

**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

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| <p>Name: <i>(Please also fill in name in header for ease of reference)</i></p> | <p>Australian Auditing and Assurance Standards Board (AUASB)</p> |
| <p>Description of the capacity in which you are responding (e.g., IFAC member body, audit oversight body, firm, SMP, individual, etc.)</p> | <p>National Standards Setter</p> |
| <p>Name of contact person at organization (if applicable):</p> | <p>Richard Mifsud, Executive Director</p> |
| <p>E-mail address:</p> | <p>enquiries@auasb.gov.au</p> |

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.

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| G1(a) | Yes. All areas identified are considered to be relevant. |
| G1(b) | <p>Other relevant public interest issues to consider are:</p> <ol style="list-style-type: none"> i. Improving engagement and communication more broadly about audit quality with users and the markets. Audit quality is very important. The challenge is how to define it for the user. The public interest areas noted in the ITC are focused internally, and improvements in those areas may satisfy the regulators, for example, enhancing documentation of the auditor’s judgement. However, questions to consider are how to define audit quality to the user, and what does the market expect? What will be important for the outside world? ii. Enhancing the competency of directors in relation to the audit process to enable them to better challenge the auditors. iii. Scalability of some of the proposed changes for SMPs will be challenging. |
| G1(c) | <p>Notwithstanding the above, it was felt that there needs to be appropriate communication, liaison and education with other key stakeholders, such as those charged with governance and regulators on the issues identified in the Table.</p> <p>Actions others need to take:</p> <ol style="list-style-type: none"> i. The accounting professional bodies should play a role in better educating and communicating about audit quality with users and the markets, especially those charged with governance. ii. Audit Committees and independent directors need to further their understanding of their roles and responsibilities. Competent audit committee members should challenge both management and the auditor which is likely to positively impact the application of professional scepticism. iii. Regulators should be encouraged to better acknowledge the role of professional judgement. The focus on compliance and documentation may facilitate a “checklist” mentality approach which is likely to negatively impact the application of professional judgement. |

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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?

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| G2 | <p>It is unclear how the work plans will address the perennial audit “expectation gap” concerns and any interplay with auditor independence considerations:</p> <ul style="list-style-type: none">i. How to address the audit expectation gap. There continues to be a lack of understanding as to what an audit means.ii. The audit quality framework identifies all the parties in the financial reporting framework that impacts on audit quality. The IAASB should continue to encourage stakeholders to explore ways to improve audit quality, and to facilitate the dialogue between key stakeholders.iii. Communication with TCWG – encourage more open communication and interaction on an informal basis with TCWG to talk through issues. <p>The AUASB acknowledges that data analytics and emerging external reporting (including integrated reporting) are areas currently being considered by the IAASB. The AUASB continues to support the need for these areas to be considered in the development of future IAASB work plans.</p> |
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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.

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| G3 | <p>If the AUASB becomes aware of any new Australian published or planned research on the topics covered by the ITC the relevant details will be provided to the IAASB.</p> |
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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?

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| PS1 | <p>The AUASB is of the view that the concept of professional scepticism (PS) is multidimensional. It would be appropriate for the IAASB to continue consideration of the findings of various academic research studies (e.g. seminal paper by Nelson (2009) or more recent synthesis of research related to auditors’ professional scepticism by Hurtt, Brown-Liburd, Earley and Krishnamoorthy (2013)) which have examined this issue in greater depth and could provide valuable input when looking at the definition as used in the context of the application of ISAs. For example Nelson (2009) disentangled scepticism trait into components such as confidence, understanding and determination, while Hurtt (2010) developed a scale for measuring PS which views trait scepticism as a function of six innate individual characteristics: questioning mind, suspension of judgement, search for knowledge, interpersonal understanding, autonomy and self-esteem. The literature also distinguishes between trait scepticism (inherent within an individual) and state scepticism (sceptical judgement and sceptical action). Audit research has investigated various factors likely to influence the way PS operates in a given audit setting. These include individual traits and characteristics (e.g. experience, expertise ,training, ethical/moral reasoning) as well as situational factors relating to the nature of audit evidence (e.g. confirming v. disconfirming), client characteristics (e.g. risk) and other external environmental influences (e.g. incentives). Consideration of these various aspects of PS (as a trait and state) have the potential of providing a more nuanced and relevant description of PS in audit practice.</p> <p>Feedback which the AUASB has obtained from Australian constituents, as represented at roundtables organised by the AUASB, in conjunction with CPA Australia and Chartered Accountants Australia and New Zealand, were however somewhat mixed in their perspectives on this question. Some considered that it would be helpful to clarify and modernise the definition of professional scepticism, others considered the current definition as used in the context of the ISAs to be adequate, whilst others believed that the definition needs to better focus on the personal traits of the auditor, in particular, the ability of the auditor to question and challenge management at the audit client.</p> <p>The AUASB notes stakeholder concerns that the increased regulator focus on professional scepticism may risk promoting a “checklist mentality” and that this may affect users’ interpretations of the concept and asks the IAASB to be mindful of such concerns when looking at this area.</p> |
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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?

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| PS2 | <p>The AUASB is firmly of the view that setting the appropriate “tone at the top” both within audit firms and audit engagement teams is an essential pre-requisite to fostering appropriate professional skepticism in the training of auditors. The AUASB has noted that a number of Australian stakeholders also believe that the early years and ongoing training of auditors should reflect a suitable focus on professional scepticism, and that it was vitally important that this be properly addressed in university and professional training courses, notwithstanding resource constraints that may prevail. As an aside, it is noted that the approach adopted to encourage the development of enquiring minds, analytical and critical thinking in law studies and certain postgraduate courses</p> |
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| | <p>should be promoted. It is also considered by others that the development of professional scepticism is related to an individual’s skills and length of experience as an auditor.</p> <p>A clarification of PS perspective adopted by ISAs (i.e. neutral v. presumptive doubt perspective) and what is ‘appropriate’ or what (and how) different circumstances/factors impact on what is an ‘appropriate’ level of PS would be helpful.</p> <p>Other factors that may drive the application of appropriate professional scepticism may include: clarity of understanding of audit objectives and what constitutes appropriate audit evidence; integrity, objectivity and independence; and the level of “fortitude” demonstrated by the senior members of the audit team. Impediments such as cognitive bias; heavy workloads, resource constraints and tight deadlines; and “familiarity” and “self-review threats” are also recognised.</p> <p>It is suggested that the IAASB could develop guidance to assist the auditor to improve the determination of sufficient and appropriate audit evidence vis-à-vis the application of professional scepticism. It is further suggested that the application of professional scepticism needs to be better linked to the application of risk assessment under the ISAs and the use of professional judgement. It is also important that the IAASB works with IESBA and IAESB to bring a consistency of approach and thinking to these concepts.</p> <p>The AUASB supports the development of a PS framework (similar in concept and application to the IAASB’s AQ framework). Such a framework would be well suited to this critical but complex, difficult to define and to measure, construct and allow for a more in depth consideration of various relevant factors (e.g. PS and judgement; various drivers and inhibitors such as risk, independence, evidence, etc.) and the interactions between these factors. It would also allow for practical illustration/guidance of ‘appropriate’ and/or ‘sufficient’ level of PS including documentation requirements within a specific audit context. The frameworks developed in academic literature by Nelson (2009) and Hurtt et.al. (2013) could provide a useful starting point. An IAASB framework would also provide an opportunity to expand, clarify and differentiate between PS v trust v distrust v auditor conservatism and the link, if any, between these different concepts.</p> |
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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?

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| PS3 | <p>It is generally considered that the areas to be explored by the IAASB in paragraphs 38 – 40 would be helpful and provide a useful start. However, the general view of the AUASB and expressed by many of its stakeholders is that the key to promoting greater professional scepticism is not necessarily through the ISAs alone, but more so with appropriate professional mentoring and competency training and development about the interplay between professional scepticism and professional judgement. It is also worth noting that with further enhancements to electronic audit methodology platforms and the use of sophisticated data analytics, these tools do not supplant the need for appropriate professional scepticism by auditors.</p> |
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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 scepticism? If not, why?

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| PS4 | <p>The AUASB is of the view that actions in the context of the current projects mentioned could go further – for example, the development of a guidance framework on how to appropriately apply professional scepticism might be useful, in particular with regard to the linkages to professional</p> |
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| | <p>judgement, risk assessment and on audit engagements. The AUASB urges the IAASB to embrace this aspect in conjunction with the impending revision of ISA 315 and consequential revisions to related standards. A cautionary view however, is that an increase in the level of prescription in ISAs might result in a greater shift from “principles” to “rules” in the ISAs with a consequent “checklist” approach to conducting audits and potentially adverse impact on audit quality.</p> |
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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?

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| <p>PS5</p> | <p>The AUASB is firmly of the view and encourages the IAASB to actively engage with universities, professional accounting bodies and auditing firms to bolster their efforts in respect of enhancing auditor training to focus on professional scepticism, to promote a better understanding of its attributes and its linkages to risk assessment, professional judgement, and conduct of the audit.</p> <p>It needs to be recognised that root causes of any perceived shortcomings in the application of professional skepticism are invariably associated with inadequate audit evidence. To this end, the role of senior personnel in setting the right “tone at the top” and the importance of mentoring trainee auditors in knowing what questions to ask and what to be on the lookout for should be promoted further. In this regard, the direct assistance of the IAESB would be helpful in working jointly in this area. Further engagement with IESBA, with regard to recognition of appropriate professional scepticism vis-à-vis the objectivity attributes and independence requirements as they apply to auditors under the Code of Ethics is also considered necessary. It would also be useful to encourage those charged with governance (including audit committees) to reasonably challenge management on information presented to them and also encourage the asking of challenging questions of auditors.</p> |
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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?

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| QC1(a) | <p>The AUASB supports the efforts of the IAASB to respond to calls from a broad range of stakeholders to improve quality control at both the firm and the engagement level.</p> <p>The AUASB's view is that the principles in ISQC 1 do not appear to be interpreted as being incomplete, misleading or unclear. ISQC 1 should continue to be broad and principles based in order for it to be appropriately applied across the many differing firm-wide and specific audit practice models used in the market, acknowledging that a 'one size fits all' approach may not be appropriate.</p> <p>The AUASB would support additional application material in ISQC 1 that provided illustrations of what the key elements of a QMA approach might include and how this may be applied to achieve the ISQC 1 principles.</p> <p>Australian constituents indicated that larger firms have adopted a Quality Management Approach ('QMA') in applying the current principles contained in ISQC 1, whereas smaller firms have implemented ISQC 1 in a less systemised manner. It was noted that quality control processes apply across the whole firm and not solely the audit and assurance divisions. The IAASB therefore needs to be cognisant that any proposed changes to ISQC 1 would impact the firm as a whole and pose practical challenges. Currently, ISQC 1 allows for scalability and flexibility for small and medium firms (SMPs) to apply quality control processes as appropriate to their firm-wide and specific audit practice models. SMPs felt a QMA was less scalable than the current principles in ISQC 1 and if mandated may increase compliance costs and time at the firm level without necessarily achieving improved audit quality.</p> |
| QC1(b) | Refer to response in QC1(a) above. |
| QC1(c) | <p>The AUASB view is that it does not consider a restructure of ISQC 1 should necessarily impact on the ISAs. It would be useful to review ISA 220 to consider whether it should be amended to establish more granular principles or application material for the engagement partner at the engagement level. This would enable consideration of whether and if so, under what circumstances, the engagement partner might be allowed to have more reliance on the firm level and network-level processes around quality control.</p> |

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| QC1(d) | The AUASB view is that the principles in ISQC 1 do not appear to be interpreted as being incomplete, misleading or unclear. Any changes to ISQC 1 should therefore remain at the firm level and continue to be principles based. The general consensus was that the “tone at the top” mindset would be difficult to prescribe in an audit standard as it is a character trait or a learned behavior and links closely to some of the broader issues raised around professional scepticism. |
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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).

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| QC2(a)(i) | <p>The AUASB view on the actions and relevant issues are as follows:</p> <ul style="list-style-type: none"> • ISA 220 could provide further clarity or examples about the engagement partner’s role in relation to performance, direction, supervision and review at the engagement level. The evolving and agile ways of structuring audit practice models. Specifically, to include examples that illustrate what the engagement partner can do to demonstrate proactive and appropriate direction, supervision and review where there are access issues (refer to GA 1(a)), when other auditors are involved or where less traditional audit delivery models (ADMs) are used for example: elements of the firm’s quality control are performed centrally, standard audit procedures are performed by dedicated central resources and those resources are available to perform audit procedures at the request of individual engagement teams. <p>The AUASB view is that the above actions could be beneficial because:</p> <ul style="list-style-type: none"> • The clarity of the role of engagement partner is challenging where non -traditional ADMs are used, where other auditors are used, where the engagement partner is located remotely from the majority of the audit work, and where there are access issues to non-controlled entities. Providing examples of adopting the principles of the role in these circumstances will enhance effective implementation. <p>Auditors would find it helpful for more guidance to be provided about the nature and type of documents upon which evidence of their review in key areas is required by the standards.</p> |
| QC2(a)(ii) | Refer to response in QC2(a)(i) above. |
| QC2(a)(iii) | Refer to response in QC2(a)(i) above. |

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| QC2(a)(iv) | Nothing further noted. |
| QC2(b) | On the whole, the AUASB and Australian constituents would support the retention of the current principle, being not to mandate other partners being named in or signing the auditor’s report as another signature may be seen to be inconsistent with the engagement partner assuming ultimate responsibility for the audit opinion. However, as the current standard is principles based, it does not preclude other Key Audit Partners signing the auditor’s report as appropriate on an engagement by engagement basis. In Australia, this does occur on some audit engagements where two partners co-sign the audit report. |

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)?

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| QC3(a)(i) | Refer to response in QC3(b) below. |
| QC3(a)(ii) | Refer to response in QC3(b) below. |
| QC3(a)(iii) | Refer to response in QC3(b) below. |
| QC3(a)(iv) | Refer to response in QC3(b) below. |
| QC3(b) | <p>The AUASB is of the view that there needs to be a clear focus on the core principles in ISA 220. It is noted that ISA 220 could include greater clarity in application material on the core principles in relation to the engagement partner’s responsibilities and the necessary direction, supervision and review of the work of the other auditor as this would provide a clearer link to ISA 600.</p> <p>The AUASB view is that the above actions could be beneficial because:</p> <ul style="list-style-type: none"> • The clarity of the role of engagement partner has become more challenging where less traditional ADMs are used, where other auditors are used, where the engagement partner is located remotely from the majority of the audit work, and where there are access issues to non-controlled but significant entities or divisions in the group. Providing more practical examples around the principles to direct the engagement partner in these circumstances will assist in the ongoing effective implementation of the principles based ISAs. <p>The view of the AUASB is that the title of ISA 600 could be changed to reflect its broader application for other auditors that do not fall under the definition of component auditors. Refer to the detailed answers in the Group Audit section.</p> |

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.

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| QC4(a)(i) | <p>ISQC 1 and ISA 220 could provide principles, application material and examples for firms to consider when assessing reliance on network policies and procedures in the following areas:</p> <ul style="list-style-type: none"> • Actions the firm can implement at the firm level, and the engagement level, to appropriately rely on network firm quality control and monitoring policies and procedures. • Clarifying that a firm's system of quality control takes into account the implications of using ADMs, and the need for appropriate quality control policies and procedures in respect of the use of ADMs. • To more explicitly address through practical examples, direction, supervision and review procedures performed at a centralised location or by other centralised resources. |
| QC4(a)(ii) | <p>The AUASB believes the above actions could be beneficial because in conducting audits, firms are increasingly using ADMs that are different to the traditional engagement team structures. To ensure the ISAs and ISQC 1 remain fit for purpose, the implications of the use of ADMs needs to be addressed.</p> |
| QC4(a)(iii) | <p>There are many interpretations or forms of what a network can encapsulate, from the use of an offshore shared service function as part of the engagement team using consistent technology, to an outsourced firm where there is less control over audit quality. This provides a broad spectrum of practical challenges for a firm's reliance on differing types of networks and approaches to quality control. Application material and practical examples demonstrating a scale of how much reliance may be placed on network policies and procedures across the broad spectrum would be useful. In the case of global network firms where reliance can be</p> |

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| | placed on a QMA, this may assist in reducing replication of quality control procedures undertaken centrally and enabling time and resources in the global network to be focused on undertaking the audit. |
| QC4(a)(iv) | The cost of compliance with increased requirements versus a possible increase in audit quality needs to be carefully considered. |
| QC4(b)(i) | Clarification and application material on interpreting the principles at the firm level, and the engagement level, to appropriately rely on network firm quality control and monitoring policies and procedures would be useful. |
| QC4(b)(ii) | Refer to response in QC4(a)(i) above. |
| QC4(b)(iii)a | Refer to response in QC4(a)(i) above. |
| QC4(b)(iii)b | Refer to response in QC4(a)(i) above. |

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?

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| QC5(a)(i) | The AUASB view is that ISQC 1 could address the principles of accountability by firm leadership, or appropriate personnel within firm leadership, for matters related to quality. |
| QC5(a)(ii) | The AUASB considers the above action would be beneficial because accountability will clarify that those responsible for quality control have a role to play in addressing quality control issues and in continually improving audit quality. |
| QC5(a)(iii) | Nothing further noted. |

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| QC5(a)(iv) | Nothing further noted. |
| QC5(b)(i) | Nothing further noted. |
| QC5(b)(ii) | Nothing further noted. |
| QC5(b)(iii) | Nothing further noted. |

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.

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| QC6(a)(i) | The AUASB view is that the most meaningful action to address the relevant issues is by clarifying the nature, timing and extent of matters to be considered by the EQC reviewer, while maintaining an appropriate distinction between the responsibilities of the engagement partner and those of the EQC reviewer. |
| QC6(a)(ii) | The AUASB considers this may be helpful in establishing the appropriate balance between time, cost and documentation of the EQCR at the engagement level and address any issues with demonstrating the application of a sceptical mind when undertaking an EQCR. |
| QC6(a)(iii) | The AUASB view is that the role of the EQCR could be better communicated to TCWG at an engagement level and the role it plays within the firm’s wider quality control processes to assist in addressing any concerns around audit quality. This however would need to be done on an engagement by engagement basis as is appropriate. |
| QC6(a)(iv) | The cost of compliance with increased requirements versus a possible increase in audit quality needs to be carefully considered. |
| QC6(b)(i) | The AUASB view is not to mandate the requirements or application material in ISQC 1 and |

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| | <p>ISA 220 related to EQC reviews beyond listed entities. Australian auditors apply the provisions in ISA 220 to “those other audit engagements, if any, for which the firm has determined that an EQCR is required” using professional judgement to determine which other entities should have an EQCR.</p> <p>SMPs in particular commented that the current approach in ISQC 1 allows flexibility within the firm structure for decisions to be made on an engagement by engagement basis as to the application of an EQCR.</p> |
| QC6(b)(ii) | <p>ISA 220 could provide application material around the objectivity of the EQCR through the use of examples or illustrations and linking these principles to the appropriate ethical requirements that apply jurisdictionally.</p> |
| QC6(b)(iii) | <p>The primary role and responsibilities on any audit engagement are that of the engagement partner, thus the role of the EQCR may be seen to be elevated disproportionately if there were a separate standard for the EQCR. The AUASB is of the view that clarifying the nature, timing and extent of matters to be considered by the EQC reviewer and communication with TCWG on the role of the EQCR as noted above would be useful in supporting greater quality control, rather than creating a separate standard.</p> <p>The AUASB noted that Australian constituents had mixed views on the need for a separate EQC review standard. Some commented that having a separate standard would provide greater clarity and elaboration of the requirements and application material for an EQC review, including the area of documentation as noted above, coupled with greater prominence of the role of the EQC review. Those opposed to a separate standard noted it may be too conceptual and duplicate what is already in ISQC 1 and ISA 220, and as such, not address the perceived gaps in quality control with the view to improving overall audit quality.</p> |

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.

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| QC7(a)(i) | The AUASB acknowledges that the possible actions outlined primarily being, understanding of causal factors of audit deficiency, analysis of QC findings and necessary actions and monitoring of the effectiveness and appropriateness of remedial action are being addressed in practice by the firms under the principles outlined in paragraphs 48 to 54 of ISQC 1. The AUASB's view is that the principles in ISQC 1 do not appear to be interpreted as being incomplete, misleading or unclear. |
| QC7(a)(ii) | Nothing further noted. |
| QC7(a)(iii) | The AUASB considered a possible further option may be for ISA 220 to include additional application material to address circumstances in relation to remediating files where audit inspection findings and other reviews identify non-compliance with auditing standards. |
| QC7(a)(iv) | Nothing further noted. |
| QC7(b)(i) | Nothing further noted. |
| QC7(b)(ii) | Nothing further noted. |

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?

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| QC8(a) | The AUASB acknowledges and agrees that the principles in ISQC 1 should reflect that audit quality plays an important role in partner and staff reward and performance systems, without adding prescriptive requirements over the linkage. |
| QC8(b) | Nothing further noted. |

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?

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- (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.

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| QC9(a)(i) | The AUASB supports the IAASB’s proposed action to consider whether ISQC 1 and ISA 220 should explicitly highlight the competencies in IES 8. In the Australian and NZ jurisdictions, competency requirements for engagement partners will be consistent with IES 8 (revised) with the update of the Registered Company Auditor Competency Standard (work undertaken by CPA Australia, CA ANZ and IPA) to reflect International Education Standard IES 8 (revised) which incorporates the changes relating to professional competence for engagement partners on audits of financial statements. |
| QC9(a)(ii) | Nothing further noted. |
| QC9(a)(iii) | Nothing further noted. |
| QC9(a)(iv) | Nothing further noted. |
| QC9(b)(i) | Nothing further noted. |
| QC9(b)(ii) | Nothing further noted. |
| QC9(b)(iii) | Nothing further noted. |

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.

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| QC10(a) | <p>The AUASB agrees that the most appropriate action at this time would be for the IAASB to positively contribute to evolving developments related to transparency reporting.</p> <p>The <i>Corporations Act 2001</i> in Australia requires transparency reporting by auditors on their website if they have conducted ten or more audits of various entities including listed companies and authorised deposit-taking institutions.</p> <p>Anecdotally, transparency reports produced in Australia do not appear to be widely read and as such would not be seen on their own to be improving audit quality in this jurisdiction.</p> <p>The AUASB would support the IAASB in developing a thought piece or other non-authoritative material on the topic and practice of transparency reporting and its impact on audit quality.</p> |
| QC10(b) | Nothing further noted. |

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?

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| QC11 | <ul style="list-style-type: none"> • AUASB believes that the ITC could have included a discussion in relation to quality control around the use of specialists within engagement teams– IT, actuaries, modelling and the interaction between the specialist partner’s role and the audit partner responsibilities. Further clarity and examples may need to be considered on these areas once the feedback from the ITC as a whole has been evaluated. • ISQC 1 is focused on the firm – the IAASB could consider whether it would assist audit quality to reflect the role of other stakeholders in the audit cycle as outlined in the Audit Quality framework issued by the IAASB in February 2014. • With the approach to audits continually evolving with the use of data analytics and other emerging audit techniques that assist in improving audit quality, the IAASB needs to consider any impact this may have on ISA 500 <i>Audit Evidence</i>. We acknowledge and support that the IAASB has an active Data Analytics working group. |
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QC12. Are there any other specific actions that others could take in relation to quality control? If yes, please provide details.

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| QC12 | The AUASB considers more clarity in application material coupled with additional examples and illustrations providing practitioners with practical insights and challenges into how to apply and implement the principles outlined in ISQC 1 and ISA 220 would be beneficial in assisting quality control and overall audit quality. |
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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.

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| QC13 | Scalability of a QMA for small to medium size firms. If a QMA approach were adopted in ISQC 1, then appropriate application material as to how this would be scalable and flexible for SMPs would be required. |
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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.

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| QC14 | Nothing further noted. |
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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?

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| GA1(a) | <p>ISA 200 paragraph 18 covers the need for the auditor to comply with all ISAs relevant to the audit, accordingly any additional emphasis on the need to apply all relevant ISAs may cause interpretation issues in circumstances where some ISAs are not applied in an engagement; for example where some audit procedures are centralised and are performed by the group engagement team and are not required to be performed by the component auditor.</p> <p><i>Other factors to be considered:</i></p> <p><i>Broadening of ISA 600:</i></p> <p>With the ever-changing and more complex business landscapes and the way organisations are structured and operated, the AUASB considers that ISA 600 requires broadening so as to include all scenarios where one auditor uses the work of another auditor and not only in a group audit scenario. ISA 600 needs to cover not only group audits, but all environments where financial information is fed into a group financial report, this should encompass entities such as joint ventures, equity investments, branches, divisions and shared service centres.</p> <p>One consideration when broadening the ISA could be a change in the name of ISA 600 to something more expansive, for example <i>Special Considerations – Using the Work of Other Auditors</i>. A name change could facilitate ISA 600 being applied to any scenario where one auditor involves the work of another auditor in the audit of financial reports with one such example being for group audit engagements. The definitions of “component” and “group” in ISA 600 may require additional application material and examples to assist with the practical challenges of the aforementioned scenarios.</p> <p><i>Access Matters</i></p> <p>Associates, non-controlled entities and joint ventures which may be significant components but are not controlled by group management, continue to cause access issues in the Australian environment. The situation is compounded in jurisdictions that do not have similar legal and regulatory requirements to those in the jurisdiction where the group engagement team is located. In particular, privacy/confidentiality laws or regulations may preclude information from being</p> |
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| | <p>shared with a group engagement team. Application material could be further developed to address the specific circumstances that may cause such issues and provide some examples about how some of these matters may be addressed.</p> <p><i>Ability to Direct and Supervise</i></p> <p>The ability for a group auditor to direct and supervise the work of a component auditor in some situations continues to cause practical challenges in the Australian environment. An example of this scenario is where the component entity is listed in its own right and the component entity’s financial report may not be prepared for the primary purpose of inclusion within the group financial report. Additional application material and examples of such practical challenges could be further explored in a revised ISA 600. In addition, there is a need for greater clarity and guidance in scenarios whereby the component entity is a listed entity where there are continuous disclosure requirements. Application material responsive to the timing of communications between the group and component engagement teams where there are continuous disclosure concerns is required.</p> <p><i>Component Auditor is part of the Group Engagement Team</i></p> <p>Where the component auditor is part of the group engagement team, additional application material is considered to be beneficial. Currently the only reference to this scenario is ISA 600 paragraph A7 “A member of the group engagement team may perform work on the financial information of a component for the group audit at the request of the group engagement team. Where this is the case, such a member of the engagement team is also a component auditor”. In such scenarios, for example where a branch or associate or subsidiary or a shared service centre is audited by a member of the group engagement team, the question is raised as to whether this meets the definition of a group audit scenario and thus whether all aspects of ISA 600 are applicable, for example scoping the component, issuing group instructions or assessing the competency of the component auditor?</p> |
| GA1(b) | <p>The AUASB shares the view that ISA 600 requires change to keep up with diverse business structures, jurisdictional challenges and practical implementation issues. Such change could be effected through additional requirements (particularly in the areas named in GA1(a)), enhanced or additional application material and could include further illustrative examples.</p> |
| GA1(c) | <p>Auditor’s reports naming the use of other auditors may cause confusion and is not seen by the AUASB to necessarily enhance audit quality but rather as a transparency tool. The AUASB considers that naming of other auditors could be viewed by users of auditor’s reports as divided responsibility which may in the end impact negatively on perceptions of, or actual audit quality. The responsibility for the audit engagement ultimately lies with the engagement partner. Furthermore, the AUASB notes that naming of other auditors used in the engagement process was considered as part of the enhanced auditor reporting project and was not pursued further at that time.</p> |
| GA1(d) | <p>Refer to response in GA1(a) above.</p> |

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?

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| GA2(a)(i) | <p>The AUASB shares the view that ISA 600 requires change to keep up with diverse business structures, jurisdictional challenges and practical implementation issues. Such change could be effected through additional requirements (particularly in the areas named in GA1(a)), enhanced or additional application material and could include further illustrative examples.</p> <p>Associates, non-controlled entities and joint ventures which may be significant components but are not controlled by group management, continue to cause access issues in the Australian environment. The situation is compounded in jurisdictions that do not have similar legal and regulatory requirements to those in the jurisdiction where the group engagement team is located. In particular, privacy/confidentiality laws or regulations may have regulations that preclude information from being shared with a group engagement team. Application material could be further developed to address the specific circumstances that may cause such issues and provide some examples about how some of these matters may be addressed. Examples could draw from current practices that group engagement teams or component auditors have used to overcome access issues.</p> <p><i>Ability to Direct and Supervise</i></p> <p>The ability for a group auditor to direct and supervise the work of a component auditor in some situations continues to cause practical challenges in the Australian environment. An example of this scenario is where the component entity is listed in its own right and the component entity’s financial report may not be prepared for the primary purpose of inclusion within the group financial report. Additional application material and examples of such practical challenges could be further explored in a revised ISA 600. In addition, there is a need for greater clarity and guidance in scenarios whereby the component entity is a listed entity where there are continuous disclosure requirements. Application material responsive to the timing of communications between the group and component engagement teams where there are continuous disclosure concerns is required.</p> |
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| GA2(a)(ii) | Nothing further noted. |
| GA2(a)(ii) | Nothing further noted. |
| GA2(a)(iv) | Nothing further noted. |
| GA2(b)(i) | Nothing further noted. |
| GA2(b)(ii) | The AUASB shares the view that ISA 600 requires change to keep up with diverse business structures, jurisdictional challenges and practical implementation issues. Such change could be effected through additional requirements (particularly in the areas named in GA1(a)), enhanced or additional application material and could include further illustrative examples. |
| GA2(b)(iii) | Nothing further noted. |

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.

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| GA3(a)(i) | <p>On balance, the AUASB supports ISA 600 clarifying the role of component auditors by expanding requirements and application material within ISA 600 directed at component auditors. The AUASB supports a separate section within ISA 600 directed specifically at component auditors. The section could cover areas including co-operation, communications, documentation, reporting responsibilities and access to files.</p> <p>In addition, the AUASB recommends that it is worth investigating whether the ethical standards as set by IESBA could cover the obligation of component auditors to co-operate with group auditors within the constraints of law and regulations.</p> <p>Australian constituents at the round table events expressed mixed views as to the possibility of developing a separate standard containing specific requirements and application material directed at component auditors. The constituents who were in favor of a separate standard, tended to be SMPs who often function in the capacity of a component auditor. For those SMP auditors, they considered that a separate component auditor standard could include topics such as documentation, co-operation and communications.</p> |
| GA3(a)(ii) | Nothing further noted |
| GA3(a)(iii) | There is a need for greater clarity and guidance in scenarios whereby the component entity is a listed entity where there are continuous disclosure requirements. Application material responsive to the timing of communications between the group and component engagement teams where there are continuous disclosure concerns is required. |

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| GA3(a)(iv) | The AUASB shares the view that ISA 600 requires change to keep up with diverse business structures, jurisdictional challenges and practical implementation issues. Such change could be effected through additional requirements (particularly in the areas named in GA1(a)), enhanced or additional application material and could include further illustrative examples. |
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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?

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| GA4(a)(i) | <p>Application material could be enhanced or expanded to result in a more robust challenge by the group engagement team as to whether the component auditor possesses appropriate competence and capabilities. Examples that address some of the practical challenges are viewed as beneficial.</p> <p>In addition, greater clarity could be provided to the group engagement team in determining the nature, timing and extent of their involvement in the work of the component auditors including explaining interactions and providing examples to illustrate the wide variety of circumstances impacting the determination of the nature, timing and extent of the group engagement team’s involvement in the work of the component auditor.</p> <p>The AUASB considers that it would be beneficial for increased application material in relation to the extent of inclusion of original component auditors’ work papers as audit evidence within the group audit files. Such additional application material could be example based and drawn from reasonable current practice taking into account that there may be regulatory or legal impediments to the transfer of working papers.</p> |
| GA4(a)(ii) | Nothing further noted. |
| GA4(a)(ii) | A framework could be developed that illustrates the wide range of circumstances (permutations) that may affect the determination of the necessary nature, timing and extent of the group engagement team’s involvement in the work of the component. For example, one extreme of the framework would indicate common policies and procedures, similar jurisdiction, same language, while the opposite extreme would be no common policies and procedures, dissimilar jurisdictions, different language. |

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| GA4(a)(iv) | The AUASB shares the view that ISA 600 requires change to keep up with diverse business structures, jurisdictional challenges and practical implementation issues. Such change could be effected through additional requirements (particularly in the areas named in GA1(a)), enhanced or additional application material and could include further illustrative examples. |
| GA4(b)(i) | <p>Greater clarity could be provided to the group engagement team in determining the nature, timing and extent of their involvement in the work of the component auditors including explaining interactions and providing examples to illustrate the wide variety of circumstances impacting the determination of the nature, timing and extent of the group engagement teams involvement in the work of the component auditor.</p> <p>A framework could be developed that illustrates the wide range of circumstances (permutations) that may affect the determination of the necessary nature, timing and extent of the group engagement team’s involvement in the work of the component. For example, one extreme of the framework indicating common policies and procedures, similar jurisdiction, same language while the opposite extreme being no common policies and procedures, dissimilar jurisdictions, different language.</p> |
| GA4(b)(ii) | The AUASB views “Explicit determination” as additional audit effort particularly by way of documentation and does not consider that this would translate to an improvement in audit quality. |

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.

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| GA5(a)(i) | <p>Improvements are needed to ISA 600 to make more explicit reference to the principles, requirements and application material in ISA 315 and in ISA 330 including providing additional examples for relevant aspects and principles in ISA 315 and ISA 330 that may arise from a group audit.</p> <p>In addition, additional application material would be helpful in emphasizing that significant risks identified by component auditors should also be considered by the group component team to determine whether these risks may apply more broadly. Application material on communications upward from the component auditor to the group auditor could be strengthened as the group auditor is not necessarily the best placed to determine and understand the significant risks at a component level. Furthermore, further clarification would be helpful about how significant risks identified at a group level might impact on a component and how this is communicated to the component auditor.</p> <p>The AUASB supports the action to develop additional application material to further clarify the meaning of the phrase “of financial significance to the group”.</p> |
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| GA5(a)(ii) | Nothing further noted. |
| GA5(a)(iii) | Nothing further noted. |
| GA5(a)(iv) | The AUASB shares the view that ISA 600 requires change to keep up with diverse business structures, jurisdictional challenges and practical implementation issues. Such change could be effected through additional requirements (particularly in the areas named in GA1(a)), enhanced or additional application material and could include further illustrative examples. |

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.

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| GA6(a) | Additional guidance is required for matters that are specifically relevant to component materiality, component performance materiality and component trivial thresholds, particularly in relation to the concept of aggregation risk. The AUASB encourages the IAASB to consider how these concepts might be made more clear and operational, this may include providing examples to illustrate the wide variety of circumstances impacting the determination of component materiality by the group engagement team and application by the component auditor. |
| GA6(b) | Nothing further noted. |

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?

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- (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?

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| GA7(a)(i) | Where there are a large number of non-significant components, application material could be strengthened to address the group engagement team’s considerations about the work to be performed on the non-significant components as well as providing guidance on how the group engagement team should determine which non-significant components require procedures as well as how to determine when a sufficient number of components have been selected for testing. The matters that could be included relate to application of scoping, application of materiality and application of the nature, timing and extent of audit work. In addition, clarifying the expected work effort related to analytical procedures at the group level for non-significant components is seen as being beneficial. Furthermore, it may be seen as beneficial for the IAASB to explore including within application material what may influence or constitute sufficient “coverage”. |
| GA7(a)(ii) | Nothing further noted. |
| GA7(a)(iii) | Nothing further noted. |
| GA7(a)(iv) | The AUASB shares the view that ISA 600 requires change to keep up with diverse business structures, jurisdictional challenges and practical implementation issues. Such change could be effected through additional requirements (particularly in the areas named in GA1(a)), enhanced or additional application material and could include further illustrative examples. |
| GA7(b)(i) | The AUASB is of the view that scoping of a component needs to use a combination of a top-down and bottom-up approach. A bottom-up approach to scoping may not appropriately focus the work of a component auditor on those aspects that are likely to be most significant in relation to the group financial statements. A top-down approach may result in the possibility that a misstatement at the component level is not detected which may lead to the group financial statements being materially misstated. Accordingly, the AUASB considers a combination of the two approaches to be preferable, that is, range/continuum, where some clients may be on one end, some on the other end and some in the middle where both are needed. |
| GA7(b)(ii) | Nothing further noted. |
| GA7(b)(iii) | Nothing further noted. |
| GA7(b)(iv) | The view of the AUASB is that there are more pressing group audit matters that require attention before subsequent events, this is seen to be low priority. |

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.

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| GA8(a)(i) | <p>In response to concerns raised by the Australian audit regulator, (the Australian Securities and Investments Commission), in its audit inspection programs, the AUASB considers that enhanced application material is required to clarify the extent of the group auditor’s involvement in the work of the component auditor (the amount and scope of work needed by the group auditor in relation to the component including the audit evidence needed). Such clarification would likely result in a better demonstration of the judgements made by the group engagement team as to the appropriateness of their involvement. Enhanced application material would also promote consistency of approach across the mid to smaller tier firms.</p> <p>In addition, application material could be strengthened in relation to documentation requirements regarding the group engagement team’s evaluation of the component auditor’s communication, including the nature of any review of documentation. The AUASB acknowledges that there is currently a gap between the requirements of ISA 230 and what is feasible in a group audit context. Application material would be helpful in filling the gap.</p> |
| GA8(a)(ii) | Nothing further noted. |
| GA8(a)(iii) | Nothing further noted. |
| GA8(a)(iv) | <p>The AUASB shares the view that ISA 600 requires change to keep up with diverse business structures, jurisdictional challenges and practical implementation issues. Such change could be effected through additional requirements (particularly in the areas named in GA1(a)), enhanced or additional application material and could include further illustrative examples.</p> |

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?

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| GA9 | <p>Application material to assist in effective communication will need to be developed in relation to communication downwards (from group to component auditors) of key audit matters in the auditor’s report on the group financial statements and group financial report disclosures as well as upwards (from component to group auditors) in relation to key audit matters and in the auditor’s report on the component financial statements (if applicable) and component financial report disclosures (if applicable).</p> |
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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?

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| GA10 | No further matters noted. |
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GA11. Are there any other specific actions that others could take in relation to group audits? If yes, please provide details.

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| GA11 | The AUASB considers that directors (TCWG) have a significant role to play in the audit of group engagements. It is ultimately the directors' responsibility to understand the components and financial information feeding into a group result and that directors are responsible for understanding the laws and regulations of cross-border engagements. Directors rely on group financial information in order to make key decisions. Furthermore, it is the role of TCWG to ensure that contractual rights exist to facilitate audit access across the group. It is viewed as worthwhile for auditors to actively seek and encourage meeting with audit committees and TCWG in closed sessions where organisational and cultural issues encountered across the group can be shared in an appropriate forum. |
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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.

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| GA12 | No further matters noted. |
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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.

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| GA13 | No further matters noted. |
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