Enhancing Audit Quality in the Public Interest: A Focus on Professional Scepticism, Quality Control and Group Audits

ICAEW welcomes the opportunity to comment on the Invitation to Comment, *Enhancing Audit Quality in the Public Interest: A Focus on Professional Scepticism, Quality Control and Group Audits* published by IAASB on 17 December 2015, a copy of which is available from this link.

This response of 13 May 2016 has been prepared on behalf of ICAEW by the Audit and Assurance Faculty. Recognised internationally as a leading authority and source of expertise on audit and assurance issues, the Faculty is responsible for audit and assurance submissions on behalf of ICAEW. The Faculty has around 7,100 members drawn from practising firms and organisations of all sizes in the private and public sectors.

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 145,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

MAJOR POINTS

GENERAL

Fundamental opportunities and challenges for the audit profession

1. We consider that there are fundamental opportunities and challenges for the audit profession connected with the issues covered in the Invitation to Comment (ITC) that need to be tackled head on as part of the IAASB's work, for example matters related to fee pressures and technological changes. At the moment these do not appear to be regarded as central to the consideration of the issues that the IAASB has identified and we consider that they should be. It is important for any changes to be principles based and not stifle innovation that will result in improved audit quality. They should facilitate audit delivery that is fit for the future.

The auditors of the future and technological changes

2. There is a need for the profession and firms going forward to attract the right sort of people with the people and technical skills that are necessary for the audit of the future.

3. We consider that people issues are central to matters related to audit quality and in our view should be emphasised far more prominently in the IAASB standards. Our recent work in our AuditFutures initiative highlights this in calling for the educating of responsible professionals and rethinking accounting education.

4. We consider that the IAASB should give greater priority to considering the potentially fundamental matters raised by technological changes, for example those matters raised in ICAEW's report *Data analytics for external auditors*. We call on the IAASB to prioritise and accelerate its work on this topic.

PROFESSIONAL SCEPTICISM

Support for the existing stance in the ISAs

5. We support the existing situation in the ISAs whereby the need for compliance with ethical requirements and the need for professional scepticism and professional judgement in planning and performing an audit are included as the first three requirements in ISA 200. These are fundamental to all audits and are needed throughout the entire audit process. It might be difficult to include specific requirements for scepticism throughout the individual ISAs, indeed this might be inappropriate if it gives the impression that it is only needed, or needed more, in specific areas rather than others. However, we would support the IAASB including additional application material to provide guidance on ways to exercise and demonstrate scepticism in more difficult areas, for example challenging of accounting estimates and valuations. We also consider that the link between professional scepticism and the role of root cause analysis should be highlighted more explicitly in materials issued by the standard-setting boards. For example, if there is a finding that there was a lack of scepticism, this is insufficient as an explanation in itself without exploring *why* there was a lack of scepticism and digging deeper. It could be that the auditor lacked the personal skills needed to challenge or the analytical skills or knowledge necessary to exercise the scepticism, or it could be that there was time pressure or some other personal pressure that prevented the auditor from doing what should have been done. The evolution of the profession's approach to the topic should move from the high level term 'professional scepticism' to dealing with the many detailed underlying factors that underpin it.

Drivers and impediments

6. We consider that these are the main drivers for the appropriate application of professional scepticism: having the right people; ensuring they are appropriately trained and developed; having the right firm culture that promotes and rewards sceptical behaviour; having appropriate firm policies and procedures including on monitoring and remediation; and having externally set

standards and oversight arrangements that emphasise the need for professional scepticism and monitor firm performance accordingly. Impediments arise when any of these are absent or imperfect and when there are external factors including matters connected with the client and the environmental and contextual factors referred to in paragraph 32 of the ITC. We consider that fee pressure on firms is a very real impediment in practice and this issue should be addressed by the Joint Working Group. Firms operate in a commercial environment and the need for quality, including the appropriate application of professional scepticism, needs to be central to engagement terms and the audit tendering process.

Impact of new audit models

7. New audit models are likely to make traditional on the job coaching and mentoring for juniors very challenging and yet we consider that this is essential to the auditors of the future developing the necessary skills. At the same time there are opportunities that arise, for example the use of data analytics might create the information that provides for better informed discussions with audit clients and within audit teams. Used well, this could improve the coaching of junior staff. The Joint Working Group should consider these matters.

Possible IFAC activity on the auditors of the future

8. IFAC might use the work of the Joint Working Group to consider a promotional campaign regarding the qualities and skills that auditors of the future will need to have. We believe that the qualities and skills that auditors will need are at variance with the perception of the general public and the message about what is actually needed should be addressed quite broadly at educational establishments and others to ensure that the right sort of people are attracted to the profession and that they receive the appropriate training and development through their education.

QUALITY CONTROL

Consideration of the needs of SMPs

9. Consideration of the needs of SMPs should be central to the IAASB project. This was recognised in the IAASB 2015-2016 Work Plan (reproduced on page 18 of the ITC) which refers to concerns regarding proportionality of ISQC 1 and the need to consider this being one of the key reasons for the project. We are concerned about the impact on SMPs of the proposal to introduce a QMA requirement despite the IAASB objective to address their needs – see our comments on this in the next sub-section below.

Quality Management Approach (QMA)

10. The impact of introducing a QMA requirement is likely to depend on the audit firm's starting point. We understand that a number of firms, particularly the largest firms, are likely to have already adopted much of what is being proposed for the QMA. Based on what we have been told by firms that have already adopted this approach, we believe that there will be significant challenges for firms in implementing each of the elements of the QMA. Whilst we consider that in principle a QMA could be implemented effectively by all firms if there is leadership buy-in at the firms, we consider that the cost of implementation will be significant, and this is likely to be disproportionately so for smaller firms, albeit that there might be cost savings for them longer-term if the QMA approach can be made flexible and scalable.

11. We support the IAASB's objective as described in paragraph 50 of the ITC, ie to introduce "a more proactive, scalable and robust response to managing quality risk that would more easily adapt to a rapidly changing business environment". A move to a more preventative approach and less focus on detective measures would be welcome but the challenge for the IAASB is achieving this in practice and the ITC is unclear about how this will be done. In particular we are concerned about ensuring scalability and the position of SMPs and probably mid-tier firms as well if a QMA is something new for them. If a QMA requirement is introduced for all firms, it is unclear which of the existing ISQC 1 requirements would no longer apply to SMPs, if any, and the rest of the quality control section of the ITC arguably perpetuates this feeling of it being

likely that there will be more requirements overall by examining a number of possible new requirements beyond the existing ones. Looking at the extensive range of matters covered by a QMA, including the matters covered in Tables 2 and 3 of the ITC, we consider that there would need to be a considerable amount of supplementary material and guidance for firms, particularly for SMPs, for them to implement a QMA effectively and efficiently (the experience regarding smaller entity audit documentation is relevant here). We believe it is unlikely that SMPs will welcome these changes, particularly at a time when there are many other regulatory changes and significant changes to the financial reporting for the entities they audit.

12. The approach and understanding of regulators will be important if a QMA requirement is introduced. There could be benefits arising from the regulators being satisfied regarding the effective operation of the QMA and adjusting their regulatory approach accordingly, but there is also a risk of this being perceived as something that just gets added to the compliance checklist.

13. The needs of SMPs need to be considered, as well as the scope of ISQC 1 and, for example, whether a different standard or standards are necessary for compilation engagements and other non-audit engagements. At the current time we are unconvinced that the successor to ISQC 1 with the QMA requirement will be easily scalable and we therefore consider it appropriate that it is restricted to audit engagements only. In our view compliance with the ICAEW's less onerous Practice Assurance Standard on quality control is appropriate for non-audit engagements. Furthermore, we are concerned about the burden on SMPs of introducing a QMA requirement and suggest that an alternative would be to make this non-mandatory (covering the merits and scalability of it in the application material) or applying the QMA requirement to firms with listed or public interest entity audits only.

Engagement Quality Control (EQC) reviews and EQC reviewers

14. We consider that EQC reviews play a key role in firms having effective systems of quality control and we agree that greater clarity and further guidance should be given on certain EQC review matters, for example on the issues identified in paragraphs 137-140 of the ITC. In particular we consider that more guidance in the application material on EQC reviewer eligibility and what should be done in an EQR review would be helpful. However, we are concerned that too great a shift towards giving the EQC reviewer greater responsibilities and elevating the perceived significance of the role might have a detrimental impact by potentially confusing (and at worst) diminishing the role and responsibility of the engagement partner. The engagement partner retaining primary responsibility is critical to the effectiveness of ISA audits.

15. Availability of suitable people to be EQC reviewers could be a significant issue if there is too great an enhancement made to the role. We consider that the role should not be restricted to partners as firms might consider that there are other staff or suitable third parties able and available to take on the role.

16. On balance we would not support the mandating of EQC reviews beyond audits of listed companies although it might be preferable for the requirement to be for public interest entities rather than listed companies. We believe that judgement is central to decisions on whether to have an EQC review for other entities and this judgement for audits of non-listed companies might be diluted if the norm for them is regarded as not needing an EQC review.

17. We do consider that there could be greater coverage in the application material of when to have an EQC review and how to go about it, picking up many of the issues in paragraphs 137-140 of the ITC including considerations for SMPs. We would support much greater coverage of reviews in general and not just EQC reviews. We understand that some firms consider that there should be reviews of all audit engagements, with the type of review to be performed dependent on the risk. Firms should have clear policies and procedures on reviews, not restricted to EQC reviews.

18. On balance we would not support the development of a separate EQC review standard. We understand and support the desire to give prominence to the importance of EQC reviews, but we consider that this can be done within the overall standard for quality control. One risk of separating the requirements is breaking the perception of integration with the whole system of quality control.

Monitoring and remediation

19. We agree that monitoring and remediation play a key role in effective quality control and the issues in paragraphs 150-152 of the ITC, including the SMP perspective, are all important. It would be helpful to give greater coverage to these matters in the IAASB standards, in particular on remediation, and for more practical guidance to be issued to help firms develop their systems in this area. We consider that all of the matters and possible actions identified in paragraphs 156-159 of the ITC are important. The main way to do this is likely to be through additional application material although the IAASB should give careful consideration to introducing requirements for understanding the causal factors of audit deficiencies that are proportionate and for the design and assessment of the effectiveness of the system of quality control to take account of the results of monitoring activities.

20. As with EQC reviews, audit firms currently find it challenging to implement monitoring and remediation policies and procedures effectively, as evidenced by the number of inspection findings and the recent focus on the need for root cause analysis and the need to do more to act on review findings. The IAASB and others, including professional bodies such as ICAEW, can help by providing more practical guidance on the topics. The ICAEW Audit and Assurance Faculty has covered the topics in various ways including in recent webinars and hangouts and we are currently developing practical guidance for auditors on root cause analysis. We will share this guidance with the IAASB as soon as it is available.

21. As we have stated in previous representations to the IAASB, we do not consider that some of the monitoring requirements in ISQC 1, in particular the requirement for independent review of completed engagements, are justified for non-audit engagements. In our answer to QC1d), we have proposed that the IAASB considers the scope of ISQC 1 and, for example, considers whether a different standard or standards are necessary for compilation engagements and other non-audit engagements.

22. We agree that it is important for firms to understand the causal factors of audit deficiencies relating to inspection findings and other reviews, and to take the necessary actions based on that understanding. We therefore support the IAASB giving careful consideration as to whether to introduce new requirements in the standards in this area. It should definitely be covered in the application material and in other ways as we have described in our response.

23. Although we believe that all audit firms can benefit from some root cause analysis, it might not be appropriate to extend the new requirements to all audits and possibly it should be restricted to public interest entity audits or be qualified by saying 'where appropriate'. We agree that all firms need a commitment to continuous improvement and for this to be apparent in the way the firm operates but requiring detailed formal processes covering this area might not be appropriate to the circumstances of smaller firms.

24. We also agree that it is important 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 therefore support the IAASB giving careful consideration as to whether to introduce new requirements in the standards in this area. It should definitely be covered in the application material and in other ways as per our answers to QC7a)i) and a)ii).

25. If there is such a requirement introduced, it will be necessary to highlight that application of the requirement will depend on the circumstances as introducing formal written processes might not be appropriate for some firms including SMPs.

Human resources and engagement partner competency

26. The most meaningful actions for the IAASB to take in this area are those set out in paragraph 187 of the ITC regarding IES 8 (Revised). We have made representations regarding this in recent years to both the IAASB and the IAESB, and this should be a top priority for the IAASB project. We consider that the IAASB standards, which are the ones addressed to audit firms, should pick up the matters covered in IES 8 (Revised). A key aspect of ICAEW's implementation of IES 8 (Revised) is to require our audit firms to have the systems in place to provide evidence that their audit engagement partners do have the competencies required by IES 8 (Revised). Our monitoring activities will cover these systems but firms need to be clear regarding their responsibilities for these matters which is best achieved through the IAASB standards that are addressed to them. With respect to the last bullet of paragraph 187 of the ITC we consider that ISQC 1 should explicitly highlight the IES 8 (Revised) competencies.

27. One key matter is the need for effective coaching and mentoring to develop the auditors of the future. As we state in the above section on professional scepticism, new audit models are likely to make traditional on the job coaching and mentoring for juniors very challenging and yet we consider that this is as essential going forward as it has been in the past. The Joint Working Group should consider how this can be achieved with the opportunity of using data analytics being part of this consideration.

28. An important part of the debate on competencies should be on matters relating to technological changes and the skills that auditors of the future will need to have. The IAASB should add this to its agenda under this heading.

29. We consider that people issues are central to matters related to audit quality and in our view should be emphasised far more prominently in the IAASB standards. Our recent work, including matters arising from the AuditFutures initiative, is highlighting this, for example, by calling for the educating of responsible professionals and rethinking accounting education.

Link with the IAASB project on auditor reporting

30. The IAASB's major project on auditor reporting and the implementation of the new and revised ISAs on that links very directly to this project. One of the main factors in achieving successful implementation of extended auditor reporting will be the encouragement to audit firms to be as transparent as possible including on their approach to issues related to professional scepticism and audit quality. These words or phrases might not be used in individual audit reports but readers are likely to draw conclusions on these matters based on the content and transparency of what the firm says about the audit and their approach. For example, it is a way that firms will be able to demonstrate their professional scepticism to the readers of the reports.

GROUP AUDITS

31. ISA 600 is not fundamentally broken but there are a number of areas in which firms and regulators alike have identified inconsistencies in practice. Many of the practical problems in the conduct of group audits are logistical and it is difficult for auditing standards to address these, but they must be addressed to the extent possible, if group audits are to improve.

32. Regulators struggle to deal with firms on an international basis and it is important for IAASB to acknowledge that some of their frustration arises from structural issues that are outside IAASB's control. No amount of specificity in ISA 600 will compensate for a lack of jurisdictional reach and IAASB should explicitly acknowledge the limitations of auditing standards in dealing with structural asymmetries between global audit firms and audit regulators, and profoundly different cultural attitudes towards audits and auditors. A group audit is more than the sum of its parts and ISA 600 should continue to focus on ensuring that group management and group auditors are in control of the group and the audit.

33. It is critical for group and component auditors, and regulators, to understand that ISA 600 does not stand alone and that it is not the only ISA to be followed in performing a group audit. IAASB should not attempt to compensate for excessive focus on ISA 600 by group auditors by duplicating issues in ISA 600 that properly belong in other ISAs. A good example of this is a perceived conflict between an audit approach that focuses on the identification of significant components (ISA 600) and one that focuses on the risk of material misstatement (ISA 315). These two are not mutually exclusive and appropriate application of both standards should result in a congruent, holistic approach to group audits.

34. A fundamental problem with auditing in general comes into sharp focus with group audits, which is that it is a great deal easier to audit what is there, than it is to audit for completeness. There are limitations on the effectiveness of auditing standards in dealing with access issues and equity accounted associated entities and ISA 600 should perhaps acknowledge that where these issues cannot be resolved, modified audit reports may be necessary.

35. Some additional requirements or guidance may be helpful. It is hard to object to many of the possible actions in the ITC in the absence of the proposed wording. As always, the devil will be in the detail.

36. On balance, we think it unlikely that a separate standard for component auditors would be helpful simply because of the inevitable level of duplication. However, we strongly believe that IAASB should explore the possibility of a separate section in the ISA for component auditors, to help group and component auditors, and regulators, understand the importance of the role of component auditors in group audits. In particular, ISA 600 should emphasise the critical nature of active two-way communication not least to ensure that group and component auditors agree on an understand the demarcation between their respective roles. This is a key area in all group audits and ISA 600 cannot, and should not attempt, to specify either the demarcation, or the nature and extent of communications, both of which will vary enormously. Nevertheless, communications may well be improved through the provision of good quality examples and we attach ICAEW's *Auditing Groups: A Practical Guide* which contain numerous examples, including supplementary material with illustrations of reports provided by component auditors to group auditors.

37. IAASB should explore the possibility of:

   - specific requirements for component auditors to 'respond appropriately' to group auditor requests for information.

   - requiring component auditors to allow access unless there is a valid reason not to, and requiring component auditors to provide an explanation when access is denied, unless there is a valid reason not to.

   We agree with IAASB's suggestion that ISA 600 should clarify situations in which it is not necessary for component auditors to comply with all ISAs.

38. All of this would be helpful to direct component auditors in less developed jurisdictions and to deal with uncooperative firms. It would also help reduce some of the perceived, potentially anti-competitive effects of ISA 600 requirements that may be misused by some firms, networks and indeed regulators to effectively assert that audits are easier and more cost-effective if 'other' auditors are excluded from involvement with components.

39. We agree with the IAASB that there is a need for changes to or supplementary requirements and/or guidance and/or examples concerning:

   - component materiality and performance materiality, particularly in relation to material associates where the reporting entity's single largest asset is the investment in the associate;

- the nature and extent of work to be performed on component auditor work, and the extent to which group auditors need to be involved with the work of the component auditor. This includes examples of when it is appropriate to visit, when it is acceptable to ask for files for review and when is it acceptable to review a questionnaire. There is a great deal of variation in practice. It appears that the first question audit inspectors often ask when reviewing group audits is whether the partner or manager visited component auditors. A positive response appears to be 'a big tick in many boxes,' but firms think it often a poor measure of the quality of the involvement, which varies. Short unfocussed visits and ill - informed or unwelcome visitors meeting with uncooperative hosts are not uncommon;

- engagement acceptance and access to working papers - although there is a minority view that this is much less of an issues than it once was because of improved communications and regulatory pressure, and that more specificity would not be helpful;

- 'letterbox audits' which continue to exercise firms asked to sign off on remote audits, as well as regulators.

40. Other issues brought to our attention that we believe IAASB should consider addressing include the following:

- shared service centres: the issue is highlighted by the ITC but not addressed, even superficially, and we encourage IAASB to dig deeper in this area;

- procedures where there are large gaps between year-ends – component auditors are often asked to do a lot and management may be uncooperative, practice varies considerably;

- preventing and dealing with, the common situation in which poor quality responses received are provided late, leaving the firm with no time for review Simply getting a response is deemed an achievement in some cases. It is often not what is needed even if it was what was asked for;

- the resources smaller firms have available to deal with uncooperative larger firms acting as component auditors;

- how to deal with situations in which the documentation regarding the independence and competence of component auditors is in place, including regulatory and quality control reports, but group auditors suspect that the documentation is of little value. This is an evidence issue: are firms entitled to take such documentation at face value when they strongly suspect, but have no evidence to support, a suspicion that component auditors are not in fact competent or independent?

RESPONSES TO SPECIFIC QUESTIONS

See Annex attached

ANNEX: ICAEW RESPONSE TO IAASB INVITATION TO COMMENT SPECIFIC QUESTIONS USING IAASB TEMPLATE

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

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

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

RESPONDENT'S INFORMATION

Name: *(Please also fill in name in header for ease of reference)*	ICAEW
Description of the capacity in which you are responding (e.g., IFAC member body, audit oversight body, firm, SMP, individual, etc.)	IFAC member
Name of contact person at organization (if applicable):	Chris Cantwell
E-mail address:	chris.cantwell@icaew.com

GENERAL QUESTIONS

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

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

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

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

G1(a)	Yes, although we emphasise that there are fundamental opportunities and challenges for the audit profession connected with these issues that need to be tackled head on as part of the IAASB's work, for example matters related to fee pressures and technological changes. At the moment these do not appear to be regarded as central to the consideration of the issues that the IAASB has identified and we consider that they should be. It is important for any changes to be principles based and not stifle innovation that will result in improved audit quality. They should facilitate audit delivery that is fit for the future.
G1(b)	All of the issues that we have identified can be included under the headings in the bullets in Table 1 if these are interpreted broadly. However, some of the issues covered in the IAASB's Audit Quality Framework, referred to on page 8 onwards, are not mentioned in this table. For example, transparency in the fifth bullet is about more than transparency reporting by firms and should include ensuring effective implementation of extended auditor reporting. The first bullet could be redrafted to encompass important people and behavioural matters that go much deeper than scepticism per se. For example, as hinted at on page 10 of the ITC, there is a need for the profession and firms going forward to attract the right sort of people with the people and technical skills that are necessary for the audit of the future, and not the audit of the recent past, and to ensure the necessary coaching and mentoring so that audit staff and partners do develop the required competencies. This is a real public interest issue as audit will not be effective in meeting what is expected of it if the profession and firms are unsuccessful on this. Also it is not possible to determine what is appropriate for auditors regarding these topics without also considering matters connected with the accounting framework underpinning the financial statements that firms are auditing.
G1(c)	As outlined in the IAASB's Audit Quality Framework, auditing standards are just one part of a much bigger picture with many factors contributing to or inhibiting audit quality. Actions are needed to deal with these by many players, as identified in the Framework.

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

G2	We support the priorities that the IAASB has identified in its work plan, including the topics covered in this consultation. We do consider that the IAASB should now give greater priority to considering the potentially fundamental matters raised by technological changes, for example those matters raised in ICAEW's report *Data analytics for external auditors*. We call on the IAASB to prioritise and accelerate its work on this topic.
	We consider that people issues are central to matters related to audit quality covered in the ITC and in our view should be emphasised far more prominently in the IAASB standards. Our recent work in our AuditFutures initiative highlights this in calling for the educating of responsible professionals and rethinking accounting education.

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

G3	We are aware that several current academic studies are relevant to the audit quality theme, for example those that were reported on at the recent BAFA audit and assurance conference.

PROFESSIONAL SKEPTICISM

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

PS1	Yes, although an appreciation of professional scepticism goes well beyond any definition. Exercising professional scepticism requires a wide range of competencies, actions and behaviours.
	We support the existing situation in the ISAs whereby the need for compliance with ethical requirements and the need for professional scepticism and professional judgement in planning and performing an audit are included as the first three requirements in ISA 200. These are fundamental to all audits and are needed throughout the entire audit process. It might be difficult to include specific requirements for scepticism throughout the individual ISAs, indeed this might be inappropriate if it gives the impression that it is only needed, or needed more, in specific areas rather than others. However, we would support the IAASB including additional application material to provide guidance on ways to exercise and demonstrate scepticisim in more difficult areas, for example challenging of accounting estimates and valuations. We also consider that the link between professional scepticism and the role of root cause analysis should be highlighted more explicitly in materials issued by the standard-setting boards. For example, if there is a finding that there was a lack of scepticism, this is insufficient as an explanation in itself without exploring *why* there was a lack of scepticism and digging deeper. It could be that the auditor lacked the personal skills needed to challenge or the analytical skills or knowledge necessary to exercise the scepticism, or it could be that there was time pressure or some other personal pressure that prevented the auditor from doing what should have been done. The evolution of the profession's approach to the topic should move from the high level term 'professional scepticism' to dealing with the many detailed underlying factors that underpin it.

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

PS2	All of the matters identified are important but the IAASB, as a standard-setter, needs to focus on ensuring its own standards are sufficiently robust to ensure scepticism is exercised on audits (see answer to PS1 above on this) and to work with others, including the IESBA and the IAESB, to ensure the other areas are addressed appropriately. This is happening through the Joint Working Group and we support that initiative.
	We consider that these are the main drivers for the appropriate application of professional scepticism: having the right people; ensuring they are appropriately trained and developed; having the right firm culture that promotes and rewards sceptical behaviour; having appropriate firm policies and procedures including on monitoring and remediation; and having externally set standards and oversight arrangements that emphasise the need for professional scepticism and monitor firm performance accordingly. Impediments arise when any of these are absent or imperfect and when there are external factors including matters connected with the client and the environmental and contextual factors referred to in paragraph 32 of the ITC. We consider that fee pressure on firms is a very real impediment in practice and this issue should be addressed by the Joint Working Group. Firms operate in a commercial environment and the need for quality, including the appropriate application of professional scepticism, needs to be central to engagement terms and the audit tendering process.

	Any root cause analysis that identifies a lack of scepticism needs to go further than just saying that. The analysis needs to dig into the reasons for the behaviours of staff that falls short of what is needed, for example if they are under pressure to finish the job or if they lack the courage to challenge the client management. A lack of necessary technical or analytical skills should also be picked up as part of this process.
	With respect to the list of areas in paragraph 37, we would emphasise the need to prioritise considering the qualities and skills of auditors of the future (see answer to PS3 below on this) and to link with the IAASB project on data analytics in considering the evolving use of technology in audits.
	New audit models are likely to make traditional on the job coaching and mentoring for juniors very challenging and yet we consider that this is essential to the auditors of the future developing the necessary skills. At the same time there are opportunities that arise, for example the use of data analytics might create the information that provides for better informed discussions with audit clients and within audit teams. Used well, this could improve the coaching of junior staff. The Joint Working Group should consider these matters.

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

PS3	Yes, although it should be noted that there are many issues to consider under each area outlined in this section of the ITC. IFAC might use the work of the Joint Working Group to consider a promotional campaign regarding the qualities and skills that auditors of the future will need to have. We believe that the qualities and skills that auditors will need are at variance with the perception of the general public and the message about what is actually needed should be addressed quite broadly at educational establishments and others to ensure that the right sort of people are attracted to the profession and that they receive the appropriate training and development through their education.
	Whilst professional scepticism is a mindset issue, the effective exercising of scepticism by auditors is only possible if they have the necessary technical and analytical skills and the right experience to know when to challenge and how they should do that when they do. The need for these skills and this experience should be emphasised along with the developing the behavioural competencies.
	This way forward on this is linked to the IAASB's consideration of IES 8 (Revised) and the impact of that standard on the revision of ISQC 1. See our answer to QC9 below – we support IAASB explicitly highlighting the competencies in IES 8 (Revised).
	We consider that there is a need to learn from psychologists on professional scepticism. For example, audit group meetings, eg as required by ISA 240, whilst beneficial in many respects, might actually have a detrimental impact in reinforcing a group view or behaviour.

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

PS4	Yes, although as noted earlier, the IAASB is one of many relevant players and effectiveness will therefore be dependent on the collective effort.

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

PS5	All of those bodies listed in the question should consider what they should do and regard professional scepticism as a key matter for them to consider and cover in what they issue. ICAEW Audit and Assurance Faculty has issued a significant amount of material and guidance in recent times on the application of professional scepticism. This includes our videos on professional scepticism and several webinars, most recently in July of last year. ICAEW recently issued a drama film *False Assurance* as a training tool for auditors and this highlights some of the key matters connected with professional scepticism.

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

The following questions relate to quality control matters set out in paragraphs 45–190. If you believe actions relating to quality control beyond those discussed in these paragraphs should be prioritized, please describe such actions and your supporting rationale as to why they require priority attention.

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

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

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

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

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

QC1(a)	Yes if it is clearly described and the purpose is clear, ie to enable firms to determine their approach based on their specific circumstances. The challenge is to ensure that the new standards allow this to happen in practice and for clear benefits to be seen, rather than being interpreted as further requirements (and burdens) for firms on top of the existing requirements. Ideally ISQC 1 would be completely rewritten to accommodate the approach but we are currently unclear how this will be done and, for example, which of the existing requirements would no longer be mandatory.
	The impact of introducing a QMA requirement is likely to depend on the audit firm's starting point. We understand that a number of firms, particularly the largest firms, are likely to have already adopted much of what is being proposed for the QMA. Based on what we have been told by firms that have already adopted this approach, we believe that there will be significant challenges for firms in implementing each of the elements of the QMA. Whilst we consider that in principle a QMA could be implemented effectively by all firms if there is leadership buy-in at the firms, we consider that the cost of implementation will be significant, and this is likely to be disproportionately so for smaller firms, albeit that there might be cost savings for them longer-term if the QMA approach can be made flexible and scalable.
	We support the IAASB's objective as described in paragraph 50 of the ITC, ie to introduce "a more proactive, scalable and robust response to managing quality risk that would more easily adapt to a rapidly changing business environment". A move to a more preventative approach and less focus on detective measures would be welcome but the challenge for the IAASB is achieving this in practice and the ITC is unclear about how this will be done. In particular we are concerned about ensuring scalability and the position of SMPs and probably mid-tier firms as well if a QMA is something new for them. If a QMA requirement is introduced for all firms, it is unclear which of the existing ISQC 1 requirements would no longer apply to SMPs, if any, and the rest of the quality control section of the ITC arguably perpetuates this feeling of it being likely that there will be more requirements overall by examining a number of possible new requirements beyond the existing ones. Looking at the extensive range of matters covered by a QMA, including the matters covered in Tables 2 and 3 of the ITC, we consider that there would

	need to be a considerable amount of supplementary material and guidance for firms, particularly for SMPs, for them to implement a QMA effectively and efficiently (the experience regarding smaller entity audit documentation is relevant here). We believe it is unlikely that SMPs will welcome these changes, particularly at a time when there are many other regulatory changes and significant changes to the financial reporting for the entities they audit. The approach and understanding of regulators will be important if a QMA requirement is introduced. There could be benefits arising from the regulators being satisfied regarding the effective operation of the QMA and adjusting their regulatory approach accordingly, but there is also a risk of this being perceived as something that just gets added to the compliance checklist. The UK's Audit Firm Governance Code might be relevant to the comment on corporate governance principle that is made in paragraph 53 of the ITC.
QC1(b)	We have not identified any further elements at this stage. The diagram in paragraph 64 is a good visual representation of how the elements link together and create a cycle of continuous improvement.
QC1(c)	ISA 220 will need to be amended accordingly to address quality control at the engagement level (covered by the next section). The IAASB will need to consider consequential amendments to other standards as part of the project but we do not consider that this should mean a fundamental review and rewrite of the content of all the ISAs.
QC1(d)	The needs of SMPs need to be considered, as well as the scope of ISQC 1 and, for example, whether a different standard or standards are necessary for compilation engagements and other non-audit engagements. At the current time we are unconvinced that the successor to ISQC 1 with the QMA requirement will be easily scalable and we therefore consider it appropriate that the successor to ISQC 1 is restricted to audit engagements only. In our view compliance with the ICAEW's less onerous Practice Assurance Standard on quality control is appropriate for non-audit engagements. Furthermore, we are concerned about the burden on SMPs of introducing a QMA requirement and suggest that an alternative would be to make this non-mandatory (covering the merits and scalability of it in the application material) or applying the QMA requirement to firms with listed entity or public interest audits only.

QC2. *Engagement Partner Roles and Responsibilities*

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

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

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

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

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

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

QC2(a)(i)	Reading the matters outlined in paragraph 85 of the ITC it is difficult to identify what is truly new, apart from the need to build in the impact of the QMA if that is introduced. We consider that further clear guidance for engagement partners might be helpful but this should be as part of a range of activities that enable them to carry out their role effectively. We are concerned that if too much emphasis is given to the role of the EQC reviewer (see answer to QC6), there might be confusion regarding the primary role and responsibility of the engagement partner and possibly a diminishing of this responsibility. This would be a detrimental, albeit unintended, consequence of those proposals.
QC2(a)(ii)	We are not aware that there is currently a lack of clarity regarding engagement partner responsibilities. We support spelling this out if this is considered by some to be helpful but we would not regard this as the IAASB's top priority.
QC2(a)(iii)	Key to the engagement partner carrying out his or her responsibilities effectively is having the commitment to quality and applying professional scepticism to the audits they have responsibility for. The matters covered in the earlier sections of the ITC are at least as important to achieving successful outcomes.
QC2(a)(iv)	No further comment (see above).
QC2(b)	This matter could be addressed in application material highlighting that the person signing the report must conclude that there is sufficient and appropriate evidence to do so.

QC3. *Others Involved in the Audit*

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

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

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

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

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

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

QC3(a)(i)	We agree that all of the matters outlined do need to be considered in the review of the standards. We do not consider that the responsibility of the engagement partner should be diminished in any way as a result of the involvement of others in the audit.
QC3(a)(ii)	These are topical matters and, as outlined in paragraph 94 of the ITC, concerns have been expressed about the current situation.
QC3(a)(iii)	None identified.
QC3(a)(iv)	No further comment.
QC3(b)	Application material might be helpful.

QC4. *The Firms' Role in Supporting Quality*

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

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

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

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

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

    (b) Specifically:

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

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

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

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

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

QC4(a)(i)	The matters outlined in those paragraphs are all relevant to the review of the standards. Addressing audit quality matters through networks, eg through common policies/procedures and monitoring, makes a key contribution to enhancing audit quality and it would be helpful for the standards to cover this, probably through application material.
QC4(a)(ii)	No further comment.
QC4(a)(iii)	None identified.
QC4(a)(iv)	No further comment.
QC4(b)(i)	As stated above, we consider that it would be appropriate for application material to cover this.
QC4(b)(ii)	It would be a challenge to do more than cover briefly in application material. This is probably a matter for others to address given the wide variety of networks that exist in practice.
QC4(b)(iii)a	This can be addressed in the application material and perhaps through other guidance issued by the IAASB or others. The principles involved remain the same and therefore amending requirements is unlikely to be needed.
QC4(b)(iii)b	No.

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

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

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

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

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

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

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

(b) Specifically:

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

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

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

QC5(a)(i)	The UK Audit Firm Governance Code, referred to in paragraph 126 of the ITC, only applies to the very largest firms. We consider that it is more appropriate for these matters to be dealt with by the appropriate authorities within specific countries rather than introducing any significant reference to it in the IAASB standards.
	We support introducing more application material on firm leadership and culture. We would not support introducing the 'public interest' concept into the standards as this would be difficult to interpret. The ITC coverage of public interest issues (in the first section) is the appropriate way of dealing with these matters.
QC5(a)(ii)	Having the appropriate culture of valuing quality is crucial and the material in the standards should be reviewed if it is believed that there are currently weaknesses regarding this.
QC5(a)(iii)	We consider that tone in the middle and tone at the bottom are also important to achieving audit quality and these should be considered as part of the project.
QC5(a)(iv)	No further comment.
QC5(b)(i)	We support referring to this in the standards as appropriate but, as per our answer to Q5a)i) above, we do not regard this as something to be covered by requirements in the IAASB standards.
QC5(b)(ii)	We support this being considered as part of the revision of the standards. Assigning responsibility and giving clear guidance regarding what is required plays a key part

	in achieving audit quality.
QC5(b)(iii)	A QMA would provide a helpful context for these responsibilities but we would not consider this as essential to ensuring the assignment of the required roles.

QC6. *Engagement Quality Control Reviews and Engagement Quality Control Reviewers*

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

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

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

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

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

    (b) Specifically:

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

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

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

QC6(a)(i)	We consider that EQC reviews play a key role in firms having effective systems of quality control and we agree that greater clarity and further guidance should be given on certain EQC review matters, for example on the issues identified in paragraphs 137-140 of the ITC. In particular we consider that more guidance in the application material on EQC reviewer eligibility and what should be done in an EQR review would be helpful. However, we are concerned that too great a shift towards giving the EQC reviewer greater responsibilities and elevating the perceived significance of the role might have a detrimental impact by potentially confusing (and at worst) diminishing the role and responsibility of the engagement partner. The engagement partner retaining primary responsibility is critical to the effectiveness of ISA audits. We do not support mandating reporting of whether there was an EQC review in the auditor's report, as suggested in the last bullet of paragraph 144 of the ITC. We welcome firms being as transparent as possible in their audit reports but making this a requirement might give undue prominence to the role of EQC review compared to other aspects of the quality control system and, as stated in the last sentence of that bullet, inadvertently give readers a negative view about the quality of an audit that has not been subject to an EQC review.
QC6(a)(ii)	Audit firms currently find EQC reviews a challenging area to implement effectively, as evidenced by the number of inspection findings. The IAASB and others, including professional bodies such as ICAEW, can help by providing more practical guidance

	on the topic. The ICAEW Audit and Assurance Faculty has covered the topic in various ways in its guidance including in recent webinars and hangouts.
QC6(a)(iii)	Availability of suitable people to be EQC reviewers could be a significant issue if there is too great an enhancement made to the role. We consider that the role should not be restricted to partners as firms might consider that there are other staff or suitable third parties able and available to take on the role.
	In the EU there is a new Regulation that applies to public interest audits and this has introduced a number of new requirements with some differences compared to ISQC 1. Then IAASB should consider whether to make any changes to its standards in the light of the Regulation requirements.
QC6(a)(iv)	No further comment.
QC6(b)(i)	On balance we would not support the mandating of EQC reviews beyond audits of listed companies although it might be preferable for the requirement to be for public interest entities rather than listed companies. We believe that judgement is central to decisions on whether to have an EQC review for other entities and this judgement for audits of non-listed companies might be diluted if the norm for them is regarded as not needing an EQC review.
	We do consider that there could be greater coverage in the application material of when to have an EQC review and how to go about it, picking up many of the issues in paragraphs 137-140 of the ITC including considerations for SMPs. We would support much greater coverage of reviews in general and not just EQC reviews. We understand that some firms consider that there should be reviews of all audit engagements, with the type of review to be performed dependent on the risk. Firms should have clear policies and procedures on reviews, not restricted to EQC reviews.
QC6(b)(ii)	Yes we consider that ISQC 1 should 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. This should be linked to the IESBA requirements on 'cooling off'.
QC6(b)(iii)	On balance we would not support the development of a separate EQC review standard. We understand and support the desire to give prominence to the importance of EQC reviews, but we consider that this can be done within the overall standard for quality control. One risk of separating the requirements is breaking the perception of integration with the whole system of quality control.

QC7. *Monitoring and Remediation*

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

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

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

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

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

(b) Specifically:

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

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

QC7(a)(i)	We agree that monitoring and remediation play a key role in effective quality control and the issues in paragraphs 150-152 of the ITC, including the SMP perspective, are all important. It would be helpful to give greater coverage to these matters in the IAASB standards, in particular on remediation, and for more practical guidance to be issued to help firms develop their systems in this area. We consider that all of the matters and possible actions identified in paragraphs 156-159 of the ITC are important. The main way to do this is likely to be through additional application material although the IAASB should give careful consideration to introducing requirements that are proportionate for the matters covered by QC7b) below.
QC7(a)(ii)	As with EQC reviews, audit firms currently find it challenging to implement monitoring and remediation policies and procedures effectively, as evidenced by the number of inspection findings and the recent focus on the need for root cause analysis and the need to do more to act on review findings. The IAASB and others, including professional bodies such as ICAEW, can help by providing more practical guidance on the topics. The ICAEW Audit and Assurance Faculty has covered the topics in various ways including in recent webinars and hangouts and we are currently developing practical guidance for auditors on root cause analysis. We will share this guidance with the IAASB as soon as it is available.
QC7(a)(iii)	Some of the matters being raised are not just for the IAASB to consider and act upon. For example, there is a link with the professional scepticism section of the ITC (and the activities of the Joint Working Group) as it is likely that some of the causal factors will be related to behaviours and the other issues covered in that section. Indeed in our answer to PS1 above we have stated our view that the link between professional scepticism and the role of root cause analysis should be highlighted more explicitly in materials issued by the standard-setting boards. For example, if there is a finding that there was a lack of scepticism, this is insufficient as an

	explanation in itself without exploring *why* there was a lack of scepticism and digging deeper. It could be that the auditor lacked the personal skills needed to challenge or the analytical skills or knowledge necessary to exercise the scepticism, or it could be that there was time pressure or some other personal pressure that prevented the auditor from doing what should have been done. The evolution of the profession's approach to the topic should move from the high level term 'professional scepticism' to dealing with the many detailed underlying factors that underpin it.
QC7(a)(iv)	The position of SMPs does need to be considered and, in particular if new requirements are introduced as in b) below), whether these requirements should apply to SMPs.
	As we have stated in previous representations to the IAASB, we do not consider that some of the monitoring requirements in ISQC 1, in particular the requirement for independent review of completed engagements, are justified for non-audit engagements. In our answer to QC1d) above, we have proposed that the IAASB considers the scope of the successor to ISQC 1 and, for example, considers whether a different standard or standards are necessary for compilation engagements and other non-audit engagements. In our view compliance with the ICAEW's less onerous Practice Assurance Standard on quality control is appropriate for non-audit engagements.
QC7(b)(i)	We agree that it is important for firms to understand the causal factors of audit deficiencies relating to inspection findings and other reviews, and to take the necessary actions based on that understanding. In fact understanding causal factors should not just be restricted to engagements where shortcomings have been identified as firms can also learn from understanding the reasons why some audits went well. We therefore support the IAASB giving careful consideration as to whether to introduce new requirements that are proportionate in the standards in this area. It should definitely be covered in the application material and in other ways as per our answers to QC7a)i) and a)ii) above.
	Although we believe that all audit firms can benefit from some root cause analysis, it might not be appropriate to extend the new requirements to all audits and possibly it should be restricted to public interest entity audits or be qualified by saying 'where appropriate'. We agree that all firms need a commitment to continuous improvement and for this to be apparent in the way the firm operates but requiring detailed formal processes covering this area might not be appropriate to the circumstances of smaller firms.
QC7(b)(ii)	We also agree that it is important 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 therefore support the IAASB giving careful consideration as to whether to introduce new requirements that are proportionate in the standards in this area. It should definitely be covered in the application material and in other ways as per our answers to QC7a)i) and a)ii) above.
	If there is such a requirement introduced, it will be necessary to highlight that application of the requirement will depend on the circumstances as introducing formal written processes might not be appropriate for some firms including SMPs.

QC8. *Engagement Partner Performance and Rewards Systems*

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

 (a) Do you believe that establishing a link between compensation and quality in ISQC 1 would enhance audit quality? Why or why not?

 (b) What actions (if any) do you believe we should take in this regard? Are there potential consequences of possible actions that you believe we need to consider?

QC8(a)	We consider that the key matter to cover in the standards is the need for a culture and policies/procedures that clearly value achievement of audit quality as a top priority. Whilst performance and rewards systems for remuneration can provide evidence regarding this, we do not consider it appropriate for there to be requirements in the IAASB standards regarding compensation. However, we would support coverage of these matters in application material, highlighting the part that performance and rewards systems can play in achieving good audit quality. We also consider that the impact of fee pressures and time constraints should be covered and the need to support partners and staff to do what is right for quality when they face these pressures. This is part of a much broader process regarding appraisal of partners and staff than just focusing on compensation.
QC8(b)	As stated in the answer to a) above, we support coverage of these matters in application material but consider that any compensation requirements in this area would be inappropriate.
	We agree with the comment in paragraph 162 of the ITC that a requirement to link remuneration to audit quality incentives would be challenging for SMPs to implement and may have unintended consequences. This is one reason why we consider that including a requirement in standards would be inappropriate. The position of SMPs should be included in any coverage of the issues in the application material.

QC9. *Human Resources and Engagement Partner Competency*

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

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

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

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

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

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

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

  (ii) Related to engagement partner competency?

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

| QC9(a)(i) | The most meaningful actions for the IAASB to take in this area are those set out in paragraph 187 of the ITC regarding IES 8 (Revised). We have made representations regarding this in recent years to both the IAASB and the IAESB, and this should be a top priority for the IAASB project. We consider that the IAASB standards, which are the ones addressed to audit firms, should pick up the matters covered in IES 8 (Revised). A key aspect of ICAEW's implementation of IES 8 (Revised) is to require our member audit firms to have the necessary systems in place and to provide evidence that their audit engagement partners do have the competencies required by IES 8 (Revised). Our monitoring activities will cover these systems but firms need to be clear regarding their responsibilities for these matters which is best achieved through the IAASB standards that are addressed to them. With respect to the last bullet of paragraph 187 of the ITC we consider that ISQC 1 should explicitly highlight the IES 8 (Revised) competencies.

We support including the matters in paragraphs 176-178 of the ITC in application material but this is a secondary issue compared to the point about IES 8 (Revised) matters, as above. |
|---|---|
| QC9(a)(ii) | See answer in a)i) above. We consider that at the moment there may be confusion amongst auditors and audit firms regarding responsibility for implementing IES 8 (Revised). Auditors and audit firms are generally unfamiliar with IESs as they are addressed to IFAC member bodies and there is a risk that they will give insufficient attention to the matters covered by IES 8. We believe that the key to achieving successful implementation of IES 8 (Revised) is for audit firms to have the necessary systems in place to ensure their audit engagement partners have the required competencies. This is best addressed through the IAASB standards that the audit firms are required to follow. |
| QC9(a)(iii) | The key matter is IES 8 (Revised) as above. The matters here do link to much else covered in the ITC, in particular they link very directly to the professional scepticism section of the paper. Matters related to competencies should be central to the Joint Working Group's activity on that topic.

One key matter is the need for effective coaching and mentoring to develop the auditors of the future. As we state in our answer to PS2, new audit models are likely to make traditional on the job coaching and mentoring for juniors very challenging and yet we consider that this is as essential going forward as it has been in the past. The Joint Working Group should consider how this can be achieved with the opportunity of using data analytics being part of this consideration.

An important part of the debate on competencies should be on matters relating to technological changes and the skills that auditors of the future will need to have. The IAASB should add this to its agenda under this heading. |
| QC9(a)(iv) | We consider that people issues are central to matters related to audit quality and in our view should be emphasised far more prominently in the IAASB standards. Our recent work in our AuditFutures initiative is highlighting this, for example, by calling for the educating of responsible professionals and rethinking accounting education. |

QC9(b)(i)	See answer to a) above.
QC9(b)(ii)	See answer to a) above.
QC9(b)(iii)	See answer to a) 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?

    (b) If you would not support us taking actions as described in paragraph 190(b), please explain why, including any potential consequences of those actions that you believe we need to consider.

| QC10(a) | Yes we do agree that the IAASB should play a leading role in the development of good practice and principles on transparency reporting but taking a non-prescriptive approach so as to encourage innovation by firms. This would be consistent with the comment in paragraph 190b) of the ITC that practice is likely to continue to evolve to meet the needs of users of such reports. But the risk of the IAASB not playing a leading role is that inappropriate and indeed prescriptive requirements might be issued in some countries. The actions outlined in the bullets in paragraph 190b) of the ITC seem appropriate.

We also consider that the IAASB should take the lead on Audit Quality Indicators (AQIs) where we are seeing a wide variety of approaches in different countries (see our reference to this in our response to the recent PCAOB consultation on AQIs where we called on the IAASB to include AQIs as a key part of this quality control project, in particular by issuing supplementary guidance regarding the use of AQIs based on the Audit Quality Framework).

The IAASB's major project on auditor reporting and the implementation of the new and revised ISAs on that also links very directly to this project. One of the main factors in achieving successful implementation of extended auditor reporting will be the encouragement to audit firms to be as transparent as possible including on their approach to issues related to professional scepticism and audit quality. These words or phrases might not be used in individual audit reports but readers are likely to draw conclusions on these matters based on the content and transparency of what the firm says about the audit and their approach. For example, it is a way that firms will be able to demonstrate their professional scepticism to the readers of the reports. |
|---|---|
| QC10(b) | As explained in the previous answer to a), we support the IAASB taking these actions. |

The following questions are overall questions relating to quality control:

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

QC11	None identified, although we consider that the IAASB's extensive work and outreach on extended auditor reporting links very directly to the matters in this ITC (see answer to QC10a) above).

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

QC12	There are many actions that can be taken by others – as per our answer to G1c), setting standards is just one part of it and the various players identified in the IAASB's Audit Quality Framework all have significant parts to play.

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

QC13	Consideration of the needs of SMPs should be central to the IAASB project. This was recognised in the IAASB 2015-2016 Work Plan (reproduced on page 18 of the ITC) which refers to concerns regarding proportionality of ISQC 1 and the need to consider this being one of the key reasons for the project. We are concerned about the impact on SMPs of the proposal to introduce a QMA requirement despite the IAASB objective to address their needs – see our answers to QC1a) and QC1d).

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

QC14	None identified.

GROUP AUDITS

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

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

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

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

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

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

GA1(a)	Yes, IAASB should increase the emphasis in ISA 600 on the need to apply all relevant ISAs in an audit of group financial statements. In principle, all of the possible actions have the capacity, depending on the specific changes proposed, to improve audit quality. These include: • Emphasising challenges in assessing and responding to RMM at group level, including requiring component auditor to actively address these risks at the component level. • Emphasising the need for two-way communication with component auditors about identified risks. • Reinforcing the need to apply professional scepticism. • Expanding on what appropriate responses and outcomes of the component auditor's work could be. We do not believe that a new standard for auditors who serve as component auditors would be helpful because of the degree of inevitable duplication. We do believe that a separate section in ISA 600 to help group and component auditors, and regulators, understand the importance of the role of component auditors in group audits, and of active two-way communication, may be particularly useful to SMPs. Communication between group and component auditors is a key area in all group audits and ISA 600 cannot, and should not attempt, to specify either the demarcation, or the nature and extent of communications, both of which will vary enormously. Nevertheless, communications may well be improved through the provision of good quality examples and we attach ICAEW's *Auditing Groups: A Practical Guide* which contain numerous examples, including supplementary material with illustrations of reports provided by component auditors to group auditors.
GA1(b)	ISA 600 is not broken. Changing ISA 600 will not necessarily change behaviour and

	those who do not comply now are unlikely to be compliant with a revised standard. Major causes of regulatory and practitioner concern over its operation relate to implementation and logistics. IAASB needs to think carefully about how it will evaluate the success of its changes.
GA1(c)	The PCAOB has put in place provisions regarding the disclosure of 'others' involved in the audit on a searchable database but we remind IAASB that the current requirements are a far cry from the original proposals that were to require extensive lists of 'others' involved in the audit in audit reports, which would have added little but clutter. We caution IAASB against permitting those who lost that particular argument to use this as an opportunity rehearse it again. The debate was exceptionally unhelpful.
	More specificity regarding the disclosure in audit reports (or elsewhere) of the identity of component auditors or the 'proportion' of the audit they perform, absent context, would be unhelpful. IAASB's new reporting regime will, as in the UK, involve reporting on group audit issues as part of KAM, and as part of the scope of the audit. The focus of IAASB's efforts should be the on the *quality* of those audit report disclosures and whether they explain clearly to users how and why group auditors made the scoping decisions that they did.
GA1(d)	*No answer given*

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

GA2. *Acceptance and Continuance of the Group Audit Engagement*

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

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

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

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

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

  (b) Specifically:

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

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

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

GA2(a)(i)	None of the possible actions listed in paragraphs 215-17 of the ITC are, on the face of it, objectionable. However, we are least convinced by the possibility of more specific considerations where component auditors have different policies and procedures, training or regulatory regimes, language or culture as this covers the vast majority of component auditors. In the end, group auditors have to form judgements about component auditors, the environment in which they operate and

	the weight they attach to the evidence component auditors provide.
	Nevertheless, we believe that it would be helpful for IAASB to specifically address, in more detail than at present, situations in which access to large associated component entities and/or their auditors is limited, and to provide constructive suggestions regarding how auditors can overcome such barriers. This is important to avoid group auditors using ISA 600 as an reason to put pressure on group management to use network firms rather than others, as is likely if IAASB simply highlights the problem as a potentially heightened risk area, without giving examples of how the risk can be reduced. We also believe it would be helpful for IAASB to make it clear that group auditors should use their judgment, and have policies and procedures, regarding the point at which the proportion of the group audit conducted by the firm triggers enhance audit procedures. Reference could also be made to queries by auditors as to why group auditors are not used, to establish whether there appear to be legitimate reasons therefor, such as geographical reasons and the availability of audit resource. It may be helpful to point out that in some cases, group auditors may regard non-network firms are more appropriate than network firms as auditors of components, such as where the non-network firm has greater experience in a particular sector. IAASB might consider referring to the quality of information on which acceptance and continuance decisions are based. This might cover the time and cost obtaining this information, and the context. Context includes whether the group auditors have visited component auditors in the past, the quality of documentation provided by component auditors, whether or not common methodologies or quality control procedures are in place, and the maturity of the regulatory environment. Much of this is already dealt with in outline by ISQC 1 and ISA 600.
GA2(a)(ii)	*Answer above covers the whole of GA2a].*
GA2(a)(ii)	*Answer above covers the whole of GA2a].*
GA2(a)(iv)	*Answer above covers the whole of GA2a].*
GA2(b)(i)	We do not believe that auditors routinely ignore evidence suggesting that access will be an issue. Nevertheless, auditors have little practical choice but to assume that they will be able to obtain access unless there is a reason to think that they will not be able to do so. It might be helpful for IAASB to refer to the need to make adequate provision for the cost and time involved in necessary procedural requirements in obtaining access.
GA2(b)(ii)	IAASB should explore the possibility of requiring component auditors to allow access unless there is a valid reason not to, and for component auditors to provide an explanation when access is denied, unless there is a valid reason not to.
GA2(b)(iii)	*No answer given*

GA3. *Communications between the Group Engagement Team and Component Auditors*

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

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

the component auditor?

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

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

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

GA3(a)(i)	We believe that there is value in bringing component auditors within the scope of ISA 600. IAASB should explore the possibility of a separate section in the ISA for component auditors, to help group and component auditors, and regulators, understand the importance of the role of component auditors in group audits, and the importance of active two-way communication. Better quality communications are needed to ensure that group and component auditors agree on and understand the demarcation between their respective roles. ISA 600 should recognise that proper tailoring of requests for information is important simply because it elicits better quality responses. Despite the fact that many firms have a '20% pack' and a '5% pack', requests for more information than is required remain common, even though group auditors know that the request, or part of it, may be ignored. Auditing standards might discourage this but they cannot prevent it. ISA 600 could nevertheless encourage component auditors to communicate with group auditors regarding what is really required in such cases. ISA 600 should make it clear that group auditors need to understand what they are asking component auditors for, and why, and to make sure that they get it. How auditors do this, whether through meetings, translators, questionnaires or the review of files is not a matter for auditing standards. It would be helpful for ISA 600 to emphasise the need for group and component auditors to agree on the process for what is to be provided, when and how. Both sides need to recognise the need to communicate effectively.
GA3(a)(ii)	*Answer above covers the whole of GA3a].*
GA3(a)(iii)	*Answer above covers the whole of GA3a].*
GA3(a)(iv)	*Answer above covers the whole of GA3a].*

GA4. *Using the Work of the Component Auditors*

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

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

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

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

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

(b) Specifically:

(i) Should the nature, timing and extent of involvement of the group engagement team in the

work of the component auditor vary depending on the circumstances? If yes, how could changes to the standard best achieve this objective?

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

GA4(a)(i)	We do not believe that Including objectives or strengthening requirements to clarify that group engagement team should make an explicit determination about whether it is appropriate to use work of a component auditor would change behaviour.
	We agree that expanding A33 to result in a more robust challenge by group auditors regarding component auditor competence and capabilities might be helpful.
	Specific examples are always helpful, including examples of situations in which challenges are overcome, and of 'what 'good' looks like'.
	Different local licensing requirements apply to the vast majority of group audits. A list of points to consider in understanding the competence of component auditors might be helpful provided it is short and generic.
	Examples in the application material of differing circumstances might be helpful. IAASB might find that an appendix is useful to house examples.
GA4(a)(ii)	*No answer given*
GA4(a)(ii)	*No answer given*
GA4(a)(iv)	*No answer given*
GA4(b)(i)	Yes, the nature, timing and extent of involvement of the group engagement team in the work of the component auditor vary depending on the circumstances. It is important that ISA 600 acknowledges that where there are common methodologies and quality control procedures, and group auditors have evidence to show that they are effective, that less review work may be appropriate. ISA 600 should not imply that these commonalities are irrelevant.
GA4(b)(ii)	We believe that ISA 600 already requires group auditors to determine whether it is appropriate to use the work of a component auditor. Auditors who fail to do so adequately, or who fail to document that consideration will not be persuaded to do so simply by ramping up the requirements. It would be more constructive to try and to establish *why* some auditors fail to meet regulatory expectations in this area - the answer is not likely to be straightforward and there may be a number of reasons, some of which may be beyond the scope of auditing standards.

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

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

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

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

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

explain why.

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

GA5(a)(i)	All of the possible actions outlined are worthy of consideration.
GA5(a)(ii)	*No answer given*
GA5(a)(iii)	*No answer given*
GA5(a)(iv)	*No answer given*

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.

GA6(a)	More guidance and examples are needed on the application of the requirement for component materiality to be smaller than group materiality to large investments in associates, among other things. In a few cases, it will be appropriate for component to be set at just less than group materiality if the entity's only asset is an investment in a large associated entity, or where there is a dormant parent company with a trading subsidiary. In many cases, firms may determine that component materiality levels are normally set within a range between 60% and 70% of materiality, subject to circumstances that indicate that lower or higher levels are necessary. IAASB might wish to explore developing application material or examples to deal with this and to deal with situations in which all components are immaterial, and the practical application of aggregation risk. Where pension assets and liabilities are brought into the balance sheet, and where there are investments in large associated entities, component materiality may be much lower than the materiality level used for the statutory audit of the component. This creates practical problems when component auditors are unable or unwilling to work to such levels. Application material should give examples of how such challenges can be successfully overcome.
GA6(b)	*No answer given*

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

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

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

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

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

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

(b) Specifically:

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

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

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

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

GA7(a)(i)	While it would be helpful to clarify that an "audit of financial information of the component using component materiality" may not necessarily mean that component auditors are expected to apply *all* requirements in *all* relevant ISAs in *all* circumstances, it would not be helpful to specify which ISAs may not be relevant, to avoid that list being interpreted as exclusive.
	We do not believe that examples of "specified audit procedures" or "specified procedures" in specific circumstances are necessary or helpful as they vary enormously.
	More detail on the expected work effort related to analytical procedures at group level for non-significant components might be helpful, depending on how it is worded.
	Clarification regarding the implications of audit being work is performed on aggregated balances or processed centrally would be helpful but in application material rather than requirements because of the wide variation of arrangements for this.
	The test in the case where there are a large number of companies, none of which are significant individually, but that in aggregate represent ROMM, should be a substance over form test: if a property company holds 20 properties in 20 companies, all of them independently audited, and none of them individually significant, auditors should consider what they would do were the properties not

	artificially separated from each other using the veil of incorporation. What would auditors do if they were all in a single company?
	The reference to the cost method in the description of the consolidation process should be removed.
	ISA 600 should clarify that financial statements that only include investments accounted for at fair value or using the cost method are not considered groups.
	The test with respect to group auditor responsibilities for the consolidation process (and possible sub-consolidations) should also be a substance over form test: the question auditors should ask themselves is what they would do were the 'sub-consolidations' performed within a single company. It may not be possible to be more specific than this because group auditors may not be in a position to demand greater involvement in sub-consolidations and the focus here should be on the assessed risk of error in the sub-consolidation, and an appropriate response.
	Appendix 2 is long and we see no case for elevating any of its content. To do so would not change behaviour.
GA7(a)(ii)	*Answers above covers the whole of GA7.*
GA7(a)(iii)	*Answers above covers the whole of GA7.*
GA7(a)(iv)	*Answers above covers the whole of GA7.*
GA7(b)(i)	*Answers above covers the whole of GA7.*
GA7(b)(ii)	*Answers above covers the whole of GA7.*
GA7(b)(iii)	*Answers above covers the whole of GA7.*
GA7(b)(iv)	*Answers above covers the whole of GA7.*

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

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

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

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

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

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

GA8(a)(i)	Strengthening group documentation requirements emphasising the importance of documenting significant judgements, such as considerations regarding findings for one component giving rise to similar risks in others, may be helpful.
GA8(a)(ii)	*No answer given*

GA8(a)(iii)	*No answer given*
GA8(a)(iv)	*No answer given*

GA9. *The Impact of New and Revised Auditing Standards*

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

GA9	*No answer given*

The following questions are overall questions relating to group audits:

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

GA10	Shared service centres need to be dealt with. ISA 600 should reflect the way companies are organised. Responsibility for the quality of audit work performed at such centres needs to be clarified and similar considerations apply to those applying to letterbox audits. If most of the audit work is being performed outside the entity, group auditors need to consider the necessary extent of their involvement in the work of the shared service centre, which can effectively function as a component in some cases. IAASB should also consider the obligations of auditors of service centres in such cases who may not only be responsible for the local audit, but who may a significant part to play in the audit of numerous other entities in a group situation.
	Letterbox audits are a group audit issue, often where a component represents 100% of a group. Auditors who do not currently follow ISA 600 and simply accept the signature of another auditor as sufficient basis for forming an audit opinion are unlikely to change their behaviour significantly as a result of strengthening ISA 600. The issue is essentially a regulatory issue and IAASB should not attempt to deal with it through auditing standards.
	Procedures where there are large gaps between year-ends – component auditors are often asked to do a lot, management may be uncooperative and practice varies considerably.

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

GA11	*No answer given*

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

GA12	*No answer given*

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

GA13	*No answer given*