

May 31, 2016

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International Auditing and Assurance Standards Board (**IAASB**)
545 Fifth Avenue, 14th Floor
New York, NY 10017
USA

Dear Sirs,

We, the Ibracon – Instituto dos Auditores Independentes do Brasil (Institute of Independent Auditors of Brazil), appreciate the opportunity to comment on the Enhancing Audit Quality in the Public Interest - A Focus on Professional, Skepticism, Quality Control and Group Audits Exposure as developed by International Auditing and Assurance Standards Board (IAASB).

First, we draw the Board's attention to the article (Creating an Optimized Environment for Audit Quality) signed by Monica Foerster (Deputy Chair of the IFAC Small and Medium Practices Committee) and Rogério Garcia (Technical director of the Brazilian Institute of Independent Auditors – IBRACON) published in the IFAC Global Knowledge Gateway transcribed below:

The business environment around the globe is in constant change and getting more and more complex almost on a daily basis. Auditors have been challenged by regulators and other stakeholders to demonstrate that they can keep pace with such changes while maintaining a high level of quality in their work. While initiatives taken by auditors are essential on the path to enhancing audit quality, external factors also play an important role. An analysis as to how to enhance audit quality should consider a holistic view that includes auditors, preparers, other market participants, and regulators.

First, we need to step back and understand the quality of education in a country. Colleges and universities are the backbone of an appropriate professional education. The quality of their educational programs will drive the quality of professionals entering the market as accountants in business (preparers) or auditors in the future. Afterwards, effective continuous education programs for preparers and auditors are key to keeping those professionals up to date with relevant changes in rules and regulations. For many years, the continuing education program in Brazil was focused on auditors only. However, more recently, the Federal Accounting Council (CFC) has taken a significant step forward by

requiring preparers of larger entities, regulated entities, and listed entities to obtain a minimum number of training hours starting in 2016 on an annual basis.

Companies can also contribute to audit quality by having a robust corporate governance structure. The adoption of an ethical culture within the organization, as well as a recruitment and training policy for employees, especially those involved directly or indirectly in key internal control and financial reporting processes, is critical. These factors contribute to improving the quality of information prepared by the entity, which directly affects the evaluation of, nature, extent, and timing of audit procedures. The Audit Committee is also a valuable tool for improving interactions between the entity's governing bodies and the auditor, supervising the financial reporting activities, and the work of auditors.

Audit firms of different sizes, including small- and medium-sized practices (SMPs), in Brazil have been continually investing time and resources to enhancing audit quality. ISATM and ISQCTM 1, which are the International Standards on AuditingTM and International Standard on Quality ControlTM developed exclusively by the International Auditing and Assurance Standards Board®, are required by all audit firms in Brazil—contributing to an improvement in process for firms of all sizes.

This continuous improvement process is affected directly or indirectly by several factors, such as:

a) Markets: Due to the increasing complexity of transactions and increased volume of data and constant development of new technologies, auditors need to consider a wide range of specialists to address specific risks, such as information technology, tax, valuation, actuarial, forensic, and financial instruments, just to name a few. For this reason, nowadays, auditors are required to have not only technical skills to adequately perform the audit but also the ability to effectively coordinate and assure documentation is properly made and filed for the work of all those specialists due to the fact that the auditor retains ultimate responsibility for the work performed by them when the audit report is issued;

b) Internal and external inspections: Regulators are more active, connected, and collaborative (e.g., formation of the International Forum of Independent Audit Regulators and related working group, for example Global Audit Quality Working Group –) and have expectations regarding systems of audit quality control, regardless of the size of the firm. External inspections performed by regulators, then, tend to be more focused, consistent, and with common goals. For this reason, it is essential that auditors devote appropriate time to analyzing the deficiencies identified in internal and external inspections in order to properly identify their root causes. By developing a structured and adequate process to getting to the root causes of deficiencies, audit firms will be able not only to resolve the specific findings identified in the inspection but also to minimize the risk of finding other potential deficiencies in the firm's audit processes.

c) Litigation: An environment with a higher risk of litigation is an additional ingredient that can influence an audit firm's capacity to develop and retain talent. Some jurisdictions are currently more litigious than in the recent past, which can result in fewer professionals being interested in entering in or building a career that may last for more than twenty years in that jurisdiction. Ultimately, this can have a negative impact on the ability of such firms to attract and retain talent (a recent Gateway viewpoint sees this as a major challenge for the profession).

d) Mandatory firm rotation (MFR): Many countries are considering or implementing rules imposing MFR, which brings more complexity to the objective of enhancing audit quality. Such requirements may result in severe consequences to the profession in the medium and long term, including the ability of an audit firm to specialize in certain industries (especially in emerging markets), the career of professionals who devote years of experience to better understanding the industry and the related risks of entities subject to rotation, and the ability of the audit firm to attract and retain talent. Further, it may have a significant impact on a firm's decision to invest in technology.

e) Laws and regulations: In Brazil, the enactment of law 12683 of 2012 included auditors in the list of "obliged persons" to report suspected acts and evidence that can be configured as money laundering crimes and concealment of assets, rights, and values identified in the course of their audit work. Other countries also have similar requirements for auditors. Although the law definitely contributes to a more ethical business environment, auditors are required to develop a robust internal process to ensure that communications to authorities occur on a timely basis (24 hours when the auditor concludes that there is a suspected act). Failure to comply with such law may result in significant damage to the audit firm, including, but not limited to, monetary penalties.

The Institute of Independent Auditors of Brazil (IBRACON), together with other market participants and regulators, has worked on several initiatives with the objective of contributing to audit quality in firms of different sizes, which are periodically disseminated to all its members through training, roundtable discussions, and issuance of technical communications.

Some of these key initiatives are:

a) Discussion forums: The structure of the institute includes working groups specialized in certain industries (e.g., financial institutions, real estate, agribusiness, insurance, energy, SMPs, etc.). These working groups meet regularly with the objective of discussing emerging issues that may have a pervasive impact on the profession. Regulators and other industry representatives are often invited to participate in the discussions, which result in more robust and comprehensive

analysis of the issues included in the agenda of the institute. There is a special focus on SMP activities, including the quality of their services;

b) Training programs for university professors: Since 2008 through a project partially funded by the Inter-American Development Bank to contribute to the convergence of Brazilian accounting practices with international standards, IBRACON has been providing a complete online training for university professors. The program aims to reach at least one professor at each university in Brazil that provides undergraduate degree programs in accounting sciences. This online training is free of charge, covering modules on how to prepare classes on International Financial Reporting Standards (IFRS) and ISA. After completion of the training, professors are also entitled to updates deployed in the training platform. More than 500 teachers have already completed such training, which will positively affect future generations of accountants and auditors in Brazil.

c) Support for SMPs: The institute also believes that all of its members, regardless of their size, should have equal access to information. The institute takes specific actions to provide SMPs with training and tools that contribute to their engagement performance, including practical guidance in quality control and in performing audits of lower complexity.

Enhancing audit quality should be a constant goal for all market participants. The business community has changed significantly in the past decade and the audit profession remains an important vehicle for increasing users' confidence in financial information. IBRACON is proud to contribute in this process in Brazil and will continue to welcome any initiative that can support our professionals in fulfilling our responsibility to serve the capital markets.

In addition to our overarching comments above, following your guidance and document with respect to the matter, we separated our comments by the following topics:

- General Questions
- Professional Skepticism
- Quality Control
- Group Audit

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 consider the time is right for the IAASB to revisit its group audit and quality control standards, to ensure they remain fit for purpose, and to reflect on how the standards can best support the application of appropriate professional skepticism.

Our view is that it is particularly important to audit quality that standards are adaptable to the circumstances of particular audit engagements. Principles-based standards are better able to be “future-proofed” by avoiding undue regulation that may inhibit innovation.

Overarching themes is that audit quality will best be supported if the resulting changes focus on:

- The roles and responsibilities that support audit quality, without imposing an unduly rigid structure of the specific individuals that must fulfill those responsibilities;
- How audit evidence can be shared effectively, when appropriate, in a complex engagement structure;
- What evidence is necessary to support justifiable reliance on common policies, processes and methodology within a network that are designed to support audit quality; and
- Support for small and medium practices in applying the standards to less complex engagements.

(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.

Considering the evolution of the business environment related to technology, business globalization and structure, in a Group audit we believe that shared services centers will be an important public interest issue to be addressed regarding sharing audit evidence and co-ordination of projects.

(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.

Standards should include more robust descriptions of the limitations inherent to an audit. As the regulations over the audit profession in various jurisdictions

evolve, it is important that all market participants understand what to expect and what not to expect from an audit.

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?

Considering that corporations aims to be digital entities we believe that IAASB could study the possible impacts in ISAs on topics such as e-commerce and big data.

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.

No.

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 of this concept is consistent with how it is defined in the ISA.

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?

We believe, the drivers for an appropriate application of professional skepticism includes, but is not limited to:

- Application of relevant training;
- Independence's attitude;
- Documentation of professional judgment, including discussions of significant matters with management and those charged with governance;
- Use of senior professionals on audit engagement team, with strong knowledge and experience;
- Increasing coaching and on-the-job training/active supervision
- Involving staff in more meetings with entity personnel

- Encouraging staff to explain reasoning and document professional judgments
- Ongoing direct communications with entity personnel.

One way to enhance these drivers consists in Audit Firms assume the responsibilities to encourage and promote a culture of professional skepticism, including relevant training and the design and implementation of appropriate policies.

However, there are some potential challenges to the appropriate application of professional skepticism that are described below:

- The tendency to seek information to support, rather than discredit, the preliminary conclusions;
- The tendency for auditors to overestimate its abilities and/or knowledge;
- Over reliance on management representation. In certain cultures, the extent of challenging management representations may be considered offensive by the counterparty. Guidance on a more structured process may help those cultures to overcome this issue;

The areas discussed in paragraph 37 are extremely important for the development of auditor's profession. To prioritize those areas it is important to focus, among other areas, on professionals training.

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?

We believe that the listing of areas being explored in paragraph 38-40 is appropriate for promoting improvement in the application of professional skepticism.

We also believe that a well-designed process to identify and determine the root causes leading to deficiencies in internal and external inspections may contribute to improving quality and addressing issues related to professional skepticism.

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?

The actions that the Board has been taking are very important to promote the improvement on the application of professional skepticism and strengthening the audit profession.

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?

Please refer to our initial comments in this letter related to “Creating an Optimized Environment for Audit Quality”:

“Companies can also contribute to audit quality by having a robust corporate governance structure. The adoption of an ethical culture within the organization, as well as a recruitment and training policy for employees, especially those involved directly or indirectly in key internal control and financial reporting processes, is critical. These factors contribute to improving the quality of information prepared by the entity, which directly affects the evaluation of, nature, extent, and timing of audit procedures. The Audit Committee is also a valuable tool for improving interactions between the entity’s governing bodies and the auditor, supervising the financial reporting activities, and the work of auditors.”

QUALITY CONTROL (INCLUDING QUESTIONS EXPLORING CROSSOVER ISSUES/ISSUES RELEVANT TO MORE THAN ONE PROJECT)

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

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

We believe that use of a QMA helps to improve audit quality. The approach would emphasize the responsibility of firm leaders for more proactive, scalable and robust response to managing quality risk that would more easily adapt to a rapidly changing business environment. A QMA would integrate a firm’s policies and procedures within its quality system through identification of relevant risks to quality and design of appropriate policies and procedures to address those risks.

However, it is important that appropriate guidance be provided to determine how this concept would be applied especially to small and medium sized practices.

(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 believe that Root Cause Analysis process may be a relevant tool for QMA in order to properly develop a quality improvement plan, including aspects related to workload, sufficiency of human resources, training and other related quality control aspects.

(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 believe that such changes would improve audit quality.

(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?

We support accountability and responsibility for culture/tone at the top, leadership for independence (as well as the other elements of a system of quality control). Therefore, if not a QMA, such approach should be incorporated under other roles within the firm that are responsible for audit quality (e.g. risk management, audit support groups, consultation and documentation aspects of the audit and others).

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?

We believe that actions would be most meaningful to address issues related to engagement partner responsibilities are “*Evaluation of engagement staffing and identification of areas to be reviewed*”.

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

We believe that actions around having appropriate staffing and workload balance as well as a more effective supervision and review are key to improving audit quality.

(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.

Workload issues may also be a relevant aspect to consider.

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

We have no comments.

- (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).**

If an individual other than the engagement partner is required to or otherwise customarily sign(s) the auditor's report or is named therein it would be essential to have guidance on how to address such circumstances, including reinforcing that the ultimate responsibility remains with the engagement partner. Nevertheless, it should be considered the cost/benefit of such new requirements in an environment/jurisdiction that may trend to be more litigating with auditors in the medium/long term.

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?**

We consider the most important those actions mentioned in paragraphs 101 and 102 where the document is exploring the ability to make reference to the work performed by other auditors in the auditor's report and/or by specialists; such as actuary.

However, it should be noted that under ISA 701, for audits of listed entities, the auditor is required to report how key audit matters were addressed in the audit. Therefore, with regards to references to experts, to the extent that the auditor involved an expert in an area considered as a "key audit matter", the auditor's report would already include reference to their use as part of the description as to how the matter was addressed in the audit.

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

There is a large number of components audited by other audit firms and there is significant involvement of specialists. It would bring more transparency in

the auditor's report. Nevertheless, it should always be clear that the ultimate responsibility should remain with the audit partner.

- (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.**

We believe that more guidance is necessary on working with other auditors for equity investees or when a firm audits an Investment Fund that has interest in investees audited by other auditors. There are varying views as to whether the audit of a Fund that holds significant investments in other entities (including investments with significant influence) should be considered as a group audit and the extent of procedures to be performed in such components. Analogies may help but guidance would allow more consistency in the market.

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

It is unclear if there is a common approach in audits of investment funds in which investees are audited by other auditors (or other engagement teams in the firm or network). By issuing further guidance on this area, we believe that it would potentially improve the quality of such audits in a more consistent manner.

- (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 believe more guidance on documentation of the specific items tested by the other auditors and conclusions reached and on archiving of working papers prepared by other auditors and access to them in case of an inspection would also be of great impact.

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?**

In our view the discussion related to reliance of firm's monitoring 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. It is important to avoid the risk of duplication of efforts if additional burden is expected to be required from a member firm that is part of a network.

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

This action would improve effectiveness of audits.

(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.

No comments.

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

No comments.

(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?

As part of a QMA, networks should be able to design a system of QC that involves procedures at network and member firm level. It should not matter how much comes from network v. member firm – as long as the entire system is adequately addressed and monitoring processes are in place to ensure that QC is operating at member firm (and engagement) level. There should be no prescription on what should be done at a network level – but acknowledgement that some QC may reside at network level.

Further, the network and its individual firms should bear the responsibility of determining that its engagement teams can rely on this system, particularly group engagement teams.

There should be differential treatment of component auditors within the network v. outside the network --- within the network, the group engagement team has more info about the competence and capabilities and the quality control policies and procedures that are applied.

We will describe our view of QMA – risk-based approach in which ISQC sets forth clear objectives and principles for firm policies, along with specific risk factors to achieving those objectives that firms should address in their policies. Firms design their policies based on the risk assessment component of the QMA (firms need to take into account their unique governance structures, nature of engagements served, etc.)

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

See QC4 (b) (i).

- (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?**

No comments.

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

No comments.

QC5–QC10 address the more significant issues relating to quality control specific matters

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

- (c) **Paragraphs 125–135 set out matters relating to governance of firms, including leadership responsibilities for quality.**
- (d) **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?**

The IAASB is considering changes to ISQC 1 to include policies and procedures to emphasize the need for, and importance of, actions firms take to respond to inspection findings. Such changes would build on firm leadership’s responsibility for sustaining and continuously improving audit quality, and setting the right “tone at the top”. The firm must monitor and consider all feedback on quality, including the results of internal and external inspections of a firm’s system of quality control and of individual engagements, as well as other quality reviews that a firm might perform.

- Root cause -
 - There needs to be a common understanding of what such analysis entails
- Other Monitoring –
 - Support required in the analysis of external inspection results in the same manner as internal inspection results.

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

We believe these actions improve the awareness of importance of a quality work. See above.

(ii) 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.

No comments.

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

No comments.

(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?

We believe it is necessary 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?

See comments above.

(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?

See comments above.

QC6. Engagement Quality Control Reviews and Engagement Quality Control Reviewers

- (a) **Paragraphs 136–146 set out matters relating to engagement quality control reviews and engagement quality control reviewers.**
- (i) **Which of the possible actions outlined in paragraphs 143–146 would be most meaningful in addressing issues related to EQC reviews and EQC reviewers?**

No comments.

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

No comments.

- (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.**

No comments.

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

No comments.

- (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.**

Yes. For entities which are required to file their audited financial statements with regulators.

- (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.

Yes. A former executive of an engagement may not appear to be objective to perform an engagement quality control right after stepping out from the audit engagement.

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

Not necessarily a separate standard but a separate topic describing the EQC Roles and Responsibilities and more detailed guidance in assignment of EQC reviewers such as subordination, expertise, conflicts of interest, etc.

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?**

In our view, “Pre-issuance and Root Cause Analysis” are possible actions that would be most meaningful in addressing issues related to monitoring and remediation.

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

We believe that Pre-issuance would help improve quality by assuring, at certain level, that teams have obtained sufficient and adequate audit evidence. Root Cause Analysis would help audit firms to develop an adequate and effective quality improvement plan.

- (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.**

No comments.

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

No comments.

- (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?**

We support the incorporation of new requirements in ISQC 1 for firms to understand the causal factors of audit deficiencies relating to inspection findings and other reviews. However, we reinforce the need of appropriate guidance to perform such analysis as well as designing quality controls in this area

- (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 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. We believe the new requirement would improve the effectiveness of process.

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?**

Yes. It would allow more accountability

The IAASB is considering strengthening the requirements for EQC reviews and reviewers by specifying the nature and extent of matters to be considered how to document the review, considering whether communication between the EQC and the audit committee is appropriate, and possible transparency in the auditor’s report that there was an EQC review.

- Engagement partner/EQCR –
 - Would prefer a principles-based approach without more “rules” on EP or EQCR performance – The EP and EQCR need to have clear objectives for their roles, and flexibility for achieving those objectives, so that the role is scalable from the smallest to largest engagements.

- We also suggest that the IAASB consider whether more should be stated in ISA 220 about engagement team responsibilities for audit quality – Continual strengthening of EP/EQCR requirements may inappropriately convey that other team members are not accountable for quality of their own work.
 - Partner remuneration –
 - Supportive of elevation of principle in ISQC 1.A5 to requirement (i.e., that an internal culture focused on engagement quality includes “establishment of policies and procedures that address performance evaluation, compensation and promotion (including incentive systems) with regard to its personnel, in order to demonstrate the firm’s overriding commitment to quality)
- (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?**

Guidance on how audit firms may implement such requirements

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?**

Engagement staffing

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

Properly assigning the audit firms professionals to their audit clients taking into consideration competence/experience vis a vis clients risk factors

- (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.**

No comments

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

No comments

- (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.

Refer to comments above

QC10. Transparency Reporting

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

- (a) Do you believe we are able to positively contribute to the evolving developments related to transparency reporting? If so, what, in your view, would be the most appropriate action we could take at this time?
 - EQCR/Involvement of other auditors.
 - Oppose disclosure that audit was subject to EQCR (risk that an audit that was not subject to EQCR will be viewed as lower in quality).
 - Also, oppose any efforts on auditor reporting at this time given the new standards – would prefer that the IAASB wait until it conducts its post-implementation review before exploring new enhancements
- (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 this would not necessarily help improve audit quality in the near future – unless there would be full disclosure of external/internal inspections

The following questions are overall questions relating to quality control:

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

No comments

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

No comments

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.

As discussed in question QC1 for QMA, it is important to consider the impact of changes to existing requirements for small and medium sized firms. More detail or new requirements tend to impact their ability to compete with larger firms in the market for listed entities or entities with more complex structures. Although we support initiatives with the objective of enhancing audit quality, special attention should be given to SMPs regarding scalability of the requirements and guidance.

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 comments

GROUP AUDITS

The following questions relate to group audit matters set out in paragraphs 191–305. If you believe actions relating to group audits beyond those discussed in these paragraphs should be prioritized, please describe such actions and your supporting rationale as to why they require priority attention.

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

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

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?

- (c) 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?**

Audit guidance for equity investees due to a large number of such type of investments.

We support the IAASB's consideration of ISA 600 in response to the feedback received by the IAASB in previous consultations.

As noted in the ITC, the group audit model in the current standard, while still relevant to many group structures, is difficult to apply in scenarios such as shared services centers, entities with operations that do not meet the definition of a component but still conduct business in multiple locations and significant investments accounted for at equity method.

One relevant challenge in our jurisdiction that is now having a greater impact in other parts of the world is the mandatory auditor rotation of certain entities (e.g. listed entities). This requirement increases the instances where a group auditor uses the work of auditors from a different network.

We also believe that the introduction of ISA 701, that will require the auditors to communicate how it has addressed key audit matters, places additional challenges in group audits, including communication between the group engagement team and component auditor, in particular when latter play a relevant role in addressing these matters.

We believe that a revision of ISA 600 should focus on a principles-based approach aligned with other ISAs, as opposed to a prescriptive stand-alone standard. In carrying out this revision, we believe that the standard should be clear on what aspects of other ISAs may not apply, or apply differently, to a group audit – e.g. reporting to group auditor in accordance with group audit instructions.

A principle-based approach to group audit will allow more flexibility to address issues such as audit of share services centers, and operations in multiple locations that do not meet the current definition of a group or a component, especially in using the work of other auditors under these scenarios.

We are generally supportive to the retention of the current requirement that the group auditor is responsible for the group audit. Notwithstanding this, we are supportive of initiatives that will provide more transparency in the group auditor's report around the nature and extent of the use of the work of other auditors.

We also believe that an area where the prohibition of division of responsibility could be reconsidered is for audit of investees accounted by the group at the equity method. As noted by the ITC, limitations to the work of the group auditor may arise under these scenarios, since the group is not the controlling party of these entities. Mandatory rotation of auditors also increases scenarios where these investees are audited by networks different from the group auditor. Therefore, it might be preferable to stakeholders to allow a division

of responsibilities with other auditors under these scenarios, rather than a scope limitation in the group auditor's report.

In addition, we note that in Brazil entities are required to prepare separate financial statements in which subsidiaries, associates and joint ventures are accounted for at the equity method (known as 'individual or unconsolidated financial statements'). These financial statements are normally presented together with consolidated financial statements. We observe challenges in applying ISA 600 in auditing these separate financial statements, since the standard does not address certain issues such as the determination of significant components and component materiality for the propose of these financial statements and the interaction of these matters with the same consideration made at the consolidated financial statements level.

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

GA2. Acceptance and Continuance of the Group Audit Engagement

- (a) **Paragraphs 204–217 set out matters relating to acceptance and continuance of the group audit engagement.**
 - (i) **Which of the possible actions outlined in paragraphs 215–217 would be most meaningful in addressing issues related to acceptance and continuance procedures?**
 - (ii) **Why do you believe these actions are necessary?**
 - (iii) **Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.**
 - (iv) **Please also describe any potential consequences of possible actions that you believe we need to consider further.**
- (b) **Specifically:**
 - (i) **Are access issues as described in paragraph 207(a) still frequently being experienced in practice? If yes, please provide details and, where possible, explain how these are being addressed today.**
 - (ii) **Do you agree that ISA 600 can or should be strengthened in relation to addressing access issues as part of acceptance and continuance?**
 - (iii) **Would expanding the understanding required for acceptance and continuance, as described in paragraph 215 (b), be achievable in the case of a new audit engagement?**

We are generally supportive of the proposals related to acceptance and continuance of the group audit engagement, specially providing a clearer linkage between ISA 600 and ISQC 1, regarding a firm's acceptance and continuance policies, and ISA 220, regarding the engagement's partner responsibility for quality.

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 initiatives regarding enhancing the communication and cooperation between the group engagement and component auditors. In particular, we support the introduction of requirements and additional guidance that will give greater emphasis to the role and responsibilities of the component auditor. A common discussion between group and components is when it would be necessary to provide copies of audit documentation to the group auditor (or vice-versa for situations like shared-service centers), to the extent that it is not prohibited under local laws.

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 agree that the nature, timing and extent of involvement of the group engagement team in the work of the component auditor should vary depending on the circumstances, including specific risks, complexity and other factors such as the jurisdiction in which the component auditor is located.

We believe that the decision of whether to use the work of a component auditor should consider the benefits of using another auditor in order to result in a more efficient approach in obtaining audit evidence. Some of the benefits of using a component auditor include its better understanding of the jurisdiction where the component is located, including knowledge of laws and regulations, business culture and practices, customs and language.

We are supportive to strengthening IAS 600 to provide more clarity as to how the group engagement team determines the nature, timing and extent of its involvement in the work of component auditors. We also believe that the standard should be clearer on the nature and extent of the documentation that needs to be held by a group engagement team to demonstrate its involvement in the work of the component auditor.

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 support the proposal to make a more explicit reference to the requirements and application material in ISA 315 (Revised) and ISA 330. This clearer linkage will help group auditors to address risks of material misstatements more effectively and contribute to focus the work of the component auditors.

In addressing this issue, we believe that the IAASB should reconsider whether the classification of components as “significant” and “non-significant” is

aligned to the requirement to identify and assess risks of material misstatement at the group level. For example, specific risks may arise in a particular component that may be classified as a “non-significant” component. Accordingly, the concept or significance should not be only based on size of the component but also based on specific risk factor. Changes in the standard could place a greater focus on addressing these risks rather than on size of the component and/or specific account balance.

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 9materiality 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 observe many challenges in the process of determining materiality in the context of a group audit, especially setting a component materiality. Therefore, we believe that this should be one of the areas of priority where the IAASB should develop additional guidance. We do not believe that there is need to await the revision of ISA 320 to address this matter, since the issue arises in the performance of the audit under the current definition of materiality.

In our jurisdiction, additional challenges arise on determining group and component materiality in the context of separate financial statements, where investees (including subsidiaries) are accounted for under the equity method. The determination of materiality in the context differ to the determination of materiality in the context of consolidated financial statement, since the impacts of material misstatements is on one line of the statement of financial position and statement of profit and loss and other comprehensive income. We believe that ISA 600 should be revise to include guidance to address this scenario.

Other Considerations - Ethical and Independence Requirements in Group Audits

ISA 600 presents a guidance and support to perform a Group Audit when an audit client has significant components for which an audit is required and will be performed for members firms or other audit firms.

ISA does not allow the main auditor to mention the other auditor's report which was responsible for the audit of the significant components of its audit client. As there is no reference to other auditor's in the main auditor's report related to an audit of the Group consolidated financial statements, it is the Group Engagement Partner responsibility to be satisfied with the audit work done by the auditor of the component, evaluating its ability, technical skills, ethical and independence question (paragraphs 3 and 19).

Our following comments are focused in the ethical questions and in the independence requirements related to the auditor of the component that needs to follow the independence rules applicable to audit services for which he was engaged, that, usually, are the requirements of the Ethics Code, section 290 – Independence, issued by IESBA – International Ethics Standards Board.

ISA 600 (paragraph 37) mentions that the ethical and independence requirements that are relevant for a Group Audit can be different from those required by a statutory audit performed by the component auditor, especially in certain jurisdictions.

The Group Engagement Partner, using his professional judgment, needs to evaluate if the independence requirements of the local statutory audit would be reasonable to lead the Group Engagement Partner to believe that the independence would not be impaired considering the Group Audit. However, it is not clear in the actual ISA if this evaluation would be done only considering the auditor judgment.

On the other hand, the component's auditor independence confirmation model presented in the ISA (Appendix 4) can lead us to believe that the component auditor needs to confirm that he is independent of the parent company and all others components of the Group. In this confirmation, the auditor of the component needs to confirm that the independence rules are being met and which is the regulator that issued those rules.

When an audit of a Group needs to follow the ISAs, the independence requirements applicable to the audit of the component will be those presented in the Code of Ethics issued by the IESBA. However, in some situations, this requirements allows the auditor not being independent of some companies related to his audit client, including the parent company, investees, common control entities (sister entities) and its investees. Therefore, the auditor needs to be independent only from its audit client, following the definitions of the section 290 of the Code of Ethics, not including, therefore, the related entities in cases that the company under audit it is not listed entity.

Considering a situation that the audit client of the component auditor it is not a listed entity this auditor needs to be independent only of his audit client and its subsidiaries, not being required independency from other related companies of the Group.

If this client is considered a significant component for the Group Audit, the main auditor can consider the component audit work in its audit and, consequently, will

need from the audit of the component an independence confirmation. In this example, it is raised the following question: How the auditor of the component could confirm that he is independent of the parent company and from the other related companies of the Group following the Code of Ethics, if this code do not require that the component auditor hired to audit the statutory financial statements needs to be independent of the related companies?

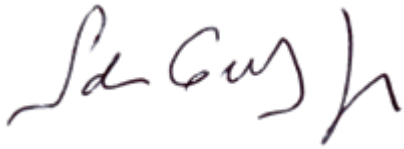
In this way, related to the requirements of ISA 600 that require that Group Engagement Partner needs to obtain an understanding of the component auditor, we believe that the relevant ethical requirements mentioned in paragraph 19, related to independence aspects refers to the component auditor being independent only from the client that it is audit by him and not necessarily from the other related components, except if required by the conditions established in the Code of Ethics issued by IESBA (e.g.: the component is a listed entity).

The issue of the Group Engagement Partner could be that the component auditor needs to be independent of the object, therefore, from the financial statements of the company and from the management that prepared it.

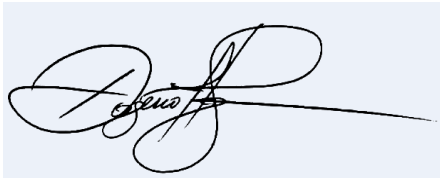
We believe that a confirmation from the component auditor to the Group Audit expressing the independence of its audit client (the component), following the requirements of the independence rules issued by IESBA or similar rules, will meet the main goal related to the ethical requirements relevant to the audit of the Group as required by the ISA 600, and it is not necessary that the auditor of the component to be independent of the group as a whole.

Additionally, the ISA 600 brings aspects that might be considered in the classification of a component as significant, like risk factors and economic environment, while the Code of Ethics mention that the auditor needs to be independent of the related companies (for listed entities) considering also the materiality, however does not bring details and the conditions to evaluate if the audit client would be material or not for the parent company. We understand that a clarification about this eventual contradiction would help in the evaluation of eventually independence conflicts.

Sincerely,



Idésio da Silva Coelho Júnior
President



Rogério Hernandez Garcia
Technical Director