

Supplement A to Agenda Item 5

RESPONSES RECEIVED ON THE INVITATION TO COMMENT (ITC) ENHANCING AUDIT QUALITY IN THE PUBLIC INTEREST

GENERAL QUESTIONS

Note: This supplement has been prepared for information only. A comprehensive summary of the significant comments received on the December 2015 ITC, *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits* and related analyses of significant issues are presented at the September 2016 IAASB meeting. All comment letters on the ITC can be accessed [here](#).

Please consider the environment before printing this supplement.

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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.

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	<p>(a) We agree that the following seven public interest issues are related to audit quality and are relevant to IAASB's project on professional skepticism, quality control and group audits:</p> <ul style="list-style-type: none"> • Guidance on the appropriate application of professional skepticism; • Audit file improvements to enhance documentation around the auditors judgment; • Ensuring International Standards on Auditing (ISAs) are fit for purpose; • Encouraging proactive quality management at the firm and engagement level; • Exploring the role transparency plays in audit quality; • Providing better guidance on remediation of audit deficiencies or inspection findings; and • Strengthening standards around communication among those involved in an audit. <p>(b) Audit standards should provide for enhanced reporting. We believe that enhanced reporting by external auditors is critical. Specifically, an integrated representation of operational, financial, environmental, social, and governance performance in terms of both financial and non-financial results would offer investors better information for assessing risk. Environmental, social and governance (ESG) performance can be integrated into an "Auditors Discussion and Analysis" that provides additional insight into the audit and company risks.</p> <p>(c) The auditor should articulate to the Audit Committee all material risks and other matters arising from the audit that are significant to the oversight of the financial reporting process, including situations where the auditor is aware of disputes or concerns raised regarding accounting or auditing matters. The audit committee should then take appropriate action regarding each issue.</p>

		Along with the IAASB, regulators and enforcement entities also play a strong role in ensuring accounting and auditing standards are appropriately implemented. A coordinated effort with regulatory bodies and standard setters is critical to overall acceptance and consistent implementation of standards by the auditing profession. We encourage the IAASB to continue to its work with the International Forum of Independent Audit Regulators (IFIAR).
2.	CalSTRS	<p>CalSTRS is very supportive of IAASB's efforts in improving audit quality as well as enhancing auditor reporting for the benefit of investors and other stakeholders. We believe Table 1 outlines many of the key public interest issues which are relevant and should be considered as it relates to Professional Skepticism, Quality Control and Group Audits. These include:</p> <ol style="list-style-type: none"> 1. Fostering an appropriately independent and challenging skeptical mindset of the auditor – CalSTRS believes tone at the top, firm culture and ongoing training are important components to fostering an independent and challenging skeptical mindset. Also, each audit firm should develop a process to provide guidance internally to staff on inspection reports, quality issues and where the firm can develop best practices to handling key issues and the resolutions of these issues. We believe ongoing education, training and mentorship will expand auditor competencies to apply professional skepticism. 2. Enhancing documentation of the auditor's judgments – The Enhanced Reporting model, New Auditor's Report, although not an end-all will provide some basis for ensuring auditors are properly documenting the structure of the auditor's judgments. Additionally, Key Audit Matters (KAMs) through ISA 701 provides a judgment-based decision-making framework which auditors will explicitly consider¹⁵: <ul style="list-style-type: none"> • Areas of higher risk of financial statements material misstatement • Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty • The effect on the audit of significant events or transactions that occurred during the period <p>Investors support the importance of KAMs and the intent to provide information on why the matter was determined to be a KAM; How it was addressed in the audit; and Reference to disclosure(s) in the Financial statements. Although not adopted, CalSTRS would have supported the requirement to provide a summary of KAMs for the last 2 years along with the current year's KAMs providing a history and how these were resolved, remediated and mitigated. CalSTRS agrees the enhanced auditor reporting with the use of robust KAMs is a significant enhancement and will add informative value to investors as well as guide auditors in documenting the structure of the their judgments which should indirectly instill the process with increased skepticism.</p> 3. Keeping ISAs fit for purpose – CalSTRS agrees that ISA 700 revised, the overarching standard for auditor reporting, including revisions to ISA 705, ISA 570 and ISA 720 may provide significant information to investors, only if auditors administer a robust interpretation and application of modifications to auditor's opinion, requirement and revised reporting on going concern and new reporting requirements on other information. CalSTRS is positive, yet circumspect and looks forward to reviewing the New Auditor's Report effective for audits of financial statements for periods ending on or after December 15, 2016.

¹⁵ E&Y Enhanced auditor's reporting Assurance – Special edition, January 2016.
[http://www.ey.com/Publication/vwLUAssets/EY-enhanced-auditors-reporting/\\$FILE/EY-enhanced-auditors-reporting.pdf](http://www.ey.com/Publication/vwLUAssets/EY-enhanced-auditors-reporting/$FILE/EY-enhanced-auditors-reporting.pdf)

		<p>4. Encouraging proactive quality management at the firm and engagement level - The diagram and the elements of a Quality Management Approach (QMA) outlined in paragraph 65 provides basic elements which are constructive and practical to establish a QMA framework. We agree robust risk assessment and governance frameworks are pivotal to establishing an effective QMA.</p> <p>5. Exploring transparency and its role in audit quality – Transparency is fundamental to good governance and improvement in audit quality. CalSTRS supports the universal application of Audit Firm Transparency Reports (as outlined in paragraphs 72-75) to articulate firms’ priorities and endeavors for audit quality, improving trust, confidence of investors and the leadership role that audit firms should exhibit in developing and sharing audit quality indicators. We support Audit Committees and Auditors develop audit quality indicators (AQIs), using in their assessment and improvement of audit quality as well as discussing in the Audit Committee Report and in the New Auditor’s Report.</p> <p>6. Focusing more on firms (including networks) and their internal and external monitoring and remediation activities - CalSTRS supports the use of The Audit Firm Governance Code by the Financial Reporting Council¹⁶ and enhancing transparency from the audit firms through Audit Transparency Reporting to provide clearer guidance about firms’ leadership, principles, values and operations in improving audit quality.</p> <p>7. Reinforcing the need for robust communication and interactions during the audit – Robust communication between the auditor, audit committee and investors is critical to the overall audit process and ensuring investor confidence in the market and more specifically in the auditor’s report. CalSTRS Principles state: “The Audit Committee plays a critical role in providing oversight of the company’s financial reporting processes, internal controls and independent auditors. The Audit Committee should be proactive in promoting auditor independence and audit quality.” As referenced in the body of our letter, auditors must embrace the concept that shareholders are the clients of the auditor and should convey significant deficiencies in controls as well as opportunities for strengthening internal controls through KAMS and the enhanced auditor report. Audit Committees – those charged with governance, also need to recognize their fiduciary responsibilities to shareholders and provide robust reporting in the Audit Committee Report.</p>
3.	CFA	--
4.	IA	<p>The Investment Association agrees that the IAASB has broadly identified the most relevant public interest issues in the context of the projects on professional scepticism, quality control, and group audits. In particular, with IFRS there has been an increase in the number of estimates in accounts and it is vital that auditors exercise scepticism and have processes to ensure quality is managed across the firm when management’s assumptions and judgments are assessed. For example, we were surprised by the variations in the numbers reported by different financial institutions in relation to the same instruments, held for the same purpose and valued in accordance with the same accounting policies, even when the institutions concerned had the same auditors. Similarly, we understand from the UK’s Audit Quality Review Team that there were situations where conflicting judgments were accepted by the same firm for different clients in the same or similar industries (question G1(a)).</p> <p>Each issue in Table 1 is important, but we consider there should be one additional public interest issue “enhancing the quality and value of the audit for investors as the primary users” (G1(b)).</p>

¹⁶ Financial Reporting Council, Review of the UK Audit Firm Governance Code, December 2015.
[https://www.frc.org.uk/Our-Work/Publications/FRC-Board/Review-of-the-UK-Audit-Firm-Governance-Code-Fe-\(1\)-File.pdf](https://www.frc.org.uk/Our-Work/Publications/FRC-Board/Review-of-the-UK-Audit-Firm-Governance-Code-Fe-(1)-File.pdf)

		The ITC is soliciting comments before proposals on the three projects are drafted. On the basis of our understanding that projects are developed by working parties largely made up of auditors, we agree it is important that wider stakeholders are given the opportunity to provide input in advance. That said, the current process for the development of standards is long and the ITC lengthens it further such that the projects in the ITC may well not be complete before 2018. Moreover, the text and questions in the ITC are quite technical and run the risk of only attracting feedback from the main accounting firms, and may deter other stakeholders. This could limit the benefits of consulting early. We consider the IAASB should involve a wider group of stakeholders in the standard setting process to facilitate the timely completion of these important projects (G1(c)).
5.	ICGN	The seven selected issues in Table 1 all appear to be relevant to the IAASB's work in relation to professional skepticism, quality control and group audits. Each issue is important, but there should be special emphasis on the issues that "enhance the quality of audits and the value of the audit for users." ³ The ICGN believes that the primary responsibility for performing quality audits rests with auditors. The IAASB should continue to challenge audit firms about what more they can do to increase audit quality. We agree that the appropriate application of professional skepticism is "core to audit quality" and encourage the IAASB to focus on those areas that support greater consistency in its application by auditors in making professional judgments and taking appropriate actions. (F4: ITC, p. 7.)
6.	NZSA	[Note: Response to both G1 & G2] The move to the new Audit Report is the most significant improvement in the Audit process for users of accounts. However the new Audit report does need to be meaningful. The inclusion of a paragraph on materiality (both for the Holding company and any subsidiary companies) as it has been applied by the Auditor would be very useful for users of accounts.
7.	SAAJ	We think the issues described in table 1 are relevant to the IAASB's work in respect to three topics. Particularly, given structural conflicts of interest that auditors receive fees from their clients, "fostering an appropriately independent and challenging sceptical mindset of the auditor" is crucially important. Each auditing firm should demonstrate leadership and take measures toward fostering culture to focus on quality control, application of professional skepticism, and introduction of fee arrangements linked with quality improvement. In that sense, "encouraging proactive quality management at the firm" would be very important. It is so hard for financial statement users to know how auditors could maintain audit quality. As a result, auditing itself appears to have become a black box to most of us by now. We believe that the auditors, first of all, should improve "transparency of audit quality" by thorough documentation of significant auditor judgments on such cases as accounting estimates, revenue recognition and so on.
Those Charged with Governance		
8.	AICD	--
Regulators and Oversight Authorities		
9.	BCBS	--
10.	CPAB	We appreciate the IAASB's effort to develop a comprehensive document to address a number of the current issues that have been raised by CPAB and other audit regulators in recent years. Upon completion of the consultation process on the ITC, we believe it is essential that the IAASB act quickly to move these projects ahead.

		<p>To do this, we believe it is important that the IAASB have a flexible approach in addressing areas of significance and to deal with emerging issues in a manner that is proactive and responsive to the changing business and audit environment.</p> <p>We encourage the IAASB to continue to develop a flexible approach to its standard setting. We believe this approach should include the following:</p> <ul style="list-style-type: none"> • Accelerated approach to amendments to standards where the required changes are clearly defined. <ul style="list-style-type: none"> ○ the discussions on certain issues in the ITC are sufficiently well developed to allow the IAASB to move quickly to issuance of an exposure draft and final standard on an accelerated basis. In our view a specific focus should be placed on Group Audits which has been highlighted as a priority issue for several years. We note that the IAASB has already commenced a project to take an accelerated approach to its current project on accounting estimates (ISA 540). • Continued progress on longer term projects where additional research and consultation is required to determine the appropriate standard setting approach. • Research and data gathering on emerging issues to ensure the auditing standards remain relevant and consistent with changes in the business environment and auditing practice. <ul style="list-style-type: none"> ○ We believe the Board's efforts to explore the use of data analytics and the work of the Innovation Working Group to be important areas of focus in this area. <p><u>Supervision, review and involvement in work performed by others</u></p> <p>In our view, there is an important theme from a number of the areas discussed in the ITC of the need for the auditing standards to clarify and highlight, throughout the standards, the fundamental principle of the need for an appropriate level of direction, supervision and review at all stages of the audit. This is important when others are involved in the audit whether they are members of the audit engagement team, specialists, employees or staff at an ADM or other auditors.</p> <p><u>Focus on changes to requirements</u></p> <p>We observe that many of the proposals outlined in the ITC are focused primarily on the development of guidance and application material, as opposed to adding or enhancing some aspects of the requirements included in the standards. We are concerned that changes to application material, on their own, are unlikely to have a significant impact on changing behavior. Accordingly, we encourage the IAASB to direct its focus at enhancing the requirements within the relevant standards.</p>
11.	EAIG	[see pp. 1 & 2 of comment letter]
12.	EBA	--
13.	ESMA	--
14.	H3C	--

15.	IAIS	<p>(a) We broadly agree with the list of public interest issues identified by the IAASB. Whilst we believe that, at first sight, there may appear to be a large number of items in a list that is intended to show front-line issues, we suggest that they may be summed up in three key areas, being:</p> <ul style="list-style-type: none"> i. The application of judgement (which necessarily includes skepticism), and the documentation of that judgement; ii. Quality management, including work on inspection findings and remedial action; and iii. Transparency and communication around (i) and (ii) above. <p>The IAIS would like to stress the following points:</p> <ul style="list-style-type: none"> – Professional skepticism is by nature a state of mind. The risk exists that a creation of too rigid a framework may be counter-productive, and result in a ‘tick-box’ mind-set to what is required. Therefore, any addition to IAASB literature needs to be sufficiently flexible and open-ended such that it not interpreted as an exhaustive or self-contained set of rules or procedures designed to ‘prove’ skepticism, and can be meaningfully applied to new situations as they arise; and – It is important for the IAASB to consider carefully the drivers for, and impediments to, the appropriate application of skepticism in considering its approach. The IAIS has set out its thoughts in this area in the response to question PS2 below. <p>(b) In the IAIS’s view, an expectations gap may exist between the perception (of some users of financial statements) and the reality of the work and role of external auditors – some users may believe that the scope of the audit and the responsibilities of auditors are broader than is actually the case.</p> <p>In part, this expectations gap might be closed by changes to the audit framework. However, we believe that it is key to the public interest that stakeholders are better informed on the nature of an audit, making the boundaries of the auditor’s responsibilities clearer. In doing so, the IAASB may wish to build on the work that has been done in this area through the changes made to auditor reports.</p> <p>This in turn gives rise to the broader question of how the audit in the form we know it can remain relevant in the public interest. We believe this question should be considered by the IAASB on an ongoing basis in its work, particularly when contemplating questions that impact on the scope of an auditor’s responsibilities.</p> <p>(c) We think the IAASB should work closely with the International Forum of Independent Audit Regulators (IFIAR) on areas where the inspectors believe that more requirements are needed. In our view, the findings of audit inspections should play an important role in considering the future focus of standard-setting activities.</p> <p>As explained in our response to question PS3, we believe the work of IAESB and IESBA, in the areas of education and ethics respectively, also play an important role in supporting audit quality.</p> <p>We believe that there is scope for continuing dialogue with the IASB, given that certain concepts (such as Going Concern) play a role in both the accounting and audit frameworks.</p> <p>We also recommend the IAASB engage with those charged with governance (for example, with Chairs of Audit Committees) to better understand how they discharge their responsibilities.</p>
16.	IFIAR	<p>5. As audit regulators, we believe that consideration of the public interest, including the needs of investors and other users, should drive the projects to enhance auditing standards. We note that the IAASB has placed specific emphasis in the ITC on identifying</p>

		relevant issues to be addressed by the projects, in the public interest. We encourage the IAASB to continue to maintain its focus on the public interest as it proceeds in its consideration of the issues identified as relevant in the ITC and the development of the revised standards.
17.	IOSCO	--
18.	IRBA	<p>28. As the audit regulator in South Africa, we welcome the IAASB's commitment to ensure that public interest is served in its standard-setting process and that public interest issues have been identified for the topics addressed in the ITC.</p> <p>29. Table 1 in the ITC highlights the seven most relevant public interest issues related to the topics of professional scepticism, quality control and group audits.</p> <p>30. We believe that these public interest issues are relevant to the work of the IAASB on these topics [ITC question G1(a)].</p> <p>31. However, we believe the following three public interest issues are also relevant to these topics and the IAASB should consider and explore these issues further in relation to professional scepticism, quality control and group audits [ITC question G1(b)]:</p> <ul style="list-style-type: none"> • Reinforcing the value of an audit to those charged with governance and, in particular, to audit committees and their members: <ul style="list-style-type: none"> ○ The IAASB's Framework for Audit Quality (AQF)¹⁷ states that in larger entities, especially listed companies, audit committees often exist to oversee the relationship between the entity and the auditor. This can include the appointment of the auditor, the assessment of the independence of the auditor (including the provision of non-audit services), and the approval of audit fees. As long as they are motivated to maximise the quality of an audit rather than minimise cost, audit committees provide a way of helping to ensure that sufficient, appropriate resources are allocated to the audit. There is usually a relationship between the quality of an audit and the quality and quantity of the resources used in its performance, and this will usually be reflected in the audit fee. However, a low audit fee can never be a justification for failure to adequately resource an audit and obtain sufficient appropriate audit evidence. It is important that audit committees consider whether sufficient audit time is planned. ○ The auditor is required to maximise the quality of an audit regardless of the cost of that audit. However, if the audit committee understands the value of an audit, and supports the auditor in that process, it provides a way of helping to ensure that sufficient, appropriate resources are allocated to the audit and the quality of the audit is maximised, including the appropriate application of professional scepticism, which should ultimately result in the auditor arriving at the correct opinion. • Exploring and enhancing the governance process followed by those charged with appointing an auditor:

¹⁷ Framework for Audit Quality, Contextual Factors, paragraphs 108 and 110

		<ul style="list-style-type: none"> ○ Various organisations¹⁸ have issued guidance on audit quality indicators (AQIs) that could provide an opportunity to enhance discussions between auditors and audit committees and benefit audit committees in fulfilling their responsibilities relative to the oversight of an audit. ○ The IAASB's AQF¹⁹ states that some audit committees also have a responsibility to consider audit quality directly and do this as part of the process for the reappointment of auditors or when considering audit fees. It can also help if the audit committee has a formal process and criteria for describing the attributes of audit quality. Audit committee consideration of audit quality will be influenced by the interactions with the auditor and, in particular, by an assessment of the professional scepticism applied. ○ The development of audit firm governance codes and quality frameworks, including the development and use of audit quality indicators, can assist audit committees in their auditor appointment/reappointment decision-making processes. ○ The above will contribute to the integrity of the audit and audit opinion, enhance credibility of reporting and thereby protect the public who can rely on audit reports. ● Reinforcing the independence of the IAASB's Consultative Advisory Group (CAG), its Board membership and the task forces they serve on: <ul style="list-style-type: none"> ○ The IAASB's CAG, in its independent capacity, provides valuable public interest input into the IAASB's strategy, agenda, priorities and technical issues, and all IAASB Board members (the selection of whom is independently monitored by the Public Interest Oversight Board [PIOB]) are required to act in the public interest. ○ We believe that the independence of the CAG and the IAASB Board members who act in the public interest contributes to the enhancement of audit quality in the public interest for all the topics in the ITC. ○ We encourage the IAASB and PIOB to continuously monitor their definition of public members on the structures, in the light of the changing needs of the public and the evolving nature of public interest <p>41. Since professional scepticism is one of the topics identified in the results of the post-implementation review of the clarified ISAs (refer to paragraphs 7-11 above), in the IFIAR's 2014 and 2015 survey results (refer to paragraphs 12-20 above) as well as in the IRBA Public Inspection Report 2014/2015 (refer to paragraphs 21-26 above), we support the IAASB's commitment to address the topic of professional scepticism in order to find actions that it and others can take to enhance the application of professional scepticism.</p>
19.	MAOB	--
20.	UKFRC	<p>Public Interest Issues</p> <p>The IAASB develops international audit and assurance standards (IAASB pronouncements) that are used widely around the world, and thus the standard setting activity of the IAASB is correctly motivated by the public interest. The IAASB has emphasised in its Strategy for</p>

¹⁸ For example: US Center for Audit Quality – *CAQ Approach to Audit Quality Indicators*, April 2014 and Federation of European Accountants (FEE) – *Overview of Audit Quality Indicators Initiatives* Information Paper, November 2015

¹⁹ Framework for Audit Quality, Contextual Factors, paragraphs 109

		<p>2015–2019: Fulfilling Our Public Interest Mandate in an Evolving World that the IAASB’s mandate is to set (i.e. develop), independently and under its own authority, high-quality international standards to serve the public interest, but what is not clear is how the IAASB’s consideration of the public interest is executed when developing individual requirements (and guidance). We therefore support the approach of the IAASB to identify specific public interest issues in relation to the three projects that can be taken into consideration, and we support those set out in Table 1.</p> <p><i>Core principles to guide standard setting activity</i></p> <p>In addition, we believe that the IAASB could consider taking this a step further to develop a set of core principles that would guide its future standard setting activity in serving the public interest. Indeed, some of the issues raised in Table 1 of the ITC could be considered such core principles. For example:</p> <ul style="list-style-type: none"> <p><i>Transparency for Users</i></p> <p>Table 1 notes that “Exploring Transparency and its role in audit quality” is a relevant public interest issue related to professional scepticism, quality control and group audits. We believe that ‘Transparency for Users’ could be established as a core public interest principle, as it is of general relevance in relation to audit. It is an issue commonly raised in our outreach activity with investors i.e. that greater transparency regarding the audit process and audit firm governance would be welcomed. In meeting a “Transparency” principle, the IAASB would aim to ensure that the performance outcome of its standard setting activity (i.e. its impact on what the auditor does), should result in users , those charged with governance and oversight of the audit relationship (in many cases the audit committee), and other stakeholders, having greater insight into the audit process and audit firm governance. In turn, such insight should enhance:</p> <ul style="list-style-type: none"> - engagement when it is believed that action is needed to better meet user expectations; - the accountability of audit firms and audit engagement partners for meeting their audit quality responsibilities; and - user and public confidence and trust in the value of audit. <p>In relation to the issues raised in the ITC, we believe that the IAASB should aim to further strengthen the transparency of how audit firms meet their responsibilities for audit quality (including through their networks), and of how engagement partners meet their responsibilities for audit quality at the engagement level, by establishing enhanced requirements and application material. This should include greater transparency about audit firm governance and how the firm’s quality management system enables the delivery of high quality audits in an evolving business and audit environment and, for particular audits, as well as how quality control is managed and delivered at the engagement level. Such transparency could be achieved as appropriate through, for example, communications with audit committees, and further enhancements to the auditor’s report or transparency reporting (as described further in this Appendix).</p> <p><i>The User Perspective</i></p> <p>Related to transparency for users, as explained in our response to PS1, we concluded that the ISAs need to embed the importance of considering the user perspective more widely. Whilst auditors are already required to consider the perspective of users through their application of the concept of materiality in identifying and addressing potential misstatements, the ISAs do not require the auditor to apply this process in other aspects of the audit. In meeting a “User Perspective” principle, the IAASB would aim to ensure that the performance outcome of its standard setting activity should result in an enhanced auditor focus on ensuring that</p>
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		<p>the nature and extent of actions they take throughout the audit are aligned with the user perspective. In our experience users are increasingly seeking information and insight to support their stewardship of the entities in which they invest.</p> <p>Not dissimilar to the objectives of a conceptual framework, a soundly developed set of core public interest principles could also assist auditors and other stakeholders in better understanding and interpreting auditing standards, including when there is no specific material dealing with a particular circumstance that arises.</p>
National Auditing Standard Setters		
21.	AUASB	<p>(a) Yes. All areas identified are considered to be relevant.</p> <p>(b) Other relevant public interest issues to consider are:</p> <ul 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. <p>(c) 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> <ul 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.
22.	CAASB	<p>(a-b) The AASB agreed that the public interest issues identified in Table 1 of the ITC were relevant to the work on these topics. Please refer to general comments provided in our response letter regarding additional public interest considerations.</p> <p>(c) The AASB and our Canadian stakeholders agree that overall audit quality is not just dependent on standard setting by the IAASB. In particular, there is a role for audit committees, market regulators, and others, to influence audit quality.</p> <p>One Canadian stakeholder expressed the view that currently, many of these other stakeholders influence audit quality reactively, for example, by writing to national and/or international standard setting bodies regarding standard setting matters. In their view, these other stakeholders could take a more proactive approach to positively influence audit quality by engaging, encouraging and,</p>

		<p>to a lesser extent, regulating management to improve the quality of the financial information they produce and their internal accounting and control systems.</p> <p>The AASB believes such efforts of other stakeholders to take a more proactive approach to enhancing audit quality should be embraced and encouraged. These efforts combined with the work of the IAASB will allow for more significant progress to be made on many of the initiatives within this ITC.</p>
23.	CNCC-CSOEC	<p>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.</p> <ul style="list-style-type: none"> – 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. <p>However, we have the following comments:</p> <ul style="list-style-type: none"> – 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. <p>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.</p>

		<p>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.</p> <p>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.</p> <p>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.</p>
24.	HKICPA	--
25.	IDW	<p><u><i>Fostering an appropriately independent and challenging skeptical mindset of the auditor</i></u></p> <p>We agree that it is in the public interest for an auditor to exercise appropriate professional skepticism. However, the IAASB cannot deal fully with this on its own in this one project. The issue of how to foster professional skepticism is interrelated with education, ethics, quality control and other factors, and therefore we support the IAASB's initiative to coordinate its approach with the IESBA and the IAESB. Professional skepticism is also impacted by the culture prevalent in individual jurisdictions, which standard setters need to bear in mind when setting standards, but will not be able to change on their own.</p> <p><u><i>Enhancing documentation of the auditor's judgements</i></u></p> <p>We agree that appropriate documentation may be effective in evidencing professional skepticism applied by the auditor. The IAASB will, however, need to be careful to ensure that the project on professional skepticism is not confused with professional judgment or that the project is subject to scope creep to dealing with professional judgment in general. Professional judgment and professional skepticism are interrelated, but the project on professional skepticism is narrower than one on both. It should also be recognized that auditors need not document every thought process used to arrive at a particular judgement: only the significant judgments for significant matters need to be documented, as currently required by ISA 230, which means that further requirements are not required in this respect.</p> <p><u><i>Keeping ISAs fit for purpose</i></u></p> <p>The ITC recognizes the importance of keeping the ISAs fit for the purpose in today's rapidly changing auditing environment. We would caution the IAASB to be careful in the way it responds to demands to strengthen its requirements, so that it continues to place sufficient emphasis on ensuring that the requirements remain principles-based so that they are capable of dealing with the rapidly changing environment. The alternative leads to ISAs becoming a cookbook, which, in turn, fosters a tick box mentality – potentially to the detriment of audit quality.</p> <p><u><i>Encouraging proactive quality management at the firm and engagement level</i></u></p> <p>We strongly support introducing proactive quality management – especially human resources management – and support a quality management approach (QMA) at firm level. This approach focuses on preventive rather than detective measures, and, as it follows the risk-based approach (that is, risk assessment and risk response) already anchored in the ISAs, would also result in solutions that can be more scalable than the current ISQC 1. We also support having the engagement partner focus on quality management for individual engagements. In practice, staff's attitude to quality is influenced by both the firm-wide stance (tone at the top) and the stance evidenced in</p>

	<p>their dealings with the engagement partner. A “strong” engagement partner can exercise a high degree of influence on the engagement team’s attitude to audit quality.</p> <p><u>Exploring transparency and its role in audit quality</u></p> <p>We do not believe that the IAASB should use its resources to explore what is termed “transparency reporting” in certain jurisdictions within this standards setting project because reporting that provides transparency about a firm’s quality management is a legal or regulatory issue. Reporting of this nature is not, in its own right, a direct driver of quality that should be addressed in ISQC 1 or ISAs.</p> <p>However, should the IAASB wish to explore what content of such reporting might be useful, a discussion paper to illicit views on the issues involved would currently be the most appropriate course of action for the IAASB to take. If the IAASB chooses to include requirements in ISQC 1 with respect to transparency reporting and similar reports by firms, at this stage these should be limited to requiring that such reporting not contain material misstatements of fact and not be misleading, and that assertions made in such reports be supported by adequate evidence, which may cause such reports to be an indirect quality driver.</p> <p><u>Focusing more on firms (including networks) and their internal and external monitoring and remediation activities</u></p> <p>Yes, ensuring that firms explore remediation in relation to significant findings of their internal and external monitoring will be essential if the IAASB takes a QMA seriously. However, we are not convinced that, given the wide range of types of networks (which range from those using only a common brand name without any other measures to networks with fully-integrated common policies and procedures), the IAASB will be able to provide requirements and guidance for networks. Rather, the IAASB should focus on the use by firms of policies and procedures at network level and what this implies for those firms.</p> <p><u>Reinforcing the need for robust communication and interaction during the audit</u></p> <p>Adequate communication is key throughout the audit, and so the IAASB should explore how its standards could strengthen this area.</p> <p>Certain issues of which the IAASB is already aware that warrant further consideration include:</p> <ul style="list-style-type: none"> • Further clarification of the identification and assessment of risk of material misstatement (we understand that the IAASB has commenced a project to revise ISA 315). • Further clarification of materiality and going concern; however it will be difficult for the IAASB to usefully address these issues until accounting standards setters, such as the IASB, have developed further authoritative requirements and guidance in these areas. <p>Auditors’ considerations and work in relation to service organizations as well as data analytics are further aspects rapidly becoming more significant in practice. The IAASB may need to discuss how these developments can be addressed. With respect to data analytics, the IAASB first needs to explore exactly what the impact on the audit can and should be.</p> <p>The ITC also refers to an auditor’s fortitude. Professional fortitude is very important to the application of professional skepticism, in that the exercise of professional judgment using professional skepticism leads to appropriate action in adverse circumstances. In our view, firms can play a leading role in fostering professional fortitude amongst partners and professional staff. This is an issue that may be worthy of further consideration by the IESBA, and in particular, how professional fortitude is different from and relates to integrity, independence and objectivity.</p> <p>We believe that “fortitude” as explained in the ITC is an issue that the IESBA ought to address. Otherwise we do not see a role for education or ethics standard setters in the areas referred to above.</p>
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		As noted above, accounting standard setters, and the IASB in particular, need to develop more authoritative requirements and guidance in the areas of materiality and going concern.
26.	JICPA	<p>(a) Yes, we believe that these public interest issues described in table 1 are relevant to the IAASB’s work on these topics.</p> <p>(b) No. We believe that table 1 includes all important issues that should be addressed.</p> <p>(c) We recognize that the IAASB has been conducting outreach activities to engage in dialogue with various stakeholders. Though not directly relevant to the question in G1(c) on specific actions that others need to take, we expect that the IAASB dialogues facilitate the view that the response to the changes should be discussed in terms of the financial reporting supply chain as a whole. We believe that it is especially important to engage in dialogue with representatives of those charged with governance and groups that promote corporate governance, in addition to the dialogues with the regulators, accounting standard setters, and investor groups.</p> <p>The IAASB’s Framework for Audit Quality (“the AQ Framework”) stated that while primary responsibility for audit quality rests with auditors, the interactions within the financial reporting supply chain and contextual factors have the potential to impact, directly or indirectly, audit quality. We strongly agree with this statement. An audit is an important but one part of the financial reporting supply chain. It is essential, for a sound financial reporting system, that all stakeholders in the financial reporting supply chain have balanced responsibilities and fulfill their responsibilities as intended.</p> <p>While audits should be relevant in changing environment, the revision of the auditing standards is only one of several means to respond. The interactions within the financial reporting supply chain become more important in the evolutionary phases: maintaining good balance between contextual factors, including a consideration of cost benefit, will be essential for successful evolution and adaptation.</p>
27.	MAASB	<p>(a) All areas identified are considered to be relevant.</p> <p>(b) Other public interest issues to consider are:</p> <p>Given the increasingly varied and complex scenarios that arise today and likely to evolve in the future, the International Standards on Auditing (“ISAs”) need to be sufficiently flexible on approaches to the audit and not contain unduly prescriptive requirements.</p> <p>The use of shared service centres (“SSC”) should be addressed by standard-setting activities on quality control and group audits. Development of guidance clarifying applicable ISA concepts to an SSC environment and how audit quality can be reinforced in relation to work conducted at an SSC may be helpful.</p> <p>Improving communication on the roles of regulators, oversight bodies of audit firms, Those Charged with Governance (“TCWG”) as well as preparers in supporting appropriate sceptical behavior among auditors can encourage quality auditing. Audit is only one component of the financial reporting supply chain. No meaningful change can be achieved if the other components are not simultaneously improving.</p> <p>Communication by audit firms with stakeholders especially the shareholders who are purportedly the primary party to whom the auditors owe a responsibility. Such matters could cover the audit firm on how its quality and performance is managed, its interaction with its network, basis of audit fees, how independence is maintained and focus areas for the audit of the next financial year.</p> <p>(c) Various stakeholders of the financial reporting chain will need to work together to reach consensus on the objectives to be achieved within the financial reporting chain, and agree on consistent interpretation of the requirements in the applicable standards. We</p>

		believe that the IAASB plays a key role in facilitating such dialogues with the relevant stakeholders to improve the quality of financial reporting.
28.	NBA	<p>(a) Yes. Nevertheless, we question whether all these issues can be effectively solved by enhancing the current ISAs. See also our summary response in the cover letter. We especially refer to the following sections:</p> <p>Fundamental revision of the ISAs</p> <p>Other actions for the quick wins</p> <p>Smaller entities</p> <p>(b) We refer to the following sections in the cover letter:</p> <p>Evolving role of the auditor</p> <p>Focus on behavior</p> <p>(c) All stakeholders in the financial reporting chain will need to work together on these issues. The IAASB plays a key role in bringing the relevant parties together and facilitating the dialogue.</p> <p>The IAASB should amongst others continue liaising with accounting standard setters for them to examine the materiality and going concern areas and developments beyond the financial statements such as the directors' report.</p>
29.	NZAuASB	Given that the public interest is broader than the role of the auditor, the NZAuASB strongly recommends that the importance of the IAASB's audit quality framework be kept top of mind. The contextual factors that contribute to audit quality need to be remembered, debated and addressed, as the audit is only part of the financial reporting supply chain and highly influenced by the quality of financial reporting. The NZAuASB sees a range of other issues in the broader context including the roles of directors and who should take responsibility for the quality of an entity's financial statements, education of the directors, how an audit committee can play an effective role in improving audit quality etc. Trying to resolve audit quality issues without adequately addressing the roles and responsibilities of others, especially preparers, is likely to be inadequate or insufficient to achieve the outcomes sought by the IAASB.
Accounting Firms		
30.	BDO	<p>(a) As mentioned in our cover letter, we believe that substantially all of the public interest issues raised in the Invitation to Comment (ITC) are important areas of focus for the work of the IAASB, but that the priority of a number of items within each category may need to be revisited, as described in our subsequent comments.</p> <p>Fostering an appropriately independent and challenging skeptical mindset for auditors is essential for maintaining audit quality. In that regard, we believe clarification is needed about how documentation can be enhanced to provide evidence of appropriate application of that mindset when forming auditor judgments.</p> <p>We also support the IAASB's consideration of a Quality Management Approach (QMA) for firm and engagement level activities, which have the capacity to support audit quality on a scalable and robust basis. As we note in our responses below, given the variety of firm structures and the work that many firms (including networks), have already undertaken to boost quality activities at the firm and engagement levels, the IAASB will need to consider the cost/benefit impact on firms and networks in consolidating existing ISQC 1 activities under a QMA approach.</p>

		<p>In addition, we support the IAASB's plans to revise ISA 600 (and other Standards, as appropriate) to respond to the multitude of practical issues encountered in practice. The increasing complexity and globalization of business has raised a number of questions that have caused firms to react by developing their own guidance. A clearer ISA that promotes greater consistency in how group audits are approached would be most welcome.</p> <p>(b) From a public interest perspective, there are a number of broader contextual matters that affect these particular issues that should be considered by the IAASB. In that regard, the IAASB should reconsider the flexibility of the ISAs and the prevailing public interest needs inherent in audits of Small and Medium-sized Entities (SMEs), listed entities, and non-listed Public Interest Entities (PIEs). In that regard, there are several areas that could be considered by the IAASB, which include providing clarity on:</p> <p>The definition of PIEs.</p> <p>How the ISAs can be better applied in the case of SME audits, perhaps by way of further implementation support and an ongoing dialogue with proponents of an alternative approach (for example, the Consultation paper, The Nordic Standard for Audits of Small Entities issued by the Nordic Federation of Public Accountants).</p> <p>The IAASB's proposals to protect the public interest through an extension of ISQC 1 and an increase in the requirements placed on engagement partners and audit firms responds primarily to the views about audit quality articulated by observers or commentators on the audit process for listed entities (for example, regulators or standards-setting boards).</p> <p>As audit quality is impacted by a combination of internal factors (e.g., application of the ISAs, engagement team competence) and external factors (e.g., nature of the financial reporting regime, ISA requirements), the IAASB should consider developing any new proposals by taking into account the views of all participants in the financial reporting marketplace, including preparers of financial statements, investors, lenders, audit committees, and regulators. By considering the views of a range of stakeholders, the IAASB will be better positioned to consider how audit quality can be improved, while meeting the needs of these participants.</p> <p>(c) In addition to the reconsideration about the nature of guidance that might apply differently for SMEs and other types of entities, we have outlined suggested actions in response to each of the questions below.</p>
31.	CHI	<p>(a) Yes</p> <p>(b) The table should make greater reference to the role of Those Charged With Governance ("TCWG") in supporting the auditor and the delivery of the auditor's objectives. There is a brief reference to "communications with the audit committee" under "communication and interactions". However, there is scope for a separate and distinct heading relating to TCWG.</p> <p>(c) In respect of our response to b), the IAASB could be supported in addressing the public interest issues concerning the role of TCWG by:</p> <p>Bodies that set corporate governance standards, and particularly standards and guidance for good boardroom conduct;</p> <p>Institutional shareholder and investor organisations;</p> <p>Organisations that support directors and director conduct, and particularly those that support non-executive directors.</p>
32.	DTT	<p>DTTL agrees that the following public interest issues as set forth in Table 1 of the ITC provide appropriate areas of focus for the IAASB to consider as it weighs various actions that may be taken as a result of the responses to the ITC:</p> <ul style="list-style-type: none"> Fostering an appropriately independent and challenging skeptical mind set of the auditor

		<ul style="list-style-type: none"> • 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 and networks and their internal and external monitoring and remediation activities • Reinforcing the need for robust communication and interactions during the audit. <p>Note that in relation to considering enhancements to the documentation requirements supporting the auditor's judgments, DTTL believes that the IAASB should reframe the requirements as documentation of the auditor's assessments of the entity's or management's judgments.</p> <p>Depending upon the input received, the IAASB may determine that certain matters are being addressed appropriately or are continuing to evolve at a local or jurisdictional level (e.g., transparency reporting) and that certain other areas of the standards are working as intended (e.g., communications with audit committees). As a result, in the context of limited resources available, DTTL encourages the IAASB to prioritize its resources to those areas that need immediate attention.</p>
33.	EYG	<p>(a) Yes, we believe the public interest issues in Table 1 are directly relevant to the IAASB's work on these topics with the exception of "Exploring transparency and its role in audit quality."</p> <p>We do not support the proposals within the ITC to add disclosures in the auditor's report related to the engagement quality control review or the involvement of other auditors as part of the scope of the projects to revise the performance standards related to quality control and group audits. We believe that any further enhancements to the auditor's report should be considered in conjunction with the IAASB's planned post-implementation review of its recently released new and revised ISAs related to auditor reporting in order to evaluate any potential enhancements in a holistic and prioritized manner (refer to our responses to QC3 and QC6). Further, we do not believe that it is necessary for the IAASB to produce guidance for transparency reporting. Among other reasons, we do not believe transparency reporting itself contributes directly to firm- or engagement-level audit quality, which we understand is the primary objective of the proposals in this ITC (refer to our response to QC10).</p> <p>(b) We strongly agree with the need to keep the ISAs 'fit for purpose'. We might suggest extending this public interest issue to explicitly include an objective for the ISAs to remain relevant into the future (i.e., "future-proofing" the ISAs), such that revisions to the standards are performed not only in context of recently identified challenges (e.g., alternative audit delivery models), but with wider consideration to challenges and issues not yet identified. We believe such an approach would require a focus on determining the relevant principles for each of the areas of or topics within the standards, which can then be applied on a go-forward basis to a wide range of audits that will continue to vary in structure and circumstances that cannot be contemplated at the present time.</p> <p>(c) We have provided our specific suggestions for actions that others can take in regard to the topics of professional skepticism, quality control and group audits in our responses to PS5, QC10 and GA11, respectively. In general, we believe the IAASB's ongoing outreach to stakeholder groups relevant to the audit process is important to continue to promote a common understanding of the auditor's role and responsibilities, as well as to promote consistent interpretation of the specific requirements for the audit.</p> <p>We also believe that responsibility for the quality of an entity's financial reporting, which lies primarily with management and those charged with governance, is of foundational importance to the audit. We are supportive of efforts by investors and other stakeholders that call on audit committees to play a more active role in their oversight of, and interactions with, auditors.</p>

34.	GTI	We agree that the public interest issues as outlined in Table 1 of the ITC are relevant to the projects discussed therein. With respect to the topic of professional skepticism in particular, we view the question of what constitutes sufficient appropriate audit evidence, especially in the area of new and emerging technology and practices, such as "big data" or "data analytics," to be an important topic in the public interest that crosses all the current projects on the IAASB Work Plan and as such should be given priority. Although often intertwined with the notion of professional skepticism, we encourage the IAASB to explore whether further standard-setting or guidance with respect to audit evidence would be beneficial, or necessary to address the changes to business models and financial reporting processes and related support as discussed further in the questions below.
35.	KPMG	<p>General Comments (G1 and G2)</p> <p>Firstly, we would like to compliment the IAASB on a document that is thoughtful and thorough in considering these key issues facing the profession. We are broadly supportive of most of the proposals outlined in the ITC. We agree with the IAASB that audit quality is at the heart of the IAASB's work as the global auditing standard setter. We support the Board's focus on the three topic areas discussed in the ITC as areas for potential standard-setting and other activities that could enhance audit quality.</p> <p>We agree that the public interest issues identified in Table 1 are the most relevant to the IAASB's work on professional skepticism, quality control, and group audits, as well as to other significant projects, such as consideration of revisions to ISA 540 / Special Audit Considerations Relevant to Financial Institutions; ISA 315, Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity and its Environment and consideration of Data and Analytics in the audit.</p> <p>We agree that the projects on ISA 540 / Special Audit Considerations Relevant to Financial Institutions, ISA 315 and Data and Analytics, all of which are on the IAASB's agenda, are high priority projects.</p> <p>We suggest that the IAASB also consider adding to their agenda: (1) updating ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements and (2) consideration of IT risks in the audit, as part of the ISA 315 project, including auditors' responsibilities with respect to cybersecurity, in view of the significant developments in these areas in recent years. (G 2)</p> <p>The possible actions set out in the ITC relate predominantly to standard-setting activities that the IAASB could undertake. Many of the proposals in the ITC should contribute to improved audit quality.</p> <p>However, we note that there are influences on audit quality that are outside of the direct control of the IAASB including corporate governance processes, the regulatory environment and the complexity of financial reporting frameworks. We therefore encourage the IAASB to work with other key stakeholders such as IFAC member bodies; accounting standard setters such as the IASB; regulators such as IFIAR; legislators; oversight bodies, including those with oversight of Boards of Directors and Audit Committees; academics and educators, as well as the Joint Monitoring Group to address broader issues aimed at improving corporate governance and the quality and relevance of financial reporting. (G 1c)</p>
36.	PwC	<p>(a) We broadly support the matters outlined in Table 1, in particular the need for the ISAs to remain fit for purpose. We believe the actions described in the Board's projects on these topics are the right areas to explore.</p> <p>In our cover letter, we highlight three areas that have the greatest potential to have an impact on audit quality in practice and that we believe are the most important to get right:</p> <ul style="list-style-type: none"> Standards need to allow audits to be designed in the way that best delivers audit quality across the wide spectrum of organisational structures.

		<ul style="list-style-type: none"> • Standards should address the conditions under which audit evidence can be shared. • Standards should promote proactive, scalable and robust quality management. <p>We expand on our views on how we think the ISAs and ISQC 1 could be strengthened to address those matters in our responses in this appendix. Our cover letter also identifies a number of principles that we will be using as we evaluate whether changes that the Board proposes to the ISAs/ISQC will be constructive and support audit quality.</p> <p>We are, however, sceptical about what can be achieved in certain areas through changes to the standards. For example, many of the issues cited related to the application of professional scepticism are significantly influenced by an auditor's personal traits and behaviours, cultural factors, or represent more granular questions about what constitutes sufficient appropriate audit evidence in specific circumstances. Similarly, as regards the role of a network, there are real challenges in seeking to place requirements at a network level due to the different legal and operating structures that exist.</p> <p>In exploring these matters it will be critical to seek consensus on their underlying root causes, the objectives to be achieved in addressing them and how best to achieve consistency in interpretation. In our view it is critical that changes to the standards:</p> <ul style="list-style-type: none"> • Are based on clear evidence of an underlying deficiency in a standard or requirement to avoid a proliferation of changes that may not prove to be relevant responses in enhancing audit quality. • Seek to eliminate existing, and avoid creating, different interpretations of requirements through clarifying the intent of existing requirements rather than adding undue prescription, thus helping to build consensus around what represents a quality audit. • Be scalable and adaptable to developments in the global business and audit environments and the circumstances of particular audit engagements. • Be written having regard to developments in technology that are transforming auditing tools and methods that are helping contribute to enhanced audit quality. <p>In addition, auditors need to be able to design audit approaches that best bring audit quality to bear across the spectrum of organisational structures that have arisen in recent times and that will inevitably evolve in the future. It is also important that standards do not unduly inhibit innovation through undue prescription. The best way to achieve this is with principles-based standards. In our view, detailed, prescriptive standards can inadvertently undermine audit quality rather than enhance it by promoting a focus on compliance with the rules – a “tick the box” mentality – rather than thoughtful application of professional judgement. It is important to properly evaluate the underlying drivers of the findings and suggestions and be satisfied that changes to the standards will be the most effective response, rather than adding new, or amended, requirements in response to every one of the detailed “laundry list” of suggestions the Board has received.</p> <p>Our views on these matters, as well as the other topics set out in Table 1, are further explained in our responses to the detailed questions below.</p> <p>(b) Entities are becoming increasingly sophisticated, with increasing use of centralised functions, integrated systems, and technology. Approaches to scoping a group audit are evolving as a result, to design audit approaches that are most effective in response to the assessed risks. In today's global business environment there are a range of organisational structures that were not contemplated when the majority of the ISAs were last revised. We strongly believe that it is important for the ISAs to recognise this spectrum of engagements and the different considerations that these bring with respect to how best to bring audit quality to</p>
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		<p>bear on any given engagement. Within an overall framework of responsibility for the audit, we believe the ISAs need to be sufficiently flexible to recognise the impact of these different organisational structures and not inhibit effective approaches to the audit through unduly prescriptive requirements.</p> <p>Related to the above, we believe the increasing use of shared service centres (SSCs) is an important development that the IAASB needs to address. SSCs, and the work performed therein, often support multiple audit engagements (both audits of a component of a group as well as the statutory audit of those components) concurrently. How such work is co-ordinated, the conditions under which audit evidence can be shared, and how audit quality is best brought to bear in such circumstances, including where, and with whom, that responsibility rests, are key questions that we consider should be addressed by the IAASB in its projects on Quality Control and Group Audits. The ISA requirements today can result in duplication of work effort and, in our view, there are circumstances when audit evidence should be able to be appropriately 'shared' if certain conditions are met. Guidance clarifying what ISA concepts need to be applied to a SSC environment, including those in ISA 220 with respect to the responsibilities of the engagement partner (and ISA 600 with respect to the group engagement partner, where applicable), and how audit quality is best reinforced in relation to work conducted at a SSC may help alleviate the confusion that exists today.</p> <p>Recognising both of these developments, we believe there is merit in the IAASB exploring the option of developing a standard that addresses using the work of other auditors (that are not component auditors in a group audit engagement). We believe this could provide an effective mechanism for addressing some of the challenges outlined in the ITC and we discuss that in our responses to the questions.</p> <p>(c) As evidenced by the IAASB's Audit Quality Framework, there are multiple drivers of audit quality. "Solutions" driven through prescriptive changes to auditing standards alone will not, in our view, be effective in responding to some of the issues identified in the ITC.</p> <p>To develop effective responses, we believe that consensus will be needed among various stakeholders in the financial reporting chain on the objectives to be achieved in addressing the matters set out in the ITC, what can be achieved through changes to auditing standards, as well as the roles other stakeholders need to play to achieve them. We believe the IAASB has a key role to play in facilitating that dialogue.</p> <p>For example, we believe audit committees – as the representatives of shareholders – are critical to the integrity and, ultimately, the quality of the audit, through their oversight of management and work of the auditor. It is generally accepted that audit quality has improved noticeably in countries where independent audit committees have the authority and responsibility – either through laws or regulations – to oversee the preparation of the company's financial statements, the conduct of the audit and to appoint the auditors. Having consistent high quality governance standards around the world, resulting in strong independent audit committees, would make corporate reporting significantly better, and help underpin oversight of, and consequently confidence in, the audit process.</p> <p>Open and honest dialogue between auditors and audit committees is essential. Auditing standards recognise that the information the auditor provides to the audit committee, and the quality of that information, is critical to the effectiveness of the audit committee – and to the quality of the audit. Communications by those charged with governance to the public, about the audit, would, in our view, also enhance the understanding and confidence stakeholders have in the auditor's report and opinion. We therefore encourage relevant bodies that have the necessary authority to establish frameworks for governance to explore how global best</p>
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		<p>practices for audit committees can be adopted, in jurisdictions where such governance frameworks are yet to be established or are in their infancy.</p> <p>Lastly, we believe that the IESBA could help promote professional scepticism through incorporating the concept into the fundamental principles of integrity and behaviour in the IESBA Code. In turn this could help enhance the importance of the fundamental principles by stressing the role professional scepticism plays in demonstrating those attributes. We continue to encourage the IAASB and the IESBA to work closely together. And, as we note in our response to question PS2 below, it is important that both Boards work closely with the IAESB in relation to the topic of professional scepticism.</p>
37.	RBI	--
38.	RSM	<p>(a) Yes, they are all relevant to the work on the above topics. It would be helpful to restate and focus on the overall purpose of a financial audit to provide a basis for the areas listed as related to professional skepticism, quality control and group audits.</p> <p>(b) None.</p> <p>(c) As identified in the Framework many bodies including IESBA from the perspective of independence and the IASB with respect to issuing accounting standards that require less management estimation.</p>
39.	SRA	--
Public Sector Organizations		
40.	AGC	--
41.	AGSA	<p>(a) Yes, they speak to the credibility of audit reports by enhancing quality of audits performed. S Special focus should be placed on : "Keeping ISAs fit for purpose"</p> <p>(b) Revenue – significant risk In the public sector the assumption that revenue may be overstated and is perceived to be a significant risk may not be relevant in for instance the audit of departments. Other factors are more relevant in the public sector, and the standards can be enhanced to specifically focus on these in the public sector perspective for example procurement and contract management.</p> <p>Materiality – ISA 320</p> <ol style="list-style-type: none"> ISA 320 does not provide a specific guidance/ methodology, or suggests a formula, that should be applied in determining materiality, but it only introduces guidance of possible benchmarks, such as categories of reported income (like profit before tax, gross profit etc), or of particularly relevant classes of transactions, account balances or disclosures, that should be corroborated by the exercising professional judgement in arriving at suitable level(s) of materiality. Further there is no consideration of the public sector requirements that could be applicable in determining materiality. ISA 320 does not prescribe how much lower the performance materiality should be, it merely stresses that it's not a simple mechanical calculation and involves professional judgement. More guidance should be provided on how this should be determined to ensure consistencies.

		<p>The lack of clear guidance in determining materiality and performance materiality can result in inconsistencies in the work performed by auditors on clients that are similar in nature as emphasis is placed on professional judgement and this could differ from auditor to auditor.</p> <p>Professional Judgement</p> <ol style="list-style-type: none"> ISAs place a lot of emphasis on professional judgement but there is no clear guidance of how this should be applied and furthermore there is no definition of professional judgement. ISA 230 should be enhanced to emphasize the importance of applying the requirements of ISA230 in applying professional judgement. <p>(c) No further comments.</p>
42.	GAO	We agree that the issues described in table 1 are the most relevant public interest issues that should be addressed in the context of your projects on professional skepticism, quality control, and group audits.
43.	INTOSAI	--
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	<p>We are aware that the ITC and other ongoing projects will mean that the IAASB has a virtually full agenda for the next 18-24 months while this important work is finalised. As such, consideration of any additional topics and actions should be balanced against its impact on these important workstreams.</p> <p>In this spirit, we foresee some value in remaining mindful of some high level concepts that could guide the IAASB's public interest work:</p> <ul style="list-style-type: none"> The interaction between ISAs and materiality in IFRS; and The application of ISAs to the audits of smaller entities and the need to react and be appropriately responsive to developments such as that of the Nordic Federation, while maintaining the integrity of the standards, irrespective of the size and complexity of the audit. <p>We are pleased that the IAASB identifies the need to consider the actions others might take to support audit quality. Audit quality is the responsibility of all, not just the IAASB or auditors, so we agree with a holistic approach in which all stakeholders play a part. For example, this could include:</p> <ul style="list-style-type: none"> Guidance on how to run an audit tender in a way that enhances audit quality; Advice for audit committees on how they can support audit quality;

		<ul style="list-style-type: none"> • Help for preparers on how to comply with specific IFRSs in a way that considers how disclosures will be audited; • Observations from regulators that refer to specific standards rather than general references to professional scepticism.
47.	AIC	<p>a. As referred in the document under review, the issues addressed are relevant for inclusion in the standard.</p> <p>b. We recognize that the matters are satisfactorily covered in the time we live in, the most relevant aspects of public interest.</p> <p>c. Yes, we understand that the specific actions to be undertaken are very strongly dissemination and training of items approved in the standard. The biggest drawback in several countries is the lack of actors (entrepreneurs and professionals accounting) of IFAC standards themselves are of high technical level. Its intensive application is lacking.</p>
48.	AICPA	--
49.	APESB	--
50.	CAANZ	<p>(a) We agree that the public interest issues are relevant to the IAASB's work on professional skepticism, quality control, and group audits.</p> <p>(b) The public interest areas noted in the ITC are largely internally focussed. We acknowledge that this may well assist audit inspections, however, other relevant public interest issues to consider are:</p> <ul style="list-style-type: none"> • Supporting a sustainable business model for the auditing profession. • Improving engagement and communication by audit regulators and audit committees about audit quality with users and the markets. • Enhancing the competency of directors and those charged with governance to enable them to better challenge auditors. • Improving the overall quality of financial reporting. <p>(c) We believe it is important to focus any changes or actions on the IAASB's Framework for Audit Quality. This identified parties in the financial reporting supply chain and the role they have in supporting audit quality and links audit quality to the broader objective of effective markets. While some changes may seem relevant with a singular focus, if the proposed action or change cannot be directly linked to an audit quality improvement in terms of the matters identified in the framework, we do not believe they will be the best response or an effective use of resource.</p> <p>Audit committees have the ability to 'drive' audit quality and therefore can have a significant influence, albeit indirect, on the quality of the audit. An audit recipient who gets the most out of an audit is one who has an empowered audit committee that can hold the auditor accountable for audit quality. Audit committees also have the ability to communicate to investors their interactions with auditors to enable investors to make their own assessment of audit quality. We believe there is value to be gained from exploring and developing an enhanced corporate governance model. By way of example, in the United Kingdom, a report from the audit committee is required as part of the financial report and in Canada there are a number of initiatives supporting the Audit Committee's involvement in audit quality. We believe this is an aspect in which the IAASB could usefully be involved.</p> <p>In relation to actions by others, we believe there are two key areas which have an important impact on audit quality:</p>

		<ul style="list-style-type: none"> Regulators are increasingly influencing the public's perception of the performance of the audit profession by publishing audit inspection results. The manner and matters included in these reports impacts on perceptions but also can impact on behaviour. The financial literacy of boards is important as it drives the company to produce quality reporting and enables discussions with auditors to focus on significant matters, rather than basic accounting adjustments.
51.	CAI	We agree that the topics identified in Table 1 are those most relevant to the IAASB's work on its audit quality project and support the three main topic areas of professional scepticism, quality control and group audits identified in the ITC. We consider, however, that there are some additional factors which need consideration in determining the optimal course of action by IAASB, including a number of particular significance in the context of the Irish business environment. Therefore we have taken the view that our response can most usefully focus primarily on those and other key matters, rather than seek to answer every question raised in the ITC.
52.	CAQ	--
53.	CIIPA	<p>(a) Yes, clearly these are three important topics that continue to be addressed not only by the IAASB but by other standard setters, regulators and by the individual public accounting firms.</p> <p>(b) Not at this time.</p> <p>(c) Not at this time.</p>
54.	CIMA	--
55.	CPAA	<p>(a) We consider that the public interest issues identified are relevant. However, in seeking to keep ISAs fit for purpose, we caution against constant changes in auditing standards, which can create significant challenges for firms, particularly small to medium practices (SMPs), in keeping up to date with current requirements and additional costs, which can flow on to other stakeholders. Some changes have a direct impact on other stakeholders, such as audit committees, which need to be taken into consideration. In considering enhancing documentation requirements, we also caution against the standards becoming overly prescriptive with respect to evidencing professional judgements made and professional scepticism applied. Excessive focus on documentation may actually undermine the exercise of effective professional judgement and professional scepticism. There are risks of a negative effect on audit quality by specifying in too much detail what should be documented to the extent that a 'tick box' or compliance mentality is created. Whilst documentation is a critical part of the audit process that should capture and demonstrate the exercise of professional judgement and professional scepticism, the right balance should be struck when developing new requirements. The focus needs to be on ensuring the principles of a quality audit are in place and encouraging auditors to exercise their professional judgement to conduct an effective audit. The changes to the ISAs should not be directed at meeting audit regulators' agendas with respect to furthering their compliance activities.</p> <p>(b) Other public interest issues relevant to the topics include the role of the audit committee and board in fostering audit quality and supporting professional scepticism. The quality of governance within an entity has a significant impact on audit quality, due to factors such as receptiveness of those charged with governance (TCWG) to auditor professional scepticism and audit quality considerations when assessing audit fees. TCWG must also understand and fulfil their obligations to provide management</p>

		<p>oversight, particularly in relation to challenging management estimates and judgements. We recognise that the IAASB are not responsible for setting standards for those charged with governance, however the importance of good governance and its positive impact on audit quality could be highlighted to relevant stakeholders (see response to G1(c) below) to encourage them to take appropriate action in this regard.</p> <p>(c) Bodies representing directors, such as Global Network of Directors' Institutes (GNDI) and National Institutes of Directors, could take action to provide directors and audit committees with greater insight into their influence on audit quality, the factors they need to consider in appointing a new auditor, ways in which they can support the auditors' exercise of professional scepticism and application of professional judgement, as well as greater scrutiny of the composition of boards and audit committees to ensure adequate level of financial literacy and knowledge to appropriately understand issues raised by the auditors.</p> <p>Non-executive directors and audit committee members have a critical role to play in questioning management, providing the infrastructure to support a quality audit and promoting good governance through their 'tone at the top'. Actions include education of TCWG, audit committees and users of financial reports to better understand what audit provides, in order to reduce the expectation gap, and encouraging regulators, through bodies such as the International Organization of Securities Commissions (IOSCO) and Financial Stability Board (FSB), to clarify the responsibilities of directors, as they have the greatest influence on performance and good governance.</p>
56.	DnR	Refer to the comment letter from FEE.
57.	EFAA	<p>(a) We believe the public issues noted in table 1 are relevant but we have some reservations about the role that the IAASB should play in Transparency Reporting and Monitoring and Remediation, in particular. We are not of the view point that there is no role here for the IAASB but instead we think that any future role played by the IAASB in this regard should be carefully assessed and scoped.</p> <p>(b) Please refer to our key remarks.</p> <p>(c) On page 14 of the ITC the IAASB noted the following stakeholders as being able to directly influence professional skepticism. It is likely that this group of stakeholders can affect all of the public interest issues noted to differing degrees depending on the relevance of the matter at hand.</p> <ul style="list-style-type: none"> • Firms/Networks of firms; • Standard setters, including NSS; • Professional accountancy organizations; • Educational institutions; • Those charged with governance, including audit committees; • Regulators and audit oversight bodies; and • Management/those responsible for preparing the financial statements.
58.	FACPCE	<p>(a) Yes. We consider the issues described at Table 1 are relevant.</p> <p>(b) To promote institutional strengthen of accounting organizations of each country.</p>

		<p>To promote constructive dialogue between accounting organizations and regulatory or control authority (central banks, listed companies' regulators, etc.).</p> <p>(c) Are identified in the previous answer.</p>
59.	FEE	<p>(a) The issues described in table 1 of the ITC are relevant to professional scepticism, quality control and group audits. We especially consider the final bullet point in "Reinforcing the need for robust communication and interactions during the audit" to be vital; for instance, regarding its potential to giving more junior staff insight into the mind and focus of the audit partner and the benefit of his/her experience and expertise. This bullet point also includes all other communications such as the ones issued to those charged with governance, the auditor report etc. We recommend that the IAASB also considers barriers that might exist to the application of these principles in practice, for instance by acknowledging that there are disincentives, time constraints, or commercial pressure which could detract any form of proper communication.</p> <p>The second bullet point "Enhancing documentation of the auditor's judgement" is also important. Recognising that documentation can be a powerful tool will help auditors to have more fortitude when carrying out an audit. However, 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 in arriving at a particular judgement. In addition, care needs to be taken to ensure that the project on professional scepticism is not confused with professional judgment.</p> <p>Bullet 1, "Fostering an appropriately independent and challenging sceptical mindset of the auditor", might warrant further thought since it perhaps focusses too much on engagement partners. Although we agree that sceptical engagement partners are pivotal to a quality audit, one should not underestimate the importance of instilling scepticism at lower staff levels as well and in particular via a proper 'tone at the top'. In particular, the IAASB could consider how more senior staff who ask more searching questions in more specific areas can help junior staff develop these attributes. A great deal of important work underlying the ITC relates to behavioural issues including the importance of 'group think', the adverse effects of resource constraints, and the mechanisms that can be put in place by firms to mitigate their effects. The ITC and auditing standards should explicitly acknowledge these important issues.</p> <p>(b) Many of the challenges regarding professional scepticism manifest themselves in the context of accounting estimates and, as such, the revision of ISA 540 is very relevant to the topics discussed. We very much welcome the fact that the IAASB is working on it and that coordination will take place between the task forces dealing with both projects.</p> <p>We also consider the revision of ISA 315 important.</p> <p>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.</p> <p>(c) The fundamental public interest angle is public confidence in audit quality. To this end, audit firms of all sizes have a role to play in designing policies and procedures to enhance public interest issues. These policies and procedures would focus on their individual facts and circumstances. In this way the scalability issue, also closely linked to the SMPs, is important. Although the full complement of this spectrum of audits might not be the focus of some of the regulators, we applaud the IAASB for recognising the importance of this in the ITC. Even if this consultation is a regulatory-driven piece, we should keep in mind that the revised requirements would need to be applied in less complex and smaller audits as well. In addition, we consider that all stakeholders in the financial reporting chain should contribute to this project.</p>

60.	FSR	For specific answers to the queries in the ITC, we in general refer to the comment letter from FEE.
61.	IBA	--
62.	IBRACON	<p>We consider the time is right for the IAASB to revisit its group audit and quality control standards, to ensure they remain fit for purpose, and to reflect on how the standards can best support the application of appropriate professional skepticism.</p> <p>Our view is that it is particularly important to audit quality that standards are adaptable to the circumstances of particular audit engagements. Principles-based standards are better able to be “future-proofed” by avoiding undue regulation that may inhibit innovation.</p> <p>Overarching themes is that audit quality will best be supported if the resulting changes focus on:</p> <ul style="list-style-type: none"> • The roles and responsibilities that support audit quality, without imposing an unduly rigid structure of the specific individuals that must fulfill those responsibilities; • How audit evidence can be shared effectively, when appropriate, in a complex engagement structure; • What evidence is necessary to support justifiable reliance on common policies, processes and methodology within a network that are designed to support audit quality; and • Support for small and medium practices in applying the standards to less complex engagements. <p>Considering the evolution of the business environment related to technology, business globalization and structure, in a Group audit we believe that shared services centers will be an important public interest issue to be addressed regarding sharing audit evidence and co-ordination of projects.</p> <p>Standards should include more robust descriptions of the limitations inherent to an audit. As the regulations over the audit profession in various jurisdictions evolve, it is important that all market participants understand what to expect and what not to expect from an audit.</p>
63.	IRE-IBR	<p>(1) Yes, IRE-IBR believes the issues raised by IAASB are in the public interest and are relevant to IAASB’s work on professional skepticism, quality control and group audits.</p> <p>(2) We especially would like to stress the importance for IAASB to continue to promote a principle in order to allow the scalability of the ISAs and promote an even more principles-based approach (vs. rules-based). The public interest requires quality audits and the IAASB should avoid any confusion regarding the concept of “an audit is an audit”. However, the scalability remains an issue for auditors and could consequently affect the communications of the interactions with the stakeholders. (see G2)</p> <p>(3) Furthermore, we believe many challenges regarding professional skepticism are related to the context of accounting estimates. Therefore, the revision of ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures, is important and relevant to the topics discussed in the ITC.</p> <p>(4) Topics we believe the IAASB should consider are the following.</p> <ol style="list-style-type: none"> a. Fostering an appropriately independent and challenging skeptical mindset of the auditor – IAASB raises in Table 1 Our Views on the Most Relevant Public Interest Issues Related to Professional Skepticism, Quality Control and Group Audits the question on how to better articulate how auditors, especially engagement partners, should appropriately apply professional skepticism. The phrase “especially engagement partners” doesn’t seem appropriate, as the partner

		<p>involvement usually represents maximum 5 to 10% of the audit time engagement. Professional skepticism has to be an attitude applied throughout the whole career, i.e. from junior auditor function on. By focusing on the engagement partner, there is a risk to not take into account the relevance and importance of the role of others in the engagement team.</p> <p>We also suggest IAASB reconsiders the use of wording as "to appropriately apply professional skepticism". We believe professional skepticism to be a matter of attitude, human character, training, etc. and not a mere matter of application.</p> <p>b. Enhancing documentation of the auditor's judgments – we believe the ISAs already contain sufficient documentation requirements.</p> <p>c. Keeping ISAs fit for purpose – The ISAs are intended to be "principles based" as opposed to "rules based". When one reads the ISAs, this approach is questionable because many paragraphs are leaning towards a "rules based"-approach. These "rules" could generate too much audit work effort on "basic" audit procedures and obscure the importance of risk assessment of material misstatement in the financial statements taken as a whole and of the significant risks. These last two elements are essential in the auditor's risk assessment and responses to the identified risks. Scandals encountered in recent years seem to be related to these audit phases of risk assessment and responses and are not related to "basic" audit procedures. We suggest IAASB in developing ISAs to focus more on the major areas of risks of material misstatement.</p> <p>d. Encouraging proactive quality management at the firm and engagement level –We believe any initiative taken should focus on effectively embedding quality considerations in the firms' management, quality management procedures and execution of the audit.</p> <p>e. Exploring transparency and its role in audit quality – In Belgium there are already significant obligations with respect to the transparency report. Developing disclosures in the transparency report on key considerations with respect to quality management such as the key features of the quality management system and procedures and the KPI's used to assess quality could provide useful insights to the readers of the transparency report. Focusing more on firms (including networks) and their internal and external monitoring and remediation activities – We believe the ISAs contain sufficient requirements in this regard.</p> <p>f. Reinforcing the need for robust communication and interactions during the audit – The current requirements are sufficient to meet the communication and interactions needs during the audit. Any additional requirements should carefully consider its usefulness and effectiveness for the execution of the audit vs. the added administrative burden for the engagement team.</p>
64.	ICAEW	<p>(a) Yes, although we emphasise that there are fundamental opportunities and challenges for the audit profession connected with these issues that need to be tackled head on as part of the IAASB's work, for example matters related to fee pressures and technological changes. At the moment these do not appear to be regarded as central to the consideration of the issues that the IAASB has identified and we consider that they should be. It is important for any changes to be principles based and not stifle innovation that will result in improved audit quality. They should facilitate audit delivery that is fit for the future.</p> <p>(b) All of the issues that we have identified can be included under the headings in the bullets in Table 1 if these are interpreted broadly. However, some of the issues covered in the IAASB's Audit Quality Framework, referred to on page 8 onwards, are not mentioned in this table. For example, transparency in the fifth bullet is about more than transparency reporting by firms and should include ensuring effective implementation of extended auditor reporting. The first bullet could be redrafted to encompass important people</p>

		<p>and behavioural matters that go much deeper than scepticism per se. For example, as hinted at on page 10 of the ITC, there is a need for the profession and firms going forward to attract the right sort of people with the people and technical skills that are necessary for the audit of the future, and not the audit of the recent past, and to ensure the necessary coaching and mentoring so that audit staff and partners do develop the required competencies. This is a real public interest issue as audit will not be effective in meeting what is expected of it if the profession and firms are unsuccessful on this. Also it is not possible to determine what is appropriate for auditors regarding these topics without also considering matters connected with the accounting framework underpinning the financial statements that firms are auditing.</p> <p>(c) As outlined in the IAASB's Audit Quality Framework, auditing standards are just one part of a much bigger picture with many factors contributing to or inhibiting audit quality. Actions are needed to deal with these by many players, as identified in the Framework.</p>								
65.	ICAP	--								
66.	ICAS	We welcome the IAASB's decision to tackle the three topics of professional skepticism, quality control and group audits and acknowledge that each of them can have a bearing on audit quality and that there is some overlap and interaction between the three.								
67.	ICAZ	<p>(a) We agree that the issues identified in Table 1 are relevant to the work on the topics of professional skepticism, quality control and group audits.</p> <p>(b) None</p> <p>(c) We believe that the following actions should be taken to compliment the efforts of the IAASB to address the public interest issues identified:</p> <table><tr><th>Action</th><th>Responsible person/body</th></tr><tr><td>Firms should foster a culture with their entities which inculcates the need to exercise professional skepticism and have policies and procedures which ensures that this happens.</td><td>Firms</td></tr><tr><td>Firms should relook at the audit documentation and methodology especially in areas where they evidence that they have appropriately applied professional skepticism.</td><td>Firms</td></tr><tr><td>Regulators should follow up on remedial actions taken in respect of results from firm quality inspections.</td><td>Regulators</td></tr></table>	Action	Responsible person/body	Firms should foster a culture with their entities which inculcates the need to exercise professional skepticism and have policies and procedures which ensures that this happens.	Firms	Firms should relook at the audit documentation and methodology especially in areas where they evidence that they have appropriately applied professional skepticism.	Firms	Regulators should follow up on remedial actions taken in respect of results from firm quality inspections.	Regulators
Action	Responsible person/body									
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Firms should relook at the audit documentation and methodology especially in areas where they evidence that they have appropriately applied professional skepticism.	Firms									
Regulators should follow up on remedial actions taken in respect of results from firm quality inspections.	Regulators									

68.	ICPAK	<p>(a) Yes</p> <p>(b) Yes, we believe the IAASB should consider addressing whether 'one size fits all' remain appropriate for auditing standards, or should there be different standards for public interest entities and other entities mirroring, in a way, full IFRS and the IFRS for SMEs?</p> <p>(c) No</p>
69.	ICPAU	<p>(a) YES</p> <p>(b) NO</p> <p>(c) NO</p>
70.	INCPC	<p>(a) Yes, they are. All of them are fundamental topics of the audit work. The quality of them enhance the credibility of the work that Auditors do over those financial statements reported by the Entities.</p> <p>(b) Auditor's capabilities. It is true that quality control refers to this subject but it seems to be a general concept of what the capabilities should be for Auditors. The capabilities (knowledge, expertise) of the audit team or auditor play a big role in the audit work and therefore should be more specific guidance about this.</p> <p>(c) IAESB and IESBA</p>
71.	ISCA	--
72.	KICPA	<p>(a) We believe the public interest issues, as suggested in the Table 1, show a mostly high relevance with professional skepticism, quality control, and group audits. In particular, the two issues of "Enhancing documentation of the auditor's judgments" and "Focusing more on firms and their internal and external monitoring and remediation" have strong relevance with this project and are in line with serving the public interest as well.</p> <p>The evaluation of quality audit, which means that whether professional skepticism is appropriately exercised or not, is based on working papers. This led us to be supportive of the necessity of enhancing documentation, as suggested in the project. As it is necessary to identify and remedy firms' weaknesses, detected internally and externally, for the effective management of audit quality, we believe the project needs to come up with measures (monitoring and remediation) at the firm level.</p> <p>When addressing the issue of enhancing documentation, risk-based approach gives rise to strict documentation across ISAs, resulting in excessive staff workloads in practice. Given this, we recommend IAASB sufficiently consider possible negative impacts, arising from strong documentation, which is necessary to better evidence professional skepticism, resulting in decreasing time and concentration auditors could invest otherwise.</p> <p>Aside from this, addressing changing audit environment-related issues, such as the use of ADMs, innovation in audit data analytics, and increasing the use of the work of auditor's expert under the topics of audit quality and group audits, respectively, is meaningful, but the issues require consistent approach, after reviewing their impacts on ISAs in general. Thus, we think addressing the issues under the same topic of "Keeping ISAs fit for changing auditing environment and purpose" would be more desirable.</p> <p>The issues of "transparency reporting" and "quality control requirements at a network firm level" are directly related with the quality control topic, but they should be dealt with law and regulation at the respective jurisdictional level, instead of international standards</p>

		<p>of ISAs or ISQC1. For one, accounting firms in Korea submit annual reports, as pursuant to the Act on External Audit of Stock Companies, as equivalent to transparency reports of EU.</p> <p>(b) We have no additional public interest issues to suggest, excluding ones in the Table 1.</p> <p>We would like to comment that the appropriate application of the Financial Reporting Supply Chain concept is necessary, when identifying public interest issues and reviewing necessary actions for the ultimate goal of improving the effectiveness and efficiency of international standards, and safeguarding the public interest.</p> <p>Some of the issues, stated in the Table 1, show a strong relevance with regulatory requirements and environments of the respective jurisdictions. Considering their impacts on audit quality and practice, it would be desirable for IAASB to study and review the issues. However, establishing new standards or revising existing ones at the IAASB level would not be effective to addressing the issues. The issues would be better addressed from coordination with international regulatory bodies, such as IFIAR or IOSCO, coupled with strong initiatives of regulators of the respective jurisdictions. For one, some of the public interest issues in the Table 1 require consistent approach at the international level from the perspective of auditors, but achieving a certain level of consistency in jurisdictional audit-related law and regulation should come first, as we believe. This is not what an international auditing standards-setter can do, but regulators at the respective jurisdictional level can do.</p> <p>(c) Please refer to our responses to the above (a) and (b).</p>
73.	MICPA	--
74.	SAICA	--
75.	SMPC	<p>The public interest issues identified are relevant to the work on the topics.</p> <p>The SMP Committee supports the inclusion of encouraging proactive quality management at the firm and engagement level and believes it is in the public interest to consider what can be done to encourage a scalable and robust approach to quality that is fostered by proactive firm leadership and management.</p> <p>We consider that ‘fostering an appropriately independent and challenging skeptical mindset of the auditor’ is very important. We see this as closely linked to Continuing Professional Development (CPD), which often focuses more on technical matters, such as changes to laws and regulations. The “soft skills” of professional skepticism and “tone at the top” are more questions of mind and attitude. These skills lend themselves more towards practical case studies and exercises, rather than lessons transmitting pure information.</p> <p>Training in the application of professional skepticism is difficult for firms of all sizes but particularly for SMPs. We believe that professional organizations that provide training, and commercial training providers should create more CPD opportunities specifically related to professional skepticism. In addition, there may be more limited opportunities for mentoring in some SMPs and therefore Professional Accountancy Organizations (PAOs) could facilitate some kind of mentoring as a substitute for small firms and sole practitioners.</p> <p>An additional public interest issue relevant to these topics is data analytics. The SMP Committee IAASB Rapid Response Task Force (IRRTF) recently had the opportunity to discuss this with the relevant IAASB Working Group and it is clear that it presents both opportunities and challenges for SMPs. The ICAEW publication Data Analytics for External Auditors acknowledges that software solutions are becoming</p>

		<p>increasingly available in the SMP market in a number of jurisdictions and it is likely that the use of data analytics will become more common going forward.</p> <p>Pressure to lower fees has been consistency ranked as one of the top challenges facing SMPs in the IFAC Global SMP Surveys and we believe should also be a matter addressed by the Joint Working Group. There is concern that lower fees may result in lower audit quality and greater difficulties for firms to pay competitive salaries in order to attract talented individuals. These factors, combined with higher responsibility and questions being asked about the prestige of auditors, may make it difficult to attract and retain the top talent as auditors. Quality audits are in the public interest and all stakeholders (e.g. regulators, investors, governments and businesses) need to coordinate to ensure that the right incentives are there for auditors to deliver quality, including having sufficient time and adequate resources. At present, for a variety of good reasons, the incentives sometimes do not align.</p>
76.	WPK	--
Academics		
77.	AAA	--
78.	AHigson	<p>G1b:</p> <p>Both accounting and auditing are often considered to be technical subjects – with technical problems and technical solutions. I would suggest that the perception of technical precision tends to undermine the complexities of external reporting, underplays the subjective nature of the financial statements, and the impact of the motivations of management on the financial statements. I would suggest that external auditing should be viewed in terms of the audit of management's motivations (Higson, 2003). Management's motivations provide the driving force behind the way the financial statements are prepared and presented. These motivations may range from the meeting of profit targets (so as to satisfy City expectations or the achievements of personal bonuses) to ensuring the survival of the business. Motivational aspects permeate the whole production of the financial statements. If management intends to smooth profits, this is something which it is very difficult for auditors to detect. This raises the question as to the role of the auditor in relation to management bias: whether it is to eliminate bias, to minimise bias or to examine the reasonableness of management's justifications for their representations - auditors seem to prefer to view themselves as being required to examine management's justifications for their representations (Higson, 2003, pp.140-141). However, at what point does bias become fraud? The dividing line between the two, in certain circumstances, may at the very least be very fine.</p> <p>Therefore, I believe the under-appreciation of the impact of management's motivations on the financial statements is one impediment to the full application of professional skepticism.</p>
79.	Glover-Prawitt	--
80.	TRay	--

Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	<p>(a) Yes</p> <p>(b):</p> <ul style="list-style-type: none"> i. There is a fine balance between ISAs that promote quality audits and implementation of those ISAs to deliver value to stakeholders. Audit quality is a necessary prerequisite for the acceptance and provision of audit services. However, to remain relevant to the public interest, auditors need to understand compliance with ISAs as “the way they do business” and focus on delivering value audits. Presently auditors appear to focus on compliance to satisfy audit inspections by regulators. ii. “Public interest” is far broader than investors in capital markets. A large percentage of the world economy comprises private business; audit services are important to ensuring quality financial information for decision-making to promote economic prosperity and growth in this market segment. These two factors have a pervasive impact on all items listed. iii. The value of audit communications: “Value” is not a one-size-fits-all for audit. Although audit compliance may be an adequate surrogate for value at the top end of the listed market, the value delivered through timely audit communications can be critical for the rest of the market. The ISAs have a somewhat rigid explanation of appropriate communications between the auditor and audit client. iv. Auditor education: The value of communications will be enhanced through the auditor’s identification and understanding of issues relevant to business decisions. Two areas where the auditor’s understanding and knowledge needs to be enhanced are organizational behavior and IT systems. v. Audit breadth of knowledge and experience: As specialization in various aspects of the audit becomes more prevalent, there is increasing risk of dysfunction in the audit process, albeit that regulatory compliance might be satisfied. For example, group audits in the private sector can be considerably more complex than the audit of a traditional corporate group structure. To identify and address audit risk, the auditor leading these group audits needs to understand taxation, tax structures, contractual obligations, organizational structures including service organizations, IT systems, valuation protocols in different jurisdictions, cultural differences, related party priorities and goals beyond profits maximization. Bringing in experts for each area, without understanding the “big picture” is not optimal and carries risk. An auditor cannot be appropriately skeptical in areas where he/she has limited understanding. An auditor’s expert, who may not be an auditor, is likely to have a very different understanding of how to exercise and document skepticism. vi. Contextual differences in global networks: Differences in the operation of global networks comprising large international partnerships with decisions made centrally by an executive, and networks comprising independently owned firms who work through collaboration and co-operation is not well understood. There are strengths and weaknesses in both models. Factors driving audit quality are biased towards the “operational norm” of large international partnerships.

		<p>(c) In Australia, those involved in audit inspections are rarely audit experts. Consequently, there is a focus on item-for-item matching for compliance with an ISA requirement and the work documented by the auditor. Audit is (or should be) an iterative and integrated process. The nature and extent of documentation (suitable for a third party who may not be an audit expert) of those thought processes are sometimes difficult when decisions are made in the midst of outcomes in an audit.</p> <p>Regulators need to employ audit experts to conduct audit inspections, with a defined acceptable period of audit experience, in the same way as the regulator defines the appropriate experience needed by a practitioner to become a registered company auditor.</p>
84.	JGrant	<p><i>Principles based standards</i></p> <p>IAASB includes as one of its objectives in the public interest ‘keeping ISAs fit for purpose’ and suggests that the ISAs need to promote audit quality at the engagement level in the varied and complex scenarios that arise today.</p> <p>This must be right but there may be different ways in ‘keeping ISAs fit for purpose’. One way may be to focus on a relatively small number of principles and to continue to refine them in the light of current needs. Another may be to add more and more requirements and guidance to address particular new issues.</p> <p>I would encourage IAASB to try to keep its standards as principles based as it possibly can. There is a danger that ever more specific standards / guidance to address these ‘varied and complex scenarios’ will result in far more detailed procedural standards that:</p> <ul style="list-style-type: none"> • Will be hard to understand, • Will demotivate partners and staff by making audits even more of a compliance exercise than it has become, • Will not apply to all circumstances (eg to audits of SMEs), and • Will need ever increasing effort to keep them current.
85.	JK	--
86.	KKTuraga	<p>(a) Yes.</p> <p>(b) Yes. The auditors need to maintain independence and ethical in their approach to the audit of an entity which needs attention as a top priority. Independent Regulators of Government perception also need to be factored in the standards.</p> <p>(c) The global Professional institutes acting as regulators needs to focus more on imparting the importance of maintaining Independence of the auditors and also take punitive action against any professional deviating/violating so that the various regulators handling different aspects of finance and accounting appreciate the role of professional accountants and their doubts are dispelled. Further, the regulators perception on each aspect are detailed in the Standards so that the professional accountants assimilate not to miss any aspect’s which needs reporting</p>
87.	SDeViney	<p>(a) All topics listed in table 1 are relevant except firm-level transparency reporting. Stating the audit was conducted in accordance with professional standards should be sufficient to indicate a quality audit. In turn, the peer review report should be sufficient evidence that professional standards are followed. Results of any regulatory reviews provide further evidence, and ultimately the auditor’s work is proved true over time. Accordingly, there is a risk that mandated transparency reporting may unduly undermine the auditor’s opinion and peer review report. Existing forces – regulation, litigation and reputation – should be sufficient to control quality far better than any required transparency reporting.</p>

		<p>That said, it is incumbent upon audit organizations to develop transparency reporting to the extent they find it useful to build their reputation. It is also incumbent on audit committees to ask for information to the extent they find it useful.</p> <p>As recommended by the Center for Audit Quality's January 12, 2016 report, further work is needed to develop consensus about audit quality measures and the most effective ways to assess audit quality. Attempting to measure audit quality is inherently difficult due to the nature of the auditor's work and is the subject of several ongoing projects by different groups. Accordingly, it would not be appropriate at this juncture for specific audit quality measures to be incorporated into professional standards. Even if consensus on audit quality measures is achieved, standards should require such measures be incorporated as a requirement for an audit organization's quality control monitoring rather than separate external transparency reporting.</p> <p>(b) Yes. Continued efforts for convergence of both accounting and auditing standards is relevant, since fragmentation of standards complicates and hinders professional skepticism, quality control and group audits.</p> <p>(c) See answer to question G1(b).</p>
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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?

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	<p>Audit Scope</p> <p>The IAASB should consider strengthening standards around the minimum scope of the audit and auditors assessment. As mentioned in our October 29, 2012 letter³ to the IAASB, the auditor's assessment should not be limited to just 12 months from the balance sheet. The CalPERS Investment Belief # 2 states that "a long time investment horizon is a responsibility and an advantage." So, we believe that there should be enhanced disclosure of reasonably foreseeable events beyond 12 months that would affect the auditor's assessment of an entity's ability to continue as a going concern. Additionally, shareowners who satisfy a reasonable shareholding threshold should have the opportunity to expand the scope of the forthcoming audit or discuss the results of the completed audit. We believe there should be transparency and advance notice when the audit is to be tendered in order to provide shareowners with an opportunity to engage with the company in relation to such process.</p> <p>Auditor Independence</p> <p>To strengthen the auditor's objective and unbiased audit of financial reporting, we continue to emphasize the need for auditor independence as a direct link to audit quality. The validity of the audit assessment is undermined when shareowners lack confidence in the independence of the auditor's assurance. Therefore, audit disclosures should be strengthened, where possible, by independent assurance and attestation that the audit was carried out with regard to established standards of professional skepticism.</p> <p>Sustainable Investing: Environmental, Social and Governance Factors</p> <p>CalPERS expects fair, accurate and timely reporting on how companies employ and identify risks related to financial, human and physical capital, in order to generate sustainable economic returns. CalPERS Investment Beliefs # 4 and # 9 state that:</p> <p style="padding-left: 40px;">Long-term value creation requires effective management of three forms of capital: financial, physical and human; and</p> <p style="padding-left: 40px;">Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error. ⁴</p>

³ See, <https://www.ifac.org/system/files/publications/exposure-drafts/comments/2012%2010%2029%20Arnold%20Schilder%20IAASB.pdf> , dated October 29, 2012

⁴ See, p. 6 and p. 10, [CalPERS Beliefs Our Views Guiding Us into the Future](#), dated May 2015

		<p>We seek good governance practices to ensure that CalPERS capital is deployed to produce sustainable long-term returns and meet pension obligations. In support of this long-term horizon, we believe the IAASB should give appropriate consideration to environment, social and governance issues, including the development of robust standards and practices to address both risk and opportunity arising from the effective management of three forms of capital: financial, physical and human.</p> <p>For example, climate risk has been identified as a significant risk to investor's ability to generate long-term sustainable returns. In support of climate risk reporting, we advocate for clear and comprehensive mandatory disclosures that address material risk and opportunity posed by climate change. We support specific metrics as articulated in the Carbon Disclosure Project (CDP) and Sustainable Accounting Standards Board (SASB) materials. We also support the work of the Financial Stability Board's (FSB) Task Force on Climate-related financial disclosures. As an asset owner and long-term investor, it is important that we have comparable, material data from each portfolio company across industries. We believe this is possible through integrated reporting.</p> <p>International Cooperation</p> <p>CalPERS supports ongoing efforts to foster international collaboration among global audit standard-setters and oversight bodies. We believe international cooperation assists with strengthening audit quality and consistency globally. We view the establishment of a global framework as extremely important and support making steps towards mutual reliance and equivalence provisions.</p> <p>Business Model</p> <p>An additional issue that the IAASB should take into account is the current business model of the auditing profession. Currently, auditors must be skeptical of the very entities that pay them. The concern is that this business model deters auditors from challenging management assertions, asking difficult and probing questions, and being overly skeptical. Given the dynamic created by this business model, investors have reason to lack confidence in the quality of the audit assessment. We encourage the IAASB to consider reviewing the current business model and assessing whether alternative models can be implemented to strengthen investor confidence in the quality of audits.</p>
2.	CalSTRS	<p>Auditor Scope – Going Concern</p> <p>CalSTRS is pleased that the New Auditor Report (enhanced auditor reporting) provides a description of the respective responsibilities of management and the auditor for going concern and a separate section when a material uncertainty exists as it relates to going concern, as well as new requirements to challenge adequacy of disclosures for “close calls” that may cast significant doubt on an entity's ability to continue as a going concern.⁸</p> <p>Notwithstanding these requirements, investors may continue to be puzzled by the scope of an audit and what constitutes sufficient audit evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by</p>

⁸ IAASB, “The New Auditor's Report: Greater Transparency into the Financial Statement Audit,” January 2015.
<https://www.ifac.org/system/files/publications/files/Auditor-Reporting-Fact-Sheet.pdf>

		<p>fraud or error in providing an opinion of true and fair view. The external, independent auditor is an expert who is well-positioned to challenge management's judgment on accounting elements, assessment of risks and whether an entity has the ability to continue as a going concern. CalSTRS believes there is still clear need for improvement by auditors surrounding this issue and recommend the IAASB continue in providing clarification on the scope and timing for going concern. The New Auditor's Report if utilized effectively by the auditor can provide insightful, comprehensible and distinct information that may advance strategic improvements.</p> <p>Auditor Independence</p> <p>The lack of auditor independence negatively impacts the auditor's objectivity. CalSTRS continues to believe that auditor independence is an area of great gravity as supported and outlined in many of the audit firms' transparency reports with consulting revenues contributing more than mid to high level forty percent of its business.⁹ CalSTRS intention in highlighting that consulting services versus audit and enterprise risk services as the core revenue contributors is not to discourage this transparency but to continue the dialogue of the auditor's role and review of independence and its impact to audit quality. The rise of advisory services in audit firms was also highlighted by Public Company Accounting Oversight (PCAOB) Board Member Steven B. Harris in 2014¹⁰ and again in 2015¹¹ and continues to be a concern of investors.</p> <p>Integrated Financial Reporting</p> <p>Integrated financial reporting incorporates corporate responsibility and sustainability into all aspects of business management that aims to build value over time. Business is increasingly complex and global in nature, requiring that financial reporting expand to capture environmental, social and governance (ESG) risks within companies' quarterly and annual financial reports. Investors demand an understanding of ESG risks along with relevant, comparable reporting to understand material financial risks that may impact the company's ability to generate a long-term risk adjusted return to its investors.</p> <p>CalSTRS believes the role of the auditor, Audit Committee and those charged with governance, needs to be developed and defined to ensure the review and assurance of integrated reporting as it pertains to the overall financial health of an organization. The need for complete, comparable ESG financial reporting disclosures is a growing requirement, fundamental to CalSTRS capital allocation decisions as outlined in CalSTRS Investment Policy for Mitigating Environmental, Social and Governance Risks (ESG) and the CalSTRS 21 Risk Factors.¹²</p>
3.	CFA	--

⁹ <http://www2.deloitte.com/content/dam/Deloitte/us/Documents/regulatory/us-deloitte-llp-2015-transparency-report.pdf>

¹⁰ PCAOB, "The Rise of Advisory Services in Audit Firms", Steven B. Harris, Board Member at Practising Law Institute 12th Annual Directors' Institute on Corporate Governance, Nov. 2014. http://pcaobus.org/News/Speech/Pages/11242014_Harris.aspx

¹¹ PCAOB, "Issues for the Academic Community to Consider" – concerns about the rise of advisory and consulting services at the largest accounting firms, at the PCAOB Academic Conference, April 2015. http://pcaobus.org/News/Speech/Pages/04162015_Harris.aspx

4.	IA	Other than the topics of professional scepticism, quality control and group audits, we consider there are issues around audit firms' remuneration structures and independence that need to be addressed. In particular, we continue to have concerns that the incentive structures that operate within firms tend to be more focused on the generation of revenues rather than audit quality. In recent years there have been pressures on the main players in the capital markets to adopt long term incentive structures and yet the main auditing firms still operate under a partnership structure that does not impose such constraints. There is also a perception that non-audit services can impair audit quality in that the significant revenues generated and the nature of the services can affect auditors' independence and lead them to identify themselves with the interests of management rather than those of investors. We consider that there is too little emphasis on these matters in the ITC.
5.	ICGN	Investors are increasingly more focused on the long-term. Therefore, more forward-looking information from companies regarding their expectations for achieving long-term strategic objectives is more relevant to investor decision making than the current audited financial statements provide. While many companies are providing such information outside of the financial report, generally the information is not accompanied by auditor assurance to provide investors with confidence of its veracity. Moreover, with the increasing focus on ESG-related issues, especially climate change, we encourage the IAASB to consider whether current auditing standards can be responsive to these new developments and allow the audit to evolve alongside changes to financial and non-financial reporting.
6.	NZSA	G1 & G2. The move to the new Audit Report is the most significant improvement in the Audit process for users of accounts. However the new Audit report does need to be meaningful. The inclusion of a paragraph on materiality (both for the Holding company and any subsidiary companies) as it has been applied by the Auditor would be very useful for users of accounts.
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	We note that Board Audit committees have a critical role to play in promoting professional scepticism on the part of auditors. In Australia the Australian Securities and Investments Commission (ASIC, www.asic.gov.au) as the regulator encourages directors to maintain a strong focus on audit quality. For example, ASIC's Information Sheet 196 <i>Audit quality: The role of directors and audit committees</i> recommends actions that directors and audit committees should take to promote audit quality in several areas, including:

¹² CalSTRS, "Investment Policy for Mitigating Environmental, Social and Governance Risks (ESG), June 2006.
<http://www.calstrs.com/general-information/calstrs-board-investment-policy-regarding-geopolitical-and-social-risks>
http://www.calstrs.com/sites/main/files/file-attachments/calstrs_21_risk_factors.pdf

		<ul style="list-style-type: none"> • Recommending the appointment of an auditor, including seeking assurances on the firm's commitment to quality, audit transparency measures and related matters; • Assessing potential and continuing auditors, including audit partner accountability, audit plan development, resourcing and the extent of reliance on external experts; • Facilitating the audit process, including appropriate incentives for management assistance for audits, access to appropriate financial information and systems; • Establishing ongoing communications with the auditor, including inviting auditors to committee meetings, providing direct contact with the board, and ensuring that the committee and board bring a high degree of professional scepticism to engagement; • Maintaining auditor independence, including policies on independence, ensuring the committee forms independent views on relevant estimates and treatments, ensuring auditors explain the basis of their independence declaration, amongst other items; and • Assessing the quality of audits, including whether auditors demonstrate a high degree of professional scepticism in the process and audit transparency. <p>The AICD sees merit in the IAASB's proposals to clarify certain existing standards, including how the group audit standard applies in different situations. We are aware that there can be difficulties in working arrangements in group situations and further guidance to assist auditors in working together in these circumstances is supported.</p>
Regulators and Oversight Authorities		
9.	BCBS	<p>Introduction</p> <p>In March 2013, the Committee sent a letter to the IAASB in relation to revisions to the Committee's guidance on <i>External Audit of Banks</i>. In its letter, the Committee identified areas in the international auditing and ethical standards where requirements for auditors could be enhanced, particularly in the following areas: auditing accounting estimates, demonstrating professional scepticism, and ensuring quality control. Therefore, the Committee welcomes the ITC and commends the IAASB for creating a Task Force on the revision of ISA 540 regarding auditing accounting estimates and for creating a Task Force to assess the need for enhancements to ISA 315 regarding risk assessments. The Committee strongly encourages the IAASB and the International Ethics Standards Board for Accountants (IESBA) to complete these enhancements to the auditing and ethical standards which are expected to improve audit quality and strengthen public confidence in the auditing profession.</p> <p>Project interrelationships</p> <p>The Committee welcomes the IAASB's decision to prioritise the revisions to ISA 540 because of its significance for external audits of banks. Notwithstanding the interrelationships between the ISA 540 project and the ITC projects, particularly professional scepticism, we would like to emphasise the importance of completing the revisions to ISA 540 on a timely basis so that auditors can be better prepared for (including by providing appropriate staff training) and adequately plan for 2018 audits when important new accounting standards become effective (eg IFRS 9). We recommend that aspects of ISA 540 dealing with professional scepticism be designed to</p>

		align, to the extent possible, with revisions resulting from the work of the combined Task Force on Professional Skepticism. Similarly, revisions to the requirements regarding auditing accounting estimates and demonstrating professional scepticism should be aligned with the enhancements to ISA 315. Therefore, we encourage the IAASB to consider the interrelationships between projects, including those of the IESBA, when proposing revisions to a given standard.
10.	CPAB	<p>In reference to question G2 of the ITC, we perform a periodic review of the results of our audit inspections to consider whether the results highlight any areas of future focus for standard setting activities. In considering the results of our inspections we support the IAASB's current planned projects regarding the audit of accounting estimates (ISA 540) and risk assessment (ISA 315). We also support the IAASB's ongoing evaluation of the impact of the evolving use of technology to perform audits, including the use of data analytics and artificial intelligence.</p> <p>Through our inspections we have identified a number of additional areas which we believe require attention from a standard setting perspective. These include:</p> <ul style="list-style-type: none"> • Responses to assessed risks – specifically in conjunction with the planned project to review ISA 315. We believe it would be difficult to consider ISA 315 without a corresponding review of ISA 330. • Use of experts – specifically the use of management's expert (addressed in ISA 500) and use of the auditor's expert (addressed in ISA 620). We believe the use of experts should be considered together with the Board's planned project on the audit of accounting estimates (ISA 540). • Materiality – we also encourage the IAASB to consider a project on materiality (ISA 320).
11.	EAIG	[See pp. 1 & 2 of comment letter]
12.	EBA	<p>The EBA welcomes the IAASB efforts for enhancing audit quality, as part of the IAASB <i>Work Plan for 2015-2016</i>. Consistently with the EBA comment letter on the IAASB consultation paper <i>Work Plan for 2015-2016</i>¹³, the application of professional scepticism by auditors, in particular in the audit of complex estimates, and the enhancement of quality control are both key to enhancing audit quality.</p> <p>In this regard, we would encourage the IAASB to consider professional scepticism as a matter of priority (at least on the same level as audit quality and group audits), as we believe that it is fundamental to the public trust and confidence in financial reporting and it is also key in light of the audit of IFRS 9 <i>Financial instruments</i> ('IFRS 9'), which will require even more than under the current incurred losses model of IAS 39 auditors to exercise a significant degree of professional judgment and scepticism.</p> <p>Firstly, we would urge the IAASB to complete in a timely way the amendments in International Standard on Auditing ('ISA') 540 <i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i> so as to provide additional audit guidance, where necessary, in order to safeguard the audit quality in the context of the application of the expected credit loss accounting</p>

¹³ <http://www.eba.europa.eu/documents/10180/547248/EBA+Comment+Letter+on+IAASB+Proposed+Strategy+2015-2019+and+Work+Plan+2015-2016+.pdf>

		<p>framework. Although we acknowledge the IAASB efforts in revising the ISA 540 to address the new audit challenges arising from the introduction of requirements for expected credit loss provisioning, such as IFRS 9, which include among others the audit of accounting estimates, we believe it is crucial that these efforts are completed in a timely manner when the new accounting frameworks are applied and audited.</p> <p>Besides standard-setting, we encourage the IAASB to foster stricter application of the audit standards. In this regard, the EBA suggests that during the process of standard-setting and revising, the IAASB collaborates with audit oversight bodies, audit inspectors, IFIAR and the forthcoming CEAOB in the EU, in order to address and respond appropriately to the underlying reasons for the audit inspections' findings. The IAASB should focus particularly on addressing the issues which the audit inspectors believe are necessary for a high quality audit and which are related to auditing standards which are less clear or lack sufficient requirements.</p>
13.	ESMA	As stated in paragraph 13 of the Overview of the ITC, the auditing standards need to better address increasing complexity, taking into account the rapidly technological developments in both the business and audit environment. Such developments have already changed the nature of audit by increasing the efficiency as well as the value of the audit to stakeholders; in the same time they require updated knowledge and enhanced skills from auditors. ESMA encourages the IAASB to assist auditors in following and addressing the technological challenges on a timely basis by already assessing the changes that might be needed in the ISAs as part of the project on enhancing audit quality.
14.	H3C	--
15.	IAIS	<p>Our responses to G1 (a) and (b) above make a number of overarching observations around the nature and scope of audit, and we believe it is important that the IAASB keep these considerations uppermost in its mind when developing new work plans.</p> <p>In the near term, we believe it is important for the IAASB to focus on delivering its policy priorities. In particular, we view the work of the ISA 540 Task Force, in which the IAIS is an active member, as a key priority.</p>
16.	IFIAR	--
17.	IOSCO	--
18.	IRBA	<ol style="list-style-type: none"> 1. In July 2013, the IAASB issued its report, <i>Clarified International Standards on Auditing – Findings from the Post-Implementation Review</i>, which summarised the findings from the post-implementation review of the clarified ISAs and identified the main themes (key, important and other) that emerged. We welcome the IAASB's approach to monitor implementation of the standards in the market, and to respond to findings which arise from such monitoring. 2. We are pleased to see that three of the four "key themes" identified in the report – ISA 200¹⁴ (professional scepticism); ISQC

¹⁴ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

		<p>1¹⁵ and ISA 220¹⁶ (engagement quality control review); and ISA 600¹⁷ (group auditor's involvement in work of component auditor and component materiality) – are the very topics addressed in the ITC. We are also pleased to see that the other “key theme” identified in the report, being ISA 315 (Revised)¹⁸ (significant risks and obtaining an understanding of internal control), was at the “initial discussion” stage on the IAASB March 2016 agenda.</p> <p>3. However, only two of the “important themes” identified in the report are addressed as part of the ISA 600 and ISA 315 (Revised) projects mentioned above.</p> <p>4. The remaining four of the six “important themes” identified in the report – ISA 240¹⁹ (inconsistency of practice relating to the presumed significant fraud risk for revenue recognition and testing journal entries); ISA 320²⁰ (inconsistencies in determining materiality and performance materiality and request for more guidance); ISA 520²¹ (ISA does not sufficiently demonstrate the work effort needed to place reliance on analytical procedures); and ISA 620²² (inconsistencies in the auditor's work effort in relation to the auditor's expert work) – are still to be addressed by the IAASB.</p> <p>5. We encourage the IAASB to not lose sight of these “important themes” in its decision-making on future projects it will undertake.</p>
19.	MAOB	--
20.	UKFRC	<p>Development of future work plans (Section 1 of Appendix 1)</p> <p>In the development of future work plans we believe that there are key topics that should be taken into account and prioritised in the IAASB Work Plan 2017-18 including: ISA 620⁷; ISA 320⁸ and ISA 330⁹.</p> <p>Development of future work plans</p> <p>With respect to the development of future work plans, we draw attention to the following:</p> <p><i>Using the work of experts</i></p>

¹⁵ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

¹⁶ ISA 220, *Quality Control for an Audit of Financial Statements*

¹⁷ ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

¹⁸ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*

¹⁹ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

²⁰ ISA 320, *Materiality in Planning and Performing an Audit*

²¹ ISA 520, *Analytical Procedures*

²² ISA 620, *Using the Work of an Auditor's Expert*

⁷ ISA 620 Using the Work of an Auditor's Expert

⁸ ISA 320 Materiality in Planning and Performing an Audit

⁹ ISA 330 The Auditor's Responses to Assessed Risks

		<ul style="list-style-type: none"> The FRC response to the Post-Implementation Review of the Clarified International Standards on Auditing¹² highlighted a number of issues that have arisen from the implementation of ISA 620¹³ and we recommended a number of revisions that could be made to improve audit quality in this regard. Paragraph 95 of the ITC also specifically highlights concerns that have been raised about situations where the auditor's considerations around using the work of auditor's experts, such as understanding the expert's field of expertise and evaluating the adequacy of the expert's work, are not adequately performed or demonstrated. ISA 620 also affects other active IAASB projects, particularly ISA 540¹⁴, where the IAASB have already noted the need to consider if the requirements and application material should be enhanced in relation to the work of experts when dealing with complex accounting estimates. Accordingly, we recommend that ISA 620 should be revised in order to address the issues that have been identified and we encourage the IAASB to include a new project related to the possible revision of ISA 620, in its Work Plan 2017–2018. <p><i>ISA 320 – Materiality</i></p> <ul style="list-style-type: none"> In the IAASB's Clarified ISAs Post-Implementation Review—Report on Findings, it was noted that concerns were expressed about the inconsistency in the determination of both materiality and performance materiality, with a general call for greater guidance. In particular, the need for a strengthened framework for auditor judgments regarding materiality; to improve the consistent application of the concept in planning and performing the audit; and to enhance the consistency by which misstatements identified in an audit are accumulated and evaluated. More recently, many respondents to the Disclosures ED¹⁵, including the FRC, echoed these concerns noting that more requirements and guidance would be needed to address how the concept of materiality is to be applied to disclosures. We understand that the IAASB further explored the implications and feasibility of introducing new requirements and guidance at the time of the disclosures project, but agreed to make minor changes to guidance to address some of the concerns raised about qualitative disclosures and instead to wait for the IASB to progress its work on materiality before proceeding with the development of significant changes to the requirements in ISA 320. In this respect whilst we supported the decision of the IAASB, the matter of materiality, as a result of its learnings from the post-implementation review and the disclosures project, should be included in the IAASB's Work Plan 2017-18. <p><i>ISA 330¹⁶- Sufficient appropriate audit evidence</i></p> <ul style="list-style-type: none"> In the IAASB's Clarified ISAs Post-Implementation Review—Report on Findings, it was noted that concerns were expressed about the challenges auditors face in respect of obtaining sufficient appropriate audit evidence. A few respondents, including the FRC, noted concerns relating to testing internal controls, including inadequate testing of general IT controls. More recently, some
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¹² <https://frc.org.uk/Our-Work/Publications/FRC-Board/FRC-response-to-IAASB-Post-Implementation-Review-o.pdf>

¹³ ISA 620 *Using the Work of an Auditor's Expert*

¹⁴ ISA 540. *Auditing Accounting Estimates Including Fair Value Accounting Estimates and Related Disclosures*

¹⁵ In May 2014, the IAASB published an Exposure Draft, *Proposed Changes to the International Standards on Auditing: Addressing Disclosures in the Audit of Financial Statements (Disclosures ED)*, which proposed changes to ten ISAs.

¹⁶ ISA 330, *The Auditor's Responses to Assessed Risks*

		<p>respondents to the Disclosures ED¹⁷ suggested additional guidance was needed to address the challenges in obtaining sufficient appropriate audit evidence when auditing certain disclosures. The IAASB did note in the Disclosures project—Basis for Conclusions document¹⁸ that as part of its consultations on the Work Plan 2017–2018, the IAASB may determine that it should include a new project related to disclosures, relating to sufficient appropriate audit evidence. However, the challenges raised in the post implementation review and disclosures project, together with the challenges of obtaining sufficient appropriate audit evidence in relation to other active IAASB projects, particularly ISA 540 (and ISA 315), strongly suggest that ISA 330 should be included in the IAASB’s Work Plan 2017-18 and we would encourage the IAASB to include a new project related to the possible revision of ISA 330.</p>
National Auditing Standard Setters		
21.	AUASB	<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>
22.	CAASB	<p>A number of our Canadian stakeholders indicated that a project to revise ISA 500 should be undertaken by the IAASB. One Canadian stakeholder expressed concerns as to whether ISA 500 still remains fit for purpose, given the current changes to business operations. In particular, given an increase in the use of information technology has changed sources of audit evidence. Further concerns were expressed by a number of our Canadian stakeholders that ISA 500 will need to be revised following the implementation of certain possible actions proposed in the professional skepticism section of the ITC.</p> <p>The IAASB could consider whether a broader revision to ISA 500 would be appropriate to coincide with the timing of these likely changes.</p>

¹⁷ Addressing Disclosures in the Audit of Financial Statements (<https://www.ifac.org/system/files/publications/files/IAASB-Disclosures-Exposure-Draft.pdf>)

¹⁸ <https://www.ifac.org/publications-resources/addressing-disclosures-audit-financial-statements>

23.	CNCC-CSOEC	<p>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.</p> <p>Furthermore, the IAASB should continue liaising with accounting standard setters from them to examine the materiality and going concern areas.</p>
24.	HKICPA	--
25.	IDW	We refer to our responses to G1 b) and c) above. Since the matters mentioned in our responses thereto are few, we believe these to be of high priority.
26.	JICPA	--
27.	MAASB	We take note that the IAASB is currently gathering information about the use of audit data analytics. However, the IAASB needs to consider the implications arising from a digital environment which is fundamentally changing business delivery models (historical transaction-based versus real-time systems) and controls. In this aspect, the IAASB should carefully consider how evidence obtained electronically regarding data and systems can contribute effectively to the auditor's risk assessment, evidence gathering processes and the overall engagement quality.
28.	NBA	Yes. Risk analysis (ISA 315), testing of controls (understanding and using the control framework in ISA 330) and IT developments, such as data analytics, should be taken into account. We understand that the IAASB has separate projects for the revision of ISA 315, ISA 540 and for data analytics. We recommend the IAASB to accelerate these projects as there is a need to take the (IT) developments into account.
29.	NZAuASB	<ul style="list-style-type: none"> i. Continue the focus on implementing the new and revised auditor reporting standards, in particular the requirements to include KAM. The IAASB should give the KAM regime time to work and continue to provide guidance and support material for the practitioners to ensure that significant perceived benefits are achieved ii. How to address the audit expectation gap. There continues to be a lack of understanding as to what an audit means. iii. 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. iv. Communication with TCWG – encourage more open communication and interaction on an informal basis with TCWG to talk through issues.

Accounting Firms		
30.	BDO	<p>We believe that that the IAASB needs to address or provide a more detailed assessment or set of proposals in the ITC reflecting the increasing use of technology on audits (e.g., data analytics, machine learning). Some of the considerations in the ITC sections below around ADMs start to address the potential for new models addressing audit quality needs; however, there is a pressing need to reflect on the basis on which auditors can obtain assurance from emerging technologies.</p> <p>We understand that there is a separate project that the IAASB is considering on data analytics (the 'Data Analytics Working Group'), but as this is a key issue facing the profession with far reaching implications for requisite skills, auditor training, regulatory inspection, technology budgets, the nature of the service clients receive, and the type of assurance obtained, we believe that this should be given a much higher priority in the IAASB's work plan and the ITC. The use of technology to help support and drive some of the audit procedures (including how data could be used in combination with other audit procedures) could further safeguard the public interest by having higher quality audits.</p> <p>The IAASB is in a position to influence the debate involving the use of these new tools through the provision of further guidance on how assurance can be obtained, perhaps resulting in a modified construct for the audit model.</p>
31.	CHI	<p>We propose the following other actions that should be taken into account in developing future work plans:</p> <p>The impact of technological change on the audit. Rapid technological changes are taking place that are changing how audits are performed. The IAASB has to address the impact of "big data solutions" and adapt its standards. The IAASB should acknowledge that there is a risk that aspects of its standards could soon no longer be "fit for purpose".</p> <p>Audit of accounting estimates. We acknowledge that IAASB is working on the audit of accounting estimates. However, changes to accounting standards and the general greater attention given to fair values mean that improvements to ISAs are needed. IFIAR's surveys of audit regulator findings consistently feature concerns in this area.</p> <p>Audit of smaller entities. We note that IAASB mentions this subject in paragraph 12. There are genuine concerns about the application of ISAs to the audit of smaller entities. The changes proposed in Enhancing Audit Quality could well increase these concerns. Recently, the concerns about the applicability of ISAs to smaller audits were expressed in the proposals issued by the Nordic Federation. We do not consider that the Nordic proposals are the right solution, but the IAASB has to give greater acknowledgment to these concerns, and make time and allocate resources to addressing them.</p>
32.	DTT	<p>DTTL recognizes and supports the efforts of the Board's Innovation Working Group with respect to starting a project relating to Audit Data Analytics (ADA) as set forth in the Proposed Strategy for 2015-2019 and Proposed Work Program for 2015-2016 (the Proposed Work Program). DTTL also recognizes that the IAASB has formalized due processes that it adheres to when developing standards and other guidance. However, DTTL believes that some interim steps (prior to potential standard setting) may be appropriate in order to encourage the use of ADA's, which can have a significant impact on the quality and performance of audits. For example, DTTL recommends that the IAASB explore a more expedient response (while it continues to consider other longer-term responses) including the publication of a staff audit practice alert or other guidance with regards to ADA's and how their use is appropriate under extant standards.</p>
33.	EYG	<p>No, we do not have suggestions for other actions beyond those already included in the IAASB's current work plan.</p>

34.	GTI	We agree with the topics included in the current work plan and believe they are the appropriate priorities for the board. We understand that these projects will require significant staff and board resources for the next several years and therefore, we question whether the IAASB has the capacity to take on further topics at this time. We believe it is important for the IAASB to have the capacity to respond to emerging developments, issues or areas of concern and adding further topics to an already full agenda may jeopardize the board's ability to respond timely to emerging issues.
35.	KPMG	<p>General Comments (G1 and G2)</p> <p>Firstly, we would like to compliment the IAASB on a document that is thoughtful and thorough in considering these key issues facing the profession. We are broadly supportive of most of the proposals outlined in the ITC. We agree with the IAASB that audit quality is at the heart of the IAASB's work as the global auditing standard setter. We support the Board's focus on the three topic areas discussed in the ITC as areas for potential standard-setting and other activities that could enhance audit quality.</p> <p>We agree that the public interest issues identified in Table 1 are the most relevant to the IAASB's work on professional skepticism, quality control, and group audits, as well as to other significant projects, such as consideration of revisions to ISA 540 / Special Audit Considerations Relevant to Financial Institutions; ISA 315, Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity and its Environment and consideration of Data and Analytics in the audit.</p> <p>We agree that the projects on ISA 540 / Special Audit Considerations Relevant to Financial Institutions, ISA 315 and Data and Analytics, all of which are on the IAASB's agenda, are high priority projects.</p> <p>We suggest that the IAASB also consider adding to their agenda: (1) updating ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements and (2) consideration of IT risks in the audit, as part of the ISA 315 project, including auditors' responsibilities with respect to cybersecurity, in view of the significant developments in these areas in recent years. (G 2)</p> <p>The possible actions set out in the ITC relate predominantly to standard-setting activities that the IAASB could undertake. Many of the proposals in the ITC should contribute to improved audit quality.</p> <p>However, we note that there are influences on audit quality that are outside of the direct control of the IAASB including corporate governance processes, the regulatory environment and the complexity of financial reporting frameworks. We therefore encourage the IAASB to work with other key stakeholders such as IFAC member bodies; accounting standard setters such as the IASB; regulators such as IFIAR; legislators; oversight bodies, including those with oversight of Boards of Directors and Audit Committees; academics and educators, as well as the Joint Monitoring Group to address broader issues aimed at improving corporate governance and the quality and relevance of financial reporting. (G 1c)</p>
36.	PwC	We acknowledge the work that is being undertaken by the Board's Data Analytics Working Group. We fully support the need to explore how the ISAs, and the audit, remain effective in a digital environment that is fundamentally changing business' operating models and controls. In considering the changes being made within the projects addressed in the ITC, but also more widely across revisions to the Board's standards, we believe that the IAASB needs to be thinking about how evidence obtained electronically regarding data and systems can contribute effectively to the auditor's risk assessment, controls and substantive evidence, and overall audit quality. We believe it is important that the Board think broadly about what the most effective response is to achieving this. In our view it would be ineffective to seek to retro-fit how these new tools and techniques are being applied to fit the current ISA structure and requirements. The Board should not be constrained by the current structure of the standards – if new or significantly amended ISAs are the most effective way of embracing these new approaches, in the interests of audit quality, then we encourage

		the Board to explore those options, ensuring that findings from the work of the Data Analytics Working Group are appropriately taken into account.
37.	RBI	--
38.	RSM	We broadly support the prioritization of these areas in the IAASB work plan.
39.	SRA	--
Public Sector Organizations		
40.	AGC	--
41.	AGSA	<p>Revenue – significant risk</p> <p>In the public sector the assumption that revenue may be overstated and is perceived to be a significant risk may not be relevant in for instance the audit of departments. Other factors are more relevant in the public sector, and the standards can be enhanced to specifically focus on these in the public sector perspective for example procurement and contract management.</p> <p>Materiality – ISA 320</p> <p>1. ISA 320 does not provide a specific guidance/ methodology, or suggests a formula, that should be applied in determining materiality, but it only introduces guidance of possible benchmarks, such as categories of reported income (like profit before tax, gross profit etc), or of particularly relevant classes of transactions, account balances or disclosures, that should be corroborated by the exercising professional judgement in arriving at suitable level(s) of materiality.</p> <p>2. Further there is no consideration of the public sector requirements that could be applicable in determining materiality.</p> <p>3 ISA 320 does not prescribe how much lower the performance materiality should be, it merely stresses that it's not a simple mechanical calculation and involves professional judgement. More guidance should be provided on how this should be determined to ensure consistencies.</p> <p>The lack of clear guidance in determining materiality and performance materiality can result in inconsistencies in the work performed by auditors on clients that are similar in nature as emphasis is placed on professional judgement and this could differ from auditor to auditor.</p> <p>Professional Judgement</p> <p>1. ISAs place a lot of emphasis on professional judgement but there is no clear guidance of how this should be applied and furthermore there is no definition of professional judgement.</p>

		2. ISA 230 should be enhanced to emphasize the importance of applying the requirements of ISA230 in applying professional judgement.
42.	GAO	The International Auditing and Assurance Standards Board (IAASB) should consider requirements for a peer review process that includes requirements for determining who is competent to lead or participate in a peer review team. Peer review can be an effective means of monitoring an audit organization's system of quality control, including the audit organization's application of skepticism, particularly for audit organizations with limited staff.
43.	INTOSAI	--
Preparers of Financial Statements		
44.	PAIB	<ul style="list-style-type: none"> The IAASB should recognize that audit quality, although the primary responsibility of the auditor, cannot be their sole responsibility. Achieving a quality audit is, in reality, a shared responsibility with those charged with governance and executive management. The auditor and the audit engagement partner have the responsibility in accordance with International Standards on Auditing (ISAs). The IAASB's Framework for Audit Quality is important in highlighting the many factors and interactions involved that determine audit quality—and standards can only play one part. Audit committees, together with management and the independent auditor, are one of the three pillars that support appropriate financial disclosure. An effective audit committee is first among equals in this process. However, the presence of effective audit committees is limited to only some jurisdictions around the world, and often limited to organizations of a certain type and size. Audit committee transparency is also a key part of understanding audit committee effectiveness. Insightful reporting by audit committees on their work will enable investors to see what the audit committee has done in relation to audit quality and how they execute their audit oversight role. Enhanced transparency of the oversight role of audit committees can provide investors the information they need to assess the independence and effectiveness of the audit committee and the external auditor. Preparers often suggest that important issues in the eyes of the auditor are often not communicated in a timely manner to the audit committee and management. This may improve with the introduction of the enhanced audit report and key audit matters (KAM). This is a major change. To enable appropriate evaluation of this change, as well as any subsequent change for audit quality, there first needs to be sufficient time to understand its impact on the drivers of audit quality, particularly relating to communication between the auditor and entity, before additional changes are implemented in this regard. Early experience from the UK suggests that KAM can drive alignment of focus for the auditor and the organization being audited. Poor coordination between auditor, audit committee, and internal auditor often leads to duplication of effort, increased cost, and poor effectiveness. Several things can be done to improve this situation including clarifying ISA 610, Using the Work of an Internal Auditor. The standard currently doesn't permit the internal auditor to be considered a member of audit team, but is

		<p>unclear how much of their work can be used by the external auditor. Clarifying the respective roles and responsibilities of each group will help determine the extent to which the external auditor can use the work of the internal auditor and thus impact audit cost without sacrificing audit quality.</p> <ul style="list-style-type: none"> Another important area highlighted in the ITC is use of technology and data analytics, which is already a current IAASB project. Deployed properly, these can improve both audit quality and efficiency. However, while some accountancy firms use these systems, many are behind the curve. The impact of technology is also unclear in some areas, for example in terms of the potential effect on how professional skepticism is applied in audits.
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	<p>Please see our response to G1.</p> <p>We are aware that the ITC and other ongoing projects will mean that the IAASB has a virtually full agenda for the next 18-24 months while this important work is finalised. As such, consideration of any additional topics and actions should be balanced against its impact on these important workstreams.</p> <p>In this spirit, we foresee some value in remaining mindful of some high level concepts that could guide the IAASB's public interest work:</p> <ul style="list-style-type: none"> The interaction between ISAs and materiality in IFRS; and The application of ISAs to the audits of smaller entities and the need to react and be appropriately responsive to developments such as that of the Nordic Federation, while maintaining the integrity of the standards, irrespective of the size and complexity of the audit. <p>We are pleased that the IAASB identifies the need to consider the actions others might take to support audit quality. Audit quality is the responsibility of all, not just the IAASB or auditors, so we agree with a holistic approach in which all stakeholders play a part. For example, this could include:</p> <ul style="list-style-type: none"> Guidance on how to run an audit tender in a way that enhances audit quality; Advice for audit committees on how they can support audit quality; Help for preparers on how to comply with specific IFRSs in a way that considers how disclosures will be audited; Observations from regulators that refer to specific standards rather than general references to professional scepticism.
47.	AIC	Effectively, at America's level, standards and other documents of IFAC, as the guides are very little known. A concrete action in this regard is to facilitate the arrival of such documents to as many professionals accounting and entrepreneurs as possible, so it would

		be helpful for the acceptance of these developments consider that IFAC remission make it feasible to all Entity members countries, of all standards, guidelines, guidance and other documents issued by it and which are of public interest.
48.	AICPA	--
49.	APESB	--
50.	CAANZ	See our comment in relation to G1.
51.	CAI	<p>Whilst supportive of the ITC's focus on the three initial areas identified, we note that other issues will require attention, particularly in relation to 'keeping ISAs fit for purpose' included in Table 1. As acknowledged in the paper, IT risks and the auditor's response to those risks should be given consideration, together with developing a framework for the effective use of data analytics. We believe these areas are of key importance. We would also support a review and update of ISA 250 '<i>Consideration of laws and regulations in an audit of financial statements</i>'.</p> <p>In addition to its standard setting activity, we also believe it is vital that the IAASB continues to work with all stakeholder groups, ranging from institutional investor bodies to regulators, IFAC member bodies and bodies responsible for development of corporate governance, such as the Financial Reporting Council, whose Code UK Corporate Governance Code is applied in both Ireland and the UK. This is important both to informing IAASB's development of standards and also to ensuring that broader issues that may affect audit quality – in particular corporate governance standards - are appropriately addressed.</p> <p>Lastly, in considering the ITC, we have been conscious of the many smaller businesses and other entities currently audited by members of Chartered Accountants Ireland. Such entities would not be regarded as 'public interest' and fall outside the current EU definition in the Statutory Audit Directive (Directive 2006/43/EC²³). We are supportive of taking many of the steps set out in the ITC in relation to supporting an effective audit response to the complexities involved in auditing public interest entities, particularly those listed on the major markets. However, as noted above, we have some concerns regarding the scalability of the proposals for smaller, non-public interest entities. These lead us to suggest that a point has now been reached where there is merit in considering the articulation of separate requirements for audits of public interest entities' financial statements and those of smaller or less complex enterprises with fewer stakeholders. This would clearly be a longer term development and would require deliberation with legislators and others. It would, however, enable IAASB to focus clearly on articulation of standards that give an appropriate and proportionate response to information needs of stakeholders in both types of entity.</p>

²³ PIEs are defined as listed companies, credit institutions and insurance undertakings. In addition, Member States can designate as PIEs other undertakings that are of significant public relevance, because of the nature of their business, their size or the number of their employees.

52.	CAQ	--
53.	CIIPA	None at this time.
54.	CIMA	Firstly, we would argue that the auditor's role needs to move beyond the traditional focus on financial statements. While this is still paramount we believe that much of the true value of businesses has moved off the balance sheet over the past thirty years and while this is still underpinned by long term cash flows, the auditor, in our view needs to have an understanding of the business model, how value is created and the risks to sustainable value creation in order to ensure they are addressing all the material financial risks and also in respect of going concern. This is also critical to attracting new talent and enhancing professional Skills.
55.	CPAA	Address the needs of sole or small practitioners as the auditing standards, whilst theoretically scalable, are geared towards the more complex engagements, large networks and large clients.
56.	DnR	For input on the specific questions in the ITC we refer to the comment letter from FEE.
57.	EFAA	<p>In the EFAA response to the IAASB Consultation Paper - The IAASB's Proposed Strategy for 2015–2019 and The IAASB's Proposed Work Program for 2015–2016 EFAA noted the following:</p> <ul style="list-style-type: none"> • Action to help restore the confidence in audits by showing the value of an audit; • Action to monitor the implementation of standards which would then inform changes to existing standards and highlight requirements for new standards; • Consideration of how audits can be performed effectively and efficiently when taking IT developments into account (the rapidly changing IT environment will have an impact on the audit process (including the use of audit software) and developments such as cloud computing, big data, and social media may require continuous monitoring); • Continuation of efforts to address the expectation gap and to assess whether the scope of an audit should be explained more clearly or perhaps broadened to accommodate demand from users; and • Increasing the focus on non-audit services to accommodate an ever changing demand for assurance services.
58.	FACPCE	<p>Indicated in G1</p> <p>To promote institutional strengthen of accounting organizations of each country.</p> <p>To promote constructive dialogue between accounting organizations and regulatory or control authority (central banks, listed companies' regulators, etc.).</p>
59.	FEE	The IAASB should encourage others to develop practical case studies illustrating how professional scepticism should be applied in practice, focusing on various areas such as documentation.

		Furthermore, the IAASB should continue liaising with accounting standard setters to encourage discussion on the areas of materiality and going concern areas.
60.	FSR	For specific answers to the queries in the ITC, we in general refer to the comment letter from FEE. (Note from BB – have looked at FEE letter and nothing to add)
61.	IBA	No specific comments
62.	IBRACON	Considering that corporations aims to be digital entities we believe that IAASB could study the possible impacts in ISAs on topics such as e-commerce and big data.
63.	IRE-IBR	If the IAASB wants to defend the concept of "an audit is an audit", something IRE-IBR fully encourages, we stress the importance of clarifying, specifying and concretizing the concept of scalability, by developing, e.g., new guidance and tools. The potential reinforcement of the standards regarding quality control should absolutely take into account the characteristics of non-complex audits.
64.	ICAEW	<p>We support the priorities that the IAASB has identified in its work plan, including the topics covered in this consultation. We do consider that the IAASB should now give greater priority to considering the potentially fundamental matters raised by technological changes, for example those matters raised in ICAEW's report <u>Data analytics for external auditors</u>. We call on the IAASB to prioritise and accelerate its work on this topic.</p> <p>We consider that people issues are central to matters related to audit quality covered in the ITC and in our view should be emphasised far more prominently in the IAASB standards. Our recent work in our <u>AuditFutures</u> initiative highlights this in calling for the educating of responsible professionals and rethinking accounting education.</p>
65.	ICAP	--
66.	ICAS	We have not identified any other actions that should be taken into account.
67.	ICAZ	None
68.	ICPAK	<p>We opine that the whole structure of the profession, which has hardly changed in over 100 years needs to be reviewed. We believe there is need to specifically focus on the following:</p> <ol style="list-style-type: none"> 1. Auditing should be seen as a career/profession in its own right, rather than a training ground for accountants. Why are there so few auditors over the age of 40 other than partners? 2. Why are there few, if any, Institutes of External Auditors, only Institutes of Public Accountants (and Institutes of Internal Auditors)? 3. Should there be separate examinations for auditors before getting a licence/practicing certificate?

		<p>4. Should there be separate licensing systems for auditors of public interest entities and those of other entities?</p> <p>5. Should there be periodic re-examination of licensed auditors, which is consistent to encourage mobility across jurisdictions.</p> <p>6. Is it appropriate for auditors to be selected by competitive tender, which tends to focus on cost rather than quality, since quality is difficult to assess, especially on the basis of a proposal? Auditing is then generally on a 'fixed fee' basis, which discourages professional scepticism and in depth investigation of possible risks.</p> <p>7. If auditors are expected to safeguard the public interest, should they be appointed by the public rather than by the auditee?</p>
69.	ICPAU	NO
70.	INCPC	<p>Auditor's capabilities as described in G1(b)</p> <p>Auditor's capabilities. It is true that quality control refers to this subject but it seems to be a general concept of what the capabilities should be for Auditors. The capabilities (knowledge, expertise) of the audit team or auditor play a big role in the audit work and therefore should be more specific guidance about this.</p>
71.	ISCA	--
72.	KICPA	<p>We recognize IFAC SMP Committee's efforts to support SMPs and its contribution that has been made thus far. We suggest IAASB make more considerations as to what to prioritize or how to address issues, when developing standards, which would contribute to SMPs being able to apply ISAs and ISQC in an effective manner up to their scale and size.</p> <p>We support, in principle, the revision of ISAs on the basis that the revision of ISAs and ISQC contributes to improving audit quality in an effective manner. However, we would like to raise a concern that if the project being discussed in this consultation leads to the establishment and revision of standards, it would eventually end up with more voluminous and complex ISAs and ISQC. We suggest IAASB make sufficient review as to whether the main problem lies to difficulties in the appropriate application of existing requirements in practice, not insufficient standards. Thus, if the problem occurs due to insufficient application of the existing requirements in practice, it would be more desirable to focus on providing more reference materials for sharing and discussing to ensure that appropriate practical practice are in place in market, instead of increasing existing requirements and application material. If the establishment and revision of standards are still considered necessary, it would be more desirable for IAASB to make more efforts on clarifying requirements of standards, in order to avoid mismatch in practice and ease expectation gap on the roles and responsibilities of auditors.</p> <p>The responsibility and professional judgment of the engagement partner, who directs and makes decisions during the process of audit, are the most important to improving audit quality. Making too much sophisticated and detailed requirements in ISAs, however, could limit the professional judgment of the engagement partner. This limitation could invite a negative consequence of a form of audit lacking professional judgment, for one, checklist audit.</p> <p>In addition, as answered in G1(a), our proactive responses to changing auditing environments, arising from IT advancement, varied and complex business scenarios, and globalization, hold significance, in relation with international standard-setting, development of auditing practice, changing regulatory practice, and increasing stakeholders' awareness on audits. We recommend IAASB give a priority to the above in this regard.</p>

73.	MICPA	<p>In this regard, the Institute would like to propose that the IAASB should take a more holistic approach and revisit and redefine the purpose of the need for an audit. And once that purpose is established, the Institute believes that the following requires urgent attention as it feels they have significant impact and should be addressed:</p> <ol style="list-style-type: none"> 1. <u>Audit (Accountancy) Supply Chain</u> <p>We believe that audit quality on a large part depends on the quality of the auditor in respect of ethics, core competency and continuous professional education. And all that starts at the tertiary level moving on to the professional level.</p> <p>Whilst we might not have evidence due to lack of a formal survey, there is a common perception that accountancy courses at the tertiary level are one of the easiest to apply for and completed with ease. Hence, there could be a large population of accounting students who might just go through the course purely to complete it without much appreciation of what it entails to be a competent accountant/auditor when they enter the workforce. The intense competition between the various institutions of higher learning and professional accountancy bodies for student numbers might also be a contributing factor in the lowering of the quality of students in order to attract a higher number of students and future potential members and hence the quality of the eventual accountants and auditors.</p> <p>In this regard, we believe that the IAASB should explore the possibility of monitoring or standardising the quality at the professional level which indirectly would impact the quality of students required at the tertiary level. Further lowering of the bar by professional bodies will have a long term effect on audit quality which might not be addressed by more or enhanced auditing standards.</p> 2. <u>Fees</u> <p>A fee for audit services is also a major factor that influences the quality of an audit.</p> <p>Firstly, auditors are paid by an entity for which its financial statements had been audited upon though the auditors generally report to the entity's shareholders. This in itself poses a challenge to the concept of independence/impartiality on the auditors' part.</p> <p>Secondly, pressure on fees has always been the bane for many auditors who find it challenging to balance maintaining high quality audit services without having to subsidise the cost of those services.</p> 3. <u>Value of an Audit</u> <p>Given all those findings and concerns highlighted in the ITC document, the IAASB might well need to redefine the purpose and value of an audit.</p> <p>Whilst it had long been acknowledged that an auditor is a 'watchdog' rather than a 'bloodhound', there still exist an audit expectation gap which may have narrowed but not totally eliminated. We note that numerous efforts had been taken to narrow the expectation gap but current focus appears to be placed on narrowing the information gap. As explained in the IAASB consultation paper (2011), the expectation gap relates to the "difference between what users expect from the auditor and the financial statement audit, and the reality of what an audit is", while the information gap relates to "the existence of a gap between</p>
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		<p>the information they [users] believe is needed to make informed investment and fiduciary decisions, and what is available to them through the entity's audited financial statements or other publicly available information".</p> <p>Does that mean that information overload is the way to go as it is seen to be an attribute of a high quality audit?</p> <p>In conclusion, until and unless the above are dealt with and holistically, there will always be this “dog chasing the tail” syndrome and widening of the audit expectation gap- auditors will always be in a demanding and never-ending race to catch up with all the stakeholders and not just the shareholders. Perhaps these other stakeholders should be re-educated if they expect auditors' work to meet their requirement and expectations.</p>
74.	SAICA	--
	SMPC	<p>From the list of most relevant public interest issues, we believe that 'keeping ISAs fit for purpose' should be of high importance for the IAASB going forward. As acknowledged in the ITC, the IAASB standards must be capable of being applied to audits of all types of entities globally. Therefore the standards need to remain principles based such that they can provide latitude for professional accountants to adapt to changes in the environment and so the ISAs are also perceived as remaining fit for purpose going forward.</p> <p>The SMPC recognizes that the IAASB needs to be responsive to a broad cross section of stakeholders many with diverging views, interests and priorities. We acknowledge that the regulators and those representing listed entities and PIEs, some highly complex and specialized, may be pressing for the standards to be tailored to their specific needs. It is likely, however, that these needs may not be compatible with those of SMEs and SMPs and those other stakeholders may have more resources to advocate for particular changes.</p> <p>The SMP Committee is committed to facilitating the implementation of international standards. It developed the Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities in 2007, which has been downloaded over 90,000 times, has 28 translations completed or in progress and is used for firms in training and as a practical tool. The Guide is in its third edition and will be updated in 2016 to reflect changes to the standards since the last edition in 2011. The Committee also conducts numerous outreach activities including presentations on how to apply the ISAs efficiently for audits of SMEs and giving visibility to the IAASB staff publication to explain how the ISAs can be applied to audits on a proportional basis^[1].</p> <p>In our view, the consultation on the Nordic Standard for Audits of Small Entities (SASE) in October 2015 by the Nordic Federation of Public Accountants (NRF) highlighted certain concerns about the implementation of the ISAs, in particular for SMPs and audits of micro entities. We understand that the consultation received over 200 responses from a wide range of stakeholders, including IFAC member organizations and national auditing standard setters, not just in the Nordic region.</p> <p>We recognize that the dialogue and liaison with the NRF is ongoing. However, we believe that the project raises important issues that may warrant further consideration by the Board. For example, there may be initiatives that the IAASB could consider and prioritize as part of its work plan in 2017 – 2018, as well as in its future strategy 2020 – 2024. This could include undertaking a further information gathering exercise, for instance with the National Standard Setters (NSS), in order to fully understand the issues and concerns raised about the use of the ISAs for smaller entities. The Board may also need to undertake more systematic and timely post implementation reviews of its standards as the last review of the clarified ISAs was completed in 2013. In addition, we believe that the matter may</p>

^[1] [Applying ISAs Proportionately with the Size and Complexity of an Entity, IAASB Staff Publication, 2009](#)

		need to be considered from a long-term perspective in order to find a meaningful solution and ensure that the ISAs are fit for purpose for audits for all sizes and complexity.
75.	WPK	--
Academics		
76.	AAA	--
77.	AHigson	<p>Whilst a lot of effort has been put into tackling the audit expectations gap, I have long argued that this is part of a much wider expectations gap, namely the financial reporting expectations gap comprising the audit expectations gap and a financial statements expectations gap.</p> <div style="text-align: center;"> <pre> graph TD A[Financial Reporting Expectations Gap] --> B[Financial Statements Expectations Gap] A --> C[Audit Expectations Gap] B <--> C </pre> <p><u>The Financial Reporting Expectations Gap</u></p> </div> <p>As far back as 1974, Liggio (p.28) was concerned about the interpretation of the accounting numbers in the financial statements:</p> <p style="padding-left: 40px;">“Users view the financial statements, because of the use of numbers, as having a degree of exactness and certitude which, in fact, they do not have. From our earliest days in grammar school we are taught that two plus two equals four - an unalterable conclusion. Mathematics (and accordingly numbers) is scientific. Numbers are exact, precise and without error. Therefore, logically the reader (or user of financial statements) infers that they have that precision, accuracy and definitiveness.”</p> <p>Liggio (1974, p.29) went on to cite the concerns of Philip Loomis (a commissioner of the SEC) about the “widespread public misunderstanding of the function and limitations of accounting”, and Liggio considered that “[i]t is not fair to blame only the user of the financials for this misunderstanding – for the expectation is aided and abetted by the profession”. I would suggest that one way the</p>

		Accountancy profession has “aided and abetted”, and is continuing to do this, is through the standard-setters’ inability to clearly specify the objective of the financial statements. At the moment, it appears that the accounting standard-setters believe the objective of the financial statements is to enable users to predict the future, take decisions, judge the stewardship of management and assess the performance (past and potential) of the reporting entity (Higson, 1997). The implications for the external auditors of this confusion is, one presumes, that the audit report implies that the financial statements are “fit for purpose” – but what is the purpose? The fact that the financial statements appear to be all things to all people, has done nothing to enhance the status of the Accountancy profession, and if users have unrealistic expectations of the financial statements, no wonder they are often disappointed with the work of the external auditors.
78.	Glover-Prawitt	--
79.	TRay	--
Individuals and Others		
80.	CBarnard	--
81.	CK	Audit quality indicators (no specific comment)
82.	DAHughes	Auditor education and the breadth of a senior auditors’ knowledge and experience needs urgent attention.
83.	JGrant	--
84.	JK	--
85.	KKTuraga	Yes. Since the global opportunities are opened to all countries professional accountants, the IAASB needs to develop a uniform code of ethics and standards to be applied and implemented so that the confidence of the other stakeholders and requirements are suitably incorporated to avoid different interpretations and confusion in all aspects relating to the entity.
86.	SDeViney	Yes. FASB and IASB’s recent proposals on materiality for note disclosures appear to be divergent from requirements of audit standards to identify, accumulate, evaluate and communicate misstatements. This divergence would have effects on application of professional skepticism, quality control and group audits.

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.

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	<p>The following publications and/or academic research are relevant to the topics of professional skepticism, quality control and group audits:</p> <ul style="list-style-type: none"> • Steven M. Glover and Douglas F. Prawitt (2013). Enhancing Auditor Professional Skepticism. Available at: http://www.thecaq.org/docs/research/skepticismreport.pdf • Mark W. Nelson, Chad A. Proell, and Amy E. Randel (2016) Team-Oriented Leadership and Auditors' Willingness to Raise Audit Issues. The Accounting Review In-Press. • UC Davis Graduate School of Management (2013), CalPERS Sustainable Investment Research Initiative, Review of Evidence: Database of Academic Studies. Available at: https://www.calpers.ca.gov/docs/governance/Archive/investments/siri-database-of-academic-studies.pdf • Sarowar Hossain, Gary S. Monroe, Mark Wilson and Christine Jubb (2016), The Effect of Networked Clients' Economic Importance on Audit Quality. AUDITING: A Journal of Practice & Theory In-Press.
2.	CalSTRS	No additional research to provide.
3.	CFA	--
4.	IA	This question is outside the remit of the Investment Association.
5.	ICGN	<p>There are many articles that address the issues raised in the ITC. Below are some examples:</p> <p>Mark W. Nelson, Chad A. Proell, and Amy E. Randel (2016) <i>Team-Oriented Leadership and Auditors' Willingness to Raise Audit Issues</i>. The Accounting Review In-Press, highlights the importance of team-oriented leaders in auditors' willingness to raise audit issues.</p> <p>Sarowar Hossain, Gary S. Monroe, Mark Wilson, and Christine Jubb (2016) <i>The Effect of Networked Clients' Economic Importance on Audit Quality</i>. AUDITING: A Journal of Practice & Theory In-Press, examines interlocking networks of audit clients to understand the effects of audit partner from other companies in the network on audit quality.</p> <p>Elizabeth Carson, Roger Simnett, Greg Trompeter and Ann Vanstraelen (2014) <i>The Impact of Group Audit Arrangements on Audit Quality and Pricing</i>,¹ explores the role of monitoring in group audits by audit firms and regulators.</p> <p>Sanaz Aghazadeh, Yoon Ju Kang, and Marietta Peytcheva (2014) <i>How do Behavioral Indicators of Audit Committee Effectiveness Influence Audit Effort?</i>² Researchers found that audit effort is highest when the audit committee is least effective because auditors'</p>

¹ See; http://www.isarhq.org/2014_downloads/papers/ISAR2014_Carson_Simnett_Trompeter_Vanstraelen.pdf

² Available at http://isarhq.org/2014_downloads/papers/ISAR2014_Aghazadeh_Kang_Peytcheva.pdf.

		assessment of a weak tone at the top will lead auditors to increase their assessment of control risk. More effective audit committees increase auditor accountability for their judgment and decision making process regarding significant accounting issues. Professors Steven M. Glover and Douglas F. Prawit (2013) <i>Enhancing Auditor Professional Skepticism</i> , ³ considers the importance of developing a shared understanding of what professional skepticism is, how it should be applied, the threats to professional skepticism and the safeguards that may be cost effective. David Plumlee, Brett A. Fixom, Andrew J. Rosman (2012) <i>Training Auditors to Think Skeptically</i> . ⁴ Researchers found that auditors trained to apply professional skepticism through a diagnostic reasoning process are much more likely to choose the correct explanation in a skepticism-inducing audit simulation. ⁵
6.	NZSA	No comment.
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	--
Regulators and Oversight Authorities		
9.	BCBS	--
10.	CPAB	--
11.	EAIG	[See pp. 1 & 2 of comment letter]
12.	EBA	--
13.	ESMA	The IAASB might consider the outcome of the forthcoming report required by the Audit Regulation ² on the EU developments in the market for providing statutory audit services to public-interest entities. This report will assess the risks arising from high incidence of quality deficiencies, the performance of audit committees and the need to adopt measures to mitigate the risks identified.
14.	H3C	--
15.	IAIS	The IAIS defers to the academic community for the most relevant research on the topics discussed within the consultation. Further, we encourage the IAASB to more broadly consider materials which may be useful to its objectives, beyond strictly those considered as research. For example, the Canadian Auditing and Assurance Standards Board and the Institute of Chartered Accountants of Australia published a document in 2013 on practical considerations in exercising and documenting professional skepticism (accessible using this

³ Available at <http://www.thecaq.org/docs/research/skepticismreport.pdf>.

⁴ Available at http://web.ku.edu/~audsymp/myssi/_pdf/Plumlee%20et%20al.%202012%20Training%20Auditors%20to%20Think%20Skeptically%20-%20April%202012%20KU%20Symposium.pdf.

⁵ The researchers determined that the notion of a “questioning mind” that is embodied in auditing standards governing professional scepticism “translates into a diagnostic-reasoning framework because scepticism involves identifying, investigating, and resolving evidence that is unexpected.” See pp. 4-5.

² Article 27 of Regulation (EU) No 537/2014 of the European Parliament and of the council on specific requirements regarding statutory audit of public interest entities and repealing Commission Decision 2005/909/EC (Audit Regulation).

		link), which may be helpful to consider if more detailed requirements or guidance is considered necessary.
16.	IFIAR	--
17.	IOSCO	--
18.	IRBA	--
19.	MAOB	--
20.	UKFRC	<p>Published, planned or ongoing academic research studies</p> <p><i>Joint FRC/ICAS Research</i></p> <p>In 2013, the FRC and ICAS commissioned two international teams of researchers to investigate what mix of skills and qualities are needed in an audit team for it to perform high quality public interest audits in a modern and complex global business environment. The resulting independent research reports were published at the beginning of April 2016, entitled Skills, Competencies and the Sustainability of the Modern Audit¹⁹ and The Capability and Competency Requirements of Auditors in Today's Complex Global Business Environment²⁰. The reports discuss a number of matters that have been highlighted in the ITC, including the need for the profession to keep pace with changing expectations and evolve to meet the needs of stakeholders and society, and may be useful to the IAASB as it deliberates the three topics discussed in the consultation.</p> <p><i>FRC Publications</i></p> <p>We would also like to draw attention to the work of the FRC in relation to the three topics that we discuss further in this response letter. In particular:</p> <ul style="list-style-type: none"> • FRC Audit Quality Review Team Thematic Reviews (see Quality Control) • FRC Professional Scepticism publications (see Professional Scepticism) • FRC Audit Quality publications – including the Audit Quality – Practice Aid for Audit Committees (see Quality Control) • FRC Audit Quality Review Team – Annual Inspection Reports (2014/15 and 2015/16 which will be issued shortly after this letter) <p><i>Revised FRC Audit Firm Governance Code and Audit Firm Culture</i></p> <p>Specific to the important role of audit firm and network firm culture in promoting audit quality, we will be issuing a revised Audit Firm Governance Code in 2016. In addition, the FRC are considering ways in which audit firms can most effectively establish firm culture from the findings of our project to review how boards can most effectively establish company culture and practices that embed good corporate behaviour. The findings from this project may be useful to the IAASB in its discussions about the importance of tone at the top and audit governance.</p>

¹⁹ <https://www.icas.com/technical-resources/skills-competencies-and-the-sustainability-of-the-modern-audit>

²⁰ <https://www.icas.com/technical-resources/the-capability-and-competency-requirements-of-auditors-in-todays-complex-global-business-environment>

National Auditing Standard Setters		
21.	AUASB	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.
22.	CAASB	<p>During one of our Canadian stakeholder consultations, reference was made to the following paper which was published in 2013 relating to professional skepticism.</p> <p>Research on Auditor Professional Skepticism: Literature Synthesis and Opportunities for Future Research Authored by: R. Hathy Hurtt, Helen Brown-Liburd, Christine E. Early, and Ganesh Krishnamoorthy</p> <p>This paper discusses professional skepticism based on the initial premise that a lack of skepticism in the audit can either be as a result of:</p> <ul style="list-style-type: none"> • A failure in problem recognition (lack of skeptical judgment); or • A failure to act on a problem recognized (lack of skeptical actions). <p>In addition the following document published in the American Accounting Association journal – Auditing: A Journal of Practice & Theory in February 2016, Vol. 35, No.1, pp.65-88, was raised by the AASB as being relevant to this ITC:</p> <p>Waves of Global Standardization: Small Practitioners’ Resilience and Intra-Professional Fragmentation within the Accounting Profession Authored by: Sylvain Durocher, Yves Gendron, and Claire-France Picard</p> <p>This paper examines how small practitioners perceive and react to global standards and the underlying mechanisms put in place by the accounting profession to ensure “appropriate” implementation. Of particular interest are the challenges faced by SMPs and the “constant monitoring gaze” being felt by SMPs.</p> <p>Given the relevance of these documents to the topics included in the ITC, the IAASB may wish to consider them as progress continues on these projects.</p>
23.	CNCC-CSOEC	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.
24.	HKICPA	--
25.	IDW	<p>The following publications may be of interest:</p> <p>“The Influence of Information Order Effects and Trait Professional Skepticism on Auditors’ Belief Revisions”;</p> <ul style="list-style-type: none"> • Research Article: • Author: Kristina Yankova; • Published 2014 Auditing and Accounting Studies by Springer Gabler; • ISBN 978-3-658-08870-5, ISBN 978-3-658-08871-2 (eBook) <p>“The Association between Audit-Partner Quality and Engagement Quality: Evidence from Financial Report Misstatement”;</p> <ul style="list-style-type: none"> • Auditing: A Journal of Practice and Theory: Vol.34 No.3 • Authors: Yanyan Wang, Lisheng Yu, Yuping Zhao

		<ul style="list-style-type: none"> Published 2015 American Accounting Association
26.	JICPA	--
27.	MAASB	<p>The following published, planned or ongoing academic research studies could be considered by the IAASB:</p> <ul style="list-style-type: none"> “Toward a Conceptual Framework of Professional Skepticism in Auditing” by Yoshihide Toba, Waseda Business & Economic Studies 2011, NO.47. “An Examination of Issues Related to Professional Skepticism in Auditing” by Erin Burrell Nickell, M.S.A. University of Central Florida, Summer Term 2012. “Enhancing Auditor Professional Skepticism: The Professional Skepticism Continuum” by Steven M. Glover and Douglas F. Prawitt of Brigham Young University, Current Issues in Auditing, Volume 8, Issue 2 2014. “Professional Skepticism in Practice: An Examination of the Influence of Accountability on Professional Skepticism” by Kimberly D. Wstermann, Jeffrey Cohen and Greg Trompeter 2014. “The Effect of Accounting Ethics in Improving Auditor Professional Skepticism” by DR A. O. Enofe, Innocent Ukperbor and N. Ogbomo, International Journal of Advanced Academic Research, Vol. 1 Issue 2, November 2015. “The Impact of Perceived Ethical Intensity on Audit-Quality-Threatening Behaviours” by Breda Sweeney, Bernard Pierce and Donald F. Arnold, January 2013.
28.	NBA	--
29.	NZAuASB	<p>Some published, planned or ongoing academic research studies on:</p> <ol style="list-style-type: none"> Professional scepticism; Quality control; Group audits. <p><u>(1) PROFESSIONAL SCEPTICISM/SKEPTICISM</u></p> <p>This update seeks to provide additional academic research to those identified in Brazel & Schaefer’s (2015) study¹ that identified 59 studies, 27 unpublished working papers. Unfortunately their full list of references was not available so could only identify 21 studies – hence there could be some overlap with the sixteen references below. Appendix 1 has the abstracts.</p> <p>Broberg, P. (2013). <i>The auditor at work: a study of auditor practice in Big 4 audit firms</i> (PhD thesis). Lund University, Sweden, School of Economics and Management. Retrieved from http://www.diva-portal.org/smash/record.jsf?pid=diva2%3A622010&dsid=7427</p> <p>Chen, Q., Kelly, K., & Salterio, S. E. (2012). Do changes in audit actions and attitudes consistent with increased auditor scepticism deter aggressive earnings management? An experimental investigation. <i>Accounting, Organizations and Society</i>, 37(2), 95-115. doi:http://dx.doi.org/10.1016/j.aos.2011.11.001</p>

¹ Brazel, J.F. & Schaefer, T.J. (2015, December). Executive Summary: State of the Art Research Related to Auditor Professional Skepticism. *IAASB Main Agenda Item 7B. Please note that this was missing Agenda items C & D which included a list of the research.*

	<p>Chiang, C. (2016). Conceptualising the linkage between professional scepticism and auditor independence [Article]. <i>Pacific Accounting Review</i>, 28(2), 180-200. doi:10.1108/PAR-08-2015-0034</p> <p>Endrawes, M. (2010). <i>Professional scepticism of auditors: a cross-cultural experiment</i>. (PhD thesis). University of Western Sydney. Retrieved from http://researchdirect.westernsydney.edu.au/islandora/object/uws:8931</p> <p>Epstein, B. J. (2015, June). <i>Auditor Liability and Professional Skepticism: A Look at Lehman Brothers and MF Global</i>. Retrieved from http://www.epsteinnach.com/wp-content/uploads/2015/06/Auditor_Liability_Professional_Skepticism_White_Paper_Final.pdf</p> <p>Glover, S. M., & Prawitt, D. F. (2013). <i>Enhancing Auditor Professional Skepticism</i>. Retrieved from http://www.thecaq.org/docs/research/skepticismreport.pdf {appears to be a different ref to Brazel & Schaefer's (2014) reference}</p> <p>Gong, Y. F., Kim, S., & Harding, N. (2014). Elevating professional scepticism: An exploratory study into the impact of accountability pressure and knowledge of the superior's preferences. <i>Managerial Auditing Journal</i>, 29(8), 674-694. doi:doi:10.1108/MAJ-08-2013-0914</p> <p>Harding, N., Azim, M., Jidin, R., & Muir, J. (2015, June). <i>A Consideration of Literature on Trust and Distrust as they Relate to Auditor Professional Scepticism</i>. Retrieved from http://ssrn.com/abstract=2627545.</p> <p>Khan, M. J., & Harding, N. (2016). <i>The Importance of Seduction in Understanding the Impact of Trait Skepticism on Audit Judgments</i>. Presented at the meeting of the AFAANZ conference, Gold Coast, Australia. Retrieved from http://www.afaanz.org/openconf/2016/modules/request.php?module=oc_program&action=view.php&id=154&file=1/154.pdf</p> <p>Kim, S., & Trotman, K. T. (2015). The comparative effect of process and outcome accountability in enhancing professional scepticism. <i>Accounting & Finance</i>, 55(4), 1015-1040. doi:10.1111/acfi.12084</p> <p>Law, P., & Yuen, D. (2016). Professional scepticism in two economies with cultural differences and the public interest: evidence from China and the United States. <i>Applied Economics</i>, 48(2), 89-106. doi:10.1080/00036846.2015.1073845</p> <p>Martinov-Bennie, N., Cohen, J., & Simnett, R. (2011). Impact of the CFO's affiliation on auditor independence. <i>Managerial Auditing Journal</i>, 26(8), 656-671. doi:doi:10.1108/02686901111161322</p> <p>Martinov-Bennie, N., Dyball, M. C., & Leung, P. (2013). <i>A Study on How Firms Conceptualise and Apply Professional Scepticism in an Audit Context</i>. Retrieved from http://www.charteredaccountants.com.au/Students/Academics/Research-funding/Final-reports</p> <p>Noviyanti, S., & Winata, L. (2015). The Role of "Tone at The Top" and Knowledge of Fraud on Auditors' Professional Skeptical Behavior. <i>Contemporary Management Research</i>, 11(1), 55-74. doi:10.7903/cmr.12239</p> <p>Plumlee, D., Rixom, B. A., & Rosman, A. J. (2012, April). <i>Training Auditors to Think Sceptically</i>, Retrieved from http://web.ku.edu/~audsymp/myssi/pdf/Plumlee%20et%20al.%202012%20Training%20Auditors%20to%20Think%20Skeptically%20-%20April%202012%20KU%20Symposium.pdf</p> <p>Ruhnke, K., & Schmidt, M. (2016). Changing the Institutional Framework of Statutory Audit: Internal Stakeholders' Perceptions of the Associated Benefit and Costs. <i>European Accounting Review</i>, 25(1), 59-79. doi:10.1080/09638180.2014.939683</p> <p>(2) QUALITY CONTROL – ISA220 & ISQC1</p> <p>Hegazy, M., & Tawfik, M. (2015). Performance measurement systems in auditing firms: Challenges and other behavioural aspects. <i>Journal of Accounting in Emerging Economies</i>, 5(4), 395-423. doi:doi:10.1108/JAEE-04-2012-0014</p> <p>Khalifa, R., Sharma, N., Humphrey, C., & Robson, K. (2007). Discourse and audit change: Transformations in methodology in the professional audit field. <i>Accounting, Auditing & Accountability Journal</i>, 20(6), 825-854. doi:10.1108/09513570710830263</p>
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	<p>Maroun, W. (2015). Reportable irregularities and audit quality: Insights from South Africa [Article]. <i>Accounting Forum</i>, 39(1), 19-33. doi:10.1016/j.accfor.2014.03.002</p> <p>Pflugrath, G., Martinov-Bennie, N., & Chen, L. (2007). The impact of codes of ethics and experience on auditor judgments. <i>Managerial Auditing Journal</i>, 22(6), 566-589. doi:doi:10.1108/02686900710759389</p> <p>Soni, F., Maroun, W., & Padia, N. (2015). Perceptions of justice as a catalyst for whistle-blowing by trainee auditors in South Africa. <i>Meditari Accountancy Research</i>, 23(1), 118-140. doi:doi:10.1108/MEDAR-01-2014-0004</p> <p>von Wielligh, S. P. J. (2008). Current practices for resource allocation in external audits of listed South African long-term insurers. <i>Meditari Accountancy Research</i>, 16(1), 139-152. doi:doi:10.1108/10222529200800008</p> <p>(3) GROUP AUDITS – ISA600</p> <p>Carson, E., Simnett, R., Trompeter, G., & Vanstraelen, A. (2014, November). <i>The Impact of Group Audit Arrangements on Audit Quality and Pricing</i>. Retrieved from http://ssrn.com/abstract=2528328</p> <p>Eilifsen, A., & Messier, W. F. (2015). Materiality Guidance of the Major Public Accounting Firms. <i>Auditing</i>, 34(2), 3-26. doi:10.2308/ajpt-50882</p> <p>Glover, S. M., & Wood, D. A. (2014, January). <i>The Effects of Group Audit Oversight on Subsidiary Entity Audits and Reporting</i> Retrieved from http://ssrn.com/abstract=2117889</p> <p>Hanes, D. R. (2013). Geographically distributed audit work: Theoretical considerations and future directions [Article]. <i>Journal of Accounting Literature</i>, 32, 1-29. doi:10.1016/j.acclit.2013.09.001</p> <p>Gold, A., Lindscheid, F., Pott, C., & Watrin, C. (2012, August). <i>The Effect of Engagement and Review Partner Tenure and Rotation on Audit Quality: Evidence from Germany (August 15, 2012)</i>. Available at SSRN: . Retrieved from http://ssrn.com/abstract=1631947</p> <p>Hanes, D. R. (2013). Geographically distributed audit work: Theoretical considerations and future directions [Article]. <i>Journal of Accounting Literature</i>, 32, 1-29. doi:10.1016/j.acclit.2013.09.001</p> <p>Lauck, J., & Bhattacharjee, S. (2015, November). <i>The Effects of Supervisor Preferences and Group Engagement Oversight on Component Auditor Skepticism in a Group Audit Engagement (November 1, 2015)</i>. Available at SSRN: . Retrieved from http://ssrn.com/abstract=2690421</p> <p>Shu, P.-G., Chen, T.-K., Hung, W.-J., & Chiang, T.-L. (2013). Economic Dependence and Reputation Concern for the Audit Firm, Audit Groups, and Individual Auditors - The Case of Taiwan [Article]. <i>Review of Pacific Basin Financial Markets & Policies</i>, 16(2), -1. doi:10.1142/S0219091513500124</p> <p>Stewart, T. R., & Kinney Jr, W. R. (2013). Group Audits, Group-Level Controls, and Component Materiality: How Much Auditing Is Enough? [Article]. <i>Accounting Review</i>, 88(2), 707-737. doi:10.2308/accr-50314</p> <p>Trotman, K. T., Bauer, T. D., & Humphreys, K. A. (2015). Group judgment and decision making in auditing: Past and future research [Article]. <i>Accounting, Organizations & Society</i>, 47, 56-72. doi:10.1016/j.aos.2015.09.004</p>
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Accounting Firms		
30.	BDO	None noted
31.	CHI	<p>Crowe Horwath LLP, the US member firm of Crowe Horwath International, is participating in a joint initiative between the Rutgers Business School and the American Institute of CPAs (AICPA), called the Rutgers AICPA Data Analytics Research Initiative (RADAR). RADAR is cosponsored by the AICPA and CPA Canada and will facilitate the further integration of data analytics into the audit process in an effort to enhance audit quality. The initiative will test theory and methodology to help in developing professional guidance on the application of audit data analytics.</p> <p>Details about RADAR can be found at: http://raw.rutgers.edu/radar.</p> <p>The IAASB will be aware of research and studies performed by national regulatory and standard setting bodies. We particularly draw attention to the UK FRC's recent thematic review on the role of the EQCR.</p>
32.	DTT	--
33.	EYG	No, we are not aware of any academic research studies (other than those already identified by the IAASB) relevant to the topics discussed in this consultation.
34.	GTI	<p>GTIL, in association with the ACCA, held a series of roundtable events covering multiple countries (South Africa, UAE, UK, Ukraine, China, Singapore, European Union (Brussels)). The roundtable events looked at investors need to know about their client base and the degree of reliance placed on that information. A report of the findings was published in March 2016.</p> <p>The key findings indicated that "countries without a longstanding tradition of audit were of the view that developing a capacity in audit is essential for underpinning and enhancing economic growth. The financial statement audit is seen as a gateway to a stronger accountancy profession and, with it, greater prosperity. By contrast, in countries where the audit is more established, the view is that audit itself must develop. The suggestion is that new differentiated types of reporting and new assurance offerings will keep the financial statement audit relevant for users.</p> <p>Auditors will need to keep their skills up to date to respond to the challenges created by heightened expectations of the profession. The digital age creates opportunities and threats."</p> <p>The report includes changes that affect the profession, suggestions of ways to respond to those changes and recommendations for standard setters and regulators to support better global outcomes.</p> <p>Based on responses to the outreach, the report identifies maintaining a stable body of standards as essential. For developing countries this is seen as a means to foster understanding and improvement in audit quality and for countries with a mature audit, only marginal gains in the usefulness of an audit were thought to be possible, which may be out of proportion to the effort required to make those gains. The report also notes the importance of articulating the benefits to businesses of changes to the International standards. The report further suggest that regulators need to recognize the balance between audit quality, consistency and innovation, allowing firms flexibility to apply the International Standards in new ways that maintain or improve audit quality.</p>
35.	KPMG	--
36.	PwC	--

37.	RBI	--
38.	RSM	We are aware that professors at Brigham Young University in the USA have published certain research and documents with regard to professional skepticism.
39.	SRA	--
Public Sector Organizations		
40.	AGC	--
41.	AGSA	Yes, refer to: <ul style="list-style-type: none"> A paper dealing with audit quality: 2011 International Conference on Humanities, Society and Culture IPEDR Vol.20 (2011) © (2011) IACSIT Press, Singapore Financial Reporting Council - Audit Quality Thematic Review Fraud risks and laws and regulations - (January 2014)
42.	GAO	We are currently updating Government Auditing Standards. ¹ In addition, we are aware of the following published reports on quality and professional skepticism: <ul style="list-style-type: none"> The U.S. Department of Labor issued a report in 2015 that identified quality concerns in employee benefit plan audits and made recommendations to improve audit quality.² Professors at Brigham Young University issued a report in 2013 related to professional skepticism.³
43.	INTOSAI	--
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	ACCA will be publishing a short report, by the end of 2016, into professional scepticism and how to respond to regulatory observations that auditors are insufficiently sceptical when undertaking audits. We look forward to sharing our preliminary findings with you in due course.
47.	AIC	We are not aware of any specific academic level publications on the topics covered in this consultation. However, the Inter-American Conferences Accounting organized by the Interamerican Accounting Association uninterruptedly for 64 years in area 2 Audit, currently in charge of the Committee on Standards and Practices Audit has a rich history of work inter-American and national dealing globally on these

¹ GAO, *Government Auditing Standards: 2011 Revision*, GAO-12-331G (Washington, D.C.: December 2011).

² U.S. Department of Labor, *Assessing the Quality of Employee Benefit Plan Audits* (Washington, D.C.: May 2015).

³ Stephen M. Glover and Douglas W. Prawitt, *Enhancing Auditor Professional Skepticism* (Provo, Utah: November 2013).

		three issues (professional skepticism, Quality Control and Auditing Group), specifically in the 2001 Panamá Conference one of the research agendas was "Quality Control".
48.	AICPA	--
49.	APESB	--
50.	CAANZ	<p>Published academic research studies that we are aware of include but are not limited to:</p> <ul style="list-style-type: none"> • Copley, A. (2006) In praise of convergent thinking Creativity Research Journal 18(3), 391-404. • Harding, N., and Trotman, K. T. (2014) Enhancing Professional Skepticism via the Fraud Brainstorming Discussion Outcomes. Working Paper, University of New South Wales. • Hurtt, R. K. (2010). Development of a scale to measure professional skepticism. Auditing: A Journal of Practice & Theory, 29(1), 149-171. • Kahneman, D. and Tversky, A. (1974). Subjective probability: A judgement of representativeness. In The Concept of Probability in Psychological Experiments (pp. 25-48). Springer Netherlands. • Mauldin, E. G., and Wolfe, C. J. (2014). How Do Auditors Address Control Deficiencies that Bias Accounting Estimates? Contemporary Accounting Research. • Plumlee, D., Rixon, B & Rosman, A (2011) Training Auditors to Think Skeptically working paper. • Puccio, G.J, Wheeler, R.A, & Cassandro, V.J (2004) Reactions to creative problem solving training: Does cognitive style make a difference? The Journal of Creative Behavior 38(3) 192-216. • Russo, J.E & Schoemaker, P.J.H (1989) Decision Traps: Ten Barriers to Brilliant Decision-Making and How to Overcome Them. Simon & Schuster Inc. • Scott, G., Leritz, L. E. and Munford, M. D. (2004), The effectiveness of creativity training: a quantitative review Creativity Research Journal 16(4) 391-388. • Simons, D. J. (2010) Monkeying around with the gorillas in our midst: Familiarity with an inattentional-blindness task does not improve the detection of unexpected events i-Perception volume 1, pages 3–6). • Smith, J.F & Kida, T. (1991) Heuristics and biases: Expertise and task realism in auditing Psychological Bulletin 109(3) 472-489. • Tversky, A. and Kahneman, D. (1974). Judgement under uncertainty: Heuristics and biases. science, 185(4157), 1124-1131.
51.	CAI	--
52.	CAQ	--
53.	CIIPA	Not at this time.
54.	CIMA	--
55.	CPAA	<p>Academic research funded by CPA Australia relevant to these topics, which is soon to be published, is:</p> <ul style="list-style-type: none"> • Comparative effectiveness of Audit Quality and Audit Committee in Mitigating the Earnings Management Behaviour of Australian Firms during Financial Crisis, Dr. Abu T. Mollik & Monir Mir – due to be published mid 2016.

		<ul style="list-style-type: none"> A Consideration of Literature on Trust and Distrust as they Relate to Auditor Professional Scepticism, Noel Harding, Mohammad I. Azim & Janine P. Muir - forthcoming publication in the Australian Accounting Review 2016.
56.	DnR	For input on the specific questions in the ITC we refer to the comment letter from FEE.
57.	EFAA	We are not aware of any.
58.	FACPCE	We do not know to recommend publications
59.	FEE	<p>Yes. In relation to the planned academic research, one of our UK member bodies, ICAS, undertook joint research with the UK Financial Reporting Council (FRC) on the skills required in an audit team for it to perform high quality public interest audits in a modern and complex global business environment. Two academic research teams were commissioned to perform this research and their findings have recently been published⁶.</p> <p>In addition, there is potentially other academic research available in Europe. The European Accounting Association (EAA)⁷ could be a good reference for inquiry.</p>
60.	FSR	For specific answers to the queries in the ITC, we in general refer to the comment letter from FEE.
61.	IBA	--
62.	IBRACON	No
63.	IRE-IBR	Not in particular.
64.	ICAEW	We are aware that several current academic studies are relevant to the audit quality theme, for example those that were reported on at the recent BAFA audit and assurance conference .
65.	ICAP	--
66.	ICAS	ICAS and the FRC recently published two joint research reports which explore the ideal composition of modern audit teams and how they can best meet future demands: Skills, competencies and the sustainability of the modern audit and The capability and competency requirements of auditors in today's complex global business environment
67.	ICAZ	--
68.	ICPAK	--
69.	ICPAU	--
70.	INCPC	Comments of the Auditing Standards Committee of the Auditing Section of the American Accounting Association on PCAOB Concept Release on Audit Quality Indicators, No. 2015-005, July 1, 2015. Current Issues in Auditing 10:1, C11-C27. http://aaapubs.org/doi/pdf/10.2308/ciia-51316

⁶ Further information is available at: <https://www.icas.com/technical-resources/major-icas-frc-research-explores-audit-skills-of-the-future>

⁷ <http://www.eaa-online.org/r/default.asp?ild=FDJHJD>

		<p>The Association between Audit-Partner Quality and Engagement Quality: Evidence from Financial Report Misstatements. AUDITING: A Journal of Practice & Theory 34:3, 81-111. Online publication date: 1-Oct-2014. http://aaapubs.org/doi/abs/10.2308/ajpt-50954</p> <p>A Model and Literature Review of Professional Skepticism in Auditing</p> <p>Mark W. Nelson, Professor.</p> <p>Mark W. Nelson (2009) A Model and Literature Review of Professional Skepticism in Auditing. AUDITING: A Journal of Practice & Theory: November 2009, Vol. 28, No. 2, pp. 1-34. http://aaapubs.org/doi/abs/10.2308/aud.2009.28.2.1</p> <p>Kendall O. Bowlin, Jessen L. Hobson and M. David Piercey. (2015) The Effects of Auditor Rotation, Professional Skepticism, and Interactions with Managers on Audit Quality. The Accounting Review 90:4, 1363-1393.</p> <p>Online publication date: 1-Jan-2015. http://aaajournals.org/doi/abs/10.2308/accr-51032</p> <p>Steven M. Glover and Douglas F. Prawitt. (2014) Enhancing Auditor Professional Skepticism: The Professional Skepticism Continuum. Current Issues in Auditing 8:2, P1-P10.</p> <p>Online publication date: 1-Aug-2014. http://aaajournals.org/doi/pdf/10.2308/ciia-50895</p> <p>AU-C 600 Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) by AICPA</p>
71.	ISCA	--
72.	KICPA	Please refer to the annex. [Note: Document is written in Korean]
73.	MICPA	--
74.	SAICA	--
75.	SMPC	We are not aware of any relevant academic studies on the three topics, but fully support the IAASB in asking this question and its willingness to consider academic research as part of the ITC.
76.	WPK	--
Academics		
77.	AAA	Provided insights to questions posed in the ITC where appropriate.
78.	AHigson	<p>Some of my work that may be of interest:</p> <p>My response to the APB's 2010 audit skepticism paper: http://www.frc.org.uk/Our-Work/Publications/APB/Discussion-Paper-Auditor-Scepticism-Raising-the-Ba/Responses-to-Discussion-Paper-Auditor-Scepticism-R/Dr-Andrew-Higson.aspx</p> <p>My academic paper on skepticism presented at the BAFA Annual Conference at Aston University in 2011: file:///C:/Users/msawh/Downloads/AUD_Higson_Is%20scepticism%20enough%23-The%20application%20of%20%23critical%20thinking%23%20to%20the%20external%20audit%20(1).pdf</p> <p>My book, based around the idea of a financial reporting expectations gap: <i>Corporate Financial Reporting: Theory & Practice</i>, and Chapter 6 relates to the audit of motivations.</p>

79.	Glover-Prawitt	--
80.	TRay	--
Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	No I have raised the need for undergraduate courses to include units in organizational behavior and IT systems with academic institutions. Generally, these units seem to be available as elective units only. In my view they should be mandatory, as prerequisite learning for those entering the audit profession
84.	JGrant	Over recent decade firms and regulators have overly focused on the process of audit. The recently published FRC / ICAS paper on Skills, competencies and the sustainability of the modern audit by Professor Stuart Turley et al. demonstrates some of the dangers of this. The time has come to focus more on the people who do the audits. IAASB can assist this with some additional material in ISQC1 but needs to avoid increasing still further the level of prescription in the ISAs.
85.	JK	--
86.	KKTuraga	I am not aware.
87.	SDeViney	No

General Comments

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	<p>Our engagements with companies, regulators, managers and stakeholders are guided by CalPERS Global Governance Principles (Principles). Our Principles state that:</p> <p>Effective financial reporting depends on high quality accounting standards, with consistent application, rigorous, independent audit and enforcement of those standards.²</p> <p>We believe that financial reporting plays an integral role in the capital markets by providing transparent and relevant information about the economic performance and condition of businesses. Therefore, CalPERS is a strong advocate of standards that ensure the continual improvement and integrity of financial reporting.</p> <p>Given how essential financial reporting is to the integrity of capital markets, the crucial role of the external audit is unquestionable. Robust audits help establish trust and confidence in financial markets and contribute to investor protection. Failure to deliver high-quality audits can result in adverse consequences for shareowners and stakeholders that use and rely on financial statements. Therefore, through independent review and opinions, the auditing profession plays a crucial role in promoting integrity and efficiency in financial markets.</p> <p>As a long-term investor, we expect auditors to bring integrity, independence, professional competence and objectivity to the financial reporting process. We believe that the central role of the auditor should be to provide investors with an independent opinion as to whether the financial statements and disclosures therein are free of material misstatement, whether caused by error or fraud, are materially accurate, complete, and provide a true and fair view. Therefore, CalPERS supports improvements to audit standards that emphasize the significant role of auditors and their contribution to the quality and integrity of financial reporting.</p>
2.	CalSTRS	<p>CalSTRS supports this timely release with the December 2016 effective date of the New Auditor's Report.² The improved auditor's report provides more transparency that should from our perspective; provide additional value in assessing a company. Financial reporting plays an integral role by providing transparent and relevant information about the economic performance and condition of businesses. The audit is critical in ensuring standardization and discipline in corporate accounting, where investors can rely on the integrity of financial reporting to evaluate investment risk and returns in capital allocation decisions. Therefore, this focus on skepticism, quality control and group audits are essential to the intent of the New Auditor's Report.</p>

² See, p. 33, [The CalPERS Global Governance Principles](#), dated March 14, 2016

² IAASB, New Auditor's Report, Effective for audits of financial statements for periods ending on or after December 15, 2016. <http://www.iaasb.org/new-auditors-report>

		<p>As investors, we rely on auditors to be the gate keepers of financial reporting integrity and audit quality. In being a gate keeper, auditors must be objective, and independent in both substance and appearance. Audit firms and Audit Committees must continue to practice robust policies regarding the provision of non-audit services and consultative services to avoid compromising auditor independence.</p> <p>Important to our perspective, CalSTRS emphasizes that shareholders are the client of the auditor and the prime audience of the accounts. Investors rely on a vigorous external audit to strengthen the veracity and quality of financial reporting. Additionally, CalSTRS recognizes the important role of the IAASB in improving the auditor's report through enhanced reporting and communication between auditors and investors. Unfortunately, the financial crisis spotlighted some of the structural failures in the audit market that pose a threat to audit quality and the quality of financial reporting. We agree with the IAASB that, "the turbulent events of the recent global financial crisis have highlighted the critical importance of credible, high-quality financial reporting and the relevance of quality audits to support this."³</p> <p>Holistic approach - Skepticism, Quality Control Approach and Group Audits</p> <p>CalSTRS acknowledges, consistent with the IAASB, that audit oversight bodies have become more active and internationally cooperative. Publicly reported inspection reports are emphasizing where improvements to audit quality are needed. CalSTRS agrees that effective financial reporting depends on high quality accounting standards, as well as consistent application, rigorous independent audits and enforcement of both accounting and auditing standards. Professional skepticism is a key component of an audit and should be re-emphasized in auditing standards. Oversight bodies can also facilitate effective conversations to ensure auditors focus on the importance of professional skepticism.</p> <p>CalSTRS supports and elevates the international cooperation through the International Forum of Independent Audit Regulators (IFIAR) and the role of the independent audit regulators from a total of 51 jurisdictions.⁴ We support the ongoing evolution of publicly posting members' inspection and annual reports, though, noting only a limited number of independent audit regulators of the 51 member jurisdictions post on the IFIAR's website. These include Australia, Canada, Czech Republic, Dubai, France, Japan, Malaysia, The Netherlands, New Zealand, Norway, Poland, Switzerland, South Africa, United Kingdom, and the United States. CalSTRS believes a holistic approach is necessary and encourages other member jurisdictions to publicly post inspection reports, emphasizing where improvements to audit quality are needed.</p>
3.	CFA	<p>Investors' perceptions regarding financial reporting effectiveness and consequently audit quality have been profoundly affected by how they experienced the events leading up to, during, and following the 2008 financial crisis. How well financial information served their needs during this tumultuous period unequivocally informs their views regarding the efficacy of financial reporting and the quality of audits.</p> <p>As we state in our report Financial Reporting Disclosures: Investor Perspectives on Transparency, Trust & Volume,</p> <p><i>Investors point to the countless reporting and analyses especially of high-profile financial institution failures and bailouts during, and since, the 2008 financial crisis as evidence of the insufficiency of disclosures in providing the necessary transparency to investors regarding exposures, risks, uncertainties, and leverage of such financial institutions.</i></p> <p>This lack of transparency in financial reporting leads to loss of investor trust in both management and the audit process.</p>

³ IAASB, A Framework for Audit Quality, Key Elements that Create and Environment for Audit Quality, Feedback Statement, Prepared by the Staff of the IAASB, February 2014.
<http://www.ifac.org/system/files/publications/files/Audit-Quality-Feedback-Statement.pdf>

⁴ International Forum of Independent Audit Regulators (IFIAR), About IFIAR, established on 15 September 2006, growing to 51 jurisdictions. <https://www.ifiar.org/About-Us.aspx>

		<p>In light of this and the deficiencies noted by audit oversight bodies such as International Forum of Independent Audit Regulators (IFIAR) in recent years we believe there is a need for the IAASB to take steps to restore public trust and confidence.</p> <p>Accordingly, we support the IAASB's proposal to address the public interest issues – professional skepticism, quality control, and group audits – as outlined in Table 1 of the Overview. We are also supportive of the notion of keeping abreast of emerging issues (e.g. technology, increasing business complexity) to ensure that the International Standards on Auditing (ISAs) remain relevant as these are important steps towards restoring public trust.</p>
4.	IA	<p>Timing and content of the ITC. The ITC is soliciting comments before proposals on the three projects are drafted. On the basis of our understanding that projects tend to be developed by working parties largely made up of auditors, we support wider stakeholders being given the opportunity to provide input in advance. However, the text and questions in the ITC are quite technical and run the risk of only attracting feedback from the main auditing firms, and may deter other stakeholders. This could limit the benefits of consulting early. We also consider the IAASB should involve a wider group of stakeholders in the standard setting process to facilitate the timely completion of these important projects.</p> <p>Other factors that impact audit quality. We continue to have concerns that the incentive structures within audit firms can tend to focus on the generation of revenues, particularly from non-audit services, rather than audit quality. Thus whilst in recent years there have been pressures on the main players in the capital markets to adopt long term incentive structures, the main auditing firms still operate under a partnership structure that does not impose such constraints. An audit firm's governance and leadership has a vital role in promoting a culture that emphasises the public interest role of the audit and the importance of audit quality. For example, a firms' processes for performance evaluation, compensation and promotion should emphasise the importance of audit quality and that it overrides commercial factors such as generating revenues.</p>
5.	ICGN	---
6.	NZSA	<p>One of our major concerns is the need to engender confidence in the regulation and operation of the New Zealand capital markets. We therefore, take a close interest in the "public good" aspect of legislative changes or regulation relating to existing legislation as part of our core function. This includes standards proposed or subject to amendment by independent groups which have an impact on investor interests. We consider that the availability of quality audit services is a key component in this mix.</p> <p>This submission is written to present the perspective of the prudent, but non expert retail investor. To a degree, our opinions will be slanted towards the listed equity and debt market areas. While these are a narrow part of the range of companies requiring audit services, they do frequently involve larger sums of money and are more complex than many smaller organisations. They are also subject to greater regulation and oversight than non public issuer companies. This means the need for high quality advice is arguably more critical.</p> <p>The NZSA have read the documents entitled 'IAASB Invitation to comment –Enhancing Audit Quality overview and invitation to comment'.</p> <p>In general the NZSA felt many of the issues discussed in these documents were aimed too much at practitioners delivering audits, rather than constituents who use audited accounts. As the NZSA represents those who use audited accounts, our comments are therefore more limited in scope.</p> <p>In our view, the user of accounts is usually less concerned with the process used to achieve an outcome, than the outcome itself. The important issue for a user is that audited accounts do show a true and fair view of an organisation's operations, and that any areas of concern to the auditor, are meaningfully discussed in the new form Audit report.</p>

		In general, the NZSA felt the way a number of issues were discussed in these documents was too vague, and any outcomes too difficult to quantify.
7.	SAAJ	<p>The CAC appreciates that the IAASB provides financial statement users with general explanations and questions for them in the ITC, in addition to detailed and technical explanations and questions on auditing standards for auditors.</p> <p>We, financial statement users in Japan, are increasingly concerned with three topics discussed in the ITC, i.e. “professional skepticism”, “quality control”, and “group audit”, due to a series of accounting frauds in recent years. Some financial statements users doubt “if auditors had sufficiently played their role,” while understanding that management and accountants of their clients had the primary responsibility for such misconduct. That’s why we believe it is timely for the IAASB to issue this ITC.</p>
Those Charged with Governance		
8.	AICD	<p>As the IAASB would be aware, Australian auditing standards have the force of law in our jurisdiction. These legal standards are supported by a strong co-regulatory environment including the role of the Accounting Professional & Ethical Standards Board (APESB, www.apesb.org.au), which sets the code of ethics and professional standards with which auditors who are members of professional accounting bodies must comply.</p> <p>The AICD does not believe that further standards are warranted in the Australian context. Rather, we suggest that implementation of existing standards and requirements may benefit from improvement. Implementation issues, in the AICD’s view, will be best addressed by targeted education focused on areas of concern to audit regulators.</p> <p>Audit quality is not subject to a consistent definition. From a directors’ perspective audit quality is generally assessed based on the quality of the interactions and challenges that management and the audit committee receive from the external auditors. Applying this lens, the AICD does not perceive a significant issue in the Australian environment regarding sub-standard audit quality. On this basis we do not support additional standards. We are concerned that some proposals in the paper, such as mandating preconditions and requiring documentation of supervision, would achieve little beyond adding to costs.</p>
Regulators and Oversight Authorities		
9.	BCBS	<p>Introduction</p> <p>In March 2013, the Committee sent a letter to the IAASB in relation to revisions to the Committee’s guidance on External Audit of Banks. In its letter, the Committee identified areas in the international auditing and ethical standards where requirements for auditors could be enhanced, particularly in the following areas: auditing accounting estimates, demonstrating professional scepticism, and ensuring quality control. Therefore, the Committee welcomes the ITC and commends the IAASB for creating a Task Force on the revision of ISA 540 regarding auditing accounting estimates and for creating a Task Force to assess the need for enhancements to ISA 315 regarding risk assessments. The Committee strongly encourages the IAASB and the International Ethics Standards Board for Accountants (IESBA) to complete these enhancements to the auditing and ethical standards which are expected to improve audit quality and strengthen public confidence in the auditing profession.</p> <p>Project interrelationships</p> <p>The Committee welcomes the IAASB’s decision to prioritise the revisions to ISA 540 because of its significance for external audits of banks. Notwithstanding the interrelationships between the ISA 540 project and the ITC projects, particularly professional scepticism, we would like to emphasise the importance of completing the revisions to ISA 540 on a timely basis so that auditors can be better prepared</p>

		<p>for (including by providing appropriate staff training) and adequately plan for 2018 audits when important new accounting standards become effective (eg IFRS 9). We recommend that aspects of ISA 540 dealing with professional scepticism be designed to align, to the extent possible, with revisions resulting from the work of the combined Task Force on Professional Skepticism. Similarly, revisions to the requirements regarding auditing accounting estimates and demonstrating professional scepticism should be aligned with the enhancements to ISA 315. Therefore, we encourage the IAASB to consider the interrelationships between projects, including those of the IESBA, when proposing revisions to a given standard.</p> <p>Public interest dialogue structure</p> <p>Although high-quality auditing, ethical and educational standards are key factors contributing to high-quality performance by auditors, such standards by themselves are not sufficient. Robust application and enforcement of the standards are critical elements as well. Moreover, there is a need for a process to identify aspects from practice that warrant attention from relevant parties, including other standard setters. We strongly encourage the IAASB in concert with the IESBA and the International Accounting Education Standards Board to further develop the dialogue structure with relevant parties such as auditors, regulators and the International Forum of Independent Audit Regulators (IFIAR). Notwithstanding any applicable requirements regarding confidentiality and independence, the Committee believes that auditors should be encouraged to participate and contribute to this dialogue structure.</p>
10.	CPAB	<p><u>Overall strategy for the IAASB's approach to standards</u></p> <p>We appreciate the IAASB's effort to develop a comprehensive document to address a number of the current issues that have been raised by CPAB and other audit regulators in recent years. Upon completion of the consultation process on the ITC, we believe it is essential that the IAASB act quickly to move these projects ahead.</p> <p>To do this, we believe it is important that the IAASB have a flexible approach in addressing areas of significance and to deal with emerging issues in a manner that is proactive and responsive to the changing business and audit environment.</p> <p>We encourage the IAASB to continue to develop a flexible approach to its standard setting. We believe this approach should include the following:</p> <ul style="list-style-type: none"> • Accelerated approach to amendments to standards where the required changes are clearly defined. <ul style="list-style-type: none"> ○ the discussions on certain issues in the ITC are sufficiently well developed to allow the IAASB to move quickly to issuance of an exposure draft and final standard on an accelerated basis. In our view a specific focus should be placed on Group Audits which has been highlighted as a priority issue for several years. We note that the IAASB has already commenced a project to take an accelerated approach to its current project on accounting estimates (ISA 540). • Continued progress on longer term projects where additional research and consultation is required to determine the appropriate standard setting approach. • Research and data gathering on emerging issues to ensure the auditing standards remain relevant and consistent with changes in the business environment and auditing practice. <ul style="list-style-type: none"> ○ We believe the Board's efforts to explore the use of data analytics and the work of the Innovation Working Group to be important areas of focus in this area. <p><u>Focus on changes to requirements</u></p> <p>We observe that many of the proposals outlined in the ITC are focused primarily on the development of guidance and application material, as opposed to adding or enhancing some aspects of the requirements included in the standards. We are concerned that changes to</p>

		application material, on their own, are unlikely to have a significant impact on changing behavior. Accordingly, we encourage the IAASB to direct its focus at enhancing the requirements within the relevant standards.
11.	EAIG	<p><i>Public interest focus</i></p> <p>4. We agree with the principle articulated by the IAASB in the consultation paper to focus on issues that need to be addressed in the public interest. Indeed, the statutory audit has a public-interest function since a broader community of people and institutions rely on the quality of a statutory auditor's work.¹ To that end, auditing standards applicable in Europe by those statutory auditors should be conducive to the public good.²</p> <p><i>Auditor behaviour</i></p> <p>5. Many of the possible solutions proposed in the consultation document appear to relate to additional application material. We believe that enhancing only application material may lead to an insufficient change in auditor behaviour: we encourage the IAASB to also focus on enhancing the standards either through clarifications of existing requirements or new requirements, to support the principles in the standards.</p> <p><i>European context</i></p> <p>6. We draw the IAASB's attention to the provisions that auditors are required to observe according to the European legislation applicable to them in the areas covered by the ITC. Any requirements in the standards which would be inconsistent with the legal framework in force would impair the application of the ISAs and ISQC 1 in countries applying the European Union's legislation.</p> <p><i>Addressing audit regulators' concerns stemming from inspections</i></p> <p>7. We note that a number of potential areas of weakness identified during inspections and relating to professional scepticism, quality control and group audit have been recognized and taken into account by the IAASB in developing the ITC. We encourage the IAASB to continue to investigate areas of weaknesses identified during inspections and the possible solutions for those weaknesses which could be remediated through improving the standards, as it progresses in its work on this project, and to deal with the concerns raised by audit regulators in a timely manner.</p>
12.	EBA	<p>The EBA welcomes the IAASB efforts for enhancing audit quality, as part of the IAASB <i>Work Plan for 2015-2016</i>. Consistently with the EBA comment letter on the IAASB consultation paper <i>Work Plan for 2015-2016</i>¹, the application of professional scepticism by auditors, in particular in the audit of complex estimates, and the enhancement of quality control are both key to enhancing audit quality.</p> <p>In this regard, we would encourage the IAASB to consider professional scepticism as a matter of priority (at least on the same level as audit quality and group audits), as we believe that it is fundamental to the public trust and confidence in financial reporting and it is also key in light of the audit of IFRS 9 <i>Financial instruments</i> ('IFRS 9'), which will require even more than under the current incurred losses model of IAS 39 auditors to exercise a significant degree of professional judgment and scepticism.</p> <p>Besides standard-setting, we also encourage the IAASB to foster stricter application of the audit standards and recommend that the IAASB collaborates with audit oversight bodies, audit inspectors, International Forum of Independent Audit Regulators ('IFIAR') and the</p>

¹ Directive 2006/43/EC Art. 26(3c)

² Directive 2006/43/EC whereas (9)

¹ <http://www.eba.europa.eu/documents/10180/547248/EBA+Comment+Letter+on+IAASB+Proposed+Strategy+2015-2019+and+Work+Plan+2015-2016+.pdf>

		<p>forthcoming Committee of European Auditing Oversight Bodies ('CEAOB') in the EU, in order to address and respond appropriately to the underlying reasons for the audit inspections' findings.</p> <p>Regarding the IAASB considerations for strengthening the requirements on quality control, the EBA welcomes the IAASB considerations mentioned in the Overview of the ITC since sound quality control enhances the quality of an audit. We would also welcome further analysis by the IAASB on whether a Quality Management Approach ('QMA') could be applied at the engagement level, as part of an audit process, such as the audit of accounting estimates, to enhance the audit quality of areas which are key in an audit, as acknowledged in the Overview of the ITC and the Invitation to Comment: <i>Enhancing Audit Quality in the Public Interest: A focus on Professional Scepticism, Quality Control and Group Audits</i> ('ITC').</p> <p>The EBA would also welcome further clarifications and additional requirements in the relevant auditing standards on the role and responsibilities of the engagement partners and engagement quality control reviewers related to quality control, together with further clarifications and additional requirements related to the role and responsibilities of these individuals as well as the audit committees related to professional scepticism and group audits.</p> <p>The EBA supports the IAASB considerations and efforts in addressing issues related to group audits, which can be challenging when they include entities within a group which are located in several jurisdictions outside the jurisdiction of the engagement partner. In addition, under the audit rotation requirements in the EU Regulatory framework, cases of audit engagements with groups and component entities audited by different audit firms may become more common in the future. Therefore, further enhancement of the related audit requirements should enhance robust and consistent application of the auditing standards in group audits.</p> <p>The EBA welcomes the efforts of the IAASB to enhance audit quality which is a valuable input to banks' supervision and supports financial stability. The development of audit standards and guidance related to the key areas of professional scepticism, quality controls and group audits should facilitate achieving high-quality audits.</p> <p>Firstly, we would urge the IAASB to complete in a timely way the amendments in International Standard on Auditing ('ISA') 540 <i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i> so as to provide additional audit guidance, where necessary, in order to safeguard the audit quality in the context of the application of the expected credit loss accounting framework. Although we acknowledge the IAASB efforts in revising the ISA 540 to address the new audit challenges arising from the introduction of requirements for expected credit loss provisioning, such as IFRS 9, which include among others the audit of accounting estimates, we believe it is crucial that these efforts are completed in a timely manner when the new accounting frameworks are applied and audited.</p> <p>Besides standard-setting, we encourage the IAASB to foster stricter application of the audit standards. In this regard, the EBA suggests that during the process of standard-setting and revising, the IAASB collaborates with audit oversight bodies, audit inspectors, IFIAR and the forthcoming CEOB in the EU, in order to address and respond appropriately to the underlying reasons for the audit inspections' findings. The IAASB should focus particularly on addressing the issues which the audit inspectors believe are necessary for a high quality audit and which are related to auditing standards which are less clear or lack sufficient requirements.</p>
13.	ESMA	<p>ESMA highly welcomes the IAASB efforts in strengthening audit quality, as part of the IAASB Work Plan for 2015-2016. Reliable, transparent, informative and accurate financial reporting is crucial for the proper functioning of capital markets and essential for investors to make informed decisions. Maintaining high quality international standards on auditing (ISAs) that are relevant and effective in a changing financial reporting environment is an important element in promoting high quality audits and therewith high quality financial information.</p>

		<p>As highlighted previously¹, ESMA believes that the topics prioritised by the IAASB – professional scepticism, quality control and group audits – are of the utmost importance for ensuring high quality audits. In addressing those aspects, the IAASB should also take into account the following factors: i) the significant judgement required under principles based accounting standards; ii) the increased relation between audit committees and auditors; and iii) the impact of technological developments.</p> <p>Professional scepticism and professional judgment are key drivers in ensuring that users of financial statements receive high quality financial information. In view of the importance of professional scepticism for audit quality, ESMA encourages the IAASB to consider this area within a short timeframe. We would suggest addressing the professional scepticism project through both a global coordinated approach of the three International Federation of Accountants (IFAC) standard setting Boards (the International Accounting Education Standards board (IAESB), the International Ethics Standards Board for Accountants (IESBA) and IAASB) and a revision of the relevant individual standards in order to better shape the auditor's behaviour in highly judgmental areas.</p> <p>ESMA considers the “tone at the top” approach essential in increasing audit quality e.g. by responding to quality risks. Consequently, ESMA welcomes the approach of using the quality management approach (QMA) at a firm level as this will encourage a proactive involvement of the audit firm's leaders as well as engagement partners. Similarly, we believe that the role and responsibilities of the engagement partner and the engagement quality control reviewer should be strengthened and clarified in the relevant auditing standards.</p> <p>Group audits are particularly important because groups comprise the large majority of listed companies measured by market capitalisation. In that context, ESMA considers crucial that all group components shall benefit from a uniform high level application of the auditing standards and we believe it is important to revise the concept of ‘materiality’ by developing conceptually sound global guidance and review the related parts in the individual auditing standards.</p> <p>Finally, in order to develop sound auditing standards and guarantee their proper application ESMA invites the IAASB to consider the developments in the European audit legal framework and to cooperate closely with the audit oversight bodies (such as the Committee of European Auditors' Oversight Bodies (CEAOB) and the International Forum of Independent Audit Regulators (IFIAR)).</p> <p><i>General Remarks</i></p> <ol style="list-style-type: none"> 1. ESMA highly welcomes the IAASB efforts in strengthening audit quality and considers that the topics prioritized by the IAASB – professional scepticism, quality control and group audits – are of the utmost importance. Especially in a context marked by the negative effects of the financial crisis and increased negative economic factors, high quality audit is essential in maintaining market confidence and ensuring investor protection. Professional scepticism and professional judgment are key drivers in ensuring that users of financial statements receive high quality financial information on which they can make informed decision, thus allowing efficient allocation of capital in the markets. In that respect, the audit mission has to be conducted with a primary goal of public interest without being altered by any other interest of the audited company or the audit firm. 2. Challenging economic factors (such as increased volatility, low interest rates, etc.) put additional pressure on understanding the underlying economics and the financial reporting requirements to faithfully reflect those economic events. Also recently developed financial reporting standards (such as IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers or IFRS 16 Leases) include significant changes requiring a very good understanding of the economic substance and the business model of the transactions. ESMA supports the development and maintenance of high quality ISAs that remain relevant and effective in a changing environment of financial reporting. ESMA also supports the IAASB's decision to focus more broadly on accounting
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¹ ESMA comment letter on the IAASB Consultation Paper: *IAASB's proposed strategy for 2015-2019 and the IAASB's work program for 2015-2016*, Paris, April 2014, ESMA/2014/363

		<p>estimates (page 6 of the Overview of the ITC) as auditors have to deal with financial statements that include elements based on estimates and models which are often subject to a significant level of judgement.</p> <p>3. ESMA invites the IAASB to consider the impact of the audit reform in the European Union (EU) and in particular in relation to the improvement of the communicative value of the auditor's report and transparency report, the enhanced role of the audit committee and the possibility to tailor audit standards to serve the needs of the small and medium sized entities (SMEs). From European securities regulators' perspective, we see merit in the IAASB considering the EU requirements in view of the possible adoption of ISAs at EU level under certain circumstances.</p> <p>4. ESMA suggests the IAASB to foster strict application of the standards within the scope of the IAASB's competency. Establishing principles and objectives and setting clear requirements without overcomplicating the standards would help auditors in understanding what is expected from them regarding content and process, drive behavioural change and enable enforceability. In that respect, we encourage the IAASB to set up or enhance a mechanism of effective cooperation with audit oversight bodies (such as CEAOB and IFIAR), similar to the model that has been already established by the International Accounting Standard Board (IASB) with the securities regulators (the International Organisation of Securities Commissions (IOSCO) and ESMA). The audit oversight bodies' experience with the application of the audit standards would allow the IAASB to easily identify the points of pressure and thus address and improve standards on real needs basis (paragraph 19 of the Overview of the ITC).</p> <p>5. ESMA supports the IAASB's possible actions, stated in page 3 of the ITC, to complement the standard-setting activities with the development of guidance and educational material. However, ESMA encourages the IAASB to consider whether adding more guidance, application material and creating new material drives the desired behavioural change and enables enforceability.</p>
14.	H3C	<p><i>Tangible solutions to the issues identified</i></p> <p>We believe that the investigations lead by the IAASB in the scope of this project should result in clear and practical provisions in the standards, allowing for consistent application by auditors and effective oversight by regulators.</p> <p><i>Universal principles and scalability in application</i></p> <p>We believe the standards should incorporate general principles and provisions, which can be applied in a scalable way to audits of different sizes. In our view, the need for scalable application is particularly relevant in relation to standards on quality control, which should be appropriate for smaller, as well as for bigger audit firms.</p> <p><i>Need for appropriate recruitment and training</i></p> <p>In our view, the standards should stress the importance of considering skills in the recruitment process, and on keeping skills up-to-date through continuing education, or indeed developing new skills in relation to the changing environment (IT, financial information ...). Especially, in a context of fee pressure, these fundamental needs should not be disregarded.</p> <p><i>Ensure consistency between the ISAs, the IESBA Code of Ethics, and International Education Standards</i></p> <p>We draw the IAASB's attention to the need to strive for alignment between the provisions of ISAs, the IESBA Code of Ethics and the International Education Standards.</p> <p><i>Importance of documenting audit work</i></p> <p>Many inspection findings point to an absence or insufficiency of audit documentation. We believe it is important to reinforce the need for sufficient, appropriate audit documentation as a vehicle for supporting and explaining the work performed by the auditor.</p>

15.	IAIS	---
16.	IFIAR	<p><i>Focus on public interest</i></p> <p>5. As audit regulators, we believe that consideration of the public interest, including the needs of investors and other users, should drive the projects to enhance auditing standards. We note that the IAASB has placed specific emphasis in the ITC on identifying relevant issues to be addressed by the projects, in the public interest. We encourage the IAASB to continue to maintain its focus on the public interest as it proceeds in its consideration of the issues identified as relevant in the ITC and the development of the revised standards.</p> <p><i>Scope of ITC project</i></p> <p>6. We note that a number of areas of concern which were raised by members of IFIAR with the IAASB have been included for consideration in the consultation paper. We encourage the IAASB to investigate further the possible solutions currently set out in the ITC, to ensure that the revised standards lead to improvements in audit quality, in a timely manner. We would, however, like to draw the IAASB's attention to our detailed comments regarding some of the possible solutions, which are set out in the individual topic sections of this letter.</p> <p>7. We do not, in this letter, provide final views on the possible changes envisaged since the drafting of the text of those changes in the standards is not available at this stage of the consultation.</p> <p><i>Over-emphasis on the development of guidance and application material</i></p> <p>8. Many of the possible solutions set out in the ITC appear to focus primarily on the development of additional guidance and application material in the standards, as opposed to enhancing the requirements included in the standards. We believe that this is likely to have a limited impact on auditor behaviour in practice. Accordingly, we encourage the IAASB, as it progresses in its work, to direct its focus at enhancing the relevant requirements. Concomitantly, we believe that the IAASB should assess whether issues can be addressed by improving or clarifying current requirements rather than creating new application material to be included in the standards.</p> <p><i>Timing of the projects</i></p> <p>13. We welcome the IAASB's initiative to address the topics of professional scepticism, quality control and group audit as a whole. However, we note that the ITC indicates that the way forward for the professional scepticism project will significantly lag behind the way forward for the projects on quality control and group audits. We draw the IAASB's attention to the need to remain committed to an integrated approach in addressing professional scepticism within other current projects. The difference in timelines should not result in differing enhancements of consideration of professional scepticism in ISQC 1, ISA 220 and ISA 600.</p> <p><i>Specific documentation requirements</i></p> <p>41. The ITC refers to the possibility of increasing the documentation requirements in certain areas of the group audit [for example ITC §303]. We see a benefit in emphasizing the importance of audit documentation on critical audit areas either in ISA 600 or in ISA 230.</p>
17.	IOSCO	We believe that audit firms have the ultimate responsibility to deliver audit quality in performing financial statement audits. This is a process that does not begin on the first day of fieldwork but it starts by a firm cultivating an environment in which high quality audit engagements are prioritized and consistently performed. Confidence in the integrity of audited financial statements and the auditor's opinion thereon,

		<p>both of which are influenced by the quality of the audit, can form an important part of an investor's decision making. As such, audit quality provides great benefit to investors and other financial statement users. We are pleased that the Board is exploring the areas of professional skepticism, quality control and group audits as these are some of the critical areas, among others, which we have observed give rise to audit findings that suggest deficiencies in audit procedures.</p> <p>As the auditing standards including the ISAs and ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements, form the framework upon which auditors conduct their work it is important that these standards communicate requirements that instill in the auditor a mindset that strives for the highest quality of audit to benefit the users of the financial statements. This is not simply an exercise in better linking various standards together but it is a more significant goal of shaping the mindset of the auditor in conducting the audit. This is shaping an auditor's mindset with the intent of steering auditors of all levels of experience to challenge management's assumptions rather than only confirm what has been done. It is shaping an auditor's mindset to be proactive and remain vigilant for sources of conflicting evidence. This must be interwoven throughout the standards to affect how auditors approach every stage of the audit.</p> <p>While we recognize that audit related deficiencies may result from insufficient compliance with the ISAs we believe that the principles-based requirements and guidance needs to be written with adequate levels of granularity to promote consistent application of the standards. We believe that this project presents an opportunity for the Board to enhance the ISAs and ISQC 1 to achieve more consistent levels of audit quality in practice.</p> <p>We recognize that the Paper was written to explore various options that could then lead to greater levels of specificity as part of a standard-setting process. To this end, while we have observed that the three broad topics covered by the Paper – professional skepticism, quality control and group audits – correspond to issues related to people within the firm, firm processes and the application of standards, respectively, how these are addressed by the Board going forward may also vary. This is because addressing behavioral issues present unique challenges and complexity as compared to solutions to correct a process. While the level of complexity to address these areas may vary, we recognize that the Paper was written to explore various options that could then lead to greater levels of specificity as part of a standard-setting process. As such, while we have provided our comments below to certain areas of the Paper for the Board's consideration as it determines the next step, we would be better positioned to provide greater levels of specificity to our comments upon understanding the direction the Board proposes to pursue based on feedback received.</p> <p>We note that the first topic covered in the Paper, Professional Skepticism, is at an earlier stage in the standard-setting process (i.e., currently performing outreach and obtaining understanding of conceptual issues and academic research) as compared to the latter two sections, Quality Control and Group Audits. As such, with respect to professional skepticism, we have endeavored to provide our perspectives on this topic along with reference to the interrelated topics of due care and objectivity for the Board's consideration as it deliberates the feedback received. Given that the extant standards related to quality control and group audits are further developed and detailed (and consequently, the Board has provided more detailed issues and possible actions to address the issues in the Paper), we have provided more specific feedback on these topics based on issues or challenges that we have observed in practice. Where we have a specific perspective, issue, or possible path forward to share with the Board based on the current proposal, we have provided it in the relevant section of our letter aligned with the categories enumerated in the Quality Control and Group Audit sections in the Paper.</p>
18.	IRBA	<p>7. In July 2013, the IAASB issued its report, Clarified International Standards on Auditing – Findings from the Post-Implementation Review, which summarised the findings from the post-implementation review of the clarified ISAs and identified the main themes (key, important and other) that emerged. We welcome the IAASB's approach to monitor implementation of the standards in the market, and to respond to findings which arise from such monitoring.</p>

		<p>8. We are pleased to see that three of the four “key themes” identified in the report – ISA 200¹ (professional scepticism); ISQC 1² and ISA 220³ (engagement quality control review); and ISA 600⁴ (group auditor’s involvement in work of component auditor and component materiality) – are the very topics addressed in the ITC. We are also pleased to see that the other “key theme” identified in the report, being ISA 315 (Revised)⁵ (significant risks and obtaining an understanding of internal control), was at the “initial discussion” stage on the IAASB March 2016 agenda.</p> <p>9. However, only two of the “important themes” identified in the report are addressed as part of the ISA 600 and ISA 315 (Revised) projects mentioned above.</p> <p>10. The remaining four of the six “important themes” identified in the report – ISA 240⁶ (inconsistency of practice relating to the presumed significant fraud risk for revenue recognition and testing journal entries); ISA 320⁷ (inconsistencies in determining materiality and performance materiality and request for more guidance); ISA 520⁸ (ISA does not sufficiently demonstrate the work effort needed to place reliance on analytical procedures); and ISA 620⁹ (inconsistencies in the auditor’s work effort in relation to the auditor’s expert work) – are still to be addressed by the IAASB.</p> <p>11. We encourage the IAASB to not lose sight of these “important themes” in its decision-making on future projects it will undertake.</p> <p><i>International Forum of Independent Audit Regulators</i></p> <p>12. We welcome the IAASB’s outreach towards audit inspection bodies and regulators to better understand their expectations and receive feedback on potential gaps in the standards.</p> <p>13. The IRBA is a founding member of the International Forum of Independent Audit Regulators (IFIAR) and a contributing member to the IFIAR’s annual survey of inspection findings.</p> <p>14. While the IFIAR recognises that inspection findings do not on their own mean that changes are necessarily needed to the ISAs, the IFIAR comment letters encourage the IAASB to pursue efforts to consider the themes identified by the IFIAR’s surveys in defining and conducting its standard-setting projects, with a perspective towards identifying how the ISAs might further contribute to improving the quality of audits globally. The IRBA has been an active participant in contributing to the development of these comment letters.</p>
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¹ ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing

² ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements

³ ISA 220, Quality Control for an Audit of Financial Statements

⁴ ISA 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)

⁵ ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment

⁶ ISA 240, The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements

⁷ ISA 320, Materiality in Planning and Performing an Audit

⁸ ISA 520, Analytical Procedures

⁹ ISA 620, Using the Work of an Auditor’s Expert

		<p>15. In 2014¹⁰ and 2015¹¹ the common areas of audit deficiencies for the inspections of quality control systems were Engagement Performance (including the failure to establish policies and procedures for engagement quality control reviews [EQCR] that provides an objective evaluation of the significant judgements made by the engagement team and conclusions reached); Independence and Ethical Requirements; and Human Resources (including how the audit firm evaluates audit quality as part of partner performance evaluations and partner admissions).</p> <p>16. In 2014⁴⁰, the IFIAR survey results revealed that the top three findings from listed public interest entity (PIE) audits related to procedures for Fair Value Measurement (ISA 540⁴¹), Internal Control Testing (ISA 330⁴²) and Revenue Recognition (ISA 240). In addition, the survey results revealed that the top three findings from systemically important financial institutions (SIFI) audits related to the audit of the Valuation of Investments and Securities (ISA 540), Internal Control Testing (ISA 330) and the audit of the Allowance for Loan Losses and Loan Impairments (ISA 540).</p> <p>17. In 2015⁴³, the IFIAR survey results revealed that the top three findings from listed PIE audits related to procedures for Internal Control Testing (ISA 330), Fair Value Measurement (ISA 540) and Risk Assessment (ISA 315 (Revised)). In addition, the survey results revealed that the top three findings from SIFI audits related to Internal Control Testing (ISA 330), the audit of Allowance for Loan Losses and Loan Impairments (ISA 540) and the Valuation of Investments and Securities (ISA 540).</p> <p>18. A factor underlying many audit deficiencies, as determined through root cause analysis and the evaluation of practices behind successful audit engagements as well as those that fall short, is insufficient exercise of professional scepticism during the performance of the audit.</p> <p>19. Audit engagement findings imply that the auditor's performance falls below the expected level of diligence to satisfy the public interest role the audit is meant to fulfil, and that the audit failed to provide the level of assurance about the financial statements that it purported to do and that is required by professional standards.</p> <p>20. We are pleased to see that the majority of common areas of audit deficiencies for the inspections of quality control systems and the top audit engagement findings from the 2014 and 2015 surveys are addressed by the IAASB in its current and near-future projects and support the IAASB's outreach to IFIAR, as well as the IAASB's willingness to continue engagement with IFIAR.</p> <p><i>Independent Regulatory Board for Auditors</i></p> <p>21. The IRBA issued its first <u>Public Inspections Report 2014/2015: Striving for Consistent, Sustainable High Audit Quality</u> in December 2015. This report provides an analysis of key findings arising from firm and engagement inspections performed by the IRBA's Inspections Department for the year ended 31 March 2015, and also includes an overview of the scope of the IRBA's inspections.</p>
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¹⁰ IFIAR's 2014 survey results

¹¹ IFIAR's 2015 survey results

⁴⁰ IFIAR's 2014 survey results

⁴¹ ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

⁴² ISA 330, The Auditor's Responses to Assessed Risks

⁴³ IFIAR's 2015 survey results

		<p>22. The key area, at firm level, that requires urgent improvement is the engagement file quality level. The most unsatisfactory firm findings were raised under the Relevant Ethical Requirements (Independence), Engagement Performance and Monitoring elements of ISQC 1.</p> <p>23. The report revealed that the top three findings at engagement level related to procedures for Fair Value Measurement, Valuations and Estimates (ISA 540), Financial Assets and Liabilities (various ISAs), and Risk Assessment (ISA 315 (Revised)) and Response (ISA 330).</p> <p>24. The report also revealed that the possible root cause for many of the findings is a lack of the application of professional scepticism.</p> <p>25. Again, we are pleased to see that the majority of the common areas of audit deficiencies for the inspections of quality control systems and the top audit engagement findings from the report are being addressed by the IAASB in its current and near-future projects, and support the IAASB'S initiatives to monitor reports from inspection bodies and regulators.</p> <p>26. We also encourage the IAASB to engage with firm networks to understand actions that are being undertaken to address the specific audit quality issues most frequently identified by regulators and the “root” causes of their systemic findings, and to communicate these to the IAASB.</p> <p>Public Interest and Public Interest Issues</p> <p>27. The IAASB chairman, Professor Arnold Schilder, in his Chairman's Report to the IAASB's 2014/2015 Biennial Report states: “We believe that audit and assurance standards are fundamental to the way our modern societies work. They enhance credibility and trust in a society's external reporting, which is undertaken in the interests of the public at large, from the core financial statements right through to elements of sustainability, ethics, and integrity. High-quality external reporting, in turn, contributes to the stability of companies and economies, and that, in the end, is what we are working for. We call this the public interest.”</p> <p>28. As the audit regulator in South Africa, we welcome the IAASB's commitment to ensure that public interest is served in its standard-setting process and that public interest issues have been identified for the topics addressed in the ITC.</p> <p>29. Table 1 in the ITC highlights the seven most relevant public interest issues related to the topics of professional scepticism, quality control and group audits.</p> <p>Audit Quality</p> <p>32. The term audit quality encompasses the key elements that create an environment which maximises the likelihood that quality audits are performed on a consistent basis .</p> <p>33. However, audit quality does not necessarily result from a quality audit having been performed. The performance of a quality audit by an engagement team is dependent on many factors, such as their competence, ethical values and their application of a rigorous audit process and quality control procedures.</p> <p>34. We believe that audit quality can be enhanced by, among others, making changes to the ISAs in key areas with a goal to strengthen auditor performance. As such, we support the IAASB's focus on professional scepticism, quality control and group audits in the ITC as well as its current project to revise ISA 540 with special attention to the application to audits of financial institutions.</p> <p>35. Although we do not discourage the development of audit manuals, software tools or other forms of standardised documentation by audit firms, we believe that audit quality and auditor performance can be enhanced by encouraging and teaching auditors to be “thinking auditors” who perform “thinking audits”.</p>
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19.	MAOB	<p>(i) Clear segregation between application and standard setting issues</p> <p>AOB emphasises that care is needed to ensure that audit quality issues arising from the application of standards are not inadvertently mistaken for those arising from standard setting. There must be clear segregation between these two types of audit quality issues in order to effectively address the root causes of the issue at hand.</p> <p>Any enhancements to the standards should facilitate their application and minimise divergence in practice, supported by relevant explanatory notes and guidance to clearly demonstrate the intentions behind the drafting of a particular standard.</p>
20.	UKFRC	<p>Core principles to guide standard setting activity (Section 1 of Appendix 1)</p> <p>We support the approach of the IAASB to identify specific public interest issues in relation to the three projects set out in Table 1 of the ITC. We believe that the IAASB could consider taking this approach a step further and develop a set of core principles that would guide its future standard setting activity in serving the public interest. For example, we believe that 'Transparency for Users' could be established as a core principle. In meeting such a principle, the IAASB would aim to ensure that the outcome of its standard setting activity will result in investors and other stakeholders (such as those charged with governance) having greater insight into the audit process and audit firm governance. Related to 'Transparency for Users', we have also proposed another core principle 'Embedding a User Perspective', described further below.</p> <p><i>Embedding a user perspective throughout the audit</i></p> <p>We believe that the IAASB should also consider how to embed the perspective of users more widely in the entire audit process. To be effective, embedding a user perspective should include not only considering how to require that perspective to be taken into account, but also how the auditor obtains and maintains their understanding of user expectations. It should therefore involve consideration of mechanisms for communications between users and audit firms and auditors, including requirements for Transparency Reporting by audit firms and additional auditor reporting about matters relevant to audit quality (such as the auditor's materiality judgments and their approach to the audit, in the context not only of risks of material misstatement but also of risks to audit quality). For example, under the ISAs (UK and Ireland) we require auditors of public interest entities to report on matters relating to materiality and audit scope.</p>

		In respect of professional scepticism, embedding a user perspective would include considering how to require auditors to be able to demonstrate that they have adequately taken into account what users would expect them to ask, what matters users would expect them to challenge, how far users would expect them to go in challenging those matters, and ultimately what evidence users would expect them to obtain to satisfy those challenges. We also highlight in our response ways in which a user perspective might be embedded in the quality control standards and in relation to group audits.
National Auditing Standard Setters		
21.	AUASB	--
22.	CAASB	<p>The AASB applauds the IAASB's efforts to tackle a number of challenging topic areas. Although the perceived necessity for changes to the standards may differ between these topics, the AASB has used this ITC to engage in insightful discussions with our Canadian stakeholders regarding audit quality more generally.</p> <p><u>Use of a combined approach</u></p> <p>The IAASB used a new approach for this consultation in issuing one combined document, covering three key topics where feedback is being sought. While the AASB acknowledges the IAASB's intent to address crossover issues and limit consultation overload, this approach posed a number of challenges for the AASB in seeking stakeholder input. These challenges included the following:</p> <ul style="list-style-type: none"> • Discussions were often limited to certain key issues - The length of the document and volume of issues made it challenging to engage stakeholders on all of the relevant issues in the ITC. This inevitably resulted in certain issues not being discussed with all of the applicable stakeholders; and • The depth of discussion of the possible actions for any one issue was limited - During a particularly busy period for many of our stakeholders, they could only afford to commit limited time to this consultation. Given the volume of material and complexity of the document, in some cases the merits of all actions for any one issue could not be discussed in the desired depth. <p>In light of these challenges, the AASB cautions the IAASB in taking a similar approach on future projects. In the AASB's view, the challenges encountered in engaging with stakeholders on this ITC may have outweighed the benefits.</p> <p><u>Scalability and public interest considerations</u></p> <p>The possible actions to enhance audit quality included in the ITC may be based primarily on comments received from regulatory bodies or users of the financial statements of global or multi-national companies. Many listed entities in Canada would be considered small or medium-sized from a global perspective. Certain of these actions may be unnecessarily complex in the context of a small audit environment and challenging to apply to audits of smaller entities in Canada.</p> <p>In Canada, aside from listed entities and certain not-for-profit organizations, an audit is often not mandated or required by local statutory requirements. The AASB is already aware of a trend in recent years towards a reduction in the number of audit engagements, which are being replaced by review or compilation engagements. There is therefore an overall public interest concern that more prescriptive and complex standards could have a significant negative impact on the demand for audits and continued performance of them by small and medium practices (SMPs).</p> <p>The AASB understands that the IAASB will use feedback obtained on this ITC to determine the direction of its projects, and consider implementing certain of the possible actions. In progressing to these next steps, it is important that the IAASB carefully consider how it responds to issues raised. The AASB noted several issues where changes to standards may not be the most appropriate response. The</p>

		<p>AASB believes that some issues may be better addressed by improvements in how the existing standards are operationalized. The IAASB should make changes to standards only when there is compelling evidence that a standards change is in fact needed.</p> <p>It is important that the IAASB assess whether proposed actions would result in a sufficient change in audit quality to justify the likely costs to be incurred. While audit quality is important, and undoubtedly in the public interest, so too is a thriving and sustainable audit profession.</p> <p><u>The desire to balance the needs of all stakeholders</u></p> <p>The AASB noted several possible actions proposed where the objective of those actions appear to be focused on reducing or eliminating inspection findings. While reducing inspection findings is a laudable goal, the AASB has seen situations where inspection findings relate more to the implementation of the standard, than to deficiencies in the standard itself. In the AASB's view, the IAASB's role in enhancing audit quality should not be overly driven by a desire to address inspection findings through new requirements without evidence of a deficiency in the requirements as a source of inspection findings. The AASB should seek to balance the issues and suggestions raised by all of its key stakeholders in a principles-based manner. The IAASB is therefore encouraged to determine, and communicate clearly, how the actions it takes appropriately respond to the views of all of the IAASB's stakeholders. This is what ultimately will drive substantive improvements in audit quality.</p> <p><u>The role of other stakeholders in enhancing audit quality</u></p> <p>There are many stakeholders who have a role in enhancing audit quality. As the role of standard setting can be limited in its reach, it is important that the appropriate stakeholders are engaged to assist in achieving an overall enhancement to audit quality. The majority of the possible actions proposed within the ITC are focused on changes to the ISAs, impacting the practitioner's audit approach. However, the AASB, as well as many of our Canadian stakeholders, recognize that there is a role for others in enhancing audit quality. For example, management has a role through ensuring the preparation of timely and sound financial information. Audit committees also have a role, through their governance and oversight of management and the practitioner. The IAASB is therefore encouraged to consider whether an appropriate action in response to the issues may be to engage and, where possible, attempt to influence these groups' support of audit quality.</p>
23.	CNCC- CSOEC	<p>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.</p> <p>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.</p> <p>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).</p> <p>We therefore encourage the IAASB to bear in mind the principles-based nature of the ISAs and pre serve 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.</p>

24.	HKICPA	<p>We appreciate the IAASB's commitment in revising the standards such that they stay relevant in the face of continually changing circumstances. We encourage the IAASB to further develop guidance to cover key issues encountered by practitioners, in particular, application guidance on quality control and group audits.</p>
25.	IDW	<p>As the ITC points out, the environment in which ISQC 1 and ISA 600 were developed has changed. Besides developments in the way firms are seeking to enhance the quality of their services, external inspections have been introduced in many jurisdictions. Consequently, we support the IAASB's initiative to consider quality control and the inter-related issues of professional skepticism and group audits at this time.</p> <p>In our opinion, the fact that the ITC focuses heavily on whether clarifications are needed within existing standards to address shortcomings regulators have noted in practice serves to detract from what we believe the IAASB ought to view as the key issues in this project:</p> <ul style="list-style-type: none"> • In comparison to post-performance detective and corrective measures, preventive measures designed to secure the provision of high quality services are superior both in terms of serving the public interest (i.e., in improving the quality of service before it is actually provided) and also in terms of any "learning effect" for practitioners and staff involved (on-the-job action is more effective in shaping behavior going forward than a more theoretical consideration of what should have been done in a particular engagement that had been completed months or years before). We therefore believe that ISQC 1 needs to increase its focus on a firm's proactive management of quality going forward and consequently less on controls aimed at an evaluation or inspection of services provided in the past. • The quality of a firm's services is heavily dependent on the quality of individuals who provide those services. If a firm does not have the right resources, and in particular the right partners and staff to provide services, it may lack the potential to improve the quality of its future services. Thus factors including staff availability; staff competence and skills; the application of support tools; availability of support services such as consultation on technical issues; direction and supervision by more senior staff and partners; as well as motivation of individuals must all be considered highly relevant to audit quality. Sound human resource management practices, including appropriate involvement of engagement partners represent a major part of the way firms can address quality improvement. Professional skepticism forms an integral part of this. • A root cause analysis of findings by oversight authorities and internal monitoring would potentially be more effective than the addition of numerous clarifications or strengthened requirements in the IAASB's standards, because such analysis would enable individual firms to identify which remedial actions are needed and best suited in their individual circumstances and environment (e.g., enhancing their in-house training initiatives, revision of firm or network methodology, application of new resources etc.). <p>Many of the concerns detailed in the ITC seem to reflect the mis- or non-application of the current standards and thus do not indicate the necessity for revision of the relevant requirements. There may be a variety of reasons underlying regulators' findings. In so far as a lack of understanding of what is required is concerned, additional clarification or guidance may be called for. Where other factors are responsible (e.g., time pressure that limits detailed documentation) clarification may not be helpful. Indeed – read in isolation – many proposed courses of action discussed in the ITC seem to make sense. However, the sheer volume of potential clarification gives the impression that the IAASB is seeking to expand the ISAs significantly, which may not improve quality, but which would lead to excessively long and detailed standards potentially signaling a move away from the principles-based standards setting adopted by the IAASB to date. We caution against such a course of action, and believe that the IAASB should weigh the merits of using other mechanisms in specific instances. Certainly, IFAC member institutes and firms already struggling to keep up-to-date with changes may simply find significant</p>

		<p>increases in application and guidance material challenging to deal with. In this context, we believe the IAASB needs to be highly sensitive to this factor and limit changes to its standards to those that will actually result in a better practical application of existing requirements.</p> <p>However, the underlying message seems to be that where documentation does not sufficiently demonstrate a particular course of action had been taken, it will be noted as a regulator concern. We urge the IAASB to remain sensitive to the need to ensure that auditor requirements to prepare documentation for audit quality purposes do not lead to disproportionate documentation solely for oversight purposes.</p> <p>The ITC is a very lengthy and detailed document covering broad areas relevant to the audit, which makes it heavy-going even for readers familiar with the issues addressed. The number and complexity of the questions posed, many of which include up to 8 sub-questions, means that potential respondents need to invest a heavy time commitment in order to do any justice to the issues discussed. As we have explained, this presentation may also detract from key issues.</p> <p>On balance we believe that shorter, more manageable papers that deal with single topics (PS, QC, GA individually) would be better suited to soliciting views in line with the IAASB's established due process; cross-over issues could be dealt with in each of the papers.</p>
26.	JICPA	--
27.	MAASB	--
28.	NBA	--
29.	NZAuASB	<p>The NZAuASB supports the IAASB's project to enhancing audit quality in the public interest. Audit quality is important, and the NZAuASB commends the IAASB for this excellent initiative and its commitment and outreach activities undertaken in respect of this project. Notwithstanding this, the NZAuASB found it very challenging to engage with constituents on the invitation to comment (ITC) document, given the length and number of questions being consulted on. Constituents generally found the ITC quite overwhelming, which in turn has made it challenging to obtain and provide the IAASB with meaningful feedback from them on all the issues. The NZAuASB noted that it was particularly challenging to engage with non-practitioners on the issues, and as a result the NZAuASB has received feedback mostly from practitioners. The NZAuASB recommends that in future it would be more effective to issue a number of consultation papers focusing on each topic, rather than one overall consultation paper. Given the length of the ITC the NZAuASB focused on those questions it considered to be the most relevant to New Zealand constituents, and did not obtain feedback on all the questions in the ITC.</p> <p>Given that the public interest is broader than the role of the auditor, the NZAuASB strongly recommends that the importance of the IAASB's audit quality framework be kept top of mind. The contextual factors that contribute to audit quality need to be remembered, debated and addressed, as the audit is only part of the financial reporting supply chain and highly influenced by the quality of financial reporting. The NZAuASB sees a range of other issues in the broader context including the roles of directors and who should take responsibility for the quality of an entity's financial statements, education of the directors, how an audit committee can play an effective role in improving audit quality etc. Trying to resolve audit quality issues without adequately addressing the roles and responsibilities of others, especially preparers, is likely to be inadequate or insufficient to achieve the outcomes sought by the IAASB.</p> <p>The NZAuASB acknowledges that the discussion points, and areas of focus, are seen as particularly important to regulators and that the IAASB needs to respond to show that the message has been heard. The NZAuASB is aware of more than one audit market regulator who consistently raise issues regarding the application of professional scepticism as part of its regular audit quality review reporting.</p>

		<p>However, from the NZAuASB's perspective, it was not always clear what problem the IAASB was trying to fix and whether the response was best placed with the standards developed by the IAASB or elsewhere within the Audit Quality framework. An overreaching comment from constituents is that less is more and the IAASB needs to take care to ensure that the response taken is appropriate to the underlying issue or problem that needs to be addressed. For example, the NZAuASB is not entirely clear whether the problem or issue relates to a gap within the existing standards or whether the root cause is actually a matter of interpretation and application of the requirements. The NZAuASB considers that a clear problem definition (including a clear root cause analysis) is required, and is concerned that the proposed actions will increase the cost of compliance with the standards disproportionately to the enhancement of audit quality. The NZAuASB encourages the IAASB to carefully consider the cost of compliance with increased requirements versus a possible increase in audit quality. The NZAuASB stresses the importance of the principles based approach to the development and structure of the Standards, as well as the continued need and importance of the application of professional judgement, as opposed to the introduction of new rules, which could potentially have the unintended consequence or opposite effect of what is being sought as such rules may undermine the importance of critical thinking throughout the audit.</p> <p>Throughout the NZAuASB's engagement with key stakeholders, a consistent concern and message was received regarding the impact that continued enhancement and expansion of requirements, rules and standards is having on the sustainability of the audit business model in New Zealand. It is acknowledged that this feedback also picks up concerns being expressed as a result of the IESBA's proposed changes to the rules and requirements associated with long association of audit personnel on the audit. The NZAuASB strongly encourages the IAASB to remain mindful of the impact of changes proposed individually by the IAASB, and collectively by all IFAC standard setting Boards, and the potential impact of increased requirements on the existing audit business model, which is already under increasing pressure in jurisdictions of the size and nature of New Zealand. The long term viability of the audit and assurance business model, and the assurance profession's ability to attract and retain talent, are fundamental elements of a sustainable audit quality framework. "Audit affordability" is a very real and important consideration in the public interest. Any ongoing increase in auditing requirements needs to be carefully considered (and the costs quantified) to ensure that they do not have the unintended consequence of driving audits to become unaffordable for SMEs and uneconomical for SMPs (in particular in the not-for-profit sector). It is in the public interest that these entities have access to high quality audit services which are cost effective and affordable, but where the maintenance and adherence to high standards of quality are also paramount.</p> <p>The NZAuASB further recommends that implementing the new and revised auditor reporting standards, in particular the requirements to include KAM, should remain a short term focus and priority of the IAASB if it is seeking further enhancement and maturity in audit quality. It is important for the IAASB to continue, directly or indirectly through other IFAC bodies, education and support for the implementation of these new standards. The IAASB should give the KAM regime time to work and continue to provide guidance and support material for the practitioners to ensure that significant perceived benefits are achieved.</p> <p>In developing its response to the questions in the ITC, the NZAuASB considered the feedback from constituents that it consulted with in New Zealand in several ways. In addition to requesting submissions and direct feedback, the NZAuASB held two roundtables with key stakeholders in New Zealand. Participants at these roundtable sessions included academics, representatives from the professional bodies, some directors and assurance practitioners. The NZAuASB consulted separately with the auditor regulator (the Financial Markets Authority (FMA)), and also specifically targeted SMPs for feedback.</p>
Accounting Firms		
30.	BDO	<p>We believe that substantially all of the public interest issues raised in the ITC are important areas of focus for the work of the IAASB. Fostering an appropriately independent and challenging skeptical mindset for auditors is essential for maintaining audit quality. In that</p>

		regard, we believe clarification is needed about how documentation can be enhanced to provide evidence of appropriate application of that mindset when forming auditor judgments.
31.	CHI	<p>We welcome the IAASB's initiative to lead a discussion about the relevance of Auditing Standards particularly in relation to audit quality and the public interest. Audit Standards have to adapt to changing circumstances and we observe that the IAASB is seeking to address concerns regarding the application of Standards that have been raised by firms and stakeholders. For many reasons, including increased adoption of the IAASB's standards, changes in regulation and technology, and the evolution of stakeholder expectations, the time is right for a through review of Auditing Standards.</p> <p>This is an ambitious project. Although we understand why IAASB issued a single paper covering professional scepticism, quality control and the audit of groups, the large numbers of questions are challenging to respond to. In future, IAASB might seek to break ambitious projects like this into smaller components.</p> <p>On page 3 of the Invitation to Comment there is a project timeline. It would be helpful if IAASB could develop this timeline to forecast when new and revised Auditing Standards are likely to be issued.</p> <p>Our responses to the questions in the Invitation to Comment are given in the Appendix to this letter. From our detailed responses, we particularly draw attention to the following:</p> <ul style="list-style-type: none"> • ISQC 1 has many good features and has helped firms develop their quality control policies and procedures. ISQC 1 has been effective since 2009. The content of the standard has changed little, but there has been much change in the professional environment. For ISQC 1 to remain "fit for purpose" it requires review and revision. • IAASB has to consider the implications of rapid technological change in the performance of audit, and adapt its standards. • IAASB has made a series of sensible initial proposals for the revision of ISA 600. The deficiencies in the current ISA 600 are widely recognised. IAASB is taking the right approach to developing a better standard that will help both group and component auditors in the performance of their engagements. • Auditing Standards have to remain relevant to the performance of the audit of smaller entities. During the review process, IAASB should allocate time and resources to developing solutions that enable effective quality audits to be performed on smaller entities.
32.	DTT	<p>DTTL welcomes the IAASB's initiative in addressing a number of matters relating to professional skepticism, quality control, and group audits. DTTL supports exploring enhancements in all of these areas, and, in particular, commends the Board for taking on efforts to address concerns with respect to group audits. As discussed in the letter submitted to you on April 7, 2014, the application of ISA 600 Special Considerations- Audits of Group Financial Statements (Including the Work of Component Auditors) is an area where changes are likely to have significant potential for improving audit quality. Overall, DTTL believes the collective comments received as a result of the ITC will provide meaningful input regarding the IAASB's standards and, as the IAASB makes changes to its standards, will ultimately help drive enhancements that will assist auditors in achieving higher quality audits. DTTL also encourages the IAASB to continue to monitor and, where appropriate and to the extent possible, collaborate with other standard setters, such as the PCAOB, which also has current projects related to quality control and use of other auditors on their agenda.</p> <p>DTTL agrees the focus on audit quality is of critical importance to the capital markets, regulators, and every stakeholder that demands confidence in the audit process. DTTL has taken and continues to take steps to enhance policies and processes to further contribute to audit quality and its consistency. As discussed in the IAASB's A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality (the Framework), and DTTL agrees, the responsibility for the performance of quality audits ultimately rests with auditors. However, as also acknowledged in the Framework, audit quality is best achieved in an environment where there is support from all</p>

		<p>stakeholders in the quality of financial reporting, including standard setters. The comments included herein are provided within this context, DTTL experiences to date, and the collective goal of consistently achieving quality audits.</p> <p>With respect to the issues and challenges discussed within the ITC, DTTL believes that as the IAASB contemplates next steps and potential changes to its standards, it will be important to strike an appropriate balance between principle-based requirements in the standards and non-authoritative guidance and communications. Given the breadth of capital markets and jurisdictions which utilize the ISAs, DTTL believes that it is and will continue to be difficult to apply prescriptive requirements which may (or may not) be relevant and/or achievable in all cases. The environments in which audits are performed continue to evolve and become increasingly complex making it less likely that prescriptive requirements will be successful in addressing all circumstances and fact patterns that may arise. DTTL believes principle-based requirements and application material are effective in guiding auditors. However, DTTL also believes there is an increasing need for more guidance. Recognizing that the issuance of non-authoritative guidance is a complex matter for the IAASB, DTTL nevertheless recommends the Board explore ways to provide more implementation guidance that shows “what it looks like” to apply the principle-based requirements and application material. For instance, it may be beneficial to consider providing examples and best practices through application material or practice alerts where appropriate. Such an approach may be a better method for educating practitioners, fostering quality, and achieving the objectives of improving performance in these areas.</p> <p>DTTL supports the IAASB's efforts to strengthen its standards to continue to facilitate the performance of higher quality audits and meet its public interest responsibility. DTTL's detailed comments on select questions in the ITC are included in the Appendix and summarized below.</p>
33.	EYG	<p>In relation to the IAASB's proposed actions to enhance the standards related to quality control and group audits, we agree that it is time to modernize these standards to address the developments affecting entities, auditors and their respective environments, including changes in business models, practices and structures. The ITC points to specific developments that may not be sufficiently addressed by the current standards, such as 'letterbox' audits, alternative audit delivery models (ADMs), auditing entity's investments in non-controlled entities, and certain barriers to auditors obtaining access to information for their audits. Although we agree that it is important that the standards provide support for audits affected by these circumstances, we believe it is most important for the requirements in International Standard on Quality Control 1 (ISQC 1) and the ISAs to be sufficiently principles-based and flexible in order for the standards to:</p> <ul style="list-style-type: none"> ▶ <i>Be scalable.</i> The standards, and the requirements within them, need to be effectively applied across engagements from the very small to the very large, with different degrees of complexity. In terms of quality control at the firm level, the structure of ISQC 1 needs to enable effective application across firms of varying sizes and differing governing structures, including consideration of quality control activities that may exist at the network level. ▶ <i>Remain 'fit for purpose' over an extended period of time.</i> For the standards to remain relevant into the future, the fact that audit quality risks change over time, but objectives and principles of quality control generally do not, is an important overall consideration for the IAASB to take into account. ▶ <i>Provide practical solutions to barriers that cannot be overcome by the auditor.</i> Auditing cross-border or auditing financial information related to non-controlled entities can involve dealing with barriers resulting from, for example, privacy laws or licensing rules, which may present challenges for auditors in accessing information for their audits. These barriers are not likely to be solved by IAASB and it is important that, when the IAASB standards include requirements that may not be achieved due to such barriers, the standards provide practical solutions or guidance to deal with them, including with appropriate consideration to the public interest objectives of an audit.

		<p>In addition to the need for the IAASB standards to remain principles-based, we would equally reiterate the need for the standards to facilitate a risk-based approach to the audit. In the areas of quality control and group audits, in particular, we believe that the existing standards set forth requirements in a manner that may tend to set expectations for equal application across firms and engagements of all sizes and complexities, instead of in a manner that promotes customization of the audit approach based on the risk profile of the engagement (or in the case of quality control, customization of quality control policies and procedures to the engagement portfolio of the firm).</p> <p>Our view of the fundamental importance of a risk-based approach to both quality control and group audits, which is facilitated by principles-based requirements in the related standards, is the underlying theme in our responses to the specific questions posed by the ITC related to quality control and group audits.</p>
34.	GTI	--
35.	KPMG	--
36.	PwC	<p>Stakeholder confidence in the audit is critical to underpin the effective functioning of business and markets. It is important that the ISAs and ISQC 1 continue to be seen by stakeholders as setting an appropriate benchmark for audit quality. It is also important that the standards remain fit for purpose in light of changes in business and audit environments. It is for these reasons that we support the Board's initiative on quality control, group audits, and professional scepticism, as these are areas in the ISAs and ISQC 1 that stakeholders have indicated most warrant a fresh look.</p> <p>Standards need to allow audits to be designed in the way that best delivers audit quality across the wide spectrum of organisational structures</p> <p><i>Changes to the standards should:</i></p> <ul style="list-style-type: none"> • <i>in relation to the design and scope of a group audit engagement, reflect, and be responsive to, how management has structured the group and how the group undertakes its financial reporting processes, recognising evolving global operating and reporting models.</i> • <i>place responsibility for different aspects of audit quality with those who are best placed to influence them, and recognise how the interaction of those responsibilities collectively contributes to, and reinforces, audit quality.</i> <p>The business world is evolving rapidly. Companies are facing fast-changing global issues, sustained economic uncertainty, disruptive new technologies, and increasingly interdependent stakeholder relationships that are changing their business models.</p> <p>One implication of this is that many companies have increasingly complex organisational structures to manage growing cross-border activity. They make more extensive use of shared service centres (SSCs) and innovative cooperative relationships with their supply chain and stakeholders.</p> <p>Auditors need to be able to design their audits in ways that can deliver audit quality across those different organisational structures. To make the ISAs fit for purpose in today's business environment, we believe changes to the ISAs are needed.</p> <p>Standards should address the conditions under which audit evidence can be shared</p> <p><i>Changes to the standards should:</i></p>

	<ul style="list-style-type: none"> • <i>avoid unnecessary duplication of effort by allowing for the sharing of audit evidence and using the work of others, when permitted and justifiable in the circumstances.</i> • <i>recognise the value that firm and network processes and controls contribute to audit quality, when appropriate in the circumstances.</i> <p>There are many circumstances in which audit evidence obtained at the group level or other centralised location, such as a SSC, is relevant to both the group engagement team and multiple auditors of different components. The ISA requirements today can result in duplication in work effort by the group engagement team and auditors of components who each need audit evidence from that work as the basis for their own audit opinions. In our view, there are circumstances when audit evidence should be able to be appropriately 'shared' if certain conditions are met. We believe there is scope for exploring which conditions would support use by different auditors of the same audit evidence.</p> <p>Similarly, member firms in our network have invested, as have some other networks, in developing network policies, methodology, technology, training and quality review processes. We have invested because we know that the collective investment by our member firms can make a significant contribution to audit quality, particularly because many organisations that we audit have global operations. Standards would be strengthened by providing greater clarity on the conditions (including the nature and extent of evidence) under which it would be appropriate for member firms across the network and engagement teams to be able to take credit for quality processes and controls.</p> <p>Given the variation in network structures (due to legal, regulatory and other drivers), this necessarily needs to be directed at the firm level. It is neither feasible nor appropriate to impose direct requirements in ISQC 1 at the network level.</p> <p>For all of the reasons above, we agree the time is right for the IAASB to revisit its group audit and quality control standards, to ensure they remain fit for purpose. We also support the Board's intention to reflect on how standards best support the application of appropriate professional scepticism in obtaining sufficient appropriate audit evidence.</p> <p>As highlighted in our remarks above and explained more fully in our responses to the detailed questions, there are a number of areas in which we believe standards could better support audit quality. We look forward to contributing to the standard setting discussion and debates as those issues are more fully explored.</p> <p>In making changes to the ISAs and ISQC 1, we believe it is particularly important to audit quality that the standards remain capable of being applied in different engagements, organisational structures and circumstances. The best way to achieve that is with principles-based standards. In our view, detailed, prescriptive standards can inadvertently undermine audit quality rather than enhance it by promoting a focus on compliance with the rules – a "tick the box" mentality – rather than thoughtful application of professional judgement. It is important to properly evaluate the underlying drivers of the findings and suggestions and be satisfied that changes to the standards will be the most effective response, rather than adding new, or amended, requirements in response to every one of the detailed "laundry list" of suggestions the Board has received.</p> <p>A final thought in closing – at the same time as addressing areas that stakeholders believe warrant revision, the IAASB also needs to think to the future. Developments in technology are changing the ways that audit evidence can be obtained. The Board needs to think about how evidence obtained electronically regarding data and systems can contribute effectively to the auditor's risk assessment, controls and substantive evidence, and overall audit quality. For this reason, in addition to the topics being addressed in the ITC, we strongly support the IAASB's work on data analytics and encourage the Board to ensure that findings from that project are appropriately taken into consideration in these current initiatives.</p>
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37.	RBI	--
38.	RSM	--
39.	SRA	--
Public Sector Organizations		
40.	AGC	--
41.	AGSA	--
42.	GAO	--
43.	INTOSAI	--
Preparers of Financial Statements		
44.	PAIB	<p>At its recent meetings, the PAIB Committee discussed enhancing audit quality, in particular the preparer's role. We recognize that since the financial crisis, serious questions are being asked of the audit profession, which is to be expected given the public interest dimension of audit quality. However, in making improvements to audit and assurance related standards and regulations, the IAASB should recognize that many of the issues that drove organizational failure or wrongdoing were not necessarily due to poor audit quality. Instead, the failures and resulting impacts on financial statements were primarily the responsibility of those charged with governance, and executive management.</p> <p>Consequently, we recommend that further development of audit and assurance related regulations and standards prioritize driving the right behavior among auditors, in particular their relationship and engagement with the organizations they audit (referred to as the audit client in the ITC). The basis for changing standards should be the result of an empirical vetting of actual audit failures. Changes should not be made to the audit because of governance and management failures. Doing so is, at best, simply an effort to appear to take action on a particular matter. At worst, it is a misdirected effort to influence governance and management practices indirectly through audit standards rather than directly through other means.</p> <p>Recognizing that Enhancing Audit Quality is a Shared Responsibility</p> <ul style="list-style-type: none"> Responsibility for a quality audit cannot be the sole responsibility of the auditor. In our view, a key issue is raising awareness of the need for high-quality audits as a critical element in enhancing trust in business and financial markets to combat the "commoditization" of audit, which most visibly involves organizations, often under pressure from investors, trying to drive down audit costs. The profession's communication on audit quality need to clearly highlight the requirements of high-quality audits, and what is needed from both auditors and the organizations being audited to enhance professionalism and audit quality.

		<ul style="list-style-type: none"> Pressure on audit fees and the implications for how audits are carried out merits further investigation. There are interesting developments, for example, investors encouraging audit tenders on a “fee blind” basis, so that choices can be made in the first instance on audit quality criteria. <p>Audit Expectation Gap Continues</p> <ul style="list-style-type: none"> The auditing expectation gap continues to be a challenge in the market. There continues to be a difference between what the public and other financial statement users perceive auditors’ responsibilities to be and what auditors believe their responsibilities entail. For example, research in some jurisdictions shows that investors have higher expectations for the audit than what the auditor’s role actually is. Therefore, in the context of audit quality, communicating the limits of what a financial statement audit can achieve and, more importantly, does not achieve is extremely important. While this is covered in audit opinions, many stakeholders do not understand, or perhaps do not agree with, an audit’s limits. Greater focus might be needed by the profession to close this expectation gap if we are to realistically achieve higher levels of confidence in what audits achieve, and also lead to a more constructive discussion of change. There is evidence to show that audit committees and their chairs generally value the external audit for the assurance it provides on the reliability of the financial statements prepared by management. Research also indicates that CFOs typically value the external audit on various other grounds, including the incentive it provides to encourage their company and its subsidiaries to build and maintain robust financial reporting processes. Finally, the suggestions auditors can provide on complex accounting matters contributes significantly to management in organizations. <p>Focus on Process Rather than Outcomes</p> <ul style="list-style-type: none"> In our view, audits are increasingly focused on procedural issues driven at least in part by an over-focus on quality control procedures rather than on those significant matters that would enable a high-quality audit. Further increases in regulation or changes to standards might have the unintended effect of decreasing audit quality rather than improving it. Over-regulation, and standards focused on process and procedures rather than outcomes, can make auditors more compliance focused—a situation that also confronts audit committees in many jurisdictions. <p>Reducing Inefficiency and Duplication</p> <ul style="list-style-type: none"> A number of matters appear to drive inefficient practices and duplication, rather than enhancing audit quality. For example, greater alignment between auditing standards and the requirements on organizations for implementing internal control systems would help avoid auditors requiring organizations to document procedures at greater levels of detail. In practice, the experience can be that auditors are forcing their documentation requirements on management, which can lead to additional and unnecessary cost. This can be particularly true where auditors request management documentation on matters that are not part of the company’s internal control framework, or subject to reporting requirements. In addition, poor coordination between auditor, audit committee, and internal auditor often leads to duplication of effort, increased cost, and poor effectiveness. <p>Audit Quality Depends on Understanding of the Business</p> <ul style="list-style-type: none"> Understanding the audit client’s business model(s) and its external environment is fundamental to applying professional judgment and skepticism. The committee highlighted the challenge of communicating and working effectively with audit teams where the engagement team lacked the sustained involvement of an experienced engagement partner or manager. Coordination of an audit team is particularly important in situations where the engagement involves a range of experts covering specialist areas, such as valuation, financial instruments, and tax, who do not all necessarily work in the same geographic location.
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Member Bodies and Other Professional Organizations		
45.	AAT	<p>1.2. AAT is submitting this response on behalf of our membership and from a wider public benefit perspective.</p> <p>1.3. AAT has entered into comment in order to add value or highlight aspects that need to be considered further.</p> <p>1.4. AAT has focussed on the operational elements of the proposals and has provided opinion on the practicalities in implementing the measures outlined.</p> <p>1.5. AAT is not offering comments on the detailed proposals or individual questions set out in the consultation document but wishes to draw attention to some overarching general principles in the following response.</p> <p>1.6. AAT has considered the achievement of the objectives set out in the ITC that the primary output of an audit is an auditor's opinion that provides users with confidence as to the reliability of the audited financial statements and the need to apply and demonstrate professional scepticism, the need for quality control and the specific considerations of group audits.</p> <p>2.1. AAT recognises that to enhance public confidence in audits it is essential to establish the highest ethical practices as well as procedures for ensuring audits are carried out effectively and efficiently. While appropriate auditing procedures can be codified within Auditing Standards, the practice of high ethical standards by auditors is dependent upon an attitude of mind and is therefore difficult to fully codify.</p> <p>2.2. In recent times public confidence in audits has declined due to business failures and financial crises which have had no forewarnings from the auditors concerned, with users of financial statements being provided with inadequate information to make their own evaluation of risks reflected in those financial statements and, in particular, an inadequate level of prudence being applied in the preparation of those financial statements.</p> <p>2.3. AAT concludes that the public interest is best served by requiring auditors to provide detailed informative opinions in their published reports.</p> <p>2.4. It should not be expected that auditors would issue what is traditionally considered to be a "clean" report (see 3.3 and 3.4 below). This approach to formal audit reporting will in itself create the application of greater professional scepticism in audits and provide evidence of such, as well as promoting control over the quality of audits.</p>

		2.7. AAT firmly believes that audits of subsidiaries should meet the same criteria employed for standalone entities (see 3.12-3.15, below). Furthermore, users of subsidiaries financial statements would benefit from more informative audit reporting (as suggested in 3.2 and 3.3 below).
46.	ACCA	<p>We support the IAASB's overall objective to enhance audit quality. The ITC brings together a number of important auditing issues and presents a full and thorough analysis. The feedback from stakeholders will be helpful in translating this analysis into meaningful improvements to auditing standards. We hope that our comments, which reflect feedback from our Global Forum for Audit and Assurance and our other outreach activities, are a helpful contribution to this process.</p> <p>In many of the areas identified, clarified ISAs already set out clear expectations of auditors. To the extent that more guidance might be helpful, this could be via application material or other forms of communication, such as thematic blogs or speeches. Such informal communication methods can be helpful in shedding light on the IAASB's intentions, as an alternative to revising standards.</p> <p>COMPLEXITY OF THE ITC</p> <p>While we recognise that these issues are very important for audit quality, the structure of the consultation is complex and, in particular, some questions are split across several sub-questions. Accordingly, in some areas we have aimed to respond to the spirit of the question rather than addressing each piece in turn.</p> <p>Given the complexity of the ITC and its questions, we would encourage the IAASB to be alert to important constituents who might be underrepresented in the final set of written responses. The IAASB should continue outreach and dialogue with stakeholders to ensure that important perspectives have not been missed.</p> <p>A REGULATORY APPROACH TO AUDIT QUALITY</p> <p>In drawing up the list of issues to enhance audit quality, the IAASB has been led by feedback from regulators and audit oversight bodies. While this ensures that the IAASB's proposals are responsive to the concerns of regulators, it means the proposals within the ITC might be seen as being wholly regulatory-led. This reinforces a regulatory view of audit quality, where audit quality can be eroded by a failure to follow ISAs to the satisfaction of audit oversight bodies while there may be limited recognition of innovations which boost audit quality.</p> <p>A symptom of the regulatory approach to audit quality is that many of the proposed actions relate to 'strengthening documentation requirements' in order that audit work undertaken, for example as it relates to group audit situations, can be reviewed by regulators. We would encourage the IAASB to develop a broader vision in its approach. To the extent that there are deficiencies in communications between group and component auditors, we believe it is extremely unlikely that introducing new requirements for further written communications will overcome them. We would support and encourage the IAASB in its development of a wider concept of audit quality which seeks to go beyond simply minimising the number of deficiencies identified by regulators. This would involve discovering from audit firms what innovations they have introduced to streamline their audit processes and improve audit quality. Audit oversight body observations, which tend to focus on (non-)compliance with ISAs may be an unsuitable source. In this vein, we support the proposal for the Quality Management Approach, which we believe recognises the positive contribution firms have made in seeking to improve audit quality.</p> <p>Given that audit oversight bodies rightly take a risk-based approach in deciding which audits to inspect, their findings are skewed towards larger entity audits undertaken by larger firms. As a result, changes to standards that prioritise their findings may focus on issues that are less relevant to small and medium sized practices. In addition, the number of audits inspected is a small proportion of the total number of audits, so it may not always be easy to distinguish pervasive issues from isolated incidents.</p>

47.	AIC	--
48.	AICPA	--
49.	APESB	<p>APESB is supportive of the overall aim in the ITC to enhance audit quality. We commend the IAASB on its consideration of the various factors that may impact audit quality and believe that some of the actions identified, such as implementing a quality management approach (QMA), could positively impact audit quality.</p> <p>However, APESB is concerned that the majority of the proposed actions in the Audit Quality ITC are based on stakeholders' perceptions regarding audit quality rather than fact-based research. Research that provides empirical evidence on links between audit quality and deficiencies in the current standards should be the basis for any future action considered by the IAASB. Without conducting fact-based research, APESB believes the key to improving audit quality is educating professional accountants of their existing responsibilities and promoting a change in the behaviours of all participants in the audit process.</p> <p>In developing APESB's response to the Audit Quality ITC, we have taken into consideration Australian stakeholders' feedback from two roundtable events conducted by APESB in Melbourne and Sydney in March 2016. APESB has simplified questions from the Audit Quality ITC to specifically target the key proposals relevant to APESB's mandate. We have used those questions in formulating our response to you. The questions and associated responses are set out in Appendix A.</p> <p>Subject to APESB's key recommendations noted below, APESB supports the IAASB's focus on enhancing audit quality.</p> <p>APESB's key recommendations for IAASB's consideration are:</p> <ul style="list-style-type: none"> • Conduct research and gather empirical evidence on the causes of deficiencies in audit quality; • Implement a QMA as proposed in the Audit Quality ITC, subject to the consideration of the professional services it would apply to and the appropriate body to mandate the requirements; • Initiate a program to promote the effective implementation of existing audit and assurance pronouncements; • The IAASB Technical Staff to consider developing summaries of key requirements for Engagement Partners and Engagement Quality Control (EQC) reviewers to assist Small to Medium Practices (SMPs) in understanding their obligations and responsibilities; and • Create a requirement for an EQC Review to be conducted on the audits of all public interest entities.
50.	CAANZ	--
51.	CAI	<p>Whilst supportive of the ITC's focus on the three initial areas identified, we note that other issues will require attention, particularly in relation to 'keeping ISAs fit for purpose' included in Table 1. As acknowledged in the paper, IT risks and the auditor's response to those risks should be given consideration, together with developing a framework for the effective use of data analytics. We believe these areas are of key importance. We would also support a review and update of ISA 250 <i>'Consideration of laws and regulations in an audit of financial statements'</i>.</p> <p>In addition to its standard setting activity, we also believe it is vital that the IAASB continues to work with all stakeholder groups, ranging from institutional investor bodies to regulators, IFAC member bodies and bodies responsible for development of corporate governance, such as the Financial Reporting Council, whose Code UK Corporate Governance Code is applied in both Ireland and the UK. This is</p>

		<p>important both to informing IAASB's development of standards and also to ensuring that broader issues that may affect audit quality – in particular corporate governance standards - are appropriately addressed.</p> <p>Lastly, in considering the ITC, we have been conscious of the many smaller businesses and other entities currently audited by members of Chartered Accountants Ireland. Such entities would not be regarded as 'public interest' and fall outside the current EU definition in the Statutory Audit Directive (Directive 2006/43/EC¹). We are supportive of taking many of the steps set out in the ITC in relation to supporting an effective audit response to the complexities involved in auditing public interest entities, particularly those listed on the major markets. However, as noted above, we have some concerns regarding the scalability of the proposals for smaller, non-public interest entities. These lead us to suggest that a point has now been reached where there is merit in considering the articulation of separate requirements for audits of public interest entities' financial statements and those of smaller or less complex enterprises with fewer stakeholders. This would clearly be a longer term development and would require deliberation with legislators and others. It would, however, enable IAASB to focus clearly on articulation of standards that give an appropriate and proportionate response to information needs of stakeholders in both types of entity.</p>
52.	CAQ	--
53.	CIIPA	--
54.	CIMA	<p>CIMA welcomes the opportunity to contribute to your thinking on professional scepticism, quality control and group audits as our membership work at the interface between businesses and the commissioning and employment of auditors. As a result we have a unique perspective on the role of the auditor.</p> <p>Firstly, we would argue that the auditor's role needs to move beyond the traditional focus on financial statements. While this is still paramount we believe that much of the true value of businesses has moved off the balance sheet over the past thirty years and while this is still underpinned by long term cash flows, the auditor, in our view needs to have an understanding of the business model, how value is created and the risks to sustainable value creation in order to ensure they are addressing all the material financial risks and also in respect of going concern. This is also critical to attracting new talent and enhancing professional Skills.</p> <p>More specifically we would also draw your attention to the following concerns -</p> <p>The statement in section 71 on policies and controls is unsatisfactory from the perspective of the investors and organisation being audited perspective - "We believe it would likely be very challenging for us to develop requirements for networks because...." (P23).</p> <p>The chart for section 65 (P21) while comprehensive, does not address incentives and their potential impact, for example on an audit hours target that might inappropriately reduce the level of work required.</p> <p>On a more positive note we would strongly support the following points as critically important.</p> <ul style="list-style-type: none"> • Importance of effective communication with the audit committee (section 4) • Sufficiently knowledgeable (section 4), attracting talent (section 10) • Impact of technology, which should strengthen the quality of the audit (sections 10/13/37)

¹ PIEs are defined as listed companies, credit institutions and insurance undertakings. In addition, Member States can designate as PIEs other undertakings that are of significant public relevance, because of the nature of their business, their size or the number of their employees.

		<ul style="list-style-type: none"> Standards applicable to audits of all types, including SMEs, public sector, but also ensure appropriate to different size, sectors (sections 12/13) Expectation of audit challenge of management (section 17) Importance of addressing weaknesses due to cultural differences (sections 32/37)
55.	CPAA	--
56.	DnR	--
57.	EFAA	<p>The ITC is a well written document. It comprehensively leads the reader through the issues, concerns and proposed actions in a pragmatic way. However, the result is a document that is very long and very detailed and because of this, EFAA would like to note some concerns and challenges.</p> <p>(1) The number of responders that will find the time to go through the entirety of the document and provide valuable insight to the deliberations may be reduced.</p> <p>(2) The effort involved in reading a document of such length in a language that is not the primary language of the reader is significant.</p> <p>(3) The IAASB may perhaps wish to consider what other means of engaging with stakeholders can be utilised to collect feedback.</p> <p>We have the following key remarks.</p> <p><i>Addressing gaps in standards</i></p> <p>In the EFAA response to the IAASB Consultation Paper - The IAASB's Proposed Strategy for 2015–2019 and The IAASB's Proposed Work Program for 2015–2016 EFAA made the following comment: “<i>Addressing the long term future of audit and assurance and engaging with stakeholders to gauge their views on what is and will be required in 10 - 15 years. We believe that this is important because there is a fundamental need to be alert to long term issues and the short term changes currently being dealt with by the IAASB need to be congruent with the long term objectives. Fixing immediate gaps in standards may not be sufficient.</i>”</p> <p>Our opinion on this matter is unchanged and this point is relevant to the many potential changes outlined in the ITC.</p> <p><i>Principles based standards</i></p> <p>The numerous proposed actions in the ITC will likely require significant changes to many ISAs. We encourage the IAASB to be alert to changes that prove contrary to the current principles based standards. We would not support such actions.</p> <p><i>Scalability</i></p> <p>We are concerned that the changes that are proposed would be made in such a way as to negatively impact the proportional application and scalability of the ISAs. We urge the IAASB to be alert to such matters when changes are being proposed.</p> <p><i>“Quick wins”</i></p> <p>We recommend that the IAASB analyses whether the issuance of Staff Papers for “quick wins” might be another short term solution (examples: EQC review, group audit issues) to bypass the costly due process of adapting ISAs and speed up potential benefits.</p> <p><i>Focus on behaviour and implementation</i></p> <p>There is a clear need, to our mind, to develop a long term vision and strategy on the role of standards and the relative worth of the IAASB's mission compared to say global monitoring or education. We are concerned that some believe that professional skepticism can be enhanced by an increase in written standards.</p>

58.	FACPCE	--
59.	FEE	<p>(3) 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, particularly as the detailed wording is yet to be developed. We would recommend not using such approach of requesting massive combined comments in the future.</p> <p>(4) 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. Also, 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 we consider many of the issues to be valid, many of them relate to the application of the standards, rather than flaws in 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-sized practitioners (SMPs) and have sufficient room so as not to inhibit innovations that will happen in the near future.</p> <p>(5) Furthermore, we encourage the IAASB to step back and look at each proposal in the context of its overall impact on the practitioner, and assess the consequences of the length and detail involved.</p> <p>(6) We agree that the ITC addresses the most relevant public interest issues. The fundamental public interest angle is public confidence in high quality financial reporting, and therefore audit quality. To this end, audit firms of all sizes have a role to play in designing policies and procedures to enhance confidence in financial reporting and address the underlying public interest issue.</p>
60.	FSR	--
61.	IBA	<p>We would like to express our support for the IAASB's continued efforts to improve audit quality, of which the Overview and the Invitation to Comment form a part. Audits of financial statements play a crucial role in the orderly functioning of the capital markets worldwide, providing investors with much-needed confidence in the quality and integrity of the financial statements of issuers with listed or publicly traded securities. Audited financial statements constitute, or form the basis of, many of the most important disclosures that the issuers of securities make, and upon which markets accounting for billions of dollars in daily trading activity rely. Accordingly, measures to improve the audit function and investors' confidence in audit quality are of utmost interest, not merely to investors but also to those concerned with the proper functioning of capital markets generally.</p> <p>With that background in mind, the focus of our comments is on those parts of the Overview and Invitation and Comment that relate to transparency. Regardless of which measures to improve audit quality that the IAASB pursues, they will fail to achieve their full promise if they are not adequately communicated to market participants. For public confidence in audit quality to be improved, not only must relevant and effective measures be adopted and implemented, but the fact and means of their implementation must be made known to the investing public.</p> <p>This is particularly the case as markets become more complex. New industries, new geographies, new companies, and new types of securities all increase the diversity of investments available for offer to, and trading by, the wider public. While this diversity offers investors many advantages in terms of risk allocation, it also renders their decision-making processes more complex, as vastly greater amounts of information must be analyzed before well-informed investment decisions can be made. This additional complexity heightens the need for accuracy and integrity of the information used to make investment decisions, particularly critical disclosures -- audited financial</p>

		<p>statements foremost among them – that make up the central focus of any well-informed investment decision. The IAASB's efforts to improve the quality of audits of financial statements, particularly those of entities with publicly traded securities, are therefore of critical importance to achieving the benefits that broad and deep capital markets can provide.</p> <p>Because measures to secure acceptable levels of audit quality are of significant interest to the investing public, we believe that the IAASB's efforts in this area should specifically consider and address how factors relevant to audit quality are made known to market participants. We note that many jurisdictions provide for audit firms to make public so-called "transparency reports" that address various aspects of the firms' operations. Some firms issue such transparency reports even where not required by law or regulation to do so. To the extent that these transparency reports address matters relevant to audit quality – such as quality control systems generally or the audit firm's procedures requiring quality reviews by personnel outside the audit engagement team – such reports can make an important contribution to investor confidence in audit quality. We therefore encourage the IAASB to take note of the spread and development of transparency reports by audit firms, and would be supportive of efforts by the IAASB to provide guidance to audit firms producing such reports, whether pursuant to applicable law or regulation or otherwise.</p> <p>We note, however, that the scope of any particular audit firm's transparency report is limited to the issuing audit firm itself, and is focused on that audit firm's audits generally rather than on the audit of any specific issuer's financial statements in particular. To that extent, the ability of transparency reports to foster market confidence in audit quality can operate only at an aggregate level.</p> <p>To improve confidence in audit quality as relates to the financial statements of a particular issuer, however, measures other than transparency reports must be used. We note in this regard that IAASB's new ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report is scheduled to go into effect in the near future. ISA 701 requires auditors to communicate "key audit matters" –those that in the auditor's judgment are of most significance in the audit of the current period's financial statements -- in the auditor's report for audits of financial statements for listed entities. We believe that the communication of key audit matters within the audit report pursuant to ISA 701 provides a potentially useful avenue by which auditors can also provide information about matters relevant to the quality of the specific audit. As such, the use of ISA 701 communications of key audit matters could, with limited modification, form an important supplement to transparency reporting in fostering investor confidence in audit quality. Such reporting under ISA 701 would complement, at the engagement level, the more aggregated information that transparency reports provide at the level of the audit firm.</p> <p>Through a limited modification to the definition of "key audit matters" within ISA 701, the IAASB could expand the scope of matters to be communicated with the audit committee and then to the investing public via the audit opinion. The discussion in the audit opinion could thus include a discussion of matters that, in the auditor's professional judgment, bear on audit quality. Such factors could include, for example, a discussion of whether the audit engagement was subject to engagement quality review by the audit firm and what procedures such review involved, or a discussion of how the auditor took into account past inspections findings by audit regulators to improve the audit. Other possibilities for discussion could include summaries of significant audit-related discussions with management or those charged with governance (especially the audit committee). We therefore encourage the IAASB to consider the scope of possibilities offered by potential revisions to ISA 701 to improve engagement-level transparency as it relates to audit quality specifically.</p>
62.	IBRACON	<p>First, we need to step back and understand the quality of education in a country. Colleges and universities are the backbone of an appropriate professional education. The quality of their educational programs will drive the quality of professionals entering the market as accountants in business (preparers) or auditors in the future. Afterwards, effective continuous education programs for preparers and auditors are key to keeping those professionals up to date with relevant changes in rules and regulations. For many years, the continuing education program in Brazil was focused on auditors only. However, more recently, the Federal Accounting Council (CFC) has taken a</p>

		<p>significant step forward by requiring preparers of larger entities, regulated entities, and listed entities to obtain a minimum number of training hours starting in 2016 on an annual basis.</p> <p>Companies can also contribute to audit quality by having a robust corporate governance structure. The adoption of an ethical culture within the organization, as well as a recruitment and training policy for employees, especially those involved directly or indirectly in key internal control and financial reporting processes, is critical. These factors contribute to improving the quality of information prepared by the entity, which directly affects the evaluation of, nature, extent, and timing of audit procedures. The Audit Committee is also a valuable tool for improving interactions between the entity's governing bodies and the auditor, supervising the financial reporting activities, and the work of auditors.</p> <p>Audit firms of different sizes, including small- and medium-sized practices (SMPs), in Brazil have been continually investing time and resources to enhancing audit quality. ISA™ and ISQC™ 1, which are the International Standards on Auditing™ and International Standard on Quality Control™ developed exclusively by the International Auditing and Assurance Standards Board®, are required by all audit firms in Brazil—contributing to an improvement in process for firms of all sizes.</p> <p>This continuous improvement process is affected directly or indirectly by several factors, such as:</p> <ul style="list-style-type: none"> a) Markets: Due to the increasing complexity of transactions and increased volume of data and constant development of new technologies, auditors need to consider a wide range of specialists to address specific risks, such as information technology, tax, valuation, actuarial, forensic, and financial instruments, just to name a few. For this reason, nowadays, auditors are required to have not only technical skills to adequately perform the audit but also the ability to effectively coordinate and assure documentation is properly made and filed for the work of all those specialists due to the fact that the auditor retains ultimate responsibility for the work performed by them when the audit report is issued; b) Internal and external inspections: Regulators are more active, connected, and collaborative (e.g., formation of the International Forum of Independent Audit Regulators and related working group, for example Global Audit Quality Working Group –) and have expectations regarding systems of audit quality control, regardless of the size of the firm. External inspections performed by regulators, then, tend to be more focused, consistent, and with common goals. For this reason, it is essential that auditors devote appropriate time to analyzing the deficiencies identified in internal and external inspections in order to properly identify their root causes. By developing a structured and adequate process to getting to the root causes of deficiencies, audit firms will be able not only to resolve the specific findings identified in the inspection but also to minimize the risk of finding other potential deficiencies in the firm's audit processes. c) Litigation: An environment with a higher risk of litigation is an additional ingredient that can influence an audit firm's capacity to develop and retain talent. Some jurisdictions are currently more litigious than in the recent past, which can result in fewer professionals being interested in entering in or building a career that may last for more than twenty years in that jurisdiction. Ultimately, this can have a negative impact on the ability of such firms to attract and retain talent (a recent Gateway viewpoint sees this as a major challenge for the profession). d) Mandatory firm rotation (MFR): Many countries are considering or implementing rules imposing MFR, which brings more complexity to the objective of enhancing audit quality. Such requirements may result in severe consequences to the profession in the medium and long term, including the ability of an audit firm to specialize in certain industries (especially in emerging markets), the career of professionals who devote years of experience to better understanding the industry and the related risks of entities subject to rotation, and the ability of the audit firm to attract and retain talent. Further, it may have a significant impact on a firm's decision to invest in technology.
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63.	IRE-IBR	<p>Overall, we are supportive of IAASB’s exploring on how to enhance audit quality as response to stakeholders’ demands. However, IRE-IBR is concerned that due to the length of the document covering a lot of topics and general questions, the value of the responses IAASB will receive might vary.</p> <p>Furthermore, we are not favoring an extensive addition to the standard’s application material and we suggest IAASB to focus more on providing guidance on how to implement the standards, especially for SMEs/SMPs.</p>
64.	ICAEW	<p>Fundamental opportunities and challenges for the audit profession</p> <p>1. We consider that there are fundamental opportunities and challenges for the audit profession connected with the issues covered in the Invitation to Comment (ITC) that need to be tackled head on as part of the IAASB’s work, for example matters related to</p>

		<p>fee pressures and technological changes. At the moment these do not appear to be regarded as central to the consideration of the issues that the IAASB has identified and we consider that they should be. It is important for any changes to be principles based and not stifle innovation that will result in improved audit quality. They should facilitate audit delivery that is fit for the future.</p> <p>The auditors of the future and technological changes</p> <ol style="list-style-type: none"> 2. There is a need for the profession and firms going forward to attract the right sort of people with the people and technical skills that are necessary for the audit of the future. 3. We consider that people issues are central to matters related to audit quality and in our view should be emphasised far more prominently in the IAASB standards. Our recent work in our AuditFutures initiative highlights this in calling for the educating of responsible professionals and rethinking accounting education. 4. We consider that the IAASB should give greater priority to considering the potentially fundamental matters raised by technological changes, for example those matters raised in ICAEW's report Data analytics for external auditors. We call on the IAASB to prioritise and accelerate its work on this topic.
65.	ICAP	<p>Key Issues identified</p> <p>ITC consisted of 305 paragraphs explaining the issues and potential actions followed by 35 questions around those 305 paragraphs. A comprehensive response would entail a long project involving larger number of resources and longer time frame. In this context, we have identified following fourteen key issues which can be commented upon by ICAP.</p> <ol style="list-style-type: none"> 1. Relevancy of public interest issues identified in Table 1 of consultation paper with the topics under discussion 2. Drivers for , and impediments to, the appropriate application of professional skepticism 3. Actions required by others Regulatory bodies that inhibit the application of professional skepticism 4. Role of Quality Management Approach (QMA) for improvement of audit quality and restructuring of ISQC 1. 5. Roles and responsibilities in respect of quality control of; <ol style="list-style-type: none"> 5.1. Engagement Leader 5.2. Quality Control Reviewer 5.3. Network Audit Firm 6. Governance of the Firm, Including leadership responsibilities for Quality 7. Monitoring and Remediation process for deficiencies identified in internal and external inspections. 8. Human resources and Engagement Partner Competency 9. Acceptance and Continuance of the Group Audit Engagement 10. Communication between the Group Engagement team and Component auditors 11. Using the work of Component auditors 12. Identifying and assessing the risk of material misstatement in a Group Audit 13. Issues relating to Component materiality 14. Review and Evaluation of the work of component auditor by Group engagement team

66.	ICAS	<p>We welcome the IAASB's decision to tackle the three topics of professional skepticism, quality control and group audits addressed in the ITC and acknowledge that each of them can have a bearing on audit quality and that there is some overlap and interaction between the three.</p> <p>Here are our responses to the questions in the ITC in relation to each of the three topics of professional skepticism; quality control; and group audits.</p>
67.	ICAZ	--
68.	ICPAK	<p>ICPAK welcomes the IAASB efforts for enhancing audit quality, as part of the IAASB Work Plan for 2015-2016. We believe that there is need to rethink and enhance audit quality and commend the Boards decision to prioritise need to enhance audit quality project immediately after finalising the auditor reporting project. However, the IAASB needs to appreciate that one cannot "enhance quality" by issuing standards and guidance, because quality is a 'state of mind', in the same way as professional scepticism is.</p> <p>Regarding the IAASB considerations for strengthening the requirements on quality control, we welcome the IAASB considerations mentioned in the Overview of the ITC since sound quality control enhances the quality of an audit. We would also welcome further analysis by the IAASB on whether a Quality Management Approach ('QMA') could be applied at the engagement level, as part of an audit process, such as the audit of accounting estimates, to enhance the audit quality of areas which are key in an audit.</p>
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	<p>Generally, our key stakeholders were of the opinion that introducing more rules within the auditing standards would not be necessary as the existing standards are sufficiently robust. Audit professionals should be left to exercise their judgement when designing audit procedures and determining what constitutes sufficient appropriate audit evidence. Notwithstanding the above, the stakeholders welcome more practical guidance materials from the IAASB on the three topics in the ITC.</p> <p>In addition, the stakeholders were strongly of the view that since audit professionals are bound by a stringent ethics code and the work carried out by them has to adhere to one of the frameworks under the auditing and assurance standards, the audit profession is capable of doing the right things such as enhancing audit quality. Using remuneration as a means to promote audit quality amongst the profession may not be the most appropriate.</p>
72.	KICPA	--
73.	MICPA	<p>The Institute commends the IAASB for dedicating resources to address Public Interest issues from the perspective of audit quality and thanks the IAASB for the opportunity to comment on its research findings, concerns and possible actions to be taken to improve audit quality.</p> <p>Having reviewed the consultation paper, the Institute is pleased to note that the findings and concerns set out in the paper are all sound and valid. However, MICPA is of the view that there are no significant shortcomings in the existing standards governing audit quality which necessitate additional standards or a major revamp to the existing standards. MICPA strongly feels that shortcomings in the implementation of the standards rather than the inadequacy of the standards themselves have been impacting the quality of audits.</p>

		<p>As rightly pointed out in the consultation paper, many factors affect audit quality and due to the nature of an audit (which is not an exact science) and the challenges of an evolving environment, striking a balance between economic considerations and relevance is forever challenging.</p> <p>However, the Institute has the following comments:</p> <p>The purpose of an audit of general purpose financial statements had evolved over the years- from reporting to solely shareholders to progressively and unintentionally expand to include “other stakeholders.” Consequentially, auditing and financial reporting standards were expanded and evolved in attempts to meet the requirements and to large extent too, to cater to the demands of those stakeholders other than the shareholders.</p> <p>Changes in business environments coupled with the evolutions in the ways of doing business necessitated even more changes to auditing and financial reporting standards. Over the years, the number of failed very large sized enterprises further exacerbated the situation. Independence of auditors was also doubted resulting in even more changes in the auditing profession. Naturally, the scope of audit and auditing standards had to be changed to trend the changes. Unfortunately, changes in auditing and financial reporting standards and the audit profession usually lag behind changes in business environments and the ways that businesses are conducted. This further aggravated the already very challenging accounting and auditing fraternities.</p>
74.	SAICA	<p>INTRODUCTION</p> <ol style="list-style-type: none"> 1. The IAASB has recognised that relevant, robust, fit-for-purpose professional standards are fundamental to ensuring that quality audits are performed on a consistent basis. We are supportive of initiatives to enhance audit quality. The IAASB must be commended for the extensive research and information-gathering that it has done and the manner in which it has been able to capture and describe the issues and possible actions relating to the three focus areas of the ITC. 2. Efforts to enhance the International Standards on Auditing (ISAs), supplemented by other (non-authoritative) guidance, ultimately lead to improvements in the reliability of, and confidence in the auditors’ work. Seeking ways to ensure consistent and sustainable high audit quality is in the interest of both the auditing profession, as well as other stakeholders in the financial reporting supply chain. 3. The SAICA Standards division, Assurance and Practice, had identified its participation in commenting on the IAASB’s Invitation to Comment, Enhancing audit quality in the public interest – a focus on professional skepticism, quality control and group audits, (the ITC) as one of its priority projects for 2016. <p>SAICA’s approach to respond to the ITC</p> <ol style="list-style-type: none"> 4. SAICA’s approach to informing our members about the ITC and its contents, and to gather information to inform our comment letter can be summarised as follows: <ul style="list-style-type: none"> ➤ A SAICA internal working group studied and debated the ITC and proceeded to prepare the course material for the SAICA Enhancing Audit Quality Seminar, and the SAICA online survey on the IAASB’s ITC. ➤ We participated in a number of sessions that the IRBA arranged as part of their work plan to comment on the ITC; in particular, two internal information sessions on quality control and group audits, respectively. We also attended a session with 10 audit firms (including the big four firms) where each firm made a presentation on selected topics from the quality control section of the ITC. ➤ SAICA presented a seminar to members on 17 March 2016 (live audience and webcast), Enhancing audit quality – The IAASB’s Invitation to Comment – A focus on professional skepticism, quality control and group audits. The webcast

		<p>recording was also made available to all members after the seminar (https://www.saica.co.za/Technical/Assurance/QualityControl/tabid/2945/language/en-ZA/Default.aspx).</p> <ul style="list-style-type: none"> ➤ We requested members to provide their input through the SAICA online survey on Enhancing Audit Quality in the Public Interest (the IAASB's ITC). The survey link was sent to all members, as well as certain targeted groups, including SAICA committees and certain audit firms. ➤ SAICA hosted a discussion session for members on 14 April 2016 (live audience event). This was an opportunity for members to voice their opinions and to discuss the identified issues and proposed actions, and to raise additional concerns as may be necessary. Attendees were also guided through and completed the SAICA online survey. ➤ A Task Group of SAICA's Assurance Guidance Committee considered all inputs received and provided their views and comments in finalising the SAICA comment letter. <p>5. Our interactions with members were targeted as follows (this is the description that was used in our communications to members):</p> <ul style="list-style-type: none"> ➤ The issues are of particular relevance to auditors and assurance practitioners, and their engagement staff. ➤ Furthermore, the IAASB is also seeking feedback from stakeholders that have a more general and broad interest in audit-related matters, including financial statement users, preparers, audit committees and organisations representing these groups. ➤ Therefore, SAICA is inviting all interested parties to attend and participate. <p>Results of the SAICA online survey</p> <p>6. The SAICA online survey was completed by 48 SAICA members and 5 SAICA associate members and members from other professional accountancy organisations. 58.5% of the survey respondents indicated that they are professional accountants and auditors in public practice or employed in public practice. Of these, 25.8% were from large firms and 74.2% from small and medium-sized firms. The 41.5% survey respondents not in public practice, represented preparers of financial statements, users of financial statements, boards of directors, the regulator, professional accountancy organisations, academia and consultants.</p> <p>7. Throughout this comment letter we present the results from the survey by referring to “survey respondents”. The survey results have not been analysed statistically and cannot be extrapolated. The results are presented as perceptions and views that have been observed, and although not representative of a general or common view, provide some insights into the issues and possible actions discussed in the ITC.</p>
75.	SMPC	<p>The SMPC has closely followed the development of the ITC and submitted comment letters in advance of a number of the IAASB quarterly Board meetings on each of the respective topics. We support the IAASB in considering quality control, professional skepticism and group audits at this time.</p> <p>The ITC is an excellent and well-written document. In particular, we appreciate the inclusion of paragraphs covering the SMP perspective throughout the ITC and welcome the approach taken to outline the issues, the references to existing requirements and application material, followed by the possible actions to address the issues.</p> <p>As outlined in the comment letter we submitted to the IAASB in September 2015, we are, however, concerned that the length of the ITC will not encourage responses from many SMPs. In our view, three shorter documents covering the projects individually would have been more manageable and better suited to obtaining feedback. To the extent that there are cross-over issues these could have been</p>

	<p>mentioned in each shorter paper. In addition, the title is enhancing audit quality, whereas the scope of ISQC 1¹ covers firms' responsibilities for quality control beyond audit services. Many SMPs do not provide audit services and may therefore not respond to the ITC even though some of the proposals may directly affect them.</p> <p>We strongly believe that the Board needs to give more consideration to using less conventional ways of eliciting feedback and comments on its proposals, in order to obtain input from the largest possible number of SMPs. Due to their often limited resources, SMPs are not able to easily respond and engage with the standard setting consultation process. This demands actively seeking out their views, rather than waiting for them to respond to often complex and long exposure drafts and consultation papers. One proposal is to work closer with IFAC member organizations to organize specific initiatives to obtain feedback from SMPs.</p> <p>The IAASB should also recognize the risk of non-response bias with the likely absence of SMP responses as it analyzes the comment letters to the ITC and considers the actions for each project. This is an area in which it may be helpful to obtain the assistance of academics, who could assist in the analysis and run some generally accepted tests for evidence of such bias, as well as advising on ways to minimize nonresponse bias in the future.</p> <p>We are concerned that there is a potential for these projects to lengthen the suite of ISAs considerably, since the majority of actions raised involve additional clarifications or strengthening of requirements. The SMPC believes that the IAASB must be sensitive to balancing the burden arising from changes to standards and the likely benefits to the public interest. Keeping up with new regulations and standards has been consistently ranked as one of the top challenges facing SMPs in the Global SMP Surveys conducted by IFAC². The costs and burden of the adoption of revised standards is felt more acutely by SMPs, who may not have the necessary in-house resources to easily implement revisions. We strongly believe that piecemeal changes to the requirements in isolated standards should be avoided wherever possible and that there is a robust and rigorous cost/ benefit analysis of the potential impact on both SMPs and SMEs in the Board's consideration of future changes in each project.</p> <p>In particular, the projects could also result in enhanced documentation requirements. This continues to be an area of concern for many SMPs. The IAASB needs to consider that the perception of many regulators that "if it is not documented, it is not done" against the need to ensure documentation concentrates on significant matters and judgments encountered in the audit rather than becoming excessive. An excessive focus on documentation and a tick-box mentality in general can even be detrimental to audit quality, especially if they serve to take valuable time and resources resulting in less professional judgment being exercised.</p> <p>In addition, as many of the calls for action in the ITC seem to reflect inappropriate or non-application of the current standards, the SMPC is not convinced that revision is the most appropriate way of dealing with all the issues. We encourage the IAASB to consider other initiatives to assist with the practical application of the ISAs, such as Staff FAQs (frequently asked questions), illustrative examples and enhanced dialogue with regulators regarding the efficacy of standard-setting to deal with non-compliance issues.</p> <p>The SMPC supports the IAASB considering the QMA approach as this would be better suited to allowing firms to tailor quality control measures to their individual specific circumstances. We have consistently stated that certain aspects of ISQC 1 are perceived as imposing a disproportionate burden on smaller practices. We therefore support the IAASB's focus on scalability and a broader approach to enable firms to consider quality management in the context of all types of engagements. In particular, a proactive management of engagement quality that encourages individual engagement team members to fulfill their respective roles will be more effective to optimizing quality</p>
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¹ International Standard on Quality Control (ISQC 1), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

² IFAC Global SMP Survey Results 2015: (see <http://www.ifac.org/publications-resources/ifac-global-smp-survey-2015-results>)

		than an exercise purely reviewing past performance. We believe that the consideration of the needs of SMPs should be central to this aspect of the project
76.	WPK	<p>We support IAASB's intention to contemplate about enhancing audit quality and we are broadly supportive of many of the proposals in the ITC. We furthermore welcome the involvement of interested stakeholders at an early stage into these considerations.</p> <p>The focus on the three topic areas professional skepticism, quality control and group audits appear in our opinion appropriate, since on the one hand they influence audit quality to a good deal. On the other hand they have a great impact on the external perception of the profession.</p> <p>Regarding the comprehensive details to each topic area and the possible related actions to be addressed proposed changes to the ISAs should not become too detailed and manifold. IAASB's principle-based approach of standard setting must be maintained.</p> <p>It should also be questioned if some of the concerns raised by third parties are actually deficiencies of the ISAs. Instead some remarks appear to result from possible misunderstandings of the ISA requirements and the consequential inability to derive appropriate audit procedures/ activities.</p>
Academics		
77.	AAA	The Committee commends the IAASB for its work relating to the three topic areas covered in the ITC. The questions raised in the ITC are very comprehensive and cover a wide range of relevant issues. We provide our responses broken out by topic area and then by question (as provided on pp. 87-95 of the ITC). At the end of this document we provide a bibliography of cited articles, also categorized into sections by topic area, for ease of reference for each topic working group.
78.	AH	--
79.	Glover-Prawitt	--
80.	TRay	--
Individuals and Others		
81.	CBarnard	--
82.	CK	<p>I am particularly keen on the issue of Audit Quality Indicators as I am convinced that, by establishing such a framework, we will empower audit committees and boards in their decisions regarding selecting auditors or renewing audit contracts. Ultimately investor interests must be prioritized, and by empowering audit committees / boards with a clear cut framework for assessing auditors, we are protecting the investors.</p> <p>Having said that, audit quality indicators should not be the preserve of Big Firms or even those that audit listed entities: perhaps we could consider different tiers of AQL's to cater for the different sized firms and entities, rather than a one-size fits all approach?</p> <p>I am also convinced that audit firms should not see such a project in a negative light. Rather they should embrace and even seek to be at the forefront:</p> <ul style="list-style-type: none"> Firstly, most firms already have some form of in-house quality indicators. By embracing these initiatives, firms would serve to strengthen their own already-existing structures

		<ul style="list-style-type: none"> Secondly, because organisations that are perceived to consistently strive for transparency are more likely to be viewed in a positive light and may well distinguish and make themselves more competitive Lastly because, by willingly sharing information, firms can mutually benefit through the enhanced ability to benchmark themselves <p>I am aware that different bodies have suggested various indicators that could possibly be adopted, such as:</p> <ul style="list-style-type: none"> Firm leadership and tone at the top (eg measuring the effectiveness of messaging around quality, by way of internal firm surveys) Engagement team knowledge, experience and workload (eg number of years in the firm, at the specific client, within the industry,) Monitoring (which would include results of the firm's own internal quality reviews, as well as external inspections) reliability of audit reports (which could focus on how often firms have to re-issue financial statements or reports on internal controls) most recent inspection results, and firm's financial stability and reputation <p>Ultimately I believe that if a global approach is taken towards this project, we should come up with a uniform framework which allows for measurability and comparability across different industries, sizes of entity and audit firms.</p>
83.	DAHughes	--
84.	JGrant	<p>There are many issues that IAASB is seeking to address in its current project, many of them are complex and some have been extensively debated in the past. Moving the ITC forward into changes to auditing standards is therefore a daunting task and it seems likely to me that revisions to the standards may take many years to complete which would be unfortunate.</p> <p>There is also a danger that in seeking to address some of the 'varied and complex scenarios that arise today' the standards will become much more complex and prescriptive. I have always believed that principles based standards are what are needed to encourage a 'thinking audit' and thereby make auditing a motivating activity for auditors and facilitate the profession in recruiting and retaining talented partners and staff.</p> <p>I would therefore encourage IAASB as far as it possibly can to streamline the project and to try to respond to the issues by modifying existing requirements to make them more principles based rather than adding more and more requirements to address current 'varied and complex scenarios'. As the saying goes 'less can be more'.</p>
85.	JK	<p>There are many possible proxies for audit quality.</p> <p>Errors subsequently found</p> <p>Certainly the correct way to measure audit quality is to measure whether the audit found and corrected all material misstatements. There are practical problems with this.</p> <ol style="list-style-type: none"> 1. You have to wait. It may take several years for errors to become evident, so the measure is not timely. 2. There may have been no material misstatements in the first place. If no errors were present, distinguishing a badly done audit from a well done audit would not be possible using this measure. 3. An audit cannot be expected to and will not find all misstatements. An audit is even less likely to find fraudulent financial reporting. Subsequently finding an error does not mean that the audit was badly done – though regulators and inspectors and standards setters never reflect on that when a material misstatement or fraud is subsequently found. The audit is automatically assumed to

		<p>have been badly done. There is always a call for improvements to standards to prevent that from ever happening again. Lately, the call is not for better auditing, but for better documentation – which misses the point.</p> <p>4. Many times errors correct themselves in a following year without detection. So perhaps an audit was badly done – because it did not find the error – but as the error is never detected, it is never known that the audit might have been badly done.</p> <p>Documentation as a proxy for quality</p> <p>There are even more problems with using good documentation as a proxy for quality. The most fundamental of these is that a well-documented audit may be badly done. For all the reasons noted above, this may never be detected. The correlation between good documentation and a good audit is probably coincidental, not causal.</p> <p>The problems with using documentation as a proxy for quality include the previous four and two more as follows:</p> <ol style="list-style-type: none"> 1. As with using errors found, you have to wait. Documentation may be pretty, but a misstatement may subsequently found. There are examples of entities where the file had been repeatedly externally inspected, with no deficiencies found, only to have large misstatements found after that. Successful inspection of documentation is not a guarantee of a good audit, only a guarantee of good documentation. 2. As with using errors found, there may have been no material misstatements in the first place. If no errors were present, distinguishing a badly done audit from a well done audit would not be possible using documentation as a measure. The only distinction is between well documented or not. 3. As above, an audit cannot and will not find all misstatements and is even less likely to find fraudulent financial reporting. Subsequently finding an error that an audit could not have uncovered does not mean that the audit was badly done. Reference to professional standards is needed, not documentation. 4. Also as above, many times errors that exist in financial statements correct themselves in a following year without detection. So perhaps an audit was badly done – because it did not find the error – but as the error is never detected, this is never known that the audit might have been badly done. Looking at the documentation will not detect this. 5. Placing a greater emphasis on documentation will induce audit staff (whether the firm wants them to or not) to direct their limited resource – time – to time spent on documentation, not time spent on auditing. 6. It is difficult to determine if well documented audit was indeed well done. The audit thought process is not driven by documentation, but by the thought process. Once you get good at the process of documentation – and are rewarded with praise from practice inspectors – it is an easy additional step to produce the documentation without the critical thought process. Inspection or review of the file will never be able to determine that and will probably reward the well documented but badly done audit and punish the badly documented but well done one. Staff will quickly learn where to spend their time. <p>The seductive advantage of documentation is that it is measurable, reviewable and inspectable. There is an entrenched belief that file review produces a good audit, and that file review can spot all indications that the audit was not properly done. File reviewers are firmly convinced that tracking through the file documentation constitutes re-performing the audit. It does not. All auditors know of cases where beautiful documentation was found to be baseless in a subsequent client visit.</p> <p>Perhaps the only advantage to documentation as a proxy for audit quality is that once the requirement for documentation is perfected, and auditor who meets the standard should be found to have done a good audit – because the documentation was good, even if a misstatement is subsequently found, and whether or not the audit was actually badly done.</p>
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		<p>Further, the emphasis on documentation may lead staff to spend their time producing documentation that makes it appear as if a good audit was done, when it was not.</p> <p>The inspection of documentation allows a conclusion to be drawn on audit quality, whether or not the conclusion is correct. Inspectors report that audit quality has increased, when perhaps the only conclusion they should come to is that the attractiveness of audit documentation has improved.</p> <p>Standard setters need to reflect on the push for documentation, because it certainly increases the cost of an audit to the shareholders, perhaps without a concomitant increase in quality – finding errors if they indeed exist. Time spent looking for misstatements will be replaced with time spent preparing documentation that makes it look as if the audit was well done.</p> <p>The following table summarizes the problem:</p> <table> <tr> <th></th><th>Audit Well Done</th><th>Audit Poorly Done</th></tr> <tr> <td>File Well Documented</td><td> <p>Box #1</p> <p>Good – and the most expensive.</p> </td><td> <p>Box #2</p> <p>As long as there were no underlying errors that later appear (often the case) indistinguishable from a well done audit – Box #1. Slightly less expensive perhaps than Box# 1.</p> </td></tr> <tr> <td>File Badly Documented</td><td> <p>Box #3</p> <p>As good as above, but will be grounds for criticism by all. And correcting the problem – spending more time on documentation and perhaps less on doing the audit - may move to Box #2 and earn the praise of inspectors. Cheapest. Client is happy, inspectors are not.</p> </td><td> <p>Box #4</p> <p>No need to comment</p> </td></tr> </table> <p>The document attempts to solve a behavioural problem with paper.</p>		Audit Well Done	Audit Poorly Done	File Well Documented	<p>Box #1</p> <p>Good – and the most expensive.</p>	<p>Box #2</p> <p>As long as there were no underlying errors that later appear (often the case) indistinguishable from a well done audit – Box #1. Slightly less expensive perhaps than Box# 1.</p>	File Badly Documented	<p>Box #3</p> <p>As good as above, but will be grounds for criticism by all. And correcting the problem – spending more time on documentation and perhaps less on doing the audit - may move to Box #2 and earn the praise of inspectors. Cheapest. Client is happy, inspectors are not.</p>	<p>Box #4</p> <p>No need to comment</p>
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