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Paris, 30th May 2016

Référence : DLE/BNB/CBO 20160314

Objet : Response to the IAASB's Invitation to Comment on Enhancing Audit Quality

Dear Mrs. Healy,

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments on the International Auditing and Assurance Standards Board (IAASB) Invitation to Comment (ITC): *"Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits"*.

A number of important issues have been identified in the ITC and we support most of the actions aimed at enhancing audit quality. We note, though, that it was challenging to respond to the consultation given its voluminous content and the significance of all three areas. We would recommend not using such approach of massive combined ITC in the future.

We are concerned that, as noted within the consultation, a large number of the issues are predominantly regulatory-driven and thus are likely to have been developed from observations regarding large and complex audits. We have also concerns that the spirit of the clarity project is gradually getting lost; the IAASB should be careful not to end up at a point where standards will become overly complex. In addition, while considering many of the issue to be valid, many of them relate to the application of the standards, rather than the content of the standards per se.

Although it is right that high quality standards should enable effective application and lend themselves to regulatory enforcement, the IAASB should be careful not to develop endless standards and requirements of unworkable length that perhaps are only relevant to large complex audits. The standards should be kept flexible enough for small and medium practitioners (SMPs).

Envoyer obligatoirement toute correspondance aux adresses ci-dessous:

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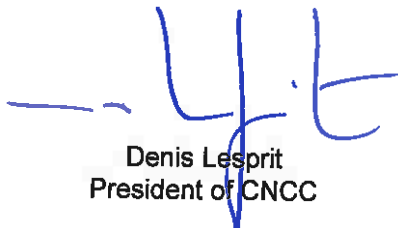
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We therefore encourage the IAASB to bear in mind the principles-based nature of the ISAs and preserve it so (not to turn them into rules-based standards) so that they continue to be "fit for purposes" as Group structures continue to evolve.

Responses to the specific questions raised in the ED are set out below.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,



Denis Lesprit
President of CNCC



Philippe Arraou
President of CSOEC

QUESTIONS FOR RESPONDENTS

GENERAL QUESTIONS

G1 Table 1 (P7) describes what we believe are the most relevant public interest issues that should be addressed in the context of our projects on professional scepticism, 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.**

The table 1 of the ITC describes in page 7 the IAASB's views on the most relevant public interest issues related to professional scepticism, quality control and group audits, i.e.

- Fostering an appropriately independent and challenging sceptical mindset of the auditor;
- Enhancing documentation of the auditor's judgments;
- Keeping ISAs fit for purpose;
- Encouraging proactive quality management at the firm and engagement level;
- Exploring transparency and its role in audit quality;
- Focusing more on firms (including network) and their internal and external monitoring and remediation activities;
- Reinforcing the need for robust communication and interactions during the audit.

However, we have the following comments:

- The first point, i.e. "Fostering an appropriately independent and challenging sceptical mindset of the auditor", might warrant further thought since it perhaps focusses too much on engagement partners. Even if we agree that sceptical engagement partners are essential to a quality audit, we should not underestimate the importance of instilling scepticism at lower staff levels as well and in particular via a proper 'tone at the top' and 'tone at the middle';
- The second point, i.e. "Enhancing documentation of the auditor's judgement", is also important. Enhancing documentation should be understood in terms of quality not quantity, as it would not be appropriate for auditors to have to document every thought process they went through in arriving at a particular judgement;
- Concerning the third point, i.e. "Keeping ISAs fit for purpose", we consider that the ISAs have to remain principles-based auditing standards and must not be turned into rules-based auditing standards;
- The final point, i.e. "Reinforcing the need for robust communication and interactions during the audit", is in our view, essential, in particular in terms of transfer of experience and expertise from the audit partner to junior staff. This point also includes all other communications such as the ones with those charged with governance, the public auditor reporting etc.

We recommend that the IAASB also considers barriers that exist to the application of these principles in practice, for instance by acknowledging that there are disincentives, time constraints or commercial pressure which could inhibit any form of proper communication. We highly recommend to the IAASB

to properly appreciate the impact of fees constraints on the audit quality and try to find possible solutions to prevent the decline in the attractiveness and the impoverishment of the profession. We therefore consider that the IAASB should liaise with the IFIAR to tackle this issue.

Moreover, we believe that many of the challenges regarding professional skepticism are linked to the context of accounting estimates. We welcome the fact that the IAASB is currently working on the revision of ISA 540 *Auditing accounting estimates, including fair value accounting estimates, and related disclosures*.

Furthermore, we consider the evolving role of the auditor, such as to provide assurance on other information than the financial statements, to be a relevant public interest issue.

Finally, we believe that the fundamental public interest issue is public confidence in audit quality regardless of the size of the entity. To this end, audit firms of all sizes have a role to play in designing policies and procedures to enhance audit quality irrespective of the size of the entities. These policies and procedures would focus on their individual facts and circumstances. In this way, the scalability issue, linked to the SMPs, is also important.

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?

Although already mentioned, we consider that external factors such as: time constraints and commercial pressure, including pressure on fees, generate excessive burden on the audit quality that the IAASB should not underestimate. These two factors impact time allocated to the job and therefore the audit quality. Year after year, auditors have to cope with increasing requirements and demands from the legislation whereas fees do not cease dropping. In this context, we consider that the IAASB should seize the matter of audit quality in its totality including the issue of fees.

Furthermore, the IAASB should continue liaising with accounting standard setters form them to examine the materiality and going concern areas.

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

No we are not aware of any published, planned or ongoing academic research studies that may be relevant to the three topics in this consultation.

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?

The concept of professional skepticism is defined by the ISA as is stated in paragraph 15 of the ITC, i.e. *"An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence."*¹

Moreover, the way in which scepticism is linked to professional judgements and drives actions (paragraphs 24 to 27) is a useful construct. We believe that the definition of professional scepticism should include the concept of the 'right attitude' that should be applied and what is entailed by applying a 'questioning mind'. Also, the IAASB should try to understand where the barriers to professional scepticism are and identify which areas need to be enhanced further. Paragraphs 28 and the following paragraphs provide a good basis on which to build this line of thinking.

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

We agree that the concept of professional scepticism should be considered pervasively across the spectrum of professional standards and guidance. As such, we strongly support the approach of a joint working group of representatives from the IAASB, IAESB and IESBA Boards aimed at ensuring a coordinated approach.

We believe that important drivers of professional scepticism are:

- Seniority of staff

The IAASB should highlight the importance of the role of the senior members in the engagement team to shape and develop the natural professional skepticism of less experienced staff.

- Diversity of backgrounds

Another important driver of skepticism is the diversity of backgrounds of the engagement team members. Individuals from different backgrounds (i.e. chartered accountants, engineers, business experts, ...) inevitably bring a diverse range of skills and experiences which can add value when exercising professional skepticism.

- Training, education and mentoring

Initial but also continuous training are important drivers for the appropriate application of professional skepticism. We consider that what is useful is to have the opportunity to share experiences and encourage more senior members to share their experiences on instances where they have been faced with an issue that required their skepticism and or their judgement.

- Courage

Courage is one of the most important attitude to have or to develop for an appropriate application of professional skepticism. Although it is directly linked with personal traits, such a driver of skepticism can also be developed through training, education and mentoring.

¹ Paragraph 13 (I) of ISA 200 – Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing

⇒ Time and the related fees

The audit teams need to have sufficient time to question the evidence received. A lack of time, i.e. due to for example pressures on the deadlines or late submission of documents, and changes in the schedules constitute barriers to an appropriate application of professional skepticism.

Finally, the IAASB should also consider that compliance and professional skepticism may be diverging forces in certain situations. Similarly unstable frameworks (auditing or accounting standards) may not favor professional skepticism.

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 areas to be considered?

We agree with the areas being explored in paragraphs 38-40, we have identified additional areas that also merit consideration.

Regulators have been significant contributors to the professional skepticism debate. We suggest that the IAASB should continue liaising with them in order to have more insight into external inspection findings, especially in the area of accounting estimates, which seems to be one of the main causes from which professional skepticism criticism derives. The review of IFIAR report on survey of inspections findings is an important source of knowledge, particularly in relation to the results of their root cause analysis.

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?

Yes, we believe that in general the possible actions that the IAASB might take in the context of the current projects relating to quality control and group audits could have positive effects in promoting the application of professional skepticism.

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?

We have identified actions that others, such as audit committees, regulators and national auditing standard setters, could take to enhance the application of professional skepticism.

First, audit committees, we believe that they have a strategic role in asking the auditor to explain where and how professional skepticism has been exercised. Audit committees could establish procedures to provide feedback to the external auditor as to whether they have delivered high quality work and whether the application of professional skepticism was adequate to safeguard the stakeholders' interests. Moreover, Audit committees should also consider the adequacy of the amount of the audit fees with the work to be done and the requested professional skepticism to apply. In many cases, invitations of tenders result in significant drops in fees. If so, audit committees should have to justify how such significant decreases can safeguard the stakeholders' interests.

As far as the regulator community is concerned, co-operation between standard setters (IASB, IESBA and IAESB) and practitioners to establish a joint definition and a common understanding of their expectations as to how the concept of professional skepticism should be applied in practice would be welcome.

With regards to the auditing standard setters, we consider that the IAASB should further structure standards in a way that instils a skeptical mind-set, for example urging auditors to identify 'what could go/went wrong', to understand if a quality control finding, e.g. wrong risk assessment, was caused by inappropriate application of professional skepticism, and encourage auditors to challenge management. However, we believe that the IAASB should explicitly state that caution needs to be taken on the auditor's perspective to focus only on those areas where they feel that challenge is the most warranted, i.e. consider the risk-based approach and areas where material misstatements could be identified. Introducing too much of professional skepticism would lead to challenging 'everything' over and above the identified risks, which will be impractical from an audit point of view.

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?

Yes, we believe that the use of a QMA approach would improve audit quality. Such an approach is designed to increase the focus in ISQC1 on the importance of and need for effective firm leadership as a foundation to the ability of the firm to achieve quality at all levels. Audit firms need to establish quality plans and quality objectives. Such objectives have to be shared at all levels. Quality controls are only one component among others that contribute to the audit quality.

Table 3 demonstrates all the relevant elements that should be taken into consideration while restructuring ISQC 1.

We believe that any restructuring to ISQC 1 should also be reflected in ISA 220 since for instance the latter is premised on the basis of the firm-wide quality control environment.

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).

Paragraphs 69-86 set out matters relating to the roles and responsibilities of the engagement partner. We believe that more clarity about the role and responsibilities of the engagement partner is important, but we do not agree that the IAASB should include additional requirements on what an engagement partner is expected to do at all stage of the audit (i.e. planning, performance and completion). As we mentioned above, ISAs have to remain principles-based auditing standards and not to turn into rules-based auditing standards.

Concerning the signature of the auditor's report, as mentioned in paragraph 79 of the ITC, the ISAs do not explicitly set out who is required to sign, but require that the engagement partner is responsible for the auditor's report that is issued on behalf of the firm.

In many jurisdictions, the engagement partner is either named in the auditor's report, or signs the report in his or her own name. In some cases and pursuant to law, regulation or custom within a jurisdiction, in addition to or instead of the engagement partner, other partners are named in or sign the auditor's report.

Our position is that the engagement partner is qualified and registered as a statutory auditor; he is the one who has taken responsibility for the engagement, has a leading role in performing the audit and in ensuring its quality. As far as the signature of the report is concerned, we believe that the standard has to remain principle based and do not require additional requirements. Signature of the report is for us a legal issue and a question of professional responsibility.

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)?

As referred to paragraph 101, we do not support revisiting the requirements that currently preclude the ability to make reference to the report of another auditor. The concept of division of responsibility is not compatible with the European legislation. According to article 27 of the audit directive², Member States shall ensure that in the case of a statutory audit of the consolidated financial statements of a group of undertakings, in relation to the consolidated financial statements, the group auditor bears the full responsibility for the audit report referred to in Article 28 of this Directive. Accordingly, we do not agree with actions that would affect the concept of the group auditor's sole responsibility for the audit opinion.

² <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02006L0043-20140616&from=EN>.

Moreover, we do not agree with paragraph 102, suggesting a detailed reference to the involvement of another auditor to enhance transparency in the auditor's report. We believe that such a solution would be impracticable in case of large groups and would be clearly contrary to the spirit of ISA 600. Such detailed information may nevertheless be useful in the engagement letter.

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.

We agree with the action proposed in paragraph 114 (a) that consist in revisiting the existing requirements and application material in ISQC 1 to more explicitly address the considerations about the extent to which firms can rely on network quality control and monitoring policies and procedures in designing policies and procedures to comply with ISQC 1 at the firm level. This could effectively include, for example, more clearly describing what the firm is required to do at the firm level, and the engagement level, to appropriately rely on network firm quality control and monitoring policies and procedures. We draw your attention to the fact that exploring the results of quality controls has to comply with the requirements in terms of data privacy. In this context, we recommend that the IAASB requires that the results of the quality controls should be reported and analysed per country/ region and not per person.

The proposed actions are needed in order to keep the standards relevant in the context of continually increasing complexities of international businesses combined with the evolving audit models needed to audit related financial statements. However, a flexible approach, as mentioned is necessary to address the individual circumstances of each network, and indeed, the existence of networks is important to recognise within the standards. Moreover, network and firm structures are highly influenced by law and regulation of the jurisdiction where they are established. The level of organisation greatly varies: it can go from a branding tool to the existence of very stringent procedures. As a result, we consider that regulation on a network wide level is a challenge.

The Networks' complexity is evolving in order to follow the economic trends whereby operating and corporate models are becoming more and more complex, using for instance off-shoring, shared-service centres, etc. Audit firms need to reorganize their own structures and to review how best to organize engagement teams and conduct audits to get appropriately skilled and competent personnel to perform high-quality audits at a reasonable cost. Engagement team members may not all work together in the same place, as they might have done in the past. They may be in different jurisdictions or time zones. They may develop models such as "firm shared service centers," "centers of excellence," "on-shoring," "offshoring," or "outsourcing", referred to as called ADMs (i.e. Audit Delivery Models) in the ITC. Even if the ADMs are different to the traditional engagement team structures, we consider that there is no issue since ADMs people are part of the audit team and the network, moreover, the engagement partner retains responsibility for the direction, supervision, performance and review of the work performed, regardless of who performs the work and where it is performed.

As a result, we do not understand the concerns expressed by regulators and audit oversight bodies about quality control in relation to ADMs. Moreover, we believe that most of the issues recognised in this section are linked to the application of the standard and how it has been interpreted rather than to a specific need for revision of the standard. Enhancing the standards and application material in the manner described might help achieve the desired outcome. However, the effect on the length and comprehensibility of the resulting standard will need to be considered further.

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?

Firm leadership has a vital role in promoting a culture that emphasizes the importance of the role of the audit in the public interest and therefore the importance of audit quality. Firm leaders are responsible for establishing policies and procedures to achieve quality-related objectives, monitoring compliance with such policies and procedures and instilling a culture of accountability for quality

throughout the firm in the context of all the services it provides. Governance of a firm includes leadership responsibility for quality, oversight by firm leadership over the implementation of responses to risks of the firm not meeting its quality objectives and the oversight of firm leadership itself.

ISQC 1 addresses leadership responsibilities for quality within the firm, requiring that the firm establish policies and procedures designed to promote an appropriate internal culture, recognizing that audit quality is essential in performing engagements and requiring that the firm's chief executive officer (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent) assume ultimate responsibility for the firm's system of quality control.

However, we consider that ISQC1 should not address the subject of firm's governance. As a matter of fact, firm's governance and structures are highly influenced and linked to local laws and regulations of the jurisdiction in which the firms are established. We are of the view that ISQC1 should therefore not go into the details of the firms' organisation. We therefore recommend that the IAASB does not provide any additional requirements on this subject.

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.

We do not support the action that consists in expanding the types of engagements that would require an EQC review beyond audits of listed entities, i.e. expanding the EQC reviews to all PIEs.

ISQC1 requires that firms establish policies for audits of financial statements of listed entities to have an EQC review conducted by an EQC reviewer. Firms must also establish criteria to determine when other audits require an EQC reviewer. Regulation (EU) N°537/2014 of the European Parliament and of the Council of 16 April 2014³ requires an EQC review for the entities the regulation relates to i.e. the public-interest entities, i.e. "PIEs". Article 8 of the regulation provides explicit elements that need to be assessed during an EQCR for those entities.

³ Regulation (EU) N°537/2014 of the European parliament and of the council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02006L0043-20140616&from=EN>.

However, we consider that expanding, in an international standard, the EQC review to all PIEs is not appropriate for the following reasons: PIEs are not systematically considered as engagements with higher audit risk. In France, certain PIEs are not listed and are subject to a joint audit, which we consider contribute to audit quality to the same extent as an EQCR. Moreover, implementing EQC review to all PIEs should result in difficulties in practice with the rotation mechanism for the statutory auditors and the audit firms required by the EU regulation. We therefore consider that other entities to be considered for EQC review should be those with public exposure and high risk areas for the society, causing engagement to have higher misstatement, compliance, liability or reputational risk. We recommend that the IAASB gives flexibility in determining which engagements should be subject to EQC Review. The best solution may be to let national jurisdictions decide on the scope beyond audits of listed entities.

As EQCR is only one part of quality control, a separate standard is not appropriate. Our concern with such a proposal would be partly repetition in that significant material would need to be stated in two different places, and secondly, the relative importance of the role of the engagement partner might be lost due to the over emphasised role of the EQCR. In addition, the ethics Code dealing with long association of personnel, the IAASB should concentrate on the role and responsibilities of the EQCR and how it is articulated with the ones of the engagement partner. SMP concerns will need to be taken into account in this context. They are less likely to have a pool of suitable EQCR candidates than larger firms, so care needs to be taken not to impact audit quality by forcing a potentially less suitable EQCR to assume this important role. We therefore do not support the development of a separate EQC review standard.

For similar reasons, we do not believe that it would be appropriate to have an EQCR 'announced' in the auditor's report. Reporting publicly on what is actually a 'firm-internal monitoring process' could send the wrong signal about the audit, and whether users would actually benefit from such information remains unclear. However, as part of the firm's quality monitoring, EQCR is an issue that ought to be of interest to those charged with governance, and its application should be reported to them.

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.

We believe that it is important to require firms to consider external findings, as mentioned in paragraph

156 of the ITC. What it is essential for the firms is not only to conduct an analysis of the external findings and policies and procedures but also to address the issues identified from these findings and monitor with effectiveness and appropriateness the remedial actions.

We support the action proposed in paragraph 157 (a) that would consist in obtaining an understanding of the causal factors of audit deficiencies identified by inspections and other reviews (such as EQC reviews, pre-issuance reviews, post-issuance reviews etc.), including consideration of information gathered at the engagement level regarding each audit deficiency.

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?

Yes, we consider it is important to reward quality and believe that establishing a link between compensation and quality in ISQC1 would be pertinent. We note that already firms reward quality. It would therefore be misleading to induce the false impression that firms do not reward quality but only commercial and developments successes.

We consider that the standards could clarify that quality considerations and measures are an important part of performance assessment. However, we recommend that the IAASB retains a flexible approach that is necessary in order for the standard not to unduly influence the management of firms, given the broad differences in firms' structures, sizes, etc.

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.

The knowledge, skills and competence of a firm's employees and the manner in which those employees are assigned to an engagement are essential to achieving audit quality and therefore would be an important consideration in the firm's determination of quality risks in establishing a QMA.

We think that the most meaningful action would be aligning IES 8 with ISQC 1 and ISA 200 per paragraph 187 would be beneficial. These actions are necessary because human resource, and thus personnel management, is a primary factor to achieve a high quality audit.

Special consideration should be placed on staff retention, which is a major issue for many firms. Audit is increasingly not seen as an attractive long term career option for many of the most talented young professionals. This has the potential to seriously affect the long term sustainability of the profession and is a longer term public interest issue.

Also, additional application material addressing this issue "to support the requirements for a firm to have sufficient personnel with appropriate competence, capabilities and commitment to ethical principles" would lead to a positive impact to audit quality in the longer term.

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.

In Europe, we have had compulsory transparency reporting for many years now and we agree with the IAASB that practice continues to evolve and that trying to establish requirements related to firm transparency reporting could inhibit innovation on this area and possibly result in less useful information being provided to stakeholders.

Nevertheless, we believe that the IAASB is able to positively contribute to the evolution of transparency reporting despite the fact that this is primarily a matter for local laws and regulations.

We also consider that the transparency reporting should not be published only for oversight bodies. We are of the view that such a document can be an excellent communication tool.

The following questions are overall questions relating to quality control:

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

No, we have not identified any other issues relating to quality control.

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

No we have not identified any other specific actions that others could take in relation to quality control.

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.

We consider that the specific consideration for SMPs related to the issues and potential actions described in this section is scalability. Moreover, the scalability issue need to be tackled in a fair manner by the IAASB, but not to the extent that it impairs quality. A level playing field should be found for all auditors in relation to quality control, but scalability should not be understood as less quality. The scalability could be driven by the types of clients that are being audited as opposed to the size of the firms.

Also, applying the QMA might be a challenge for smaller firms; the IAASB will therefore need to be particularly clear on how smaller firms can apply a QMA. An impact assessment might be necessary on this part of the market.

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.

We have no specific considerations to report.

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?

We believe that the matters identified are matters regarding the implementation of the auditing standards. We consider that the IAASB should keep in mind the principles-based nature of the ISAs and preserve it so that they continue to be "fit for purposes" as group structures continue to evolve. We therefore consider that it is not necessary to add more requirements to the ISA 600.

More practical sources of guidance could be developed and produced in the form of International Auditing Practice Notes (IAPNs) or Staff Papers or FAQ for example. Also, illustrative examples may be key to the development of better quality group audits. These practice notes and examples do not impose additional requirements on auditors beyond those included in the ISAs, but rather provide practical guidance on specific subject matters.

In addition, this type of guidance could produce 'application scenarios', possibly outside ISA 600. The complexities of international organisations are ever increasing. In the near future, there may be other developments and challenges arising from areas linked to group audits that would benefit from further guidance; a mechanism for addressing such needs without re-opening a complex standard might be a desirable option. Illustrative examples may be key to the development of better quality group audits.

Also some of the guidance may well have application outside of a strict group scenario e.g. those when addressing the entity's use of a Shared Service Centre (SSC) mentioned in paragraph 194; we believe that the use of SSC by clients might also be relevant in the case of a statutory audit of a single entity, and thus should not solely be a group audit issue.

As mentioned in QC3, we do not support revisiting the requirements that currently preclude the ability to make reference to the report of another auditor. The concept of division of responsibility is not compatible with the European legislation. As we already mentioned, according to article 27 of the audit directive, Member States shall ensure that in the case of a statutory audit of the consolidated financial statements of a group of undertakings, in relation to the consolidated financial statements, the group auditor bears the full responsibility for the audit report referred to in Article 28 of this Directive⁴. Accordingly, we do not agree with actions that would affect the concept of the group auditor's sole responsibility for the audit opinion.

⁴ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02006L0043-20140616&from=EN>.

GA2–GA9 addresses 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 208 (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?

As reminded in paragraph 204 of the ITC, audit engagements may only be accepted or continued when the engagement exhibits certain characteristics. In particular, and as described in paragraph 71, the engagement partner needs to establish that certain preconditions are present, the responsibility for which rests with management and, where appropriate, those charged with governance. These preconditions include obtaining agreement of management that it acknowledges and understands its responsibility to provide the auditor with:

(a) Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

(b) Additional information that the auditor may request from management for the purpose of the audit; and

(c) Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

In a group audit engagement, the group engagement partner needs to establish that these same preconditions are present before accepting or continuing with the engagement. If access to the required information or entity personnel is not, or will not be, available, there is a presumption that the group audit engagement would not be accepted or continued.

Paragraph 208 of ITC gives examples of matters that may not be adequately considered or documented at the acceptance and continuance stage. We consider that this list of examples is too detailed. Moreover, the issues noted in this paragraph are not encountered for the majority of group audits, however, there are a number of jurisdictions that have privacy laws or regulations that are complex and in effect make access to information difficult, and in some instances impracticable. Furthermore, difficulty to access the information frequently arises where group management have limited control or leverage over the entities that appear within their financial statements, such as where the group has non-controlling equity investments or in 'fund of fund' structures. The standards recognize that auditors may face scope limitations and so standard setters will not be able to solve such issues, but should encourage legislators to act instead. Despite this, we consider that the IAASB

could tackle this issue and include a requirement in the standard to require access to the group engagement team to the information that is considered necessary.

Moreover, we have concerns about the suggestion included in the following paragraphs:

– Paragraph 207 of the ITC

« It has been noted in some inspection findings that there are situations where auditors give inadequate consideration to certain matters that may be relevant to the decision about whether to accept or continue a group audit engagement, and that the documentation of such considerations does not adequately reflect the decision-making process. In this regard, some regulators and audit oversight bodies and others are concerned that group engagement partners, before accepting a new group audit engagement or making a decision to continue an existing engagement, do not obtain a sufficient understanding to be able to be satisfied that they can reasonably expect that sufficient appropriate audit evidence will be able to be obtained.»

We consider that requiring such understanding may be difficult to obtain in case of invitations to tender. We therefore consider that adding such a requirement is not appropriate.

– Paragraph 215 (a) of the ITC

*“In discussing the responses to address the issues, we identified the following possible actions:
(a) Strengthening the requirements in ISA 600 to drive earlier identification by auditors of those situations where there is:*

- No reasonable way of obtaining sufficient appropriate audit evidence, and clarifying what to do in such situations (i.e., not accept or continue the engagement, or making it clear to management and those charged with governance that the result will be a disclaimer of opinion so that management can take any actions considered necessary, such as communicating with intended users of the financial statements); or*
- Likely to be significant complexity or difficulty in obtaining sufficient appropriate audit evidence.»*

We believe that such an action may be ineffective in case of a change in the scope of consolidation or newly formed groups. We recommend that the IAASB provides examples to treat such cases rather than strengthen the requirements in ISA 600.

– Paragraph 215 (e) of ITC

« Providing more clarity about the different circumstances that may lead to access issues. Enhancing the application material for the specific circumstances that may cause problems and providing some examples about how some of the issues may be addressed may help auditors in addressing some known issues. It has been noted that one of the matters that might be addressed in determining whether to accept or continue an engagement is the effect of threats to personal safety that may be present in jurisdictions where a component auditor is located (e.g., including the effects of war or other unrest or outbreaks of hazardous diseases). Other examples could draw from current practices that group engagement teams or component auditors have used to overcome access issues (and we are interested in learning more about these). It is however acknowledged that some of the issues related to access result from situations that revisions or clarifications to the standards will not be able to resolve.»

We consider that developing such a matter would result in situations where the group would become non-auditable. We therefore do not support this proposal.

– Paragraph 216 (a) of the ITC

Changes to ISA 600 could include:

- (a) Revising the requirement to place greater emphasis on the need for an explicit conclusion that the group engagement partner and group engagement team can fulfill their respective responsibilities relative to the engagement overall, including for the direction, supervision and performance of the work done by component auditors. Such a conclusion could be based on the consideration of the work that the group engagement partner and group engagement team will perform directly, as well as on their ability to be sufficiently involved in the work of component auditors.»*

We consider that such a requirement would be irrelevant in case of equity investments with different closing date from the one of the Mother Company, non-controlling equity investments or newly formed groups. We therefore do not believe it is necessary for the IAASB to emphasize the need for an explicit conclusion, as described in paragraph 216 given that a conclusion has already been made implicitly upon acceptance or continuance of the engagement.

GA3 Communications between the Group Engagement Team and Component Auditors

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

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

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

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

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

We consider that the issue of standardized audit instructions to all component auditors and non tailored instructions for each component auditor based on the applicable facts and circumstances and the work that each component auditor is being asked to perform, is an issue of implementation of the standard for SMPs. We believe that the IAASBs should give examples of situations that require an adaptation of the instructions to small subsidiaries.

We have another issue regarding the communication between the group engagement team and the component auditors, i.e. situation when the group engagement team is aware of non-compliance or suspected non-compliance with laws and regulations and the component auditor is unaware of such information as mentioned in paragraph 220 of the ITC. Paragraph 48 of ISA 600 already addresses the issue with sufficient flexibility to adapt to different legal environments. Therefore, we do not support the proposal to revise the paragraph 48 of ISA 600 to better address the ability of the group engagement team to communicate directly with the component auditor or the component management when the group engagement team is aware of non-compliance or suspected non-compliance with laws and regulations that may be relevant to the work being done by the component auditor. We consider that such a proposal may be unhelpful due to the different provisions in terms of professional secrecy rules which apply in different jurisdictions.

Moreover, we do not believe that there is a need to further develop ISA 600 on audit documentation requirements. ISA 230 already includes a thorough rules-based approach with many mandatory conclusions to be disclosed with regard to audit documentation. Re-emphasising the fact that other ISAs apply when conducting a group audit under ISA 600 may be sufficient and lead to the desired outcome.

GA4 Using the Work of the Component Auditors

- (a) Paragraphs 226–242 set out matters relating to using the work of the component auditors.**
- (i) Which of the possible actions outlined in paragraph 234 and 242 would be most meaningful in addressing issues related to using the work of the component auditor?**
 - (ii) Why do you believe these actions are necessary?**
 - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why**
 - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.**
- (b) Specifically:**
- (i) Should the nature, timing and extent of involvement of the group engagement team in the work of the component auditor vary depending on the circumstances? If yes, how could changes to the standard best achieve this objective?**
 - (ii) Should ISA 600 be strengthened to require the group engagement partner to make an explicit determination about whether the group engagement team can use the work of a potential component auditor?**

We believe that the main issue relating to the subject “Using the work of component auditors” and, more generally the subject of Group audits, is regarding the application of ISA 600, and perhaps its interpretation, rather than a specific need for a revision of the standard per se. ISA 600 already has requirements to address most of the issues raised in the ITC and it seems that it is the quality of application that is varied in practice, the root cause of which might lie elsewhere than in the standard itself.

To address the issue mentioned in the paragraph 228, i.e. obtaining an understanding of the independence, competence and capabilities of component auditors, who are situated in a jurisdiction that:

- (a) Does not have similar legal and regulatory requirements as those that are applicable to the jurisdiction where the group engagement team is located; or**
- (b) Has different:**
 - Oversight regimes;
 - Independence and ethical requirements;
 - Languages or cultures;
 - Licensing or accreditation requirements.

we encourage the IAASB to liaise with the IFIAR for the development of a specific data base, accessible to all practitioners, for each jurisdiction to provide a benchmark per jurisdiction in terms of compliance with auditing standards, accounting standards and ethical codes or rules. Such data base could be filled in with the Reports on the Observance of Standards and Codes (i.e. “ROSC”) of the World Bank as a primary source of information or any other reports issued for example by IFIAR.

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.

The standard needs to continue emphasising the need for professional scepticism and professional judgement to be applied, rather than for the application of strict rules: even when the IAASB provides clarification on the issues identified, the auditor should keep in mind that he/she needs to exercise professional scepticism and professional judgement when deciding whether a component is considered significant or not and thus consider each situation on a case-by-case basis depending on all the facts and circumstances of a specific group engagement.

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

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

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

There is a need to stress that determination of materiality is addressed in ISA 320, whereby the materiality for the financial statements is set as a whole, and hence ISA 600 should not add anything more in respect to determining the financial statement materiality. The issue seems to be the variation in practice of ‘allocating’ component materiality since it involves a high degree of judgement due to various group structures, divergent component sizes, differing statutory audit requirements, differing risk and deviating country-specific rules. In order to have a consistent and proper allocation of the component materiality, we believe it is important to include in the application material additional guidance as to what this allocation should be and how the group auditor could be guided to determine it.

Secondly, further guidance and application material should be given as to which materiality would need to be used when auditing parts of the component and when auditing non-controlling entities. However, we acknowledge that any guidance produced would not be able to address every conceivable scenario; therefore the auditor would still need to refer to the fundamental principles of materiality in ISA 320 and exercise its judgement over the appropriate level of materiality to be applied.

Moreover, we have the following comments:

- The IAASB should clarify whether there is a difference between the "specified audit procedures" described in paragraph 27 (c) of ISA 600 and the "specified procedures" referred to in paragraph 29 of ISA 600. It should also explain the connections with ISRS 4400 – *Engagements to perform agreed-upon regarding financial information*. Should the IAASB confirm that the 2 terminologies cover the same concepts, we recommend the IAASB to adjust adequately the standard.
- We do not agree with paragraph 272 (b) (iv) of the ITC: *(iv) Clarifying how the procedures referred to in (iii) above can be distinguished from agreed-upon procedures that might be performed as part of an agreed-upon procedures engagement performed in accordance with ISRS 4400.*
- Such a statement would result in a standalone standard for the components. We do not support this option.

Paragraph 279 (c) of the ITC states *"Challenging the role of reviews of component's financial information, including whether they provide appropriate audit evidence. In addition, as discussed above, we could clarify whether there is a difference between the "specified audit procedures" described in paragraph 27 (c) of ISA 600 and the "specified procedures" referred to in paragraph 29 of ISA 600."*

Does the IAASB consider that an audit should be necessary of each component? This point needs further information.

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

- (a) Paragraphs 262–292 set out matters relating to responding to identified risk of material misstatement in a group audit (including the group engagement team's involvement in the consolidation process).
- (i) Which of the actions outlined in paragraphs 272–273, 279, 288 and 292 would be most meaningful to address issues relating to responding to identified risks of material misstatement in a group audit?
 - (ii) Why do you believe these actions are necessary?
 - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
 - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
- (i) What are your views on scoping the audit based on identifying and assessing the risks of material misstatement for the group as a whole, rather than focusing the determination of the necessary work effort on the determination of whether components are considered significant or non-significant? Are there any practical challenges that we need to consider further?
 - (ii) Are there other possible actions related to auditing groups where there are a large number of non-significant components that we should explore? Are there other approaches to auditing such groups that need to be considered? Do the possible actions presented lead to any additional practical challenges?
 - (iii) Should the standard be strengthened for the group engagement team to be more involved at the sub-consolidation level in the appropriate circumstances? Are there further issues or practical challenges that have not been considered?

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

We believe that the issue mentioned in the first bullet of paragraph 284 that deals with issues relating to sub-consolidation, i.e. *“Insufficient information for the group engagement team to understand the consolidation entries processed in the sub-consolidation, some of which may be material to the group.”* is a real issue. The materiality at the sub-consolidation level is not clear enough. We consider that this matter should be mentioned in paragraph 288 of the ITC that lists the possible actions to address the issues.

Moreover, we have a concern with the second bullet of paragraph 288 of the ITC, i.e.

“Revisiting the requirements in ISA 600 to determine whether the group engagement team’s responsibilities in relation to sub-consolidations need to be clarified or enhanced. This could include recognition that component auditors would likely not have the “full picture” of the group that the group engagement team has, and therefore may not be in a position to properly evaluate the completeness and accuracy of all consolidation adjustments at the sub-consolidation level for the group audit. In making revisions, it could be emphasized that determining the appropriateness of the group engagement team’s involvement would be dependent on the circumstances and structure of the group, and involve appropriate application of professional skepticism.”

We consider that the 2nd bullet seems somewhat disproportionate given the reality. We believe that this issue is not specific to the sub-consolidation. It comes from the fact that the group does not have the full picture of what happens in the subgroup.

GAB 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.

ISA 600 allows flexibility as to the necessary level of involvement in the work of the of component auditors by the group engagement team. When reviewing and evaluating the work performed by the component auditor, the group engagement team’s considerations would include whether the audit evidence obtained is sufficient and appropriate in the circumstances and that it supports the group engagement team’s conclusions in accordance with the ISAs.

We consider that the IAASB should clarify the concept of “reviewing the Working Papers”.

Clarification of the extent of the review of the component auditors’ work should enable a flexible approach to be adapted according to the circumstances and the significance of the component to the group. Facilitating a two-way dialogue will help the group auditor’s understanding of the component’s activities and environment thus resulting in a more efficient and better quality audit.

The way in which the group auditor uses the work of component auditors is critical in practice. The greatest area of uncertainty is about whether the group auditor should visit the premises of the component auditors - provided that they are able to do so - or only review their files and send

questionnaires. This is an area where illustrative examples of different scenarios are needed. Another area of uncertainty is about whether the group auditor should make copies of the component auditor's file and how he should manage situations where the WP are prepared in a foreign language that the group auditor does not understand.

It is important to consider the timing issues involved when the component auditors provide their 'memorandum of work performed', as referred to in ISA 600. If the outcome of the audit of the component is delivered shortly before the sign-off of the group auditor's report, the group auditor may not be able to take time to step back and consider the implications for the group audit because of time sensitivity.

Correspondingly, because it is difficult to exercise a sound professional judgement and consider these implications for the group audit as a whole, it is important to emphasise the fact that it would be appropriate for staff with seniority to review the memorandum rather than more junior staff. Lastly, it should be clarified that a memorandum should not be perceived as a substitute to the review of the component auditor's work.

We also need to acknowledge that there is an actual problem for regulators when it comes to the visibility of the working papers of component auditors. For that reason, ISA 600 should emphasise that the group auditor needs to evaluate whether enough information has been obtained to constitute sufficient appropriate audit evidence.

The group auditor faces serious difficulties in cases where it is impossible to receive working papers from the component auditors, and especially when some authorities prohibit any access to the working papers because of jurisdictional restrictions. In such cases, the group auditor should use judgement to determine the best way to review the component auditors' work. This challenge could be mitigated to the extent the standards could help to bring that rationale out, while being prudent not to have an undesired prescriptive list.

ISA 600 can only highlight further the need for proper documentation, but when component auditors are based in different jurisdictions, with differing laws and regulations, obtaining certain documentation for the group auditor could also be very difficult in practice.

When considering these issues, and how these can be addressed, we should be careful not to end up in an opposite impractical situation of expecting from the group auditors to review all the working papers of the component auditors. The importance is for the group auditor to demonstrate how sufficient audit evidence has been obtained in cases where it was not feasible to review the working papers in practical terms.

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?

In relation to the Disclosures project, we do not consider necessary to complicate ISA 600 in this area. The emphasis that all other ISAs apply in addition to ISA 600 when performing a group audit should be enough.

As far as it concerns the issue relating to identifying key audit matters in Group audit engagement, we do not consider that the right approach would be to have communications between the group engagement team and the component auditors to determine the key audit matters. We believe that the key audit matters are identified by the group auditor via the matters reported to those charged with governance. What would be more beneficial in the process is for the components auditors to help the group auditor identify what is necessary to be reported to those charged with governance.

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?

We have not identified other issues relating to group audits.

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

We have no further comments.

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.

SMPs are often involved in group audits as component auditors. It is important that the IAASB bears in mind the need to ensure that, under its standards, audit firms that are not part of a network are not treated differently from audit firms that are.

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.

We have no further comments.