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May 13, 2016

Ms. Kathleen Healy
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, New York 10017
USA

Invitation to Comment: Enhancing Audit Quality in the Public Interest

Dear Ms. Healy,

BDO International Limited¹ (BDO) is pleased to have the opportunity to comment on the International Auditing and Assurance Standards Board (IAASB) Invitation to Comment (ITC) in respect of *Enhancing Audit Quality in the Public Interest*.

We believe that substantially all of the public interest issues raised in the ITC are important areas of focus for the work of the IAASB.

Fostering an appropriately independent and challenging skeptical mindset for auditors is essential for maintaining audit quality. In that regard, we believe clarification is needed about how documentation can be enhanced to provide evidence of appropriate application of that mindset when forming auditor judgments.

We also support the IAASB's consideration of a Quality Management Approach (QMA) for firm and engagement level activities, which have the capacity to support audit quality on a scalable and robust basis. As we note in our responses below, given the variety of firm structures and the work that many firms (including networks), have already undertaken to boost quality activities at the firm and engagement team levels, the IAASB will need to consider the cost/benefit impact on firms and networks in consolidating existing ISQC 1 activities under a QMA approach.

In addition, we support the IAASB's plans to revise International Standard on Auditing (ISA) 600 (and other Standards, as appropriate) to respond to the multitude of practical issues encountered in practice. The increasing complexity and globalization of business has raised a number of questions that have caused firms to react by developing their own guidance. A clearer ISA that promotes greater consistency in how group audits are approached would be most welcome.

In order to assist the analysis and review of our comments by the IAASB, and given the volume of comments being requested in this ITC, we set out our detailed comments in the attached tabular document.

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We appreciate the opportunity to comment on the IAASB's ITC, which has proven to be a substantial publication by the IAASB. We hope that our comments and suggestions will be helpful to you in your deliberations and development of future recommendations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,
BDO International Limited

Wayne Kolins
Global Head of Audit and Accounting

**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

Name:	BDO International Limited
Description of the capacity in which you are responding	On behalf of the global network of BDO member firms
Name of contact person at organization:	Wayne Kolins, Global Head of Audit & Accounting
E-mail address:	wkolins@bdo.com

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>As mentioned in our cover letter, we believe that substantially all of the public interest issues raised in the Invitation to Comment (ITC) are important areas of focus for the work of the IAASB, but that the priority of a number of items within each category may need to be revisited, as described in our subsequent comments.</p> <p>Fostering an appropriately independent and challenging skeptical mindset for auditors is essential for maintaining audit quality. In that regard, we believe clarification is needed about how documentation can be enhanced to provide evidence of appropriate application of that mindset when forming auditor judgments.</p> <p>We also support the IAASB's consideration of a Quality Management Approach (QMA) for firm and engagement level activities, which have the capacity to support audit quality on a scalable and robust basis. As we note in our responses below, given the variety of firm structures and the work that many firms (including networks), have already undertaken to boost quality activities at the firm and engagement levels, the IAASB will need to consider the cost/benefit impact on firms and networks in consolidating existing ISQC 1 activities under a QMA approach.</p> <p>In addition, we support the IAASB's plans to revise ISA 600 (and other Standards, as appropriate) to respond to the multitude of practical issues encountered in practice. The increasing complexity and globalization of business has raised a number of questions that have caused firms to react by developing their own guidance. A clearer ISA that promotes greater consistency in how group audits are approached would be most welcome.</p>
G1(b)	<p>From a public interest perspective, there are a number of broader contextual matters that affect these particular issues that should be considered by the IAASB. In that regard, the IAASB should reconsider the flexibility of the ISAs and the prevailing public interest needs inherent in audits of Small and Medium-sized Entities (SMEs), listed entities, and non-listed Public Interest Entities (PIEs). In that regard, there are several areas that could be considered by the IAASB, which include providing clarity on:</p> <ul style="list-style-type: none"> • The definition of PIEs. • How the ISAs can be better applied in the case of SME audits, perhaps by way of further implementation support and an ongoing dialogue with proponents of an alternative approach (for example, the Consultation paper, <i>The Nordic Standard for Audits of Small Entities</i> issued by the Nordic Federation of Public Accountants). <p>The IAASB's proposals to protect the public interest through an extension of ISQC 1 and an increase in the requirements placed on engagement partners and audit firms responds primarily to the views about audit quality articulated by observers or commentators on the audit process</p>

	<p>for listed entities (for example, regulators or standards-setting boards).</p> <p>As audit quality is impacted by a combination of internal factors (e.g., application of the ISAs, engagement team competence) and external factors (e.g., nature of the financial reporting regime, ISA requirements), the IAASB should consider developing any new proposals by taking into account the views of all participants in the financial reporting marketplace, including preparers of financial statements, investors, lenders, audit committees, and regulators. By considering the views of a range of stakeholders, the IAASB will be better positioned to consider how audit quality can be improved, while meeting the needs of these participants.</p>
G1(c)	<p>In addition to the reconsideration about the nature of guidance that might apply differently for SMEs and other types of entities, we have outlined suggested actions in response to each of the questions below.</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>We believe that that the IAASB needs to address or provide a more detailed assessment or set of proposals in the ITC reflecting the increasing use of technology on audits (e.g., data analytics, machine learning). Some of the considerations in the ITC sections below around ADMs² start to address the potential for new models addressing audit quality needs; however, there is a pressing need to reflect on the basis on which auditors can obtain assurance from emerging technologies.</p> <p>We understand that there is a separate project that the IAASB is considering on data analytics (the 'Data Analytics Working Group'), but as this is a key issue facing the profession with far reaching implications for requisite skills, auditor training, regulatory inspection, technology budgets, the nature of the service clients receive, and the type of assurance obtained, we believe that this should be given a much higher priority in the IAASB's work plan and the ITC. The use of technology to help support and drive some of the audit procedures (including how data could be used in combination with other audit procedures) could further safeguard the public interest by having higher quality audits.</p> <p>The IAASB is in a position to influence the debate involving the use of these new tools through the provision of further guidance on how assurance can be obtained, perhaps resulting in a modified construct for the audit model.</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	None noted.
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² Alternative Delivery Models

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	<p>Our interpretation of the concept of professional skepticism is broadly consistent with how it is defined and referred to in the ISAs. We have the following additional matters for the IAASB to consider :</p> <ul style="list-style-type: none"> • We believe it should be clear that professional skepticism should be applied during <i>all</i> stages of the engagement. • The IAASB could align the concept with the work of the other Standard-Setting Boards (SSBs) – for instance reflecting the educational and ethical dimensions of professional skepticism having its roots in the development of integrity and maintenance of objectivity. • A major challenge for the IAASB (and IFAC) – and this may be something that the current Joint Working Group on Professional Skepticism is currently considering – is how the interpretation of professional skepticism can be applied to all professional accountants, but appropriately tailored to those performing an audit role. We note that the International Education Standards (IES)³ use a modified definition of professional skepticism compared to the audit-focused version used by the IAASB. • Fundamental to our interpretation of professional skepticism is the need to recognize the necessary personal traits that translate the ‘questioning mind’ into observable action. While the ITC confines professional skepticism to an attitude that provides a basis for auditors’ actions, the ability to act is paramount to protection of the public interest. We suggest that the definition include a reference to this need and ability to act. • The factors and personal traits that contribute to ‘professional’ skepticism may often be overlooked – and might include issues around those personal traits identified in the Hurtt Scale of professional skepticism. The scale identified six potential personality traits⁴ which contributed to different outcomes in the measurement of professional skepticism. In addition, when interpreting what it means to demonstrate professional skepticism it should be clear that an auditor performing an audit of financial statements is not a forensic auditor solely looking for fraud or inappropriate behavior. Other factors that may affect how professional skepticism is exercised could include: <ul style="list-style-type: none"> ○ learned skills (for example, education and experience skills acquired through on the job training, personal specialization or practical application of knowledge); and ○ incentives (for example, emphasis on professional skepticism in performance
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³ International Education Standards as prescribed by the International Accounting Education Standards Board (IAESB)

⁴ Professor Kathy Hurtt, Development of a Scale to Measure Professional Skepticism,” Auditing: A Journal of Practice and Theory (May 2010) hypothesized that there were 6 personality types which include: questioning mind, suspension of judgment, search for knowledge, interpersonal understanding, self-esteem and autonomy.

	<p>evaluations, an open firm culture and internal monitoring to reinforce expectations).</p> <ul style="list-style-type: none"> • Our interpretation also reflects the importance attached to cultural dynamics that operate in an audit firm, audit sector group or engagement team. An engagement team (particularly influenced by members at the engagement partner and more experienced levels) may have its own collective culture or attitude towards professional skepticism that may have a direct impact on the professional skepticism exhibited by any one individual (i.e., the ‘groupthink’ factor). The IAASB, through its Standards, may also want to consider the impact of different national or regional culture that may impact the effective application of professional skepticism. Examples of this might include: <ul style="list-style-type: none"> ○ a reluctance to challenge other individuals because of perceptions about demonstrating a lack of respect; and ○ deference to more senior colleagues or client management. • Having a questioning mind may mean different things for each individual due to their natural tendencies towards faith and trust in others (whether colleagues or client management). Perhaps the definition should reflect a ‘measured attitude’ to imply that an individual’s attitude can be measured against the expectations under the ISAs.
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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>Our answers to PS 1 highlight a number of drivers and impediments to the appropriate application of professional skepticism.</p> <p>With respect to the role that the IAASB can undertake to enhance those drivers and address impediments:</p> <ul style="list-style-type: none"> • When determining an appropriate application of professional skepticism, there may be an opportunity to consider the impact of factors that can affect the broader concept of professional judgment within the team. This could include considerations, such as: <ul style="list-style-type: none"> ○ Groupthink – desire for consensus, conformity or harmony leading to individuals setting aside their own beliefs; ○ Anchoring - making assessments by adjusting from an initial value and by an insufficient amount rather than making an independent determination of the evidence; ○ Rush to solve – a tendency to want to immediately solve a problem by making a quick judgment; ○ Judgment triggers – using shortcuts, simplifying strategies or rules of thumb to make decisions; ○ Over-confidence – the decision maker overestimating his or her abilities ○ Confirmation – seeking and putting more weight on the decision makers’ initial preference or opinion; and ○ Availability – using information which is easily available either physically or based on what comes to mind.
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	<ul style="list-style-type: none">• The IAASB could provide more implementation support on the importance of professional skepticism being an attitude of mind and that a key attribute is the ability to determine the level and extent of professional skepticism that has been applied in any given circumstance. Additional guidance could be provided on personality traits that directly impact professional skepticism.• It is important that the IAASB does not focus only on drivers and impediments to professional skepticism, but also provides examples of how outcomes indicate professional skepticism has been appropriately exercised. One way of doing this could be through the provision of a professional judgment framework that could provide analyses of particular scenarios and demonstrate how a conclusion was reached in practice.• There should be guidance that clearly distinguishes professional skepticism from a professional judgment framework. While professional skepticism is a fundamental component of professional judgments, such judgments also involve other factors such as expertise in accounting, auditing, and other technical areas and the ability to consider all relevant factors. <p>With respect to the identified priorities in paragraph 37, in our view the IAASB should reprioritize to ensure that there is a greater focus on:</p> <ul style="list-style-type: none">• Example scenarios so that different situations can be brought to life in the context of an audit. The use of a professional judgment framework would be helpful.• The importance of engagement partners and senior engagement team members providing leadership to ensure that on-the-job training and ‘good practice’ behavior is demonstrated and shared. This could be explicitly linked through the IAESB’s learning outcome requirements in IES 8⁵.• Whether there are ‘specific actions that firms should take to address professional skepticism, including consideration of the effect of firm culture on the application of professional skepticism’ we understand that the Joint Working Group is exploring this. The Joint Working Group could consider the impact (both positive and negative) of the adequacy of general business knowledge and knowledge about the entity when applying an appropriate level of professional skepticism. There may be instances where there is over-reliance on client sources of information when forming an understanding about the entity. Professional skepticism is potentially compromised when engagement teams fail to consider external factors (such as industry, regulatory and economic impacts) or other sources of information. Accordingly, the Joint Working Group should consider drivers of behavior that inappropriately discourage auditors from considering information from other sources (both within and external to the audit client).• Use of data analytics and other technological tools that enable the auditor to understand the business better, form expectations, and identify outliers that would trigger a skeptical reaction.
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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?

⁵ International Education Standard 8 – *Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)*

PS3	<p>Further to our comments in PS2, we believe that ideas about how to maintain the appropriate level of skepticism in the engagement team collectively should be examined.</p> <p>As we noted in PS2, we believe that by creating a professional judgment framework there could be an opportunity to explore issues surrounding ISA 540, and other areas where significant judgment is used. By adopting a professional judgment framework (whether in an ISA or implementation materials), the IAASB would be able to highlight the requisite thought process to enable auditors (at all levels) to apply a more structured approach to application of professional skepticism. Having this approach would also remove the need to embed professional skepticism requirements within each ISA.</p>
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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>We believe that many of the proposed changes highlighted in the ITC in relation to ISQC 1 and ISA 600 may also help to promote professional skepticism. We also understand that the IAASB chose to incorporate ISQC 1 and ISA 600 alongside the professional skepticism suggestions in a single ITC due to the range of crossover issues. We do, however, caution that the identification, application and documentation of professional skepticism issues are more pervasive and should not just been seen through the lens of ISQC 1 and ISA 600.</p>
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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	<p>We support the creation of the Joint Working Group and hope that this will lead to greater coordination between the IFAC SSBs on a topic that clearly has overlap from educational, ethical and auditing perspectives.</p> <p>One of the critical areas for the IAESB is how they can provide implementation support to assist IFAC member bodies (and audit firms) to identify how individuals can demonstrate the achievement of learning outcomes in professional skepticism (and professional judgment). We would also encourage IFAC SSBs to focus on the professional skepticism traits at all levels of the profession (part of this could be to consider those completing Initial Professional Development as well as the types of learning that could occur at the Continuing Professional Development phase) including consideration of cultural biases or behavioral traits. To assist the IAASB, the Joint Working Group could explore further work or discussions with IFIAR, regional or collective bodies such as GAA⁶, FEE⁷ and CAPA⁸ as well as others that operate in this space, such as the Center for Audit Quality.</p>
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⁶ Global Accounting Alliance

⁷ Federation des Experts Comptables Europeens

⁸ Confederation of Asian and Pacific Accountants

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>We support a broader revision of ISQC 1 to include further consideration by the IAASB of use of a QMA. The ITC specifically noted concerns about firms needing to keep up with a rapidly changing business environment. Potential use of a QMA may provide a more holistic approach to determining quality control priorities and could help improve the ability of firms to reduce red-tape and increase their responsiveness to a changing quality environment.</p> <p>One challenge would be the need to consider the impact on network firms – especially where there may already be some QMA processes in place, as this could result in significant incremental investment by those firms.</p> <p>Implementing a firm-wide QMA may enable a firm to consider risks across all service lines (not just audit) and might create improved risk assessment and mitigation of risks from a quality perspective, as well as deeper consideration of issues such as the provision of non-audit services and independence issues faced by firms.</p>
QC1(b)	<p>At the conceptual level, we believe the proposed QMA appears to be a logical approach to QMA-based risk assessment, response and review. As we have noted in our answer to QC1 (a), this is an area that would require further and more extensive consideration by the IAASB and others (firms and regulators).</p> <p>One area that could be explored further is the extent to which firms referred to in paragraph 65 can leverage and share suggestions for good practice when they establish the QCs to be followed and the processes to implement, monitor and review the approach.</p> <p>The planned change on monitoring feedback from all sources in any QMA could be quite a powerful driver of change, depending on the context in which the feedback was given.</p>
QC1(c)	<p>While the use of a QMA could potentially be very useful, there needs to be clearer consideration of the impact of firm leadership and firm culture on leadership within the engagement team. If the IAASB plans to restructure ISQC 1, then any revised Standard that incorporates a QMA approach will need to recognize the importance of engagement</p>

	level responsibilities as an important outcome from the QMA. This will need to incorporate an element of monitoring of engagement level behaviors in order to ensure QMA outputs are complete.
QC1(d)	If the IAASB does not decide to adopt a QMA, then we agree that the items identified in paragraph 59 and table 2 should be considered in light of any changes to ISQC 1.

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)(i)	<p>The range of proposals outlined in paragraphs 85-86 appears to be sensible. The reference to providing more detail on what audit documentation is required to be reviewed by the engagement partner would be especially helpful (for both audit firms and regulators), as would providing examples to illustrate what the engagement partner can do to demonstrate proactive and appropriate direction, supervision and review, and documentation of the application of professional skepticism.</p> <p>With respect to application material for addressing those situations where an engagement partner is not located where the majority of the audit work is performed, our view is that the material should reflect a range of options, including use of technology solutions to make it clear that the first option does not always have to be an in-person site visit when effective review and supervision can be performed remotely.</p>
QC2(a)(ii)	See our responses in QC2 (a) (i).
QC2(a)(iii)	<p>When drafting this particular section, the IAASB should not impose a checklist-style approach to the role of the engagement partner.</p> <p>Flexibility and the recognition that engagement partners may perform a number of roles, including managing a portfolio of clients, firm-wide responsibilities, and external activities may mean that application materials rather than increased requirements are more appropriate.</p>
QC2(a)(iv)	See our response in QC2 (a) (iii).

QC2(b)	It may be helpful if there is guidance clarifying how the audit firm can clearly distinguish the engagement partner from the non-engagement partner in these circumstances.
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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)	<p>We support the proposals outlined in paragraphs 100-104. In addition, we have highlighted the following for specific considerations by the IAASB:</p> <ul style="list-style-type: none"> • We have a number of member firms that, due to their geographic location and sector-based expertise, have to make use of component auditors or external experts. We believe that having greater clarity about the extent to which these groups or individuals are considered to be part of the engagement team, and consideration about levels of review of their work, would be helpful. • Examples of how to reference to the nature and involvement of any others/experts within the Key Audit Matters (KAM) section of the auditor's report would be helpful.
QC3(a)(ii)	See our responses in QC3 (a) (i).
QC3(a)(iii)	None noted.
QC3(a)(iv)	None noted.
QC3(b)	Given the patchwork nature of many corporate entities, the concept of joint-audits in some jurisdictions and use of component auditors by group engagement teams to perform some of the audit work, we believe there is merit in providing greater clarity to users about the basis on which the engagement partner formed his or her opinion. This may mean providing more illustrations as part of the auditor reporting suite of ISAs.

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)	<p>We generally support all the identified areas of focus – particularly factors to consider when individual firms are relying on network quality controls and monitoring quality. We believe that the IAASB may need to provide further implementation support or guidance rather than requirements in these areas given the:</p> <p style="padding-left: 40px;">(a) Need for flexibility to allow firms and the networks to be responsible for their own governance and review structures (i.e. place responsibility on them to ascertain their own QMA and to implement internal inspection processes rather than rely on the IAASB to structure a solution for them); and</p> <p style="padding-left: 40px;">(b) Range of differing legal and governance structures.</p>
QC4(a)(ii)	See comments in QC4 (a) (i).
QC4(a)(iii)	<p>The way in which innovation and technology have created opportunities for audit firms to leverage different aspects of ADMs (such as off-shoring, cross-border cooperation, on-shoring, etc.) may mean that providing application material in this area may be particularly helpful.</p> <p>The IAASB should consider that ADMs, by their very nature, are flexible and develop in response to changes in economic factors as well as decisions about who is best placed (and competent) to perform the audit work. Any guidance issued by the IAASB would need to make clear that while the underlying principles of review, supervision and direction are in effect the same, there is no prescriptive way in which this can be achieved.</p>
QC4(a)(iv)	<p>The IAASB should not impose a particular type of network model or approach.</p> <p>Many networks have emerged from a combination of smaller firms; some are constituted on network, regional, national or individual bases. This variety may mean that in any recommendations concerning network firms, the IAASB will have to consider the impact and not assume that a one-size fits all approach to network</p>

	<p>governance or management.</p> <p>There should also be active consultation with the Forum of Firms and its Global Public Policy Committee to ascertain further impact of the proposed changes as well as the Small and Medium Practices (SMP) Committee.</p>
QC4(b)(i)	See our answer to QC4 (a) (i).
QC4(b)(ii)	See our answer to QC4 (a) (i).
QC4(b)(iii)a	<p>As noted above (QC4 (a) (iii) – the Standards should acknowledge the presence of ADMs. However, in employing a principles-based approach to quality control, the principles have to be seen in context of the collective ‘engagement team’ and how a firm or network firm achieves quality control is going to vary depending on extent and type of ADM.</p> <p>In our view, the IAASB will not be able to prescribe requirements for every situation – nor should it try to do so – but what it can do is provide examples of factors to consider when firms are cooperating across jurisdictions or adopting different models of delivery.</p> <p>The growth in online accounting resources (such as those enabled by cloud accounting), an increasingly global economy, and greater use of external experts, combined with flatter structures for engagement teams, will likely lead to the growth of ADMs in the future. Accordingly, having guidance to facilitate the application of the principles of quality control to different situations is important. As this is still an evolving area within the profession, we would not support this being provided by way of new requirements.</p>
QC4(b)(iii)b	None noted, except as indicated above.

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)	<p>We support a number of the proposals outlined in paragraphs 131-135, particularly with reference to a QMA. However, we would envision that such proposals would need to be sufficiently flexible to address the specific circumstances in each firm.</p> <p>Within BDO we have already put in a place an Audit Quality Framework within which the objectives of the various drivers of audit quality can be achieved through specific actions by each member firm in our network. We can envisage that adapting this within a QMA may help to drive further quality control within firms.</p>
QC5(a)(ii)	See response to QC5 (a) (i).
QC5(a)(iii)	<p>The IAASB will need to exercise care not to prescribe specific means by which leadership should operate.</p> <p>Many firms have cultures and communication structures that are interdependent and have developed processes and policies over a number of years in response to past experience. A one-size fits all to 'tone at the top' may not work in these environments.</p> <p>The IAASB should also not assume that leadership rests on the shoulders of one individual, although providing (in concert with the IAESB) more guidance or a link to the IES 8 requirements around the engagement partner providing leadership and acting in the public interest may have a more direct impact on engagement level quality.</p>
QC5(a)(iv)	None noted, except as indicated above.
QC5(b)(i)	<p>We believe that firm leadership provides a vital role in promoting a culture that emphasizes the importance of operating in the public interest.</p> <p>Providing greater clarity about expectations of a firm in terms of good governance would be helpful to firm leaders. The IAASB should cover the range of different types of firms and not just focus on the larger network firms.</p>
QC5(b)(ii)	<p>While we support the general drive towards greater accountability, this is a matter which should be best determined within a firm or network. An alternative approach could be to establish a broad requirement in respect of accountability within ISQC 1 and then to provide more implementation support or guidance on how that may be achieved in different contexts.</p> <p>We believe that providing more clarity on the need to have in place effective accountability through use of a guidance mechanism would likely prove more effective than a prescriptive set of Standards that would have to be applied irrespective of the size, resources or commercial and structural nature of a firm.</p>
QC5(b)(iii)	As we noted in response to earlier questions, we believe there is merit in the IAASB considering a QMA as part of ISQC 1.

	<p>In our view, this could be a helpful tool in order to assist firms in establishing policies and procedures to support leadership and accountability measures. Rather than prescribe a specific model, however, we advocate the IAASB issuing an information paper (along the lines of <i>A Framework on Audit Quality</i> document).</p> <p>Issuing an outline of a potential QMA and exploring how it could be used across a whole range of factors to help support good governance (and ultimately protect the public interest), might have dual benefit of:</p> <ul style="list-style-type: none"> (a) supporting firms as they look to improve their own processes, and (b) encouraging firms who already have existing frameworks to benchmark these (and their related outcomes) against a recognized QMA.
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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)	<p>The IAASB's potential expansion of the criteria for selecting those engagements subject to EQC Review (e.g., financial institutions) is logical since this would normally involve PIEs. The level of involvement of the EQC Reviewer could also be explored through the use of more application material (particularly in ISA 220), as could further consideration about the nature and extent of matters to be considered by the EQC Reviewer (perhaps through use of examples highlighting the significance of risks of material misstatements in particular areas via guidance rather than a list of requirements).</p> <p>On balance, and with a view to protecting the public interest, we would also support a drive by the IAASB to consider proposals that address the nature and timing of EQC Reviewer involvement during various stages of the audit.</p>
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QC6(a)(ii)	See our answer in QC6 (a) (i).
QC6(a)(iii)	<p>In section G1(b) we indicated that the IAASB should consider providing clarity about how the ISAs can be better applied on audits of SMEs.</p> <p>Within a number of markets globally, the ability of some smaller firms (for example, SMPs) to retain a presence in the audit market has been hampered by increases in regulation and the volume of work placed on them to comply with ISAs - effectively forcing them out of the market. From a public interest perspective, fewer audit firms being able to provide an audit service can lead to a lack of innovation, competition and ultimately may have the unintended effect of leading to poorer audit quality for users.</p>
QC6(a)(iv)	None noted, except as indicated above.
QC6(b)(i)	As noted in answer to QC6 (a) (i) we would support extension of the ISQC 1 mandate to the additional entities listed in the ITC to the extent that the applicable criteria indicate that they are PIEs.
QC6(b)(ii)	While we recognize that the objective of the EQC Review is enhanced when there is an appropriate time interval between when an individual has been an engagement partner and when that individual would be able to serve as the EQC Reviewer, we do not at this time support having ISQC 1 specify the length of such interval. The interval may depend, in part, on the nature and complexity of the audit, so a range rather than a specific time interval may be appropriate. Recognition should also be given to resource issues for SMPs, which may find it more difficult to comply with a long interval. At this time, we would prefer leaving the length of the interval to the applicable regulators.
QC6(b)(iii)	<p>Carving out the EQC Review requirements into a separate ISA (or ISQC) could help to provide greater clarity to those performing this specific role as described in paragraph 144.</p> <p>In addition, the current construct of ISQC 1 may have the unintended consequence of mixing concepts relating to firm level and engagement level issues. An EQC Reviewer operates in the context of a system of internal control within a firm; however their actual role is to focus on matters associated with a particular engagement. Having a separate Standard in respect of the EQC Review would more clearly distinguish this role from the other more pervasive matters discussed in ISQC 1.</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) and (ii)	<p>We would support the suggestions outlined in paragraph 156. In that regard, sufficient flexibility would need to be incorporated in any guidance to recognize the possible resource constraints of SMPs.</p> <p>We would also support consideration of a QMA to application of monitoring and remediation as we believe this will provide an opportunity for firms to benchmark existing methods of monitoring and remediation in the context of the wider model.</p>
QC7(a)(iii)	<p>See our answer in QC7 (a) (i) and (ii).</p> <p>In determining how best to provide enhancements or to strengthen requirements for a root cause analysis, the IAASB should consider a comparison of firm transparency reports. The transparency reports of many of the firms of the major networks show clearly that there is a wide range of inspection regimes and variable outputs (e.g., gradings, scorecard or extent of disclosure) available for further consideration by the IAASB.</p>
QC7(b) (i) and (ii)	<p>We support the proposals outlined in QC7 (b) (i) and (ii). Both aspects are already incorporated into our own Audit Quality Framework and related Quality Monitoring Program.</p>

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)	<p>We support initiatives designed to consider the link between compensation and audit quality in ISQC 1. We also support the assertion made by the IAASB in paragraph 166 that ISQC 1 should not be used as a proxy to mandate the structure of an engagement partner's remuneration.</p> <p>However, it should be recognized that audit firms have very different structures resulting in engagement partners and other professionals often having a wide variety of roles in addition to those relating specifically to audits. Accordingly, we believe it would be extremely challenging to develop specific criteria to be considered in evaluating the linkage between audit quality and compensation and would instead suggest that a more holistic</p>
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	approach would provide more value to stakeholders.
QC8(b)	We agree with the possible actions outlined in paragraphs 166-170.

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)(i)	We are broadly supportive of the possible actions outlined in paragraphs 176-178 and 187.
QC9(a)(ii)	<p>Providing additional application material to support the requirements addressing career development and promotion and linking this to performance reviews (and the reflection on audit quality performance) is very important. For engagement partners and auditors involved in the performance management process it provides an opportunity to have more regular feedback (and an opportunity to improve their audit quality) and from a firm perspective, this provides information about sectors, departments or locations that may have specific recruitment or development challenges.</p> <p>We would also advocate some consideration of IES 8 learning outcomes and potential learning and development Audit Quality Indicators (AQIs) or other measures in any consideration of this area.</p> <p>Whether the needs highlighted in the ITC would be satisfied by the creation of an ISA, or inclusion within ISQC 1 is debatable. We could envisage how an information paper on a QMA or supplementary update to <i>A Framework of Audit Quality</i> may help foster these elements of career development and progression of competence.</p>

	<p>The IAASB should also work with the IAESB as they seek to update and revise the ‘develop and maintain’ concepts in IES 7⁹ with the potential to moving to a learning outcomes or ‘output’ approach to measurement of CPD as this may ensure that learning and development activities for engagement partners (and engagement team members) can be more clearly applied and monitored in the workplace.</p>
QC9(a)(iii)	<p>With respect to the ISA 220 requirements regarding having sufficient personnel with appropriate competence, capabilities and commitment to ethical principles, we believe these are well-known, and as a result the IAASB may struggle to add to, or create, related application material.</p> <p>It may be more useful for the application material to highlight the importance (linked to paragraph 176) of developing competency frameworks (as part of <i>A Framework on Audit Quality</i>) in order to ensure development and maintenance of skills within each firm and to enable greater focus and attention on those areas lacking in expertise at the non-engagement partner levels (i.e. other members of the engagement team who likely perform most of the audit work).</p>
QC9(a)(iv)	<p>We understand the temptation to focus on the negative financial consequences for poor audit quality and we note that this area has been the subject of internal discussion by firms as part of their consideration of AQIs. However, we believe it is equally important to focus on practices that support a positive relationship between remuneration and audit quality.</p>
QC9(b)(i)	<p>We strongly support making a more explicit link between the learning outcomes approach adopted for IES 8 and the ISA 200 application materials.</p> <p>We value the focus in IES 8 on the concepts of leading by example and of mentoring. Both concepts align with our support for encouraging on the job training by sharing knowledge and experiences within the engagement team. This approach could be particularly useful for encouraging the active and open dialogue on matters concerning professional skepticism within engagement teams.</p>
QC9(b)(ii)	<p>As noted earlier, we support the use of a competency framework approach for firms as they seek to develop skills in auditors through to the engagement partner level. This will help ensure that the competence and capabilities of those performing the audit are maintained and developed in order to ensure audit quality.</p>
QC9(b)(iii)	<p>See our answer to QC9 (b) (ii).</p>

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

⁹ International Education Standard 7 – *Continuing Professional Development*

consider.

QC10(a)	We support the intention of the IAASB to consider providing for greater consistency of transparency reporting - particularly in respect of quality control matters across the networks and firms. We remain supportive of the IAASB's aim outlined in paragraph 189 to seek to further understand the demand and requirements for transparency reporting around the world and to facilitate the evolution of voluntary transparency reporting by actions such as those outlined in paragraph 190(b). From a prioritization perspective, and given that this is a constantly evolving area, we believe the IAASB's work effort would be better directed towards other matters (for example, use of data analytics to obtain assurance).
QC10(b)	Not Applicable.

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	None noted.
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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	None noted.
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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	As we indicated in our comment on section G1 (b), we believe that the IAASB should undertake a much wider consideration of how efficiently ISAs can be used on (and their relevance to) SME audit engagements.
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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	None noted.
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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>We agree with the IAASB further emphasizing how ISA 600 links and builds on the other ISAs when planning and performing a group audit. This will aid clarity and understanding for those performing a group audit.</p> <p>ISA 600 was never meant to be considered as a standalone ISA; however, the depth and breadth of this particular ISA (see our later comments in GA5(a)(iii)) has likely encouraged individuals when using ISA 600 to assume that it is more comprehensive than intended.</p> <p>In addition to the other ISA issues listed by the IAASB in paragraph 198, we would also support further emphasis within ISA 600 relating to ISA 320 and how this links into matters concerning the determination and application of group and component materiality.</p> <p>We support the suggestion in paragraph 194 to focus on the practical challenges in identifying components, determining the nature, extent and timing of the required involvement in the work of component auditors, and considering consolidations and sub-consolidations performed at the regional and segment level.</p> <p>The issue of an entity’s use of Shared Service Centers (SSCs) is also likely to be an increasing factor on group audits; any exploration of the practical challenges faced by group engagement teams in terms of accessing information held by SSCs or coordinating or reviewing the work of component auditors would be beneficial.</p>
GA1(b)	<p>As we noted in our answer to question GA1 (a) - greater clarity would aid group and component engagement team understanding (particularly in more contentious areas such as identification of components). With reference to the potential to adopt a ‘top-down’ approach to risk assessment outlined in paragraph 197, we would also ask that the IAASB consider incorporating a ‘step-back’ approach by group engagement teams to ensure that not only do they identify the risks of material misstatements that have been identified in the components (that could affect the group financial statements), but also that by stepping</p>

	back to look at the distribution of balances or amounts and risks of material misstatements, the group engagement team can ascertain whether sufficient coverage of key financial statement areas is likely to be achieved.
GA1(c)	<p>This has the potential to be quite a controversial area, but on balance we would not object to further exploration by the IAASB of making reference to another auditor in the auditor's report (or at least consideration of how to incorporate the activities of the other auditor within the KAM section of the auditor's report).</p> <p>One of the primary aims of the new auditor's reporting requirements under ISA 700 <i>Forming an Opinion and Reporting on the Financial Statements</i> and other recently revised ISAs, was the need to provide greater transparency about the audit process and respective roles of management and the auditors. It is debatable whether providing a more explicit linkage to other auditors would provide further clarity or confusion for users of the financial statements. If the IAASB were to pursue this approach, they would need to consider the opinions of investor groups as part of any consultation to improve clarity.</p>
GA1(d)	<p>Additional areas of consideration by the IAASB could include:</p> <ul style="list-style-type: none"> • consideration of those occasions when auditors place reliance on other auditors and how their role and work feeds into the group engagement team's consideration at the group level; and • exploration of the minimum expected documentation requirements for the group file in relation to the evidence that exists in the files of significant components. <p>Both of these areas are open to wide interpretation by auditors and regulators. Providing guidance or additional materials to help clarify these areas may lead to an improved application of the ISA.</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 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)	<p>We believe all of these possible actions are meaningful. In particular:</p> <ul style="list-style-type: none"> • We agree that paragraph 215 (a) would enable group engagement teams to focus on issues concerning the lack of sufficient appropriate audit evidence at a much earlier stage and also provide for more transparency for those charged with governance. • We support the planned approach in paragraph 215 (b) to provide more clarity for teams in the application materials on the understanding the group. As a network, we have created supplementary materials in this area and we believe it would improve the consistent application across firms to have more clarification on this area. Materials could be in the form of implementation guidance to determine if the minimum access and information is in place to gain sufficient appropriate audit evidence. These factors could be incorporated into the application material or implementation support accompanying ISA 600. • We support strengthening the link outlined in paragraph 215 (c) between ISA 220 and acceptance and continuance matters (particularly relating to competence and capabilities of component auditors). We would ask that the IAASB considers the practicalities of any application material they create as this would need to take into account the assessment of what is deemed to be a component, and the data on which that decision is made differ between groups. • We agree that as outlined in paragraph 215 (f), it would be helpful for the IAASB to share specific considerations in relation to those instances when component auditors have policies or procedures that differ from those of the group engagement team. • We note the planned change in paragraph 216 (b) to require an explicit conclusion from the engagement partner regarding group engagement partner and group engagement team involvement in the overall engagement. We are wary of adding yet more specific requirements to the role of the group engagement partner, but we also recognize that this determination is critical to the successful performance of the group audit and as such would warrant an explicit conclusion at the outset of the audit. • We support the possible action outlined in paragraph 217 of potentially strengthening the requirements and providing clarification about the requirement for an appropriately detailed understanding of the group prior to accepting or continuing a group audit engagement.
GA2(a)(ii)	See our answers to GA2 (a) (i).
GA2(a)(iii)	None noted.
GA2(a)(iv)	None noted.
GA2(b)(i)	In our view there will always remain ongoing access issues and challenges about whether there has been sufficient involvement in the group audit by the group engagement partner and group engagement team. Audit firms have partially addressed

	<p>access issues by:</p> <ul style="list-style-type: none"> • Encouraging or requiring group engagement teams and partners to review the work of component auditors based on certain criteria. • Putting in place guidance or alternative procedures in order to enable access to working papers in circumstances when privacy laws prohibit sending files across borders. <p>It should also be noted that access can be more difficult when the group engagement team and component auditors document their work in different languages.</p>
GA2(b)(ii)	On balance we believe that ISA 600 is sufficiently clear in terms of the need to ensure access as part of acceptance and continuance. We believe that the explicit statement at the outset of the audit is supportable, but we would not go further with respect to creating more requirements in this area.
GA2(b)(iii)	As currently written, we believe that paragraphs A10-A12 are sufficient in terms of linking the issues around understanding of the group to matters relating to client acceptance procedures.

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)	<p>All of the possible actions in paragraph 224 are meaningful. In that regard, the possible action in paragraph 224 (a) is particularly meaningful if this would mean that the proposals (if provided with sufficient application material) resulted in an improved 'feedback loop'.</p> <p>In addition, providing:</p> <ul style="list-style-type: none"> • Examples of different kinds of communications that may be appropriate in different circumstances would be helpful to group engagement teams. • Guidance on the importance of explaining and refining group reporting instructions issued to component auditors would also be useful. <p>We believe that all of these steps, in addition to those noted in (d) and (e), would increase the likelihood of the group engagement team being sufficiently involved in the work of the component and providing a more informed basis on which to base the group audit opinion.</p>
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GA3(a)(ii)	See our answer to GA3(a)(i).
GA3(a)(iii)	None noted.
GA3(a)(iv)	None noted.

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)(i)	<p>We support the guidance outlined in paragraph 234 regarding the provision of more examples – specifically those addressing the competence and capabilities issues highlighted in possible actions in paragraphs 234 (b) and (c).</p> <p>On balance, we support the possible action in paragraph 234 (a) although we note that rather than call this an ‘explicit determination’ it may be more practical to rephrase this to ‘initial determination’ given that facts and circumstances can and do change regardless of the extent of investigation that has been performed by the group engagement team or group engagement partner. ‘Explicit determination’ appears to sound more finite than necessary at this stage in the audit process.</p> <p>While we support the aims of the IAASB in paragraph 242 and we understand the rationale outlined in paragraph 235 for the position of not mandating a minimum quantitative threshold for the involvement of the group engagement team in the group audit, we believe that this could be an area for further consideration by the IAASB at some point in the future.</p> <p>In particular, we support paragraph 242 (b) with respect to clarifying the interrelationships between the various ISA 600 paragraphs in determining the nature, extent and timing of involvement in the work of component auditors.</p> <p>The provision of additional examples relating to different group structures (outlined in paragraph 242 (c)) or jurisdictional issues will also be helpful.</p>
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GA4(a)(ii)	See our answer to GA4(a)(i).
GA4(a)(iii)	None noted.
GA4(a)(iv)	None noted, except as indicated above.
GA4(b)(i)	Further to our earlier comments in this section, we believe that the ISA should reflect how there are a number of variables that could affect the need for more or less group involvement, ranging from competence to levels of communication.
GA4(b)(ii)	As described earlier in this section, we would support this change as it may help to focus the minds of group engagement partners and their teams on the planned information and work effort to be performed by the component auditor. See also our response to GA4 (a) (i).

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>The matters outlined in paragraph 252 and to a more limited extent in 253 (a) about creating greater links and improvements to recognize the related areas in ISA 315 and ISA 330 are welcome suggestions.</p> <p>We are not convinced of the need for the possible actions outlined in paragraph 253 (b) and 253 (c) and believe the ISA is sufficiently clear on the treatment of pervasive significant risks of material misstatements or significant risks identified at the component level in terms of their impact at the group level.</p> <p>We support the possible action in paragraph 253 (d) to provide additional application material on the meaning of ‘financial significance’ to the group. This has been an area in which we have had to provide more guidance at a network level.</p>
GA5(a)(ii)	See our answer to GA4(a)(ii).
GA5(a)(iii)	<p>The sheer volume of ISA 600 and the fact that, as presently drafted, it attempts to focus on the group engagement team requirements – yet inevitably crosses (or infers) potential requirements that impact component auditors – leads to an ISA that may make application more difficult.</p> <p>Although we support a number of possible actions in paragraphs 251-253, we suggest that in approaching such actions, the IAASB consider that given ISA 600 is already a</p>

	<p>lengthy document (which can impair the ability of auditors and first time readers to fully understand, absorb and comply with its requirements), by adding yet more guidance, although in welcome areas, this may make the Standard unwieldy. Therefore, we suggest that the IAASB consider the best vehicle for issuing new guidance so that the ISAs can be sufficiently clear. For example, additional supplementary guidance or Staff FAQs could be issued separately from the ISA.</p> <p>Perhaps a more radical option (which the IAASB makes passing reference to in paragraph 199) could be to consider the creation of two ISAs - one focused on the requirements as they apply to group auditors and another ISA focused on component auditor requirements.</p>
GA5(a)(iv)	None noted, other than as indicated above.

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>Within our network we have created additional guidance to help support the determination of materiality at the group and component levels. As a consequence, we would strongly support any additional material that the IAASB could develop in ISA 600 (particularly topic-specific guidance noted in paragraph 261 (a)).</p> <p>This guidance should include examples showing several scenarios (based on geography, financial size, risk issues) and the impact on the potential determination of materiality at the group and component levels.</p> <p>The guidance being considered (in paragraph 261 (b)) that focuses on how best to determine materiality when performing non-audit procedures on financial information of components would also be welcome.</p>
GA6(b)	None noted.

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)	<p>We generally support the actions identified in these paragraphs; in particular, guidance would be helpful in the following areas:</p> <ul style="list-style-type: none"> • The provision of further clarification on the nature (and extent) of analytical procedures (paragraph 272(b) (v)) as well as the differences between 'specific procedures' and 'specific audit procedures'. • Revisiting requirements for types of work required for significant components (i.e. the notion that the focus of the work should be on the risks of material misstatement (RMMs) that affect the group engagement) outlined in 272 (a). It is important that component auditors have sufficient focus and dedicate an appropriate amount of time to ensure that the work directed by the group engagement team on the group RMMs is performed adequately. • Challenging the requirement to use component materiality (paragraph 272 (a)) in all cases, or the alternative suggestion to have a more targeted approach to the audit work performed at the component level (paragraph 272 (b) (i)). Both scenarios could provide for more effective and efficient auditing of the component and ultimately of the work performed on and input into the group audit. • As outlined in paragraph 279, the group engagement team should determine which non-significant components are to be selected for the performance of different types of procedures or the approach when a non-significant component has a balance which is material to the group financial statements. We would also be supportive of guidance on how a 'review engagement' performed on a component can be
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	<p>considered.</p> <ul style="list-style-type: none"> Paragraph 292, which repeats an earlier recommendation about the issuance of group reporting instructions.
GA7(a)(ii)	See our response to GA7 (a) (i).
GA7(a)(iii)	One suggestion might be for the IAASB to consider providing further clarity in respect of the definition of a component and where this is positioned within the ISA. The determination of components has been an area that has required firms to provide more internal guidance, suggesting a lack of clarity.
GA7(a)(iv)	None noted, except as indicated above.
GA7(b)(i)	<p>This may be a concept that the IAASB may want to consider. Significant attention tends to be given to determining significance at the component level and the extent of testing necessary in the circumstances. A more targeted and efficient top-down approach to auditing the group from a risk perspective may provide for improved audit quality (i.e. more time can be dedicated at group and component auditor levels for the group RMMs that have been identified).</p> <p>Potential downsides to this approach may be:</p> <ul style="list-style-type: none"> a danger that group RMMs only manifest themselves during a component audit, although improved understanding of the group RMMs at the outset of the audit may help to mitigate this concern; a top-down approach that focused mainly on risks at the group level may not be very practical for components within the group that have their own reporting requirements as some of the efficiencies of that approach could be lost at the component level. Engagement teams would need to manage carefully their risk assessment approach to avoid duplication of effort.
GA7(b)(ii)	See our earlier response in GA1(b) with reference to a step-back approach.
GA7(b)(iii)	See our earlier response in GA1(b) with reference to a step-back approach.
GA7(b)(iv)	We support further guidance relating to subsequent events procedures. In addition, we would support further clarity and supporting implementation materials regarding areas such as the determination of component materiality and identification of risks at the component level affecting the group and potential consideration of creating two ISAs—one focused on group auditors and one focused on component auditors.

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>We support the majority of recommendations outlined in paragraph 299 and 300, particularly:</p> <ul style="list-style-type: none"> • the suggestion of providing further guidance as to how group engagement teams can demonstrate the judgments they have made and the application of professional skepticism in a group audit context, and • the potential for an improved communication process highlighted by the IAASB earlier in the ITC (the so-called 'feedback loop'). <p>We recommend that when further considering the implications of paragraph 299 that the IAASB avoids being too prescriptive as to the nature, extent and timing of the work performed during the review of a component auditor's working papers by the group engagement team. Group engagement teams should be provided with examples of what to consider rather than inflexible requirements that may not relate to the specific professional judgments and circumstances that exist in any particular group engagement scenario.</p>
GA8(a)(ii)	See our response to GA8 (a) (i).
GA8(a)(iii)	<p>A further area of consideration by the IAASB could be the minimum review procedures to be performed by the group engagement team in respect of the work performed by the component auditor. As the audit should be a risk-based process, there could be more emphasis on the review procedures of the group engagement team being primarily focused on those audit procedures performed on significant RMMs (as per ISA 600, A61).</p> <p>In our view, the minimum procedures could include reviewing the planned procedures of the component auditor, including drawing an explicit conclusion as to whether the planned audit approach is sufficient to mitigate the significant RMMs as agreed with the component auditor.</p> <p>An important area to emphasize could also be for the group engagement team to demonstrate timely involvement in the work performed by the component auditor – for example by ensuring that the group engagement team reviews the component auditor's planned procedures before the start of field work.</p> <p>The depth of the review procedures to be performed by the group engagement team could be based on considerations such as:</p> <ul style="list-style-type: none"> • The significance of the component to the group financial statements. • The risk profile of the component and impact on group financial statements. • The quality of the component auditor, including any EQC Review that has taken place (ISA 600.19). • The results of internal and external quality inspections relating to the component auditor.

	<p>Additional considerations or areas of supplementary information that the IAASB could consider to address the nature and extent of review work to be performed by the group engagement team on the component auditor (i.e. minimal procedures), might also include whether:</p> <ul style="list-style-type: none"> • The mix of controls testing and substantive testing is sufficient to mitigate the risks of material misstatement. • Procedures have been performed in accordance with the relevant ISA requirements (for example, analytical review procedures (ISA 520), accounting estimates (ISA 540), use of management experts (ISA 500, paragraph 8) and auditor’s experts (ISA 620). • The component auditor has assessed the reliability of information produced by the entity (for example, the output of system-generated data). • Deficiencies identified during controls assessment (including IT General Controls) have been appropriately considered on determining the substantive procedures performed by the component auditors. • There are specific issues identified in the component with respect to laws and regulations (ISA 250) and fraud matters (ISA 240).
GA8(a)(iv)	<ul style="list-style-type: none"> • As noted in GA1(d) we would support further consideration and clarification by the IAASB of the extent of documentation required in the group file of work performed by the group auditor on component files. • One of the earlier points made in the ITC was the extent to which ISA 600 can be seen as a standalone ISA or whether it would benefit from incorporating aspects of other ISAs that apply specifically to group situations. We believe that there should be cross comparison of ISA 230, <i>Audit Documentation</i> with the documentation requirements of ISA 600. This will help the IAASB determine whether there needs to be further clarity or guidance provided on documentation requirements.

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 support the IAASB exploring the need for potentially revised requirements or additional application material in relation to communication of KAM by the group engagement team. The identification and communication of KAM can be highly judgmental, so it will be imperative from a group audit perspective that there is sufficient communication between the group and component auditors on potential KAM (so that these are not filtered out by the component auditor prior to the group auditor being able to determine if they should be communicated at the group level). The importance of the ‘feedback loop’ is critical here.</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	None noted.
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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	None noted.
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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	None noted, except as indicated above.
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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	None noted.
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