



16 May 2016

Ms Kathleen Healy
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor
New York, New York 10017 USA

Dear Kathy,

AUASB Submission on the IAASB's Invitation to Comment Enhancing Audit Quality in the Public Interest: A Focus on Professional Scepticism, Quality Control and Group Audits

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the IAASB's Invitation to Comment *Enhancing Audit Quality in the Public Interest: A Focus on Professional Scepticism, Quality Control and Group Audits* ("ITC").

The AUASB commends the IAASB's initiative to improve audit quality through a focus on professional scepticism, quality control and group audits. The AUASB supports initiatives that are in the public interest and that seek to enhance the quality of the audit process and reinforce confidence of capital markets in that process.

Overall, the AUASB is supportive of the IAASB's ITC and plan to improve audit quality by keeping the auditing and quality control standards relevant in the face of continually changing circumstances in diverse jurisdictions. However, the primary concern expressed by the AUASB and its stakeholders is the nature and extent of potential suggested amendments to the requirements in the standards (primarily ISQC 1¹, ISA 220² and ISA 600³) without a clear understanding of the link to improved audit quality. We are of the view that while improved and additional application material and illustrative examples may be beneficial, there are no fundamental shortcomings in the International Standards on Auditing (ISAs), yet there may be some merit in enhancing aspects of the requirements of ISA 600.

In formulating its response, the AUASB has sought input from its constituents in several ways. The first was by way of hosting four roundtable meetings with stakeholders that represented a broad range of backgrounds including assurance providers from medium and large audit firms, audit regulators, professional accounting bodies, directors, preparers and users of financial statements. The second was by an open invitation to provide comments placed on the AUASB website; and the third was by way of subsequent formal discussions by the AUASB members at recent board meetings.

The AUASB raises the following key points of particular importance for the IAASB's consideration, which are elaborated on further in the detailed submission:

Firstly, the AUASB is of the view that the concept of *professional scepticism* is multidimensional and involves a number of factors. Notwithstanding this, it needs to be stressed that in our view, the root cause 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 cannot be overstated. Furthermore, the AUASB notes

¹ ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*.

² ISA 220 *Quality Control for an Audit of Financial Statements*.

³ ISA 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*.

concerns, that the IAASB should be mindful of becoming overly prescriptive. The increased regulator focus on professional scepticism may risk promoting a “checklist mentality” and that this may affect how the concept is interpreted by both users and regulators.

Secondly, with regard to quality control, in Australia a *Quality Management Approach* (‘QMA’) has been adopted by the larger firms in applying the current principles contained in ISQC 1, whereas smaller firms have implemented ISQC 1 in a less systemised manner. The principles in ISQC 1 do not appear to have been interpreted as incomplete, misleading or unclear. Currently, ISQC 1 allows for scalability and flexibility for small and medium audit firms (SMPs) to apply quality control processes as appropriate to their audit practice models. ISQC 1 should continue to be broad and principles-based, in order for it to be appropriately applied across the many differing audit practice models used in the market, acknowledging that a ‘one size fits all’ approach may not always be appropriate. Additional application material in ISQC 1 that provides illustrations of what the key elements of a QMA approach might include and how these may be adopted by SMPs would be supported.

Finally, in relation to group audits, with the advent of ever-changing and more complex business landscapes and the way organisations are structured and operated since ISA 600 was first issued, the AUASB considers that ISA 600 may require broadening, so as to include all situations where one auditor uses the work of another auditor and not only in a group audit scenario.

The AUASB’s detailed responses to the specific questions asked in the ITC accompany this letter as Attachment 1.

Should you have any queries regarding this submission, please do not hesitate to contact the AUASB at enquiries@auasb.gov.au

Yours sincerely,

Richard Mifsud
Executive Director