the circumstances of audit engagements vary.</p>



QC4. *The Firms' Role in Supporting Quality*

- (a) Paragraphs 106–123 set out matters relating to networks of firms and use of ADMs.
- (i) Which of the actions outlined in paragraphs 114–116 and 122–123 would be most meaningful to address issues related to firms operating as part of a network of firms and firms' changing business models and structures?
  - (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
- (i) What could we do to address the issues identified in the context of networks of firms? For example, should we develop more detailed requirements and application material to address reliance on network-level policies and procedures at a firm or engagement level?
  - (ii) Do you think it would be feasible for us to develop requirements and guidance for networks? Please provide a basis for your views.
  - (iii) Paragraphs 117–123 set out matters relating to the use of ADMs and related issues.
    - a. How should our standards emphasize the importance of appropriate quality control processes in relation to use of ADMs?
    - b. Are you aware of ADMs that raise issues not discussed in paragraphs? If so, please provide details.

QC4	<p>Following are our comments on Networks and ADMs.</p> <ul style="list-style-type: none"><li>◆ <i>Networks</i> Basically, we see no need to enhance the requirement relating to networks of firms. Paragraph 54 of ISQC 1 already addresses the consideration when the firm places reliance on the monitoring procedures on a network basis. If, however, there are specific issues of concern for stakeholders, it would be beneficial to explore them.  We think it would be infeasible to develop requirements for networks, in light of the factors outlined in paragraph 116.</li><li>◆ <i>ADMs</i> The current ISQC 1 and ISAs are silent about the use of ADMs. We therefore think it would be useful to explore how ISQC 1 and the ISAs could acknowledge the use of ADMs.</li></ul>
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**QC5–QC10 address the more significant issues relating to quality control specific matters**

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

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

QC5(a)	<p>Following are our comments on the actions outlined in paragraphs 131 to 135:</p> <ul style="list-style-type: none"> <li>◆ <i>Exploring how firm governance could be addressed in ISQC 1 (paragraphs 131 to 132)</i> There are different interpretations about what “firm governance” means. We agree that ISQC 1 should address “firm governance” in terms of fostering a firm culture that emphasizes quality. The actions outlined in paragraph 132 pertain to this standpoint and therefore seem beneficial. On the other hand, we do not support this action if the IAASB explores the issue of addressing “firm governance” in ISQC 1 in terms of a firm’s governance and management structure. These elements are influenced by laws and regulations in jurisdictions and fall outside the scope of ISQC 1.</li> <li>◆ <i>Considering whether ISQC 1 could address the accountability of firm leadership (paragraph 133)</i> The leadership responsibility for quality includes, by necessity, explanations as to how this responsibility itself is fulfilled. It would therefore be meaningful to address the accountability of firm leadership on quality in ISQC 1. Flexibility should be, however, ensured for the firms to allow them to use various ways to fulfill their accountability responsibilities in light of their circumstances.</li> <li>◆ <i>Incorporating the concept of “Public Interest” into ISQC 1 (paragraph 135)</i> “Public Interest” is interpreted differently by different stakeholders. Therefore, we think it would be meaningful that the IAASB sustain an ongoing commitment to the development of a common consensus among stakeholders on the concept of “public interest” relating to audits in order to prevent unlimited and unreasonable expansion of the expectations on audit. While we understand that the establishment</li> </ul>
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	of the consensus is uneasy, if the consensus is established, it can be described in the introduction of ISQC 1. If describing it in the introduction of ISQC 1 is for any reason difficult, the IAASB can explore other actions to raise awareness, such as describing it in the AQ Framework.
QC5(b)	Please see our comment on governance and accountability on QC 5(a) above.

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

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

QC6(a)	<p>We support the following actions outlined in paragraphs 143 to 146.</p> <ul style="list-style-type: none"> <li>◆ <i>Expanding the types of engagements that would require an EQC review beyond audits of listed entities (paragraph 143, the first bullet)</i> We support expanding the types of engagements that would require an EQC review beyond audits of listed entities. In Japan, we have already expanded the types of engagements by setting the following conditions: <ul style="list-style-type: none"> <li>- The firm is required to establish policies and procedures requiring an EQCR for all audit engagements, unless certain conditions (see following) are met; and</li> <li>- A firm is permitted to establish policies and procedures not requiring an EQCR for the audit engagement provided that the effect of the audited financial statements to the public and users of the audit reporting is limited. Nevertheless, the firm is also required to establish policies and procedures for carefully considering whether an EQCR should be performed for such an engagement if any risk factor illustrated in the standard exists.</li> </ul> </li> <li>◆ <i>Strengthening the requirements and application material regarding the selection of the EQC reviewer (paragraph 143, the second bullet)</i> We believe that a “cooling off” period would be meaningful for ensuring the objectivity of the EQC reviewer. We also think it will be necessary to explore whether special considerations for the SMPs should be established.</li> </ul>
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- ◆ *Strengthening the documentation requirements in ISA 220 (paragraph 143, the third bullet)*

We see no need to require detailed documentation of all discussion between the EQC reviewer and the engagement team. It would be meaningful, however, to require documentations of the significant items discussed, the timing of the EQCR, and the key procedures performed by the EQC reviewer.

- ◆ *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 (paragraph 143, the fifth bullet)*

The fifth bullet of paragraph 143 proposes that ISA 220 emphasizes the importance of the EQC reviewer's responsibilities for assessing the judgments made by the engagement partner and the engagement team in the areas of significant risk, and also the need for involvement in the review of components in a group audit situation as appropriate. We believe that these are meaningful points to emphasize.

- ◆ *Clarifying the roles of the EQC reviewer and the engagement partner in ISQC 1 and ISA 220 (paragraph 145)*

Enhancing the provisions regarding the EQCR in ISQC 1 and ISA 220 should not expand the responsibilities of the EQC reviewer to a level equivalent, or beyond, the responsibilities of the engagement partner. It is also important, in our view, to ensure the effectiveness of the EQCR. We therefore support the action.

We do not support the following actions:

- ◆ *Adding application material to ISA 220 for the use 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 (paragraph 143, the fourth bullet)*

The role of the EQC reviewer includes evaluating the appropriateness of the judgments made by the engagement team on the use of the auditor's experts and on the result of the work of the auditor's experts. The use of subject-matter experts by the EQC reviewer, separate from the auditor's experts that assisted the engagement team, would be inconsistent with the general expectation that an audit is to be conducted within a reasonable period of time and a reasonable cost. If the EQC reviewer is unsatisfied with the judgments made by the engagement team in relation to the auditor's experts, it is the EQC reviewer's responsibility to either ask the engagement team to resolve the issues, or, if necessary, to inquire with the auditor's expert about the issues. The EQC reviewer should not be required, however, to use his/her own expert.

- ◆ *Providing transparency in the auditor's report, for example, by communicating in the auditor's report as to whether the engagement was subject to an EQC review (paragraph 144, the second bullet)*

Descriptions in the auditor's report as to whether the engagement was subject to an EQC review could lead users to a false understanding of the role of the EQCR. We oppose this action, in view of the importance of maintaining the distinction between the responsibilities of the engagement partner and those of the EQC reviewer.

- ◆ *Addressing situations that require communication between the EQC reviewer and those charged with governance of the entity (paragraph 146)*

We believe that the greatest value of the EQCR is the objective evaluation

	provided by those outside the engagement team. Communication between the EQC reviewer and the persons within the entity, including those charged with governance, creates a threat to the objectivity that the EQCR system should maintain. We are therefore opposed to this action.
QC6(b)(i)	Please see our comment on QC6(a) above.
QC6(b)(ii)	Please see our comment on QC6(a) above.
QC6(b)(iii)	If ISQC 1 is restructured to incorporate QMA, we think it would be meaningful to weigh the desirability of developing a separate EQC review standard.

QC7. *Monitoring and Remediation*

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

- (i) Which of the possible actions outlined in paragraphs 156–159 would be most meaningful in addressing issues related to monitoring and remediation?
- (ii) Why do you believe these actions are necessary?
- (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
- (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.

(b) Specifically:

- (i) Do you support the incorporation of a new requirement(s) in ISQC 1 for firms to understand the causal factors of audit deficiencies relating to inspection findings and other reviews? If not, why? Are there any potential consequences or other challenges of taking this action that you believe we need to consider?
- (ii) Do you support the incorporation of a new requirement(s) in ISQC 1 for the results of the firm’s monitoring of the effectiveness and appropriateness of the remedial actions to be considered in the design and assessment of the effectiveness of the firm’s system of quality control? Please provide further detail to explain your response.

QC7(a)	<p>We support the action to strengthen the requirements and enhance the application material in ISQC 1 in order to address external inspection findings. This action would be a meaningful way to keep ISQC 1 relevant to today’s audit environment.</p> <p>We do not, however, support the action to incorporate the concepts of pre-issuance review and post-issuance review in ISQC 1. We acknowledge that some firms perform these types of reviews. The firms should have the discretion to perform them or not in light of their circumstances. The EQCR should be the focus in ISQC 1 as an internal review, and the IAASB should explore means for enhancements in relation to EQCR.</p>
QC7(b)(i)	<p>We agree that ISQC 1 should incorporate a new requirement(s) for firms to understand the causal factors of audit deficiencies relating to inspection findings and other reviews. To pursue this action, we recommend that the meaning of “audit deficiency” be defined. We also have trouble discerning whether “deficiencies,” the term used in the current ISQC 1 in paragraphs 49 to 51, has a similar meaning to the term “deficiency in internal control” defined in ISA 265. We believe that the terms “audit deficiency” and “deficiencies” in ISQC 1 should be clarified in exploring this action.</p>

QC7(b)(ii)	We agree that ISQC 1 should incorporate a new requirement(s) 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. Similar to our previous comment on QC7(b)(i), we believe that the terms “audit deficiency” and “deficiencies” in ISQC 1 should be clarified in exploring this action.
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QC8. *Engagement Partner Performance and Rewards Systems*

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

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

QC8(a)	We believe that establishing a link between compensation and quality in ISQC 1 would enhance audit quality. However, the action should address more than the linkage between low quality and the low remuneration level. We believe that it should also address the incentives that facilitate the commitment to the engagement that high quality is especially required, and the achievement of high-quality work (e.g., linking the performance of high-quality work or quality improvement activity to higher remuneration). This is necessary for attaining a firm culture that fosters quality.
QC8(b)	Please see our comment on QC 8(a) above.

QC9. *Human Resources and Engagement Partner Competency*

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

QC9(a)	We believe that the actions outlined in paragraphs 176 to 178 and 187 are too detailed to address in ISQC 1 and ISA 220. The provisions on human resources and engagement
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	partner competency in ISQC 1 and ISA 220 are sufficient, and we do not support the actions.
QC9(b)	Please see our comment on QC9(a) above.

QC10. *Transparency Reporting*

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

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

QC10	<p>We support the action to facilitate ongoing dialogue on the topic and encourage academic research to explore the impact of transparency reporting on audit quality. The practice of transparency reporting is evolving in certain jurisdictions, and some firms voluntarily disclose information on audit quality. For example, we believe it would be meaningful from a long-term perspective to conduct academic research to explore how the following are impacted by the descriptions in the transparency report:</p> <ul style="list-style-type: none"> <li>• Audit quality</li> <li>• Stakeholders’ perception about audit quality and their decision making</li> <li>• Direction of the discussion on how to improve the corporate reporting system as a whole</li> </ul>
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## GROUP AUDITS

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

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

GA1(a)	We believe it would be meaningful if ISA 600 put greater emphasis on the need to apply all relevant ISAs in an audit of group financial statements, in order to achieve better flexibility.
GA1(b)	Please see our comments below regarding the actions we believe could improve the quality of group audits.
GA1(c)	We do not think the IAASB should further explore making reference to another auditor in an auditor’s report. Rather, we think the IAASB should explore whether greater transparency in the auditor’s report about the involvement of other in the group audit may be beneficial. Please see our comment on QC 3(a) above.
GA1(d)	Most of the issues addressed in ITC seem to relate to the implementation of ISA 600. We therefore believe that it would be more meaningful to develop a non-authoritative guidance (such as a Q&A) than to add more requirements in ISA 600. Such guidance could include detailed descriptions of the situations observed and how the issues should be addressed. The ISAs should maintain the principle-based policy, and should be concise.

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

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

- (a) Paragraphs 204–217 set out matters relating to acceptance and continuance of the group audit engagement.
  - (i) Which of the possible actions outlined in paragraphs 215–217 would be most meaningful in addressing issues related to acceptance and continuance procedures?
  - (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:



- (i) Are access issues as described in paragraph 208(a) still frequently being experienced in practice? If yes, please provide details and, where possible, explain how these are being addressed today.
- (ii) Do you agree that ISA 600 can or should be strengthened in relation to addressing access issues as part of acceptance and continuance?
- (iii) Would expanding the understanding required for acceptance and continuance, as described in paragraph 215 (b), be achievable in the case of a new audit engagement?

GA2(a)	<p>We believe the following actions would be meaningful:</p> <ul style="list-style-type: none"> <li>◆ <i>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 (paragraphs 215 (c))</i></li> <li>◆ <i>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 (paragraph 215 (d))</i></li> </ul> <p>We believe that the action outlined in paragraph 215(d) would be especially meaningful. In some cases, the access issues in implementing ISA 600 are caused by the group management’s incomplete understanding of the preconditions for the group audit. For example, the group management may not fully understand which of the components in foreign jurisdictions cause the access issue. To ensure the effectiveness of the action outlined in paragraph 215(d), it would therefore be important to conduct education activities for auditors and group management to help them better understand the preconditions for group audits, in addition to including examples of situations to highlight the importance of considering their effects in the application materials in ISA 600 or in a non-authoritative guidance (such as a Q&amp;A).</p>
GA2(b)(i)	<p>While some difficulties in practice arise from the access issues outlined in paragraph 208(a), we understand that they have been managed.</p>
GA2(b)(ii)	<p>We believe that ISA 600 can be strengthened in relation to addressing access issues as part of acceptance and continuance.</p> <p>At the same time, the enhancement as part of the acceptance and continuance stage is only effective when the stakeholders commonly accept and understand that the group engagement partner will not accept or continue an engagement, or express a qualified opinion or disclaim an opinion if he or she concludes that there is no reasonable way of obtaining sufficient appropriate audit evidence. The stakeholders should also understand that this is about an auditor’s judgment and that the auditing standards impose no mandates to direct management judgment regarding the entity’s investments. Therefore, in addition to revising ISA 600 or developing a non-authoritative guidance (such as a Q&amp;A), it would be meaningful to conduct education activities for stakeholders to facilitate their understanding of the preconditions for a group audit and the outcome when no such preconditions exist.</p>
GA2(b)(iii)	<p>It would be impracticable in the case of a new audit engagement to require a level of understanding equivalent to that required in the case of a continuous engagement. We therefore agree that care is necessary when exploring the nature and extent of the necessary understanding.</p>

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

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

GA3(a)	<p>We believe that paragraph 224(c) (enhancing the supporting application material by explaining in more detail what the requirements are intended to achieve using the guidance in ISA 260 (revised)) would be the most meaningful action. Paragraphs A 49 and A 50 of ISA 260 (Revised) contain useful guidance that explains the principles of effective two-way communication. Those principles can also apply to the communication between a group auditor and component auditor. ISA 600, for example, could include application materials explaining the following:</p> <ul style="list-style-type: none"><li>• The appropriate timing for communication depends on the significance and nature of the matter.</li><li>• Communication as soon as practicably possible would be appropriate, for example, for information on instances of non-compliance with laws or regulations, or fraud or suspected fraud, that could give rise to a material misstatement of the group financial statements.</li></ul>
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### GA4. *Using the Work of the Component Auditors*

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

GA4(a)	<p>Following are our comments on the actions outlined in paragraphs 234 and 242:</p> <ul style="list-style-type: none"> <li>◆ <i>Paragraph 234 (Issues relating to understanding the independence, competence and capabilities of the component auditors)</i>  We believe that “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 (paragraph 234(a))” would be the <u>most</u> meaningful action. We also believe, however, that an explicit determination should only be required on significant components (i.e., if the group engagement team requests a component auditor to perform work on financial information related to a significant component, the group engagement team should make an explicit determination). In addition, the application materials in ISA 600 should include sufficient and appropriate guidance on what basis for the group engagement team’s explicit determination. Such guidance can be developed for two different scenarios: where the group engagement team and the component auditor belong to a network that has common quality control and monitoring policies and procedures, and where they don’t.</li>   <li>◆ <i>Paragraph 242 (Issues relating to the group engagement team’s involvement in the work of the component auditors)</i>  We believe that “providing further examples in the application material to illustrate the wide variety of circumstances that may affect the determination of the necessary nature, timing, and extent of the group engagement team’s involvement in the work of component auditor (paragraph 242(c))” would be the most meaningful action. Of the examples included in paragraph 242(c), it would be particularly meaningful to provide the following: <ul style="list-style-type: none"> <li>- The component auditors and group engagement team are not subject to common policies and procedures</li> <li>- The professional oversight, discipline, external quality assurance, education and training, and professional organizations and standards differ between the component auditor and the group engagement team</li> </ul> The nature, timing, and extent of the engagement team’s involvement in the work of the component auditor should be varied to suit the circumstances. We therefore see no need to include more requirements on this issue. The proposed examples illustrate that the types of involvement are varied to suit the circumstances. We therefore believe that the examples proposed would assist the group auditor in determining the level of involvement in the work of the component auditors in accordance with the extant requirements in ISA 600.</li> </ul>
GA4(b)	Please see our comment on GA(a) above.

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

- (a) Paragraphs 243–253 set out matters relating to identifying and assessing significant risks in a group audit:
- (i) Which of the possible actions outlined in paragraphs 251–253 would be most meaningful to address issues relating to identifying significant risks for the group audit?
  - (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.

GA5(a)	<p>Among the actions described in paragraph 253, we believe that “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 component or for the group overall (paragraph 253(b))” would be the most useful. This is a basic underlying principle in ISA 315 and ISA 600. As such, it would be useful to emphasize it in ISA 600 (Revised).</p> <p>We do not support the action of “developing additional application material to further clarify the meaning of the phrase ‘of financial significance to the group (paragraph 253(d)).’” We fail to clearly understand the intent of this action. The extant ISA 600 defines a significant component from two aspects: the individual financial significance to the group, or it is likely to include significant risks of material misstatement of the group financial statements. ISA 600 requires that specific work be performed on financial information with these two types of significant components. And if the group engagement team does not consider that sufficient appropriate audit evidence on which to base the group audit opinion will be obtained, the group engagement team is required to select components that are not significant components and shall perform or request a component auditor to perform the work. We understand that the intention here is to apply the risk-based approach in ISA 315 and ISA 330 to the group audit situation, in light of the practicability and the group structures. This approach still seems valid to us. In addition, paragraph A5 of ISA 600 provides useful guidance on “individual financial significance to the group.” Expanding or changing the current concept of “individual financial significance to the group” would therefore lead to confusion.</p>
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*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 9 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.

GA6	<p>We agree with the action of “including more guidance about how the concepts of component materiality and component performance materiality in the context of a group audit are expected to be applied (paragraph 261(a)).”</p> <p>On this point, we propose that the IAASB clarify the concept and role of component performance materiality. Paragraph 255 explains that regulators and audit oversight bodies have noted instances where component materiality has been established at levels equivalent to, or only marginally below, group materiality. Yet in the case of an audit of the financial information of a component for the purpose of a group audit, the key relationship is between the materiality for the group financial statements as a whole (i.e., group materiality) and the component performance materiality, not the component materiality. The relationship between materiality and performance materiality in ISA 320 corresponds to the relationship between the group materiality and component performance materiality in a group audit engagement. Paragraph A46 of ISA 600 only explains that in practice, the group engagement team may set component materiality at component performance materiality level. We therefore propose that the IAASB include additional guidance in the application materials in ISA 600 to clarify the role of component performance materiality and how it relates to group materiality.</p>
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*GA7. Responding to Identified Risks of Material Misstatement in a Group Audit (Including Issues Relating to the Group Engagement Team’s Involvement in the Consolidation Process)*

- (a) Paragraphs 262–292 set out matters relating to responding to identified risk of material misstatement in a group audit (including the group engagement team’s involvement in the consolidation process).
  - (i) Which of the actions outlined in paragraphs 272–273, 279, 288 and 292 would be most meaningful to address issues relating to responding to identified risks of material misstatement in a group audit?
  - (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
  - (i) What are your views on scoping the audit based on identifying and assessing the risks of material misstatement for the group as a whole, rather than focusing the determination of the necessary work effort on the determination of whether components are considered

significant or non-significant? Are there any practical challenges that we need to consider further?

- (ii) Are there other possible actions related to auditing groups where there are a large number of non-significant components that we should explore? Are there other approaches to auditing such groups that need to be considered? Do the possible actions presented lead to any additional practical challenges?
- (iii) Should the standard be strengthened for the group engagement team to be more involved at the sub-consolidation level in the appropriate circumstances? Are there further issues or practical challenges that have not been considered?
- (iv) Should the requirements or application material relating to subsequent event procedures be strengthened or clarified? Are there further issues or practical challenges that have not been considered?

GA7(a)	<p>Following are our comments on the actions outlined in paragraphs 272 to 273, 279, 288 and 292:</p> <ul style="list-style-type: none"><li>◆ <i>Paragraphs 272 to 273 (Issues relating to audit procedures performed on the component's financial information)</i></li></ul> <p>We believe the following actions outlined in paragraph 272(b) regarding clarification of procedures would be meaningful:</p> <ul style="list-style-type: none"><li><i>(iii) More clearly distinguishing between the types of procedures that could be performed and in which circumstances they might be appropriate (e.g., through providing examples of "specified audit procedures" or "specified procedures" in specific circumstances, and distinguishing them from "an audit of one or more account balance, class of transactions or disclosures relating to the likely significant risks of material misstatement")</i></li><li><i>(iv) Clarifying how the procedures referred to in (iii) above can be distinguished from agreed-upon procedures that might be performed as part of an agreed-upon procedures engagement performed in accordance with ISRS 4400.</i></li><li><i>(v) Clarifying the expected work effort related to analytical procedures at the group level for components that are not identified as significant. We believe this action would be particularly meaningful, since it relates to the scope of work on components that are not significant components.</i></li></ul> <p>However, we do not support the following action:</p> <ul style="list-style-type: none"><li>- <i>Revisiting the requirements for the types of work required for significant and non-significant components, and challenging whether the outcome of applying them results in the work effort on financial information of components being commensurate with the risks of material misstatements in the components and supports the ability of the group engagement team to reach a conclusion that sufficient appropriate audit evidence has been obtained (paragraph 272(a))</i></li></ul> <p>The extant ISA 600 defines significant components from two aspects (i.e., the individual financial significance to the group or it is likely that includes significant risks of material misstatement of the group financial statements) and requires that specific works be performed on financial information with these two types of significant component. And if the group engagement team does not consider that sufficient appropriate audit evidence on which to base the group audit opinion will be obtained, the group engagement team is required to select components that are not significant components and shall</p>
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perform or request a component auditor to perform the work. We understand that the intention here is to apply the risk-based approach in ISA 315 and ISA 330 to the group audit situation, in light of the practicability and the group structures. We believe this approach is still valid and should not be changed.

- *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 (paragraph 272(b)(i))*

An “audit of financial information of the component using component materiality” for the group audit purpose is also an audit that provides the group engagement a reasonable assurance. We therefore do not support the change to the presumption that the component auditor is required to comply with all requirements in the ISAs that are relevant to the audit of component financial information. Such a change may cause a false understanding that an “audit of financial information of the component using component materiality” may mean different things under different circumstances. It would be meaningful, however, if the IAASB could provide clear guidance within the current framework of the audit on the cases in which the group engagement team can instruct the component auditor that there is no need to test a certain account balance or perform a certain audit procedure.

◆ *Paragraph 279 (Issues relating to non-significant components)*

We recognized that the issues are observed in the situation outlined in paragraph 275 (i.e., when there are a large number of components, none of which are significant individually). These issues, however, should be deemed to relate to the scope of the group audit. As one of the issues relating to the identification and assessment of the risks of material misstatement and the response to the identified risks in a group audit, the selection of significant components (particularly the selection of the significant component, as it is likely to include significant risks of material misstatement of the group financial statements) should be the focus for consideration on these issues. This is consistent with the risk-based approach in ISA 315 and ISA 330. We therefore do not support the actions outlined in paragraph 279, particularly those outlined in paragraph 279(a).

◆ *Paragraph 288 (Issue relating to the group engagement team’s involvement in the consolidation process)*

We think it would be meaningful if the application materials in ISA 600 stated that the group engagement team needs to be involved in sub-consolidation in some circumstances.

Even if there is a sub-consolidation process, the responsibilities of the group engagement partner remain the same. The group engagement partner is responsible for the direction, supervision, and performance of the group engagement as a whole, including sub-consolidation. We therefore see no need to establish an additional requirement that addresses the group engagement team’s responsibility for the involvement in sub-consolidation. However, the current ISA 600 is silent on the issue of sub-consolidation and offers no guidance regarding the group engagement team’s need to be involved in sub-consolidation under some circumstances. We therefore think it would be meaningful to develop guidance in application materials in ISA 600 to illustrate special consideration for the engagement team when there is a sub-consolidation process in the significant

	<p>component.</p> <p>◆ <i>Paragraph 292 (Issues relating to subsequent event procedures)</i></p> <p>We believe that the current ISA 600 contains sufficient requirements relating to subsequent event procedures and see no need to strengthen or clarify the requirements or application materials.</p>
GA7(b)	Please see our comment on GA(a) above.

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

- (a) Paragraphs 293–303 set out matters relating to the review and evaluation of the work of component auditors by the group engagement team.
- (i) Which of the actions outlined in paragraphs 299 and 303 would be most meaningful in addressing issues relating to the review and evaluation of the work of component auditors by the group engagement team?
- (ii) Why do you believe these actions are necessary?
- (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
- (iv) Please also describe any potential consequences of those actions that you believe we need to consider further.

GA8(a)	We believe that “strengthening the communication requirements between the group engagement team and the component auditors and emphasizing the importance of ongoing two-way dialogue (paragraph 303, the first bullet)” would be the most meaningful action. Please see our comment on GA3.
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GA9. *The Impact of New and Revised Auditing Standards*

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

GA9	<p>We believe that the IAASB can explore following in the revision of ISA 600</p> <p>◆ <i>Disclosure</i></p> <p>The extant ISA 600 does not specifically address disclosures. It would therefore be meaningful to explore how ISA 600 could emphasize the importance of the consideration of disclosures in the risk assessment procedures.</p> <p>◆ <i>Auditor Reporting – Key Audit Matter</i></p> <p>Paragraph A16 of ISA 701 explains that the auditor may develop a preliminary view at the planning stage about matters that are likely to be areas of significant auditor attention in the audit and therefore may be key audit matters. Paragraph 41(h) of ISA 600 addresses communication between the component auditor and those charged with governance of the component. Using these concepts, ISA 600 could include guidance to explain that the group audit engagement may communicate the preliminary view about possible KAMs to the component auditor, request the component auditor to communicate such possible KAMs to those charged with governance of the component, and communicate relevant matters to the group audit engagement team.</p>
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**The following questions are overall questions relating to group audits:**

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

GA10	<p>The current ISA 600 contains no illustrations of the reporting formats submitted from the component auditor to the group engagement team. This could undermine efficiency and effectiveness by burdening the networks with the work of establishing a common understanding and adjusting each other's formats. We therefore believe that it would be meaningful if the IAASB developed illustrative reporting formats. Such formats could be included as an appendix to ISA 600 or in a separate non-authoritative guidance (such as a Q&amp;A). Specifically, it could address the following:</p> <ul style="list-style-type: none"><li>• The component auditor's report on the financial information of the component using component materiality</li><li>• The component auditor's report on one or more account balances, classes of transactions, or disclosures</li><li>• The component auditor's review report on the financial information of the component using component materiality</li></ul>
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