

**PIOB MONITORING OF COMMENT LETTERS TO THE IAASB'S "INVITATION TO COMMENT" SUBMITTED BY MG and IFIAR MEMBERS**  
(August 2016)

#	Who made it	Group (MG member, Regulator, etc.)	Issue	Main Issues/Comment Description
<b>ITC</b>				
1	BCBS	MG member	Support	BCBS welcome the ITC and commend the IAASB for creating a Task Force on the revision of ISA 540 regarding auditing accounting estimates, and for creating a Task Force to assess the need for enhancements to ISA 315 regarding risk assessments. The Committee strongly encourage the IAASB and the International Ethics Standards Board for Accountants (IESBA) to complete these enhancements to the auditing and ethical standards which are expected to improve audit quality and strengthen public confidence in the auditing profession.
	BCBS	MG member	<b>Need to complete revision of ISA 540 on a timely basis - Interrelationships with other IAASB projects</b>	The Committee welcome the IAASB's decision to prioritize the revisions to ISA 540 because of its significance for external audits of banks. Notwithstanding the interrelationships between the ISA 540 project and the ITC projects, particularly professional skepticism, BCBS emphasize the importance of completing the revisions to ISA 540 on a timely basis, so that auditors can be better prepared for the 2018 audits, when IFRS 9 will become effective. The BCBS recommend that aspects of ISA 540 dealing with professional skepticism be designed to align, to the extent possible, with revisions resulting from the work of the joint Task Force on Professional Skepticism. Similarly, revisions to the requirements regarding auditing accounting estimates and demonstrating professional skepticism should be aligned with the enhancements to ISA 315. Therefore, the Committee encourage the IAASB to consider the interrelationships between projects, including those of the IESBA, when proposing revisions to a given standard.
	BCBS	MG member	<b>Public interest dialogue structure</b>	BCBS opine that high-quality auditing, ethical and educational standards are key factors contributing to high-quality performance by auditors, though by themselves they are not sufficient. Robust application and enforcement of the standards are critical elements as well. Moreover, there is a need for a process to identify aspects from practice that warrant attention from relevant parties, including other standard setters. BCBS strongly encourage the IAASB, in concert with the IESBA and the IAESB, to further develop the dialogue structure with relevant parties such as auditors, regulators and IFIAR. The Committee believe that auditors should be encouraged to participate and contribute to this dialogue structure, notwithstanding any applicable requirements regarding confidentiality and independence.
	BCBS	MG member	<b>Professional Skepticism: requirements in the standards should ensure that auditors can demonstrate professional skepticism throughout the audit</b>	BCBS believe the requirements in the standards should ensure that auditors are able to demonstrate professional skepticism throughout the audit process, from start to finalization. IFIAR's most recent survey, shows in the case of GSIFs, the highest number of deficiencies related to internal control testing, auditing of allowance for loan losses and loan impairments, auditing the valuation of investments and securities, and the use of experts and specialists. These are issues where professional skepticism is particularly relevant. The Committee believe that improvements to audit standards and guidance on these issues that take account of the lessons of the financial crisis could significantly improve audit quality.
	BCBS	MG member		The application of professional skepticism should be reflected in the auditor's working papers and in the procedures performed by the auditor throughout the audit, based on requirements in the standards. This includes documenting and providing evidence of the auditor's exercise of professional skepticism, including evidence of discussions with management and those charged with governance. Furthermore, evidence of the auditor's exercise of professional skepticism should also be documented and reflected in connection with the audit firm's compliance with its audit quality control structure.
	BCBS	MG member		The Committee would welcome the alignment of the definitions in the standards and enhancements to the standards that would improve auditors' actual and perceived professional skepticism.
	BCBS	MG member		Auditors should not only assess management's evidence but also should actively look for other evidence that is contrary to management's evidence, weighing even-handedly evidence that supports and evidence that contradicts management's assertions. In addition, requirements should contain steps to ensure that auditors do not give more weight than they should to management representations as a form of evidence.
	BCBS	MG member		Professional skepticism should be consistently addressed in ethical and educational standards. BCBS encourage the IAASB to interact with the other standard setting boards in this regard.
	BCBS	MG member		The roles of the engagement partner, quality review partner, and those charged with governance within a firm, with respect to fostering an attitude of professional skepticism in the firm's audit staff, should be enhanced and clarified.
	BCBS	MG member	<b>Quality Control</b>	The Committee welcomes the concept of a Quality Management Approach (QMA). A firm's internal governance structure should be characterized by a tone at the top that attaches the highest priority to full adherence to ethical standards and, amongst other features, promotes compliance with proactive and robust audit procedures that enable auditors to demonstrate their due professional care in performing high-quality audits. As a corollary, auditing and ethical standards should require that firms demonstrate that all audit engagements have been performed in accordance with strict adherence to both the letter and the spirit of the requirements. Audit procedures for areas that require the exercise of a high degree of judgment, such as auditing accounting estimates (e.g. accounting provisions measured on the basis of expected credit losses), warrant suitable quality control arrangements over auditors' professional judgments so that similar situations do not result in decisions with high variances. The documentation of communication between the engagement partner and the EQC reviewer should cover matters other than those where there are differences of opinion between the partner and reviewer, including discussion of key audit matters, matters involving significant professional skepticism and significant professional judgment.

	BCBS	MG member		Although the Committee is well aware of legal and cultural issues that can arise in connection with managing a network of firms, which are not likely to be present in a more unified corporate structure, supervisors expect an acceptable level of quality controls at each individual firm within the network. Because of these jurisdictional limitations, the ITC displays a reluctance to extend the scope of quality control requirements to networks (paragraph 71 of the Overview document). Nevertheless, the Committee believe that network firms should be expected to uniformly apply the requirements set forth in the auditing and ethical standards across the network. For that reason, the Committee encourages the Task Force to broaden the scope of quality control standards to include network firms.
	BCBS	MG member	Group Audits	Audit standards for group audits are highly relevant for the banking industry. It is important that all audit procedures applied within the group are based on a common set of requirements. Similarly, communication structures within the group, particularly communication between the engagement and component partners, are important for a high-quality group audit. The Committee encourage the Task Force to be explicit in terms of requirements for engagement partners and component partners. In particular, in all group audits, what work has been performed and by whom should be adequately documented; communication should go both ways, from the component auditor to the group auditor and vice versa; and the group auditor should actively assess the competence and capabilities of the component auditors, as well as the quality management of their contribution to the group audit.
2	IAIS	MG member	General & Public Interest issues that should be addressed	The IAIS acknowledge the significant work done by the IAASB in developing the ITC to identify current audit quality issues and to consider possible responses to effectively address those issues. In general, the IAIS believe that the IAASB is moving in the right direction with respect to enhancing audit quality in the public interest. The IAIS broadly agree with the list of public interest issues identified by the IAASB in the ITC. Whilst at first sight, there may appear to be a large number of items in a list that is intended to show front-line issues, the IAIS suggest that they may be summed up in three key areas: (i) the application of judgement (which necessarily includes skepticism), and the documentation of that judgement; (ii) quality management, including work on inspection findings and remedial action; and (iii) transparency and communication around (i) and (ii).
	IAIS	MG member		Professional skepticism is by nature a state of mind. The risk exists that a creation of too rigid a framework may be counter-productive, and result in a 'tick-box' mind-set to what is required. Therefore, any addition to IAASB literature needs to be sufficiently flexible and open-ended such that it is not interpreted as an exhaustive or self-contained set of rules or procedures designed to 'prove' skepticism, and can be meaningfully applied to new situations as they arise. It is important for the IAASB to consider carefully the drivers for, and impediments to, the appropriate application of skepticism in considering its approach.
	IAIS	MG member	Other Public Interest Issues	In the IAIS's view, an expectations gap may exist between the perception (of some users of financial statements) and the reality of the work and role of external auditors – some users may believe that the scope of the audit and the responsibilities of auditors are broader than is actually the case. In part, this expectations gap might be closed by changes to the audit framework. However, the IAIS believe that it is key to the public interest that stakeholders are better informed on the nature of an audit, making the boundaries of the auditor's responsibilities clearer. In doing so, the IAASB may wish to build on the work that has been done in this area through the changes made to auditor reports. This in turn gives rise to the broader question of how the audit in the form we know it can remain relevant in the public interest. This question should be considered by the IAASB on an ongoing basis in its work, particularly when contemplating questions that impact on the scope of an auditor's responsibilities.
	IAIS	MG member	Actions others need to take, in addition to those by the IAASB	The IAASB should work closely with IFIAR on areas where inspectors believe that more requirements are needed. For the IAIS, the findings of audit inspections should play an important role in considering the future focus of standard-setting activities. The work of the IAESB and the IESBA, in the areas of education and ethics respectively, also play an important role in supporting audit quality. There is scope for continuing dialogue with the IASB, given that certain concepts (such as Going Concern) play a role in both the accounting and audit frameworks. Finally, IAIS also recommend the IAASB engaging with those charged with governance (for example, with Chairs of Audit Committees) to better understand how they discharge their responsibilities.
	IAIS	MG member	Other issues and actions (not specific to professional skepticism, quality control, and group audits) that should be taken into account to assist the IAASB's development of future work plans; and their priorities	In the near term, the IAIS believe it is important for the IAASB to focus on delivering its policy priorities. In particular, the work of the ISA 540 Task Force, in which the IAIS is an active member, as a key priority. In addition, it is important that the IAASB keeps in mind the observations made above, around the nature and scope of an audit, when developing new work plans.
	IAIS	MG member	Definition of Professional Skepticism	The IAIS believe it is difficult for a single definition to fully capture a complex, abstract concept. In their view, the IAASB's current definition does not stress enough the three important aspects of professional skepticism: it should apply on a permanent basis; it is a questioning mind based on a propensity to doubt; and requires professional experience and judgement. IAIS recommend the IAASB reinforce its definition, to make it less 'neutral' by introducing a concept of a questioning mind that would tend to exhibit a more doubting attitude. This doubting attitude, depending on the circumstances and the information available regarding an account or an assertion, would lead the auditor to undertake actions and decisions so as to gather the evidence needed to be convinced that the risk of material misstatement is effectively low. Too neutral a vision of professional skepticism could lead to an approach where auditors focus too much on corroborating management assertions and do not really exercise professional skepticism until some combination of facts and indicators suggest a clear problem with those assertions. Furthermore, professional skepticism is closely interrelated with professional judgment. In order for skepticism to function properly, the auditor must have the requisite technical knowledge and experience that relates to key judgement areas in the audit of a particular industry. Even where an auditor has extensive experience and sound accounting knowledge, an auditor that does not have the requisite technical knowledge in specialist areas is often not well-placed to challenge clients or his own expert on more technical matters that involve judgement. Thus there is a greater risk that the auditor in such cases seeks to justify the client's conclusion and accepts outcomes over a wide range, and so is not sufficiently skeptical.

	IAIS	MG member	<b>Drivers for, and impediments to, the appropriate application of professional skepticism</b>	The importance of professional skepticism to an effective audit cannot be overstated, particularly given the increasing judgment and complexity in financial reporting and issues posed by the current economic environment. The application of professional skepticism could be better supported by acknowledging that there are a number of factors that can influence professional skepticism. Such factors include performance metrics that drive compensation, mind-set (e.g. objectivity, independence and familiarity threats), time pressures, individual traits of the auditor (e.g. integrity and fortitude), as well as environmental and contextual factors.
	IAIS	MG member	<b>Impediments to PS</b>	Factors that may impede a consistent and appropriate application of professional skepticism by auditors: a) The personal background of the auditor, including their behavioral traits, cultural/ environmental considerations, and competence level (especially for particular industries such as financial services) when undertaking an audit.
	IAIS	MG member		(b) At the level of an engagement team assigned to a specific client: e.g.; time pressures to meet deadlines; economic pressures linked to audit fees; human resource constraints due to turnover and staff workloads; and performance and compensation metrics and incentives for auditors that do not appropriately encourage professional skepticism.
	IAIS	MG member		(c) At the level of the audit firm: firms are reporting downward pressure on audit fees due to the economic climate, users questioning the value of an audit ("the commoditization of audit"), and underbidding by rival firms. At the same time, the growth in the advisory businesses of the firms is expected to continue to increase at a faster rate than the assurance business, through both growth and acquisition. On top of this, there are pressures relating to profitability; and an excessive reliance on IT processes, in the context of the automation of audit files, may lead to reduced professional skepticism, for instance.
	IAIS	MG member	<b>Drivers to PS</b>	Drivers of consistent and appropriate application of PS include: good hiring and compensation practices, experience, training and education at the individual auditor level; the tone set by the engagement leadership, at the team level; and the support of the tone of the engagement leader by the firm.
	IAIS	MG member	<b>Actions others should take to address the factors that inhibit the application of professional skepticism</b>	The IAIS believe that the definition of 'professional skepticism' should be more encouraging for auditors to undertake actions and decisions in the gathering of evidence. As a starting point, the IAASB could develop a common definition or framework of professional skepticism across the ISAs, IESs and IESBA Code (jointly with the IAESB or/and the IESBA) to better ensure a shared understanding for its appropriate application. The IAASB could also develop further application guidance.
	IAIS	MG member		Moreover, the IAIS believe that audit standards and guidance could be written in a way to better encourage a skeptical mind-set. The words used could change the current confirmatory framework (obtain evidence to support management's assertion) to a framework which leads more to auditors seeking evidence both supporting and disconfirming management's assertions.
	IAIS	MG member	<b>Oversight committees and others charged with governance (e.g. audit committees)</b>	Whilst it is the responsibility of the auditor to ensure that an appropriate degree of professional skepticism is applied in an audit, senior management and relevant oversight bodies such as audit committees can have a significant influencing role through activities such as overseeing the integrity of financial reporting and the related processes (including internal financial controls and the effectiveness of the audit process). This emphasizes the need for strong governance -generally- and, in particular, the importance of the responsibility that independent oversight bodies such as audit committees can have in assessing whether the auditors have executed a high quality audit. The IAIS is convinced that such oversight committees, and in particular audit committees, have a critical role to play in enhancing audit quality. Consequently, the IAIS support on-going efforts to strengthen the role and responsibility of the audit committees, particularly: to raise the level of expertise and independence; and improve communications between audit committees and external auditors.
				Currently, it is difficult for audit committees to differentiate between audit firms on the basis of audit quality. There is little line of sight, or transparency, to the audit committee with respect to the quality of audit work. Audit committees must largely rely on the audit regulators' inspections to ensure audit firms have appropriate processes in place to promote audit quality. Audit committees would be able to better evaluate and select audit firms on the basis of audit quality, if they had more relevant and meaningful information and indicators of firm audit quality, and perhaps this would lead to less focus on price as the key factor in the external audit purchase decision.
	IAIS	MG member	<b>Firm / network</b>	The tone at the top of the audit firm can have a significant influence on the engagement team's attitude and practices in the application of professional skepticism. Consistent communication from firm leadership that professional skepticism is integral to performing a high quality audit, backed up by a culture that supports it, could improve the quality of work performed. Also, audit firm hiring practices may be able to pre-screen candidates for behavioral traits linked to a propensity to apply professional skepticism. A firms' internal systems can help promote better application of professional skepticism in a number of ways, including through greater recognition of audit quality considerations with performance appraisals, promotions, and compensation schemes; training that continually reinforces the appropriate application of professional skepticism.
	IAIS	MG member		Independent regulatory oversight and inspections including appropriate public reporting of results may work to increase professional skepticism at the firm level
	IAIS	MG member	<b>Audit oversight bodies</b>	IFIAR has identified (from audit inspection findings) that insufficient exercise of professional skepticism during the audit is a factor underlying many audit deficiencies. The sharing of an audit regulator's inspection findings with external auditors and audit committees, and more general information on audit quality indicators/ metrics, will better hold external auditors accountable for remediating their audit deficiencies.
	IAIS	MG member		Increased information sharing between audit regulators and financial services prudential supervisors can help put further pressures on specific firms with audit clients in that sector to fully address their audit quality issues, and also more broadly if the audit quality issues are seen to be systemic in nature or have financial stability implications.
	IAIS	MG member	<b>Broader revision of ISQC 1</b>	The IAIS believe that the existing IAASB standards provide a solid and valuable basis for performing quality control, both at the firm (ISQC 1) and the engagement (ISA 220) levels. However, the IAIS believe the quality control requirements for firms providing audit and non-audit services should be strengthened. On the whole, the IAIS agree with the direction of the IAASB proposals in the ITC.

	IAIS	MG member	QMA	Revising ISQC 1 to incorporate the use of a QMA may have the positive effect of reinforcing the firm leadership's responsibility for the management of quality and may lead to quality control processes being made more proactive and scalable for differences in the size and nature amongst firms in the services they provide and in the type of entities to whom those services are provided. However, the proposals relative to the QMA are not sufficiently detailed to be able to fully appreciate their potential implications.
	IAIS	MG member		There is some risk of seeing audit firms with similar activities and circumstances set quite different quality objectives and tolerance levels for non-compliance risk. It seems essential to ensure a common understanding of what constitutes quality objectives, quality risk responses, and how these could be appropriately scaled for differences in size and nature amongst firms. Consequently, the IAIS is of the view that the IAASB should primarily consider changes to ISC 1 and to ISA 220 to strengthen the current requirements.
	IAIS	MG member	Other elements that should be included in the revision of ISQC 1 if ISQC 1 is restructured to require a QMA	Require a firm to use of a QMA would be challenging as it imposes significant changes of both form and substance. It may be useful to also draw attention to the linkages between the QMA and the: public interest as the primary objective of auditors and audit firms; the firm's governance, as this is an essential element for making the processes of quality management more proactive, etc. Also, it may be useful if the QMA focused more on communication considerations, in particular: internal communications, including at the network level; and external communications, such as to audit committees, of the global assessment of audit quality processes of the firm and the quality issues in relation to the client, if any.
	IAIS	MG member	How a change to restructure ISQC 1 may impact the ISAs	The proposed changes in ISQC 1, including incorporating the QMA, would require revising ISA 220 to adopt a more proactive, scalable and robust approach to audit quality at the engagement level. Such revisions should aim to develop better interaction between the system of quality control at the firm (and network) level and its implementation at the engagement level.
	IAIS	MG member		The other standards that might be particularly affected by a revision of ISQC 1 are ISA 600 "Audit of Group Financial Statements", ISA 210 "Agreeing the Terms of Audit Engagements", ISA 260 "Communication with Those Charged with Governance", ISA 265 "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management", ISA 300 "Planning an Audit of Financial Statements", and ISA 315 "Identifying and Assessing the Risk of Material Misstatement".
	IAIS	MG member	If ISQC 1 is not restructured to require a QMA, how to address the call to improve the standard to deal with differences in the size and nature of a firm or the services it provides.	Concerns have previously been raised that ISQC 1 cannot be proportionately applied by small and medium practices (SMPs). Some SMPs see ISQC 1 requirements as too constraining in areas such as quality reviews, reviewers, corporate governance, and documentation. Consequently, as a start, the IAASB could further explore how best to address the concerns of SMPs in those particular areas
	IAIS	MG member	Revising the quality control standards to respond to specific issues about audit quality	It is in the public interest that the roles and responsibilities of both the firm and the engagement partner in promoting audit quality are robust and clearly articulated within the standards. The IAIS agree with the list of specific audit quality related issues identified by the IAASB in the ITC.
			Actions to address the issues	The IAIS agree with the list of specific audit quality related issues identified by the IAASB. In their view, effectively addressing those issues is crucial for enhancing audit quality. In terms of actions proposed to address those issues, they provide the following comments:
	IAIS	MG member		<u>Monitoring and remediation at the firm level:</u> the quality control system is important for identifying emerging risks and opportunities and ensuring that standards are being adhered to. In addition to addressing any shortcomings that have been identified on individual audits, it is important that audit firms take appropriate actions to address systemic issues revealed by both internal and external monitoring activities. ISQC 1 does not contain explicit requirements for audit firms with respect to policies and procedures to address and respond to the results of inspections performed by external inspectors. Strengthening requirements and adding new application material within ISQC 1 to address such matters could lead to improved audit quality with firms achieving greater consistency in practice. Such requirements could address: an analysis of external findings and appropriate responses, similarly to internal findings; consideration of the implications that findings could have for other engagements as well as the quality control system, and understanding the causal factors for the findings, etc.
	IAIS	MG member		<u>Quality control policies and procedures at the firm level when operating as part of a network:</u> Some audit firms operate through a network of firms, sharing common methodologies, quality control processes, and monitoring of compliance with policies and procedures. Moreover, some audit firms are developing audit delivery models (or ADMs) that centralize some elements of the firm's system of quality control, or certain aspects within a standard audit, in a location that could be physically set in a (sometimes offshore) location from where the majority of the engagement team is located. Some concerns have been raised with such practices, in particular: (i) some audit firms and/ or engagement teams (or group engagement teams), when using work performed by other auditors or component auditors from the same firm or network, may be over-relying on the network's system of quality control, and (ii) the implications on a firm's system of quality control when using various ADMs are not appropriately covered by current requirements, particularly in regards to how the work is to be directed, performed, supervised and reviewed. The IAIS is of the view that additional requirements or application material should be developed in ISQC 1 to more explicitly address the extent to which audit firms should rely on shared network quality control and monitoring policies and procedures at the audit firm level. Further, such new material could include consideration of the results of external inspection findings of individual network firms and their implications on the network as a whole and the potential impact on the audit firm's own system of quality control, including its monitoring policies and procedures.
	IAIS	MG member		<u>Transparency Reports at the firm level:</u> The IAIS believe that transparency reports issued by audit firms, highlighting particular aspects of their policies and approach to audits, provides an opportunity for audit firms to distinguish themselves on aspects of audit quality. Adding transparency reporting application material within ISQC 1 may provide audit firms with useful guidance for developing internal processes for producing consistent, relevant and supportable transparency reports.
	IAIS	MG member		<u>Engagement partner roles and responsibilities:</u> the audit engagement partner is directly responsible for engagement audit quality. It is therefore essential to the public interest that the expectations of the engagement partner are sufficiently clear and well-articulated within the ISAs.

	IAIS	MG member		<p><u>Engagement quality control reviews:</u> requirements and guidance on quality control reviews need to be robust and clear. Consideration should be given to potentially expanding them beyond audits of listed entities to other entities that have a large number and wide range of stakeholders (such as insurance companies and pension fund), as this would serve the public interest. Strengthening requirements and application material would be for both ISQC 1 and ISA 220, such as developing new requirements to: (i) ensure integrity and independence of the engagement quality control reviewers; and (ii) document the timing and substance of the quality control review procedures performed and any significant or substantive discussions between the engagement partner and reviewers. Given the cross-cutting nature of the topic, consideration should be given to moving the requirements and guidance relating to EQCR into a new separate standard.</p>
	IAIS	MG member		<p><u>Governance of firms:</u> governance of an audit firm includes the responsibility to establish policies and procedures designed to support the performance of quality audits, monitoring compliance with the established policies and procedures, and instilling a culture of accountability for audit quality throughout the audit firm. Leadership responsibilities could be emphasized in ISQC 1 by highlighting the importance of leadership in setting an appropriate culture within the audit firm (“tone of the top”) and being responsible for extending that culture throughout the audit firm.</p>
	IAIS	MG member		<p><u>Values, Ethics and Attitudes:</u> it is important that audit quality considerations are incorporated within appraisal and reward systems. How an audit firm compensates and rewards its staff is a key aspect of the “tone at the top” and the attitude towards audit quality throughout the firm.</p>
			ISA 540	<p>For the IAIS, the work that is underway to address ISA 540 issues is particularly important, especially to the extent it can help to enhance the quality of insurer audits generally and, perhaps in some cases, play a role in the effective monitoring of systemically important insurers.</p>
	IAIS	MG member	Group Audits	<p>The IAIS welcome the particular attention given in the ITC to issues related to group audits. On the whole, the IAIS believe that the ITC proposals will help bring about an overall improvement in the quality of group audits.</p>
	IAIS	MG member		<p>It would be useful to emphasize that relevant principles required in the other ISAs should be applied when performing an audit of group financial statements. Also, application material could be strengthened to better illustrate how ISA 600 should be applied or adapted in practice.</p>
	IAIS	MG member		<p>The following specific aspects could be improved:</p>
	IAIS	MG member		<p><u>Acceptance and continuance process of the group audit engagement:</u> ISA 600 should be clearer about the approach, the requirements to be followed, and the documentation that should be developed by the group audit team when considering the acceptance or continuance of a group engagement. The application material could be enhanced to better address: (i) restrictions on access, in particular to persons and information related to components; and (ii) impairment of the group engagement team’s ability to rely on, or to be involved in, the work of the component auditors. The need for the group engagement partner to consider the competence and capabilities of the component auditors, when considering the competence and capabilities of the collective engagement team, could be reinforced. Finally, it would be appropriate for the terms of the engagement letter to include the group management’s explicit agreement to provide the auditor with access to all information relevant to the group audit.</p>
	IAIS	MG member		<p><u>Communications between the group engagement team and component auditor:</u> the requirements around communications within ISA 600 could be strengthened, in particular around the interactive communication required between the group engagement team and component auditor, as the group engagement team plans, reviews and assesses the work performed by the component auditor. Two-way communication at all stages of the audit would enable the group engagement team to better understand if the instructions provided to the component auditor are relevant and have been fully understood and complied with. It may also help the group engagement team better understand the results of the procedures performed and assist them in evaluating the sufficiency and appropriateness of the audit evidence obtained for the purposes of the group audit opinion. Two-way dialogue and the exchange of information should take place throughout the audit process.</p>
	IAIS	MG member		<p><u>Using the work of the component auditors:</u> the IAIS is of the view that ISA 600 should also require appropriate documentation and the application material should be made clearer about how to assess and document the understanding -by the group engagement team- that those performing the group audit engagement, including component auditors, collectively have the appropriate competence and capabilities, comply with ethics and independence and are subject to a regulatory environment ensuring quality control. The requirements in ISA 600 should focus more on the significant judgments that need to be made about the timing, nature and extent of the involvement of the group engagement team in work done by component auditors, and even more, the need for adequate documentation of these significant judgments. The group engagement team should document how they have selected the forms of involvement in the work of a component auditor. It may be useful to add as a form of involvement, a meeting with component management, the component auditor and group management to discuss the impact of the component auditor’s findings on the component and the group audit.</p>
	IAIS	MG member		<p><u>Identifying and assessing the risks of material misstatement in a group audit:</u> ISA 600 does not contain guidance relating to the understanding of a group’s components and the identification of significant risks in group audit engagements. These requirements are included within ISA 315. A more direct link to the other ISAs, and especially to ISA 315, could be useful for reinforcing the importance of these requirements, as could the addition of application material to ISA 600 to help better support the application of the principles in ISA 315 in group audits.</p>
	IAIS	MG member		<p><u>Issues relating to component materiality and other aspects of materiality relevant to group audits:</u> the determination of materiality in the context of an audit of a group can be a difficult exercise, given the need to design, apply and manage different materiality thresholds across the group. The IAIS believe the guidance on how component materiality and component performance materiality should be developed and applied could be strengthened, perhaps also introducing illustrative examples.</p>

	IAIS	MG member		<p><u>Responding to identified risks of material misstatement in a group audit:</u> The IAIS believe that it would be useful to make clearer the distinction of work done by the component auditor for the purposes of the group audit only and work done for stand-alone purposes, as this would provide more guidance on relevant considerations for the auditor in the different circumstances, in particular regarding the need to apply some or all ISAs. Considering the importance of the issue, it may be appropriate to develop a new standard specifically addressing the role of a component auditor. It would be beneficial to introduce additional guidance about the implications for the work being performed by the component auditor, including when standalone opinions are also required at the component level. It has been noted that the use of shared service centres gives rise to other challenges in a number of areas, including how the audit procedures performed at the shared service centre can be integrated into the work performed by the group engagement team and the component auditors, and the form and extent of communication between the engagement team responsible for the work being done at the shared service centre and the other auditors. The IAIS believe that further consideration is needed as to how to better address issues around the use of shared service centres.</p>
	IAIS	MG member		<p><u>Review and evaluation of the work of component auditors by the group engagement team:</u> the IAIS believe that the judgments that led the group engagement team to define the level of review of the component auditor working papers, and the intensity of the effort and procedures deployed in this review, should be documented. The review has to be conducted by members of the team with a sufficient level of seniority and experience. Additional guidance on this would be helpful.</p>
	IAIS	MG member		<p><u>The Impact of New and Revised Auditing Standards:</u> there is a need to focus more explicitly on relevant considerations about group financial statement disclosures and intensification of KAM, in the requirements or the application material of ISA 600.</p>
	IAIS	MG member		<p><u>Making reference to another auditor in the auditor's report:</u> making reference to another auditor in a group auditor's report may be perceived by financial statement users as reducing the group auditor's responsibility for the group audit opinion, and may contribute to users' misunderstanding of the role of the group auditor with respect to assessing the adequacy and appropriateness of the component auditor's work. However, in particular circumstances where the group auditor's access to either or both the component and the component auditor is restricted, the group auditor may have no choice but to use the component auditor's stand-alone report – and so making reference to another auditor in the auditor's report may be appropriate. Consequently, any reference to another auditor in a group auditor's report: (i) should be strictly limited to unique circumstances, and (ii) the group auditor's report should clearly explain those unique circumstances (e.g. restricted access to the component and/or to the component auditor) and the consequences resulting from the use of the component auditor's standalone report.</p>
	IAIS	MG member		<p><u>New auditing standard for component auditors:</u> the IAIS support the idea of creating a new auditing standard for component auditors; the revisiting of ISA 600's requirements pertaining to the group auditor's responsibilities in relation to sub-consolidations. The IAIS note the consolidation processes are increasingly reliant on sophisticated software and applications using complex and large data warehouses and data marts. In this context, it may be appropriate to consider strengthening the link between IAS 600 and the paragraphs in ISA 315 relating to the understanding of internal control relevant to the financial reporting process.</p>
3	IOSCO	MG member	Overall Comments	<p>IOSCO believe that audit firms have the ultimate responsibility to deliver audit quality in performing financial statement audits. This is a process that does not begin on the first day of fieldwork but it starts by a firm cultivating an environment in which high quality audit engagements are prioritized and consistently performed. Confidence in the integrity of audited financial statements and the auditor's opinion thereon, both of which are influenced by the quality of the audit, can form an important part of an investor's decision making. As such, audit quality provides great benefit to investors and other financial statement users. IOSCO is pleased that the IAASB is exploring the areas of professional skepticism, quality control and group audits as these are some of the critical areas, among others, which IOSCO have observed give rise to audit findings that suggest deficiencies in audit procedures. As the auditing standards including the ISAs and ISQC 1, form the framework upon which auditors conduct their work it is important that these standards communicate requirements that instill in the auditor a mindset that strives for the highest quality of audit to benefit the users of the financial statements. This is not simply an exercise in better linking various standards together but it is a more significant goal of shaping the mindset of the auditor in conducting the audit. This is shaping an auditor's mindset with the intent of steering auditors of all levels of experience to challenge management's assumptions rather than only confirm what has been done. It is shaping an auditor's mindset to be proactive and remain vigilant for sources of conflicting evidence. This must be interwoven throughout the standards to affect how auditors approach every stage of the audit.</p>
				<p>While IOSCO recognize that audit related deficiencies may result from insufficient compliance with the ISAs, IOSCO believe that the principles-based requirements and guidance needs to be written with adequate levels of granularity to promote consistent application of the standards. IOSCO believe that this project presents an opportunity for the IAASB to enhance the ISAs and ISQC 1 to achieve more consistent levels of audit quality in practice.</p>
				<p>IOSCO recognize that the ITC was written to explore various options that could then lead to greater levels of specificity as part of a standard-setting process. To this end, while IOSCO observe that the three broad topics covered by the ITC – professional skepticism, quality control and group audits – correspond to issues related to people within the firm, firm processes and the application of standards, respectively, how these are addressed by the IAASB going forward may also vary. This is because addressing behavioral issues present unique challenges and complexity as compared to solutions to correct a process.</p>
				<p>IOSCO note that it has provided comments to certain areas of the ITC for the IAASB's consideration as it determines the next step, but would be better positioned to provide greater levels of specificity to their comments upon understanding the direction the IAASB proposes to pursue based on feedback received.</p>

				<p>The first topic covered in the ITC, Professional Skepticism, is at an earlier stage in the standard-setting process (i.e., currently performing outreach and obtaining understanding of conceptual issues and academic research) compared to Quality Control and Group Audits. As such, with respect to professional skepticism, IOSCO have endeavored to provide in its comment letter perspectives on the topic along with reference to the interrelated topics of due care and objectivity for the IAASB's consideration as it deliberates the feedback received.</p>
				<p>As the extant standards related to quality control and group audits are further developed and detailed (and consequently, the IAASB has provided more detailed issues and possible actions to address the issues in the ITC), IOSCO provided more specific feedback on these topics based on issues or challenges that IOSCO have observed in practice.</p>
3	IOSCO	MG member	Professional Skepticism	<p><b>Understanding the "Root Causes":</b> IOSCO believe that there may be other significant factors, such as, a lack of due care, objectivity, and/or professional competence which may sometimes be mislabeled as a lack of professional skepticism or that may contribute to a lower perceived level of skepticism and negatively affect audit quality as well. For example, it may be a lack of due care rather than solely a lack of professional skepticism when the auditor neglects to investigate inconsistent audit evidence in order to meet a tight deadline to issue the auditor's report. Professional skepticism, due care and objectivity are separate concepts but are also interrelated. It is critical to understand the interplay between these three concepts in order to more appropriately address the issues in practice. Certain of these practice issues cannot be mitigated through standard setting alone, and instead are likely dependent on broader improvements to culture, quality control and processes at firms. Therefore, IOSCO encourage the IAASB to engage in further dialogue among all constituencies to better understand these dynamic issues.</p>
				<p>The lack of professional skepticism has consistently been identified by auditor oversight bodies as one of the top audit inspection findings. There may be a need for greater transparency about the criteria used in making such determinations and the factors that contributed, as there could be several potential reasons for this occurrence. IOSCO believe it is important for the IAASB to identify which of these issues can be addressed through standard-setting versus through other more appropriate solutions.</p>
				<p>While IOSCO agree with the IAASB that "the concept of professional skepticism, and the expectations of how auditors should appropriately apply it, may need to be more clearly articulated in our standards", IOSCO believe it is of paramount importance that the IAASB work closely with auditor oversight bodies to understand the reason/"root cause" or underlying contributors for the inspection findings that are today considered to be indicative of a lack of professional skepticism and what steps those bodies would have expected auditors to perform to evidence the appropriate level of professional skepticism. This could assist the IAASB in narrowing its focus in this broad area of professional skepticism.</p>
				<p><b>Defining Professional Skepticism and Enhancing Application in Standards:</b> IOSCO recognize that the concept of professional skepticism can be rather abstract and relatively complex to address because it embodies behavioral traits and relates to the auditor's state of mind and attitude. Nonetheless, IOSCO encourage the IAASB to formulate a definition that is concrete and practical yet broad enough so that it is not easily distilled into a "check the box" activity.</p>
				<p>IOSCO encourage efforts of the Joint Working Group described in the ITC to explore if it is clear enough what is meant by the term "professional skepticism" and whether current requirements and guidance in the international standards that refer to professional skepticism are clear enough, particularly in subjective and highly judgmental areas. In these efforts, IOSCO encourage all parties to explore ways to emphasize that professional skepticism may not be an "all or nothing" concept but rather can be exercised to varying degrees in practice, which in some instances may be judged to be insufficient albeit not absent. Of similar importance are standards that the IAASB could establish to obligate the accountant to take ownership of actions that minimize or eliminate the potential for deficiencies in professional skepticism and enhance the quality of the audit. The IAASB could use language in the standards such as "challenging management's reasoning or sources" rather than "corroborating evidence" that shifts the auditor's mindset from one of an accepting attitude to one that is more skeptical.</p>
				<p>IOSCO believe that the exercise of professional skepticism is not simply a verification process but it is a mindset that enables the auditor to gather audit evidence and, apply sound judgment that, when combined with relevant levels of experience, can result in the auditor making sense of the sufficiency and appropriateness of the evidence obtained. This may require the auditor to take a more assertive and proactive attitude rather than a passive one in conducting the audit. To drive this concept, the IAASB may wish to consider how different strategies could be used to influence the auditor's mindset. IOSCO provide examples of this, including: the standards could be written in a manner that compels the auditor to critically evaluate the audit evidence obtained; emphasize in the standards the need for auditors to critically evaluate conflicting audit evidence; etc. This should also entail, not only training in technical knowledge, but teaching auditors how to recognize management fraud, if encountered.</p>
				<p>Whereas the degree of intensity of professional skepticism may vary by task or the level of risk of material misstatement, IOSCO believe that professional skepticism should nonetheless be exercised by the auditor throughout all stages of the audit process. As such, the IAASB can emphasize the concept of professional skepticism in ISQC 1 and within ISAs such as ISA 240; ISA 315 (Revised); ISA 540; and ISA 620, to name a few. As an extension of this, the IAASB could consider application material that provides tangible examples of what professional skepticism looks like throughout the standards.</p>
				<p><b>Role of the Auditors and Firms in Enhancing Professional Skepticism:</b> Enhancing the standards is one means through which professional skepticism could be promoted in the audit. However, other solutions worth pursuing may include encouraging firms to strengthen the apprenticeship model within the firm that enables less seasoned auditors to learn their skill by observing more experienced auditors. This would also encourage a more intentional communication of lessons learned by experienced auditors through mentoring of younger auditors. It also facilitates having more seasoned auditors on hand to engage with seasoned executives of the audit client when discussing complex issues or conducting difficult conversations. The IAASB may also wish to consider as part of its quality control standards how firms can encourage audit engagement team members at all levels to respectfully challenge each other's conclusions or thought processes, where helpful.</p>

				<p>IOSCO agree with the ITC's emphasis on appropriate "tone at the top" by firm leadership in enabling the application of professional skepticism. However, additional emphasis should be included in standards compelling firm leadership to ascertain that all engagement team members, including mid-level management and more junior team members understand the importance of exercising professional skepticism in the performance of the audit. Setting this "tone in the middle" can empower mid-level management and junior engagement team members to embrace a mindset of professional skepticism while not diminishing the engagement partner's overall responsibility for audit quality.</p>
				<p>Experienced auditors who understand the company's business, are competent in accounting and auditing standards and are appropriately supervised, are better equipped to exercise professional skepticism as compared to those individuals who do not possess these qualities. In addition, the appropriate and timely involvement (for example, earlier rather than later) of the engagement partner and the Engagement Quality Control (EQC) reviewer in the audit process can help cultivate an environment in which professional skepticism can thrive. Similarly, moving appropriate testing and audit work forward to an interim period (rather than at year-end) which could be subsequently updated, to better even out workloads can help promote an environment in which professional skepticism is not stifled by time constraints.</p>
				<p>Regarding the statement in the ITC (paragraph 31) that auditors may approach an audit with a skeptical mindset at first, and appropriately identify issues that need attention, but may not always apply professional skepticism in following through with appropriate actions, in the context of the context of tight financial reporting deadlines, heavy staff workloads, as well as time and resource constraints, IOSCO believe that these resource constraints and heavy staff workloads may point to the lack of due care by the auditor, rather than solely a lack of professional skepticism. IOSCO encourage the IAASB to consider whether there is incremental application guidance that could be added to ISQC 1 (e.g., in paragraph A24 "the estimation of personnel needs") that could acknowledge that the application and/or effectiveness of professional skepticism, objectivity, and due care may decrease as the staff workload increases beyond a reasonable level. The IAASB may also wish to consider including additional guidance in ISQC 1 that calls for review of partners' workload and adequate planning of engagements to address significant issues as early in the audit process as practical.</p>
				<p>IOSCO encourage the IAASB to work with the IESBA to see how the requirements could be strengthened to be more aligned with the Ethics Code's requirement of "Professional Competence and Due Care", Section 130 of the Code. Consistent with auditors acting thoroughly and on a timely basis as referenced in paragraph 130.4 of the Code, it may be beneficial for the IAASB to work with the IESBA to see how the ISAs and/or ISQC 1 could include guidance to encourage firms and engagement teams to more actively monitor and manage workloads. In addition, similar to the supervision responsibilities referenced in paragraph 130.5 of the Code, the IAASB may also find it useful to work with the IESBA to consider whether one aspect of this supervision could be to monitor the overall staff workloads to prevent exhaustion levels that may lead to a decrease in audit quality.</p>
				<p>Further, the standards can provide additional guidance to assist auditors in determining whether they have sufficiently engaged the use of experts based on the nature and complexity of work involved. Auditors could also be encouraged to step back, after having complied with the ISAs, and consider whether the transaction or area under consideration has been appropriately accounted for and audited based on the facts and circumstances. These various strategies may help mitigate the influence that time pressures or reporting deadlines may have on the propensity of the auditor to exercise professional skepticism.</p>
3	IOSCO	MG member	Quality Control	<p><b>A New Quality Management Approach (QMA)</b> : Overall, IOSCO support the addition of a Quality Management Approach (QMA) to ISQC 1 considering the points noted below, but emphasize that a more detailed description of a QMA is necessary to comment further. IOSCO agree that firms should establish a quality management framework that emphasizes firm leadership's responsibility to establish appropriate quality objectives, perform a risk assessment, design and implement quality control activities, and monitor, communicate and document the achievement of these quality objectives. This framework should be an ongoing and iterative process as the environment in which the firm operates and the services provided by the firm change.</p>
				<p>The addition of a requirement for an overall quality management framework may lead to increased audit quality as it will enhance firms' consideration of risks and related quality control activities to address such risks. Further, to the extent that such risks had not been previously included as a detailed requirement in extant ISQC 1, firms will have to identify new related quality control activities to address such risks. Additionally, by identifying quality control objectives and risks to achieving those objectives, firms may find that they need to implement incremental quality control activities beyond those required in ISAs addressing quality control at the engagement level.</p>
				<p>IOSCO support the statement in the ITC regarding to retaining detailed requirements in ISQC 1, and also believe that gaps already identified by the IAASB (e.g., inclusion of a requirement for firms to consider results of external inspections and pre and post-issuance reviews rather than just internal inspections and peer reviews, tone at the top establishment, remediation and root causes analyses) should be addressed through the addition of detailed requirements. Further, IOSCO believe it may be beneficial for the IAASB to include application material that provides examples of each element of the quality management framework (e.g., determining quality objectives, performing a risk assessment) that firms could consider when establishing and maintaining their quality management framework.</p>
				<p>The degree to which the proposed QMA will affect audit quality may differ between firms. IOSCO note that some firms may already have such a quality management framework in place, whereas others may not. IOSCO members who also have auditor oversight responsibilities have observed in inspection findings that some firms already face challenges in complying with the detailed requirements in extant ISQC 1. Nonetheless, the addition of an overall quality management framework may help firms better comply with detailed requirements by outlining the big picture, and providing context to what the firm is attempting to address. Having said that, IOSCO encourage the IAASB to provide for a framework that can be scalable and tailored depending on the nature of the services provided by the firm and the size of the firm. The IAASB should not provide overly prescriptive requirements for the QMA and instead use a form consistent with other risk assessment frameworks (e.g., COSO ERM Framework).</p>



				IOSCO understand why some have expressed a view that it would be appropriate to provide that an element of partner's remuneration should be variable and include incentives or sanctions more closely linked to whether audit quality has been achieved; however, there may be significant challenges to establish an explicit provision requiring a firm to link audit quality achievement to partner remuneration. One such reason is that there is not currently a commonly understood metric as to how to define audit quality that would enable there to be such a direct linkage. Nonetheless, IOSCO note that different organizations have several projects underway and thought pieces published as to how to measure audit quality, particularly through the usage of Audit Quality Indicators (AQIs), and encourage the IAASB to monitor developments in this area.
				Additionally, while internal or external inspection findings may appear to some to be an observable data point that is indicative of audit quality, IOSCO note that linking remuneration to inspection findings may have unintended consequences (e.g., partner resistance to accept the findings and then make changes in order to avoid the direct financial penalty). Having said this, perhaps the IAASB can think of ways to encourage the firms to create a culture that is more receptive to independent findings after reasonable discussions.
				Under certain inspection regimes, the larger and more risky audits are selected for inspection at a greater frequency than less risky audits. Often, engagement partners and engagement teams that are deemed to be of higher quality may be assigned to the higher risk audits to address the risk level. By linking partner remuneration to audit quality (specifically when using internal or external inspection results as a direct indicator of audit quality), the historically higher quality personnel may be penalized disproportionately as compared to engagement partners of lower risk engagements.
				Notwithstanding the risks described above related to the addition of an explicit requirement of a direct link between audit quality achievement and partner remuneration, IOSCO believe the IAASB should continue to consider ways to encourage firms to place a greater emphasis on audit quality in human resource policies related to the evaluation of personnel, and the corresponding link to personnel assignments, leadership responsibilities, and remuneration.
				Any changes to the standard or considerations related to linkage between audit quality and performance evaluations or remuneration should apply not only to the engagement partner, but also to key members of the engagement team. This could lead to increased levels of professional skepticism applied by engagement team members.
				<b>Transparency reporting:</b> jurisdictions are at varying stages of development of transparency reporting, and it may be either required by legislation or voluntarily provided by firms. IOSCO support the IAASB's suggested path forward in paragraph 190. The possible work to be performed by the IAASB related to either a requirement to issue audit firm transparency reports or information to be contained in an audit firm transparency report, should not affect the ability of a jurisdiction, securities regulator and/or audit oversight regulator to develop and implement its own requirements. As audit firm transparency reporting continues to evolve, IOSCO encourage the IAASB to explore ways to stimulate continued improvements in reporting by the audit firms on their practices, policies and results to investors and other stakeholders.
	IOSCO	MG member	Group Audits	IOSCO support the IAASB's efforts to identify opportunities to improve ISA 600. Concerns in relation to the application of ISA 600 should be addressed as a matter of priority. The Board should consider its approach to how the requirements related to group audits are presented throughout the ISAs. The extant ISAs present incremental requirements related to group audits within ISA 600, and incremental requirements and application material is also included in certain other ISAs (e.g., paragraph A22 of ISA 315). IOSCO believe that the clarity of the ISAs could be improved if incremental requirements related to group audits were entirely included in each relevant ISA, or entirely within ISA 600, with appropriate explanation in the ISAs as to which approach has been selected. The ITC discusses adding linkage of relevant requirements in other ISAs to the requirements in ISA 600; however, a mixed presentation approach may not be the most clear, understandable or effective presentation of these requirements. IOSCO support additional linkage to other ISAs as necessary; however, in most cases, it will not, on its own, be sufficient to solve what IOSCO perceive to be significant issues with the existing standard.
				Based on their experience with extant ISA 600, IOSCO believe that certain issues arise due to ambiguity or silence in the standard. This may indicate the need for additional requirements. Other concerns arise due to a lack of execution by auditors in meeting the extant requirements in the standards, which may indicate that further application material is needed. IOSCO caution the Board to carefully consider this distinction. Solutions that propose only to include linkages to other standards and clarify or expand application material, will not, in many instances, fully address the issues identified. In addition, where requirements and principles currently exist, application material to underpin the principles is essential for consistent application of ISA 600.
				The ITC briefly discusses the possibility of a separate standard for component auditors. Given that the nature, timing and extent of the work of the component auditor is intended to support the group engagement partner's opinion and is based on the needs of the group engagement team, it is unclear from the discussion in the ITC what the content of a separate standard for component auditors would consist of, and how such a standard would work in practice. Also, it is the responsibility of the component auditor to perform the audit in accordance with all applicable ISAs in order to support an auditor's opinion on the consolidated financial statements which states that the auditor has audited the financial statements in accordance with the ISAs. To present the requirements of the component auditor as separate and distinct from other ISAs may provide an impression that the component auditor is not required to apply all relevant ISAs. The IAASB should, however, consider whether the requirements in ISA 600 need to be clarified such that they directly state the responsibilities of the component auditor.
				<b>Acceptance &amp; Continuance of the Group Engagement:</b> IOSCO agree with the general direction of the possible actions the IAASB has outlined in the ITC (paragraphs 215 and 216). IOSCO draw the IAASB's attention on the following matters:









				<p>IOSCO generally agree with the issues identified by the Board, as they relate to the group engagement team's involvement in the consolidation process, and the possible actions to address the issues. IOSCO note that ISA 600 does not directly address cases in which (i) a significant sub-consolidation is undertaken in a jurisdiction other than where the group engagement team is based, or (ii) the group consolidation is undertaken in a jurisdiction other than where the group engagement team is based. The latter scenario does not appear to be identified by the ITC. In both cases, it is unclear what level of involvement is required on the consolidation and/or sub-consolidation process by the group engagement team in paragraphs 32-37 of ISA 600, particularly in the case where audit work is performed by a component auditor. The requirements in ISA 600 should be clarified in this respect. If the component auditor is instructed to perform audit procedures on the consolidation or sub-consolidation process, the requirements in the standard should be clear as to the group engagement team's required level of involvement, and be strengthened such that appropriate communications between the group engagement team and the component auditor occur, and are sufficiently documented.</p>
				<p><b>Issues Related to Subsequent Event Procedures</b></p>
				<p>While IOSCO is of the view that the requirements relating to subsequent events in paragraphs 38 and 39 of ISA 600 are sufficiently clear, they agree with the IAASB that it would be an improvement to ISA 600 to provide application material in this ISA to emphasize that in respect of the component, the onus is on the group engagement team to either directly perform subsequent event procedures at the component, or instruct the component auditor to do so, clearly communicating the expected procedures, and relevant dates. The group engagement team should retain adequate documentation of the instructions communicated, procedures that were performed, and the results thereof.</p>
				<p><b>Review &amp; Evaluation of the Work of Component Auditors by the Group Engagement Team</b></p>
				<p>IOSCO agree with the issues identified in paragraph 296 of the ITC, underlying concepts behind the suggestions in paragraph 299 to enhance the requirements in paragraph 42(b) of ISA 600, including the related application material to clarify the necessary work effort of the group engagement team in relation to reviewing the component auditor's working papers, and to strengthen the documentation requirements regarding the group engagement team's evaluation of the component auditors' communication, including the nature of any review of documentation that was performed by the group engagement team. In this regard, IOSCO also agree that a direct linkage in ISA 600 to the requirements in ISA 230 would be useful. However, IOSCO do not think the issues or possible actions have been described in sufficient granularity in the ITC, thus making it unclear whether the possible actions would drive behavioral change.</p>
				<p>Specifically, there should be additional emphasis of the group engagement team's determination of the appropriate level of involvement in the work of the component auditor, and the related documentation of these judgments. While ISA 600 allows flexibility as to the necessary level of involvement in the work of the component auditors by the group engagement team, there is concern that too much focus on flexibility will detract from the group engagement team's ultimate determination of whether the group engagement team's audit file reflects that sufficient and appropriate audit evidence has been obtained to support the opinion.</p>
				<p>IOSCO believe that enhanced principles with supporting application material in ISA 600 are necessary to assist the group engagement team in its determination as to the appropriate level of involvement regarding the work of the component auditor. For example, what are the considerations and circumstances under which it would be appropriate for the group engagement team to conduct a site visit, or review the detailed working papers of a component auditor to ensure sufficient and appropriate audit evidence was obtained by the component auditor to support its conclusions?</p>
				<p>The group engagement team's audit file must contain documentation that demonstrates the rationale for the group engagement team's judgments in its determination of the appropriate level of involvement in the work of the component auditor, the evaluation of the work performed by the component auditor, and the group engagement team's conclusions of that evaluation. Without this documentation, IOSCO does not believe that sufficient and appropriate audit evidence is obtained.</p>
				<p>In particular, ISA 600 should be supplemented with examples or discussion of how the group engagement team should document determinations as to whether the group engagement team performed a site visit and / or reviewed the work of a component auditor file directly. For example, the discussion could note the importance of the group engagement team's audit file explaining the extent of review of the component auditor's file, including the identification of what underlying work was reviewed (e.g., identify specific internal control tests or audit procedures that were reviewed in the component auditor file). The results of the group engagement team's site visits and/or working paper review file should be documented. Application material could suggest that this include, for example, the subject of the discussions with the component auditor, discussions between the group engagement team and group management, tours of the component's operations, and any other evidence supporting the group engagement team's understanding of the component and the component auditor.</p>
4	IFIAR	MG member	Focus on Public Interest	<p>As audit regulators, IFIAR believe that consideration of the public interest, including the needs of investors and other users, should drive the projects to enhance auditing standards. IFIAR note that the IAASB has placed specific emphasis in the ITC on identifying relevant issues to be addressed by the projects, in the public interest, and encourage the IAASB to continue to maintain its focus on the public interest as it proceeds in its consideration of the issues identified as relevant in the ITC and the development of the revised standards.</p>
	IFIAR	MG member	Scope of the ITC	<p>IFIAR note that a number of areas of concern raised by members of IFIAR with the IAASB have been included for consideration in the ITC. IFIAR encourage the IAASB to investigate further the possible solutions currently set out in the ITC, to ensure that the revised standards lead to improvements in audit quality, in a timely manner. IFIAR also draw the IAASB's attention to the detailed comments regarding some of the possible solutions, included in IFIAR's comment letter to the ITC (below).</p>

	IFIAR	MG member	<b>Over-emphasis on the development of guidance and application material</b>	Many of the possible solutions set out in the ITC appear to focus primarily on the development of additional guidance and application material in the standards, as opposed to enhancing the requirements included in the standards. IFIAR believe that this is likely to have a limited impact on auditor's behavior in practice. Accordingly, IFIAR encourage the IAASB, as it progresses its work, to direct its focus at enhancing the relevant requirements. IFIAR believe that the IAASB should assess whether issues can be addressed by improving or clarifying current requirements rather than creating new application material to be included in the standards.
	IFIAR	MG member	<b>Professional skepticism</b>	IFIAR support the IAASB's commitment to address the topic of professional skepticism to find actions that the IAASB and others could take to enhance the application of professional skepticism, since this issue is indeed linked with audit regulators' findings (as mentioned in the 2014 IFIAR Inspection Findings Survey Report and the 2015 IFIAR Inspection Findings Survey Report).
	IFIAR	MG member		The ITC states that the IAASB's current efforts on quality control and group audits provide opportunities to reinforce the concept of professional skepticism [ITC, paragraph 38]. In IFIAR's view, the ITC does not allow for a clear view of the direction the IAASB wishes to take regarding professional skepticism in relation to quality control (ISQC 1 and ISA 220) and group audit (ISA 600).
	IFIAR	MG member	<b>Improvement of professional skepticism driven by enhancements in the IAASB standards</b>	IFIAR believe that auditor's behavior would be enhanced by ensuring that requirements sufficiently reflect the application of professional skepticism throughout the audit process in conjunction with further exploring behavioral aspects, training, clearer language in the standards and other issues.
	IFIAR	MG member		Although this is not a complete list, IFIAR believe that the IAASB should ensure that the following standards sufficiently promote the application of professional skepticism: - <u>ISA 315, ISA 330, ISA 500 and ISA 520</u> – when auditors perform risk assessment procedures, in designing and implementing appropriate responses to those risks as well as when performing audit procedures (including substantive analytical procedures and analytical procedures near the end of the audit); - <u>ISA 320 and ISA 450</u> – when auditors apply the concept of materiality in both planning and performing the audit, and in evaluating the effect of identified misstatements (including any uncorrected misstatements); and - ISA 620 – when auditors use the work of an expert.
	IFIAR	MG member		Additionally, the ITC sets out how the IAASB will stress the importance of professional skepticism as part of its work to revise ISA 540 [ITC, paragraph 39]. Accounting estimates generally involve a high level of management judgment and therefore there is an increased risk of unintentional or intentional management bias. IFIAR support the IAASB in investigating further how ISA 540 can be strengthened to improve the focus on auditors approaching accounting estimates with a more questioning mind-set and in highlighting the need to consider the effect of contradictory audit evidence that comes to the auditor's attention, rather than an approach overly focused on corroboration. IFIAR encourage the IAASB to consider whether other standards might require comparable attention.
	IFIAR	MG member		Also, IFIAR encourage the IAASB to identify further factors that can encourage the application of professional skepticism as well as those that inhibit the application of professional skepticism. In particular, the effect on the application of professional skepticism of cost and profit pressures, client relationship pressures, deadline and workload pressures and resourcing pressures within the firms, deserve further consideration.
	IFIAR	MG member	<b>Timing of the projects</b>	IFIAR welcome the IAASB's initiative to address the topics of professional skepticism, quality control and group audit as a whole. However, IFIAR note that the ITC indicates that the way forward for the professional skepticism project will significantly lag behind the way forward for the projects on quality control and group audits. IFIAR call the IAASB's attention to the need to remain committed to an integrated approach in addressing professional skepticism within other current projects. The difference in timelines should not result in differing enhancements of consideration of professional skepticism in ISQC 1, ISA 220 and ISA 600.
	IFIAR	MG member	<b>Quality Control</b>	<b>Tone at the top of the firm, including leadership responsibilities for quality:</b> senior management within the firm taking responsibility for audit quality is critical for setting an appropriate tone at the top and culture within the firm. In order to achieve this, the IAASB should consider defining clear responsibilities regarding firms' leadership being 'in control' of audit quality, including promoting a culture which supports appropriate professional skepticism, and related firm governance matters.
	IFIAR	MG member		<b>New quality management approach (QMA):</b> the ITC describes a significant change from the current approach to a quality management approach. Although IFIAR do not have any specific objections to the quality management approach, in IFIAR's view there is limited information at this stage for them to fully assess its merits. For the purpose of further developing this approach, IFIAR provide some examples where further clarity is required: a. The linkage between firm governance and the quality management approach needs to be clear; b. If a quality management approach is adopted, the IAASB needs to consider the implications for other auditing standards, for example ISA 220 and ISA 600, to ensure consistency in managing audit quality at an engagement level and in a group audit context respectively; c. It is unclear how the IAASB would successfully blend the current and strengthened requirements into a revised risk based approach to quality control, which is scalable, in order to provide sufficient direction for firms to implement an effective system; d. If a QMA is adopted, the IAASB will need to establish provisions for setting quality objectives and identifying quality risks, since any error or omission at the risk assessment stage could lead to significant risks at the audit firm level that are not properly addressed.
	IFIAR	MG member		<b>Quality control at an engagement level:</b> IFIAR believe that establishing a framework for the audit engagement partners to determine the appropriate level of their involvement in the respective engagements would be necessary.
	IFIAR	MG member		In ISA 220, such an approach would have the potential to drive change (for example, by requiring more audit engagement partner involvement in higher risk areas of the audit or when circumstances lead to an elevated level of audit quality risk). Establishing limitations on what can be delegated by the audit engagement partner could also be considered (for example, review of audit work relating to significant risks).
	IFIAR	MG member		In ISA 600, this type of approach would aid the group audit engagement partner to determine the appropriate level of involvement in respect of the work performed by component auditors. Further comments addressing the use of audit work performed by component auditors are included in the sections on Group Audit/ISA 600 below.

	IFIAR	MG member		<p><u>Quality control policies and procedures operating through a network:</u> IFIAR recognize the importance of considering quality control policies and procedures operating through a network. However, IFIAR would caution how the IAASB considers such an approach and the impact that approach may have on audit quality. Any proposed revisions would need to ensure that, before relying on any network procedures, the local firm has sufficient evidence about the effectiveness of the global network controls, for example consideration of the nature, extent and results of global monitoring arrangements over global controls, the local firm's determination of which global controls are appropriate in the local environment and include an overarching requirement that the local firm issuing the audit report will need to obtain the necessary information relating to the competence and performance of other network personnel participating in the audit. There may also be operational issues such as restricted access in certain jurisdictions as well as consideration of the completeness of information obtainable by the local firms from the global network.</p>
	IFIAR	MG member		<p><u>Engagement Quality Control Reviews ('EQCRs')</u>: IFIAR note that the ITC does not clearly address the objective of engagement quality control reviews, although the issue has been recognized. IFIAR believe that a clearly defined objective needs to be articulated for the EQCR in order to drive improved behavior by engagement quality control reviewers and audit firms in performing reviews and establishing policies and procedures for EQCR respectively.</p>
	IFIAR	MG member		<p>IFIAR encourage the IAASB to clarify and highlight throughout the standards, the fundamental principle of professional skepticism in the performance of an EQCR. This can be reflected in changes that require the engagement quality control reviewer to review and challenge the audit work performed in respect of the judgmental and higher risk areas, thereby clearly addressing the significant decisions made by the engagement partner.</p>
	IFIAR	MG member		<p>There is a lack of granularity in the ITC on the criteria for selecting engagement quality control reviewers. The criteria for selection should consider the results of audit quality assessments, both external and internal, and links with the relevant ethical provisions in respect of long association with an audit client.</p>
	IFIAR	MG member		<p><u>Monitoring:</u> the discussion in the ITC relating to monitoring focuses on root cause analysis and the consideration of external inspection findings. We believe it is also important that issues relating to firm's internal monitoring are addressed. In particular, the IAASB needs to review the requirements relating to internal monitoring reviews of individual audit engagements in order to avoid 'compliance' focus, or a so called "tick-box approach", and to promote an approach focused on substantive reviews of the quality of work performed on higher risk and judgmental areas, with appropriate time and resources allocated for this. Firms' approaches to internal monitoring should allow for comparison to external inspections performed by regulators.</p>
	IFIAR	MG member		<p>Further, internal monitoring reviews of 'firm wide' controls need to be given greater weight and their effectiveness assessed in light of findings from internal monitoring of individual audit engagements. If a QMA is adopted, it is essential that the audit firm can demonstrate that its internal controls over audit quality are effective.</p>
	IFIAR	MG member		<p>Regarding root cause analysis, IFIAR support appropriate requirements for audit firms to perform root cause analysis on weaknesses identified through internal and external inspections, in particular regarding the factors to take into account when performing root cause analysis. In addition to assessing audit deficiencies, root cause analysis should also be performed to identify the attributes of high-quality audit engagements to promote quality across the audit practice<sup>1</sup>.</p>
	IFIAR	MG member		<p><u>Audit Delivery Models (ADMs):</u> IFIAR note that the ITC describes the use by the auditor of outsourcing and shared service centres (collectively referred to as ADMs in the ITC). IFIAR believe it is important that coordination between the engagement team and the ADM teams are addressed by the IAASB for example, to reflect the varying circumstances associated with the nature of the services provided by ADMs. Further, IFIAR believe that the level of judgement involved, the complexity of the work and materiality of the balances should be included as some of the key factors in establishing whether it is appropriate to "outsource" work and the level of involvement required by the engagement partner in respect of the outsourced work. Consideration should be given as to how these responsibilities integrate with those in ISA 220. IFIAR encourage the IAASB to ensure that the quality control arrangements at an ADM incorporate relevant specific subject matter areas, for example independence, training, HR matters and internal monitoring of audit work performed by ADMs.</p>
	IFIAR	MG member		<p><u>Human Resources:</u> Firms' compensation policies need to be consistent with the overriding objective of promoting audit quality. Therefore, IFIAR believe that the IAASB should seek to develop requirements which positively influence the extent to which those policies take account of audit quality.</p>
	IFIAR	MG member		<p><u>Transparency reporting:</u> Transparency reporting by firms can contribute to improving audit quality by facilitating external scrutiny of a firm's quality control arrangements and enhancing their accountability to external stakeholders. IFIAR support the IAASB considering further whether ISQC 1 has a role to play in this developing area, having regard to experience in those jurisdictions where such reporting is already required.</p>
	IFIAR	MG member	Group Audits	<p><u>Interaction between ISA 600 and other ISAs:</u> IFIAR believe that the revised ISA 600 should make clear that its application does not supersede the need for the auditor to comply with all other ISAs. The ITC considers the interaction between ISA 600 and other ISAs, including ISA 220 [ITC paragraphs 191-203], and places particular focus on certain areas of the audit where, according to the IAASB, the link to other standards is of most importance [ITC paragraph 198]. IFIAR agree that those are important areas to be highlighted in the context of a group audit but caution against these areas being highlighted to the detriment of other areas of the audit and the related ISAs. IFIAR invite the IAASB to maintain the focus on the applicability of all relevant ISAs in a group audit context.</p>

	IFIAR	MG member		<p><u>Involvement of the engagement partner:</u> IFIAR encourage the IAASB to clarify and highlight throughout the standards, the fundamental need for direction, supervision and review by the engagement partner of the work of others involved in the audit - whether they be members of the audit engagement team, specialists or other external auditors - at all stages of the audit. IFIAR note, in particular, that the ITC addresses the issue of the involvement of others in the audit in the section on quality control [ITC paragraphs 87-104]. IFIAR believe that consideration of this issue should be extended to group audits and the use of the work of component auditors. In addition, the IAASB should ensure that its proposed actions appropriately address cases where the engagement partner is in a different location from where the majority of audit work is performed, such as audits of so-called "letter-box companies".</p>
	IFIAR	MG member		<p><u>Materiality:</u> IFIAR believe that the application of the concept of materiality specifically in a group audit context requires clarification [ITC paragraphs 260-261]. In particular, the notion of "aggregation risk" in relation to the required work effort, establishing component materiality, as well as identifying significant components, would benefit from more clarity in ISA 600 to ensure that the standard can be consistently applied. Furthermore, while IFIAR understand the need for compatibility between the accounting standards and auditing standards regarding the concept of materiality, IFIAR do not believe that action from the IAASB in this regard should depend solely on the progress of the International Accounting Standards Board's project on the same issue [ITC paragraph 260]. IFIAR encourage the IAASB to move forward timeously in addressing materiality in a group audit context, in particular component materiality and "aggregation risk".</p>
	IFIAR	MG member		<p><u>Risk assessment and responses to risks:</u> IFIAR agree that risks identified at component level should be taken into account at group level [ITC paragraph 253(b)]. However, this should be an explicit requirement as opposed to application material in the standard. Moreover, IFIAR would like to draw the IAASB's attention to the additional need for the group engagement team to further ensure that appropriate procedures to cover the risks identified at component level are effectively implemented by the group engagement team or the component auditor.</p>
	IFIAR	MG member		<p><u>Group engagement team involvement in the component auditor's work:</u> IFIAR encourage the IAASB to develop a robust framework for determining the scope of work with respect to components and extent of involvement of the group auditor in the work performed by others, in particular component auditors. The possible actions set out in the ITC regarding the auditor's response to identified risks of material misstatement, and more specifically the audit procedures performed on the component's financial information, include a proposed revision to the approach to work to be performed on the component's financial information for group audit purposes and a suggestion to move towards a more flexible approach [ITC paragraphs 272-273 and 279]. IFIAR draw the IAASB's attention to the fact that a flexible approach that is not well defined could be unclear to auditors and may result in an inappropriately determined scope of audit procedures to be performed at component level; and invite the IAASB to consider the broader implications and unintended consequences that a more flexible approach might have.</p>
	IFIAR	MG member		<p>IFIAR believe the IAASB should provide additional clarity on the work effort required by the group auditor in evaluating the work performed by component auditors. In particular, the group auditor should determine the necessary extent of review of the work performed by and the related working papers of component auditors and whether the necessary access to component auditors' working papers will be available.</p>
	IFIAR	MG member		<p><u>Communication between the group engagement team and the component auditor:</u> IFIAR believe there is a need for improvement in the quality and timing of communications between the group engagement team and the component auditor generally. IFIAR encourage the IAASB to maintain the focus on improved communication between group and component auditors throughout the audit. The possible actions proposed in the ITC relating to communication between the group engagement team and the component auditor address specifically the ability of the group engagement team to communicate directly with the component auditor or component management when the group engagement team is aware of non-compliance or suspected non-compliance with laws and regulations (NOCLAR) that may be relevant to the work of the component auditor [ITC paragraphs 224(e)]. IFIAR support improved communication of NOCLAR matters and believe it is also important to improve communications in relation to other areas of the group audit.</p>
	IFIAR	MG member		<p><u>Specific documentation requirements:</u> the ITC refers to the possibility of increasing the documentation requirements in certain areas of the group audit [for example ITC paragraph 303]. IFIAR see a benefit in emphasizing the importance of audit documentation on critical audit areas either in ISA 600 or in ISA 230.</p>
	IFIAR	MG member	IAASB future work plan 2017-2018	<p>In reference to question G2 of the ITC, IFIAR refer the IAASB to IFIAR's 2015 Survey of Inspection Findings<sup>2</sup> in which those international standards that address the topics and audit procedures related to the areas with the greatest level and frequency of observed inspection findings have been identified.</p>
5	South Africa's IRBA	IFIAR member	General	<p>As the audit regulator and standard-setter in South Africa, IRBA welcome the IAASB's focus on public interest issues and audit quality in the ITC, with a goal to strengthen auditor performance. IRBA encourage the IAASB to weigh each comment received on the ITC and ensure that those comments that serve the public interest and enhance audit quality are used as input into its standard-setting processes that follow the ITC.</p>

	South Africa's IRBA	IFIAR member	<b>Findings from the Clarified ISAs Post-Implementation Review</b>	In July 2013, the IAASB issued its report, "Clarified International Standards on Auditing – Findings from the Post-Implementation Review", which summarized the findings from the post-implementation review of the clarified ISAs and identified the main themes that emerged. IRBA welcome the IAASB's approach to monitor implementation of the standards in the market, and to respond to findings which arise from such monitoring. IRBA is pleased to see that three of the four "key themes" identified in the report – ISA 200 (professional skepticism); ISQC 1 and ISA 220 (engagement quality control review); and ISA 600 (group auditor's involvement in work of component auditor and component materiality) – are the very topics addressed in the ITC. IRBA is also pleased to see that the other "key theme" identified in the report, ISA 315 (significant risks and obtaining an understanding of internal control), was at the "initial discussion" stage on the IAASB March 2016 agenda. However, only two of the "important themes" identified in the report are addressed as part of the ISA 600 and ISA 315 projects mentioned above. The remaining four of the six "important themes" identified in the report – ISA 240 (inconsistency of practice relating to the presumed significant fraud risk for revenue recognition and testing journal entries); ISA 320 (inconsistencies in determining materiality and performance materiality and request for more guidance); ISA 520 (ISA does not sufficiently demonstrate the work effort needed to place reliance on analytical procedures); and ISA 620 (inconsistencies in the auditor's work effort in relation to the auditor's expert work) – are still to be addressed by the IAASB. IRBA encourage the IAASB to not lose sight of these "important themes" in its decision-making on future projects it will undertake.
	South Africa's IRBA	IFIAR member	<b>Findings from the Audit Inspection Bodies and Regulators - IFIAR</b>	IRBA welcome the IAASB's outreach towards audit inspection bodies and regulators to better understand their expectations and receive feedback on potential gaps in the standards. IRBA is a founding member of IFIRAR and a contributing member to the IFIAR's annual survey of inspection findings. IRBA has been an active participant in contributing to the development of IFIAR comment letters to the IAASB. In 2014 <sup>10</sup> and 2015 <sup>11</sup> the common areas of audit deficiencies for the inspections of quality control systems were Engagement Performance (including the failure to establish policies and procedures for engagement quality control reviews [EQCR] that provides an objective evaluation of the significant judgements made by the engagement team and conclusions reached); Independence and Ethical Requirements; and Human Resources (including how the audit firm evaluates audit quality as part of partner performance evaluations and partner admissions. In 2014 <sup>10</sup> , the IFIAR survey results revealed that the top three findings from listed public interest entity audits related to procedures for Fair Value Measurement (ISA 540), Internal Control Testing (ISA 330) and Revenue Recognition (ISA 240). In addition, the survey results revealed that the top three findings from SIFI audits related to the audit of the Valuation of Investments and Securities (ISA 540), Internal Control Testing (ISA 330) and the audit of the Allowance for Loan Losses and Loan Impairments (ISA 540). In 2015 <sup>11</sup> , the survey results revealed that the top three findings from listed PIE audits related to procedures for Internal Control Testing (ISA 330), Fair Value Measurement (ISA 540) and Risk Assessment (ISA 315 (Revised)). In addition, the top three findings from SIFI audits related to Internal Control Testing (ISA 330), the audit of Allowance for Loan Losses and Loan Impairments (ISA 540) and the Valuation of Investments and Securities (ISA 540).
	South Africa's IRBA	IFIAR member		A factor underlying many audit deficiencies, as determined through root cause analysis and the evaluation of practices behind successful audit engagements as well as those that fall short, is insufficient exercise of professional skepticism during the performance of the audit.
	South Africa's IRBA	IFIAR member		IRBA is pleased to see that the majority of common areas of audit deficiencies for the inspections of quality control systems and the top audit engagement findings from the 2014 and 2015 surveys are addressed by the IAASB in its current and near-future projects, and support the IAASB's outreach to IFIAR, and willingness to continue engagement with IFIAR.
	South Africa's IRBA	IFIAR member	<b>IRBA Inspections</b>	IRBA issued its first Public Inspections Report 2014/2015: Striving for Consistent, Sustainable High Audit Quality in December 2015 <sup>12</sup> . The key area, at firm level, that requires urgent improvement is the engagement file quality level. The most unsatisfactory firm findings were raised under the Relevant Ethical Requirements (Independence), Engagement Performance and Monitoring elements of ISQC 1. The top three findings at engagement level related to procedures for Fair Value Measurement, Valuations and Estimates (ISA 540), Financial Assets and Liabilities (various ISAs), and Risk Assessment (ISA 315 and Response (ISA 330)). The report also revealed that the possible root cause for many of the findings is a lack of the application of professional skepticism. IRBA is pleased to see that the majority of the common areas of audit deficiencies for the inspections of quality control systems and the top audit engagement findings from the report are being addressed by the IAASB in its current and near-future projects, and support the IAASB's initiatives to monitor reports from inspection bodies and regulators.
	South Africa's IRBA	IFIAR member		IRBA encourage the IAASB to engage with firm networks to understand actions that are being undertaken to address the specific audit quality issues most frequently identified by regulators and the "root" causes of their systemic findings.
	South Africa's IRBA	IFIAR member	<b>Public Interest and Public Interest Issues</b>	IRBA welcome the IAASB's commitment to ensure that public interest is served in its standard-setting process and that public interest issues have been identified for the topics addressed in the ITC; and believe that the public interest issues mentioned in the ITC are relevant to the work of the IAASB on professional skepticism, quality control and group audits. To them, IRBA adds: (i) Reinforcing the value of an audit to those charged with governance and, in particular, to audit committees and their members; (ii) Exploring and enhancing the governance process followed by those charged with appointing an auditor; and (iii) Reinforcing the independence of the IAASB's CAG, its Board membership and the task forces they serve on; and provides details for the three. In relation to (iii), IRBA encourage the IAASB and the PIOB to continuously monitor the definition of public members on the structures, in the light of the changing needs of the public and the evolving nature of the public interest.

South Africa's IRBA	IFIAR member	Audit Quality	IRBA believe that audit quality can be enhanced by, among others, making changes to the ISAs in key areas with a goal to strengthen auditor performance. As such, IRBA support the IAASB's focus on professional skepticism, quality control and group audits in the ITC, as well as its current project to revise ISA 540 with special attention to the application to audits of financial institutions. Audit quality and auditor performance can be enhanced by encouraging and teaching auditors to be "thinking auditors" who perform "thinking audits". IRBA support the IAASB in its standard-setting activities in keeping the ISAs "fit for purpose" to help auditors appropriately react to the challenges of the evolving environment. The reduction in audit findings can be achieved by targeted enhancements to specific application material, in particular ISAs that address the root causes of the most prevalent inspection findings. IRBA provide some examples of possible root causes to the key findings, from the IRBA's Public Inspection Report 2014/2015.
South Africa's IRBA	IFIAR member	Professional Skepticism (PS)	IRBA support the IAASB's commitment to address the topic of PS in order to find actions that it and others can take to enhance the application of PS. ISAs can be further strengthened with respect to PS by including in each ISA specific requirement(s) for the documentation of the auditor's application of PS. This would strengthen the audit evidence of the auditor's application of PS and the exercising of professional judgement that will also assist those who perform internal monitoring reviews and internal/external inspections to understand the auditor's thought process .
South Africa's IRBA	IFIAR member		In addition, IRBA believe that the auditor's behavior would be enhanced by including more emphasis on PS throughout the audit process in conjunction with further exploring behavioral, training and other issues. For example, more emphasis on PS is needed in the following ISAs: - ISA 315 (Revised), ISA 330, ISA 500 and ISA 520: the auditor should apply PS when performing risk assessment procedures, in designing and implementing appropriate responses to those risks as well as when performing audit procedures (including substantive analytical procedures and analytical procedures near the end of the audit), so as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw conclusions on which to base the auditor's opinion. - ISA 320 and ISA 450: the auditor should apply PS when applying the concept of materiality in both planning and performing the audit, and in evaluating the effect of identified misstatements (including any uncorrected misstatements). - ISA 620 : the auditor has a responsibility to apply PS when using the work of an expert. - ISA 600 and ISQC 1: the quality control section of the ITC does not directly deal with how firm leadership responsibility and accountability, firm culture and strategy, as well as actions by the engagement partner and engagement quality control reviewer can better promote the application of PS in the audits. The IAASB needs to ensure that those topics are included in the scope of the revision of ISQC 1. - ISA 540: accounting estimates generally involve a high level of management judgement and therefore there is an increased risk of unintentional or intentional management bias. IRBA support the IAASB in further investigating how ISA 540 can be strengthened to improve the focus on auditors approaching accounting estimates with a more questioning mind-set, and in highlighting the need to consider the effect of contradictory audit evidence that comes to the auditor's attention, rather than an approach overly focused on corroboration.
South Africa's IRBA	IFIAR member	Professional Skepticism and Professional Judgement	Professional skepticism and professional judgement are closely related but are two distinct concepts contained in the ISAs and should not be used interchangeably. It is necessary for the ISAs to clearly distinguish the two concepts and provide clear guidance on the interaction between the two, as well as clear guidance on the documentation requirements relating to each one.
South Africa's IRBA	IFIAR member	Timing of the Projects	The ITC indicates that the way forward for both quality control and group audits will result in the tabling and approval of project proposals between September and December 2016. However, for PS, the IAASB only expects to decide on a way forward by late 2016. IRBA draw the IAASB's attention to the need to remain committed to an integrated approach in addressing PS within other current projects. The difference in timelines should not result in delayed enhancements of the consideration of PS in ISQC 1, ISA 220, ISA 600 and ISA 540.
South Africa's IRBA	IFIAR member	Quality Control	IRBA believe that quality control is the cornerstone to all audit engagements. In general, IRBA is in agreement with the actions the IAASB has outlined in the ITC, and re-emphasize the need for the IAASB to reinforce the concept of PS in ISQC 1 and ISA 220.
South Africa's IRBA	IFIAR member	Quality Management Approach	IRBA suggest that before embarking on a new initiative (such as the QMA), it is vital to ask questions about the efficacy of the initiatives introduced to date, e.g., the Audit Quality Framework, the IESBA Code. IRBA need to ask whether the evidence tells that the standard-setting activities have been successful in addressing and improving audit quality - the ITC does not present such evidence, but does not explore that lack of data either. In relation to the QMA, IRBA has a number of questions: will another layer (the QMA) give the industry vastly better quality results it searches for?; and will the investment be worth it?, among others. Although IRBA have no specific objections to the proposal, the ITC does not provide sufficient detail for them to properly assess the impact of and the potential unintended consequences of the QMA on the revisions of ISQC 1 and ISA 220, firms, those charged with governance, audit regulators and ultimately the public interest.
South Africa's IRBA	IFIAR member		IRBA high level views on the QMA include the following ones: - At this stage, IRBA cannot confidently forecast or conclude that the adoption of the QMA will help improve audit quality. - IRBA's biggest concern is that if the QMA is adopted, whether the IAASB will be able to retain the robust requirements in ISQC 1 and ISA 220 and possibly introduce conditional requirements while still improving the scalability and flexibility of these two standards. IRBA also wish to understand clearly how the QMA could be developed and implemented so that it can serve the quality needs for non-audit services, in addition to audit services.
South Africa's IRBA	IFIAR member		Even though the ITC notes that the IAASB will consider the implications of the QMA on ISA 220 and ISA 600, the IAASB, in considering those implications, needs to ensure consistency in managing audit quality at an engagement level and in a group audit context respectively.
South Africa's IRBA	IFIAR member		Auditors are not familiar with establishing objectives for audit quality, identifying and assessing quality risks and responding to those risks. Any error or omission at the quality risk assessment stage could lead to significant quality risks at the audit firm level or audit engagement level that are not properly addressed.
South Africa's IRBA	IFIAR member		A question that needs to be answered is: How will auditors respond to a flexible QMA?

	South Africa's IRBA	IFIAR member		Application material will need to be included in ISQC 1 to provide guidance to audit firms on: (i) how audit quality needs to be entrenched into the audit firm's business model; and (ii) how balance needs to be maintained between business and audit quality objectives.
	South Africa's IRBA	IFIAR member		IRBA have concerns about the impact the QMA can have on external inspections: e.g., external inspectors will be required to inspect a non-standardized system of quality control at each audit firm, which will be more time-consuming, more costly and require more resources; possible poor documentation of how the audit firm implements its QMA; etc.
	South Africa's IRBA	IFIAR member	Engagement Quality Control Review	IRBA support the IAASB's commitment to address the topic of an EQC review in order to find actions that it can take to enhance the effective performance of EQC reviews. In addition IRBA offer the following comments: - The scope of EQC reviews should be expanded beyond audits of listed entities. - Application material in ISQC 1 and ISA 220 concerning criteria for selecting those engagements subject to an EQC review should be elevated to requirements. - The requirements and application material in ISQC 1 in relation to establishing criteria by the firm for selecting those engagements that require an EQC review should be strengthened. - A new requirement should be added to ISQC 1 to focus the selection of engagements that require an EQC review to be based on identified risks from the engagements, such that engagements with higher audit risk or, if the QMA is adopted, those that pose a greater risk of negatively affecting the firm's ability to meet its quality objectives would be more likely to be selected; - A new requirement should be added to ISQC 1 to require an EQC review of particular public interest entities (PIEs).
	South Africa's IRBA	IFIAR member		The scope of an EQC review should be expanded to require the EQC reviewer to review and challenge the application of PS by the engagement partner in respect of the judgmental and higher risk areas in the engagement.
	South Africa's IRBA	IFIAR member		An appropriate distinction should be made between the roles and responsibilities of the EQC reviewer and the engagement partner. As such, IRBA believe that the roles and responsibilities of the EQC reviewer in relation to the engagement partner should be clarified in ISQC 1 and ISA 220, and the engagement partner's role not be diluted.
	South Africa's IRBA	IFIAR member		Regarding developing a separate EQC review standard, IRBA believe that the disadvantages outweigh the advantages and therefore believe that an EQC review should be retained in ISQC 1. Also, IRBA do not believe that providing transparency in the auditor's report by communicating whether an engagement was subject to an EQC review is an appropriate response to providing more prominence to an EQC review. The possible negative consequences, discussed in the ITC, outweigh the possible positive consequences.
	South Africa's IRBA	IFIAR member		ISQC 1 and ISA 220 should include a requirement for a "cooling-off" period for an EQC reviewer that has previously been involved in the engagement.
	South Africa's IRBA	IFIAR member		Documentation requirements in ISA 220 should be strengthened to include: the objective of, scope of and areas subject to the EQC review; the timing and substance of the EQC review procedures performed; and the significant discussions between the engagement partner and the EQC reviewer.
	South Africa's IRBA	IFIAR member	Firm Networks	IRBA believe that it is necessary for the requirements in ISQC 1 to be strengthened in relation to inspections that have taken place across firm networks and any communications related thereto
	South Africa's IRBA	IFIAR member	Engagement Partner Roles and Responsibilities	Further clarity should be provided in ISA 220 by strengthening the requirements and clarifying what is meant by performance, direction, supervision and review by the engagement partner, including: what audit documentation is required to be reviewed by the engagement partner and the nature of the related review procedures; placing more emphasis on the need to consider whether there are adequate resources for the engagement, including the suitability of the engagement team members' skills, competence and experience, the need for auditors' experts and the sufficiency of time available to perform the engagement before the reporting deadline; the roles and responsibilities of the engagement partner for an audit in which the engagement partner is not located where the majority of the audit work is performed; etc.
	South Africa's IRBA	IFIAR member	Engagement Partner Performance and Rewards System	There is a strong link between audit quality and engagement partner performance and reward systems. Although IRBA do not believe that the IAASB can mandate the structure of an engagement partner's remuneration, they believe that ISQC 1 can specifically require firms to have a policy in place that governs the remuneration of partners and other key staff with particular attention to individuals within the firm leadership that have a responsibility for audit quality. IRBA also recommend that such a policy can include a provision for incentives for partners and other key staff to address audit quality.
	South Africa's IRBA	IFIAR member	Transparency Reporting	Transparency reporting by firms can contribute to improving audit quality by facilitating external scrutiny of a firm's quality control arrangements and enhancing their accountability to external stakeholders. Transparency reporting serves the public interest. The IAASB has a role to play in the developing area of transparency reporting (having regard for experience in those jurisdictions where transparency reporting is already required). The IAASB: could perform or commission research on matters relating to transparency reporting; perform a comparison of current practices and requirements relating to transparency reporting in order to understand the varying practices and requirements among jurisdictions with an aim to achieve global consistency in transparency reporting; etc. The IAASB should explore setting requirements for transparency reporting at a principle level, as other matters of principle are dealt with in ISQC 1. The local independent regulatory bodies can expand on these requirements to suit local legislation and the business environment.
	South Africa's IRBA	IFIAR member	Firm Governance and Leadership Responsibilities for Quality	Firm leadership has a vital role to play in promoting a culture that emphasizes the importance of the role of audit in the public interest and therefore the importance of audit quality. Good firm governance arrangements enhances accountability to stakeholders. IRBA have found that in some instances, the operational responsibility for the firm's system of quality control is assigned to persons who do not have sufficient or appropriate experience or the necessary authority.
	South Africa's IRBA	IFIAR member		Each person within the firm should be responsible for audit quality and be held accountable for independence, not just the leadership of the firm. Also, there would be a strong connection between firm governance and the QMA, should the QMA be adopted by the IAASB.

	South Africa's IRBA	IFIAR member	Group Audits	The Group Audits section of the ITC provides a comprehensive exploration of the group audit issues and possible actions to address them. In general, IRBA is in agreement with the actions the IAASB has outlined in response to the issues identified. IRBA also re-emphasize the need for the IAASB to reinforce the concept of PS in ISA 600.
	South Africa's IRBA	IFIAR member		ISA 600 should make it clear that the auditor needs to apply all other relevant ISAs during a group audit engagement. Strengthening the requirements and enhancing the related application material in ISA 600 regarding communication between group engagement teams and component auditors is needed
	South Africa's IRBA	IFIAR member		Appropriate communication between the group engagement team and component auditors is vital to a group audit engagement. There is a need to strengthening the requirements and enhancing the related application material in ISA 600 regarding communication between group engagement teams and component auditors.
	South Africa's IRBA	IFIAR member		It is very important to add application material to ISA 600 in order to emphasize the importance of applying the requirement of ISA 230 in documenting significant communication between the group engagement team and the component auditor (including two-way dialogue), and not just focusing on the inclusion of written communication in the audit documentation.
	South Africa's IRBA	IFIAR member	Using the Work of Component Auditors	It is necessary for the IAASB to strengthen the requirements and enhance the application material in ISA 600 for a more robust challenge by the group engagement team as to whether the component auditor possesses appropriate competence and capabilities.
	South Africa's IRBA	IFIAR member		The application material in ISA 600 should be enhanced to address clearly how group engagement teams can demonstrate the basis for their reliance on common network policies and procedures in determining the necessary levels of involvement in the work of component auditors.
	South Africa's IRBA	IFIAR member		It is necessary for the IAASB to strengthen the requirements and enhance the application material to provide more clarity as to how the group engagement team determines the nature, timing and extent of the necessary involvement in the work of the component auditors.
	South Africa's IRBA	IFIAR member	Component Materiality	There is confusion and significant variation in practice relating to the auditor's understanding of component materiality and component performance materiality. IRBA believe that the application of the concept of materiality, specifically in a group audit context, requires clarification. While IRBA understand that current work by the IASB on materiality may give rise to further implications to the ISAs related to materiality, IRBA do not believe that action from the IAASB in this regard should depend solely on the progress of the IASB's project. IRBA encourage the IAASB to move forward on a timely basis to address component materiality in ISA 600.
	South Africa's IRBA	IFIAR member	New Standard on the Roles and Responsibilities of Component Auditors	On this matter, IRBA believe ISA 600 could be strengthened in this regard and that the IAASB could consider developing a new standard for component auditors at a later stage.
6	UK FRC	IFIAR member	General	The FRC largely support the IAASB's proposed actions set out in the ITC and believe, subject to their recommendations, that they have the potential to significantly enhance audit quality and the value of audit.
	UK FRC	IFIAR member	Professional Skepticism	The FRC agree with the IAASB that the interpretation and application of professional skepticism is a critical aspect of audit, and audit quality. Given that concerns continue to be raised that auditors do not appropriately apply professional skepticism in the audit, it is in the public interest that the IAASB explore these issues further. In response to concerns similar to those raised in the ITC regarding the need to strengthen the application of professional skepticism in audits, in 2012, following a public consultation, the FRC published "Professional Skepticism: Establishing a Common Understanding and Reaffirming its Central Role in Delivering Audit Quality", which sets out our views on the nature of auditor skepticism and its role in the audit". A skeptical attitude is absolutely fundamental in delivering a rigorous and high quality audit. It should frame each of the judgments made by the auditor at every stage of the audit from risk assessment to forming the audit conclusion and reporting.
	UK FRC	IFIAR member		The FRC's experience as an audit regulator is that when auditors fail to apply professional skepticism appropriately it is because they fail to act appropriately on their understanding of which matters they should challenge, the extent of their challenge in relation to those matters, and what evidence they should obtain to satisfy those challenges. Embedding a user perspective would assist auditors to apply the appropriate level of professional skepticism. The user perspective is critical if the auditor is to win user confidence and trust, and deliver on the intended purpose of an audit, to enhance the credibility of the financial statements for users. In FRC's experience, users are increasingly using the financial statements and other information to inform their stewardship of the entities in which they invest.
	UK FRC	IFIAR member		The FRC encourage the IAASB to focus its work primarily on the more practical aspects of professional skepticism, in particular:
	UK FRC	IFIAR member		a) <u>Enhance the description of what the expression of professional skepticism is expected to look like, to include:</u> not only a questioning mind but one that robustly evaluates management's assertions; not only being alert to the potential for misstatement but remaining open minded, proactive about the potential for misstatement, notwithstanding past experience and the absence of manifest indicators of that potential having been realized; not only a critical appraisal of the evidence that management presents but also subjecting it to robust challenge through comparison with other relevant available sources of evidence whether those contradict or corroborate management's position; and the need to reflect the perspective of the user.
	UK FRC	IFIAR member		b) <u>Review and improve language used in the standards to reflect the enhancements referred in a), above, to support changes in auditor behavior</u>

	UK FRC	IFIAR member		<p>c) <u>Require auditors to identify risks to the appropriate application of professional skepticism and to respond by identifying and implementing appropriate actions to mitigate those risks</u>; this should be a part of developing the quality control standards. Examples of factors include, deadlines or budget constraints and the behavior of those who direct, supervise and review the audit work; or management; or those charged with governance; the impact of audit firm culture and governance and how this can support or undermine the application of professional skepticism; insufficient competence in understanding the entity and its business and the environment in which it operates – to enable informed and independent challenge of management’s assertions; etc.</p>
	UK FRC	IFIAR member		<p>d) <u>Work pro-actively with the IAESB to develop a better understanding of the behavioral competence that auditors need and how they can acquire and maintain that competence</u>. FRC recommend that the IAESB should consider behavior as a separate competence area and should seek to understand behavioral influences over matters such as the appropriate application of professional skepticism and, more generally, how an individual’s professional skills can be developed to better enable them to self-regulate their own behavior and to understand and influence others’ behaviors.</p>
	UK FRC	IFIAR member	<b>Core principles to guide standard setting activity</b>	<p>The FRC support the IAASB’s approach to identify specific public interest issues in relation to the three projects set out in the ITC. The IAASB could consider taking this approach a step further and develop a set of core principles that would guide its future standard setting activity in serving the public interest. For example, ‘Transparency for Users’ could be established as a core principle. In meeting such a principle, the IAASB would aim to ensure that the outcome of its standard setting activity will result in investors and other stakeholders (such as those charged with governance) having greater insight into the audit process and audit firm governance.</p>
	UK FRC	IFIAR member		<p>Another principle could be “Embedding a user perspective throughout the audit”. Embedding a user perspective should include not only considering how to require that perspective to be taken into account, but also how the auditor obtains and maintains their understanding of user expectations. It should therefore involve consideration of mechanisms for communications between users and audit firms and auditors, including requirements for Transparency Reporting by audit firms and additional auditor reporting about matters relevant to audit quality (such as the auditor’s materiality judgments and their approach to the audit, in the context not only of risks of material misstatement but also of risks to audit quality). For example, under the ISAs (UK and Ireland) the FRC require auditors of public interest entities to report on matters relating to materiality and audit scope. In respect of professional skepticism, embedding a user perspective would include considering how to require auditors to be able to demonstrate that they have adequately taken into account what users would expect them to ask, what matters users would expect them to challenge, how far users would expect them to go in challenging those matters, and ultimately what evidence users would expect them to obtain to satisfy those challenges.</p>
	UK FRC	IFIAR member	<b>Quality Control</b>	<p><u>Outcome of a high quality audit</u>: an important starting point for any discussion of quality control is to agree what the outcome of a high quality audit looks like. The FRC believe that it is important for the IAASB to set out the expected outcome of a high quality audit and then to demonstrate how the various factors identified in the audit quality framework are addressed in the quality control standards in the context of that outcome. The FRC propose two key outcomes of a high quality audit: (1) the audit has obtained a high level of assurance (subject to the inherent limitations of an audit) that misstatements (if any) in the financial statements would have been detected, and either corrected or identified in the auditor’s report; and (2) that this has been achieved in a manner that serves the intended purpose of an audit to enhance the degree of confidence and trust of intended users in the financial statements through meeting their expectations.</p>
	UK FRC	IFIAR member		<p><u>Quality Management Approach</u>: the FRC fully support the IAASB’s plan to revise ISQC 1 and ISA 220 to respond to the issues and challenges in quality control; and agree with the IAASB that these standards are no longer sufficient to support audit firms in today’s complex and challenging business environment. Also, the FRC strongly support the introduction of the Quality Management Approach (QMA) in ISQC 1. It responds well to the diverse challenges being raised, including those relating to the proportional application of ISQC 1 and its future-proofing, as it is a more proactive, scalable and robust response to managing risks to quality at the firm level. Whereas the audit model in the ISAs has reflected a risk-based approach for risks of material misstatement for some time, it continues to reflect a more passive approach to addressing risks to audit quality. The proposed QMA would introduce a risk-based approach for risks to audit quality at the firm level. Key benefits of doing so include: focusing the firm’s resources on the areas of greatest risk to audit quality; making application of the standard more scalable, given the extent and nature of an individual firm’s audit activities and of its exposure to risks to audit quality; and making application of the standard more responsive to emerging risks to audit quality in a changing environment. Overseeing such an approach would provide a potentially direct role for (and enhanced communications with) the audit firm’s governance function. Indirectly, such an approach may also provide a basis for enhanced Transparency Reporting by audit firms and related engagement with audit stakeholders.</p>
	UK FRC	IFIAR member		<p><u>Risk-based approach to risks to audit quality at the engagement level</u>: the FRC strongly encourage the IAASB to pursue a similarly risk-based approach to risks to audit quality at the engagement level by building into ISA 220 (and ISA 600) a more proactive, scalable and robust approach to the identification of such risks and development of specific responses to address these risks. This would extend the benefits referred above in relation to the proposed QMA, to each audit engagement. By directly assessing risks to quality at the engagement level, the engagement partner would be in a more informed position to appropriately tailor the direction, supervision and review procedures to control and mitigate those risks. The FRC believe this will be the most meaningful way for the IAASB to address the challenges to quality control at the engagement level, and will result in more effective audits.</p>

	UK FRC	IFIAR member		<p><b>Role and responsibility of the engagement partner:</b> the FRC believe that a fundamental principle in the ISAs is that the engagement partner has overall responsibility for the engagement. Accordingly the FRC do not support the proposal in the ITC for the IAASB to explore the ability to use another auditor's report as audit evidence in certain circumstances. In the case of a group audit, the conclusion is premised upon each of the judgments made by the group auditor throughout the audit. The principle in the ISAs today is that the group auditor must be sufficiently involved in the work of any other auditor to effectively direct, supervise and review that work and therefore be in a position to stand behind the key judgments made. It appears that the IAASB's proposals are seeking to address access issues for the group auditor. However, the ISAs already address access issues as an acceptance and/or qualification matter. The FRC believe that this is the right approach and in the public interest because it will appropriately signal to investors that such a situation exists and that the auditor was not able to protect investors' interest by providing an independent view on the component's financial information. The IAASB also proposes to clarify the performance requirements for other parties involved in the audit. The FRC is supportive of greater transparency about the nature and extent of involvement of other parties in the audit, for example, by providing such information in extended auditor reporting about how the scope of the audit addressed certain risks to audit quality. However, the FRC would not support reporting about such matters in the auditor's report in a manner that would undermine the core principle in the ISAs that the engagement partner assumes overall responsibility for the audit. Doing so in such a manner could send an inappropriate signal about the reliability of the financial statements and could undermine investor confidence.</p>
	UK FRC	IFIAR member		<p><b>Reliance on other network firms:</b> the FRC strongly support the IAASB's proposals to re-address the quality aspects of 'network firms' in response to issues that have been raised in relation to undue reliance by firms and engagement teams on the network's system of quality control. The ISAs should provide a robust basis for the use of the work of any other firm of auditors, whether or not a network firm, in the performance of an audit. This should reflect the fundamental principle that the principal auditor takes responsibility for all of the other auditor's work and the conclusions drawn from that work. Quality control over the work of any other firm whose work is used in the audit should, in the FRC's view, involve a 'risk based' approach. Where the principal auditor believes it is appropriate to place some reliance on the network level controls over risks to audit quality relating to the use of the work of another firm, the ISAs should clearly set out the principal auditor's responsibilities. The FRC believe that the principles in ISA 315 and ISA 330 in relation to reliance on entity controls over risks of material misstatement are a reasonable source of analogous material to guide the IAASB in doing so. A similar approach should be taken in relation to Audit Delivery Models.</p>
	UK FRC	IFIAR member		<p><b>Other matters:</b> the FRC believe that there are a number of areas of particular significance including Audit Firm Governance, Engagement Quality Control Reviews, Monitoring and Remediation, including root cause analysis, and Transparency Reporting. The FRC note that, in connection with Audit Firm Governance, they will in the next few months be issuing an updated UK Audit Firm Governance Code, clarifying the objective of governance over audit quality and risks thereto.</p>
	UK FRC	IFIAR member	Group Audits	<p>The FRC fully support the IAASB's plan to revise ISA 600 to respond to the issues and challenges in performing group audits. The FRC agree with the IAASB that ISA 600 is no longer sufficient to support engagement teams in addressing the audit challenges that arise in audits of groups in today's evolving global business environment. As engagement partners are finding it increasingly challenging to meet their overall responsibility set out in ISA 220 for the performance of audits (particularly observable in the group audits section of the ITC), the FRC support the proposal for the IAASB to strengthen the links to the principles and requirements in ISQC 1 and ISA 220, and in particular, the FRC encourage the introduction of a quality risk based approach (to group audits) through a QMA at the engagement level.</p>
	UK FRC	IFIAR member		<p>The FRC also support the proposals of the IAASB to strengthen the links in ISA 600 to the principles, requirements and related application material of ISA 315, and other relevant ISAs such as ISA 330, so as to better support engagement teams' application of those ISAs in the context of a group audit engagement. This includes the FRC support for re-examining the validity of the mechanisms for scoping a group audit in ISA 600 i.e. focusing the determination of the necessary work effort on the basis of whether components are considered significant or non-significant, and on risk assessment of, primarily, significant components. The FRC believe that these mechanisms are more consistent with a 'bottom-up' approach to the audit rather than a 'top down' approach. A 'top down' approach results in the assessment of risks at the level of the group and drives responses to those risks down to the component level through stronger two-way communication with the component auditors. A pro-active two-way communication should be encouraged.</p>
	UK FRC	IFIAR member	Development of future work plans	<p>In the development of future work plans, the FRC believe that there are key topics that should be taken into account and prioritized in the IAASB Work Plan 2017-18 including: ISA 620, Using the work of an auditor's expert; ISA 320, Materiality in Planning and Executing and Audit, and ISA 330</p>
	UK FRC	IFIAR member	Responses to Questions in the ITC	<p><b>Appendix 1 to the FRC comment letter includes the detailed FRC's responses to the questions in the ITC.</b> The letter can be consulted at: <a href="https://www.frc.org.uk/Our-Work/Publications/FRC-Board/FRC-response-to-IAASB-Invitation-to-Comment---Enha.pdf">https://www.frc.org.uk/Our-Work/Publications/FRC-Board/FRC-response-to-IAASB-Invitation-to-Comment---Enha.pdf</a></p>
7	Malaysia Audit Oversight Board	IFIAR member	Support	<p>The AOB supports the IAASB's commitments and efforts towards audit quality enhancements, with current priority given to professional skepticism, quality control and group audits. These changes are timely in view of the rapid pace of evolving business models and technology advancements, hence the need to keep the ISAs fit for purpose. In particular, relevant guidance is essential in enabling auditors to react appropriately to challenges of the evolving environment while achieving quality audits.</p>
	Malaysia Oversight Board	IFIAR member	Clear segregation between application and standard setting issues	<p>AOB emphasize that care is needed to ensure that audit quality issues arising from the application of the standards are not inadvertently mistaken for those arising from standard setting. There must be a clear separation between these two types of audit quality issues in order to effectively address the root causes of the issue at hand. Any enhancement to the standards should facilitate their application and minimize divergence in practice, supported by relevant guidance to clearly demonstrate the intentions behind the drafting of a particular standard.</p>

	Malaysia Oversight Board	IFIAR member	Quality Control	The AOB emphasize that while good governance, firm culture and a QMA approach may be in place, it is important to consider the measurable outcome to assess the effectiveness of their execution, and their subsequent impact on engagement performance.
	Malaysia Oversight Board	IFIAR member		<u>Use of a QMA:</u> leadership by example is a key success factor for the promotion of audit quality. It is believed that the tone at the top that promotes a quality-oriented internal culture will positively influence partners' and audit engagement teams' behavior and commitment to audit quality. In line with this, AOB welcome the proposed emphasis on the responsibility of firms leaders, for a more proactive, scalable and robust response to manage quality risks. Notwithstanding this, AOB remind that each firm has its own distinctive culture, which drives behavior and influences the conduct of the firm as a whole. It is important that the QMA is principle-based, to allow for sufficient flexibility in implementation. The QMA must also be considered from a holistic perspective, rather than with a compliance focus, in order to address the substance of quality issues.
	Malaysia Oversight Board	IFIAR member		<u>Firm Governance and Leadership Responsibilities for Quality:</u> the inclusion of firm governance as a component of ISQC 1 would give more prominence to and provide more guiding principles on the accountability and responsibility of the firm leadership. AOB highlight that the effectiveness of firm governance on audit quality is still an issue. This can be observed in the case of large firms, where the governance structure is in place, but consistency and execution of the audit engagement continue to be a concern. To a certain extent, the effectiveness of a firm governance could be measured based on the consistency of performance of the firm's individual partners as a result of internal or external inspection activities. This should relate back to the global and country's leadership explanation and accountability on the performance of their network partners.
	Malaysia Oversight Board	IFIAR member		<u>Engagement Quality Control Review:</u> the AOB is of the view that the current requirements (ISQC 1 and ISA 220) are sufficient in addressing the EQC reviewer's responsibilities and related documentation requirements. In the event that further guidance is needed to address the concerns raised, the AOB recommend that this be incorporated into the existing requirements and application material of affected standards. The AOB is of the view that the development of a separate EQC standard may have the unintended consequences of diluting accountability and shifting responsibility from the engagement partner.
	Malaysia Oversight Board	IFIAR member	Group Audits	<u>Identified Risk of Material Misstatement in a Group Audit:</u> in view of paragraphs 18 in ISA 330, The Auditor's Responses to Assessed Risks, and 28 in ISA 600, Group Audits, AOB notes that there have been instances when there are material line items in a component which is not a significant component. The group auditor has chosen to only perform analytical procedures at the group level, which may not be sufficient to address the risk of material misstatements in a group audit. To further address these situations, AOB emphasize the need and importance of managing expectations between the group and the component auditors.

(1) Refer to IFIAR Report on 2015 Survey of Inspection Findings, page 4/5.

(2) Refer to pages 24 – 25 “Consideration of Standard Setting” and B-1 to B-2 “Appendix B: IAASB Standards Related to Areas of Inspection Findings”.

(3) Refer to: <https://www.ifiar.org/IFIAR/media/Documents/General/IFIAR%20Global%20Survey%20Media%20Coverage/IFIAR-2014-Survey-of-Inspection-Findings.pdf>

(4) Refer to: <https://www.ifiar.org/IFIAR/media/Documents/General/About%20Us/IFIAR-2015-Survey-of-Inspection-Findings.pdf>

(5) Refer to: <http://www.irba.co.za/dmdocuments/Public%20Inspections%20Report%202015.pdf>

(6) Refer to: <https://www.frc.org.uk/Our-Work/Publications/APB/Briefing-Paper-Professional-Scepticism.pdf>