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Date	Re	Our ref	Attachment	Direct dial nr
May 20 2016	ITC IAASB	KvH		020-3010281

Re: ITC Enhancing Audit Quality in the Public Interest

Dear Ms. Healy,

Introduction

The Royal NBA appreciates the opportunity to comment on the IAASB Invitation to Comment *Enhancing Audit Quality in the Public Interest* (hereafter "the ITC").

First of all, we would like to mention a number of observations and insights we have as Royal NBA. Secondly, we have prepared an executive summary with our view relating to the three topics in the ITC. Finally, in the appendix our answers to the individual questions can be found.

Observations and insights

We have the following observations and insights which are also described in our answers to the general questions:

Evolving role of the auditor

We are of the opinion that the auditor has an evolving role that might become broader than only his core function of auditing financial statements. The auditor's role might change and evolve into auditing reports beyond the boundaries of the financial statements. Additional assurance might be provided regarding areas of the annual report beyond the audited financial statements, such as the directors' report. This would have a major impact on the ISAs and other Standards. As a result, additional Standards and different guidance could be needed.

At the same time we feel that the role of the auditor has changed in the last period given the fact that the information in the financial statements has become more forward looking. This has an impact on the ability of the auditor to provide assurance. We are not sure that the ISAs fully reflect this change.

Fundamental revision of the ISAs

The use of ISAs provides confidence in the financial statements. The high quality of the ISAs is the cornerstone of the framework that has bolstered confidence into financial reporting and auditing. However, the complexity of business transactions continues to increase and impact accounting and auditing standards.

We foresee that the ISAs need revision in many areas, such as:

- Professional skepticism;
- Group audits/ relying on other auditors;
- Audit quality control systems;
- Reflecting the effect of a rapidly digitizing business and audit environment, including data analytics ;
- Risk assessment;
- Estimates;
- Test of controls;
- Rethinking the assurance levels provided by determining the impact of more reliance on assumptions related to forward looking information;
- Making ISAs more usable in an SME environment;
- Making ISAs better understandable to (non-native) practitioners.

We recognize that the IAASB has projects in several of these areas, but wonder what the best way forward is. We would like to use a metaphor relating to construction: We wonder whether it is better to rebuild our current house or that we should start building a new house. In this new house we could implement the fundamental changes that are necessary but at the same time we could incorporate the good things from our current house. Therefore we think that instead of a constant gradual revision of the ISAs, it's better to replace the ISAs by using a different approach whereby the ISAs are thoroughly revised. In our opinion this could be a better approach for keeping the ISAs fit for the intended purposes. Various and complex client structures and technological developments should, amongst others, be taken into account doing this. ISAs of the future should be developed now.

Data analytics is an important development. We strongly believe that the IAASB needs to take into consideration how evidence obtained through data analytics and IT systems can contribute effectively to the auditor's risk assessment, testing of controls, substantive evidence and overall audit quality.

Furthermore, we recommend the IAASB to maintain an appropriate balance between principles based ISAs versus rules based ISAs with very detailed requirements. The reason is to avoid that the ISAs are becoming too "cluttered" with details, which distracts from the core principles. More guidance could be added, but it should be clear that this is for explanation purposes.

Focus on behavior

We are also of the view that it would be better to focus on the behavior of an auditor than just revising the ISAs. We do not believe that only introducing more requirements will help to improve the quality of the audit. Furthermore, in our opinion, the issues mentioned in the ITC often relate to the inappropriate application of the ISAs . For instance when principles are applied as rules. As the complexity and the level of detail increases, the risk of inappropriate application of the ISAs does also increase. Training and education should take pace with the revision of the ISAs.

Other actions for the quick wins

We recommend the IAASB to analyze whether writing Staff Papers for "quick wins" might be another short term solution. Some issues might be relatively easy to address without going through the whole due process of adapting the ISAs. Some examples are the engagement quality control review (EQCR) and review of the files of the component auditor. With regard to the EQCR, an Information Paper has already been written by the Transnational Auditors Committee that can be used and updated to take the ITC issues into account. For group audits, a Staff Paper can be written in which situations or factors are described when a review of the work of the component auditor should be considered or how the dialogue with the component auditor can be enhanced in order to ensure that the work of the component auditor is used effectively and efficiently as part of the group audit.

Smaller entities

With regard to smaller entities, the ISAs are losing their ability to be effectively applied in these environments. The ISAs are becoming more complex, with requirements focusing on the increasing complexity in large companies in an international environment.

Furthermore, we question whether the premise of a basic level of controls that is fit for purpose as mentioned in ISA 200 paragraph 13j is met in all small entities that should be audited. This might influence their auditability.

Executive summary for the three topics in the ITC

Professional Skepticism

Professional Skepticism is a state of mind. At the same time professional skepticism is not a fixed construct. An auditor can act on the premise that management has integrity unless proven wrong; he can be neutral, or he can demonstrate presumptive doubt if this is required or necessary. We feel that it is up to society (stakeholders) to decide on the level of professional skepticism that the auditor should apply. By determining this level society should be aware that a more skeptical auditor might also lead to impediments to society. In the current model under the current ISAs, the entity should prove to the auditor that the financial statements are correct, the auditor should be skeptical but does not doubt the entity up front. When we shift to a state of presumptive doubt this might change, which might not do justice to the entity and to management. We would like to use a more generic example that might help to understand the shift from neutral to presumptive doubt. We wonder how society would respond when all police officers would act on the premise that all civilians probably did something wrong? Being more skeptical, than currently expected by the ISAs, will most likely also increase the cost of the audit. And last but not least, it might be necessary to increase the possibilities of auditors to investigate, and they might need legal instruments to be able to perform their duties. The ISAs should make clear which level of professional skepticism should be maintained by an auditor based on the discussions with society.

More emphasis can be given to the application in our opinion. The definition of the concept can be improved. Guidance can be given on what professional skepticism means and how it can be demonstrated and documented. E.g. explaining how far the auditor has to go to 'seek out' all possible alternative evidence and demonstrate professional skepticism. Currently the ISAs describe the situation that the auditor may assume that documents are authentic, unless he has reason to believe the contrary.

We believe that audit deficiencies are attributed too much to professional skepticism. Root cause analysis might indicate that there are other reasons. Poor application and/or documentation of professional judgment might also be a root cause of audit deficiencies.

We question whether professional skepticism can be enhanced by more requirements. Professional skepticism is subject to behavioral factors and personal traits. We recommend the IAASB to consider whether this can be done in a different way. We do consider training and education to be more useful in enhancing professional skepticism. Furthermore, technology can be used as a powerful tool to help the auditor in applying skepticism e.g. by using data analysis to filter exceptional situations that need to be investigated.

Quality control

Quality Management Approach (QMA)

As long as there is no definition of audit quality, it will remain difficult to implement adequate quality control systems. Nevertheless, we support the QMA as proposed by the IAASB. By adding a firm and possibly a network risk-assessment element, firms will be enabled to take proactive measures to identify and address risks in relation to their quality control systems and therefore avoid potential systemic issues in their practice. In the Netherlands we are already incorporating the QMA approach in a new regulation. We recommend the IAASB to clearly define the various roles and responsibilities of the network and/or the firm versus the responsibility of the individual.

Structure, governance and culture

The structure and governance of an organization also influence the potentially dominant culture within that organization. A firm's culture reflects the cumulative actions and behaviors of its personnel, including those that affect audit quality. Those cumulative actions and behaviors are influenced by firm leadership's communications, directives, actions, and behaviors, also referred to as the 'tone at the top'. The quality control standards should

be broadened to address the relationship between firm's culture and the 'tone at the top' to an effective quality control system.

Remuneration/Human Resources

The remuneration policy and the incentives arising from it must be linked to the organization's strategy and objectives in which quality plays an important role. We recommend the IAASB to address this topic in ISQC 1 and to require that quality becomes a predominant factor in remuneration and career perspectives.

Monitoring

Improvements in firms' systems of quality control can enhance audit quality not only by detecting more audit deficiencies prior to the issuance of the audit report, but also by preventing and deterring the occurrence of many of such deficiencies. Root cause analysis of external and internal findings can strengthen firms' processes for monitoring the effectiveness of their quality control systems. We recommend incorporating root cause analysis in the quality control standards.

Group Audits

Structure of the ISA

In practice there are various key challenges faced by auditors as mentioned below. On the one hand, there are more diverse and complex structures. On the other hand technology makes audits easier to perform. More information is centrally available through external and internal databases and remote access is possible. Furthermore, the group audit team is able to operate in a more integrated way with the component auditors and could use the quality control at the network level if the appropriate functioning thereof can be clearly demonstrated. There are various levels of integration which should be taken into account when using the work of component auditors: worldwide firm component auditor, network firm component auditor and other component auditor.

We support the initiatives mentioned in the ITC for ISA 600 at this time. However, we believe that the IAASB needs to consider expanding the scope of the standard so that it addresses key challenges faced by auditors:

- Auditing entities whose group structures are very different from the traditional parent/subsidiary structure, e.g., the standard does not adequately deal with groups that involve shared service centers or that are registered in one jurisdiction for statutory purposes and have operations in another jurisdiction.
- The standard does neither deal with significant investments accounted for at cost or the equity method nor non-controlled equity investments that need to be consolidated, but where the auditor does not have access to information.
- The standard does not address in enough detail component auditor responsibilities. We believe this is key, given that mandatory rotation in Europe will likely result in more component auditors coming from networks that are different from the group auditor's network.
- The standard does not adequately address sub-consolidation issues, including aggregation risk and how this may be addressed by component materiality.

We recommend that the ISA should provide more guidance on various situations or scenarios such as the audit of non-controlled equity investments, the usage of shared service centers and audits where the group engagement partner is not located where the majority of the audit work is performed (the existing Staff Audit Practice Alert about this subject can be used). This would make it easier to see whether the situation is applicable. The ISA should be flexible in that the requirements can be applied in a way that the audit of the group mirrors the structure of the entity, the organization of the audit firm(s) involved and related circumstances.

Combination with other ISAs

Using the work of other auditors and the audit of a group are combined in the same ISA. We believe the standards should retain the principle of the group auditor being responsible for the group audit in accordance with ISA 600. However, we recommend to split the aforementioned combination e.g. ISA 600 can be used to describe using the work of other auditors (how) and in the 500- series an ISA can be developed for the audit of a group (what) or in various ISAs the aspects of a group audit can be described.

It is also important to realize that ISA 600 is not a stand-alone ISA. We recommend to provide more explanations on how to apply the principles of the ISAs to the different engagement structures and in the various phases of the audit. E.g. emphasizing key points from ISA 315 or ISA 330 might facilitate better linkage of the understanding of the group and risk assessment at the group financial statement level.

Individual questions

Our response to the individual questions can be found in the Appendix.

Closing remarks

If you have any questions, please contact [Jan Thijs Drupsteen](#).

Yours sincerely,

Royal NBA
Dutch Ethics & Assurance Standards Board

Signed by:

Prof. dr. Peter W.A. Eimers RA
Chairman

**ENHANCING AUDIT QUALITY IN THE PUBLIC INTEREST: A FOCUS ON
PROFESSIONAL SKEPTICISM, QUALITY CONTROL AND GROUP AUDITS**

TEMPLATE FOR RESPONSES

The following template is intended to facilitate responses to the IAASB’s Invitation to Comment (ITC), *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*. The questions set out below are replicated from the questions in the ITC on pages 87–95. Question numbers are coded to the consultation topics as follows:

- **G = General Question**
- **PS = Professional Skepticism**
- **QC = Quality Control**
- **GA = Group Audits**

RESPONDENT’S INFORMATION

<p>Name: <i>(Please also fill in name in header for ease of reference)</i></p>	<p>Royal NBA</p>
<p>Description of the capacity in which you are responding (e.g., IFAC member body, audit oversight body, firm, SMP, individual, etc.)</p>	<p>National Standard Setter / IFAC member body</p>
<p>Name of contact person at organization (if applicable):</p>	<p>Jan Thijs Drupsteen</p>
<p>E-mail address:</p>	<p>j.th.drupsteen@nba.nl</p>

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)	<p>Yes. Nevertheless, we question whether all these issues can be effectively solved by enhancing the current ISAs. See also our summary response in the cover letter. We especially refer to the following sections:</p> <ul style="list-style-type: none"> • Fundamental revision of the ISAs • Other actions for the quick wins • Smaller entities
G1(b)	<p>We refer to the following sections in the cover letter:</p> <ul style="list-style-type: none"> • Evolving role of the auditor • Focus on behavior
G1(c)	<p>All stakeholders in the financial reporting chain will need to work together on these issues. The IAASB plays a key role in bringing the relevant parties together and facilitating the dialogue.</p> <p>The IAASB should amongst others continue liaising with accounting standard setters for them to examine the materiality and going concern areas and developments beyond the financial statements such as the directors' report.</p>

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?

G2	<p>Yes. Risk analysis (ISA 315), testing of controls (understanding and using the control framework in ISA 330) and IT developments, such as data analytics, should be taken into account. We understand that the IAASB has separate projects for the revision of ISA 315, ISA 540 and for data analytics. We recommend the IAASB to accelerate these projects as there is a need to take the (IT) developments into account.</p>
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G3. Are you aware of any published, planned or ongoing academic research studies that may be relevant to the three topics discussed in this consultation? If so, please provide us with relevant details.

G3	
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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	We refer to our comments on Professional skepticism in the cover letter. It should be clear that professional skepticism just as independence are concepts that are based on the expectations of stakeholders which must be fulfilled by the profession. The standards should be clear on the level of professional skepticism that should be applied by the auditor.
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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 refer to our general comments. We believe that it should be clear to society that an increased level of professional skepticism will lead to material and immaterial costs.</p> <p>We believe that audit deficiencies are attributed too much to professional skepticism. Root cause analysis might indicate that there are other reasons. Poor application and/or documentation of professional judgment might also be a root cause of audit deficiencies.</p> <p>We question whether professional skepticism can be enhanced by more requirements. Professional skepticism is an attitude ('state of mind') that is subject to behavioral factors and personal traits. We recommend the IAASB to consider whether this can be done in a different way. We do consider training and education to be more useful in enhancing professional skepticism. Furthermore, technology can be used as a powerful tool to help the auditor in applying skepticism e.g. by using data analysis to filter exceptional situations that need to be investigated..</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	
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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	
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PS5. What actions should others take to address the factors that inhibit the application of professional skepticism and the actions needed to mitigate them (e.g., the IAESB, the IESBA, other international standards setters or NSS, those charged with governance (including audit committee members), firms, or professional accountancy organizations)? Are there activities already completed or underway of which we and the Joint Working Group should be aware?

PS5	
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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?

QC1(a)	<p>Yes. We do support the use of a QMA. By adding a firm risk assessment element firms will be enabled to take proactive measures to identify and address risks to their quality control systems and therefore avoid potential systemic issues in their practice. In the Netherlands we have already been incorporating the QMA approach in a new regulation.</p> <p>The challenge could be that an individual or function becomes responsible and accountable for quality control. Nevertheless, the importance of quality control should be supported by the whole organization by the ‘tone at the top’ and the culture. Therefore, we recommend the IAASB to clearly define the various roles and responsibilities of the network and/or the firm versus the responsibilities of the individuals.</p>
QC1(b)	The QMA and the elements described in Table 3 are exhaustive. We have no other elements to include.
QC1(c)	We only expect mirroring changes in ISA 220.
QC1(d)	We are not in favor of addressing the issues in another way. Because that would mean that only the engagement partner bears responsibility for quality control. This is not the right way forward in our opinion.

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

Template for Responses

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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)(i)	We consider providing further clarity in ISA 220 about what is meant by performance, direction, supervision and review by the engagement partner as most meaningful.
QC2(a)(ii)	These actions are necessary to address current issues in practice.
QC2(a)(iii)	We do miss the description of the engagement partner as 'leading by example' or as 'role model.'
QC2(a)(iv)	It will be a challenge to give concrete substance to the role of the engagement partner. He should be able to demonstrate his concrete involvement and stand firm for his opinion.
QC2(b)	We do not think this is necessary and are actually not in favor of this. The engagement partner has a sole responsibility and accountability for the audit. A second person (e.g. a specialist) could sign in addition to the engagement partner, but not act as a substitute for the engagement partner.

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)(i)	We would like to know which other auditors are meant if they are not component auditors. In the scope paragraph other auditors could be mentioned.
QC3(a)(ii)	No comments.

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QC3(a)(iii)	
QC3(a)(iv)	
QC3(b)	We can hardly imagine this situation.

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(a)(i)	In general, the actions related to the reliance on the quality control at network level if the appropriate functioning thereof can be clearly demonstrated, would be very useful.
QC4(a)(ii)	This would be very useful, especially for group engagement teams in order for them to effectively and efficiently perform a group audit.
QC4(a)(iii)	
QC4(a)(iv)	
QC4(b)(i)	The IAASB can develop application material to address reliance on network-level policies and procedures at a firm or engagement level, but we do not see the need for developing more detailed requirements. This will only make the situation impracticable. Especially by explaining what needs to be done in order to rely on network-level policies and procedures (e.g. reviewing an audit manual and taking into account only internal or also external

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	quality control reviews) and how information can be exchanged.
QC4(b)(ii)	Yes. Research can be done to find out what kind of information with regard to network policies and procedures is available in practice and what use thereof can be made.
QC4(b)(iii)a	In our opinion, the requirements for the group audit team should apply for ADMs/SSCs equally. They are as important as the group audit team. It should be demonstrated that the SSC has appropriate quality control policies in practice. In EU regulation it is stated that “any outsourcing of audit functions shall not affect the responsibility of the statutory auditor or the audit firm towards the audited entity”. This could be incorporated in the quality control standards.
QC4(b)(iii)b	

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)(i)	The quality control standards should be broadened to address the relationship between firm’s culture and the ‘tone at the top’ to an effective quality control system.
QC5(a)(ii)	The structure and governance of an organization also influence the potentially dominant culture within that organization. A firm’s culture reflects the cumulative actions and behaviors of its personnel, including those that affect audit quality. Those cumulative actions and behaviors are influenced by firm leadership’s communications, directives,

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	actions, and behaviors, also referred to as the ‘tone at the top’.
QC5(a)(iii)	
QC5(a)(iv)	It is important to emphasize that the firm should act in the public interest. How the firm should act in the public interest can be described in more detail.
QC5(b)(i)	Yes. The NBA has proposed to incorporate this explicitly in a new regulation.
QC5(b)(ii)	Yes. In the Netherlands, in our proposed new regulation we are making a split between a quality policy maker and a quality manager. The quality policy maker can delegate operational tasks to the quality manager, but remains responsible for the quality control system.
QC5(b)(iii)	Yes. The QMA should allow flexibility to adapt the approach to the specific circumstances of the firm and take size and operational characteristics of the firm into account.

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)(i)	The most important action is to address the issue of the objectivity of the EQC reviewer.
QC6(a)(ii)	Because it is necessary to address the issues relating to the application of this requirement in practice.
QC6(a)(iii)	The firm should ensure that sufficient time should be made available for an EQCR and timely involvement during the complete audit process should be ensured. The firm’s culture

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	<p>should support this.</p> <p>It could be clarified that an EQCR is not a substitute for nor does it replace the responsibility of the engagement partner.</p>
QC6(a)(iv)	
QC6(b)(i)	<p>Yes. An EQCR should also be performed for PIEs since they are of public interest. The reputation of a firm might be at stake if there is an audit deficiency at a PIE.</p>
QC6(b)(ii)	<p>Yes. We support this requirement in order for the EQC reviewer to be objective. IESBA is now dealing with this issue.</p>
QC6(b)(iii)	<p>No, we do not consider this necessary. The EQCR is part of the overall quality control requirements for the firm, it is not an engagement issue. Therefor a separate standard might give the wrong signal, and we feel that it is not necessary for the prominence of the EQCR.</p>

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)(i)	<p>Monitoring and remediation are part of a QMA which is proposed in the ITC. Improvements in firms' systems of quality control can also improve audit quality not only by detecting more audit deficiencies prior to the issuance of the audit report, but also by preventing and deterring the occurrence of many of such deficiencies. Root cause analysis of external and internal findings can strengthen firms' processes for monitoring the effectiveness of their quality control systems. We consider root cause analysis the most important action to be taken.</p>
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QC7(a)(ii)	Root cause analysis to detect the issues at the level of the organization and to find out whether these are structural, will help to improve the organization.
QC7(a)(iii)	Root cause analysis is described, but could be given more attention.
QC7(a)(iv)	
QC7(b)(i)	Yes. The importance for the whole organization should be emphasized.
QC7(b)(ii)	Yes. This section completes the circle of the QMA.

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)	Yes. The remuneration policy and the incentives arising from it must be linked to the organization's strategy and objectives in which quality plays an important role. A firm is driven by professionals and should have quality as its main priority.
QC8(b)	We recommend the IAASB to address this topic and to require that quality becomes a predominant factor in remuneration and career perspectives.

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

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action, please explain why, including any potential consequences of those actions that you believe we need to consider.

QC9(a)(i)	The remuneration policy for partners and staff and the incentives arising from it should be linked to audit quality. This should be emphasized more explicitly.
QC9(a)(ii)	This will ensure that the focus remains on quality. Human resources is an important factor to achieve audit quality. The right incentives should be given to promote focusing on quality.
QC9(a)(iii)	
QC9(a)(iv)	
QC9(b)(i)	Attention should be given to have a proper mix of competencies in an audit team.
QC9(b)(ii)	'Leading by example' and mentoring of the engagement partner will probably have the most impact.
QC9(b)(iii)	A committed and inspiring partner will ensure a proper focus on audit quality for the whole audit team and will help to develop the competencies of the audit team.

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(a)	
QC10(b)	Transparency reporting might contribute to quality improvement. However, the IAASB should recognize that transparency reporting in certain areas is already arranged for in local laws and regulations (for instance in Europe). Therefore actions by the IAASB (if any) should build on the initiatives already taken.

The following questions are overall questions relating to quality control:

QC11. Are there any other issues relating to quality control that we have not identified? If yes, please provide details. What actions should we take to address these issues?

QC11	<p>The QMA is not missing any elements. The IAASB should focus on the key matters that have an influence on quality control which are described in the summary of our response in the cover letter:</p> <ul style="list-style-type: none"> • Develop a pro-active QMA to avoid audit deficiencies and define clear roles and responsibilities for quality control;
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	<ul style="list-style-type: none"> • Address the relationship between the firm’s culture an ‘tone at the top’ and quality control systems; • Link the remuneration policies and related incentives to audit quality; • Perform root cause analysis to prevent recurring audit deficiencies.
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QC12. Are there any other specific actions that others could take in relation to quality control? If yes, please provide details.

QC12	We recommend the IAASB to investigate together with audit oversight bodies and regulators how ‘quick wins’ can be established e.g. by writing Staff Papers (see also the summary of our response in the cover letter).
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QC13. Are there any specific considerations for SMPs related to the issues and potential actions described in this section? Are there any other considerations for SMPs of which we should be aware? If so, please provide details and views about these matters.

QC13	Yes. The QMA should be scalable. The nature and extent of the policies and procedures developed by an individual firm to comply with the QMA will depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.
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QC14. Are there any specific public sector considerations related to the issues and potential actions described in this section? Are there any other public sector considerations of which we should be aware? If so, please provide details and views about these matters.

QC14	A QMA could also be used in the public sector.
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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 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)	<p>ISA 600 was developed for the purpose of facilitating decisions and judgments that needed to be made by a group engagement team to assist them in performing an audit that meets the requirements of the ISAs. For a significant part, ISA 600 should be viewed as a standard which emphasizes the need for effective communication when involving other auditors in performing an audit and not so much as a standard about how to plan and execute an audit. By definition this means that all other relevant standards need to be applied when auditing a group or a component, whether performed by the component auditor or the group auditor.</p> <p>Paragraph 2 of ISA 600 already emphasizes that the standard is also applicable in circumstances other than group audit alone. However it may be helpful though to provide some more guidance on how to apply the principle of ISA 600 to the different engagement structures that exist nowadays, but also to make it possible for the responsible auditor to decide whether the requirements are applicable in these circumstances based upon his/her professional judgment.</p> <p>Using the work of other auditors and the audit of a group are combined in the same ISA. We recommend to split this up e.g. ISA 600 can be used to describe using the work of other auditors (how) and in the 500 series an ISA can be developed for the audit of a group (what) or in various ISAs some aspects of a group audit can be described.</p>
GA1(b)	<p>The suggestion to enhance the link between ISA 600 and other relevant standards might indeed improve the quality of group audits. This applies especially to the link of the requirements as outlined in ISA 315 given the importance of the identification and assessment of risks of material misstatement and the design of appropriate responses. Therefore we agree with the suggestion by the IAASB to expand on how a group engagement team is expected to apply the requirements in the standards related by identifying and assessing risks of material misstatement (including in relation to fraud), and responding to those risks.</p> <p>It does not seem to be necessary to develop a new standard for auditors who serve as</p>

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	<p>component auditors. As this relates to specific responsibilities for component auditors and group auditors with respect to the audit of the components, these could easily be addressed in ISA 600, since this standard deals with communication between group auditors and component auditors including communication regarding the scope of the audit performed by the component auditor.</p> <p>We welcome the idea that the principles based nature of the ISAs should be preserved so that they continue to be “fit for purpose” as group structures continue to evolve. The standard should be so flexible that it allows the group engagement team to apply the requirements in a way that the audit of the group mirrors the structure of the entity, the organization of the audit firm(s) involved and the related circumstances. As indicated before, a more clear link to important principles in other ISAs and quality control requirements may help the group audit team to improve the quality of their group audit.</p>
GA1(c)	<p>We continue to support the principle that there should be no divided responsibility for the audit of the financial statements and in that perspective reference to another auditor really does not provide more clarity or adds much value.</p> <p>We believe the standards should retain the principle of the group auditor being responsible for the group audit. However, as part of extended auditor reporting, more insight into the work performed by component auditors, their contribution to audit evidence obtained and the involvement of the group auditor in the component auditors’ work might provide relevant information to the user of the auditor’s report. This can be described in the scope paragraph or as a key audit matter.</p>
GA1(d)	<p>Since legal and organization structures are changing over time, the standard should address some of the issues raised in practice when performing the audit of “group” financial statements. Specific consideration should be given to the implications of shared service centers (SSCs) for (group) audits of financial statements, not only from the perspective of the group auditor, but also from the perspective of the local component auditor when auditing the component’s statutory financial statements.</p> <p>We recommend to provide more application guidance and examples as part of, or to split the ISA to describe various situations or scenario’s such as the audit of non-controlled equity investments, the usage of SSCs and audits where the group engagement partner is not located where the majority of the audit work is performed (the existing Staff Audit Practice Alert about this subject can be used). Using such guidance for different scenario’s, preferably in a table lay out, would make it clear for auditors to ascertain which situation is applicable and to clarify what requirements apply to each of the situations.</p>

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

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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?

GA2(a)(i)	We recognize and agree with the analysis of the issues set out in paragraphs 204-217.
GA2(a)(ii)	<p>The actions identified in paragraph 215(e) – providing more clarity over the circumstances that may lead to access issues and examples of how they might be addressed - are those which in our view are of greater importance, given the increasing complexity of organizations and cross-border implications. We explain further in response to point b)(i) below.</p> <p>We also believe there are benefits in enhancing the required understanding of the group – as a basis for acceptance, but also in benefiting downstream activities including component identification and risk assessment.</p>
GA2(a)(iii)	We agree that there are challenges with respect to obtaining sufficient appropriate audit evidence for certain components, such as significant equity associates not controlled by the entity, or other issues relating to access by the group engagement team to the work of component auditors. We refer to item GA2 (b)(i).
GA2(a)(iv)	Not applicable.
GA2(b)(i)	<p>Access issues are still experienced in practice, especially in the case of non-controlled equity investments. Practical issues are encountered for the group engagement team to obtain access to management, those charged with governance, or the local auditor when applicable.</p> <p>In current practice this matter is resolved, for example, if available, by accessing information kept by group management in relation to that component, understanding how group management monitors and evaluates the investment and ensures the financial information of the component has been correctly accounted for by the group, if the group has representatives who are part of the component's management or on the Board of Directors of the component, discussing the component and its operation and financial status with these representatives, examining other external information such as publications and analysts' reports. If the component is a public company by itself, external information will also include any filings made by the component.</p>

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GA2(b)(ii)	No, we do not agree. ISA 600 should be strengthened on this matter, but not as part of acceptance and continuance only. Many of these issues are driven by questions of law or the application of laws and regulations in a given jurisdiction. Therefore, these may be issues that standards cannot fully address. We recommend including further application guidance and examples as part of, or to provide guidance in ISA 600 with further scenario's. We refer to question GA2(b)(i) for possible solutions, to address situations described earlier.
GA2(b)(iii)	Not applicable.

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)(i)	
GA3(a)(ii)	
GA3(a)(iii)	
GA3(a)(iv)	

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

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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)(i)	<p>We concur with the observation that several issues have been identified regarding the use of the work of component auditors. In the Netherlands we perform many audits as described in paragraph 238. The NBA has provided guidance and application material to address these types of organization structures. We really appreciate to put this issue on the agenda and we ask the IAASB to prepare additional guidance and application materials. We suggest to use the existing Staff Audit Practice Alert <i>Responsibilities of the Engagement Partner in Circumstances when the Engagement Partner Is Not Located Where the Majority of the Audit Work is Performed</i>.</p> <p>Expanding the guidance is important because of the fast changing structures of multinational organizations, the impact of IT/technology, use of (external) databases, and the use of SSCs. For us, it is more meaningful when the IAASB would provide more application material including specific examples.</p> <p>In the current standards there is relative little reliance on the existence and use of networks. Most of the issues raised (independence, competence, engagement quality review, etc) have a link with the quality system as implemented within a network. We suggest to include the use of a network and reliance on global quality systems in the standards if appropriate functioning thereof can be clearly demonstrated.</p>
GA4(a)(ii)	<p>These actions are necessary because many issues are identified regarding group audits.</p>
GA4(a)(iii)	<p>In general, these questions focus on the use of the work of component auditors by a group auditor. We also see the need for more guidance for component auditors.</p>
GA4(a)(iv)	<p>We support the actions described, but also make the suggestion to discuss this issue with regulators and large organizations with activities all over the world.</p> <p>We recommend to take into account that more information is centrally available through external and internal databases, that remote access is possible, and that group audit teams are able to operate more integrated with component auditors.</p>
GA4(b)(i)	<p>Yes, the nature, timing and extent of involvement of the group engagement team should always influence the work of the component auditor.</p> <p>We believe that the standards should give more application material on scoping and the involvement of the group engagement team. For example by giving examples of specified audit procedures to be performed by a component team (no conclusion, but only the outcome of the specified audit procedures performed). Otherwise the concept of an integrated team could be introduced and implemented in the standards.</p> <p>The ISA needs to reflect how a group engagement team should apply professional judgment. They should give the flexibility to respond to various situations. We recommend the IAASB to provide application guidance for the various scenario's mentioned (see also GA1(d))</p>

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GA4(b)(ii)	We believe an explicit statement has no added value. Implicitly, this is already done.

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)(i)	<p>We agree with the actions outlined in paragraph 251-253 to make in ISA 600 more explicit references to the principles, requirements and related application materials in ISA 315 and ISA 330.</p> <p>We believe that ISA 315 provides an appropriate framework for the group engagement team’s understanding of the group and identification of risks.</p> <p>Most meaningful improvement necessary to ISA 600 is the requirement to acknowledge the existence of evolving environments and increasingly complex group structures.</p>
GA5(a)(ii)	<p>We believe that emphasizing key points from ISA 315 or ISA 330 appears reasonable since that will facilitate better linkage of the understanding of the group and risk assessment at the group financial statement level. Important to emphasize is that these key points should not be redundantly described in ISA 600.</p> <p>Such clarifications and examples should address issues such as existence of evolving environments, complex group structures and use of SSC’s by the group.</p> <p>Communication and sharing of information, between component auditors and the group engagement team, both in respect of risk identification and other information, and as appropriate, across the population of component auditors would seem to be best practice. A group engagement team should make an assessment of whether risks identified by components is of impact on the group financial statements and may also be relevant to other components. The component auditor also has his own responsibility in identifying risks. Building such consideration into the requirements would appear reasonable.</p> <p>We believe further clarification is needed through application material of the definition of a significant component (including the phrase “of individual financial significance”) and its relationship with “significant risks” would also seem responsive.</p>
GA5(a)(iii)	<p>The following situations are examples that could be described in various scenarios.</p> <p>The NBA supports bringing clarity to the question of what it means to apply all relevant ISAs</p>

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	<p>in work conducted by the group engagement team. In particular, questions arise most commonly when the group engagement team determines that an audit of one or more account balances, classes of transactions or disclosures is necessary at the component level. In such cases, the component auditor is not conducting an audit of the full component entity., We are wondering whether in these cases certain ISAs and or requirements of certain ISAs are no longer relevant for the group or component.</p> <p>It is critical that a component auditor has a sufficient basis for reporting on a component to the group engagement team. We therefore fully support addressing in the ISA how audit evidence that has been gathered centrally is communicated and shared across teams; in this case both in respect of risk identification and other information.</p> <p>For example, with respect to a group engagement team’s scoping, a SSC does not easily fall within the definition of a significant component and the determination of the work effort that is appropriate based on the requirements in ISA 600 therefore lacks clarity. We support clarifying the considerations in this area.</p> <p>We believe it will be important to recognize that potentially complex group structures will make it difficult for the group auditor to be closely involved in ‘sub-consolidations’. For very large group audit engagements it will be impracticable for the group engagement partner to be involved across the entire spectrum of group sub-consolidations. The group engagement team needs to necessarily have an understanding of the group structure and sub-consolidation process but the quality of work at the sub-consolidation level is best addressed through the partner in the jurisdiction in which that consolidation is taking place.</p> <p>Similar considerations apply to engagements where the overall group engagement partner is located in a different jurisdiction from where the group entity management reside. In such situations, audit quality over the consolidation may best be enhanced by the partner in the other jurisdiction being responsible for that aspect of the engagement.</p>
GA5(a)(iv)	No matters noted.

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.

GA6(a)	<p>We agree with the recommended actions of further consideration of matters that are specifically relevant to component materiality, component performance materiality and component clearly trivial thresholds in the context of group audits. Particularly in relation to the concept of aggregation risk, and consideration as to how these concepts might be made more clear and operational, taking into consideration the risks associated with individual components and other circumstances of the engagement structure. We do understand that it is difficult to</p>
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	<p>describe how to allocate materiality.</p> <p>We also acknowledge that guidance on component materiality for a component work effort other than an audit of the complete financial information of the component (e.g. specified procedures, or audit of specified balances per ISA 600.27b, 27c and 29), would be helpful.</p>
GA6(b)	<p>We do have the following specific issues:</p> <p>Several financial reporting frameworks require the preparation of stand-alone financial statements of the parent entity, sometimes in the same booklet as the consolidated financial statements, sometimes separately. The parent entity may have very little own activity which all gets eliminated in consolidation, or on the other hand, the parent entity may have significant own activities, or a variety of scenarios in between. We believe it would be helpful to provide additional guidance for the allocation of materiality to the stand-alone financial statements of the parent entity.</p> <p>SSCs are typically not identified as a component and, therefore, excluded from the materiality allocation. Accordingly, if audit procedures are to be performed on a SSC, then relevant materiality amounts would be determined based on our understanding of the risks inherent to the component and using the engagement team's professional judgment. We believe it would be helpful to provide additional guidance on determining relevant materiality amounts in a number of common scenarios involving SSCs.</p> <p>Professional judgment is required to determine an appropriate materiality level when performing analytical procedures at group level for non-significant components. We believe it would be useful to provide additional guidance about this topic.</p> <p>We believe it would be helpful to provide additional guidance on the distinction between the group audit clearly trivial reporting threshold and the threshold to be used by component auditors. For example, a group engagement team communicates a reporting threshold to component auditors. Questions arise in practice as to whether they use this level for the purposes of their component audit, or simply as a level for communicating misstatements to the group engagement team. In the latter scenario, they need to apply a lower threshold to accumulate misstatements as part of the component audit.</p> <p>As a further extension of the question of how to deal with certain equity accounted or joint venture entities, we believe it would be useful to provide guidance on how the concept of component materiality may be applied. For example, when an entity accounts for a 20% share of an associate, we believe it is acceptable for the component materiality allocated to that component to be uplifted by the component auditor to a value that reflects they are auditing 100% of the associate's financial information. In other words if a group engagement team allocates materiality of \$100,000 to that component, the component auditor may apply a materiality of \$500,000 in auditing 100% of the associate.</p> <p>Also, we believe that it would be helpful to provide additional guidance when the component is a non-consolidated investment held at cost, e.g. in a legal structure of a group with a statutory audit taking place at the level of an intermediate holding. Depending on the circumstances, including the headroom between the book value and the estimated fair value of the investment, judgment will be required to determine an appropriate level of materiality for such component.</p> <p>Please note that ISA 600 should support the proper application of the ISAs in a group context and cannot amend what is required under ISA 320. However, specific aspects for group audits</p>

	could be described in ISA 320.
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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)(i)	
GA7(a)(ii)	
GA7(a)(iii)	
GA7(a)(iv)	
GA7(b)(i)	
GA7(b)(ii)	

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GA7(b)(iii)	
GA7(b)(iv)	

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)(i)	<p>The NBA recognizes that the principle based nature of ISA 600 provides flexibility for the auditor. At the same time the wide range of possibilities of ISA 600 gives room for misinterpretation of the standards since the standard is not detailed enough in certain areas. The necessary work effort of the group audit team in relation to the review of work performed by the component auditor is a well-recognized example.</p> <p>Despite the fact that ISA 600 is a long standard, the application guidance however is not as detailed as needed and therefore needs to be enhanced and/or extended. We agree with the actions outlined in paragraph 299 and 303 but are missing which procedures should be performed or which considerations should be taken into account. We recognize that all group audits are different but with our recommendations below we believe that an adequate balance is maintained between the principle based nature of the standard and the expectations of regulators and audit oversight bodies.</p>
GA8(a)(ii)	See above.
GA8(a)(iii)	<p>We propose to provide guidance regarding the procedures to be performed by the group auditor. Since the audit is a risk based process, there needs to focus in the review procedures on audit procedures performed on significant risks of material misstatement. This is in line with ISA 600, A61.</p> <p>To demonstrate that the group auditor has been in the ‘driver’s seat’ in a group audit situation, the group engagement team’s involvement and file review, if any, at component auditor work, should take place in time for each phase of Planning & Risk Assessment, Interim and Final.</p> <p>The group auditor should arrange meetings or calls with all the relevant component auditors. Specialists could also be part of the group engagement team.</p> <p>The depth of the review procedures to be performed should depend, amongst others, on the following considerations, which need to be documented in the group audit file:</p>

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	<ul style="list-style-type: none"> • The significance of the component for the group financial statements • The risk profile of the component for the group financial statements • The quality of the component auditor, including any EQC review that has taken place (ISA 600.19) • The results of internal quality inspections relating to the component auditor • The time that has passed since the last detailed review of the audit work of the component auditor. <p>Considerations which need to be addressed and documented when reviewing the work of the component auditor might consist of the following:</p> <ul style="list-style-type: none"> • Is the mix between controls testing and substantive testing sufficient to mitigate the risk of material misstatement? During the review the component auditor has to demonstrate that the relevant assertions are covered by the procedures performed. • Are the sample sizes used acceptable? • Are analytical procedures performed in line with ISA 520? • Has the component auditor assessed the reliability of the output of system-generated data? • Are procedures performed relating to accounting estimates in line with ISA 540? • Are deficiencies identified during controls testing (including ITGC) sufficiently mitigated by the substantive procedures performed? • Are the procedures performed relating to management experts and auditors experts in line with ISA 500.8 and ISA 620? • Are there any specific remarks relating to ISA 240 and ISA 250? <p>In our view, in general there is no need to include working papers of the component auditor into the group audit file. The documentation of the review procedures performed by the group auditor should provide sufficient comfort that the procedures performed by the component auditor were sufficient to mitigate the risk of material misstatement on group level.</p>
GA8(a)(iv)	Not applicable.

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	
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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?

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GA10	Further to our cover letter comments in relation to quality control, we believe it is important for the IAASB to evaluate the impact of technology and changes in audit approaches, including data analytics on group audits.
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GA11. Are there any other specific actions that others could take in relation to group audits? If yes, please provide details.

GA11	
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GA12. Are there any specific considerations for SMPs related to the issues and potential actions described in this section? Are there any other considerations for SMPs of which we should be aware? If so, please provide details and views about these matters.

GA12	
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GA13. Are there any specific public sector considerations related to the issues and potential actions described in this section? Are there any other public sector considerations of which we should be aware? If so, please provide details and views about these matters.

GA13	
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