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3rd June 2016

Dear Ms. Healy

Invitation to Comment – Enhancing Audit Quality in the Public Interest

The European Federation of Accountants and Auditors for SMEs ("EFAA") represents accountants and auditors providing professional services primarily to small and medium-sized entities ("SMEs") both within the European Union and Europe as a whole. Constituents are mainly small practitioners ("SMPs"), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs. EFAA represents 17 national accounting, auditing and tax advisor organisations with more than 360.000 individual members.

EFAA appreciates the opportunity to comment on the International Auditing and Assurance Standards Board ("IAASB") Invitation to Comment ("ITC") – Enhancing Audit Quality in the Public Interest.

Preliminary observations

The ITC is a well written document. It comprehensively leads the reader through the issues, concerns and proposed actions in a pragmatic way. However, the result is a document that is very long and very detailed and because of this, EFAA would like to note some concerns and challenges.

(1) The number of responders that will find the time to go through the entirety of the document and provide valuable insight to the deliberations may be reduced.
(2) The effort involved in reading a document of such length in a language that is not the primary language of the reader is significant.
(3) The IAASB may perhaps wish to consider what other means of engaging with stakeholders can be utilised to collect feedback.

Key remarks

We have the following key remarks.

Addressing gaps in standards

In the EFAA response to the IAASB Consultation Paper - The IAASB's Proposed Strategy for 2015–2019 and The IAASB's Proposed Work Program for 2015–2016 EFAA made the following comment: *"Addressing the long term future of audit and assurance and engaging with stakeholders to gauge their views on what is and will be required in 10 - 15 years. We believe that this is important because there is a fundamental need to be alert to long term issues and the short term changes currently being dealt*

with by the IAASB need to be congruent with the long term objectives. Fixing immediate gaps in standards may not be sufficient."

Our opinion on this matter is unchanged and this point is relevant to the many potential changes outlined in the ITC.

Principles based standards

The numerous proposed actions in the ITC will likely require significant changes to many ISAs. We encourage the IAASB to be alert to changes that prove contrary to the current principles based standards. We would not support such actions.

Scalability

We are concerned that the changes that are proposed would be made in such a way as to negatively impact the proportional application and scalability of the ISAs. We urge the IAASB to be alert to such matters when changes are being proposed.

"Quick wins"

We recommend that the IAASB analyses whether the issuance of Staff Papers for "quick wins" might be another short term solution (examples: EQC review, group audit issues) to bypass the costly due process of adapting ISAs and speed up potential benefits.

Focus on behaviour and implementation

There is a clear need, to our mind, to develop a long term vision and strategy on the role of standards and the relative worth of the IAASB's mission compared to say global monitoring or education. We are concerned that some believe that professional skepticism can be enhanced by an increase in written standards.

General Questions

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

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

We believe the public issues noted in table 1 are relevant but we have some reservations about the role that the IAASB should play in Transparency Reporting and Monitoring and Remediation, in particular. We are not of the view point that there is no role here for the IAASB but instead we think that any future role played by the IAASB in this regard should be carefully assessed and scoped.

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

Please refer to our key remarks.

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

On page 14 of the ITC the IAASB noted the following stakeholders as being able to directly influence professional skepticism. It is likely that this group of stakeholders can affect all of the public interest issues noted to differing degrees depending on the relevance of the matter at hand.

- Firms/Networks of firms;
- Standard setters, including NSS;
- Professional accountancy organizations;
- Educational institutions;
- Those charged with governance, including audit committees;
- Regulators and audit oversight bodies; and
- Management/those responsible for preparing the financial statements.

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

In the EFAA response to the IAASB Consultation Paper - The IAASB's Proposed Strategy for 2015–2019 and The IAASB's Proposed Work Program for 2015–2016 EFAA noted the following:

- Action to help restore the confidence in audits by showing the value of an audit;
- Action to monitor the implementation of standards which would then inform changes to existing standards and highlight requirements for new standards;
- Consideration of how audits can be performed effectively and efficiently when taking IT developments into account (the rapidly changing IT environment will have an impact on the audit process (including the use of audit software) and developments such as cloud computing, big data, and social media may require continuous monitoring);
- Continuation of efforts to address the expectation gap and to assess whether the scope of an audit should be explained more clearly or perhaps broadened to accommodate demand from users; and
- Increasing the focus on non-audit services to accommodate an ever changing demand for assurance services.

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

We are not aware of any.

Professional skepticism

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

Our interpretation is consistent. Professional skepticism is about a questioning mind, an awareness of the environment and the ability to critically assess audit evidence.

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

Though not an exhaustive list some possible drivers and impediments might be as follows:

- Culture and social norms;
- Tone at the Top;
- Education and training;
- Level of the awareness of the societal role of auditors and its importance;
- Significance of individual audit engagement fees to audit practices;
- Appropriate support for auditors that may find themselves under pressure within firms;
- Reporting deadlines and resulting time pressure;
- Complexity of accounting estimates and certain accounting standards that open up possibilities for manipulation and error;
- Tension that audit partners experience to consistently earn audit fees and yet be challenging and skeptical in the performance of the audit engagements;
- Pressure on audited entities to report results and maintain or improve trading performance such that they are motivated to manipulate accounting estimates; and
- The role of the Those Charged with Governance and audit committees in encouraging and fostering an environment where the auditor can be appropriately skeptical.

In the EFAA response to the IAASB Consultation Paper - The IAASB's Proposed Strategy for 2015–2019 and The IAASB's Proposed Work Program for 2015–2016 EFAA made the following comment*: "We agree with the level of significance that the IAASB places on professional skepticism. However, we are concerned that commentators believe that professional skepticism can be enhanced by an increase in written standards. It is likely that any increase in professional skepticism will naturally flow from better education and training and from a more open and pro-active dialogue between professional bodies, regulators and other stakeholders. Therefore, whilst we support the IAASB's intention we feel that this entire issue requires a more holistic approach than that currently prescribed, i.e. further changes to ISA 200 and additional guidance will not suffice."*

In light of the above remarks, EFAA is supportive of the Joint Working Group (JWG) that the IAASB has set up with IAESB and the IESBA to enable consistency of approach within these three standard setting boards and their pronouncements and to encourage a wider view point to be taken that incorporates education and ethical behaviour.

However, aside from ensuring that the standards of the IAASB, IESBA and IAESB are internally consistent we believe that the IAASB should build on the activities noted under paragraph 36 and continue to act as a pivot and a catalyst to drive further dialogue between the stakeholders noted on page 14 of the ITC.

On first consideration, we are unsupportive of the IAASB's suggested approach of building a professional skepticism framework. To our mind, a framework suggests a checklist approach that we believe runs contrary to encouraging a challenging mindset. As an alternative, we would encourage guidance from the IAASB on how to document professional skepticism which may address the concerns of some regulators. We would also suggest that the assessment of the impact of Key Audit Matters (KAM) might give the IAASB valuable information in this area because we would expect KAM to have had a positive effect on the demonstration of professional skepticism by requiring auditors to be transparent about their thought processes.

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

Yes. We believe the areas being explored, namely ISA 540, Quality Control, Group Audits and ISA 315 to be complete. From an SMP perspective it would seem that Quality Control and ISA 540 might be of most relevance.

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

We would expect the work to be done by the IAASB to have a positive impact but given our belief that the matter of professional skepticism cannot be improved by standard setting alone it would seem to us that this work must be performed in tandem with work being done by other stakeholders particularly those able to affect education, training and culture.

We would also caution against making small changes to a whole raft of ISAs to reinforce professional skepticism in each ISA when to our mind there appears to be a call for a paradigm shift not simply incremental improvement. Again we would note our suggestion that guidance on how to document and hence demonstrate professional skepticism (see our response to PS3 above) is considered.

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

The ITC itself acknowledges that there are local norms and cultures at play and given that the concepts of professional judgement and skepticism can be hard to understand and to articulate in English it may be useful to investigate how these terms are understood and how they manifest themselves in other languages (translation issues?). Moreover, it might be worth trying to identify any common global themes and what aspects are particular to certain geographical areas and certain cultures, if any.

We are not aware of any other activities of which the IAASB and the JWG should be made aware albeit, if not already done, the IAASB and the JWG may wish to engage with educational groups such as the European Accounting Association or the American Accounting Association, such that those at the front line of education for our profession can provide insight and support to the ongoing dialogue.

Lastly, EFAA is currently in the process of finalizing some research about what accountants do when under pressure and we should be happy to share this with the IAASB and the JWG once completed.

Quality Control

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

We are supportive of the IAASB's preferred option to introduce a QMA. In the EFAA response to the IAASB Consultation Paper - The IAASB's Proposed Strategy for 2015–2019 and The IAASB's Proposed Work Program for 2015–2016 EFAA made the following comment: *"We are supportive of the work that the IAASB intends to perform in connection with ISQC1. We agree that this project should be prioritized and that there is a need to re-consider ISQC1 and quality control in general. That said, we believe that any review should seek to take into account the proportional application of the standard and that ISQC1 should be reconsidered in line with "think small first" principles. This would enable ISQC1 to be appropriately and effectively applied in both the smallest (SMP) and the largest of firms. We note that the IAASB is aware that some NSSs have already begun to explore how this may be done and we would encourage the IAASB to engage fully with all stakeholders and all NSSs in this regard.*

The "think small first" principle implies that policy makers give full consideration to SMEs at the early policy development stage. Ideally rules impacting on business should be created from the SMEs point of view or in other words, SMEs should be considered by public authorities as being their "prime customers" as far as business regulation is concerned. The principle relies on the fact that "one size does not fit all" but a lighter touch approach can also be beneficial to larger businesses. Conversely, rules and procedures designed for large companies create disproportionate, if not unbearable burdens for SMEs as they lack the economies of scale. More recently the IAASB has introduced a Building Block approach to standard setting during its "Auditor Reporting" project that enabled the needs of users and stakeholders to be recognized when differences were apparent. We very much welcomed and supported this approach and would call on the IAASB to maintain and increase such strategies where appropriate."

Therefore, as outlined in the ITC it would seem that the IAASB is proposing a more scalable and proportional system of Quality Control. Whilst we will need to understand the finer details in due course we are encouraged by the IAASB's planned way forward.

(a)   Would use of a QMA help to improve audit quality? If not, why not? What challenges might there be in restructuring ISQC 1 to facilitate this approach?

Whether the use of an QMA will improve audit quality is somewhat dependent on whether the resulting QMA is an improvement on the extant standard. However, on the understanding that it leads to an improved quality control standard that is scalable, appropriate for all types of firms and for audit and non-audit engagements, and as such can be tailored directly to the required levels of risk then we would agree that it should lead to an increase in quality.

The challenges will likely come from the tensions between drafting the QMA in such a manner for it to be scalable so as to enable use by SMPs and smaller firms and satisfying the demands of regulators in connection with audits of large public interest entities. That said, the IAASB has now demonstrated that it is able to use a building block approach and therefore these challenges should not be insurmountable.

(b) If ISQC 1 is restructured to require the firm's use of a QMA, in light of the objective of a QMA and the possible elements described in paragraphs 64 and table 3, are there other elements that should be included? If so, what are they?

We are not aware of any. The diagram in paragraph 64 depicts the system of quality control as a continual loop and that appears wholly appropriate; continual quality control improvement is required to address the dynamics of our environment.

(c) In your view, how might a change to restructure ISQC 1 impact the ISAs, including those addressing quality control at the engagement level?

We agree that ISA 220 will be affected. As to the extent of the impact on other ISAs then that will be better informed as the QMA is developed.

(d) If ISQC 1 is not restructured to require the firm's use of a QMA, do you believe that we should otherwise address the matters described in paragraph 59 and table 2, and if so, how?

As we have outlined above EFAA is supportive of a revision of ISQC1 to deal with issues of scalability and proportionality.

QC2. Engagement Partner Roles and Responsibilities

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

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

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

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

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

We generally agree with the actions being put forward but note that these matters would tend to be more common in larger practices than in SMPs. Our concerns on any actions would be when wholesale changes are made to the ISAs when in fact these matters call for very specific actions. To that end it might seem appropriate that any changes are made with a building block approach in mind. Adding an appendix to ISA 220 should be further considered.

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

We would need to have more information on the circumstances in paragraph 79 to be able to give an informed opinion albeit generally this is a matter for legislation in particular countries or jurisdictions.

QC3. Others Involved in the Audit

(a) Paragraphs 87–104 set out matters relating to involvement of others in the audit:

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

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

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

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

The concerns expressed by regulators and audit oversight bodies appear to be around direction, supervision and performance of work and audit documentation. These concerns speak to deficiencies in the application of the standards not necessarily to any deficiencies in the standards themselves. That is, it would seem to us that the IAASB should focus on supporting the use of the standards by way of application material and guidance in the first instance and not seek to rush to add further requirements into the ISAs.

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

We consider it of value for the IAASB to gather more information on this matter in the first instance.

QC4. The Firms' Role in Supporting Quality

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

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

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

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

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

(b) Specifically:

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

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

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

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

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

This is a complicated area because of the diversity of arrangements outlined in the ITC. In light of these challenges, and differences in laws and jurisdictions, we are not convinced that the IAASB is able to develop requirements that would cater for all such eventualities. Neither are we convinced that the structure under which firms operate is of specific matter for IAASB consideration. However, we are of the opinion that whatever shape a network or alliance takes, individual firms should be required to demonstrate their quality control and monitoring policies and procedures and so IAASB actions that facilitate this aspect might be of value.

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

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

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

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

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

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

We are supportive of efforts that seek to secure and strengthen the ties between quality control and firm leadership albeit noting that in SMPs the distance between these two areas is often very short. Because of the nature of SMPs, leaders of the firms are often directly responsible for quality. In addition, the relatively flat hierarchies often seen in smaller practices tend to mean that "Tone at the Top" and how it flows through the practice is more evident and the culture of accountability more keenly observed because it is ultimately more personal.

(b) Specifically:

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

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

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

We are comfortable with the IAASB considering placing further emphasis on good governance and the importance of quality at all levels within a firm. We are not sure what further actions the IAASB could undertake in this regard.

The inability of the profession to agree on a definition of the public interest might mean that any attempts to add this aspect into ISQC1 would be unsuccessful. Additionally, we are not convinced that this is required. Auditors should be clear that there is a societal role to audit but that public interest role should not necessarily deter or encourage the audit profession from striving for better quality and continuous improvement. The ethical base of the profession should be sufficient encouragement.

QC6. Engagement Quality Control Reviews and Engagement Quality Control Reviewers

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

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

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

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

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

We are supportive of the IAASB addressing matters of inconsistency between ISQC1 and ISA 200. We are not aware of any other relevant issues.

(b) Specifically:

   (i)   **Should ISQC 1 mandate the performance of EQC reviews beyond audits of listed entities? If yes, what other entities should be considered and how could we best define these entities? If no, please explain your reasoning.**

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

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

We do not support the mandate of the performance of EQC reviews beyond listed entities. We are not convinced that the issues raised by the ISA Implementation Monitoring Project and concerns raised by audit oversight bodies would be addressed by the mandate of EQC for audits beyond those of listed entities to include those of "particular public interest". We believe that such a move would cause disproportionate burden to SMPs and smaller practices and the costs and benefits of such actions have not been properly assessed by the IAASB. We are also aware that there are many definitions of public interest entities within the European Union and as such significant differences for the requirement for EQC would ultimately result. Should the IAASB wish to consider extending the requirement for ECQ

further then we would suggest that they do so after having undertaken a full impact assessment on the proposal.

We believe that the minimum period of time between when an individual has been the engagement partner and when that individual would be eligible to serve as the EQC reviewer on the same engagement is a matter for legislation and the IESBA Code.

QC7.   Monitoring and Remediation

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

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

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

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

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

Paragraphs 152 and 153 of the ITC articulate the challenges experienced by SMPs in this regard.

(b) Specifically:

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

    (ii) **Do you support the incorporation of a new requirement(s) in ISQC 1 for the results of the firm's monitoring of the effectiveness and appropriateness of the remedial actions to be considered in the design and assessment of the effectiveness of the firm's system of quality control? Please provide further detail to explain your response.**

We would be supportive of a QMA that incorporates aspects from monitoring and remediation which add substance to continual quality improvement. However, our support is tempered by our assertion that, in our opinion, such inclusion would necessarily require a relevant and proportionate approach to documentation such that the costs of implementation in SMPs and smaller practices do not outweigh the benefits.

QC8. Engagement Partner Performance and Rewards Systems

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

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

Whilst we agree with the challenges expressed on behalf of SMPs in paragraph 162 of the ITC we do not believe that this is a matter for IAASB consideration.

We agree with the IAASB in that we do not believe that ISQC 1 should be used as a vehicle to mandate the structure of an engagement partner's remuneration. We are not supportive of any actions being taken by the IAASB in this regard as we do not believe that a standard setter's remit should extend into such areas. We are comfortable with the way that ISQC1 currently addresses the matter of compensation but we are not swayed by the arguments that the IAASB has put forward to extend its work in this area.

That said, we are aware that work has been done in this area in the Netherlands and dialogue with those involved in that process may prove to be beneficial.

QC9. Human Resources and Engagement Partner Competency

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

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

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

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

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

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

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

  (ii) **Related to engagement partner competency?**

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

We would be interested in understanding more of what the IAASB is trying to address in this area. We understand that regulators and audit oversight bodies have noted concerns with the documentation of some firms' procedures to support the assessment of partner and staff competence both during recruitment and assignment of staff to the engagement team.

However, Human Resource experts and other commentators in this area believe that formal assessment of employees is "old fashioned" and not in line with today's world where instant and honest feedback is preferred. In our opinion the IAASB should re-assess the impact it is trying to have in this area to ensure that it is clear about the actions that it may wish to take.

QC10. Transparency Reporting

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

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

We believe that the IAASB is well placed to foster an open dialogue on this subject but ultimately this is a matter for regulators and legislation.

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

Please refer to our key remarks.

QC12. Are there any other specific actions that others could take in relation to quality control? If yes, please provide details.

Please refer to our key remarks.

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

Our responses to the above questions are based upon SMP considerations.

QC14. Are there any specific public sector considerations related to the issues and potential actions described in this section? Are there any other public sector considerations of which we should be aware? If so, please provide details and views about these matters.

No comment.

Group Audits

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

(a) Should we increase the emphasis in ISA 600 on the need to apply all relevant ISAs in an audit of group financial statements? Will doing so help to achieve the flexibility that is needed to allow for ISA 600 to be more broadly applied and in a wide range of circumstances (see paragraphs 194–198)? If not, please explain why. What else could we do to address the issues set out in this consultation?

(b) Would the actions we are exploring in relation to ISA 600 improve the quality of group audits? If not, why?

(c) Should we further explore making reference to another auditor in an auditor's report? If yes, how does this impact the auditor's work effort?

(d) What else could the IAASB do to address the issues highlighted or other issues of which you are aware? Why do these actions need priority attention?

We support the actions and believe that this should increase the quality of group audits by reinforcing requirements and principles as long as unnecessary duplication does not result.

EFAA does not support any actions that would result in the disclosure of the involvement of other auditors. We feel that there should be no such disclosure as it may imply sharing of responsibility when ultimately there is none.

GA2. Acceptance and Continuance of the Group Audit Engagement

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

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

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

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

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

(b) Specifically:

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

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

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

We are supportive of the IAASB's intentions to strengthen the requirements that pertain to acceptance and continuance of group audits and hence provide clarification for the reasons outlined in paragraph 217 of the ITC.

GA3. Communications between the Group Engagement Team and Component Auditors

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

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

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

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

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

We support the proposed strengthening of ISA 600 to advocate timely, relevant and proportional 2-way communication that is tailored appropriately to the size, complexity, significance and perceived risk of a component. We would advocate that any changes made by the IAASB are done in such a manner as to encourage structured, timely and focused communication which would be fruitful for both group and component auditor and properly highlight the 2-way communication process that is encouraged.

GA4. Using the Work of the Component Auditors

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

(i) **Which of the possible actions outlined in paragraph 234 and 242 would be most meaningful in addressing issues related to using the work of the component auditor?**

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

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

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

(b) Specifically:

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

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

We are not overly supportive of the IAASB's intentions to strengthen ISA 600 in setting forth the nature, timing and extent of appropriate involvement of the group engagement team in the work of component auditors because of the reasons that the IAASB itself puts forward against doing so in paragraph 242 (a). That is, that ISA 600 should not be too prescriptive.

We believe that guidance may prove of value in this area but would not necessarily support an additional requirement being included in ISA 600. We are also unsupportive of illustrative examples (as outlined in paragraph 242 (c)) being included in the ISAs albeit they may be of use in staff publications, for example.

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

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

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

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

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

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

We believe that emphasizing the links between ISA 600, ISA 330 and ISA 315 would be of value and we are somewhat supportive of the work outlined in paragraph 253 albeit we would wish to understand more about the extent of the work proposed in "clarifying".

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

(a) Paragraphs 254–261 set out issues relating to applying the concept of materiality in a group audit. Do you agree with the possible actions recommended in paragraph 261 to clarify the different aspects of materiality in a group audit? If not, please indicate which actions are not appropriate and describe why.

(b) Recognizing that significant changes to ISA 320 will not be contemplated until a review of ISA 320 has been performed in its entirety (potentially as part of a future project to address materiality more broadly), please describe any other relevant issues or additional actions that you think may be appropriate relating to component materiality, component performance materiality or the clearly trivial threshold at the component level.

We are supportive of the IAASB further investigating whether to develop more topic-specific guidance relating to component materiality and other aspects of materiality relevant to group audits in advance of a revision of ISA 320.

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

(a) Paragraphs 262–292 set out matters relating to responding to identified risk of material misstatement in a group audit (including the group engagement team's involvement in the consolidation process).

    (i) Which of the actions outlined in paragraphs 272–273, 279, 288 and 292 would be most meaningful to address issues relating to responding to identified risks of material misstatement in a group audit?

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

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

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

(b) Specifically:

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

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

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

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

We are supportive of additional application material being provided but do not believe that examples need to be included.

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

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

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

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

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

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

We support the actions identified.

GA9. The Impact of New and Revised Auditing Standards

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

None of which we are aware.

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

None of which we are aware.

GA11. Are there any other specific actions that others could take in relation to group audits? If yes, please provide details.

None of which we are aware.

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

Our responses to the above questions are based upon SMP considerations.

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

No comment.

We trust that the above is comprehensive but should you have any questions on our comments we would be willing to provide further clarification.

Yours sincerely,

Bodo Richardt   Marie Lang
President   Director of Professional Development