

Supplement B to Agenda Item 5

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

QUALITY CONTROL

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](#).

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QUALITY CONTROL

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Quality Control (General Comments)

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	--
3.	CFA	--
4.	IA	Current standards do not establish any requirements for quality control at the network level, and yet many of the main audit firms rely on the work of firms within their network when auditing multinational groups. Thus we consider the Quality Management Approach should be applied to an audit firm and its network. In the event this is not possible, then at a minimum the Quality Management Approach should be pursued at the engagement level so that group audits are addressed.
5.	ICGN	--
6.	NZSA	--
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	--
10.	CPAB	--
11.	EAIG	18. We encourage the IAASB to take into account the existence of joint audit situations, ⁷ in particular in determining the extent of the requirements for engagement quality reviews in those situations.

⁷ Regulation (EU) No 537/2014 Art.17(4)(b)

12.	EBA	--
13.	ESMA	--
14.	H3C	--
15.	IAIS	--
16.	IFIAR	--
17.	IOSCO	--
18.	IRBA	<p>Quality Control</p> <p>48. In line with the objectives of both ISQC 1²⁵ and ISA 220²⁶, we believe that quality control is the cornerstone to all audit engagements.</p> <p>49. The IAASB has received a great deal of feedback on the issues and concerns with regards to quality control, most notably through feedback received in developing its 2015-2016 Work Plan (which includes results of the post-implementation review of the clarified ISAs) and from its subsequent exploration and deliberations, both internally and externally, on the issues.</p> <p>50. The Quality Control section of the ITC provides a comprehensive exploration of the quality control issues and possible actions to address them.</p> <p>51. In general, we are in agreement with the actions the IAASB has outlined in response to the issues identified. We also re-emphasise the need for the IAASB to reinforce the concept of professional scepticism in ISQC 1 and ISA 220.</p> <p>52. However, below we provide a more detailed response to the following areas:</p> <ul style="list-style-type: none"> • Quality management approach (QMA). • Engagement quality control review. • Firm networks. • Engagement partner roles and responsibilities. • Engagement partner performance and rewards system. • Transparency reporting.

²⁵ ISQC 1, paragraph 11

²⁶ ISA 220, paragraph 6

		<ul style="list-style-type: none"> Firm governance and audit quality indicators.
19.	MAOB	--
20.	UKFRC	<p><i>Outcome of a high quality audit</i></p> <p>We believe that an important starting point for any discussion of quality control is to agree what the outcome of a high quality audit looks like. We therefore believe it is important for the IAASB to set out the expected outcome of a high quality audit and then to demonstrate how the various factors identified in the audit quality framework⁵ are addressed in the quality control standards in the context of that outcome. In this regard, we propose two key outcomes of a high quality audit:</p> <ol style="list-style-type: none"> (1) The audit has obtained a high level of assurance (subject to the inherent limitations of an audit) that misstatements (if any) in the financial statements would have been detected, and either corrected or identified in the auditor's report; and (2) This has been achieved in a manner that serves the intended purpose of an audit to enhance the degree of confidence and trust of intended users in the financial statements through meeting their expectations.⁶ <p><i>Quality Management Approach</i></p> <p>We fully support the IAASB's plan to revise ISQC 1 and ISA 220 to respond to the issues and challenges in quality control. We agree with the IAASB that these standards are no longer sufficient to support audit firms in today's complex and challenging business environment. We strongly support the introduction of the Quality Management Approach (QMA) in ISQC 1. It responds well to the diverse challenges being raised, including those relating to the proportional application of ISQC 1 and its future-proofing, as it is a more proactive, scalable and robust response to managing risks to quality at the firm level.</p> <p>Whereas the audit model in the ISAs has reflected a risk-based approach for risks of material misstatement for some time, it continues to reflect a more passive approach to addressing risks to audit quality, with required responses to those risks 'hard-wired' into the quality control standards. The proposed QMA would introduce a risk-based approach for risks to audit quality at the firm level. Key benefits of doing so include: focusing the firm's resources on the areas of greatest risk to audit quality; making application of the standard more scalable, given the extent and nature of an individual firm's audit activities and of its exposure to risks to audit quality; and making application of the standard more responsive to emerging risks to audit quality in a changing environment.</p> <p>Overseeing such an approach would provide a potentially direct role for (and enhanced communications with) the audit firm's governance function, particularly where this includes independent representation. Indirectly, such an approach may also provide a basis for enhanced Transparency Reporting by audit firms and related engagement with audit stakeholders.</p> <p><i>Risk-based approach to risks to audit quality at the engagement level</i></p> <p>We also strongly encourage the IAASB to pursue a similarly risk-based approach to risks to audit quality at the engagement level by building into ISA 220 (and ISA 600) a more proactive, scalable and robust approach to the identification of such risks and development of specific responses to address these risks. This would extend the benefits referred to above in relation to the proposed QMA, to each audit engagement (QMA-EL). By directly assessing risks to quality at the engagement level, the engagement partner would be in a more</p>

⁵ [IAASB Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality](#) (audit quality framework)

⁶ ISA 200.3 describes the purpose of an audit, which is to 'enhance the degree of confidence of intended users in the financial statements'.

	<p>informed position to appropriately tailor the direction, supervision and review procedures to control and mitigate those risks. We believe this will be the most meaningful way for the IAASB to address the challenges identified in relation to quality control at the engagement level, and will result in more effective audits.</p> <p>This approach, taken together with our proposal to embed a user perspective more widely in the audit process would, for example, provide a basis for addressing a common theme running through the ITC that in today's environment engagement partners are finding it increasingly challenging to meet their overall responsibility set out in ISA 220 for the performance of audits – including demonstrating appropriate direction, supervision and review throughout the audit. For example, the ITC identifies issues in demonstrating sufficient involvement in the work of the audit engagement team and component auditors and in the work of specialists, experts or other auditors.</p> <p>It could also bring additional benefits in providing an enhanced basis for communications with audit committees in their oversight of the audit relationship. It could also provide an enhanced basis for user transparency about the audit through extended auditor reporting about such matters.</p> <p>Role and responsibility of the engagement partner</p> <p>We believe that a fundamental principle in the ISAs is that the engagement partner has overall responsibility for the engagement. Accordingly we do not support the proposal in the ITC for the IAASB to explore the ability to use another auditor's report as audit evidence in certain circumstances. In the case of a group audit, the conclusion is premised upon each of the judgments made by the group auditor throughout the audit. The principle in the ISAs today is that the group auditor must be sufficiently involved in the work of any other auditor to effectively direct, supervise and review that work and therefore be in a position to stand behind the key judgments made.</p> <p>It would appear that the IAASB's proposals are seeking to address access issues for the group auditor. However, the ISAs already address access issues as an acceptance and/or qualification matter. We believe that this is the right approach and in the public interest because it will appropriately signal to investors that such a situation exists and that the auditor was not able to protect investors' interest by providing an independent view on the component's financial information.</p> <p>The IAASB also proposes to clarify the performance requirements for other parties involved in the audit. We are supportive of greater transparency about the nature and extent of involvement of other parties in the audit, for example, by providing such information in extended auditor reporting about how the scope of the audit addressed certain risks to audit quality. However, we would not support reporting about such matters in the auditor's report in a manner that would undermine the core principle in the ISAs that the engagement partner assumes overall responsibility for the audit. Doing so in such a manner could send an inappropriate signal about the reliability of the financial statements and could undermine investor confidence.</p> <p>Reliance on other network firms</p> <p>We strongly support the IAASB's proposals to re-address the quality aspects of 'network firms' in response to issues that have been raised in relation to undue reliance by firms and engagement teams on the network's system of quality control. The ISAs should provide a robust basis for the use of the work of any other firm of auditors, whether or not a network firm, in the performance of an audit. This should reflect the fundamental principle that the principal auditor takes responsibility for all of the other auditor's work and the conclusions drawn from that work. Quality control over the work of any other firm whose work is used in the audit should, in our view, involve a 'risk based' approach. Where the principal auditor believes it is appropriate to place some reliance on the network level controls over risks to audit quality relating to the use of the work of another firm, the ISAs should clearly set out the principal auditor's responsibilities. We believe that the principles in ISA 315 and ISA 330 in relation to reliance on entity controls over risks of material misstatement are a</p>
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		<p>reasonable source of analogous material to guide the IAASB in doing so. We believe that a similar approach should be taken in relation to Audit Delivery Models.</p> <p><i>Other matters</i></p> <p>Amongst the other matters relating to quality control, we believe that there are a number of areas of particular significance including Audit Firm Governance, Engagement Quality Control Reviews, Monitoring and Remediation, including root cause analysis, and Transparency Reporting.</p> <p>Particularly in connection with Audit Firm Governance we will in the next few months be issuing an updated UK Audit Firm Governance Code clarifying the objective of governance over audit quality and risks thereto. Our experience in promoting high quality corporate governance is that clarity of purpose and independent yet diverse input are key. Many of these lessons to our mind “read across” to the promotion of high quality audit.</p>
National Auditing Standard Setters		
21.	AUASB	--
22.	CAASB	<p>The AASB is not convinced that there are deficiencies with ISQC 1² that require wholesale changes be made at this point in time. The AASB does support the IAASB revising or adding to application material as appropriate. In the AASB's view, of the three main topics in this ITC, the IAASB's focus should be on group audits and professional skepticism.</p> <p>As noted earlier, scalability is a key concern. SMPs in Canada can struggle in applying ISQC 1. The main cause of these challenges is often cited as being a lack of availability of resources. Smaller firms often do not have enough personnel to appropriately segregate duties to allow independent persons to conduct these processes. Outsourcing is possible in some markets, but problematic in smaller communities. Accordingly, the AASB encourages the IAASB to be particularly cognizant of the challenges facing SMPs in considering changes to ISQC 1, and two areas in particular – engagement quality control review and monitoring.</p>
23.	CNCC-CSOEC	--
24.	HKICPA	--
25.	IDW	<ul style="list-style-type: none"> We note the increasing influence of audit regulators on the content of the issues addressed in the ITC. For example, in paragraph 123 reference is made to the need for safeguards to be put in place in relation to detection risk – this terminology stems from the IESBA code – ISAs use risk response in this context. The IAASB needs to be clear about the application of the risk based approach. In our view, there are a number of Frameworks, such as COSO ERM, Quality Management Standard ISO 9001, and OCEG, etc, that have become internationally established and provides a sound basis for consideration by the IAASB in this project. In our

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

		<p>opinion, an approach to management of quality involving continual evaluation that leads firms to address their individual potential for improvement will be far more in line with the aims of delivering quality services than the current approach under ISQC 1 developed several years ago. Consequently, we strongly support the introduction of a quality management approach.</p> <ul style="list-style-type: none"> • A number of suggestions discussed in the ITC derive from initiatives applicable to certain parts of the audit market in an isolated number of jurisdictions (e.g., transparency reporting). We agree that it is appropriate for the IAASB to be fully aware of such developments and also for the IAASB to discuss any potential applicability to its own standard setting. However, we do not believe that this ought to result in standard setting activities at an international level. • The IAASB also needs to bear in mind that it has a role as standard setter at an international level for all sizes of firms, from the sole practitioner auditor to the so-called Big 4 firm. On this basis we urge the IAASB to remain sensitive to this, and, in particular, to determine where additional guidance, sliding scale requirements or conditional requirements may be an appropriate way of dealing with matters applicable to only a certain part of the audit market (e.g., auditors of listed entities, SMP firms etc.). The IAASB will also need to be sensitive to the fact that there are very different legal environments around the world, different legal forms for firms, with different governance structures etc. In particular, initiatives that impact the management of firms, while reasonable for larger firms, may be disproportionate for many smaller firms. • In conclusion, we support the IAASB reshaping ISQC 1 from its current control mindset to a quality management approach designed to require firms to focus on their own internal management of quality factors, using a risk based approach tailored to the individual firm's circumstances and environment, including the quality objectives arising from the engagements performed.
26.	JICPA	--
27.	MAASB	--
28.	NBA	<p><i>Quality Management Approach (QMA)</i></p> <p>As long as there is no definition of audit quality, it will remain difficult to implement adequate quality control systems. Nevertheless, we support the QMA as proposed by the IAASB. By adding a firm and possibly a network risk-assessment element, firms will be enabled to take proactive measures to identify and address risks in relation to their quality control systems and therefore avoid potential systemic issues in their practice. In the Netherlands we are already incorporating the QMA approach in a new regulation. We recommend the IAASB to clearly define the various roles and responsibilities of the network and/or the firm versus the responsibility of the individual.</p> <p><i>Structure, governance and culture</i></p> <p>The structure and governance of an organization also influence the potentially dominant culture within that organization. A firm's culture reflects the cumulative actions and behaviors of its personnel, including those that affect audit quality. Those cumulative actions and behaviors are influenced by firm leadership's communications, directives, actions, and behaviors, also referred to as the 'tone at the top'. The quality control standards should be broadened to address the relationship between firm's culture and the 'tone at the top' to an effective quality control system.</p> <p><i>Remuneration/Human Resources</i></p>

		<p>The remuneration policy and the incentives arising from it must be linked to the organization's strategy and objectives in which quality plays an important role. We recommend the IAASB to address this topic in ISQC 1 and to require that quality becomes a predominant factor in remuneration and career perspectives.</p> <p><i>Monitoring</i></p> <p>Improvements in firms' systems of quality control can enhance audit quality not only by detecting more audit deficiencies prior to the issuance of the audit report, but also by pre-venting and deterring the occurrence of many of such deficiencies. Root cause analysis of external and internal findings can strengthen firms' processes for monitoring the effective-ness of their quality control systems. We recommend incorporating root cause analysis in the quality control standards.</p>
29.	NZAuASB	--
Accounting Firms		
30.	BDO	<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 team 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>
31.	CHI	--
32.	DTT	<p>The performance of audits, as well as the regulatory landscape within which firms are structured and operate has changed considerably since the issuance of the clarified ISA 220, Quality Control for an Audit of Financial Statements and ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements in December, 2009. At the same time, local laws and regulations, as well as local inspection regimes have expanded and become more complex. As a result, DTTL agrees that a number of the topics addressed by ISA 220 and ISQC 1 need to be revisited. As these quality control issues are considered, DTTL commends the IAASB for recognizing the diverse challenges that exist due to the myriad of network and firm structures, as well as the existence of local laws and regulations with respect to quality control. With this complexity and diversity as a backdrop, DTTL would like to provide the following observations and recommendations:</p> <ul style="list-style-type: none"> As modifications to the quality control standards are considered, DTTL encourages the IAASB to maintain its use of principle-based objectives. In this respect, DTTL is supportive of the Quality Management Approach as set forth by the ITC - an approach which is grounded in principles which DTTL believes would provide auditors with a framework to bolster quality control. Global networks may be organized using varying firm structures (which are often influenced by unique local laws and regulations), and, as such, the optimal quality control processes within a network are likely only describable in the standards through broad principle based objectives rather than prescriptive rules. Because of diverse firm and network structures, DTTL believes that it would be extremely difficult to develop a consistent structure and related requirements within the standards, and that it would be even more difficult for networks to execute against them.

		<p>DTTL believes it is, however, appropriate for the IAASB to focus on strengthening requirements relating to reliance on network level processes and controls at the firm or engagement level (i.e., considering what it takes to have a basis for such reliance). DTTL notes that increasingly group audits will involve component auditors from other networks or that are not part of networks due to new auditor rotation requirements in some jurisdictions, making this area even more challenging. Focusing on the ability of firms to rely on network processes and controls at the firm or engagement level will, therefore, also be helpful in this regard.</p> <ul style="list-style-type: none"> With respect to Engagement Quality Control reviews (EQC reviews), DTTL believes the requirement should be expanded beyond the current scope (which is listed entities) such that they should also be required for all public interest entities (PIE) (i.e., audits of those entities that meet the definition of a PIE established by local jurisdictions). Furthermore, given the EQC reviewer's status as an element of a firm's system of quality control (and, therefore, the EQC reviewer's unique status with regard to the engagement reviewed), DTTL believes that a definitive, stand-alone standard may be warranted in order to clearly communicate the objective of the EQC review and the roles and responsibilities of EQC reviewers. To avoid confusion in relation to the expectations of an EQC review, it is important, however, to clearly consider and balance the EQC reviewer responsibilities relative to those of the engagement partner who is ultimately responsible for the quality of the audit engagement. The scope of the EQC reviewer responsibilities should not be broader than those of the engagement partner. <p>DTTL also supports the IAASB's continued coordination with IESBA overall, and in relation to quality control in particular. Matters relating to independence are relevant to a firm's system of quality control and can impact the quality of an audit. However, as IESBA remains the IFAC body governing independence matters, it will be important for the IESBA to continue to consider such independence issues, and for the ISAs to remain consistent with the ethics standards in order to avoid being duplicative.</p>
33.	EYG	--
34.	GTI	--
35.	KPMG	--
36.	PwC	<p>Standards should promote proactive, scalable and robust quality management</p> <p><i>Quality control standards should be designed to embed and reinforce audit quality throughout the audit process, by focussing on:</i></p> <ul style="list-style-type: none"> <i>the key inputs and drivers of audit quality, rather than primarily relying on detective measures,</i> <i>identifying and assessing the risks to achieving audit quality as a basis for designing and implementing quality processes and controls that are commensurate with identified risks, and</i> <i>promoting continuous improvement.</i> <p>A commitment to, and pervasive culture of, quality needs to be embedded within the fibre of audit firms, audit engagements and auditors. Auditors and audit firms need to have an unwavering focus on delivering the type of high quality audits expected by stakeholders, including investors, those charged with governance, regulators, the public and themselves. The concept of a Quality Management Approach (QMA) is entirely consistent with this ambition and we support the Board in exploring how a QMA can be incorporated effectively into ISQC 1.</p>

		<p>ISQC 1 has served its purpose well. It has moved the audit profession's thinking forward about the role the firm plays in promoting, supporting and managing quality in the audits, reviews, and other assurance and related services provided. Its focus on the recognised drivers of audit quality (quality elements) has provided a structure for firms to develop their quality controls and systems. Indeed, the requirements in ISQC 1 underpin our quality management systems and review as an integral part of our Quality Review programme.</p> <p>Whilst ISQC 1 remains, in our view, a robust foundation for quality control, we support the IAASB in exploring how the standard should now evolve. Thinking around quality management has progressed since ISQC 1 was first written and there are lessons that can be learned from state-of-the-art industry standards for effective quality, risk and compliance systems (e.g., ISO 9000, the new ERM COSO II). These standards reflect approaches that focus on not only relevant quality controls, but also on the continuous cycle of proactive quality management.</p> <p>The concept of a continuous cycle of quality improvement underlies ISQC 1, but it can be overlooked if focussing on compliance with the discrete requirements alone. Incorporating into ISQC 1 a greater focus on quality management would, in our view, have a positive impact on shifting the mindset to:</p> <ul style="list-style-type: none"> • a more proactive identification and assessment of risks to quality, • thinking more broadly about how quality can be built into the design of processes, rather than focus primarily on detective controls, • continuous improvement, and • seeking clarity in responsibility and accountability. <p>We believe it is important to retain the key quality elements in ISQC 1. They are broadly recognised to be drivers that can have a significant influence on audit quality and would factor into any quality assessment. A number of the requirements in ISQC 1 are expected responses to specific risks and are, in our view, an important part of what stakeholders expect as part of a robust quality framework. For that reason we support retaining the requirements in ISQC 1 today, although acknowledge that the standard may need to be restructured to effectively incorporate the QMA process.</p> <p>The advantage of having a QMA overlay to the specific ISQC 1 requirements is that it is not practicable to envisage, and set common responses to, all risks to quality that will exist in practice or may emerge. In fact, there is a risk in doing so that ISQC 1 would become very long and static and could, as a result, inadvertently drive a rules-based response in complying with it. We believe ISQC 1 will more effectively drive the right behaviours if it focusses on the most significant common risks and directs firms to proactively identify and manage others. Furthermore, while we acknowledge that there will need to be some requirements that drive certain actions, it is important that ISQC 1 remains predominantly principles-based in order to be adaptable to current and emerging risks, and scalable.</p>
37.	RBI	--
38.	RSM	--
39.	SRA	--
Public Sector Organizations		

40.	AGC	--
41.	AGSA	--
42.	GAO	--
43.	INTOSAI	--
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	2.6. AAT is of the view that quality control procedures applied within audit firms should be appropriate to the entity being audited, particularly “Public Interest Entities” which require higher levels of quality control than other entities (see 3.8, 3.9 and 3.10 below). The suggestions as regards more informative audit reporting (section 6, ItC) would result in the quality control exercised by audit firms being more readily apparent.
46.	ACCA	--
47.	AIC	--
48.	AICPA	--
49.	APESB	--
50.	CAANZ	--
51.	CAI	--
52.	CAQ	--

53.	CIIPA	--
54.	CIMA	--
55.	CPAA	--
56.	DnR	--
57.	EFAA	--
58.	FACPCE	--
59.	FEE	<p>(21) In general, the IAASB should concentrate on the key matters relevant to quality such as human resources, behavioural management, and root cause analysis. Other players could also contribute to improving audit quality while focusing on other important parts of the issue. For instance, audit inspection authorities should develop a consistent approach to reporting of audit deficiencies and other shortcomings.</p> <p>(22) Last but not least, we consider that public perception of the audit as a high quality and valuable service needs to be encouraged by all stakeholders including management, but also regulators.</p>
60.	FSR	In our opinion, there is, however, a need to create more awareness of the different aspects of the existing framework for quality control. There is always the risk that more rule-based regulation could lead to more tic-box checking and that the main issues related to performing a quality audit would not be addressed.
61.	IBA	--
62.	IBRACON	--
63.	IBR-IRE	--
64.	ICAEW	--
65.	ICAP	--

66.	ICAS	--
67.	ICAZ	--
68.	ICPAK	--
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	--
72.	KICPA	--
73.	MICPA	--
74.	SAICA	--
75.	SMPC	--
76.	WPK	--
Academics		
77.	AAA	--
78.	AH	--
79.	Glover-Prawitt	--
80.	TRay	--

Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	--
84.	JGrant	--
85.	JK	--
86.	KKTuraga	--
87.	SDeViney	--

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

- (a) Would use of a QMA help to improve audit quality? If not, why not? What challenges might there be in restructuring ISQC 1 to facilitate this approach?
- (b) If ISQC 1 is restructured to require the firm's use of a QMA, in light of the objective of a QMA and the possible elements described in paragraphs 64 and Table 3, are there other elements that should be included? If so, what are they?
- (c) In your view, how might a change to restructure ISQC 1 impact the ISAs, including those addressing quality control at the engagement level?
- (d) If ISQC 1 is not restructured to require the firm's use of a QMA, do you believe that we should otherwise address the matters described in paragraph 59 and table 2, and if so, how?

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	<p>We appreciate the IAASB providing additional guidance around International Standard on Quality Control (ISQC 1) and the key elements of quality control. We believe that the establishment and maintenance of an effective system of internal controls should be measured against internationally accepted standards of internal audit and tested periodically for its adequacy. The primary goal is to ensure companies adopt policies, operating procedures, internal controls, regulatory compliance programs, reporting, and decision-making protocols to effectively manage, evaluate, and mitigate risk.</p> <p>The proposed Quality Management Approach (QMA) would emphasize the responsibility of firm leaders for a more proactive, scalable and robust response to managing quality risk. The QMA would also integrate a firm's policies and procedures within its quality system through identification of relevant risks to quality and design of appropriate policies and procedures to address those risks.</p> <p>We agree that enhanced accountability at the leadership level is needed. We believe companies have a role in establishing the appropriate "tone at the top," including a culture that values protections which support transparency. Additionally, accountability of corporate boards matter. We view ratification votes, proxy access and majority voting as tools to hold audit committees accountable.</p> <p>We appreciate that the proposed approach would emphasize the responsibility of firm leaders for a more proactive, scalable robust response to managing quality risk. We believe that focusing on firm leadership to produce higher quality audits should have a positive impact. For example, Nelson, Proell and Randall found that team oriented leaders enhance the willingness of auditors to raise audit issues. Therefore, it is reasonable to assume that a heightened focus on firm leadership would yield audit quality benefits.</p>
2.	CalSTRS	<p>CalSTRS supports the broader vision in the use of a quality management approach within quality control. The diagram outlined above paragraph 65 provides the continual improvement with the key components of firm culture, with the strategy that fosters quality with the nucleus of leadership responsibility and accountability. With any quality control, QMA, continual improvement and review of processes are necessary to ensure quality mechanisms do not become automatic and not meaningful. We believe it is important to have staff involved</p>

		<p>with leadership providing the support and interactive environment to develop different policies and procedures to address quality control risks.</p> <p>We agree a firm's culture and strategy are at the core of an effective QMA whereas firms need to ensure an environment where issues can be elevated without retributions, but accepted as opportunities to improve and learn. Although the concept of scalability is discussed, we believe the components and underlying basis is applicable to firms of all sizes. We expect that smaller firms would not expect any less in their quality inspections and in addressing issues as well as identifying mitigating processes to ensure a QMA is effective and relevant. We suggest the QMA:</p> <ul style="list-style-type: none"> • Define processes – risks that may impact the quality of an audit • Reiterate the need for competence and continuous training and or knowing when an individual does not have the expertise to tackle a specific portion of an audit • Create repeatable processes of review, ensuring processes address documentation of supportable evidential matter • Provide guidance on continuous improvement of a firms policies and procedures • Ensure that quality review does not become so routine that auditors do not fully evaluate processes • Develop an Improvement Team and rotate this responsibility • Encourage different applications and audit approaches and quality control applications • Develop key performance indicators (KPIs) based on audit inspections and quality issues • Share KPIs in Audit Firms' Transparency Reports to be used as a tracking and improvement tool
3.	CFA	<p>In the wake of the financial crisis and the suggestions received from Regulators and Audit Oversight bodies on the need to improve quality control standards, we support the IAASB undertaking a comprehensive review of the standards that address quality control at both the firm and engagement level (i.e. 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 and ISA 220 Quality Control for an Audit Of Financial Statements. A high-quality audit of the financial statements is an integral element to the effective functioning of the global capital markets. To that end, an audit firm's governance plays a critical role to ensure that there is an appropriate balance in how a firm conducts its responsibilities for leadership, ethics, engagement performance and human resources. At the foundation for delivering a high-quality audit, is the firm's integrity, skepticism and independence from clients.</p> <p>We offer the following additional comments on select sections of the Overview:</p> <p><i>Quality Management Approach</i></p> <p>We support the IAASB's proposal to develop a quality management approach that would be incorporated in ISQC 1. Further we agree with the objective of the QMA as set out in paragraph 53 of the Overview:</p> <p><i>A QMA would integrate a firm's policies and procedures within its quality system through identification of relevant risks to quality and design of appropriate policies and procedures to address those risks.</i></p> <p>We also agree with the key elements of the QMA as identified in paragraph 65 of the Overview. We believe it is important that the QMA stress that firm leadership is responsible for establishing the firm's overall culture as culture plays an important in ensuring that partners and staff act in the public interest.</p>

4.	IA	The Investment Association supports the Quality Management Approach which identifies and monitors the risks to audit quality.
5.	ICGN	<p>(a) Emphasizing the responsibility of firm leaders in audit quality should have a positive impact. Each firm is a business and, to be successful, leaders should mainly be focused on the long-term success of their businesses. For public company auditors this means being responsive to the needs of its clients, which are investors.</p> <p>(b) The elements outlined in paragraph 65 if followed would appear to lead to quality audits.</p>
6.	NZSA	The NZSA fully supports the concept of Quality control and the QMA. However, once again, a user of a set of accounts will be more interested in what metrics can be produced to demonstrate QC has been applied, rather than any rhetoric describing it.
7.	SAAJ	The ITC doesn't mention audit fees, but we find it important to consider fee arrangements that reflect audit quality.
Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	<p>The Committee welcomes the concept of a Quality Management Approach (QMA). We strongly believe that the objective of conducting high-quality audits must be first and foremost in an audit firm's strategy and operations and that this objective also must be incorporated in its internal governance structure. A firm's internal governance structure should be characterised by a tone at the top that attaches the highest priority to full adherence to ethical standards and, amongst other features, promotes compliance with proactive and robust audit procedures that enable auditors to demonstrate their due professional care in performing high-quality audits. As a corollary, auditing and ethical standards should require that accounting firms demonstrate that all audit engagements have been performed in accordance with strict adherence to both the letter and the spirit of the requirements. Audit procedures for areas that require the exercise of a high degree of judgment, such as auditing accounting estimates (eg accounting provisions measured on the basis of expected credit losses), warrant suitable quality control arrangements over auditors' professional judgments so that similar situations do not result in decisions with high variances. The documentation of communication between the engagement partner and the EQC reviewer should cover matters other than those where there are differences of opinion between the partner and reviewer, including discussion of key audit matters, matters involving significant professional scepticism and significant professional judgment.</p> <p>The Committee welcomes the concept of a <i>Quality Management Approach</i> (QMA). We strongly believe that the objective of conducting high-quality audits must be first and foremost in an audit firm's strategy and operations and that this objective also must be incorporated in its internal governance structure. A firm's internal governance structure should be characterised by a tone at the top that attaches the highest priority to full adherence to ethical standards and, amongst other features, promotes compliance with proactive and robust audit procedures that enable auditors to demonstrate their due professional care in performing high-quality audits. As a corollary, auditing and ethical standards should require that accounting firms demonstrate that all audit engagements have been performed in accordance with strict adherence to both the letter and the spirit of the requirements. Audit procedures for areas that require the exercise of a high degree of judgment, such as auditing accounting estimates (eg accounting provisions measured on the basis of expected credit losses), warrant suitable quality control arrangements over auditors' professional judgments so that similar situations do not result in decisions with high variances. The documentation of communication between the engagement partner and the EQC reviewer should cover matters other</p>

		than those where there are differences of opinion between the partner and reviewer, including discussion of key audit matters, matters involving significant professional scepticism and significant professional judgment.
10.	CPAB	The ITC outlines a proposal to adopt a quality management approach (QMA). However, the ITC does not provide sufficient detail to obtain an understanding how the QMA would be operationalized. We encourage the IAASB to engage in further outreach in gathering input into how a QMA could be adopted and how this would interact with the existing ISAs and ISQC 1.
11.	EAIG	--
12.	EBA	<p>We strongly believe that an effective QMA is key in ensuring audit quality at the audit firm level and raising the responsibility of the audit firms' leaders. The 'tone at the top' in an audit firm is even more crucial in increasing the audit quality and adequately responding to audit quality risks. We therefore support the revision of 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 in order to incorporate the use of a QMA and to provide guidance to audit firms in strengthening and implementing sound corporate governance principles. Good corporate governance is a fundamental means to support audit quality.</p> <p>Considering the importance of applying a QMA, we support QMA being separately addressed and incorporated into the ISQC 1 in order to give more prominence to it (paragraph 53 of the Overview of the ITC).</p> <p>In addition, besides the IAASB considerations on the application of a QMA as a process assessing an audit which has been performed, the EBA would welcome further analysis by the IAASB on whether a QMA could be applied at the engagement level as part of an audit process, as acknowledged in paragraphs 75-83 of the ITC. In particular, enhancing the audit quality on those areas which include the exercise of a significant degree of judgement, such as the audit of accounting estimates and which are key within an audit and merit the additional focus of an auditor. In this regard, the IAASB could consider potential changes to ISA 220, <i>Quality control for an audit of financial statements</i> as envisaged in paragraphs 75-83 in the Overview of the ITC and paragraph 85 of the ITC.</p> <p>We also welcome the IAASB's intention to consider that the QMA be tailored to the size, nature and services of the audit firms and the nature of the entities to which those services are provided, and thereby, ensuring a proportionate application of the auditing standards for smaller audit firms. In particular, we believe that the IAASB needs to be mindful of the challenges for smaller audit firms in developing a QMA and therefore a QMA should, in our view, ensure that the requirements do not impose undue burden to these audit firms (paragraph 57 of the Overview of the ITC). In this regard, we would support that the IAASB develops additional guidance and examples of how a QMA could be applied in different circumstances (for example by different entities in terms of types of activities or size or complexity). Notwithstanding the above, the audit firms of public-interest entities, including banks, will be subject to compliance to high quality standards, in respect of those audits, which is also envisaged in EU in Regulation (EU) No 537/2014².</p>
13.	ESMA	17. ESMA believes that the use of a QMA should contribute in improving audit quality and responding to quality risk at firm level as it would encourage a proactive involvement of the audit firms' leaders. Therefore, ESMA supports revising ISQC1 - Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements to incorporate the use of QMA and to guide firms in implementing and strengthening sound governance principles. Furthermore,

² Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC

		<p>ISQC1 could be further clarified through additional requirements and application material to more explicitly incorporate commonly used and familiar terminology (e.g. “tone at the top” and “leading by example”) and thus, emphasising the responsibility of the audit firms leaders.</p> <p>18. We also agree with the proposal in paragraph 58 of the Overview of the ITC, that ISA 220 - Quality Control for an Audit of Financial Statements should be revised in order to incorporate the adoption of a more proactive, scalable and robust approach to audit quality at the engagement level. ESMA concurs with the IAASB’s view that QMA should take into account the size and nature of a firm, the services provided, the nature of the entities to whom those services are provided and the changes in the firm’s environment. In all circumstances, we believe that scalability of measures shall not negatively impact the quality of the output. In this regard, the EU legal framework also recognises that measures can be taken to ensure proportionate application of auditing standards to the audits of small undertakings.</p>
14.	H3C	--
15.	IAIS	<p>The IAIS considers that the existing IAASB documentation provides a solid and valuable basis for performing quality control, both at the firm (ISQC 1) and the engagement (ISA 220) level.</p> <p>However, the IAIS believes the quality control requirements for firms providing audit and non-audit services should be strengthened. Consequently, the IAIS welcomes the effort made by the IAASB in this ITC to highlight the importance of quality control issues. On the whole, the IAIS agrees with the main direction of the IAASB proposals.</p> <p>(a) The Quality Management Approach (QMA) as described within the ITC would “integrate a firm’s policies and procedures within its system of quality control through identification of relevant risks to quality and design of appropriate policies and procedures to address those risks”. Revising ISQC 1 to incorporate the use of a QMA may have the positive effect of reinforcing the firm leadership’s responsibility for the management of quality and may lead to quality control processes being made more proactive and scalable for differences in the size and nature amongst firms in the services they provide and in the type of entities to whom those services are provided.</p> <p>However, at this stage the proposals relative to the QMA are not sufficiently detailed to be able to fully appreciate their potential implications. As matters stand, without appropriate safeguards, there is some risk of seeing audit firms with similar activities and circumstances set quite different quality objectives and tolerance levels for non-compliance risk. Accordingly, it seems essential to ensure a common understanding of what constitutes quality objectives, quality risk responses, and how these could be appropriately scaled for differences in size and nature amongst firms. Consequently, the IAIS is of the view that the IAASB should primarily consider changes to ISC1 and to ISA 220 to strengthen the current requirements.</p> <p>(b) Revising ISQC 1 to require the firm’s use of a QMA would be challenging as it imposes significant changes of both form and substance.</p> <p>The IAIS notes that it may be useful to also draw attention to the linkages between the QMA and the:</p> <ul style="list-style-type: none"> • Public interest as the primary objective of auditors and audit firms; • Firm strategy, especially when deciding on accepting a new client; • Firm governance, as this is an essential element for making the processes of quality management more proactive;

		<ul style="list-style-type: none"> • Availability of appropriate human resources to perform audit work, addressing issues such as staff turnover, seniority, experience, skills and knowledge; and • Staff performance and compensation metrics and incentives. <p>Also, it may be useful if the QMA focused more on communication considerations, in particular:</p> <ul style="list-style-type: none"> • Internal communications, including at the network level, that should: <ul style="list-style-type: none"> ○ Make the quality objectives clear and easily understandable to all staff; and ○ Share relevant and timely information concerning quality findings, their consequences, and remediation actions. • External communications, such as to audit committees, of the global assessment of audit quality processes of the firm and the quality issues in relation to the client, if any. Special guidance or application material could also be provided in the case of entities with no audit committee (communication to others charged with governance) and for the groups. <p>(c) The proposed changes in ISQC 1 including incorporating the QMA, would require revising ISA 220 "Quality Control for an Audit of Financial Statements" to adopt a more proactive, scalable and robust approach to audit quality at the engagement level. Any such revisions should aim to develop better interaction between the system of quality control at the firm (and network) level and its implementation at the engagement level.</p> <p>The other standards that might be particularly affected by revision of ISQC 1 are ISA 600 "Audit of Group Financial Statements", ISA 210 "Agreeing the Terms of Audit Engagements", ISA 260 "Communication with Those Charged with Governance", ISA 265 "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management", ISA 300 "Planning an Audit of Financial Statements", and ISA 315 "Identifying and Assessing the Risk of Material Misstatement".</p> <p>(d) Concerns have previously been raised that ISQC 1 cannot be proportionately applied by small and medium practices (SMPs). Some SMPs see ISQC 1 requirements as too constraining in areas such as quality reviews, reviewers, corporate governance, and documentation. Consequently, as a start, the IAASB could further explore how best to address the concerns of SMPs in those particular areas.</p>
16.	IFIAR	<p><i>New quality management approach</i></p> <p>15. We note that the ITC describes a significant change from the current approach to a quality management approach. Although we do not have any specific objections to the quality management approach, there is limited information at this stage for us to fully assess its merits.</p> <p>16. For purposes of further developing this approach, we have provided some examples where further clarity is required:</p> <ol style="list-style-type: none"> a. The linkage between firm governance and the quality management approach needs to be clear. b. If a quality management approach is adopted, the IAASB needs to consider the implications for other auditing standards, for example ISA 220 and ISA 600 to ensure consistency in managing audit quality at an engagement level and in a group audit context respectively.

		<p>c. It is unclear how the IAASB would successfully blend the current and strengthened requirements into a revised risk based approach to quality control, which is scalable, in order to provide sufficient direction for firms to implement an effective system.</p> <p>d. If a quality management approach is adopted, the IAASB will need to establish provisions for setting quality objectives and identifying quality risks, since any error or omission at the risk assessment stage could lead to significant risks at the audit firm level that are not properly addressed.</p> <p><i>Quality control at an engagement level</i></p> <p>17. In order to improve audit quality at engagement level, we believe that establishing a framework for the audit engagement partners to determine the appropriate level of their involvement in the respective engagements would be necessary.</p> <p>18. In ISA 220, such an approach would have the potential to drive change (for example, by requiring more audit engagement partner involvement in higher risk areas of the audit or when circumstances lead to an elevated level of audit quality risk). Establishing limitations on what can be delegated by the audit engagement partner could also be considered (for example, review of audit work relating to significant risks).</p> <p>19. In ISA 600 this type of approach would aid the group audit engagement partner to determine the appropriate level of involvement in respect of the work performed by component auditors. Further comments addressing the use of audit work performed by component auditors are included in the Group Audit/ISA 600 section of this letter.</p>
17.	IOSCO	<p>Overall, we support the addition of a Quality Management Approach (QMA) to ISQC 1 considering the points noted below, but emphasize that a more detailed description of a QMA is necessary for us to comment further. We agree that firms should establish a quality management framework that emphasizes firm leadership's responsibility to establish appropriate quality objectives, perform a risk assessment, design and implement quality control activities, and monitor, communicate and document the achievement of these quality objectives. This quality management framework should be an ongoing and iterative process as the environment in which the firm operates and the services provided by the firm change.</p> <p>The addition of a requirement for an overall quality management framework may lead to increased audit quality as it will enhance firms' consideration of risks and related quality control activities to address such risks. Further, to the extent that such risks had not been previously included as a detailed requirement in extant ISQC 1, firms will have to identify new related quality control activities to address such risks. Additionally, by identifying quality control objectives and risks to achieving those objectives, firms may find that they need to implement incremental quality control activities beyond those required in ISAs addressing quality control at the engagement level.</p> <p>We note that paragraph 64b of the Paper states that the QMA would retain "the existing objectives and robustness of requirements in ISQC 1". We support this statement regarding retaining detailed requirements, and also we believe that gaps already identified by the Board (e.g., inclusion of a requirement for firms to consider results of external inspections and pre and post-issuance reviews rather than just internal inspections and peer reviews, tone at the top establishment, remediation and root causes analyses) should be addressed through the addition of detailed requirements. Further, we believe it may be beneficial for the Board to include application material that provides examples of each element of the quality management framework (e.g., determining quality objectives, performing a risk assessment) that firms could consider when establishing and maintaining their quality management framework.</p> <p>The degree to which the proposed QMA will affect audit quality may differ between firms. We note that some firms may already have such a quality management framework in place, whereas others may not. Those of our members who also have auditor oversight responsibilities have observed in inspection findings that some firms already face challenges in complying with the detailed requirements</p>

		<p>of extant ISQC 1. Nonetheless, the addition of an overall quality management framework may help firms better comply with detailed requirements by outlining the big picture, and providing context to what the firm is attempting to address. Having said that, we encourage the Board to provide for a framework that can be scalable and tailored depending on the nature of the services provided by the firm and the size of the firm. The Board should not provide overly prescriptive requirements for the QMA and instead use a form consistent with other risk assessment frameworks (e.g., COSO ERM Framework).</p> <p>Paragraph 58 of the Paper states that “[w]e will also consider the implications of a QMA at the firm level for group audits. For example, the existence of a firm-level QMA may impact the engagement-level considerations about acceptance and continuance of group audits”. We believe that the Board should consider providing requirements for a firm to consider its role in the overall quality management framework in the context of a network of firms and consider whether its quality control objectives have been appropriately identified, and whether quality control activities have been appropriately designed and implemented at the individual firm level.</p>
18.	IRBA	<p>53. The ITC proposes the introduction of a Quality Management Approach (QMA) to be incorporated into ISQC 1 and, possibly, ISA 220.</p> <p>54. Proposals around the QMA serve to address the quality control and ultimately the public interest issues. These proposals on the QMA follow landmark initiatives such as ISQC1 (including EQCR), the AQF, the IESBA Code and the layers of reforms and changes those initiatives brought about at the firm and engagement levels. These were global, multi-year initiatives, with implications on firm infrastructure, costs, training, fees, and, in many cases, auditor remuneration or the basis of investigations into misconduct.</p> <p>55. Before embarking on a new initiative (such as the QMA) of a similar magnitude, it is vital to ask questions about the efficacy of the initiatives (mentioned above) that we have supported and introduced to date. We need to ask whether the evidence tell us that the standard-setting activities have been successful in addressing and improving audit quality - the ITC does not present such evidence, but does not explore that lack of data either.</p> <p>56. In the absence of data about the efficacy of recent reforms (mentioned above), the ITC is proposing a very significant and wide-ranging initiative in the form of the QMA. This leaves us with a few questions:</p> <ul style="list-style-type: none"> • Should the QMA be superimposed onto the quality ecosystem we already have? • Should some elements of the current system be repealed or strengthened? • Will another layer (in the form of the QMA) give the industry vastly better quality results it searches for? • Will the investment be worth it? • Are there competing investments which cost less but will deliver more, or vice versa, that need to be considered before the mechanics of the QMA are debated? <p>57. In the absence of a clear measurement on the impact over time of past standard-setting quality improvement measures, what insight can the IAASB share that will confirm the obvious value of the QMA over other proposals?</p> <p>58. As such, although we do not have any specific objections to the proposal, the ITC does not provide sufficient detail for us to properly assess the impact of and the potential unintended consequences of the QMA on the revisions of ISQC 1 and ISA 220, firms, those charged with governance, audit regulators and ultimately the public interest.</p>

		<p>59. As a result, we provide the IAASB with our high-level views on the QMA as well as our views on where further clarity is required:</p> <p><u>Audit quality</u></p> <ul style="list-style-type: none"> • The most important question to be answered by the IAASB and by respondents to the ITC is whether they believe that the QMA will help to improve audit quality. • At this stage, we cannot confidently forecast or conclude that the adoption of the QMA will help improve audit quality. • Our biggest concern is that if the QMA is adopted, whether the IAASB will be able to retain the robust requirements in ISQC 1 and ISA 220 and possibly introduce conditional requirements while still improving the scalability and flexibility of these two standards. We also wish to understand clearly how the QMA could be developed and implemented so that it can serve the quality needs for non-audit services, in addition to audit services. • The IAASB needs to carefully consider how it incorporates the QMA into ISQC 1 and ISA 220 so that audit quality is achieved by creating an environment which maximises the likelihood that quality audits are performed on a consistent basis. <p><u>Impact on other ISAs</u></p> <ul style="list-style-type: none"> • Even though the ITC notes that the IAASB will consider the implications of the QMA on ISA 220 and ISA 600, the IAASB, in considering the implications, needs to ensure consistency in managing audit quality at an engagement level and in a group audit context respectively. <p><u>Risk-based approach</u></p> <ul style="list-style-type: none"> • The ISAs require that the auditor follow a risk-based approach when performing an audit engagement. • Businesses are usually managed using a risk-based approach. The concept of “risk management” is a sound principle and has been proven to work in business environments. • However, auditors are not familiar with establishing objectives for audit quality, identifying and assessing quality risks and responding to those risks. Any error or omission at the quality risk assessment stage could lead to significant quality risks at the audit firm level or audit engagement level that are not properly addressed. • In fact, even though ISQC 1 contains elements of a system of quality control set as requirements, auditors often request additional guidance on how to implement ISQC 1. The question that needs to be answered is: How will auditors respond to a flexible QMA? • As a result, if the QMA is adopted, it will be necessary for ISQC 1 and ISA 220 to include: <ul style="list-style-type: none"> ○ Detailed requirements and application material on how audit firms and audit engagement teams should implement the QMA (establishment of quality objectives, performance of quality risk assessment, design and implementation of responses to quality risks, communication and monitoring) at audit firm and audit engagement level respectively. ○ Minimum (presumed) quality element requirements. ○ A requirement that if an audit firm or an audit engagement team concludes that one or more of the minimum (presumed) quality elements are not applicable in the circumstances of the audit firm or the audit engagement,
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		<p>the firm leadership or the engagement partner, respectively, shall include in the audit documentation the reasons for those conclusions.</p> <ul style="list-style-type: none"> ○ Clear documentation requirements. ○ Guidance on the transitional arrangements between the extant ISQC 1 and ISA 220 requirements and the adoption of the QMA. <p><u>Business model</u></p> <ul style="list-style-type: none"> • It is argued that the adoption of the QMA will allow audit firms to incorporate quality management into their already developed business models. • This being said, application material will need to be included in ISQC 1 to provide guidance to audit firms on: <ul style="list-style-type: none"> ○ How audit quality needs to be entrenched into the audit firm's business model. ○ How balance needs to be maintained between business and audit quality objectives. <p><u>Impact on external inspection process</u></p> <ul style="list-style-type: none"> • If the QMA is adopted and each audit firm develops and implements its own responses to quality risks, there will be an impact on external inspections. • As the audit regulator in South Africa, we have the following concerns about the impact the QMA can have on external inspections: <ul style="list-style-type: none"> ○ External inspectors will be required to inspect a non-standardised system of quality control at each audit firm, which will be more time-consuming, more costly and require more resources. ○ Lack of consistency and comparability in the system of quality control established and implemented by audit firms. ○ Possible poor documentation of how the audit firm implements its QMA (establishment of quality objectives, performance of quality risk assessment, design and implementation of responses to quality risks, communication and monitoring). • If the QMA is adopted, we believe that the additional requirements to be included in ISQC 1 and ISA 220 suggested above under the heading <i>Risk-Based Approach</i> will elevate some of our concerns.
19.	MAOB	<p>The AOB wishes to emphasise that while good governance, firm culture and a Quality Management Approach (QMA) may be in place, it is equally important to consider a measurable outcome to assess the effectiveness of their execution, and their subsequent impact on engagement performance. Other comments on these areas are elaborated as follows:</p> <p>(a) Use of a Quality Management Approach</p> <p>Leadership by example is a key success factor for the promotion of audit quality. It is believed that the tone at the top that promotes a quality-oriented internal culture will positively influence partners and audit engagement teams' behaviour and commitment to audit quality.</p>

		<p>In line with this, the AOB welcomes the proposed emphasis on the responsibility of firm leaders for a more proactive, scalable and robust response to managing quality risk that would more easily adapt to a rapidly changing business environment through the new QMA.</p> <p>Notwithstanding the above, the AOB wishes to remind that each firm has its own distinctive culture which drives behaviour and influences the conduct of the firm as a whole. Hence, it is important that the QMA is principle-based to allow for sufficient flexibility in implementation in order to achieve and maintain audit quality. The QMA must also be considered from a holistic perspective, rather than with a compliance focus, in order for it to address the substance of the quality issue.</p>
20.	UKFRC	<p>We agree that the past decade has seen tremendous change in the economic, technological and regulatory aspects of the capital markets in which audit firms operate. The audit profession plays an essential role in the functioning of the global capital markets by building public trust and confidence in the financial reporting process and stakeholders expect the audit profession to adapt and overcome these multiple and complex challenges, whilst remaining committed to delivering consistently high quality audits. It is therefore essential that as a global standard setter, the IAASB promulgate standards that are sufficiently adaptable for auditors to address the evolving challenges they face and remain committed to delivering consistently high quality audits. A key foundation for delivering consistently high quality audits rests in the audit firm's system of quality control, and we believe that ISQC 1 is no longer sufficiently flexible to deal with the rapidly changing business environment and support a broader revision of ISQC 1, including the introduction of a quality management approach (QMA).</p> <p><i>Outcome of a high quality audit</i></p> <p>However, we believe that an important starting point for any discussion of quality control is to agree what the outcome of a high quality audit looks like. That is not to disregard the relevance of the audit quality factors as set out in the Framework for Audit Quality (Framework) (inputs, processes, outputs, interactions and contextual factors). These are important considerations along the way but ultimately each of those factors must be driving towards the desired outcome. We therefore believe it is important for the IAASB to set out the expected outcome of a high quality audit and then to demonstrate how the various factors identified in the Framework are addressed in the quality control standards in the context of that outcome.</p> <p>We believe that there are two key outcomes of a high quality audit:</p> <ol style="list-style-type: none"> (1) The audit has obtained a high level of assurance (subject to the inherent limitations of an audit) that misstatements (if any) in the financial statements would have been detected and either corrected or identified in the auditor's report; and (2) This has been achieved in a manner that serves the intended purpose of an audit to enhance the degree of confidence and trust of intended users in the financial statements through meeting their expectations. <p>In May 2015, the FRC published Audit Quality Practice Aid for Audit Committees (Practice Aid).²⁶ The Practice Aid is intended to provide audit committees with guidance on audit quality and best practice to provide them with a collective ability to challenge the auditor to demonstrate that they have performed a high quality audit, and evaluate the auditor's responses. The Practice Aid therefore focusses on assessing audit quality and has been developed based on feedback from audit committee members, investors, financial management and auditors. As well as providing a framework for the committee's evaluation, the Practice Aid sets out practical suggestions on how audit committees might tailor their evaluation in the context of the company's business model and strategy; the business risks it faces; and the perception of the reasonable expectations of the company's investors and other stakeholders. It also identifies an overall audit quality outcome that is broadly consistent with those described above.</p>

²⁶ [https://frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/Audit-Quality-Practice-Aid-for-Audit-Committee-\(1\).pdf](https://frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/Audit-Quality-Practice-Aid-for-Audit-Committee-(1).pdf)

		<p><i>Quality Management Approach</i></p> <p>If implemented well, the QMA described in paragraphs 45–67 of the ITC will allow for the flexibility needed to respond to the diverse challenges being raised in the ITC, and is an approach that supports proportionality in the application of the International Standards. This approach will also emphasise the responsibility of firm leaders to embed a more proactive, scalable and robust response to managing risks to audit quality that can be adapted as necessary to a rapidly changing business environment, and should therefore be more effective in future proofing the International Standards, and enhancing audit quality, in the face of such change. It also has the potential to drive audit firms to embed a culture that strives to provide users with consistently high quality audits. However, for it to deliver the success described above, we believe that the concept of quality management should be embedded at both the firm level through ISQC 1 and at the individual audit engagement level through ISA 220²⁷.</p> <p>We note the proposal to address specific quality control matters²⁸ alongside the QMA by introducing requirements and application material in most instances (paragraphs 105 to 190). It will be important for the IAASB to ensure that the revised ISQC 1 maintains an appropriate balance between overarching QMA principles - that help firms' leadership determine how to run the firm in a manner that supports consistent quality - and targeted or specific requirements. The principles should be internationally applicable and sufficiently high level to allow firms of all sizes to pursue their unique business activities. They should also be both aspirational and credible and guide the firms' leadership to develop, as necessary, more detailed policies and procedures that are quality focused and in the public interest.</p> <p>We support the elements of a QMA introduced in Table 3, but would like to emphasise that it is important that the IAASB ensures that professional scepticism is embedded in audit quality objectives and the public interest perspective is appropriately reflected by firms in setting their audit quality objectives (linked to maintaining public confidence in audit and through this to user-focused performance outcomes for audit quality discussed in PS1).</p> <p>Finally, for reasons expressed above regarding the importance of pursuing this step change in quality control standards, we would not support an approach that does not incorporate a QMA in ISQC 1. We also support the IAASB pursuing the matters set out in paragraph 59, with regard to the need to address firm culture (including focus on leadership accountability for quality) which is dealt with in QC5 below.</p>
National Auditing Standard Setters		
21.	AUASB	<p>(a) The AUASB supports the efforts of the IAASB to respond to calls from a broad range of stakeholders to improve quality control at both the firm and the engagement level.</p> <p>The AUASB's view is that the principles in ISQC 1 do not appear to be interpreted as being incomplete, misleading or unclear. ISQC 1 should continue to be broad and principles based in order for it to be appropriately applied across the many differing firm-wide and specific audit practice models used in the market, acknowledging that a 'one size fits all' approach may not be appropriate.</p> <p>The AUASB would support additional application material in ISQC 1 that provided illustrations of what the key elements of a QMA approach might include and how this may be applied to achieve the ISQC 1 principles.</p>

²⁷ ISA 220 Quality Control for an Audit of Financial Statements

²⁸ Governance of the firm, Engagement Quality Control Reviews and Reviewers; Monitoring and Remediation; Engagement partner performance and rewards; Human Resources engagement partner Competency; Transparency reporting (page 19 of the ITC).

		<p>Australian constituents indicated that larger firms have adopted a Quality Management Approach ('QMA') in applying the current principles contained in ISQC 1, whereas smaller firms have implemented ISQC 1 in a less systemised manner. It was noted that quality control processes apply across the whole firm and not solely the audit and assurance divisions. The IAASB therefore needs to be cognisant that any proposed changes to ISQC 1 would impact the firm as a whole and pose practical challenges. Currently, ISQC 1 allows for scalability and flexibility for small and medium firms (SMPs) to apply quality control processes as appropriate to their firm-wide and specific audit practice models. SMPs felt a QMA was less scalable than the current principles in ISQC 1 and if mandated may increase compliance costs and time at the firm level without necessarily achieving improved audit quality.</p> <p>(b) Refer to response in QC1(a) above.</p> <p>(c) The AUASB view is that it does not consider a restructure of ISQC 1 should necessarily impact on the ISAs. It would be useful to review ISA 220 to consider whether it should be amended to establish more granular principles or application material for the engagement partner at the engagement level. This would enable consideration of whether and if so, under what circumstances, the engagement partner might be allowed to have more reliance on the firm level and network-level processes around quality control.</p> <p>(d) The AUASB view is that the principles in ISQC 1 do not appear to be interpreted as being incomplete, misleading or unclear. Any changes to ISQC 1 should therefore remain at the firm level and continue to be principles based. The general consensus was that the "tone at the top" mindset would be difficult to prescribe in an audit standard as it is a character trait or a learned behavior and links closely to some of the broader issues raised around professional scepticism.</p>
22.	CAASB	<p>(a) While some AASB members and our Canadian stakeholders were intrigued by the previously defined QMA to redrafting ISQC 1, they commented on the lack of clarity about what it would look like in practice. Further, the IAASB also proposes a number of new or revised quality control requirements in the rest of the ITC. It is not clear how the inclusion of numerous requirements would fit into a risk-based QMA. For these reasons, the AASB and our Canadian stakeholders were unable to conclude on whether a QMA would enhance audit quality. The AASB recommends that if the IAASB receives sufficient support for moving forward with the QMA, it should study the approach further and more clearly articulate how firms would implement it, perhaps with examples. It would be especially useful for the IAASB to demonstrate what a quality control system prepared using a QMA would look like for firms of differing sizes and how it would differ from one prepared using ISQC 1.</p>

		<p>Comments supporting a QMA include:</p> <ul style="list-style-type: none"> • There may be benefits to taking a proactive approach to quality. Revisiting quality control policies and procedures under a QMA may provide the opportunity to identify efficiencies in the audit approach. • Since auditors take a risk-based approach to conducting audits, it would not be difficult to extend this approach to their quality control system. • As risks are likely to change over time, firms will be required to more regularly update their quality control policies and procedures. <p>Comments against a QMA include:</p> <ul style="list-style-type: none"> • The IAASB seems to be endorsing the QMA and also proposes a number of new or revised requirements relating to quality control. It is not clear how the inclusion of numerous requirements fit into a risk-based approach. • The ITC does not describe a QMA in enough detail to understand how it would be made operational. This makes it difficult to assess whether the potential benefits will be realized. Some Canadian stakeholders indicated they could not support the QMA without a clearer understanding of how QMA could be applied by smaller firms. • There is a view that changing ISQC 1 to a QMA will only result in a more bureaucratic quality control process. Firms will have to invest resources to document the process that could be better focused on more meaningful improvements to audit quality. The cost to implement could be significant, particularly for SMPs, and would likely exceed the benefits. <p>(b) No additional elements were identified. As noted above, it would be useful to see a sample system of quality control prepared using a QMA. It may then be easier to identify any additional elements to be included.</p> <p>(c) It is not clear whether changes to ISQC 1 would affect the ISAs. However, given the close link between ISQC 1 and ISA 220⁸, the IAASB should ensure that it reviews ISA 220 at the same time as ISQC 1. Without seeing the proposed revisions to ISQC 1 or what a QMA might look like, it is not possible to comment on possible revisions to ISA 220 or other ISAs.</p> <p>(d) As noted in the overall comments, the AASB does not see a strong need to make significant revisions to the requirements in ISQC 1. The AASB believes that the IAASB has higher priority projects that it should focus on before embarking on a major revision to ISQC 1. However, if the IAASB decides to proceed with a project to revise ISQC 1, the matters described in Table 2 could be addressed. The AASB and Canadian stakeholders note that scalability is likely the most important of the areas noted in Table 2.</p>
23.	CNCC-CSOEC	<p>Yes, we believe that the use of a QMA approach would improve audit quality. Such an approach is designed to increase the focus in ISQC1 on the importance of and need for effective firm leadership as a foundation to the ability of the firm to achieve quality at all levels. Audit firms need to establish quality plans and quality objectives. Such objectives have to be shared at all levels. Quality controls are only one component among others that contribute to the audit quality.</p> <p>Table 3 demonstrates all the relevant elements that should be taken into consideration while restructuring ISQC 1.</p> <p>We believe that any restructuring to ISQC 1 should also be reflected in ISA 220 since for instance the latter is premised on the basis of the firm-wide quality control environment.</p>

⁸ ISA 220, *Quality Control for an Audit of Financial Statements*

24.	HKICPA	Given that the ISQC 1 has been in place for many years and practitioners are familiar with the requirements. The IAASB would need to consider the implications to small and medium sized practitioners (SMPs) when introducing a new concept. SMPs would require training support and implementation guidance. It may be more effective to revise ISQC 1.
25.	IDW	<p>(a) We strongly support the proposed new QMA, since it will improve the ability of firms to manage their firm quality risks and design appropriate responses thereto, which could be expected to lead to continual improvement of their systems. The risk-based approach also promotes a scalable approach to quality, which generally ought to be more appropriate for smaller firms. The IAASB should be sensitive to the environment in which smaller firms operate, and may need to provide specific guidance tailored to their needs, particularly where alignment to corporate governance principles (see para. 53) is concerned. The application of certain aspects of such principles may be overly complex for many SMPs as they were not primarily designed with small entities in mind.</p> <p>However, where firms manage quality so as to address the specific risks (individual to the firms' circumstances and environment) that could impede the provision of services of high quality, both the firms and their stakeholders will benefit far more than from the more rigid current approach under ISQC 1.</p> <p>We therefore believe that an effective QMA could help improve audit quality.</p> <p>If the IAASB does decide to pursue the QMA considerable rewriting of much of ISQC 1 would likely be necessary.</p> <p>(b) However we do not believe that other elements need to be included, since the current proposal in Table 3 of the ITC is sufficiently comprehensive in that it includes the key elements.</p> <p>(c) QM at engagement level would be akin to project management, and would therefore focus on managing the detection risk element of audit risk for the individual engagement. As noted, the IAASB should consider whether certain aspects of firm policies and procedures in micro-firms (e.g., sole practitioners) can really be distinguished from quality control policies and procedures at engagement level.</p> <p>(d) We believe that a QMA is essential if the IAASB is to do justice to the key areas explored in the ITC. This applies in particular to risks of not addressing quality objectives, scalability and QM in the non-audit context. In our view, some revisions as well as changes to the structure of ISQC 1 will be inevitable if the IAASB seeks to appropriately address the matters in the ITC.</p>

26.	JICPA	<p>(a) We agree that the use of a QMA would help improve audit quality. Specifically, it would provide the following benefits:</p> <ul style="list-style-type: none"> • It would clarify the linkage between the elements contained in the current ISQC 1. • It would emphasize that fostering quality is at the core of a firm's quality control system. • It would assist the IAASB in revising ISQC 1 using a principle-based approach. • It would make it easier for firms to explain their quality control systems to stakeholders, which in turn would stimulate dialogue. Revising ISQC 1 to incorporate the use of a QMA would entail an approach similar to that used for the principles in the existing risk management and governance frameworks of the quality control systems (see paragraph 64). <p>(b) "Firm Culture and Strategy that Foster Quality" appears in the center of the circle in the chart in paragraph 64. However, Table 3 "Relevant Activities in Support of Elements of a QMA" offers no descriptions relevant to firm culture. We believe that the "control environment" provides the most important basis for QMA. We therefore propose the following changes:</p> <ul style="list-style-type: none"> • "Firm Culture and Strategy that Foster Quality" in the chart in paragraph 64 should be changed to "Control Environment that Fosters Quality." • Table 3 should also explain the "Control Environment that Fosters Quality" as an element of a QMA, with relevant activities. <p>The elements in the chart in paragraph 64 are connected with arrowed lines. These lines, however, do not necessarily show the process flow and the relationship between the elements is not easily understandable from the chart. This chart serves as a very important tool for educating stakeholders about the concept of QMA. We therefore propose that the IAASB consider the following:</p> <ul style="list-style-type: none"> • Change "Design and implement responses to quality risks" to "Design and implement control activities responsive to assessed quality risks" • Change "Implement quality control activities" to "Perform(Operate) quality control activities" • Change the element "Inform, communicate and document" to "Information and Communication" and move it out of the process flow connected by the arrowed lines. Instead, reposition it as an element of QMA in an outer ring of the circle "Control Environment that Foster Quality" ("Firm Culture and Strategy that Foster Quality" in the current chart).
27.	MAASB	<p>(a) We support the overall aims of QMA. In particular, the need for effective firm leadership is emphasized such as creating appropriate culture and setting tone at the top, and a greater consideration being given to integrity and ethical values and the environment in which the firm operates. We find the interaction of a QMA with the firm's culture and strategy useful as it would improve the mindset, values, ethics and attitudes of the engagement team so as to create a more effective integration of the firm's quality management system into other aspects of its management structure and business processes.</p> <p>Incorporating elements of a QMA into the standard can be achieved through amendments to the application materials. It is important that a QMA must not be a one-size-fits-all model but rather it should set out the primary elements that should be incorporated by firms of different sizes and be scalable.</p> <p>(b) We reiterate that alignment of the firm-wide objectives to individual partner and respective engagements remains imperative. We also believe it is important to measure quality control programmes rather than rely solely on exceptions to take action. Further, we would also recommend the development of integrated conflict management system to be included in the QMA as an</p>

		<p>introduction of a systematic approach to preventing, managing and resolving conflict led by a responsive and responsible leadership.</p> <p>(c) A QMA would support improved linkage between ISQC 1 and ISAs through a greater connection between the elements of a QMA and the audit engagement. The current requirements and guidance in ISAs may need to be reviewed to ensure that the connection of QMA can be successfully embedded.</p> <p>In addition, ISA 220 currently appears not to require documentation of how disagreements between the engagement partner and the engagement quality control reviewer are resolved. This may not be consistent with a QMA given it requires documentation on how quality risks are identified and resolved.</p> <p>(d) As noted in our response to part (a), we believe that the matters described in paragraph 59 and Table 2 can be addressed through application materials in ISQC 1.</p>
28.	NBA	<p>(a) Yes. We do support the use of a QMA. By adding a firm risk assessment element firms will be enabled to take proactive measures to identify and address risks to their quality control systems and therefore avoid potential systemic issues in their practice. In the Netherlands we have already been incorporating the QMA approach in a new regulation.</p> <p>The challenge could be that an individual or function becomes responsible and accountable for quality control. Nevertheless, the importance of quality control should be supported by the whole organization by the 'tone at the top' and the culture. Therefore, we recommend the IAASB to clearly define the various roles and responsibilities of the network and/or the firm versus the responsibilities of the individuals.</p> <p>(b) The QMA and the elements described in Table 3 are exhaustive. We have no other elements to include.</p> <p>(c) We only expect mirroring changes in ISA 220.</p> <p>(d) We are not in favor of addressing the issues in another way. Because that would mean that only the engagement partner bears responsibility for quality control. This is not the right way forward in our opinion.</p>
29.	NZAuASB	<p>(a) Feedback from constituents indicates that amending ISQC1 to include the use of a QMA is unlikely to improve audit quality as it is similar to what most of the larger firms and some of the medium sized firms have already implemented. Requiring a QMA appears to be a new rule, whereas the NZAuASB is supportive of strong principles. The NZAuASB considers it would be more helpful to provide further guidance to small firms and sole practitioners to assist them in applying ISQC1, and does not recommend restructuring ISQC1 to require the use of a QMA. Requiring the use of a QMA is more likely to add further compliance cost to all firms without a corresponding increase in audit quality. Feedback from the New Zealand regulator indicated that there are no shortcomings in the standard, only in the application thereof. Should the IAASB decide to restructure ISQC1, possible challenges in restructuring ISQC1 to require the firm's use of a QMA are:</p> <ul style="list-style-type: none"> • applying a QMA to non-assurance services and other parts of the business • keeping it principled based and not too rigid and prescriptive • avoiding becoming more compliance focused • making it scaleable for small firms and sole practitioners • avoiding telling firms how to run their business

		<p>(b) The NZAuASB has not identified any other elements to include. However, as noted above in response to QC1(a), it would be more helpful to include guidance to assist firms of all sizes in the application thereof, specifically SMPs.</p> <p>(c) The NZAuASB does not consider that a restructure of ISQC1 should impact on the ISAs or that ISA 220 would need to be amended to establish more explicit requirements for the engagement partner at the engagement level. A consistent view expressed by constituents is that there is scope for clarifying the role of the engagement partner by providing more guidance, but not new requirements. The cost of compliance with increased requirements versus a possible increase in audit quality needs to be carefully considered.</p> <p>(d) The NZAuASB recommends that ISQC1 be amended to include guidance that could assist firms of all sizes and with all different types of practices in designing appropriate policies and procedures in light of the relevant facts and circumstances to comply with the requirements and principles of ISQC1.</p>
Accounting Firms		
30.	BDO	<p>(a) We support a broader revision of ISQC 1 to include further consideration by the IAASB of use of a QMA. The ITC specifically noted concerns about firms needing to keep up with a rapidly changing business environment. Potential use of a QMA may provide a more holistic approach to determining quality control priorities and could help improve the ability of firms to reduce red-tape and increase their responsiveness to a changing quality environment.</p> <p>One challenge would be the need to consider the impact on network firms – especially where there may already be some QMA processes in place, as this could result in significant incremental investment by those firms.</p> <p>Implementing a firm-wide QMA may enable a firm to consider risks across all service lines (not just audit) and might create improved risk assessment and mitigation of risks from a quality perspective, as well as deeper consideration of issues such as the provision of non-audit services and independence issues faced by firms.</p> <p>(b) At the conceptual level, we believe the proposed QMA appears to be a logical approach to QMA-based risk assessment, response and review. As we have noted in our answer to QC1 (a), this is an area that would require further and more extensive consideration by the IAASB and others (firms and regulators).</p> <p>One area that could be explored further is the extent to which firms referred to in paragraph 65 can leverage and share suggestions for good practice when they establish the QCs to be followed and the processes to implement, monitor and review the approach. The planned change on monitoring feedback from all sources in any QMA could be quite a powerful driver of change, depending on the context in which the feedback was given.</p> <p>(c) While the use of a QMA could potentially be very useful, there needs to be clearer consideration of the impact of firm leadership and firm culture on leadership within the engagement team. If the IAASB plans to restructure ISQC 1, then any revised Standard that incorporates a QMA approach will need to recognize the importance of engagement level responsibilities as an important outcome from the QMA. This will need to incorporate an element of monitoring of engagement level behaviors in order to ensure QMA outputs are complete.</p> <p>(d) If the IAASB does not decide to adopt a QMA, then we agree that the items identified in paragraph 59 and table 2 should be considered in light of any changes to ISQC 1.</p>

31.	CHI	<p>(a) We agree with the proposed QMA approach.</p> <p>Adopting a QMA approach means that ISQC1 will require significant revision. ISQC1 has many good features, but it is essentially a list of quality control policies and procedures. ISQC1 has a “compliance” approach. QMA is much broader and is more about governance. ISQC1 has been effective since 2009 and has been subject to limited change since its issuance. Governance practice has changed significantly since 2009, as have the expectations of the stakeholders of the audit. IAASB therefore should be prepared to make a significant restructuring of ISQC1. This will, in turn, lead to a significant challenge to communicate the changes in both content and approach.</p> <p>(b) We agree with the approach taken in paragraphs 64 and Table 3. The integration with risk management and governance frameworks is the right approach.</p> <p>A reference to reporting quality could be added. This would connect the QMA and the activities described with transparency reporting and other reporting that firms undertake.</p> <p>(c) The restructuring of ISQC 1 clearly impacts upon ISA 220 and ISA 600.</p> <p>The impact on reporting standards should be considered. The audit report is the public output of the audit. Change to ISQC 1 and adoption of QMA is likely to have consequences for the process of presenting an audit report, and especially reports containing key audit matters.</p> <p>(d) IAASB should address the matters raised in paragraph 59 and Table 2. ISQC 1 has been in place for a long time, with little change. The professional environment and the expectations of stakeholders have changed. To remain fit for purpose a revision of ISQC 1 is needed.</p> <p>Even without taking a QMA approach, a revision of ISQC 1 should place more emphasis on leadership, culture and tone. There can be greater consideration of quality objectives and risks. The style of ISQC 1 can be changed to make it read less like a checklist.</p>
32.	DTT	<p>The ITC sets forth a QMA framework that it would propose to incorporate into ISQC 1. It is a broad principles-based framework and DTTL is supportive of pursuing such an approach. An analogy may be drawn to the internal control framework set forth by the Committee of Sponsoring Organizations (COSO) in the United States which is referenced in the ITC. This framework has become an accepted benchmark against which internal control structures are measured. Thus, a principles based structure can be relatively successful in providing organizations foundational principles to design processes and controls and assess their effectiveness. DTTL also believes this kind of framework can be used by entities of different sizes and complexity, providing a scalable approach that allows for firms to consider the nature of their practices (e.g., auditing mostly public interest entities (PIEs), auditing mostly smaller non-PIEs, or performing mostly non-audit services that have differing risk profiles) in designing appropriate responses, including relevant controls to achieve their quality objectives and requirements.</p>
33.	EYG	<p>(a) We support using a Quality Management Approach (QMA) for ISQC 1 that incorporates the elements and process included in the graphic on page 23 of the ITC. We believe that incorporating a quality risk assessment element, in particular, into ISQC 1 will result in improved quality control policies and procedures that are responsive to the risks present in a firm (or network) taking into account the governance and firm structure that is in place, as well as the risk profile of the firm’s services and engagements. Quality control policies that are responsive to the specific risks of the firms, with accompanying monitoring that assesses whether the audit quality objectives are met, should help to improve audit quality.</p>

		<p>We also specifically agree with incorporating leadership accountability for quality into ISQC 1, as well as enhancements to the expectations for a firm-wide culture of quality. Tying responsibility for quality into firm leadership and governance is, in our view, fundamental to improving quality (refer to our response to QC 5).</p> <p>The existing structure of ISQC 1 is organized by element of the system of quality control and presents requirements for each of the six elements. We find this structure useful as firm policies and procedures are also typically considered, developed or organized by element. In our view, implementing a QMA into ISQC 1 would mean incorporating into the structure of the standard a risk-based approach for each of the elements of the system of quality control, which would include:</p> <ul style="list-style-type: none"> • <i>Clear high-level objectives for firm policies and procedures related to the element</i> • <i>Supporting risk factors or topics specific to the element to be addressed in the development of firm policies that achieve the high-level objectives.</i> These risk factors or topics could be a combination of those that firms are required to address, required to consider, or may consider as part of the new required quality risk assessment. The results of the risk assessment would then determine the risks for which firm policies and procedures should include responsive measures. • <i>Requirement to re-assess risks on a periodic basis, and any specific monitoring considerations for the element</i> <p>With regard to the quality risk assessment process and supporting risk factors or topics, we believe that the manner in which these requirements are implemented in ISQC 1 will affect:</p> <ul style="list-style-type: none"> • The extent that ISQC 1 will be scalable among firms and networks of varying sizes and differing governing structures • The ability for ISQC 1 to remain fit for purpose over an extended period of time <p>We believe that the IAASB should carefully consider, for any particular element, which risks are <u>required</u> to be addressed in firm policy, and for any such required risks, ensuring that the requirement remains principles-based. This will enable firms to have the necessary flexibility to design and implement policies that fit the nature and extent of their risks, size, operating and governance structures, and other specific facts and circumstances, and will be the most effective to manage audit quality. We also caution against adding requirements (even if conditional) to ISQC 1 to address risks that some may view to be specific to the current auditing environment, because these risks change over time, and thus these requirements may become too narrow to effectively address new risks. Implementing principles-based requirements will facilitate firms addressing these new risks in their policies as they arise.</p> <p>In relation to the ability for ISQC 1 to remain relevant into the future, the fact that audit quality risks change over time, while objectives and principles of quality control generally do not, is an important overall consideration for the IAASB to take into account. For example, the ITC discusses risks around letterbox audits, audit delivery models, and involvement of other auditors and poses questions regarding the extent to which new requirements should be implemented in the ISAs or ISQC 1 to address these specific developments. Our view is that these are new(er) risks to existing objectives of quality control (e.g., appropriate direction and supervision of engagements). We would prefer an approach that involves setting clear objectives and principles-based requirements for, in this example, appropriate direction and supervision, with supporting guidance as necessary to address specific developments or issues that firms should consider in their risk assessment process and in designing their policies.</p> <p>(b) No, we do not believe there are other high-level elements to address.</p>
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		<p>(c) We would support the IAASB's consideration of whether ISA 220 is sufficiently risk-based and sets clear objectives for engagement-level audit quality that also assist in building quality into the audit throughout the audit process. We do not believe that the restructure of ISQC 1 should directly affect other ISAs.</p> <p>(d) We support a risk-based approach to the implementation of a firm's system of quality control. We acknowledge there are likely various structure alternatives for ISQC 1 to achieve this objective, including several of the enhancements suggested in Table 2. We believe that any structure should facilitate objective- and principles-based requirements.</p>
34.	GTI	<p>We support a broader revision and restructure of ISQC 1 to a QMA, as described in paragraph 64 and table 3, and we agree that it may be a way to respond to the diverse challenges discussed in the ITC. We are supportive of an approach that will incorporate the areas noted in paragraph 59 and in table 2.</p> <p>We do have some concerns with respect to the scalability of a QMA. The ITC notes that scalability could be embedded in a QMA by including factors to consider to support the achievement of quality objectives. Firms would be expected to apply the factors in identifying risks and in determining the nature and extent of responsive policies and procedures. The ITC also acknowledges in table 2 that this QMA approach "could explicitly acknowledge that responsive policies and procedures would likely vary depending on the nature and assessment of the related risks of the firm not achieving its quality objectives, benefiting firms of all sizes." We agree that allowing firms to identify risks specific to their practice and to develop responsive policies and procedures to those risks will improve the ability of the standard to be easily scalable to all size firms and we support this approach. However, we are concerned with the wording in paragraph 54, which seems contradictory to the discussion of scalability within the ITC and in table 2. Paragraph 54 indicates that "while retaining robust requirements, incorporating a QMA into ISQC 1...." This paragraph could be read to mean that the revised ISQC 1 will retain many specific requirements which would seem to be contrary to a QMA. The reference to ISQC 1 retaining "robust" requirements has generated much discussion within our network and has caused confusion over the concept of a QMA.</p> <p>It would seem that to arrive at a true QMA, the specific requirements would need to be kept to a minimum number of "core" requirements determined to be appropriate and applicable for all firms of all sizes. The standard could acknowledge that in addition to the core requirements applicable to all firms, "conditional" requirements may apply. For example, if a firm audits listed entities, the firm would be expected to develop policies and procedures specific to the delivery of these services, which generally carry higher levels of risk. This approach is consistent with the concept of a QMA as firms would be expected to develop policies and procedures responsive to higher levels of identified risks, while allowing smaller firms to more easily demonstrate their responses to lower levels of risk in their practices. The application material could provide further explanation of how appropriately responding to identified risks is scalable and can be applied by firms of all sizes.</p>
35.	KPMG	<p>We support the IAASB's proposal to revise ISQC 1 to include the use of a Quality Management Approach (QMA) as described in the ITC. We believe this approach will improve audit quality as it is risk-based, which will enable Firms to design appropriate quality control policies and procedures in response to their individual circumstances. (QC 1a)</p> <p>We consider that as audits become significantly more complex, both because entities subject to audit are becoming larger and increasingly globalised, as well as a result of the deployment of significantly more sophisticated audit techniques, e.g. Data and Analytics, it is critical for the standards to recognise that, although Engagement Partners are responsible for the quality of their audit engagements, they are able to rely on firm and network systems of quality control in order to appropriately fulfil their responsibilities. In this regard it is important that ISQC 1 / ISA 220 explicitly acknowledge the ability to place reliance and clarify when and under what circumstances it would be appropriate for such reliance to be placed. (QC 1c).</p>

36.	PwC	<p>(a) ISQC 1 defines important elements that are central to an effective system of quality control. It has served a useful purpose in that regard and, in our view, continues to provide a foundation for the future. Indeed, the requirements in ISQC 1 underpin our quality management systems and review as an integral part of our Quality Review programme.</p> <p>However, we agree that the standard needs to evolve, to reflect developments in approaches for effective risk management, quality and compliance systems that exist in today's environment. Enabling the QMA mindset, and a focus on a continuous cycle of quality management, has the potential to better focus and embed actions designed to support quality.</p> <p>Incorporating into ISQC 1 greater focus on quality management would, in our view, have a positive impact on shifting the mindset to:</p> <ul style="list-style-type: none"> • a more proactive identification and assessment of risks to quality; • think more broadly about how quality can be built into the design of processes, rather than focus primarily on detective controls; • continuous improvement; and • seeking clarity in responsibility and accountability. <p>Recognising that the key elements that are currently described in ISQC 1 are important drivers of audit quality (e.g., leadership, independence, human resources etc.), we believe it is both necessary and important to retain current requirements in a restructured and updated standard.</p> <p>We don't underestimate the challenges of trying to build a standard that incorporates both a principle-driven focus on a quality "process" (the QMA), designed to encourage firms to assess risks of not achieving quality objectives and designing appropriate responses that are commensurate with their business, while also retaining "core" requirements focused on key drivers of audit quality. Getting the balance right will be critical. If done well, we agree this has the potential to reinforce and improve audit quality by encouraging firms to think about other risks that may not be affected by/driven by the elements set out in ISQC 1 today. Explaining how, and why, core requirements fit within the overall QMA structure will be important in avoiding a "dual-track" standard that promotes QMA thinking but nevertheless imposes a proliferation of requirements that are based on current identified drivers of quality and those that others are seeking to add. That will be of crucial importance if the IAASB is to achieve one of its stated objectives of improving the scalability of the standard.</p> <p>(b) See response to point (a).</p> <p>(c) Based on the eventual revisions to ISQC 1, amendments will likely be needed to ISA 220 to accommodate potential engagement level risks and responses that are identified by a firm through its application of the QMA.</p> <p>We also suggest that paragraphs A32 to A34 of ISA 220 could be expanded to reference the importance of determining the root causes of deficiencies noted during an inspection, both to develop an appropriate action plan for the engagement as well as assessing whether also relevant for the broader system of quality control.</p> <p>(d) Not applicable – see response to point (a).</p>
37.	RBI	<p>We agree that ISQC 1 needs to be revisited. The ITC proposes that ISQC 1 incorporates the concept of a QMA. We are concerned that a QMA enshrined in requirements will add additional cost to firms' processes without any quantifiable or visible benefit. Further, we are concerned that regulators and IFIAR members will seek to "inspect" a firm's QMA without reducing their inspection efforts on specific</p>

		<p>audit engagements. Absent detailed specifications on what would be the successful elements of a QMA, firms and regulators will have wide differences and expectations</p> <p>The ITC suggests that a QMA may help to more effectively integrate the firm's quality management system into other aspects of its management structures and business processes. The terms of reference for your Board focus on the role of setting high-quality international standards for auditing, quality control, review, other assurance, and related services.</p> <p>We believe that the IAASB should restrict itself to issuing standards related to these areas, and not seek to embed or institutionalize processes or structures - and "best practices" - more broadly within accounting firms.</p> <p>Some may argue that QMAs are relevant for all practices. If the concept of a QMA is to proceed then to make QMA functional, we recommend that examples will need to be developed on how it could be applied in a sole practitioner with no PIE clients, in a 2-3 partner firm with no PIEs, in a small firm with one or more PIE clients and perhaps also for an integrated network</p>
38.	RSM	<p>(a) We support use of a QMA to improve audit quality with the following concerns:</p> <ul style="list-style-type: none"> • This is an area where we believe a great level of detail is required to improve our understanding of how QMA could be operationalized in the context of financial audit. • It may be necessary to substantially rewrite ISQC1 in order to fully implement a QMA approach. If this is the case the benefits of such as approach need to be clearly articulated, in particular to smaller firms. <p>(b) None.</p> <p>(c) ISA 220 Quality Control for an Audit of Financial Statements will need to be updated and the other ISAs will need to be reviewed for conforming changes or for new processes introduced by the QMA.</p> <p>(d) If ISQC 1 is not restructured, we support the more limited application of the principles of a QMA approach in an update to ISQC 1. However, if this approach is taken more complex areas need to be explained clearly and, importantly consideration should be given to the applicability of ISQC 1 to other non-audit engagements and potentially the need to develop a standard to address non-audit engagements.</p>
39.	SRA	--
Public Sector Organizations		
40.	AGC	<p>(a) The use of a QMA appears to be an opportunity to better integrate organizational risk management and audit quality risk management. The improved integration of the audit system of quality control and firm governance and risk management is a worthwhile exercise as currently, an audit system of quality control can operate in isolation or addition to the organization's overall risk management framework, particularly where the organization's mandate is broader than an audit practice. Further, a public sector legislative auditor may be subject to additional requirements (such as whistleblowing or other integrity provisions) that overlap but are not limited to audit engagements and that may not completely address requirements set out in audit standards such as ISQC 1. This may create duplication and complexity as the firm must implement policies and procedures that completely address a requirements of professional standards, law, regulation and public sector policy. Improved integration of risk management and monitoring would likely ultimately improve audit quality.</p> <p>Challenges in restructuring ISQC 1 to facilitate a more risk based approach to audit quality include appropriately responding to the risk of inconsistent system design as each firm designs and implements policies and procedures relevant to the activities of</p>

		<p>the firm and its assessment of risk. The document for comment is unclear as to how the QMA would be scaled down for smaller firms/partnerships and sole proprietorships.</p> <p>(b) We hold the view that a restructured ISQC 1 needs to continue to align to the elements found in best practice internal control frameworks such as the COSO framework.</p> <p>If monitoring activities are recognized to include the results of external inspections, guidance as to whether these activities may reduce management monitoring activities should be provided.</p> <p>(c) Engagement quality control requirements should be directly linked to those established in ISQC 1. As a result, we would expect a change to restructure ISQC 1 would have a direct flow-through effect on engagement quality standards. We encourage the Board to address any revisions to ISA 220 simultaneously with ISQC 1 in order to ensure their continued integration. We also note there is no discussion of other assurance engagements in this document for comment. Engagements other than audits of historical financial information, conducted in accordance with other international assurance standards would be equally impacted by changes to ISQC 1. We would therefore encourage the engagement quality elements of these standards also be revised simultaneously with ISQC 1 to ensure proper integration.</p> <p>(d) If ISQC 1 is not restructured to require the use of a QMA, we would prioritize monitoring and the application of ISQC 1 for non-audit engagements (e.g., specified procedures, review engagements). We do not believe these are dependent on a QMA approach and that the important improvements noted in table 2 in respect of the above could be achieved within the existing structure of ISQC1. We also would recommend the Board ensure ISQC 1 requirements are consistent and properly integrated with engagement level quality requirements.</p>
41.	AGSA	<p>(a) We fully support the use of a QMA as it will assist to improve quality by being more specific and customised to the risks facing various individual audit firms.</p> <p>The QMA focuses primarily on risk identification, risk assessment and risk response which will be beneficial in improving quality in audit and other engagements. It would be more descriptive and communicate better what is expected by firms in terms of quality control</p> <p>Risk identification and assessment might pose challenges due to subjectivity of the audit firms and detailed guidance must be included in the restructured ISQC1 to ensure that it is consistently applied. However this risk identification and assessment should be in addition to the existing six elements of ISQC1 whereby the adequate policies and procedures must be in place and implemented. Furthermore the standard should as provide minimum requirements that the firms would have to perform in order to ensure that the risk identification and assessment process (QMA) is consistently applied.</p> <p>Furthermore a challenge might arise when it comes to implementation of this at firm level as the nature, environment and maturity of each of audit firm is different and sometimes unique.</p> <p>ISQC 1 would therefore have to be principle based and provide audit firms with the necessary tools and guidance on how to best implement the QMA. This should be done such that the monitoring/firm inspections of the firm's compliance with ISQC1 and/or effective functioning of a firm's QMA is possible and not too subjective.</p>

		<p>(b) Included under the element implement quality control activities consideration must be given to provide adequate training on these policies and procedures. This will ensure that the firm's personnel are adequately trained in these areas to assist in enhancing audit quality.</p> <p>(c) Enhancements to ISA 220 to realign the principles contained in QMA but major changes are not anticipated. A consideration should be given to ensuring that where applicable the quality risks identified and responses thereto should be cascaded down to audit engagement level.</p> <p>(d) The restructuring of ISQC 1 to incorporate the QMA is supported as the best option to improve audit quality.</p>
42.	GAO	<p>We believe that a QMA should encompass consideration of root causes of quality control issues across audit organizations. The proposed changes to ISQC 1 are focused on financial statement audits, but ISQC 1 covers many other engagements performed in accordance with IAASB standards, so changes should cover other engagements, including direct engagements and attestation engagements. In addition, if ISQC 1 is updated, we believe it would be helpful to update ISA 220 at the same time to ensure proper integration of the changes.</p>
43.	INTOSAI	<p>(a) The use of a QMA appears to be an opportunity to better integrate organizational (Supreme Audit Institution (SAI)) risk management and audit quality risk management (which is a subset of organizational risk management). The improved integration of the audit system of quality control and firm/SAI governance and risk management is a worthwhile exercise as currently, an audit system of quality control can operate in isolation or addition to the organization's overall risk management framework, particularly where the organization's mandate is broader than an audit practice. Further, a public sector SAI may be subject to additional requirements (such as whistleblowing or other integrity provisions) that overlap but are not limited to audit engagements and that may not completely address requirements set out in audit standards such as ISQC1. This may create duplication and complexity as the firm/SAI must implement policies and procedures that completely address a requirements of professional standards, law, regulation and public sector policy. Improved integration of risk management and monitoring would likely ultimately improve audit quality.</p> <p>Challenges in restructuring ISQC1 to facilitate a more risk based approach to audit quality include appropriately responding to the risk of inconsistent system design as each firm/SAI designs and implements policies and procedures relevant to the activities of the firm/SAI and their assessment of risk.</p> <p>(b) We hold the view that a restructured ISQC1 needs to continue to align to the elements found in best practice internal control frameworks such as the COSO framework.</p> <p>If monitoring activities are recognized to include the results of external inspections, guidance as to whether these activities may reduce management monitoring activities should be provided.</p>

		<p>(c) Engagement quality control requirements should be directly linked to those established in ISQC 1. As a result, we would expect a change to restructure ISQC 1 would have a direct flow through effect on engagement quality standards. We encourage the Board to address any revisions to ISA 220 simultaneously with ISQC1 in order to ensure their continued integration. We also note there is no discussion of other assurance engagements in this document for comment. Engagements other than audits of historical financial information, conducted in accordance with other international assurance standards would be equally impacted by changes to ISQC 1. We would therefore encourage the engagement quality elements of these standards also be revised simultaneously with ISQC 1 to ensure proper integration.</p> <p>(d) If ISQC 1 is not restructured to require the use of a QMA, we would prioritize monitoring and the application of ISQC 1 in a non-audit context. We do not believe these are dependent on a QMA approach and that the important improvements noted in table 2 in respect of the above could be achieved within the existing structure of ISQC1. We also would recommend the Board ensure ISQC 1 requirements are consistent and properly integrated with engagement level quality requirements.</p>
Preparers of Financial Statements		
44.	PAIB	<ul style="list-style-type: none"> Broadly, a quality management accounting (QMA) approach that positions the key elements of fostering audit quality at the accountancy firm level, linked to the firm's strategic objectives, and under the direct responsibility of firm leadership could lead to a greater focus on the key aspects that can drive audit quality. However, the objective of the QMA, and the implications for practice, are unclear. Alignment to governance and risk management frameworks suggests that the objective of this proposed work stream is akin to establishing good governance and accountability in accountancy firms, which might extend well beyond issues of quality management that exist currently. The comparison to other frameworks, such as the Organisation for Economic Co-Operation and Development (OECD) Principles of Corporate Governance and Committee of Sponsoring Organizations of the Treadway Commission (COSO) might be misleading as their scope and objectives are much broader than what the IAASB appears to be seeking to achieve with QMA. (For completeness, it could also be necessary to refer to other international risk management frameworks, such as International Organization for Standardization 31000, Risk Management, Principles and Guidelines.) The difference between the QMA and International Standard on Quality Control (ISQC) 1 approaches and the implications needs to be clearer. A QMA would need to be firm-wide, with certain elements centralized. There would need to be a clear and broad-based understanding that it applies beyond audit to all lines of the firm's business. It will also need to address how small- and medium-sized practices apply it proportionately. The QMA does not include any assessment of client or other stakeholder communication practices throughout the audit.
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	We agree that the use of a QMA would help improve audit quality. Feedback from our members is that larger firms have already mostly adopted a QMA and that smaller firms could benefit from it. While it is envisaged in the ITC that a QMA will provide a scalable approach to quality management, the fact that it has, to date, been predominantly used by large firms means the implementation will need to be accompanied by specific guidance to show how it can be applied to practices of different sizes and complexities. Given that a common criticism of the existing ISQC 1 is that it does not scale well to smaller practices, it is important that any changes explicitly address this

		<p>perception, perhaps by preparing robust transition and implementation guidance for smaller firms. The requirement will have to be outcomes-driven, with guidance and illustration to help practitioners meet the objective instead of getting overburdened by the costs of transition.</p> <p>It is important to recognise that the greater flexibility and principles-based structure of the QMA may mean a variability of approaches, particularly in the early years of adoption. Firms must be given time to implement the QMA in a way that works best for them but also complies with the objectives of the standard.</p>
47.	AIC	<p>a. Absolutely an approach would apply quality management to improve the quality of our audits. We understand that the biggest challenge to implement the change would be the dissemination and training, above all to understand the scope of the amendments.</p> <p>b. We are sure that additional elements than listed in paragraphs 64 and Table 3 of the project will rise, which ascend from its application in the field. In that case it is a matter of learning from experience and if justifies its inclusion, change for a second time ISQC1</p> <p>c. Definitely the quality management approach will positively impact best practices of quality control firms by applying appropriate potential ISA requirements of this project.</p> <p>d. We cannot imagine a scenario without restructuring the ISQC1, enthused us with the project, we understand perfectly necessary and feasible it is.</p>
48.	AICPA	<p>We believe that the application of a QMA could enhance a firm's approach to evaluating its quality control system; however without an example for at least one element of how the QMA principle would be adopted, it is unclear how this approach will be different than the application of the current QC standards. Paragraph 54 of the ITC states, in part, "While retaining robust requirements, incorporation of a QMA ...". We note that the concept of "retaining" refers to the robustness of the requirements, and hope it is not intended to imply that each existing requirement will be retained regardless of whether the QMA makes it redundant. We support incorporating a QMA as a general principle underlying the firm's approach to its Quality Control (QC) systems and policies and procedures. Application material that illustrates how a firm might take such a holistic approach to designing a QC system responsive to its risks and embedding quality throughout would be helpful, as would ample guidance on how a QMA could be incorporated, including examples of the types of risks and how to objectively identify them. We believe this would be especially helpful for Small Medium Practitioners (SMPs).</p> <p>If ISQC 1 is not restructured to adopt a QMA approach, we support addressing the matters described in paragraph 59 and table 2 through implementation guidance that clearly spells out what is expected in applying the requirements.</p>
49.	APESB	<p>[Response to QC1 & QC5]</p> <p>In Australia, APESB has issued APES 325 Risk Management for Firms (originally issued 2011 and revised 2015) which requires a Firm to establish and maintain a Risk Management Framework. The Framework is used to identify, assess and manage key risks, and therefore Australian firms should already be considering audit quality risks within this Framework. As a result, the introduction of a QMA should not significantly impact Australian firms.</p> <p>APESB agrees with the proposed action of introducing a principles-based QMA into ISQC 1. By using risk as the determinant of the quality control measures to implement, this approach will ensure firms implement tailored quality control systems that are scalable to their operations, activities and services they provide. It will also provide a mechanism to capture and address the results of internal and external firm inspections.</p>

50.	CAANZ	<p>(a) Whilst we support the concept of a QMA, it is not clear what differentiates a QMA from the current approach and how it would operate in practice. The cost of compliance with increased mandatory requirements versus a possible increase in audit quality needs to be carefully considered.</p> <p>The key challenge would be implementing a QMA firm-wide where there are multiple service lines each with different objectives. There are concerns about how any additional cost would be justified to the market. Scalability for smaller firms is also a concern.</p> <p>(b) In developing any QMA, we support using an approach that is similar to, or aligned with, existing risk management and governance frameworks. In doing so, we encourage the use of an internationally recognised framework such as ISO 31000 Risk Management or COSO.</p> <p>(c) If there are no substantive changes to ISQC 1, a restructure alone does not necessarily have to impact on the ISAs.</p> <p>(d) We agree that the culture within a firm is a key element that creates an environment for audit quality. However, the tone at the top within a firm is determined by the characteristics of the leadership of that firm. We do not believe that a standard is an appropriate vehicle to direct firm-wide leadership styles.</p>
51.	CAI	We broadly support the proposals to introduce the use of a Quality Management Approach. Overall, these should support both appropriate leadership in audit firms and appropriate accountability for audit quality.
52.	CAQ	ISQC 1 requires a firm to develop policies and procedures addressing key elements of a system of quality control. The CAQ supports providing application guidance that offers examples of how firms can meet the objectives of ISQC 1, such as using a Quality Management Approach (QMA). While the QMA could be helpful to some firms in integrating the firm's policies and procedures within its quality control system through the identification of risks relevant to quality, other firms have already developed a robust program for complying with the requirements of ISQC 1 and should be able to maintain that existing program. The CAQ views extant ISQC 1 as providing a sufficiently comprehensive overview of a firm's responsibilities for its system of quality control for audits and reviews of financial statements and other assurance and related services engagements. The relevant requirements, including the elements of a system of quality control, are outlined in a format that gives auditing firms the flexibility to create a framework that incorporates those elements and is appropriately designed from the firm's perspective to meet its specific risks and quality control objectives. The CAQ believes that the flexibility inherent in ISQC 1 allows both smaller and larger firms the opportunity to tailor their application and compliance efforts in an effective and efficient way.
53.	CIIPA	The use of a QMA may be helpful to improve audit quality though not universally. The larger network firms generally have robust quality systems in use which are challenged on a regular basis both internally by each firm and by external regulators. It is unlikely that an IAASB QMA would include policies and procedures that are markedly different from the quality systems currently in place within these larger network firms. Granted, larger network firms have quality occurrences just like smaller firms however these occurrences would generally not be the result of their quality systems being inappropriate. The occurrences would be the result of the quality systems not being implemented appropriately. Narrowing the discussion to firms outside of the larger network firms the use of a QMA within ISQC1 would certainly provide clarity on a minimum standard of quality and should result in an overall improvement in audit quality.
54.	CIMA	--
55.	CPAA	(a) CPA Australia support the application of a risk based quality management approach and over ¾ of the respondents to CPA Australia's survey on the ITC considered that the quality control system for audits should be based on risk. We consider that a

		<p>QMA will help to improve audit quality as it will help to focus audit effort on areas of highest risk of not achieving engagement quality objectives, however, this is predicated on the appropriateness and effectiveness of the detailed framework that the IAASB develop. In Australia there may be some limitation to the improvement to audit quality from introducing a QMA as a risk-based approach is already required by the Accounting and Professional Ethical Standards Board (APESB) in APES 325 Risk Management for Firms. This standard requires the firm to establish and maintain a Risk Management Framework which includes policies and procedures that identify, assess and manage key organisational risks, and encompasses all aspects of a firm's activities not restricted to audit and assurance services. We welcome the extension of the focus of ISQC 1 beyond audits to other assurance and related service engagements and acknowledge that the revisions to ISQC 1 are likely to be complementary to the requirements currently in place in Australia.</p> <p>We have not identified any particular challenges in restructuring ISQC 1 to address the proposed QMA, however we support the intention to imbed scalability in the QMA in order to better accommodate the needs of small to medium practitioners (SMPs) and sole practitioners.</p> <p>(b) The proposed elements of a QMA in Table 3 are appropriate with one exception. We consider that “implement quality control activities” would already be encompassed in the previous element “design and implement responses to quality risks” as those responses would be quality control activities. Consequently this element should be replaced by “operate quality control activities” and relevant activities could be described as “The firm operates quality control policies and procedures as designed.”</p> <p>(c) If ISQC 1 is restructured then ISA 220 Quality Control for an Audit of Financial Statements will in turn need to be revised as it is currently structured around the elements of the extant ISQC 1. Other standards which may need some revision include: ISA 200, ISA 300 and ISA 600.</p> <p>(d) We support the introduction of a QMA as described.</p>
56.	DnR	<p>Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE.</p> <p>We support a Quality Management Approach (QMA) that is risk based and flexible. The direction taken when developing the revised requirements in the ISAs and ISQC1 must allow for tailoring to the specifics of each audit firm, small and large. For the QMA to work in practice it is important to show examples on how the framework should be effectively applied in a small practice.</p>
57.	EFAA	<p>We are supportive of the IAASB's preferred option to introduce a QMA. 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: “We are supportive of the work that the IAASB intends to perform in connection with ISQC1. We agree that this project should be prioritized and that there is a need to re-consider ISQC1 and quality control in general. That said, we believe that any review should seek to take into account the proportional application of the standard and that ISQC1 should be reconsidered in line with “think small first” principles. This would enable ISQC1 to be appropriately and effectively applied in both the smallest (SMP) and the largest of firms. We note that the IAASB is aware that some NSSs have already begun to explore how this may be done and we would encourage the IAASB to engage fully with all stakeholders and all NSSs in this regard.</p> <p>The “think small first” principle implies that policy makers give full consideration to SMEs at the early policy development stage. Ideally rules impacting on business should be created from the SMEs point of view or in other words, SMEs should be considered by public authorities as being their “prime customers” as far as business regulation is concerned. The principle relies on the fact that “one size does not fit all” but a lighter touch approach can also be beneficial to larger businesses. Conversely, rules and procedures designed for large</p>

		<p>companies create disproportionate, if not unbearable burdens for SMEs as they lack the economies of scale. More recently the IAASB has introduced a Building Block approach to standard setting during its "Auditor Reporting" project that enabled the needs of users and stakeholders to be recognized when differences were apparent. We very much welcomed and supported this approach and would call on the IAASB to maintain and increase such strategies where appropriate."</p> <p>Therefore, as outlined in the ITC it would seem that the IAASB is proposing a more scalable and proportional system of Quality Control. Whilst we will need to understand the finer details in due course we are encouraged by the IAASB's planned way forward.</p> <p>(a) Whether the use of an QMA will improve audit quality is somewhat dependent on whether the resulting QMA is an improvement on the extant standard. However, on the understanding that it leads to an improved quality control standard that is scalable, appropriate for all types of firms and for audit and non-audit engagements, and as such can be tailored directly to the required levels of risk then we would agree that it should lead to an increase in quality.</p> <p>The challenges will likely come from the tensions between drafting the QMA in such a manner for it to be scalable so as to enable use by SMPs and smaller firms and satisfying the demands of regulators in connection with audits of large public interest entities. That said, the IAASB has now demonstrated that it is able to use a building block approach and therefore these challenges should not be insurmountable.</p> <p>(b) We are not aware of any. The diagram in paragraph 64 depicts the system of quality control as a continual loop and that appears wholly appropriate; continual quality control improvement is required to address the dynamics of our environment.</p> <p>(c) We agree that ISA 220 will be affected. As to the extent of the impact on other ISAs then that will be better informed as the QMA is developed.</p> <p>(d) As we have outlined above EFAA is supportive of a revision of ISQC1 to deal with issues of scalability and proportionality.</p>
58.	FACPCE	<p>(a) We believe that the QMA help improve audit quality because the leadership of the firm would be involved in an ongoing process of risk assessment of quality, which would force him to design controls and procedures to mitigate those risks, and in the case that those who they have been designed and were not efficient, should be detected by monitoring and remediated as circular continuity of the process quality risk assessment. We believe that incorporating the findings of the past to a process of improvement and remediation, rather than they remain as a photograph of the past, allow continuous improvement.</p> <p>The challenges would be in ISQC1 adapt its objectives and each of the stages of QMA.</p> <p>(b) We believe that the periodicity which should carry out monitoring or reassessment of risks quality, or, failing that, that the strategy defined by the firm in the QMA clearly contemplates the periodicity should be included.</p> <p>(c) We believe that the QMA is an approach to global strategy that includes compliance with the quality control system to firm level and of each custom level, so your application does not generate large additional changes listed in paragraphs 75-83.</p> <p>(d) We believe that the QMA approach would be the best solution to try with the differences in sizes of firms and services provided.</p>
59.	FEE	<p>(12) We support the Quality Management Approach (QMA) as it is designed to be more flexible and more responsive to risks. It also has the potential to better address the issue of proportionality for SMPs; this is difficult with International Standard on Quality Control (ISQC) 1. For this to be successful, however, the IAASB must give examples of just how this framework could be effectively applied in a small practice scenario. In order to convince SMPs of this, an impact assessment might also be useful. Lastly, the IAASB should reflect on proactive aspects of QMA that could potentially prevent audit deficiencies.</p>

		<p>(63) Yes, the use of a QMA approach would improve audit quality. Such an approach is designed to be more flexible and more responsive to risks. In addition, a QMA approach could facilitate the move away from a focus on detective measures to a preventive approach. It might also better address the issue of proportionality for SMPs which was difficult with ISQC 1.</p> <p>(64) It is our understanding that approaches similar to a QMA are already used by the largest firms. Although as noted above, a QMA might be capable of more proportionate application than was the case with ISQC 1, its application might still be a challenge for smaller firms; the IAASB would be in a good position to help and make clear how smaller firms might apply a QMA, since they will likely face different challenges than those experienced by larger firms. In order to convince SMPs of this, an impact assessment might also be useful.</p> <p>(65) We have some reservations and hence would welcome more specificity in relation to how corporate governance principles can be useful and relevant in the context of identifying, assessing, and responding to quality risks as mentioned in paragraph 53. Corporate governance principles mentioned in this paragraph were not designed with SMPs and their activities in mind. A QMA should be related to the nature and size of the firm, as well as to the services offered by that firm.</p> <p>(66) Finally, paragraph 63 merits further clarification on the “sufficient and appropriate resources” required to have an effective operation of the quality system. As acknowledged in the ITC, we reiterate that the IAASB will need to ensure that there is flexibility to allow the audit firm to tailor a QMA to their individual needs and circumstances.</p> <p>(67) Table 3 demonstrates all the relevant elements that should be taken into consideration while restructuring ISQC 1.</p> <p>(68) Any restructuring to ISQC 1 should also be reflected in ISA 220 since, for instance, the latter is premised on the basis of the firm-wide quality control environment.</p> <p>(69) We are supportive of a QMA approach.</p>
60.	FSR	<p>In relation to quality control, we agree that it is appropriate to have a risk based approach. We also believe that the overarching principle that permits the QMA to be tailored to the specifics of the audit firm is sound; and this principle should also be reflected in the governance of the individual firm or network. The management and governance of an audit firm shall in our opinion be regulated by the individual firm or network and the local regulation and not by the international standards.</p> <p>For specific answers to the queries in the ITC, we in general refer to the comment letter from FEE.</p>
61.	IBA	--
62.	IBRACON	<p>(a) We believe that use of a QMA helps to improve audit quality. The approach would emphasize the responsibility of firm leaders for more proactive, scalable and robust response to managing quality risk that would more easily adapt to a rapidly changing business environment. A QMA would integrate a firm's policies and procedures within its quality system through identification of relevant risks to quality and design of appropriate policies and procedures to address those risks.</p> <p>However, it is important that appropriate guidance be provided to determine how this concept would be applied especially to small and medium sized practices.</p> <p>(b) We believe that Root Cause Analysis process may be a relevant tool for QMA in order to properly develop a quality improvement plan, including aspects related to workload, sufficiency of human resources, training and other related quality control aspects.</p> <p>(c) We believe that such changes would improve audit quality.</p>

		(d) We support accountability and responsibility for culture/tone at the top, leadership for independence (as well as the other elements of a system of quality control). Therefore, if not a QMA, such approach should be incorporated under other roles within the firm that are responsible for audit quality (e.g. risk management, audit support groups, consultation and documentation aspects of the audit and others).
63.	IBR-IRE	<p>(16) IRE-IBR is in favor of introducing a QMA to help enhance audit quality:</p> <ul style="list-style-type: none"> - A QMA would make it clear that firm leadership, as part of the firm's governance structure, is responsible for establishing the firm's overall culture and strategy, and thereby accountable for quality overall. This accountability is an important factor in enhancing audit quality. - It is important that the firm's overall strategy would be required to incorporate its quality objectives. - "Tone at the Top" is certainly a key element in defining the overall culture of the audit firm. <p>(17) While all elements included in table 3 are relevant, and a QMA would be more scalable than the current ISQC1, we believe it is essential that the IAASB clearly articulates the benefits of a QMA for small and medium-size firms and includes sufficient practical illustrations of this scalability in ISQC 1 as it applies to small and medium-sized firms.</p> <p>(18) In that respect, we believe that the first element of the QMA ("Establish quality objectives") is the key driver for a more proactive model to strengthen ISQC1 and the quality control standards for firms. Establishing quality objectives allows for a more holistic approach to quality and embeds quality more effectively in the audit firm's strategy and day-to-day activities.</p> <p>The other suggested elements of a QMA are equally relevant although we are concerned about the potential practical issues facing SMPs in designing appropriate responses to the risks identified as well as providing effective monitoring. Guidance will be necessary in those respects.</p> <p>(19) A topic, which might be relevant, mainly for SMPs, is the position and the role of Equity Partners in the quality monitoring process of the firm (the concentration of firm Leadership and quality monitoring in the hands of one single professional within the firm). We are concerned as to how the use of corporate governance principles would translate in practice for SMPs.</p> <p>(20) We support the performance of causal factor analysis which would allow to understand root causes of quality issues and would then be shared with teams managing all engagements, to avoid the repetition of findings. Guidance regarding the extent and documentation of such analysis will be needed to ensure a proportionate application to SMPs so that they can benefit from this approach while not adding an undue burden.</p> <p>(21) Again, we emphasize the importance of maintaining ISQC 1 practical and applicable to concrete situations.</p> <p>(22) Any restructuring of ISQC 1 should be reflected in ISA 220.</p> <p>(23) IRE-IBR is supportive of the use of a QMA.</p>
64.	ICAEW	The impact of introducing a QMA requirement is likely to depend on the audit firm's starting point. We understand that a number of firms, particularly the largest firms, are likely to have already adopted much of what is being proposed for the QMA. Based on what we have been told by firms that have already adopted this approach, we believe that there will be significant challenges for firms in implementing each of the elements of the QMA. Whilst we consider that in principle a QMA could be implemented effectively by all firms if there is leadership buy-in at the firms, we consider that the cost of implementation will be significant, and this is likely to be disproportionately so for smaller firms, albeit that there might be cost savings for them longer-term if the QMA approach can be made flexible and scalable.

	<p>We support the IAASB's objective as described in paragraph 50 of the ITC, ie to introduce "a more proactive, scalable and robust response to managing quality risk that would more easily adapt to a rapidly changing business environment". A move to a more preventative approach and less focus on detective measures would be welcome but the challenge for the IAASB is achieving this in practice and the ITC is unclear about how this will be done. In particular we are concerned about ensuring scalability and the position of SMPs and probably mid-tier firms as well if a QMA is something new for them. If a QMA requirement is introduced for all firms, it is unclear which of the existing ISQC 1 requirements would no longer apply to SMPs, if any, and the rest of the quality control section of the ITC arguably perpetuates this feeling of it being likely that there will be more requirements overall by examining a number of possible new requirements beyond the existing ones. Looking at the extensive range of matters covered by a QMA, including the matters covered in Tables 2 and 3 of the ITC, we consider that there would need to be a considerable amount of supplementary material and guidance for firms, particularly for SMPs, for them to implement a QMA effectively and efficiently (the experience regarding smaller entity audit documentation is relevant here). We believe it is unlikely that SMPs will welcome these changes, particularly at a time when there are many other regulatory changes and significant changes to the financial reporting for the entities they audit.</p> <p>The approach and understanding of regulators will be important if a QMA requirement is introduced. There could be benefits arising from the regulators being satisfied regarding the effective operation of the QMA and adjusting their regulatory approach accordingly, but there is also a risk of this being perceived as something that just gets added to the compliance checklist.</p> <p>The needs of SMPs need to be considered, as well as the scope of ISQC 1 and, for example, whether a different standard or standards are necessary for compilation engagements and other non-audit engagements. At the current time we are unconvinced that the successor to ISQC 1 with the QMA requirement will be easily scalable and we therefore consider it appropriate that it is restricted to audit engagements only. In our view compliance with the ICAEW's less onerous Practice Assurance Standard on quality control is appropriate for non-audit engagements. Furthermore, we are concerned about the burden on SMPs of introducing a QMA requirement and suggest that an alternative would be to make this non-mandatory (covering the merits and scalability of it in the application material) or applying the QMA requirement to firms with listed or public interest entity audits only.</p> <p><u>Response to specific questions</u></p> <p>a) Yes if it is clearly described and the purpose is clear, ie to enable firms to determine their approach based on their specific circumstances. The challenge is to ensure that the new standards allow this to happen in practice and for clear benefits to be seen, rather than being interpreted as further requirements (and burdens) for firms on top of the existing requirements. Ideally ISQC 1 would be completely rewritten to accommodate the approach but we are currently unclear how this will be done and, for example, which of the existing requirements would no longer be mandatory.</p> <p>The impact of introducing a QMA requirement is likely to depend on the audit firm's starting point. We understand that a number of firms, particularly the largest firms, are likely to have already adopted much of what is being proposed for the QMA. Based on what we have been told by firms that have already adopted this approach, we believe that there will be significant challenges for firms in implementing each of the elements of the QMA. Whilst we consider that in principle a QMA could be implemented effectively by all firms if there is leadership buy-in at the firms, we consider that the cost of implementation will be significant, and this is likely to be disproportionately so for smaller firms, albeit that there might be cost savings for them longer-term if the QMA approach can be made flexible and scalable.</p> <p>We support the IAASB's objective as described in paragraph 50 of the ITC, ie to introduce "a more proactive, scalable and robust response to managing quality risk that would more easily adapt to a rapidly changing business environment". A move to a more preventative approach and less focus on detective measures would be welcome but the challenge for the IAASB is achieving this</p>
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65.	ICAP	<p>The standard needs to evolve, to reflect developments in approaches for effective risk management, quality and compliance systems that exist in today's environment.</p> <p>Incorporating into ISQC 1 greater focus on quality management would, have a positive impact on shifting the mindset to:</p> <ul style="list-style-type: none"> • a more proactive identification and assessment of risks to quality; • think more broadly about how quality can be built into the design of processes, rather than focus primarily on detective controls; • continuous improvement; and • seeking clarity in responsibility and accountability.

		<p>The key elements currently described in ISQC1 are important drivers of audit quality (e.g., leadership, independence, human resources etc.).</p> <p>Amendments will likely be needed to ISA 220 to accommodate potential engagement levels risks and responses that are identified by a firm through its application of the QMA.</p> <p>We also suggest that paragraphs A32 to A34 of ISA 220 could be expanded to reference the importance of determining the root cause of any deficiencies noted during an inspection of engagement documentation both to develop an appropriate action plan for the engagement as well as for the broader system of quality control.</p>
66.	ICAS	Overall we welcome the introduction of a new QMA system. We believe that such a system might help to tackle some of the scalability issues faced by SMPs in ISQC1. However, carefully worded guidance and application material will be necessary to ensure that proportionality is practical and possible for SMPs.
67.	ICAZ	<p>(a):</p> <ul style="list-style-type: none"> i. Yes, given that a QMA is risk based and would therefore be easier to implement regardless the size of the firm or the nature of services they offer. ii. Currently ISQC 1 focuses on quality control with reference to audit engagements, with the QMA there would be need to overhaul ISQC1 as a QMA will require firms to consider quality control in respect of all the services they offer. <p>(b) We have not identified any additional elements to be included.</p> <p>(c) No comment</p> <p>(d) We believe that even if ISQC 1 is not restructured to require the firm's use of a QMA the matters described in table 2 will still need to be addressed as follows:</p> <ul style="list-style-type: none"> i. Risk(s) of not achieving quality objectives – move ISQC 1 towards a principle based approach for risk identification which would allow for flexibility in the application of the standard as compared to the current standardised assumption based model for identifying quality control risks. ii. Monitoring quality from all sources – expand requirements with regards to monitoring to include information from external sources including external inspections. iii. Conditional requirements – allow for more conditional requirements by allowing for a risk based assessment in the identification and development of quality control policies and procedures. iv. Scalability – Develop application guidance material on the individual requirements to take into potential different circumstances which may be facing firms. v. Audit and non-audit context – expand the current scope of ISQC 1 to ensure that the requirements also encompass quality control issues in a non-audit context by for example not only focusing on independence requirements on client acceptance which may not be relevant when providing non-audit services.
68.	ICPAK	<p>(a) Yes, use of a QMA could help improve audit quality. However, it should be recognised that too heavy a hand on quality control tends to result in a checklist/compliance type of approach, at the expense of professional judgement.</p>

		<p>(b) The main requirement of ISQC 1 at present is for a firm to “develop policies and procedures”. There should be more practical guidance on and illustration of the form these policies and procedures should take, and how they can be varied depending on the size of the firm. Consideration should still be given to having different standards for audits of public interest entities and those of other entities.</p> <p>(c) Obviously there needs to be consistency between the approach in ISQC 1 and ISAs. ISQC 1 includes a number of concepts that are currently dealt with in more detail in ISA 220.</p> <p>(d) See (b) above.</p>
69.	ICPAU	<p>(a) YES. Auditors would focus more on quality risks, reinforce the tone at the top, create great mood in the middle line managers and more buzz at the bottom of the team. Currently, ISQCI does not provide more robust integrated governance principles geared to continuously re-think of quality risks in different circumstances, in particular recurring audits. No anticipation of impractical challenges.</p> <p>(b) NO</p> <p>(c) A more authoritative guidance and prescription in the ISAs. Emphasis for quality would be clearer.</p> <p>(d) NA</p>
70.	INCPC	<p>(a) Yes, it would. An effective QMA would ensure audit quality at the professional accountancy firm level and giving the responsibility of the firms ‘leaders.’ It is crucial to provide guidance to audit firms on how to do a better job in corporate governance principles in order to support audit quality.</p> <p>(b) No, there are not that we can add.</p> <p>(c) ISAs might be adapted to QMA. ISA 220 and ISQC 1 must clarify the responsibilities and role of the audit partner. It would be appropriate that the engagement partner must sign the audit report (not the firm as an entity). The engagement partner is responsible for the overall quality of the audit engagement and the audit firm has made sure of their capabilities for performing the audit work assigned.</p>
71.	ISCA	--
72.	KICPA	<p>(a) We strongly support the revision of ISQC1 to underscore the role and responsibility of the leadership, as the leadership philosophy lies at the core of creating a firm culture focusing on quality. This leads us to strongly support the purpose of and background behind the incorporation of a QMA into ISQC 1 to enhance the responsibility of accounting firms' leadership for the firm-wide, integrative management of quality risks, up to the size of accounting firms and changes in their management environments. However, it is difficult for us to be sure whether the revision of ISQC1 that is designed to reflect a QMA is the best solution to improve audit quality via strengthening leadership's responsibility on audit quality. First, we are not sure whether a QMA that has been developed as part of corporate management methods would be appropriate to the management of accounting firms, since it is difficult to have a profound understanding of the details of a QMA just with what ITC describes. There are no sufficient explanations as to what kinds of positive impacts the OECD Governance Principles or</p>

		<p>COSO's ERM Framework approaches, both of which are designed to target big-sized companies in the wake of financial crisis, make on SMP's quality control in practice.</p> <p>Second, It is said that the incorporation of a QMA is needed for quality control up to the size of each accounting firm and flexible quality management of their works beyond audits. However, there are no sufficient explanations as to whether incorporation of a QMA into ISQC 1 would be prerequisite to addressing all the relevant issues. From the perspective of accounting firms' audit engagements, quality control could be seen as quality control approach that has been specialized in audits and has developed up to the nature of audits, engagement methods, and professional auditors' characteristics, competence and responsibility. There are no sufficient explanations as to what kinds of merits would come from replacting quality control approach sepcialized in firms with quality contro approach that is applicable to general corporate management.</p> <p>Thus, the followings need to be considered before deciding the incorporation of a QMA.</p> <p>First, as for corporate management, a QM not only aims at increasing the responsibility of corporate leadership on risk management in relation with its quality, but also is based on strong leadership and responsibility of companies. On the contrary, the purpose, composition and operation of accounting firms differ from those of companies, not to mention their variance on an each jurisdictional basis. As for accounting firms that tend to show the nature of collection of professionals, their leadership is not as much strong as that of companies. This makes the prerequisite conditions to the incorporation of a QMA unclear in addition to difficult to meet the conditions due to different jurisdictional law and regulation and practical environment.</p> <p>Second, we wonder whether a QMA would apply not only to assurance and audit-related services, but also to consulting and taxation services. It would be reasonable for a QM to be applied to all of the services provided by accounting firms, as it is designed to cover quality control management at the accounting firms' level. However, consulting and taxation services are not what IAASB is responsible for. If quality control on both of the services is not included for consideration, it could be understood not to be in line with the purpose of a QMA.</p> <p>Third, meanwhile, relationships with network firms are the most important factor in the management of accounting firms nowadays. As mentioned in the consultation, differences in network structure, common policies and procedures, governance of accounting firms, and law and regulation of the respective jurisdictions would not make it very much difficult in practice for IAASB to address quality control at the network firm level.</p> <p>(b) Please refer to our answers in QC1 (a).</p> <p>(c) As the quality control of individual engagements is conducted based on the quality control system of firms, it is expected that the revision of ISA 200 needs to be made, including actions the engagement partner should take when identifying risks and the use of monitoring results, to maintain consistency in case of the revision of ISQC1.</p> <p>(d) We believe what could be improved from incorporating a QMA in ISQC1 could be appropriately reflected in the context of current standards. For one, in case of scalability mentioned in the table 2 of IAASB ITC, it could clarify the purpose of the relevant procedures, instead of ISQC's standardized requirements, and illustrate appropriate procedures according to individual circumstances or develop additional guidelines.</p> <p>In addition, we think IAASB could consider the improvement of ISQC1 or development of additional guidance with clarifying the purpose of relevant procedures and illustrating appropriates procedures according to different scenarios, instead of current uniform requirements of ISQC1, which would help firms select and apply appropriate procedures.</p>
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73.	MICPA	--
74.	SAICA	<p>15. Survey respondents were asked to indicate on a scale of 1 to 6 whether they strongly agree (6) or strongly disagree (1) with the following statement (i.e. the extent to which you agree or do not agree): <i>I have a clear understanding of how a QMA would be different from the current approach of specifying the elements for a quality control system and setting requirements in relation to those elements.</i></p> <p>68.2% of survey respondents indicated that their understanding is at a level of 4 and above. This may also be a reflection of the fact that risk management as such is a familiar concept and subject-field to most chartered accountants and auditors. However, the response observed can be interpreted at a conceptual level, but not necessarily as indicating a general understanding of the particular challenges involved in incorporating a QMA in the standards (and its implementation by firms).</p> <p>16. In our interpretation of a QMA as it has been presented in the ITC, we have formulated the following advantages to the adoption of a QMA (in no particular order):</p> <p>Advantages to a QMA</p> <ul style="list-style-type: none"> a. Quality control policies and procedures will be more firm-specific and engagement-specific; responses to quality risks would be more direct and focussed. b. Although the requirements in ISQC 1 will be retained, the standards will allow for more flexibility and scalability (i.e. could be effectively implemented by firms of all sizes and performing different types of engagements). c. Firm leadership will be “closer” to the issues; they will be more directly involved in identifying quality risks and designing responses, which will enhance responsibility and accountability. d. A firm’s quality control policies and procedures would be more easily adaptable to change (more responsive to change) – the changing business environment and the changing audit environment. e. Many firms have already moved to a more pro-active and responsive approach to managing quality risks. The adoption of a QMA by the standard-setter will formalise such practices and provide a clearer framework and guidance for all. f. The adoption of a QMA will support the notion that a firm is a business and businesses are run on recognised principles of risk management, including allowing the more direct incorporation of principles of good corporate governance. g. A QMA represents the application of the foundation principles established in the IAASB Framework for Audit Quality – it is conceptually sound and represents a more principles-based approach. <p>We requested survey respondents to identify which one of these advantages they believe is the most important in considering whether or not to adopt a QMA. The results can be summarised as follows:</p> <ul style="list-style-type: none"> ➤ Items a. received the most votes, with 26.2% of survey respondents indicating that this would be the most important advantage to be taken into account. ➤ Item b. received the second most votes (21.4%) ➤ Items e. and f. are tied for third place, with 14.3% votes each. <p>Although not borne out by the survey, our participation in other forums has indicated that item c. above is also a prominent advantage to be considered (in our survey it was selected by 11.9% of survey respondents). A QMA will be a more principles</p>

		<p>based approach. It may very well result in a situation where leadership is closer to the issues and where firm governance can come to the fore more prominently. Audit quality should be emphasised and practised as part of a holistic approach to firm management and not as a separate element (which also speaks to aspects of firm governance and leadership responsibilities that are addressed as a separate quality control theme in the ITC).</p> <p>17. Similar to paragraph 16 above, we also formulated the following disadvantages or concerns to the adoption of a QMA (in no particular order):</p> <p>Disadvantages or concerns to a QMA</p> <ul style="list-style-type: none"> a. If not properly understood and implemented in terms of being firm-specific and engagement-specific it could have an adverse effect on audit quality. b. Small and medium-sized firms may find the implementation and continuing application of a QMA more onerous than a system of complying with set /stated requirements. c. An element of judgement is introduced that could lead to inconsistency in practice (i.e. variability or flexibility versus the general principle to ensure consistency in practice). d. Judgement decisions around quality risks and responses reduce measurability for purposes of internal monitoring procedures and external inspections. e. Adaptability and scalability could lead to numerous changes within the same firm; even within a relatively short period. This may be difficult to manage across the firm and may adversely affect the consistency of quality. f. Firms that may already have moved towards a QMA in practice, are mainly larger firms and there is little guidance or support for small and medium-sized firms. g. Additional demands being placed on resources, time and cost (i.e. it will be adding an additional layer of requirements on top of the requirements that already exist and that will be retained). <p>We requested survey respondents to identify which one of these disadvantages or concerns they believe is the most important in considering whether or not to adopt a QMA. The results can be summarised as follows:</p> <ul style="list-style-type: none"> ➤ Items a. received the most votes, with 23.3% of survey respondents indicating that this would be the most important disadvantage or concern to be taken into account. ➤ Item g. received the second most votes (18.6%) ➤ Items b. and c. are tied for third place, with 16.3% votes each. <p>18. 79.1% of survey respondents indicated that they believe that the advantages to adopting a QMA exceed the disadvantages or concerns. Although we have come across different positions and views, our participation in other forums also indicated support for the adoption of a QMA, subject to taking into account and addressing, as may be appropriate, the concerns that have been raised.</p> <p>19. Consistent with the above, survey respondents also expressed their view that the adoption of a QMA would, over time, result in improved quality. On a scale of 1 to 6, 71.4% indicated their agreement with the related statement at a level of 4 and above (with 19% indicating a level of 6).</p>
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		<p>20. The IAASB has indicated that most of the content of ISQC 1 and ISA 220 will be retained, but the standards will be restructured in accordance with a QMA. Therefore, in addition to the current requirements and application material the standards concerned will also have to present the requirements (and application guidance) for actually establishing, implementing and maintaining a QMA. Application material would probably also have to be relatively extensive in providing examples of considerations in terms of setting quality objectives, risk factors (and the assessment of likelihood and impact), and risk responses. These (and other) considerations could contribute to the redrafting and restructuring of ISQC 1 and ISA 220 being fairly challenging.</p> <p>21. Furthermore, in retaining the current requirements linked to identified elements of a quality control system, but restructuring them in terms of a QMA, including providing for scalability and conditional requirements, some of what is currently minimum requirements will in essence be scaled down and will only apply in certain instances as responses to assessed quality risks. However, there may also be an argument that the requirements that will be affected would in most instances in any case be those requirements that have been designed to address increased levels of quality risk.</p> <p>22. It would be important that minimum requirements be retained, consistent with the principle that certain quality risks are inherent in any context and require a certain basic response in order to mitigate the threats to relevant quality objectives.</p> <p>23. The ITC, paragraph 64 and Table 3 present the elements of a QMA that is based on recognised frameworks and principles of risk management. We have not identified any other elements that should be included.</p> <p>24. We have come across concerns whether the distinction (in all facets) between the adoption of a QMA at firm level and at engagement level is understood well enough. This is mostly related to comprehending how this approach will practically be applied for every engagement, including the documentation requirements that would be involved. The IAASB has appropriately mentioned that some firms have already moved to a more pro-active and responsive approach to managing quality risks. These firms could provide the IAASB with valuable input in this regard.</p> <p>25. The adoption of a QMA is expected to impact IQSC 1 and ISA 220 in terms of their structure and layout. This is owing to these standards being “audit firm focussed” in terms of the firm’s responses to address the firm’s quality objectives. The other ISAs are “audit process and audit client focussed” in terms of performing the audit in order to achieve the auditor’s overall objectives as stated in ISA 200, and the specific objectives stated with respect to each audit theme dealt with by the individual ISAs. These standards should not be affected directly by the adoption of a QMA. If there are specific factors relating to individual audit areas that impact the auditor’s identification, assessment and response to quality risks, these should be incorporated in the quality control standards.</p> <p>26. The matters in paragraph 59 and Table 2 of the ITC are examples of matters that have been identified by the IAASB as representing specific in-practice challenges with regard to the application of the requirements for a quality control system. In particular, these matters are linked to if, and how, ISQC 1 cater for different circumstances or situations that are encountered in today’s business and audit environment(s), the scalability of the standard’s requirements from the perspective of small and medium-sized firms in general (but also taking into account certain audit firm and audit client characteristics), and the balance between a principle-based approach and providing sufficient application material to promote consistency in practice.</p> <p>27. We are of the view that the IAASB should otherwise address the matters described in paragraph 59 and Table 2, if the decision is taken not to adopt a QMA. Indications of how this may be achieved are encapsulated in our comments that deal with the other quality control topics /themes /areas that are presented in the sections of our comment letter that follow.</p>
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75.	SMPC	<p>The SMP Committee considers that the use of a QMA approach could significantly help to improve audit quality. It should help firms design and implement effective quality management systems that take into account the size and nature of the firm, the services it provides and the nature of its client base.</p> <p>In our view quality should be managed and continuously improved – it is not static. A quality management approach should be integrated in the culture and values of a firm. It could be argued that whilst ISQC 1 provides a minimum quality level, it does not consider how to improve quality. A QMA embraces an attitude to improve quality across the whole organization.</p> <p>In theory, there is potential for simplification for many SMPs compared to the rigid approach under the extant version of ISQC 1. However, we are concerned about the potential for a QMA to add a burden on SMPs, not least as it will involve changes from extant application of ISQC 1 and believe the IAASB needs to be sensitive to how it can be applied in practice, in particular for firms with only a few partners. The Board will need to consider how the QMA approach should be scalable, such that it can be applied by a wide range of firms, from SMP firms with no audit engagements to large firms with listed entity clients. There may also be a need for tools or guidance on how to apply a QMA for small practices in the future, together with awareness raising and training.</p> <p>A significant challenge for the Board in restructuring ISQC 1 to facilitate this approach is the considerable amount of rewriting that will need to take place and the resources involved.</p> <p>In our opinion, the elements of a QMA described are complete. In monitoring quality there is reference to improvement, but we recommend this is emphasized to encourage a constant attitude to improving quality.</p> <p>We agree that the restructure of ISQC will impact ISA 220 as indicated.</p> <p>It is unclear which of the existing ISQC 1 requirements may no longer apply to SMPs. We note that the ITC states revising ISQC 1 to incorporate the use of a QMA may provide the Board with the opportunity to provide guidance as to how firms might consider whether and how corporate governance principles may be helpful or relevant. For SMPs such supplementary material and guidance is even more important as such principles will not have been designed specifically with smaller entities in mind.</p> <p>In addition, the Board needs to ensure that the costs of implementing a QMA approach does not disproportionately impact SMPs. In particular, for the smallest firms who make up the majority of firms in public practice. For example, sole practitioners (39%) and firms with 2-5 partners and staff (32%) represented 71% of respondents to the latest IFAC SMP Global Survey.</p> <p>For QMA to be most effective it needs to be embraced by individual team members as staff at all levels have a responsibility to fulfill their respective roles to optimize quality.</p> <p>If ISQC 1 is not restructured to require the firm's use of a QMA it should be reviewed to be adapted to SMPs as it currently has a "one size fits all" approach.</p> <p>We support the consideration of a QMA and agree with an enhanced focus in ISQC 1 on the importance of, and need for, effective firm leadership as a foundation to the ability of the firm to achieve quality.</p>
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76.	WPK	<p>Among the issues of quality control we would like to point out the following:</p> <p><u><i>A new quality management approach (see note 50 ff.)</i></u></p> <p>In principle we support the proposal of a new quality management approach. Auditors and audit firms should already be familiar with this approach through their own audit approach and audit procedures.</p> <p>In our opinion important advantages of this approach are especially the possibility to emphasize the scalability and in the increased use of conditional requirements to focus on a firm's individual circumstances.</p> <p>Ultimately it should be considered that the implementation and documentation effort for the audit firms, especially SMPs, will not become too excessive.</p>
Academics		
77.	AAA	<p>The Committee believes the use of QMAs can improve audit quality and reduce the number of audit engagement deficiencies. In a similar way to how performance and control systems help company managements to minimize significant risks and to achieve important organizational objectives, properly-functioning QMAs can help audit firm managements to minimize their quality-related risks and meet their professional responsibilities to stakeholders. Systems helping to build consensus around organizational objectives and performance evaluation measures lead to increased performance on achieving strategic objectives (e.g., Ho, Wu and Wu 2014). Building systems to support high-quality professional audit judgments and decisions, and explicitly linking audit quality to firm and professional performance evaluation, should lead to increased quality throughout the organization (Grafton, Lillis and Widener 2010; Peecher, Solomon and Trotman 2013).</p> <p>The International Forum of Independent Audit Regulators' 2015 survey describes an initiative recently undertaken by the six largest audit networks to achieve a measureable reduction in findings of audit deficiencies, worldwide, by 2019 through the use of root-cause analysis (IFIAR 2016). For this to succeed across the entire network, managements will presumably use an approach similar to that outlined for a QMA.</p> <p>Use of a QMA should enable firms to tailor their quality management systems and quality control to the needs of their clients for quality audit and assurance services. As this would be a relatively new formal requirement from the Board, firms will likely need significant guidance on how to implement such a tailored system, while still meeting the Board's standards. Considering that certain jurisdictions include firms' systems of quality control in their inspections (e.g., the PCAOB's inspections in the U.S.), it is important for firm managements to understand how to incorporate required features in the system, while keeping the needed flexibility for their firms to adapt to changes in their risk profiles over time. This may be especially challenging for SMPs, which have limited resources to dedicate to formal quality control efforts compared to larger firms and networks.</p> <p>Boards continue to identify systemic audit quality issues in their inspections (IFIAR 2016). In addition, one study found that firm offices with low-quality audits (measured by number of restatements) tend to have other lower quality audits as well, for up to five years, also suggestive of systemic issues (Francis and Michas 2013). At an engagement level, teams tend to allocate more resources to riskier audit engagements (e.g., Elder and Allen 2003). Firms should take a similar approach across their entire audit practices to identify and mitigate</p>

		key quality risks. Therefore, if the Board does not formally require a QMA, ISQC 1 should include additional guidance on implementing systems of quality control, focusing especially in the areas of: <ul style="list-style-type: none"> - scalability of quality control systems for SMPs, for the reason cited above; and - firm-wide monitoring of the quality system to ensure systemic issues are identified and remediated in a timely fashion.
78.	AH	No comment
79.	Glover-Prawitt	No comment
80.	TRay	No comment
Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	<p>(a) In my experience ISQC1 is a component of a firm's QMA already, more commonly referred to as the firm's practice risk management. The firm's practice risk management policies and procedures ensure that quality professional services are delivered. ISQC1 is the basis for audit quality but the principles can be applied to other areas of practice.</p> <p>Developing internal policies and procedures to operationalize professional standards can be an arduous task for SMPs with little benefit. In certain circumstances the SMP can simply adopt the professional standard as their internal policy.</p> <p>For example, an SMP may have a very general client base where procedures to agree the terms of an audit engagement may be adequately covered by reference to ISA 210. In contrast, a firm with clients in various regulated industries may need to consider industry expertise, use of specialists etc. before agreeing the terms of an audit engagement. These firms are more likely to need internal policies and procedures to determine and agree the terms of an audit engagement and comply with ISQC1.</p> <p>I do not support restructuring ISQC1 unless the benefits can be clearly identified. Substantial administrative time was required to embed ISQC1 into a firm's practice risk management documentation. Restructuring ISQC1 will require further administrative time to simply update documentation and firm quality control manuals.</p> <p>(b) Restructuring is unnecessary as firms already have practice risk management policies and procedures that incorporate ISQC1.</p> <p>(c) A restructuring change is likely to result in a superficial response i.e. Policies and procedures will need to incorporate new references.</p> <p>I do not support restructuring ISQC1 unless the benefits can be clearly identified.</p> <p>(d) The requirements for quality are already present in ISQC1 and the ISAs. I doubt that changing requirements in ISQC1 or introducing a QMA will have an impact on poor leadership or an inappropriate firm culture.</p> <p>Continuing education at senior levels in audit firms will be fundamental to driving quality. The introduction of whistleblowing provisions for junior auditors to raise concerns about audit decisions may improve audit quality where leadership is deficient.</p>

84.	JGrant	<p>The ITC suggests that IAASB may be favouring making a significant change to the structure of ISQC1 to embed a QMA approach. It was suggested at the London forum that this might help 'future proof' the standard, change the emphasis from detection to prevention and make the standard more scalable for SMPs. Some of these benefits may be illusory. I do not believe that the current standard is unduly focused on detection and observe that firms have already had to apply the existing standard for a decade so they should have overcome implementation issues by now. Rather, having to implement a radically different standard is likely to give them new ones!</p> <p>I believe that IAASB should be very cautious in changing too much of the structure and approach of the current ISQC1. ISQC1 has a solid conceptual foundation (being based on the EFQM Excellence Model) and has provided a clear set of quality benchmarks for firms and regulators for over a decade. Encouragingly, some regulators have invested in inspection methodologies based on ISQC1. While I can imagine that ISQC1 could be adapted to apply a risk based approach to quality control I am not convinced that this would result in enhanced audit quality, indeed it might result in some important firm-wide controls being neglected. I also sense that making ISQC1 more risk based would make the standard far more judgemental and therefore difficult for regulators to check that it is being properly applied.</p> <p>This is not to say that improvements should not be made to ISQC1. A number of weaknesses were identified in the ISA Post-implementation Review and the Audit Quality Framework project revealed a number of areas in which it could be enhanced. In particular I believe that emphasis should be given to making sure that ISQC1 fully addresses the Knowledge, Skills, Experience and Time attributes in section 1.5 of the Audit Quality Framework.</p>
85.	JK	--
86.	KKTuraga	<p>(a) The major challenge is adaptability of change in QMA which will be resisted.</p> <p>(b) The QMA for firm use needs to be uniform in all engagements and no dilution is to be allowed.</p> <p>(c) Refer my comment given in QC1(a). The standards need to be more comprehensive and specific to the needs of QMA compliance.</p> <p>(d) Refer my comment given in QC 1(b).</p>
87.	SDeViney	<p>(a) No. I believe more specific practical guidance and requirements are needed, rather than more conceptual guidance. If "QMA" is introduced, it should simply be as clarifications to requirements or application material for existing standards on an audit organization's system of quality control and not as a new term. As I understand it from the invitation to comment, this is simply emphasizing that quality control monitoring should be risk based and dynamic, which I think is obvious.</p> <p>(b) Yes. Regardless of whether QMA is added, the following specific, practical elements should be required to be documented at the firm level:</p> <ul style="list-style-type: none"> • Identification of all internal and external assessments of audit quality. • Summary of significant internal and external recommendations and the status of implementation or follow-up. • Identification of separate teams for group audit, independence evaluation and quality control monitoring purposes. • List of engagements performed by relevant attributes, at a minimum: <ul style="list-style-type: none"> ○ The type of engagement. That is, the standard or combination of standards under which the engagement is performed. ○ Whether the engagement was for a specialized industry.

		<ul style="list-style-type: none"> ○ The type of financial reporting framework for engagements relating to financial statements. ○ Team with primary responsibility for the engagement • Tracking re-issuances and prior period adjustments. • Firm-wide analysis of quality risks, to be performed at least biennially for small firms or annually for large firms, considering: <ul style="list-style-type: none"> ○ High risk types of engagements or specialized industries. ○ Emerging issues or changes in standards relevant to engagement types, specialized industries and/or types of financial reporting frameworks. ○ Independence, hiring, training or other concerns with specific teams. ○ Areas where few engagements of a certain type, specialized industry or financial reporting framework are done. ○ Areas where past quality concerns were noted. ○ Areas where policies or quality control materials have not been developed or need to be updated at the firm level. • Root cause analysis on re-issuances and prior period adjustments, either individually or in aggregate on at least an annual basis. <p>By requiring these specific, practical elements, an audit organization of any size will be able to have the information needed to support an effective quality monitoring system. There will also be sufficient information needed for peer reviews or regulators to independently evaluate quality risks and the appropriateness of the audit organization's evaluation and responses to these risks.</p> <p>The Board may also wish to consider brainstorming requirements associated with the analysis of quality risks.</p> <p>(c) I don't think it will make an impact without specific practical requirements or application material. See suggested elements in answer to QC1(b).</p> <p>(d) By adding specific practical elements. See answer to QC1(b).</p>
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QC2. Engagement Partner Roles and Responsibilities

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

- (i) Which of the actions outlined in paragraphs 85–86 would be most meaningful to address issues related to engagement partner responsibilities?
- (ii) Why do you believe these actions are necessary?
- (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
- (iv) Describe any potential consequences of possible actions that you believe we need to consider further.

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	--
3.	CFA	We agree that the IAASB should pursue a holistic review of the engagement partner's sole and responsibilities. This review should rightly address how these responsibilities transcend corporate structures and multi-location audits. Further we agree that users could better understand these responsibilities and how they are affected by firm and corporate structures.
4.	IA	--
5.	ICGN	--
6.	NZSA	QC2, QC3 & QC4. The NZSA was, frankly, worried that this discussion on the engagement partner's responsibility suggested a lack of clarity about the role of engagement partner and others performing an audit. We found this surprising considering that it is a basic part of any effective audit framework. From a user's perspective, it is expected that the engagement partner assumes full responsibility for commenting upon every aspect of an organisation's operations and accounts, including whether that organisation has effective internal processes and, again, whether the accounts give a true and fair view.
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	--

Regulators and Audit Oversight Authorities		
9.	BCBS	--
10.	CPAB	<p><u>Leadership responsibilities to encourage professional skepticism</u></p> <p>We note that specific reference is made to governance of the firm, including leadership responsibilities for quality (paragraphs 125-135). However there is no clear statement that the concept of professional skepticism will be reinforced in this element of the quality control standards. We recommend that the IAASB include this in their review of the responsibilities of firm leadership given it is a key component of audit quality. In particular, the importance of applying professional skepticism and being seen to apply professional skepticism needs to be emphasized.</p> <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>
11.	EAIG	--
12.	EBA	<ul style="list-style-type: none"> Engagement partner's role: the role and responsibilities of the engagement partner could be enhanced and described more clearly and in more depth (in line with our comments below on engagement partner's involvement in the audit), as it is very important, both in terms of the actions of the engagement partner towards the audited entity and the culture that a partner fosters within the team. The engagement partner should ensure that all members in an audit team are sufficiently trained and coached, including those with less experience, and should evaluate and foster professional scepticism all along the audit process including the planning stage. <p>As far as the engagement partner's role is concerned, in the EU regulatory framework, as in the previous Audit Directive of 2006 on the statutory audits of annual accounts and consolidated accounts, Article 28 (4) of the Audit Directive requires that the audit report is signed and dated by the statutory auditor³. In this regard, we would support the ISAs explicitly require the engagement partner to sign the auditor's report, as a 'formal' acknowledgement of the engagement partner's responsibility for the direction, supervision and performance of the audit engagement.</p> <p>In addition, we suggest that the ISAs (in particular paragraphs 19-21 of ISA 220 and paragraph 37 of ISQC 1) address more explicitly the need for a regular discussion and an appropriate documentation between the engagement partner and the EQC reviewer on all significant matters, in particular those areas involving significant judgment.</p> <p>Furthermore, we agree that the engagement partner's role and responsibility needs to be clarified in particular to address the following cases (paragraph 76 of the Overview of the ITC):</p> <ul style="list-style-type: none"> When other auditors are involved in an engagement not being a group audit and to which ISA 600, <i>Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)</i> does not therefore apply (for example in the

³ Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts

		<p>cases of specialised audit work performed by another engagement team within an audit firm). In this regard, we believe it is important that the engagement team assesses the sufficiency and appropriateness of the other auditors involved in the engagement.</p> <ul style="list-style-type: none"> • When the engagement partner evaluates the audit evidence supporting significant management judgments. • When the engagement partner relies on the work of experts.
13.	ESMA	ESMA believes that the engagement partner's role and responsibilities should be strengthened, as stated in paragraph 76 of the Overview of the ITC, to demonstrate appropriate direction in particular, when the engagement partner evaluates the audit evidence supporting significant management judgments and when other auditors are involved in an engagement to which ISA 600 does not apply.
14.	H3C	--
15.	IAIS	<p>The audit firm's culture has an important influence on the values, ethics and attitudes of audit partners and other members of the engagement team given the environment in which the engagement team works can materially affect the mind-set of staff and the way they discharge their responsibilities.</p> <p>The engagement partner, being responsible for individual audit engagements, plays an essential role in ensuring audit quality and maintaining the confidence of financial statement users.</p> <p>Consequently, it is in the public interest that the roles and responsibilities of both the firm and the engagement partner in promoting audit quality are robust and clearly articulated within IAASB standards.</p> <p>The IAIS agrees with the list of specific audit quality related issues identified by the IAASB. In our view, effectively addressing those issues is crucial for enhancing audit quality. In terms of actions proposed to address those issues, we have the following comments:</p> <p>....[various comments included in relevant sections]</p> <p>Engagement level: engagement partner roles and responsibilities</p> <p>The audit engagement partner is directly responsible for engagement audit quality. It is therefore essential to the public interest that the expectations of the engagement partner are sufficiently clear and well-articulated within the ISAs.</p>
16.	IFIAR	<p><i>Quality control at an engagement level</i> [p.4]</p> <p>17. In order to improve audit quality at engagement level, we believe that establishing a framework for the audit engagement partners to determine the appropriate level of their involvement in the respective engagements would be necessary.</p> <p>18. In ISA 220, such an approach would have the potential to drive change (for example, by requiring more audit engagement partner involvement in higher risk areas of the audit or when circumstances lead to an elevated level of audit quality risk). Establishing limitations on what can be delegated by the audit engagement partner could also be considered (for example, review of audit work relating to significant risks).</p> <p>19. In ISA 600 this type of approach would aid the group audit engagement partner to determine the appropriate level of involvement in respect of the work performed by component auditors. Further comments addressing the use of audit work performed by component auditors are included in the Group Audit/ISA 600 section of this letter.</p>
17.	IOSCO	--

18.	IRBA	<p>74. Further clarity should be provided in ISA 220 by strengthening the requirements and clarifying what is meant by performance, direction, supervision and review by the engagement partner, including:</p> <ul style="list-style-type: none"> • Providing more direction and specificity as to what audit documentation is required to be reviewed by the engagement partner and the nature of the related review procedures. • Placing more emphasis on the need to consider whether there are adequate resources for the engagement, including the suitability of the engagement team members' skills, competence and experience, the need for auditors' experts and the sufficiency of time available to perform the engagement before the reporting deadline. • Clarity that, as part of their responsibilities, engagement partners should be appropriately involved in all stages of the audit. • The roles and responsibilities of the engagement partner for an audit in which the engagement partner is not located where the majority of the audit work is performed. • The roles and responsibilities of the engagement partner for an audit in which evolving audit delivery models are used. <p>75. In addition, an appendix should be added to ISA 220 (and ISA 600 for group audits) indicating where the responsibilities of the engagement partner are articulated within the requirements and the application material in the ISAs.</p>
19.	MAOB	--
20.	UKFRC	<p>There is a common theme running through the ITC, first identified in paragraph 74, that in today's environment engagement partners are finding it increasingly challenging to meet their overall responsibility set out in ISA 220 for the performance of audits, including demonstrating appropriate direction, supervision and review throughout the audit ('overarching issue'). For example, where there are issues in demonstrating sufficient involvement in the work of the audit team, component auditors, or in the work of specialists, experts or other auditors. This is particularly observable in the issues described in the group audits section of the ITC and we discuss this further in our response to GA1. As this overarching issue is core to a number of concerns and issues being raised in the ITC, it is critical that the IAASB address it by implementing a response that will: address the various identified challenges, will be sufficiently adaptable to address new challenges in a constantly changing environment, and will enhance audit quality.</p> <p>Some of the actions outlined in paragraph 85 may be helpful to engagement partners in this regard. For example, providing further clarity in ISA 220 about what is meant by 'performance', 'direction', 'supervision' and 'review'. However, in our view, as expressed in our response to QC1, the most meaningful response in supporting engagement partners' address this overarching issue would be to embed a quality management approach and a user perspective principle at both the firm level and the engagement level, as explained further below.</p> <p><i>Engagement Level Quality Management (QMA-EL) as an holistic response to the overarching issue</i></p> <p>In response to the overarching issue discussed above, paragraph 73 of the ITC notes that any changes to ISQC 1 to incorporate a QMA may better support the engagement partner in performing their audit. We agree with this premise noting in our response to QC1, that a key <u>foundation</u> for delivering consistently high quality audits rests in the firm's system of quality control. Under a QMA approach, this means that the firm's leadership and senior management collectively have responsibility and accountability for setting the firm's quality</p>

	<p>objectives, performing assessments of risks to audit quality, defining strategies to achieve those objectives, and establishing governance structures and processes to manage the risks effectively in accomplishing those quality objectives. However, as audit quality is intrinsically linked to the performance of the audit engagement partner (and the engagement team) in effectively planning and executing the audit, the audit firm's leadership and senior management (firm's leadership) actually need to be able to hold engagement partners accountable for quality at the engagement level to ensure the effectiveness of the firm's quality management framework. In essence, engagement partners are the 'first line of defence' in ensuring the effectiveness of the firm's quality management framework, through ownership, responsibility and accountability for directly assessing, controlling and mitigating risks to audit quality at the engagement level. However, ISA 220 currently offers very little guidance to the engagement partner in discharging this responsibility.</p> <p>We therefore strongly support the IAASB proposal in paragraph 85 to embed a more proactive, scalable and robust approach to the management of risks to audit quality at the engagement level (i.e. QMA-EL). This would ensure a consistent approach to audit quality management at both engagement and firm level.</p> <p>At engagement level this will:</p> <ul style="list-style-type: none"> • enhance decision-making, planning and prioritisation • lead to more effective and efficient allocation of resources (including those outside the engagement team) • increase the probability that the engagement partner will deliver a high quality audit • be flexible enough to deal with evolving business environments • improve stakeholder confidence and trust <p>We support many of the other specific actions outlined in the ITC (including in paragraphs 85) to address audit quality at the engagement level, particularly in relation to enhancing the quality of group audits, but these should be bound together in the context of a QMA-EL framework that also requires a proactive, tailored approach. This approach would also emphasise the responsibility and accountability of engagement partners for directly assessing, controlling and mitigating risks to audit quality at the engagement level (which is largely absent in ISA 220), and will therefore be more effective in future proofing the International Standards, and enhancing audit quality.</p> <p>A QMA-EL would also build on the engagement partners' current responsibilities under ISA 300²⁹. The auditor is required to establish an overall audit strategy that sets the scope, timing and direction of the audit under ISA 300.8. Whilst ISA 300 does not specify the need to consider <i>risk to audit quality</i>, it does include a requirement for the auditor to consider the <i>factors that are significant</i> in directing the audit, for example, if the complexity of the engagement necessitates the need to include engagement team members with specific skills or competencies.</p> <p><i>Better dialogue with engagement quality control reviewers, audit committees and regulators</i></p> <p>For audit engagements that are required to have an engagement quality control review, the engagement quality control reviewer needs to make an objective evaluation of the quality of the engagement partner's performance. Under QMA-EL, the engagement partner would have a better basis on which to engage in a more constructive and effective dialogue with the engagement quality control reviewer in demonstrating how they have directly assessed, controlled and mitigated risks to audit quality at the engagement level. Many jurisdictions now require audit committees of public interest entities to engage with, and oversee, the relationship with the external auditor, including making assessments of the effectiveness of the audit process. In those circumstances, audit committees will expect engagement leaders</p>
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²⁹ ISA 300 Planning an Audit of Financial Statements

		to demonstrate how they have delivered a high quality audit. Under a QMA-EL, the engagement partner would also have a better basis on which to engage in a more constructive and effective dialogue with audit committees. They should be better able to articulate how they will achieve a high quality audit by explaining the risks to quality that they have identified and how they intend to mobilise the engagement team and other resources needed to deliver the required outcome. Similarly, in respect to their dialogue with audit regulators. Overseeing such an approach would provide a potentially direct role for (and enhanced communications with) the audit firm's governance function, particularly where this includes independent representation. Indirectly, this such an approach may also provide a basis for enhanced Transparency Reporting by audit firms and related engagement with audit stakeholders, and for enhanced communications with the audit firm's governance function, particularly where this includes external representation.
National Auditing Standard Setters		
21.	AUASB	<p>(i) The AUASB view on the actions and relevant issues are as follows:</p> <ul style="list-style-type: none"> ISA 220 could provide further clarity or examples about the engagement partner's role in relation to performance, direction, supervision and review at the engagement level. The evolving and agile ways of structuring audit practice models. Specifically, to include examples that illustrate what the engagement partner can do to demonstrate proactive and appropriate direction, supervision and review where there are access issues (refer to GA 1(a)), when other auditors are involved or where less traditional audit delivery models (ADMs) are used for example: elements of the firm's quality control are performed centrally, standard audit procedures are performed by dedicated central resources and those resources are available to perform audit procedures at the request of individual engagement teams. <p>The AUASB view is that the above actions could be beneficial because:</p> <ul style="list-style-type: none"> The clarity of the role of engagement partner is challenging where non -traditional ADMs are used, where other auditors are used, where the engagement partner is located remotely from the majority of the audit work, and where there are access issues to non-controlled entities. Providing examples of adopting the principles of the role in these circumstances will enhance effective implementation. <p>Auditors would find it helpful for more guidance to be provided about the nature and type of documents upon which evidence of their review in key areas is required by the standards.</p> <p>(ii) Refer to response in QC2(a)(i) above.</p> <p>(iii) Refer to response in QC2(a)(i) above.</p> <p>(iv) Nothing further noted.</p>
22.	CAASB	<p>The AASB and our Canadian stakeholders believe the following actions would be:</p> <p>Meaningful:</p> <ul style="list-style-type: none"> Active involvement of the engagement partner in the risk assessment, planning, supervision and review of the work performed (para. 85, 2nd bullet) More proactive, scalable and robust approach to the identification of risks to audit quality at the engagement level (para. 85, 3rd bullet)

		<ul style="list-style-type: none"> • Consider the need to develop requirements or application material to specifically address situations where the engagement partner is not located where the majority of the audit work is performed (para. 85, last bullet) These areas are critical to audit quality, therefore, it is important to focus on these to enhance clarity and consistency of application. The AASB and our Canadian stakeholders believe that additional requirements are likely not necessary. Additional application material should be sufficient to address these actions. The AASB notes that the partner's role should not differ simply because the partner is not located there the majority of the audit work is performed: the audit partner is equally responsible for direction, supervision and review for all audits. Some stakeholder views were expressed that the last bullet noted above should also be dealt with in ISA 600 (see Appendix E, GA1). <p>Not supported:</p> <ul style="list-style-type: none"> • Strengthening requirements and application material to clarify what is meant by performance, direction, supervision and review by the engagement partner (para. 85, 1st bullet) – ISQC 1, paragraphs 32 and A32-A35, sufficiently addresses what is meant by performance, direction, supervision and review. The AASB and our Canadian stakeholders do not believe that more material is necessary. Nothing has been brought to our attention to make us believe that there is inconsistent application, or misunderstanding, of the existing requirements and application material. • Acknowledging situations relating to the signing of the auditor's report in the ISAs (para. 86) • Clarifying the expected performance requirements for individuals other than engagement partners who sign or who are named in the auditor's report (para. 86) <p>The AASB, and several Canadian stakeholders, believe that proposed actions related to signing the auditor's report proposed in the ITC are outside the scope of ISQC 1 (see also QC2(b) below). Further, views were expressed that these proposed changes would not serve to improve audit quality.</p>
23.	CNCC-CSOEC	Paragraphs 69-86 set out matters relating to the roles and responsibilities of the engagement partner. We believe that more clarity about the role and responsibilities of the engagement partner is important, but we do not agree that the IAASB should include additional requirements on what an engagement partner is expected to do at all stage of the audit (i.e. planning, performance and completion). As we mentioned above, ISAs have to remain principles-based auditing standards and not to turn into rules-based auditing standards.
24.	HKICPA	<p>We believe that strengthening ISA 220 to clarify what is meant by performance, direction and supervision and review by the engagement partner would be useful in improving audit quality.</p> <p>Building into ISA 220 a more proactive, scalable and robust approach to the identification of risks to audit quality at the engagement level, and development of specific responses to address those risks would also be helpful to practitioners, in particular, the small and medium sized practitioners (SMPs).</p>
25.	IDW	An engagement partner needs to assume the leading role in relation to engagement quality. The stance this individual takes will have an important impact on the engagement team. We refer to the study: "The Association between Audit-Partner Quality and Engagement Quality: Evidence from Financial Report Misstatements", ¹ which emphasizes this. In our view, investment in engagement partner competencies etc. is potentially far more effective than detective and corrective controls – particularly those performed post-engagement.

¹ Auditing: A Journal of Practice and Theory, Vol 34, No3 August 2015 (American Accounting Association)

		<p>The most important actions the IAASB could undertake include clarifying the engagement partner's responsibilities throughout the audit in ISA 220 (and possibly other standards) to the extent not already sufficiently clear in the ISAs as a whole, and perhaps add an appendix summarizing requirements relating to the engagement partner. We note that other ISAs may implicitly require action on the part of the engagement partner already (e.g., ISA 315.10 implies the engagement partner's involvement in a discussion of risk of material misstatement, but not necessarily in the risk assessment process).</p> <p>When clarifying engagement partner responsibilities for engagement partners not located where the majority of the audit work is performed, the IAASB will need to be careful not to develop requirements that increase the engagement partner's responsibilities beyond those applicable to engagement partners who are located where the majority of the audit work is performed. We suspect that this may prove challenging.</p>
26.	JICPA	<p>We agree that ISQC 1 and the ISAs should be principle-based, but are concerned that the actions outlined in paragraphs 85 to 86 may be closer to being rule-based.</p> <p>We also believe, however, that the action outlined in the 4th bullet in paragraph 85 (strengthening the requirements or enhancing the application materials that discuss the responsibilities of the firm and engagement partner in relation to decisions regarding acceptance and continuance of client relationships and specific engagements) would be meaningful. The descriptions in the AQ Framework relating to "values, ethics and attitudes" include good concepts (e.g., "Financial Considerations Do Not Drive Actions and Decisions that Impair Audit Quality") that could be built into ISQC 1 in relation to engagement acceptance and continuance decisions.</p>
27.	MAASB	<p>(i/ii) The most meaningful actions and the reasons these actions are necessary are:</p> <ul style="list-style-type: none"> • Strengthening responsibilities and considerations related to engagement acceptance and continuance decisions reinforce key principles such as acceptability of client relationships, resource capabilities and other ethical considerations; • Clarity regarding the responsibilities of the engagement partner on the type, extent and nature of involvement to be considered and developed using a set of principles allow flexibility in adapting to differing business models without compromising audit quality; and • Strengthening the requirements or enhancing the application materials that discuss the responsibilities of the engagement partner over the performance, supervision, direction and review by the engagement partner as these areas are often subject to practical constraints and time pressure. <p>(iii) To the extent the changes are proposed to ISQC 1, it is important to ensure that any such changes give due consideration to applicability to non-audit assurance engagements as well as audit engagements.</p> <p>(iv) We urge the IAASB to clarify the interaction between non-audit assurance engagements with the overall firm's quality control required in ISQC 1.</p>
28.	NBA	<p>(i) We consider providing further clarity in ISA 220 about what is meant by performance, direction, supervision and review by the engagement partner as most meaningful.</p> <p>(ii) These actions are necessary to address current issues in practice.</p> <p>(iii) We do miss the description of the engagement partner as 'leading by example' or as 'role model.'</p> <p>(iv) It will be a challenge to give concrete substance to the role of the engagement partner. He should be able to demonstrate his concrete involvement and stand firm for his opinion.</p>

29.	NZAuASB	<p>(i) A consistent view expressed by constituents is that there is scope for clarification on the role of the engagement partner in the form of more guidance, and not requirements, specifically where nontraditional audit delivery models are used. The NZAuASB considers that the most meaningful actions to address are:</p> <ul style="list-style-type: none"> • Providing further clarity in ISA 220 about what is meant by performance, direction, supervision and review by the engagement partner in evolving areas of new ways of doing business. Specifically, to include examples that illustrate what the engagement partner can do to demonstrate proactive and appropriate direction, supervision and review where there are access issues, when other auditors are involved, where the engagement partner is located remotely from the majority of the audit work or where nontraditional audit delivery models are used. • Adding an appendix to ISA 220 that indicates where the responsibilities of the engagement partner are articulated within the requirements and application material in the ISAs. <p>(ii) The NZAuASB believes the above actions are necessary because:</p> <ul style="list-style-type: none"> • The clarity of the role of engagement partner is challenging where nontraditional audit delivery models are used, where other auditors are used, where the engagement partner is located remotely from the majority of the audit work, and where there are access issues to non-controlled entities. Providing clarity of the role in these circumstances will ensure ongoing effective implementation of the principles based ISAs. • The responsibilities of the engagement partner are located throughout the ISAs. This may make the practical application of the requirements more difficult and challenging. It would be helpful for the engagement partner to have them all in one place. • Auditors are concerned about the level of documentation from a risk perspective. More guidance on what to document may help to alleviate concerns, and improve documentation to better demonstrate the application of professional judgement. However, the IAASB should remain mindful that the purpose of enhanced documentation should focus on improving quality rather than for the regulator's benefit. <p>(iii) The NZAuASB has not identified any other relevant issues to consider.</p> <p>(iv) A consistent view expressed by constituents is that there is a scope for clarification on the role of the engagement partner, maybe more guidance, but not new requirements. The cost of compliance with increased requirements versus a possible increase in audit quality needs to be carefully considered.</p>
Accounting Firms		
30.	BDO	<p>(i) The range of proposals outlined in paragraphs 85-86 appears to be sensible. The reference to providing more detail on what audit documentation is required to be reviewed by the engagement partner would be especially helpful (for both audit firms and regulators), as would providing examples to illustrate what the engagement partner can do to demonstrate proactive and appropriate direction, supervision and review, and documentation of the application of professional skepticism.</p> <p>With respect to application material for addressing those situations where an engagement partner is not located where the majority of the audit work is performed, our view is that the material should reflect a range of options, including use of technology solutions to make it clear that the first option does not always have to be an in-person site visit when effective review and supervision can be performed remotely.</p>

		<p>(ii) See our responses in QC2 (a) (i).</p> <p>(iii) When drafting this particular section, the IAASB should not impose a checklist-style approach to the role of the engagement partner.</p> <p>Flexibility and the recognition that engagement partners may perform a number of roles, including managing a portfolio of clients, firm-wide responsibilities, and external activities may mean that application materials rather than increased requirements are more appropriate.</p> <p>(iv) See our response in QC2 (a) (iii).</p>
31.	CHI	<p>(i) The actions that are most meaningful are:</p> <ul style="list-style-type: none"> • Addressing what documentation is required to be reviewed by the engagement partner; and • Explaining and illustrating what the engagement partner can do to demonstrate proactive and appropriate direction, supervision and review throughout the audit. <p>(ii) These are necessary because there is considerable variability in practice in the approach to direction, supervision and review. Stakeholders should expect a consistent approach and a minimum standard that delivers and documents effective engagement partner leadership.</p> <p>(iii) IAASB should consider the documentation of partner involvement and review. Standards and guidance are needed to establish minimum documentation requirements.</p> <p>(iv) The consequence of our comment above would be improved documentation of partner involvement and review.</p>
32.	DTT	<p>DTTL believes that the expectations related to an engagement partner are clearly delineated in ISA 220.⁴ The manner in which partners executes their roles and responsibilities is necessarily dictated by specific facts and circumstances, and in order to properly address the issues at hand at any given time. As a result, very detailed or prescriptive requirements about an engagement partner's specific actions to fulfill his/her responsibilities may be counterproductive and detrimental to audit quality, as it would likely lead to a "checklist mentality" in areas where thoughtfulness and tailored actions will be more appropriate.</p> <p>As a result, DTTL cautions against being overly prescriptive in setting forth the actions engagement partners need to take and what partners need to review to execute their responsibilities. For example, making broad statements that all working papers relevant to significant risks or significant accounts are required to be reviewed by the engagement partner will likely not be beneficial or effective. Such broad statements would not recognize the complexity of the review process and also the nature of audit documentation which might include a lot of detail that might not all need to be reviewed, or reviewed in the same manner. Engagement partners need to have the ability to exercise judgment in terms of what specific working papers to review to meet their responsibilities. In addition, latitude must be provided for delegation of responsibilities to other partners, or other members of the engagement team, as this is an important</p>

⁴ ISA 220 sets out the responsibility of the engagement partner for (i) the direction, supervision and performance of the engagement in compliance with professional standards and applicable legal and regulatory requirements; (ii) reviews being performed in accordance with the firm's policies and procedures; (iii) being satisfied through a review of the audit documentation and discussion with the engagement team that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued; and (iv) the auditor's report being appropriate in the circumstances.

		consideration that the engagement partner makes as part of audit judgment. Overly prescriptive standards may have the unintended consequence of decreasing audit quality, rather than improving it.
33.	EYG	<p>We strongly agree that timely, direct engagement partner involvement is critical for audit quality. Accordingly, we believe that the most meaningful actions would be those that involve ISA 220:</p> <ul style="list-style-type: none"> ▶ Setting principles that support the overall objectives of appropriate supervision, review, and documentation of the work, which, in turn, would facilitate consistency in execution, including for group audits and other audits where the engagement partner is located in a different jurisdiction ▶ Identifying the risks that affect the engagement partner's ability to fulfill these principles and including supporting guidance to assist engagement partners in dealing with the risks specific to their engagements <p>Setting forth in ISA 220 principles and risks for the engagement partner's role is the best approach, in our view, to achieve scalability across the smallest and largest engagements. These principles and risks could address:</p> <ul style="list-style-type: none"> ▶ An emphasis and elaboration on the role of professional skepticism in the engagement partner's responsibilities for direction, supervision and review of the work performed (refer to our response to PS2) ▶ Relevant concepts and risk factors from the Audit Quality Framework ▶ Several of the possible actions proposed in the ITC, such as: engagement partner determination of the time and resources for the engagement; partner involvement throughout the course of the engagement; and consideration of all relevant information prior to accepting or deciding to continue an engagement. <p>Given this principles-based approach, we do not believe that the IAASB would need to pursue requirements for review of specific documentation or specific requirements on how engagement partners should conduct working paper reviews.</p> <p>Dealing with group audits and audits for which the engagement partner is not located where the majority of work is performed</p> <p>For group audits or other audits where the partner is located in a different location than where the majority of the work is performed, we believe that the engagement partner's responsibility to direct and supervise an engagement can effectively involve delegation to those in the location where the work is performed. In our view, delegation does not mean abdication, such that the engagement partner retains responsibility for the engagement, including that any work delegated has been performed appropriately (refer to GA3, GA4 and GA8 for further comments specific to group audits).</p> <p>By setting appropriate principles for adequate supervision and review, we do not believe that it is necessary to create specific requirements for "letterbox" audits. Further, we believe that the nature of these engagements vary based on the jurisdictions involved and the structure of the entity such that that it would be difficult to develop one set of requirements that could apply in all situations.</p> <p>Other matters related to engagement partner responsibilities in the ISAs</p> <p>When there are engagement partner responsibilities that should not be delegated, we agree that it may be useful for the ISAs to specify this fact as suggested in paragraph 99 of the ITC. We would also support an appendix that accumulates engagement partner requirements throughout the ISAs.</p> <p>Other action to consider – Engagement team members' responsibility for audit quality</p> <p>In regard to other actions that should be considered, we believe that consideration should be given to whether ISA 220 should mention responsibilities for audit quality for team members other than the engagement partner.</p>

		We agree that the engagement partner retains overall responsibility for the audit; however, we also believe that all audit team members should be accountable for the quality of their audit work. We are concerned that continual enhancements and strengthening of engagement partner (and engagement quality control reviewer) requirements may inappropriately convey that others on the audit team do not have an important responsibility for audit quality. In fact, we believe that audit quality is dependent on all team members understanding their responsibilities for quality and acting accordingly, which is closely related to all team members applying professional skepticism appropriately. We encourage the IAASB to consider whether ISA 220 should make specific mention of responsibilities for audit quality of all team members.
34.	GTI	<p>We believe that providing further clarity on what is meant by direction, supervision, performance and review by engagement partners is important. There should be clarification that these responsibilities should be assumed throughout the audit. Currently, no explicit reference is made to the planning stages of an audit. Further, there should be clarification on how these responsibilities may be appropriately undertaken in engagements of different sizes. Including further guidance on how the engagement partner evidences the fulfillment of these responsibilities would also be helpful.</p> <p>Providing more clarity and guidance in the application and evidence of appropriate direction supervision, performance and review at all stages of the engagement may also address some of the issues experienced in engagements where the engagement partner is not located where the majority of the work is performed. However, care should be taken that any further guidance added can be implemented, where appropriate, by smaller firms that are not part of a network.</p> <p>It is likely appropriate that the added guidance be developed from the concepts already discussed in the IAASB's A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality publication, however, it would be important that this guidance is incorporated into ISA 220 and ISQC 1, as appropriate, to ensure that it carries with it an appropriate level of authority.</p> <p>We do not believe that the addition of an appendix to ISA 220 and ISA 600 identifying where the specific responsibilities of the engagement partner are located within the ISAs will be particularly useful. A review of the standards indicates that of the 45 requirements and responsibilities specific to the engagement partner, only 7 of those are located in standards other than ISQC 1, ISA 220 and ISA 600. As such, it would seem that this would have little impact on audit quality.</p> <p>Further, the ITC, in this area, only appears to include potential actions in relation to ISA 220 (and in some cases ISA 600). It will be important for the IAASB to consider any impacts to ISQC 1 (either in extant form or as a QMA standard), if any, when proposing additional guidance in ISA 220.</p>
35.	KPMG	--
36.	PwC	<p>(i) Consistent with the principle outlined in our cover letter, and our views in response to question G1 on the evolving spectrum of organisational structures that exist today, we believe audit quality will best be enhanced when responsibility for aspects of quality on the engagement rests with those best placed to influence it.</p> <p>In our view, there is a spectrum for the expected involvement of the engagement partner (i.e., direction, supervision and review), which should be reflected through requirements that can be appropriately adapted to different engagement circumstances. The engagement leader plays a vitally important role and has overall responsibility for the engagement. However, accountability for different aspects of audit quality can, in our view, be shared with others on the engagement team when all participants understand their role and how that interrelates and interconnects with those of others. Said another way, we believe there is a distinction to</p>

		<p>be drawn between the engagement partner's overall responsibility for the engagement and how to best achieve execution of that responsibility, in a way that acknowledges how audit quality is best supported.</p> <p>We believe audit quality will best be enhanced if responsibility for overall engagement quality, responsibility for quality on specific aspects of an engagement (for example at a SSC), and responsibility for signing the auditor's report are each individually addressed – reflecting on how audit quality is best brought to bear in the specific circumstances of a given organisational structure.</p> <p>To achieve this, we believe that the following actions are those that would benefit most from clarification:</p> <ul style="list-style-type: none"> • Clarifying the meaning of proactive and appropriate direction, supervision and review, and identifying factors that assist in considering who may be best placed to perform this in relation to different aspects of the audit based on the organisational structure and circumstances. • As an extension of the above, providing clarity as to responsibilities of the engagement partner when that individual is not located where the majority of the audit work is performed. <p>In clarifying these aspects, we encourage the IAASB to think broadly about how engagements and such responsibilities may be impacted by different organisational structures, and whether a one-size-fits-all model remains fit for purpose. For example, when:</p> <ul style="list-style-type: none"> • the engagement partner that signs the auditor's report is located in a different jurisdiction from where the majority of the audit work is performed (as a result of the entity's operations primarily being outside the jurisdiction in which the auditor's report must be signed), the person best placed to oversee audit quality may be the partner in the other jurisdiction. • work is undertaken at a SSC, on a combined basis for multiple audits (component and/or statutory), the partner overseeing the work undertaken at that SSC may be best placed to influence the quality of that work. • a group structure involves a significant number of sub-consolidations, the partner in the location at which the sub-consolidation takes place, may be best equipped to evaluate quality at that level. See also our response to question GA7. <p>The lack of clarity seen today results in varying interpretations being made as to how and when certain ISA requirements apply, including those, for example, in ISA 600 (specifically when applied to engagements as envisaged under paragraph 2), ISA 402 and ISA 220, in a manner that is appropriate to the engagement circumstances. This lack of consistency is not in the interests of audit quality and we strongly encourage the IAASB to address these issues as a matter of priority.</p> <p>Therefore, we believe an appropriate model is for standards to define the roles and responsibilities that need to be fulfilled in the audit – but not, in every instance, be prescriptive as to the individual that needs to fulfil that role. In that regard, we believe there is merit in drawing parallels with paragraph 04 of PCAOB Auditing Standard (AS) 1201 (currently AS 10) on how other appropriate members of the engagement team can support the objectives of appropriate supervision and review in the interests of audit quality. Building on our principle and key messages in our cover letter, we encourage the IAASB to explore how a similar concept to that conceived under AS 1201 could be applied within the ISAs to the various circumstances we describe above.</p> <p>Some revision of definitions (engagement partner, group engagement partner), and the individual to which certain responsibilities are ascribed in the standards, may therefore be needed to accommodate the concept of responsibility for aspects of the engagement being assigned to those best placed to influence it. See our further comments in response to part (b) below.</p> <p>The areas outlined above are those, which in our view, are most susceptible to inconsistent interpretation and application. Further clarifying these responsibilities will likely help address such inconsistencies – both in how audits, including group audits, are</p>
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		<p>performed and in how audit quality is assessed within a firm, including across a network of firms. We elaborate further on use of other auditors in the audit in our response to question QC3.</p> <p>(ii) See response to point (i).</p> <p>(iii) As noted in our response to point (ii) above, the ISAs need to define the roles that need to be filled, but they should not impose unnecessary prescription as to who needs to fulfil that role, as different organisational structures (and hence engagement structures) may necessitate different solutions in the circumstances.</p> <p>To the extent that changes are proposed to ISQC 1 (for example, in respect of engagement acceptance and continuance and engagement partner selection) it is important to give due consideration to applicability to non-audit assurance engagements as well as audit engagements.</p> <p>(iv) No further comments.</p>
37.	RBI	<p>(i) With respect to ISA 220, we support the need to identify more clearly specific expectations of performance, direction supervision and review by the engagement partner. We support the proposals made in paragraph 85 of the ITC.</p> <p>(ii) We fear there are too many engagements where partner involvement as measured by time records would show limited involvement both at the planning and interim stages of an engagement.</p> <p>(iii) Further, we believe that guidance should be provided around how an engagement partner identifies the issues to be disclosed as key audit matters in the audit report, and how the language of those KAMs is based on and supported by the audit work done and evidenced in the working papers.</p>
38.	RSM	<p>(i) Clear and concise guidance for engagement partners is necessary whether or not a QMA approach is adopted. If a QMA approach is adopted, consideration should be given to avoiding unnecessary duplication across the AQ Framework, ISQC 1 and individual ISAs.</p> <p>(ii) The actions listed mostly propose incremental improvements to matters already addressed in ISQC 1 and the ISAs based on consultations and feedback from the profession.</p> <p>(iii) None.</p> <p>(iv) None.</p>
39.	SRA	--

Public Sector Organizations		
40.	AGC	<p>(i) From a public sector perspective, the most meaningful issue to explore would be the matter of the expected performance requirements for individuals other than the engagement partners who sign or are named in the auditor's report as this issue is prevalent in the public sector, and further guidance concerning the role of the engagement leader throughout the engagement.</p> <p>(ii) We do not believe the majority of the actions outlined in paragraphs 85-86 are needed to enhance audit quality issues specific to the public sector beyond those already supported by existing firm and engagement level standards for audit quality. For example, we believe the discretion currently afforded the engagement partner in respect of audit documentation review is appropriate. We also believe current audit quality requirements in respect of ensuring the capacity and competence of the audit team are adequate and that actions in respect of professional skepticism will have a greater impact on audit quality.</p> <p>(iii) No unique public sector considerations were noted.</p> <p>(iv) In respect of the matter outlined in paragraph 86 (expected performance requirements for individuals other than the engagement partners who sign or are named in the auditor's report), we hold the view that in addressing this issue, there is a risk of confusing stakeholders and detracting from the fundamental roles and responsibilities of the engagement partner. Actions taken in this area should be directed at reinforcing the roles and responsibilities of the engagement partner and their application.</p>
41.	AGSA	<p>(i) All are considered meaningful with the most being a,b and e. Furthermore consideration could also be given to clarifying roles and responsibilities for individuals other than engagement partners who sign the audit report.</p> <p>(ii) They provide more detailed and practical clarity on the roles and responsibilities of engagement partners which is always a contentious issue from an audit quality monitoring perspective. This assist in holding engagement partners accountable. Furthermore active involvement by the engagement partner throughout the audit ensures that the audit risks identified are appropriately addressed and the quality of the audit is of a high standard.</p> <p>(iii) Audits (excluding group audits) whereby the engagement partner's involvement is minimal due to location must be reconsidered as this would negatively impact the quality of the audit. Emphasis should be made on what constitutes evidence of review by the engagement partner.</p> <p>(iv) The increased supervision and review by the engagement partner through adequately managing time and resources will have a positive impact on audit quality.</p>
42.	GAO	<p>We believe that additional application guidance should be provided in ISA 220, Quality Control for an Audit of Financial Statements, to further clarify what is meant by performance, direction, and supervision and review by the engagement partner. This should include providing more emphasis on the collective competence of the engagement team and adequacy of time and resources (i.e., audit experts) to complete the engagement by the reporting deadline. The IAASB should consider clarifying the responsibilities of the engagement partner in the performance and reporting phases of the audit, as well as in the planning of the audit.</p>

43.	INTOSAI	<p>(i) From a public sector perspective, the most meaningful issues to explore is the matter of the expected performance requirements for individuals other than the engagement partners who sign or are named in the auditor's report as this issue impacts the public sector, and further guidance concerning the role of the engagement leader throughout the engagement.</p> <p>(ii) We do not believe the majority of the actions outlined in paragraphs 85-86 are needed to enhance audit quality issues specific to the public sector beyond those already supported by existing firm and engagement level standards for audit quality.</p> <p>For example, we believe the discretion currently afforded the engagement partner in respect of audit documentation review is appropriate. We also believe current audit quality requirements in respect of ensuring the capacity and competence of the audit team are adequate and that actions in respect of professional skepticism will have a greater impact on audit quality.</p> <p>(iii) No unique public sector considerations were noted.</p> <p>(iv) In respect of the matter outlined in paragraph 86 (expected performance requirements for individuals other than the engagement partners who sign or are named in the auditor's report), we support the view that in addressing this issue, there is a risk of confusing stakeholders and detracting from the fundamental roles and responsibilities of the engagement partner. As such, we would recommend that actions taken in this area be directed at reinforcing the roles and responsibilities of the engagement partner and their applicability notwithstanding another individual other than the engagement partner is signing or is named in the auditor's report.</p>
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	It is difficult to envisage what more could be done in relation to engagement partner responsibilities. The engagement partner is responsible for the engagement. Providing more direction and specificity risks extending audit compliance checklists at the expense of audit quality.
47.	AIC	--
48.	AICPA	<p>As an overarching comment to all the questions in (a) above, we believe that it is preferable to add application material and provide more implementation guidance than to make the requirements more prescriptive. The more prescriptive the requirements, the harder it is to make the requirements scalable for smaller firms. In addition, application material is necessary to address the needs of sole practitioners when considering requirements for engagement review.</p> <p>ISA 230, Audit Documentation, addresses documentation; any additional specificity on audit documentation with regard to the engagement partner would be more appropriately placed there than in ISA 220, Quality Control for an Audit of Financial Statements.</p>
49.	APESB	Stakeholders at our roundtable events believed that the roles and responsibilities of engagement partners are clear across the International Standards on Auditing (ISAs). In particular, ISA 600 Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) (2009) adequately sets out the requirements of engagement partners for multi-location audits. Additional guidance relating to the logistics of multi-location audits, in particular on establishing appropriate communication methods

		<p>between locations, could be useful. However, stakeholders firmly believed that no further requirements are needed. Rather there should be a focus on the promotion and education of the implementation of existing requirements.</p> <p>APESB believe that a number of large firms have internal processes that clearly set out the roles and responsibilities of engagement partners. However, SMPs may benefit from being provided with a summary of the roles and responsibilities relating to engagement partners across the ISAs. This summary could be presented as an Appendix to a Standard or released as an IAASB Staff Audit Practice Alert.</p>
50.	CAANZ	<p>(i) We consider that the most meaningful actions to address are:</p> <ul style="list-style-type: none"> • Providing further clarity through guidance material in ISA 220 about what is meant by performance, direction, supervision and review by the engagement partner with reference to different audit team structures and technologies. • Adding an appendix to ISA 220 that sets out the responsibilities of the engagement partner. <p>(ii) The role of the engagement partner is challenging particularly where untraditional audit delivery models are used. Collating all engagement partner responsibilities in one place would serve as an easy single reference point. Currently they are spread out across requirements and application material.</p> <p>(iii) We do not support providing more specificity as to what audit documentation is required to be reviewed by the engagement partner and the nature of such review procedures. Whilst it is a tangible response, it would depart from the principles-based standards approach.</p> <p>(iv) Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.</p>
51.	CAI	--
52.	CAQ	--
53.	CIIPA	<p>(iv) The public interest and audit quality is best served by avoiding the imposition of prescriptive requirements of the engagement partner. Prescriptive measures are likely to have negative consequences on audit quality, as they could create a "checklist" approach which could cause the engagement partner's involvement not be responsive to identified threats to audit quality at the engagement level and could also have a negative effect on the engagement partner's allocation of audit effort into areas where it may be more effective in enhancing the quality of the audit. Such measures may also result in an increase in audit time and cost with no measurable benefit, which would not be in the public interest.</p> <p>In our view, the principles on which ISA 220 are based do not need revision. However, development of a framework and guidance would be helpful to stakeholders in understanding, applying and demonstrating application of the principles in ISA220. Such a framework or guidance should, i) enable the engagement partner to identify factors and conditions that affect the risks to audit quality, by giving consideration to factors such as the competency of the engagement team and the complexity of the client that</p>

		may either increase or decrease the risk to audit quality, and ii) provide the engagement partner with guidance on how the engagement partner might respond to that assessment of the risks to audit quality. It is important that in the development of any framework or guidance, that the involvement of the engagement partner in the direction, supervision and review of the audit engagement should always be scale-able and responsive to an assessment of risks to audit quality. Specific consideration/examples within that framework relevant to the scenario where the majority of the work is conducted in a location that is different to the location of the engagement partner would assist stakeholders involved in such engagements.
54.	CIMA	--
55.	CPAA	<p>(i) We have not identified a clear need for additional requirements for the engagement partner. Nevertheless, if requirements or application material are to be strengthened, the feedback we have received from stakeholders through our survey and joint roundtables, supports the following priorities for actions to address the engagement partner's responsibilities:</p> <ol style="list-style-type: none"> 1. Primary priorities for clarification in ISA 220: <ol style="list-style-type: none"> a. Active involvement in the risk assessment, planning, supervision and review of work performed. b. The nature of the engagement partner's review. 2. Secondary priorities for clarification in ISA 220: <ol style="list-style-type: none"> a. The specific documentation which the engagement partner needs to review. b. Consideration of the adequacy of resources to perform the audit, including the skills, competence and experience of the engagement team and any experts, and sufficient time to meet the reporting deadlines. <p>(ii) The reason for the priorities for actions identified above, are:</p> <ol style="list-style-type: none"> 1. Primary priorities: <ol style="list-style-type: none"> a. The extent of involvement of the engagement partner in each stage of the audit process is unclear in the ISAs and consequently there is a broad variation in the resultant interpretation. More clarity is particularly important when the engagement partner is not located where the majority of the audit is being undertaken or where alternative delivery models (ADMs) are being used. b. More detail on the nature of the engagement partner's review would aid in consistency of approach between firms and highlight matters where firms take different approaches currently. 2. Secondary priorities: <ol style="list-style-type: none"> a. Clarify the related documentation requirements without necessarily increasing those requirements. b. In considering more thoroughly the resources available, engagement partners take an informed and consistent approach to acceptance and continuance of the engagement. <p>(iii) We have not identified any alternative actions to address the engagement partners' responsibilities.</p> <p>(iv) We consider that the impact on audit quality of proposed changes to ISQC 1 and ISA 220 may be restricted by the fact that the IAASB standards apply only to audit and assurance engagements whereas other parts of the firm may be involved in key elements of quality control, including relevant ethical requirements, acceptance and continuance of engagements, human resources and other aspects of quality control at a firm-wide level. Consequently some of this material that relates to ethical requirements should</p>

		be placed or otherwise reflected in the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA).
56.	DnR	Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE.
57.	EFAA	We generally agree with the actions being put forward but note that these matters would tend to be more common in larger practices than in SMPs. Our concerns on any actions would be when wholesale changes are made to the ISAs when in fact these matters call for very specific actions. To that end it might seem appropriate that any changes are made with a building block approach in mind. Adding an appendix to ISA 220 should be further considered.
58.	FACPCE	--
59.	FEE	<p>(13) “Engagement Partner Roles and Responsibilities” seems to be central to many of the issues raised and as such could possibly be developed further. It would be particularly useful to have more clarity on what is meant by performance, direction, supervision, and review from the engagement partner. This matter also needs careful consideration in the context of a second signing partner; caution needs to be taken not to undermine the responsibility of the engagement partner.</p> <p>(70) The assumption of a leading role associated with the responsibility of the engagement partner is pivotal to the behaviour and attitude of audit team members and should be emphasised. More clarity on what is meant by performance, direction, supervision, and review from the engagement partner, as mentioned in paragraph 85, would help auditors apply these principles better in practice and would also help the engagement partner document and demonstrate that these steps have been achieved. As acknowledged in the ITC, the particular facts of individual audits often make the design and construct of audit teams complex. These complexities include the sheer size and geographical spread of multinational audits plus the way in which the audit firm in question delivers the service, including through using structures such as ADMs. Such situations do, in reality, complicate responsibilities between different partners and staff; the expectations as to how the overall engagement partner demonstrates supervision and control is often far from clear. Therefore, the standards should develop the requirements about the level of supervision in order to get a common understanding about the conditions and factors necessary to ensure a qualitative audit.</p> <p>(71) As noted above, these actions are predominantly necessary to recognise complex situations where it might not be clear how the engagement partner is expected to comply with all the standard’s requirements (e.g. because of locational aspects). This is important since clarification of how these responsibilities are to be complied with could potentially affect the acceptance of the engagement, although we caution against the standards requiring, or presuming, access to full information prior to client acceptance. Information at tendering or client acceptance is invariably limited to some extent.</p> <p>(72) It is worth highlighting that in situations where the majority of the audit work is performed overseas, then all other things being equal, it is not expected that an engagement partner will go above and beyond those applicable to an engagement partner who is in the same location. Furthermore, whilst it is still expected for the engagement partner to meet the standard’s requirements, it is essential to be realistic and recognize that there are situations, for instance, where the engagement partner will not have access to the working papers. This would be a result of restrictions from local laws and regulations, which will inevitably lead to the engagement partner having to rely on the work performed by others. In any case, the engagement partner should be able to document what audit work was reviewed, who reviewed such work, and when it was reviewed. This does not necessarily mean</p>

		<p>that the auditor has any restriction on his audit scope; it is a matter of judgement as to the level of involvement that is necessary given the particular facts and circumstances.</p> <p>(73) These actions also underline the importance of the engagement partner having a leading role in ensuring audit quality. A proactive stance that fosters audit quality before an auditor's report is issued is preferable to any after the event monitoring or inspection.</p> <p>(74) No other relevant issues identified.</p> <p>(75) The identity of the engagement partner who has taken responsibility for the engagement should be clear, and, if a second partner also signs the auditor's report, the responsibilities of this second partner should also be clear. In practice, we believe that a second signing partner not taking responsibility for the overall audit engagement would likely correspond to performing similar procedures as an EQC reviewer would perform. This should not, however, detract from the overall responsibility of the engagement partner regarding the audit and not undermine the responsibility of the engagement partner resulting in any potential loss of his authority.</p>
60.	FSR	<p>Furthermore, we are of the opinion that the role and responsibilities of the engagement partner are clear, and there is no need of further application materials.</p> <p>For specific answers to the queries in the ITC, we in general refer to the comment letter from FEE.</p>
61.	IBA	--
62.	IBRACON	<p>(i) We believe that actions would be most meaningful to address issues related to engagement partner responsibilities are "Evaluation of engagement staffing and identification of areas to be reviewed".</p> <p>(ii) We believe that actions around having appropriate staffing and workload balance as well as a more effective supervision and review are key to improving audit quality.</p> <p>(iii) Workload issues may also be a relevant aspect to consider.</p> <p>(iv) We have no comments.</p>
63.	IBR-IRE	<p>(24) More clarity on what is meant by performance, direction, supervision and review from the engagement partner, as mentioned in paragraph 85, would help auditors apply these principles better in practice and would also help the engagement partner document and demonstrate that these steps have been achieved).</p> <p>(25) These actions would enhance the required experience and direction to the audit and would support a clearer, efficient and risk driven approach, while avoiding an approach that is too standardized.</p> <p>(25) These actions would enhance the required experience and direction to the audit and would support a clearer, efficient and risk driven approach, while avoiding an approach that is too standardized.</p>
64.	ICAEW	<p>(i) Reading the matters outlined in paragraph 85 of the ITC it is difficult to identify what is truly new, apart from the need to build in the impact of the QMA if that is introduced. We consider that further clear guidance for engagement partners might be helpful but this should be as part of a range of activities that enable them to carry out their role effectively.</p> <p>We are concerned that if too much emphasis is given to the role of the EQC reviewer (see answer to QC6), there might be confusion regarding the primary role and responsibility of the engagement partner and possibly a diminishing of this responsibility. This would be a detrimental, albeit unintended, consequence of those proposals.</p>

		<p>(ii) We are not aware that there is currently a lack of clarity regarding engagement partner responsibilities. We support spelling this out if this is considered by some to be helpful but we would not regard this as the IAASB's top priority.</p> <p>(iii) Key to the engagement partner carrying out his or her responsibilities effectively is having the commitment to quality and applying professional scepticism to the audits they have responsibility for. The matters covered in the earlier sections of the ITC are at least as important to achieving successful outcomes.</p> <p>(iv) No further comment (see above).</p>
65.	ICAP	<p>The spectrum for the expected involvement of the engagement partner (i.e., direction, supervision and review), should be reflected through requirements that can be appropriately adapted to different engagement circumstances. The engagement leader has overall responsibility for the engagement. However, accountability for different aspects of audit quality can, in our view, be shared with others on the engagement team when all participants understand their role and how that interrelates with those of others. There is a distinction to be drawn between the engagement partner's overall responsibility for the engagement and how to best achieve execution of that responsibility, in a way that acknowledges how audit quality is best supported.</p> <p>Audit quality will best be enhanced if responsibility for overall engagement quality, responsibility for quality on specific aspects of an engagement, and responsibility for signing the auditor's report are each individually addressed.</p> <p>To achieve this, following actions would benefit most from clarification:</p> <ul style="list-style-type: none"> Clarifying the meaning of proactive and appropriate direction, supervision and review, and identifying factors that assist in considering who may be best placed to perform this in relation to different aspects of the audit based on the organisational structure and circumstances. As an extension of the above, providing clarity as to responsibilities of the engagement partner when that individual is not located where the majority of the audit work is performed.
66.	ICAS	Audit delivery models and firm and network structures are becoming increasingly complex therefore it is important that the standards clarify the responsibilities of the engagement partner for directing and providing adequate supervision and control.
67.	ICAZ	<p>(i):</p> <ol style="list-style-type: none"> Providing further clarity in ISA 220 about what is meant by performance, direction, supervision and review by the engagement partner, either by strengthening the requirements or enhancing the application material that discusses the responsibilities of the engagement partner in relation to these matters Building into ISA 220 (and ISA 600) a more proactive, scalable and robust approach to the identification of risks to audit quality at the engagement level, and development of specific responses to address those risks. Clarifying that, as part of their responsibilities, engagement partners should be appropriately involved at all stages of the audit (i.e., planning, performance and completion). <p>(ii) The actions would strengthen and clarify the engagement partners' responsibilities with regards quality at all stages of the audit. Also incorporating a more proactive, scalable and robust approach to identification of audit quality risks will be in line with proposed of QMA in ISQC 1.</p> <p>(iii) None</p>

68.	ICPAK	<p>(i) Yes. Providing further clarity in ISA 220 about what is meant by performance, direction, supervision and review by the engagement partner, and having more specificity as to the engagement partners' responsibilities</p> <p>(ii) This will address the different interpretations and views held by auditors and they will be on the same page with similar understanding of what is required of them</p> <p>(iii) The actions are sufficient to address the issue at hand.</p> <p>(iv) We have none at the moment.</p>
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	<p>We believe that the more immediate solution would be to address implementation issues rather than imposing more requirements in the existing standards. The standards, if revised, should not be prescriptive in nature. Engagement partners, being qualified professionals, should be allowed to think in depth and make the correct judgement call. There could be more guidance in this aspect but the onus ultimately lies with the engagement partner to exercise professional judgement rather than allowing the standards to prescribe most aspects of an audit.</p> <p>Regarding a possible action to address the issue, the IAASB may wish to consider developing application materials to specifically address situations where an engagement partner is not located where the majority of the audit work is performed. Examples of such situations are (i) where the group engagement partner relies on the work of component auditor(s) or (ii) where the audit client has a shared service centre in another jurisdiction and the engagement partner needs to ask another auditor located in the shared service centre to perform the audit work. Such shared service centres are becoming increasingly prevalent with the changing business environment and rising business costs.</p>
72.	KICPA	<p>(i) We believe ISA 220 providing clarified descriptions on the role of the engagement partner and requiring his/her strong engagement in audits is one of the most meaningful parts.</p> <p>(ii) We are witnessing a growing call for clarifying the role and responsibility of the engagement partner in audit environments increasing in their complexity, since he/she is the one to play the most important role and be most responsible for audit quality,</p> <p>(iii) Requiring an individual other than the engagement partner to sign or be named in the auditor's report invites mixed opinions. Given this, it would be appropriate to consider both positive impacts of meeting up to the expectation of information users and burdens in practice.</p> <p>(iv) As answered in the above (iii) of QC2 (a), we expect that the clarified descriptions on the role and responsibility of the engagement partner and requiring his/her stronger engagement would eventually end up with improvement in audit quality.</p>
73.	MICPA	--
74.	SAICA	<p>30. The general view is that the proposed possible actions in paragraphs 85-86 of the ITC are supported. In terms of which of these actions would be most meaningful in addressing the identified issues related to engagement partner responsibilities, survey respondents indicated the following order of priority [the most meaningful listed first, from (1) to (5)]:</p>

		<p>(1) Add an appendix to ISA 220 that provides a summary of where in the ISAs responsibilities of the engagement partner are addressed (i.e. consolidating in one place all the responsibilities addressed throughout the ISAs)</p> <p>(2) Add more specificity in terms the meaning of “active involvement” in the engagement and the responsibilities of the engagement partner at all stages of the audit</p> <p>(3) Place more emphasis on the documentation that is required to be reviewed by the engagement partner and the nature of the engagement partner’s review procedures</p> <p>(4) Place more emphasis on the responsibility of the engagement partner to evaluate whether sufficient time and resources are available to perform the audit</p> <p>(5) Add more specificity around the engagement partner’s involvement in and decisions regarding client acceptance and continuance requirements</p> <p>31. Further to items (2) and (3) in the previous paragraph, there is support for strengthening the minimum requirements in ISA 220 (together with appropriate application material) with respect to performing and demonstrating appropriate direction, supervision and review throughout the audit.</p> <p>32. In order to further assist the IAASB in exploring the issues and possible actions that have been proposed, we include the following matters that have been raised by some survey respondents. Although not representative of a general or common view, these comments could provide further context and insight into some of the issues and possible actions, or additional issues and possible actions.</p> <ul style="list-style-type: none"> ➤ In strengthening requirements and enhancing application material, the standards must also preserve the exercise of professional judgment. Although minimum requirements are essential, creating more “rules” could inadvertently erode the exercise of professional judgement. ➤ Consider strengthening engagement partner responsibilities (also in the context of exercising professional skepticism and professional judgement) by enhancing certain elements of engagement performance that are already addressed in the standards, such as consultation and the use of experts. ➤ Consider including /highlighting relevant factors that may have a bearing on the engagement partner’s decisions regarding the nature and depth of partner involvement that is required. For example, engagements can differ significantly based on years of involvement, industry specific expertise, levels of technicality required in assessing financial information, etc. ➤ More focus should be placed on the engagement partner and his/her engagement team (really) fully understanding the entity and its environment. ➤ Recognising the value and importance of engagement partners having deep industry specific knowledge. The absence of suitable knowledge (understanding) and experience could probably never be compensated for by additional requirements in the standards. ➤ Related to the timing of involvement, emphasise the role and responsibilities of the engagement partner throughout the audit process – direction, supervision and review is required throughout. ➤ The engagement partner has to use, and rely on the resources that are available, including staff (trainees and professional staff). Quality staff will enhance a quality audit, still recognising that the engagement partner has to adequately discharge
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		<p>his/her responsibilities for the performance of the audit. In this context there may also be a need to consider education and training programmes in terms of developing “quality staff” (knowledge, skills and attitudes).</p> <p>[Response to QC2(a) (iii) only]</p> <p>33. Survey respondents indicated the following order of priority with respect to which situations /circumstances described pose the greatest challenges in terms of the engagement partner being sufficiently involved in the audit [the most challenging listed first, from (1) to (5)]:</p> <ol style="list-style-type: none"> (1) Group structures that include non-controlled entities or shared service centres (2) The engagement partner is not located where the majority of the audit work is performed (3) Using the work of another auditor in an engagement that is not a group audit (4) Group audits where component auditors are involved (5) Use of various audit delivery models (ADMs), sometimes referred to as audit firm shared service centres or on-shoring or offshoring or outsourcing (in essence, using centralized resources for certain audit activities) <p>The ranking at position (5), above, for ADMs should be interpreted in the context that 46% of survey respondents indicated that ADMs do not affect them or their firms (which is not unexpected, since a large portion of the respondents come from the small and medium-sized firm constituency).</p> <p>34. Survey respondents were not completely decided on whether they believe it is appropriate that the standards address certain specific situations /circumstances encountered in practice, such as those that have been mentioned in the previous paragraph (i.e. strengthening the requirements and/or enhancing the application material). 55.3% answered “Yes” and 44.7% answered “No”.</p> <p>Also, refer to the “Networks and ADMs”-section later in this comment letter that provides further information in this regard.</p> <p>35. It is recognised that the standards cannot be expected to address all specific /individual situations /circumstances. However, one must also recognise that the standards are not static and part of ensuring that they remain sufficiently robust and fit-for-purpose includes their periodic review and, if required, their revision. This should include recognising, at a point in time, the realities of the environment of businesses that are subject to audit, as well as the realities of the audit firms’ environment(s). Therefore, it is appropriate to strengthen requirements and enhance application material in the context of considering specific circumstances or situations, provided that this can continue to be done in accordance with a principles-based approach and in the interest of enhancing consistency in practice. In those cases where these “boundaries” are tested, standard-setting may not be the appropriate response and other courses of action such as those listed in the ITC (page 3) may be more appropriate.</p>
75.	SMPC	<p>In our opinion, the proposal to add an appendix to ISA 220 that indicates where the responsibilities of the engagement are articulated within the requirements and application in the ISAs would be helpful.</p> <p>The SMP Committee generally agrees with many of the actions to address the issues, but considers some of these tend to be more relevant to medium and large practices rather than SMPs. We encourage the Board to carefully consider the impact of the possible actions on the smallest firms. For example, we fully agree on the importance of the engagement partner in creating a quality climate to lead staff, but depending on the final wording used this aspect may be considered primarily applicable to large firms. The issue seems to us to revolve around the need for engagement partners to “embrace” quality in all their actions, since depending on individual circumstances, engagement partners contribute to engagement quality in their own right as well as “by-example”.</p>

76.	WPK	--
Academics		
77.	AAA	The Committee would like to draw the Board's attention to two specific issues related to partners' management of engagement quality. First, audit engagements are usually performed under tight deadlines, and auditors report deadline constraints as a top impediment to audit quality (Persellin, Schmidt and Wilkins 2014). Experimental and survey research indicates that workload pressures lead to dysfunctional behaviors and lower audit quality among individual auditors (e.g., Alderman and Dietrick 1982; DeZoort 1998; Glover, Hansen, and Seidel 2015). Second, audit partners should select and assign professionals to engagements and areas of risk with full and careful consideration of the professionals' competencies. Partners can over-estimate their subordinates' abilities to find audit-related errors, especially those that are more complex (Messier, Owhoso, and Rakovski 2008). Note that although these studies explicitly mention the impact of various firm-specific factors on audit quality, it is likely that the audit quality impacts relate to the misapplication of professional skepticism and that these items can be considered as additional impediments to skepticism in response to ITC Question PS2.
78.	AH	--
79.	Glover-Prawitt	--
80.	TRay	--
Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	<p>(i) Paragraph 85 anticipates that the engagement partner has a "hands on" role in the audit rather than delegating tasks to other senior audit team members. This approach is supported. However, the last bullet point in paragraph 85 undermines the objectives in the rest of the paragraph.</p> <p>i.e. How is it possible for an audit partner to be effectively involved in the performance, direction, supervision and review at all stages of the audit, while not located where the majority of the audit work is performed? If limited direct engagement partner involvement is possible when the audit team is in a different location, then why is it not possible when the engagement partner and audit team are in the same location?</p> <p>There is a prima facie contradiction which needs to be addressed.</p> <p>(ii) Refer responses to PS2, PS3 and PS4 above. Audit tasks are often dissected across an audit team with different levels of experience and expertise, who may also be conducting tasks in different locations. For a quality audit it is imperative that a senior</p>

		<p>audit team member (the engagement partner) allocates tasks appropriately and brings together the findings across all aspects of the audit.</p> <p>(iii) The engagement partner should have a presence at the location where the majority of the audit work is performed. This should include face-to-face visits at each stage of the audit and regular virtual meetings (eg. Skype) so that consultations are possible on a timely basis.</p> <p>(iv) The nature of audit procedures conducted offshore and engagement partner involvement at multi-location audits needs further guidance.</p> <p>If an engagement partners is expected to take a more “hands-on” role in all audits, other firm responsibilities allocated to the partner, and the related components of partner remuneration, may need examination to ensure they do not cause conflict in demands on partner time.</p>
84.	JGrant	--
85.	JK	--
86.	KKTuraga	--
87.	SDeViney	<p>(i) The most meaningful actions would be to (1) provide further clarity to ISA 220 about what is meant by performance, direction, supervision and review by adding application material and (2) by adding an appendix to ISA 220 and 600 that lists responsibilities of the engagement partner.</p> <p>(ii) To provide more clarity and consistent understanding of expectations within the profession.</p> <p>(iii) No.</p>

QC2. Engagement Partner Roles and Responsibilities

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

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	--
3.	CFA	--
4.	IA	--
5.	ICGN	--
6.	NZSA	See response to QC2(a)
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	--
10.	CPAB	--
11.	EAIG	--
12.	EBA	--
13.	ESMA	--

14.	H3C	--
15.	IAIS	--
16.	IFIAR	--
17.	IOSCO	--
18.	IRBA	--
19.	MAOB	--
20.	UKFRC	We note the suggestion in paragraph 86 that consideration could be given to clarifying the expected performance requirements for individuals (other than the engagement partner) who sign or who are named in the auditor's report. We would not support any such action if the effect were to reduce the responsibility of the engagement partner for the performance of the audit. We believe that a fundamental principle in the ISAs is that the engagement partner has overall responsibility for the engagement. We do not support any action that would undermine this principle and we believe it is the engagement partner who should be responsible for signing the audit opinion and who should be named in the auditors' report. For example, we would not support disclosing the names of such individuals in the auditor's report in a manner that would undermine this principle.
National Auditing Standard Setters		
21.	AUASB	On the whole, the AUASB and Australian constituents would support the retention of the current principle, being not to mandate other partners being named in or signing the auditor's report as another signature may be seen to be inconsistent with the engagement partner assuming ultimate responsibility for the audit opinion. However, as the current standard is principles based, it does not preclude other Key Audit Partners signing the auditor's report as appropriate on an engagement by engagement basis. In Australia, this does occur on some audit engagements where two partners co-sign the audit report.
22.	CAASB	The situations in which an individual other than the engagement partner signs the auditor's report can vary widely. As noted in the ITC, there may be situations where the engagement partner is temporarily unavailable when the auditor's report needs to be signed, so another partner in the firm signs the report. A very different example, which is common in the public sector in Canada, is one where an auditor general contracts the work to support the opinion to a third party auditing firm while the auditor general signs the auditor's report that is publicly available. Also, some jurisdictions require the audit opinion to be signed by a partner licensed to sign the auditor's report in that jurisdiction even though the direction, supervision and review takes place in another jurisdiction. The involvement of the signing partner in the work of the other auditor is likely to vary significantly depending on the scenario. In some cases, the signing partner may be able to rely on the direction, supervision and review performed by the engagement partner. The AASB believes that this is an area that needs further consideration but may be difficult to address, because of the possible widely-varied scenarios.
23.	CNCC-CSOEC	Concerning the signature of the auditor's report, as mentioned in paragraph 79 of the ITC, the ISAs do not explicitly set out who is required to sign, but require that the engagement partner is responsible for the auditor's report that is issued on behalf of the firm. In many jurisdictions, the engagement partner is either named in the auditor's report, or signs the report in his or her own name. In some cases and pursuant to law, regulation or custom within a jurisdiction, in addition to or instead of the engagement partner, other partners are named in or sign the auditor's report.

		Our position is that the engagement partner is qualified and registered as a statutory auditor; he is the one who has taken responsibility for the engagement, has a leading role in performing the audit and in ensuring its quality. As far as the signature of the report is concerned, we believe that the standard has to remain principle based and do not require additional requirements. Signature of the report is for us a legal issue and a question of professional responsibility.
24.	HKICPA	--
25.	IDW	The signature of an auditor's report is foremost a legal matter in most jurisdictions, and therefore the ISAs cannot be too prescriptive in this regard, although the IAASB might usefully explore current practices. The fundamental ethical issue revolves around the need for those signing the auditor's report to have done enough work to satisfy themselves that affixing their signature is appropriate from an ethical point of view. They can of course draw upon work performed by others partners and members of staff. This in turn implies that the person signing does have, at a minimum, certain review responsibilities.
26.	JICPA	We see no need for the ISAs to include requirements or otherwise address the circumstances described in paragraph 79, where an individual other than the engagement partner is required to or otherwise customarily sign(s) the auditor's report or is named therein. Such practices seem to be fairly uncommon. Acknowledging them in the ISAs could create confusion. These cases should be addressed by local laws or regulations instead.
27.	MAASB	We support the existing position that the ISAs do not prescribe the person required to sign the auditors' report. This is a matter for local jurisdictions, which may, through law or other regulation, specify the person required to sign the report.
28.	NBA	We do not think this is necessary and are actually not in favor of this. The engagement partner has a sole responsibility and accountability for the audit. A second person (e.g. a specialist) could sign in addition to the engagement partner, but not act as a substitute for the engagement partner.
29.	NZAuASB	There is no statutory requirement in New Zealand to name another individual other than the engagement partner in the audit report, and the NZAuASB does not see how doing so would improve audit quality. The engagement partner is responsible for the audit engagement and the NZAuASB does not see the benefit for audit quality in naming the EQCR or other involved partner in the audit report.
Accounting Firms		
30.	BDO	It may be helpful if there is guidance clarifying how the audit firm can clearly distinguish the engagement partner from the non-engagement partner in these circumstances.
31.	CHI	The ISAs should address the circumstances described in paragraph 79. Where partners other than the engagement partner sign the audit report, ISAs should set out appropriate requirements for the exercise of their responsibilities. A straightforward approach would be to develop a set of responsibilities that are similar to those of an EQCR.
32.	DTT	--
33.	EYG	Although we understand several of the concerns expressed in paragraph 79, we do not believe that it is necessary for the ISAs to address when an individual other than the engagement partner signs or is named in the auditor's report. We do not believe that the IAASB standards, and requirements for the engagement partner, should be compromised to acknowledge and address issues that are caused

		primarily by the licensing practices in certain jurisdictions. This issue is best dealt with by national standard setters and licensing authorities in the relevant jurisdictions.
34.	GTI	The ISAs and ISQC 1 are currently silent on specifically who should sign the auditor's report. ISA 700 (Revised) merely states that the auditor's report should be signed, and the related application material states that the signature is either the name of the firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction. Further, the definition of auditor specifically states that where the ISA expressly intends that a requirement of responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "auditor" is used. It further allows for a definition of auditor to encompass a "person or persons." As such, the ISAs do not expressly require an engagement partner to sign the auditor's report nor do they prohibit more than one auditor signing the auditor's report. We believe that this level of flexibility should continue to be permitted, thus allowing local laws and regulations to determine with more specificity the customs and practices for each individual jurisdiction. This in turn may facilitate a broader adoption of the ISAs. We do not believe that there is any evidence to suggest that including acknowledgment of such situations in the ISAs will improve audit quality and may be confusing to those jurisdictions where the practice of multiple signatures on an auditor's report does not exist. It also has the potential to further extend a standard that many of the smaller firms already find cumbersome.
35.	KPMG	With respect to the circumstances in which an individual other than the Engagement Partner is also required to sign the auditor's report or is otherwise identified in that report, we recommend that rather than imposing minimum responsibilities on such individuals that may not, in fact, be relevant to their role as set out in applicable law / regulation, instead the auditor's report provide greater transparency as to the role played by the second signatory, e.g. by including an appropriate title. (QC 2b)
36.	PwC	<p>The ISAs cannot prescribe who is required to sign the auditor's report because this is a matter for local jurisdictions, which may, through law or other regulation, specify the qualifications of those able to sign the report.</p> <p>For example, we are aware that there are jurisdictions:</p> <ul style="list-style-type: none"> • That limit the absolute number of auditor's reports that may be signed by any one individual; • That require that only citizens of a country, or partners that hold a local qualification, may sign the auditor's report (and that there may be restrictions as to who may be awarded that qualification). <p>The individual that signs the report has to be satisfied that there is a sufficient and appropriate basis to do so, and is therefore accountable for the report that is issued. However, consistent with our views above, we do not believe that the ISAs should include explicit requirements that specify that the individual responsible for signing the auditor's report has sole responsibility for all aspects of audit quality on the engagement. They do, however, need to be satisfied that audit quality has been brought to bear. Depending on the particular circumstances of the engagement being audited, there may be one or more individuals within the overall engagement team who are best placed to oversee audit quality on aspects of the engagement, and we believe the ISA should acknowledge that principle.</p> <p>In that regard, we believe the current definitions of "engagement partner" and "group engagement partner" create challenges by explicitly incorporating responsibility for the auditor's report that is issued by the firm, which we believe is interpreted as meaning the individual that signs the report. We believe that an individual other than the engagement partner can sign the auditor's report. The relevant actions and considerations in such circumstances could be addressed through:</p> <ul style="list-style-type: none"> • Removing direct reference to responsibility for the report that is issued from the definition of engagement partner; • Separately defining the role of "signing partner"; and

		<ul style="list-style-type: none"> Developing appropriate application guidance that supports the interaction and responsibilities of the two roles, as we have described in our responses above - that is, we do not consider that additional requirements are necessary to facilitate our views on aspects of audit quality being a collective responsibility.
37.	RBI	--
38.	RSM	We believe that it would be beneficial that if a person other than the engagement partner signs the audit report, that there is clear and concise guidance for the person signing the audit report explaining their responsibilities.
39.	SRA	--
Public Sector Organizations		
40.	AGC	<p>As noted above, we support the value of such guidance and feel it is very relevant to the public sector.</p> <p>In the public sector, an Auditor General may sign auditor's reports for engagement performed on his or her behalf by individuals assigned to the role of engagement partner. An Auditor General may have specific authority or obligations in respect of reporting established in law, regulation or custom. Engagement partners may be delegated authority to sign an auditor's report acknowledging the delegation in the published report.</p> <p>Our views as to how to address the circumstances described in paragraph 79 are outlined in our response to question 2 (a)(iv). We believe there is no specific work effort incremental to that of the engagement partner that should be consistently applied other than that already established by a firm's system quality control. A properly designed and implemented system should result in a firm environment that appropriately promotes and maintains the necessary inputs to quality engagements. We would guide such individuals to apply their knowledge of the results of monitoring the system of quality control and external inspections, the maturity of the audit firm practice, the maturity of the accounting environment of the preparer (for example, the maturity and quality of applicable accounting frameworks and preparers' understanding of these frameworks), and the risks of particular engagements in order to properly assign/delegate engagement partners and Engagement Quality reviewers (where needed) to individual engagements. This same information should also be used to ensure the continued relevance and effectiveness of the firm's system of quality control.</p>
41.	AGSA	Yes. This issue should be addressed as the engagement partner is defined in the standard and specific responsibilities are assigned to such an individual; however the signatory is not given consideration. This might lead to an expectation from the engagement partner that the responsibility is somehow diminished and transferred to the signatory. Alternatively, the signatory may assume no responsibility as currently the responsibility lies with the engagement partner.
42.	GAO	--
43.	INTOSAI	<p>As noted above, we support the value of such guidance and feel it is very relevant to the public sector.</p> <p>In the public sector, the Head of the SAI (Auditor General or President of the Court) often signs auditor's reports for engagement performed on his or her behalf by individuals assigned to the role of engagement partner. A Head of the SAI (Auditor General or President of the Court) may have specific authority or obligations in respect of reporting established in law, regulation or custom. Engagement partners may be delegated authority to sign an auditor's report acknowledging the delegation in the published report.</p> <p>Our views as to how to address the circumstances described in paragraph 79 are outlined in our response to question 2 (a)(iv). We believe there is no specific work effort incremental to that of the engagement partner that should be consistently applied other than that already</p>

		established by a firm's system quality control. A properly designed and implemented system should result in a firm environment that appropriately promotes and maintains the necessary inputs to quality engagements. We would guide such individuals to apply their knowledge of the results of monitoring the system of quality control and external inspections, the maturity of the audit firm practice, the maturity of the accounting environment of the preparer (for example, the maturity and quality of applicable accounting frameworks and preparers' understanding of these frameworks), and the risks of particular engagements in order to properly assign/delegate engagement partners and Engagement Quality reviewers (where needed) to individual engagements. This same information should also be used to ensure the continued relevance and effectiveness of the firms' system of quality control.
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	We do not think it is necessary for the ISAs to include further requirements in relation to the circumstances described in paragraph 79. There may be specific issues, which we would recommend addressing individually rather than by amendments to the ISAs.
47.	AIC	--
48.	AICPA	With respect to question in subparagraph (b), this seems more like a regulatory issue and risk management, not an issue to be addressed through the standards. It may be helpful, however, to clarify the distinction between the engagement partner (that is, the person who is responsible for the report that is issued on behalf of the firm) and the person who signs the report on behalf of the firm, (as in many jurisdictions these are required or expected to be the same person). Guidance that the responsibilities of the engagement partner are not diminished when the engagement partner is not the person who signs the report may be helpful.
49.	APESB	--
50.	CAANZ	There is no need to include mandatory requirements or otherwise to address those circumstances in the ISAs. We believe this will only confuse and add no value. There is no requirement in Australia or New Zealand to name another individual other than the engagement partner in the audit report.
51.	CAI	--
52.	CAQ	--
53.	CIIPA	--
54.	CIMA	--
55.	CPAA	We support the inclusion of appropriate requirements with respect to quality control applicable to any person other than the engagement partner who is required to sign or be named in the auditors' report. This would ensure that appropriate quality control measures apply to all relevant individuals.

56.	DnR	Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE.
57.	EFAA	We would need to have more information on the circumstances in paragraph 79 to be able to give an informed opinion albeit generally this is a matter for legislation in particular countries or jurisdictions.
58.	FACPCE	--
59.	FEE	(76) We refer to our answer above, although we are not clear as to how widespread such occurrences are. We think that it may be worthwhile for the IAASB to find out whether there is proper ground for doing so. Nonetheless, potential consequences of doing so should also be considered.
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	If an individual other than the engagement partner is required to or otherwise customarily sign(s) the auditor's report or is named therein it would be essential to have guidance on how to address such circumstances, including reinforcing that the ultimate responsibility remains with the engagement partner. Nevertheless, it should be considered the cost/benefit of such new requirements in an environment/jurisdiction that may trend to be more litigating with auditors in the medium/long term.
63.	IBR-IRE	(27) IRE-IBR does not think this is necessary
64.	ICAEW	This matter could be addressed in application material highlighting that the person signing the report must conclude that there is sufficient and appropriate evidence to do so.
65.	ICAP	--
66.	ICAS	We are not clear as to the extent that such situations arise and therefore it might be valuable for the IAASB to investigate how widespread such instances are and use these findings as a basis for considering whether including such requirements in the ISAs is necessary.
67.	ICAZ	No
68.	ICPAK	Indeed, it is necessary for ISAs to include the requirements, having the engagement partner sign audit report improves the audit quality as it increases accountability which could lead the partner to exercise greater care in performing the audit. To enable this, the standard should emphasise on accountability where every engagement be directly responsible for any risk arising from the audit he/she is conducting.
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	--
72.	KICPA	As there are mixed opinions on the above issue, it would be important for IAASB to make a preliminary review on the requirements and expectations jurisdictions have on individuals, who sign or are named in the auditor's report, and their related cases in practice, and then

		<p>to sufficiently consider as to whether it is possible and necessary to deal with various circumstances in a comprehensive and consistent manner.</p> <p>(For the above requirement) Information users are likely to consider that those who sign or are named in the auditor's report should be responsible for the relevant engagements. ISAs requiring those, who are named in the auditor's report, to have responsibility as equivalent to those of the EQC reviewers would bring about positive impacts of strengthening quality control. In addition, specifying the responsibility and procedures required to those, who sign or are named in the auditor's report, could contribute to clarifying the legal responsibility of the relevant individuals.</p> <p>(Against the above requirement) As for individuals other than engagement partners to be named or sign in the auditor's report, placing certain requirements on the relevant individuals, as outlined in the consultation, is not the issue to be addressed in the context of ISAs. We agree with the idea of the requirements only resulting in making vague the fundamental role and responsibility of the engagement partner, and thereby having a negative impact on audit quality. Thus, the issue would be appropriate to be dealt at the respective jurisdiction's law and regulation, as it is related with the legal responsibility of auditors and actions against them as stipulated by the jurisdiction.</p>
73.	MICPA	--
74.	SAICA	<p>36. With respect to the current situation in South Africa as it relates to auditors (in South Africa, Registered Auditors (RAs)), it is not necessary that the IAASB further enhance the requirements or otherwise address the circumstances described in paragraph 79. The Independent Regulatory Board for Auditors (IRBA), Code of Professional Conduct for Registered Auditors (the Code), requires the disclosure of the name of the individual engagement partner (registered auditor) when signing any audit, review and other assurance report. With respect to the signing itself there are no specific requirements; therefore the auditor's signature is either in the name of the audit firm or the personal name of the auditor (as provided for in ISA 700 (Revised), paragraphs 46 and A59-A60).</p>
75.	SMPC	As the signature of an audit report can be stipulated in country law or regulation, the IAASB may be unable to be too prescriptive with the ISAs containing requirements dealing with the responsibilities of an individual being named in or signing the auditor's report when such individual is not the engagement partner. However, we support further exploration on the extent of the issue as we believe that it would be inappropriate for an individual to sign the auditor's report without at a minimum performing the same procedures that an engagement quality control reviewer (EQCR) would perform, since a signatory is seen to accept a certain responsibility for the audit.
76.	WPK	--
Academics		
77.	AAA	--
78.	AH	--
79.	Glover-Prawitt	--
80.	TRay	--

Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	I have no experience of circumstances where someone other than the engagement partner signs the auditor's report.
84.	JGrant	--
85.	JK	--
86.	KKTuraga	--
87.	SDeViney	No. Standards should avoid additional requirements related to signing the auditor's report for reasons noted in paragraph 86. Quality control procedures should not be determined by who signs the report since the audit organization has the same responsibility regardless of who signs.

QC3. Others Involved in the Audit

- (a) Paragraphs 87–104 set out matters relating to involvement of others in the audit:
- (i) Which of the actions outlined in paragraphs 100–104 would be most meaningful to address issues related to others participating in the audit?
 - (ii) Why do you believe these actions are necessary?
 - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
 - (iv) Describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Should we develop further requirements or application material for circumstances when other auditors are involved in an audit engagement (i.e., auditors that don't meet the definition of component auditors)?

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	--
3.	CFA	--
4.	IA	--
5.	ICGN	--
6.	NZSA	See response to QC2(a)
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	--
10.	CPAB	We note the discussion in paragraph 79 of the ITC addressing the inclusion of references to another auditor within the auditor's report. We support providing investors and other users with increased transparency, specifically where other auditors were involved in performing the audit. However, we would not support any action which contradicts the overall responsibility of the group auditor or creates an element

		of doubt as to who is responsible for the audit opinion. An option may be to include an enhanced scope section where the auditor is able to describe how they planned and performed the group audit. Further material on this topic is available from other jurisdictions where additional requirements supplement the ISAs; for example disclosure of the scope of the audit within the auditor's report in the UK and the PCAOB's requirements to disclose the names of other auditors that are involved in the audit.
11.	EAIG	--
12.	EBA	--
13.	ESMA	--
14.	H3C	--
15.	IAIS	--
16.	IFIAR	--
17.	IOSCO	--
18.	IRBA	--
19.	MAOB	--
20.	UKFRC	<p>We agree that the use of other auditors, experts and specialists in audits is becoming increasingly prominent. We support the IAASB's proposal to re-address the quality aspects of the involvement of such parties in the audit in response to the issues that have been raised in paragraphs 94 to 96, including in respect of other auditors that are not component auditors. As noted in our response to G2, the FRC response to the Post-Implementation Review of the Clarified International Standards on Auditing highlighted a number of issues that have arisen in relation to the use of experts and specialists in particular, and recommended a number of revisions that could be made to improve audit quality in this regard.</p> <p>As articulated in paragraph 94 of the ITC, the involvement of other parties in the audit contributes to the overarching issue, discussed in our response to QC2. As explained in our response to QC2 some of the actions outlined in paragraph 85 and 100 may be helpful to engagement partners in understanding their roles and responsibilities in these circumstances, particularly in relation to providing further clarity in ISA 220 about what is meant by 'performance', 'direction', 'supervision' and 'review' in relation to the work of such parties. However, in our view, the most meaningful response in supporting engagement partners' to address this overarching issue would be to embed a QMA-EL. As previously noted, a QMA-EL, in conjunction with embedding a user perspective principle, would help bind these together and provide a framework for developing them.</p> <p><i>Making reference to other parties in the audit report</i></p> <p>With regard to the issues that have been raised in paragraphs 97 and 98 and the action articulated in paragraph 101 to explore the ability to use another auditor's report as audit evidence in certain circumstances, we would not support such action. Please see our response to QC2, which explains that we believe the IAASB should maintain the fundamental principle in the ISAs that it is the engagement partner who has overall responsibility for the audit engagement.</p> <p>We do not believe that it would be appropriate to consider an auditor's report issued by another auditor on the financial information of a component as audit evidence for the group audit. At best, this is evidence that the other auditor performed an audit and of <u>their</u> conclusions.</p>

		<p>However, the group audit provides the basis for the opinion of the group auditor on the consolidated financial information of the group, including that of its components. The essence of an audit is the conclusion reached and expressed in the auditor's report. In the case of a group audit, that conclusion is premised upon each of the judgments made by the group auditor throughout the audit. The fundamental principle in the ISAs today is that the group auditor must be sufficiently involved in the work of any other auditor to effectively direct, supervise and review that work and therefore be in a position to stand behind the key judgments made in performing the work of any such other auditor. Access to such auditors and to their work is therefore a fundamental requirement (and is a matter that should be considered prior to acceptance of the engagement). In the absence of such access, there is a limitation imposed on the group auditor and there are consequences for the group auditor's report unless the group auditor is able to perform the necessary audit work in some other way. This is a principle that is not just reflected in the ISAs but has also been reflected in law, including most recently in EU Law³⁰.</p> <p>It has been suggested that considering another auditor's report as audit evidence might provide a solution to such access issues, particularly with respect to components that may be consolidated as a result of significant influence rather than control. As noted above, we believe that such an approach would undermine the fundamental principle that the group auditor has sole responsibility for the audit. Furthermore, we do not accept that this would somehow be in the public interest because users would get an auditor's report that addressed the whole group. Our view is that building such an approach into the ISAs would tacitly endorse a situation in which access to the underlying information of a component (which could be a significant part of the group) is denied to both the entity's management and those charged with governance and the auditor - i.e. the agents of the investors in the group. We believe that this situation is <u>not</u> in the interests of the investors and is far more likely to be resolved in a manner that <u>is</u> in their interests (i.e. by action to obtain appropriate access) if the auditor's report is qualified in those circumstances. In the meantime a qualification will appropriately signal to investors that such a situation exists and that the auditor was not able to protect investors' interests by providing an independent view on the component's financial information. This will also enable investors to hold the entity's management and those charged with governance to account for their actions to resolve the issue.</p> <p>Enabling the group auditor to use the other auditor's report as audit evidence would not change the underlying issue, yet the group auditor's report would give an unqualified opinion. This risks obscuring the issue and giving it a semblance of regularity. We also do not accept that such an approach is 'necessary' to address situations where a qualified report would prevent a company's access to capital markets. Capital market rules have been established on the basis of the existing ISAs, which would not permit 'divided responsibility' auditor's reports under the ISAs. A change to the ISAs could in fact be seen as undermining those rules.</p>
National Auditing Standard Setters		
21.	AUASB	<p>The AUASB is of the view that there needs to be a clear focus on the core principles in ISA 220. It is noted that ISA 220 could include greater clarity in application material on the core principles in relation to the engagement partner's responsibilities and the necessary direction, supervision and review of the work of the other auditor as this would provide a clearer link to ISA 600.</p> <p>The AUASB view is that the above actions could be beneficial because:</p> <ul style="list-style-type: none"> • The clarity of the role of engagement partner has become more challenging where less traditional ADMs are used, where other auditors are used, where the engagement partner is located remotely from the majority of the audit work, and where there are access issues to non-controlled but significant entities or divisions in the group. Providing more practical examples around the

³⁰ Article 27 1(a) of Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2016 on statutory audits of annual accounts and consolidated accounts

		<p>principles to direct the engagement partner in these circumstances will assist in the ongoing effective implementation of the principles based ISAs.</p> <p>The view of the AUASB is that the title of ISA 600 could be changed to reflect its broader application for other auditors that do not fall under the definition of component auditors. Refer to the detailed answers in the Group Audit section.</p>
22.	CAASB	<p><u>Question 3(a)</u></p> <p>The AASB, along with our Canadian stakeholders, are not convinced that changes in this area are necessary. The proposed action to further consider issues and concerns relating to the involvement of auditor's experts (para. 104) could be helpful, but is likely better addressed in a separate project to deal with ISA 620⁹ rather than in ISQC 1.</p> <p>However, if the IAASB chooses to proceed with changes, the following actions would be:</p> <p>Meaningful:</p> <ul style="list-style-type: none"> • Incorporate matters such as assessment of professional competence and capabilities of other auditors and evaluation of the sufficiency and appropriateness of their work (para. 100) – The AASB notes that standards already include requirements and application material related to competence of engagement team members and others (e.g., ISQC 1, paragraphs A18, A25-A26 and A40; ISA 220, paragraphs 14 and A11; ISA 620, paragraph 9, A3, A6, A9, A14-A17 and A32). Additional guidance may be useful to assist with consistency in practice, particularly since existing guidance is not summarized in one location in the standards. <p>Not supported:</p> <ul style="list-style-type: none"> • Revisit requirements that preclude reference to the report of another auditor (para. 101) • Explore the ability to use another auditor's report as audit evidence (para. 101) <p>These issues have been discussed several times in the past, most recently as part of the auditor reporting project. The IAASB has not presented any new information or evidence in support of this action that would change previous decisions. Further, the AASB believes that this is an auditor reporting issue, not a quality control issue, and therefore should not be addressed in ISQC 1.</p> <p><u>Question 3(b)</u></p> <p>As noted above, the AASB believes that dealing with the issue of the involvement of others in an audit engagement would likely best be addressed under ISA 620.</p>
23.	CNCC-CSOEC	<p>As referred to paragraph 101, we do not support revisiting the requirements that currently preclude the ability to make reference to the report of another auditor. The concept of division of responsibility is not compatible with the European legislation. According to article 27 of the audit directive², Member States shall ensure that in the case of a statutory audit of the consolidated financial statements of a group of undertakings, in relation to the consolidated financial statements, the group auditor bears the full responsibility for the audit report referred to in Article 28 of this Directive. Accordingly, we do not agree with actions that would affect the concept of the group auditor's sole responsibility for the audit opinion.</p>

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

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

		Moreover, we do not agree with paragraph 102, suggesting a detailed reference to the involvement of another auditor to enhance transparency in the auditor's report. We believe that such a solution would be impracticable in case of large groups and would be clearly contrary to the spirit of ISA 600. Such detailed information may nevertheless be useful in the engagement letter.
24.	HKICPA	<p>We support proposals to provide additional guidance on engagement partner's role in reviewing the work of other auditors as well as clarifying the allocation of work between engagement partner and team.</p> <p>We do not support the proposals to revisit the requirements to make reference to the report of another auditor. Given that the group auditor is responsible for the group audit opinion, making reference to the report of another auditor may confuse readers and give rise to the need for further explanation if the opinions are not consistent. The principles of the involvement of others should be covered by ISA 600.</p>
25.	IDW	<p><u>Question 3(a)</u></p> <p>Many of the concerns detailed in paragraphs 94-95 seem to reflect mis- or non-application of the current standards, and thus point to the need for clarification or guidance rather than a revision of the relevant requirements.</p> <p>In our view, the engagement partner needs to take overall responsibility for the audit, including for the involvement of component auditors, other auditors and auditor's experts. However, the engagement partner may delegate certain tasks in relation to the management of such involvement to the engagement team.</p> <p>We agree that the IAASB should specifically clarify the role of the engagement partner in situations where other auditors (other than component auditors) are involved in the audit, as the application of ISA 600 in such situations has proven unclear in practice.</p> <p>The mention of the possible application of ISA 600 currently in the introduction section of ISA 600.02 "an auditor may find this ISA... useful" is insufficient to ensure the engagement partner's involvement in work performed by other auditors in locations will be appropriate. The lack of clarity of what auditor responsibilities are in these cases was an issue identified by the firms and national standards setters in the IAASB ISA-Monitoring Project and has been a matter of some contention with some regulators. For this reason, some requirements are needed to govern such use, including a review process as part of a risk based approach.</p> <p>We continue to believe that the inclusion in the auditor's report of a reference to the fact that other auditors performed certain work is inappropriate, as it detracts from the auditor's overall responsibility for the audit. In particular there are practical challenges where work is carried out by individuals in other locations or otherwise not directly within the environment of the engagement partner's firm, and so the ISAs need to recognize these challenges and address them in an appropriate manner. A lack of access to other auditors' working papers etc. represents a scope limitation that can be dealt with (and reported upon) in accordance with the extant ISAs.</p> <p>Therefore, we do not agree with the suggestion in para. 101 that providing information on other auditors in the auditor's report would be worth exploring (again). We do not believe that such information is helpful, as what "another auditor" means may be unclear given the differences in networks. In addition, listing, for example, all auditors not from the same network may imply a different quality and this does not serve transparency in the spirit intended. We also believe that information on the use of an auditor's expert is inappropriate in the auditor's report, as it also detracts from the auditor having responsibility for the audit opinion. It would, however, be appropriate for such information to be made available to those charged with governance. The ISA implementation monitoring project should guide the need for any change in this area: otherwise the IAASB should not reopen this debate.</p> <p>We support the IAASB considering on a case by case basis whether those responsibilities that are currently attributed to "the auditor" would be more appropriately assigned specifically to the engagement partner.</p>

		<p><u>Question 3(b)</u></p> <p>As explained above, we agree that clarification would be useful, since the application of ISA 600 in situations where others (other than component auditors) are involved in the audit has proven unclear in practice.</p>
26.	JICPA	<p><u>Question 3(a)</u></p> <p>We believe it would be meaningful to explore whether greater transparency about the involvement of other in the group audit may be beneficial (paragraph 102). During our outreach activities, the users of financial statements in Japan have told us that they view such transparency as valuable. In some circumstances, however, reporting deadline and cost to collect information may make it difficult to provide such transparency in an auditor's report. The auditor's report is not the only means of providing transparency to users. We therefore propose that the IAASB broadly explore the means for providing such transparency.</p> <p>We do not support the following actions:</p> <ul style="list-style-type: none"> ◆ <i>Exploring making reference to the report of another auditor (paragraph 101).</i> We see no benefit in again discussing the concepts of sole responsibility and divided responsibility. Addressing both concepts in ISA 600 would create confusion. It would be more valuable for users if we could provide greater transparency about the involvement of others in the group audit, given the current concept of sole responsibility. ◆ <i>Considering whether certain responsibilities attributed to the "auditor" should be more specifically characterized as responsibilities of the engagement partner or the engagement team in ISQC 1, ISA 220 and ISA 600 (paragraph 103).</i> The engagement partner is clearly responsible for the engagement. We see no benefit in making a distinction between the responsibilities of the engagement partner and engagement team. <p><u>Question 3(b)</u></p> <p>It would be meaningful to explore the development of further requirements or application materials for cases where other auditors are involved in an audit engagement, given that the circumstances of audit engagements vary.</p>
27.	MAASB	<p><u>Question 3(a)</u></p> <p>(i/ii) We believe it will be helpful to disclose the matters highlighted in paragraph 102, which affect the manner in which an audit is conducted.</p> <p>(iii) ISA 600 is based on the fundamental premise that the group engagement partner has sole responsibility for the group audit opinion. We continue to support the position in precluding reference in the auditors' report to the work of another auditor, unless required by law or regulation to include such reference.</p> <p>We recommend the IAASB to consider whether group audits should explain the manner and extent of work performed by them in order to obtain sufficient audit evidence (including reviewing the work of other auditors) on the group financial information.</p> <p>(iv) No further matters noted.</p> <p><u>Question 3(b)</u></p> <p>We believe that requirements or application materials for such circumstances are important.</p>
28.	NBA	<p><u>Question 3(a)</u></p>

		<p>(i) We would like to know which other auditors are meant if they are not component auditors. In the scope paragraph other auditors could be mentioned.</p> <p>(ii) No comments.</p> <p><u>Question 3(b)</u></p> <p>We can hardly imagine this situation.</p>
29.	NZAuASB	<p><u>Question 3(a)</u></p> <p>(i) The NZAuASB considers that the most meaningful actions to address are:</p> <ul style="list-style-type: none"> • To first focus on the core principles established in ISA 220. As noted in the response in QC2 (a), providing further clarity in ISA 220 about what is meant by performance, direction, supervision and review by the engagement partner in evolving areas of new ways of doing business. Specifically, to include examples that illustrate what the engagement partner can do to demonstrate proactive and appropriate direction, supervision and review where there are access issues, when other auditors are involved or where nontraditional audit delivery models are used. • Clarify who the term ‘auditor’ refers to, that is, the engagement partner or the engagement team. • To further consider the issues and concerns relating to the involvement of the auditor’s experts. <p>(ii) The NZAuASB believes the above actions are necessary because:</p> <ul style="list-style-type: none"> • The clarity of the role of engagement partner is challenging where other auditors are involved. Providing clarity of the role in these circumstances will ensure ongoing effective implementation of the principles based ISAs, and contribute to more consistent application. • Clarifying the term ‘auditor’ will be helpful to the engagement partner and ensure that relevant tasks are not delegated. • Feedback from constituents are that the use of experts is a challenging area. This is also an area that has been raised by the audit regulator (FMA) in New Zealand in its review of audit files of issuer entities. An issue raised by constituents is that the auditor may not be experienced or knowledgeable to appropriately challenge the expert, and/or assess the expert’s competency in the required area of expertise. Challenges also arise where another expert comes up with a different answer. <p>(iii) The NZAuASB agrees with the view expressed by most of its constituents that there is no demand or reason to mandate disclosure of the name of others in the audit report. Reporting of reliance on other auditors may be reported in KAM where relevant.</p> <p>(iv) A consistent view expressed by constituents is that there is a scope for clarification of the role of the engagement partner, maybe more guidance, but not new requirements. The cost of compliance with increased requirements versus a possible increase in audit quality needs to be carefully considered.</p> <p><u>Question 3(b)</u></p> <p>The NZAuASB considers it would be useful to clarify the role of the engagement partner where other auditors are involved by providing further guidance, and no new requirements.</p>

Accounting Firms		
30.	BDO	<p><u>Question 3(a)</u></p> <p>(i) We support the proposals outlined in paragraphs 100-104. In addition, we have highlighted the following for specific considerations by the IAASB:</p> <ul style="list-style-type: none"> We have a number of member firms that, due to their geographic location and sector-based expertise, have to make use of component auditors or external experts. We believe that having greater clarity about the extent to which these groups or individuals are considered to be part of the engagement team, and consideration about levels of review of their work, would be helpful. Examples of how to reference to the nature and involvement of any others/experts within the Key Audit Matters (KAM) section of the auditor's report would be helpful. <p>(ii) See our responses in QC3 (a) (i).</p> <p>(iii) None noted.</p> <p>(iv) None noted.</p> <p><u>Question 3(b)</u></p> <p>Given the patchwork nature of many corporate entities, the concept of joint-audits in some jurisdictions and use of component auditors by group engagement teams to perform some of the audit work, we believe there is merit in providing greater clarity to users about the basis on which the engagement partner formed his or her opinion. This may mean providing more illustrations as part of the auditor reporting suite of ISAs.</p>
31.	CHI	<p><u>Question 3(a)</u></p> <p>(i) A meaningful action is to use the ISA 600 revision project as an opportunity to revise the scope of ISA 600 to address a wider range of circumstances than covered by the current ISA 600. Clearly, not all circumstances can be specifically addressed, but the Standard and Application Guidance can include considerations to apply when "others" are involved.</p> <p>(ii) The current scope of ISA 600 is narrow, largely following a traditional "parent / subsidiary" model. Business is conducted in ways that are much broader than this.</p> <p>(iii) At this time we have nothing further to add.</p> <p>(iv) Paragraph 104 mentions "auditor's experts". The IAASB should revisit standards in this area in the near future. In practice there appears to be an increasing use of experts, in part because of the greater use of fair values in financial reporting. Auditors, TCWG and stakeholders need greater clarity in standards.</p> <p><u>Question 3(b)</u></p> <p>As noted above, IAASB should develop further requirements and / or application material for these circumstances. The scope of the current ISA 600 is too narrow and reflects a traditional approach to business. The scope of standards should reflect the wider range of ways that auditors work together and circumstances in which business is conducted.</p>
32.	DTT	<p>Paragraph 100 explores the need to focus on the core principles in relation to the engagement partner's responsibilities and the necessary direction, supervision and review of the work of another auditor. DTTL supports further consideration and guidance in relation to the</p>

		<p>assessment of professional competence and capabilities of other auditors, and the evaluation of the sufficiency and appropriateness of the work these auditors have performed (particularly in situations where those other auditors are situated in another location or where the work performed by the other auditor is being directed and supervised by others, such as a shared service center auditor in a group engagement where such auditor's work is also used by the subsidiary auditor). DTTL also believes that exploring the documentation requirements in relation to the work performed by other auditors, and the demonstration of direction and supervision would be beneficial.</p> <p>While DTTL is supportive of the IAASB taking action to address concerns raised in relation to the direction and supervision of others involved in the audit, DTTL also recognizes the interconnectedness of this topic with group audit considerations and that any updates in the quality control standards should be considered in tandem with updates to ISA 600.</p> <p>Further, in the context of supervision and review, the consideration of these issues and proposed actions should be expanded to consider specialists and other non-auditors involved in the audit. Currently, the focus seems to be more on normal "audit" personnel rather than being expanded to the various complexities arising from the need to involve others with a wide range of skills and expertise in an audit. DTTL believes that consideration of "others" is an important facet of this very broad topic of supervision and review. Such complexities include the use of "internal" vs. "external" specialists or experts; distinguishing between specialists and experts; and the nuanced interactions between such specialists or experts and the engagement team.</p> <p>Paragraph 103 explores whether certain responsibilities attributed to the "auditor" should be more specifically characterized as responsibilities of the engagement partner or the engagement team. While that additional guidance may be helpful, it is important to guard against creating an impression that there are certain aspects of the engagement for which the engagement partner is not responsible.</p>
33.	EYG	<p><u>Question 3(a)</u></p> <p>We agree that there are many engagement team structures, which have become increasingly complex with the advent of alternative audit delivery models and the elevated need for personnel with specialized skills on many engagements due to increasing accounting and business complexities. It is not always clear whether these roles fall within the ISA definition of the engagement team or not.</p> <p>We believe that the approach to addressing the matters identified in the ITC related to the involvement of others in the audit should begin with the definition of engagement team and the principles that should apply in determining whether an engagement participant is a member of the engagement team. Where clear lines can be drawn (such is the case for internal auditors used for direct assistance and external experts, which are scoped out of the definition in the current ISAs), this is useful, of course. In particular, we would recommend that the IAASB consider clarifications to the status of engagement participants associated with alternative audit delivery models and, more generally, participants from a different firm within a network (refer to our response to QC4). For group audits, we also believe clarifications are warranted to the definitions of group engagement team and component auditors (refer to our response to GA1). Further, it would be helpful for the principles and risks regarding the responsibilities for the engagement partner to direct, supervise and review the engagement (refer to in our response to QC2) to include any specific considerations relevant for engagement team as opposed to non-engagement team members.</p> <p>Making reference to the report of another auditor</p> <p>We believe that the IAASB should revisit the requirements that currently preclude the ability to make reference to the report of another auditor (i.e. dividing responsibility) but only in certain circumstances when access is restricted or prevented by others. We believe these circumstances include:</p> <ul style="list-style-type: none"> ▶ Non-controlled entities (e.g., equity investees) when these entities restrict access ▶ Entities that meet the "de facto" control threshold under IFRS 10, but minority shareholder rights restrict access

		<p>► When access to information by the auditor is restricted by law or regulation (e.g., entities in the defense sector that are subject to secrecy laws)</p> <p>In our view, allowing the auditor flexibility to refer to the report of another auditor in these circumstances is preferable to either:</p> <p>► <i>The auditor not accepting or continuing the engagement due to these access issues.</i> This would result in certain groups or entities becoming “unauditable” by any auditor, which we do not believe is in the public interest.</p> <p>► <i>Issuing a report that includes a scope limitation.</i> This would result in the auditor’s report not providing any indication of the credibility of the information for the affected component or investee, even when the information may have been audited by another auditor. Further, a scope limitation is not an acceptable form of opinion for listed or other entities in some jurisdictions.</p> <p>A reference in the auditor’s report to the report of another auditor in these limited circumstances would allow for the auditor’s report to reflect that all information in the financial statements (including that of the component or investee for which auditor access was restricted) has been subject to audit, although by different auditors, and to present the respective opinions expressed. We believe this transparency is in the best interests of users and has worked well in the jurisdictions where it is currently permitted.</p> <p>Refer to our response to GA2 for our further views on dealing with access issues.</p> <p>Disclosing the involvement of other auditors in the auditor’s report</p> <p>We do not support the IAASB exploring the disclosure of the involvement of other auditors in the auditor’s report at this juncture. The disclosure of other auditors was specifically considered and not pursued in the IAASB’s due process leading up to the issuance of the new and revised auditor reporting ISAs. We believe that any further enhancements to the auditor’s report should be considered in conjunction with the IAASB’s planned post-implementation review in order to evaluate any potential enhancements in a holistic and prioritized manner.</p> <p><u>Question 3(b)</u></p> <p>We believe the approach that we recommend above related to clarification of the definition of engagement team, together with the approach we recommend in our response to QC2 to identify risks and set principles related to engagement partner responsibilities, are appropriate to address the matters highlighted in the ITC related to the involvement of other auditors in an audit engagement.</p>
34.	GTI	<p>Where other auditors, that are not component auditors, are involved in the audit, we believe that focus on the appropriate direction, review and supervision by the engagement partner is the most appropriate action. Focusing on these requirements will also encompass the assessment of the necessary professional competence and capabilities of the other auditors. Understanding that the core principles may lie in ISA 220, the impact, if any, on ISQC 1 should also be considered.</p> <p>Whilst greater transparency in the auditor’s report is desirable, we do not believe that reference to other auditors, that are not component auditors, involved in the audit will necessarily be beneficial and may be more confusing to readers. However, we do support the exploration of the ability to support the use of the auditor’s report of the other auditor as part of the totality of the audit evidence gathered for an engagement. Such an auditor’s report may not be sufficient in and of itself, however, we see no reason why this, in conjunction with other procedures performed by the auditor, cannot form part of the body of audit evidence which the auditor can then assess for sufficiency. We believe that the responsibility for collection of sufficient, appropriate audit evidence lies with the engagement partner and should not be passed to other auditors for specific accounts or balances.</p> <p>In respect of the use of experts in an engagement, we believe that there are opportunities to improve the clarity of the requirements and application material around the adequacy of the procedures performed and the evidence of those procedures, concerning understanding</p>

		<p>the expert's field of expertise and evaluating the adequacy of the expert's work. We would therefore agree with consideration by the IAASB in its future Work Plan, of a project on the use of experts in audits.</p> <p>The ITC suggests looking at instances where the term auditor is used and determining if this should be more specifically characterized as responsibilities of the engagement partner or those of the engagement team in three specific standards, namely ISQC 1, ISA 200 and ISA 600. Whilst understanding that the ITC is focused on these particular International Standards, it would seem that this would be equally applicable to the other standards currently issued by the IAASB and as such may constitute a separate project in and of itself. We believe that the focus should be more on the engagement partner being held accountable for the auditor's report that is issued being appropriate in the circumstances. We believe that this would be the outcome from the appropriate application of the requirements to direct, supervise, perform and review the audit contained in ISQC 1 and in ISA 220.</p>
35.	KPMG	--
36.	PwC	<p><u>Question 3(a)</u></p> <p>(i) Further to our response to question QC2, we support bringing clarity to the responsibilities of different roles within the engagement team and others involved in the audit with respect to audit quality.</p> <p>We believe that other auditors, specifically other engagement partners, may be best placed to bring quality to bear on aspects of an audit engagement, as described in our comments on question QC2. We agree that revisiting those requirements that specify responsibilities of the "auditor" is appropriate, to clarify those that are applicable to the engagement partner and, as a result, should not be delegated. However, as we have described, we believe that in assessing the nature of the responsibility addressed by a requirement, the IAASB should consider how different organisational structures may impact the structure of the engagement team, and consequently when it is appropriate to recognise in the standards that those responsibilities may best rest with others within the engagement team.</p> <p>We agree that the engagement partner (and group engagement partner, where applicable) is responsible for assessing the professional competence and capabilities of others involved in the audit (including specialists and experts) when that work is performed directly under the supervision and review of the engagement team i.e., not, for example, at a SSC. We would support reinforcing considerations in this area within ISA 220.</p> <p>(ii) See response to point (i).</p> <p>(iii) We believe there is merit in the IAASB exploring whether issues that have been identified relating to others involved in the audit, specifically other auditors that are not component auditors, may best be addressed through development of a new standard. In reality, it is not always clear whether a given organisational structure most closely represents a "group" (ISA 600) or a single-entity audit (ISA 220). Branches, SSC's, multi-location operations all add to complexity of the judgements involved. Applying the ISA requirements as if entities can be easily categorised can, in some cases, lead to some counter-intuitive outcomes. To drive audit quality across the range of circumstances that exist, auditors need to be able to apply the requirements that best suit the situation.</p> <p>We believe a separate standard could directly address questions over relevant requirements and what that means in terms of applicable responsibilities, including how those are best executed and by whom, as described in our response to question QC2.</p>

		<p>We are concerned with the behavioural implications of allowing the ability to make explicit reference to the report of another auditor. Specifically, we are concerned by the risk of perceived divided responsibility. We elaborate further on this point in our response to question GA1 (c).</p> <p>(iv) No comments.</p> <p><u>Question 3(b)</u></p> <p>See our response to point (a). In particular, as outlined in our cover letter, we support addressing use of SSC auditors and circumstances when the engagement partner is located in a different jurisdiction to that where the majority of the audit work is undertaken.</p>
37.	RBI	--
38.	RSM	<p><u>Question 3(a)</u></p> <p>(i) We believe that all of the areas listed should be considered in the review of the standards. Many of the issues listed in paragraphs 94 to 99 relate to deficiencies in the performance of existing requirements. The review should focus on the guidance relating to the performance requirements expected of engagement partners and others involved in the audit relating to existing and proposed requirements, so that performance can be applied and monitored more closely by the engagement partner and the compliance functions within firms.</p> <p>Overall, we do not consider that the role of the group engagement partner should be diluted by the review. The question of including the name of other auditors in the Auditors Report is dealt with in our response to the Group Audit section of the ITC.</p> <p>(ii) We believe action is necessary because issues and concerns have been raised by stakeholders associated with this process.</p> <p>(iii) None.</p> <p>(iv) No comments.</p> <p><u>Question 3(b)</u></p> <p>The ITC does not explain what requirements could be included with respect to other auditors not meeting the definition of component auditors. In order to judge whether requirements are needed in this area it would be help to see some examples. However, guidance relating to the identification, responsibilities and particular review responsibilities of the engagement partner could be helpful.</p>
39.	SRA	--

Public Sector Organizations		
40.	AGC	<p><u>Question 3(a)</u></p> <p>(i) From a public sector perspective, we would consider most meaningful the actions outlined in paragraph 100 to consider whether specific requirements and application material for two scenarios: first, where other auditors (that are not component auditors or not otherwise part of the engagement team) are involved in the engagement, and second, the actions outlined in paragraph 101 concerning the ability to use another auditor's report as audit evidence in certain circumstances.</p> <p>(ii) These actions are believed to be meaningful as both scenarios described in 3(a)(i) arise in practice and would benefit from either additional, practical guidance or confirmation of previous conclusions.</p> <p>(iii) No unique public sector considerations were noted.</p> <p>(iv) No potential consequences of possible actions have been identified.</p> <p><u>Question 3(b)</u></p> <p>We support the development of additional requirements or application material in respect of circumstances when other auditors are involved in an audit engagement that are not component auditors as it should serve to improve and clarify the application of the audit quality standard to various team composition and emerging audit delivery models.</p>
41.	AGSA	<p><u>Question 3(a)</u></p> <p>(i) This action is considered to be most meaningful- "The IAASB could consider whether specific requirements and application material are warranted in ISA 600 when other auditors (that are not component auditors or not otherwise part of the engagement team) are involved in the audit engagement...</p> <p>(ii) Paragraph (Action) 1 will clarify the roles and responsibilities of those involved in the audit and assist in the quality of the audit. This will also close any gaps and ensure all auditors/leadership are responsible for work performed on the audit. Furthermore, it is important for the engagement partner to still assume overall responsibility even on sections (components) where experts are involved.</p> <p>(iii) Paragraphs 2-4 is not supported due to the following:</p> <ul style="list-style-type: none"> • Use of another auditor's report as audit evidence can be made however no mention should be made on the audit report. • No mention should be made of the nature and extent of involvement of others in the audit, including component auditors, other auditors and auditor's experts since sufficient and appropriate evidence was obtained and the fact that the expert or other auditors were used to obtain this is irrelevant to the user. <p>The term auditor will address engagement partner and audit team, therefore it is not required to specifically clarify the role as all team members have equal responsibility.</p>

		<p>(iv) A challenging area currently is regarding the use of auditor's experts. Many audit clients operate in highly specialised industries but the use of auditors' experts is being hindered by financial implications of using such experts and availability of experts when taking into account the timing of audits.</p> <p>Auditors then rely on using the work of management's expert and motivate reliance thereon even though in reality these experts are not always independent and objective in relation to the client. Therefore the IAASB needs to rethink and develop a better approach to using the work of auditor's experts on audits.</p> <p><u>Question 3(b)</u></p> <p>No – this will be addressed by paragraph1 (Action 1). Furthermore the other auditors should be viewed as team members of the main audit team and their work should be subjected to the same level of supervision and review as other team members.</p>
42.	GAO	We support additional requirements and application guidance for circumstances when other auditors or experts are involved in an audit engagement (i.e., auditors that don't meet the definition of component auditors).
43.	INTOSAI	<p><u>Question 3(a)</u></p> <p>(i) From a public sector perspective, we would consider most meaningful the actions outlined in paragraph 100 to consider whether specific requirements and application material for scenarios where other auditors (that are not component auditors or not otherwise part of the engagement team) are involved in the engagement, and the actions outlined in paragraph 101 concerning the ability to use another auditor's report as audit evidence in certain circumstances.</p> <p>(ii) These actions are believed to be meaningful as both scenarios arise in practice and would benefit from either additional, practical guidance or confirmation of previous conclusions.</p> <p>(iii) No unique public sector considerations were noted.</p> <p>(iv) No potential consequences of possible actions have been identified.</p> <p><u>Question 3(b)</u></p> <p>We support the development of additional requirements or application material in respect of circumstances when other auditors are involved in an audit engagement that are not component auditors as it should serve to improve and clarify the application of the audit quality standard to various team composition and emerging audit delivery models.</p>
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	Without underplaying the scale of difficulties faced by the engagement partner in some audits as outlined in paragraphs 87-104, in the overwhelming majority of audits there are no such issues. We caution against further complicating ISAs to take account of a small number of fringe issues or guidance. Such issues could instead be dealt with in supporting material, such as in staff notes, rather than by amending ISAs.

		<p>We note that the ITC draws comparisons to the PCAOB's proposals to require disclosure of the involvement of 'other auditors'. This analysis should take account of the fact that the PCAOB uses the term 'other auditors' to refer to any auditor that is not the engagement partner's own firm, including component auditors. By contrast, in QC3(b) the IAASB is not using 'other auditors' to refer to component auditors. In responding to this question, we restrict our comments to disclosure of 'other auditors' in the sense of QC3(b).</p> <p>Our outreach event in Malaysia, which included audit firms, investors and audit committee members, identified mixed views on the issue of referring to the involvement of others in the group audit, with some supporting the status quo and others calling for disclosure of all firms materially involved in the group audit. While we would resist moves to mandate the disclosure of other auditors in the audit report, we note that ISA (UK and Ireland) 700 requires a description of audit scope. This may include number of locations visited and the coverage of revenue, total assets and profit before tax within the scope of the audit. Such disclosures, which do not undermine the group engagement partner's responsibility for the audit, have been felt to be useful.</p>
47.	AIC	--
48.	AICPA	<p>With respect to the questions in subparagraph (a), we agree with exploring the possibility of making reference. We believe that referring to the report of another auditor adds transparency about the source of audit evidence. If the auditor does not have the ability to be involved in the work of a component auditor, the only option available under the ISAs is to treat this as a scope limitation and modify the opinion. We believe that making reference is a better option that provides more information to the users of the financial statements.</p> <p>Because the engagement team cannot rely on the other firm's system of quality control when assessing the professional competence and capability of other auditors, additional application material regarding this may be helpful.</p> <p>In regard to expanding the auditor's report to say more about the nature and extent of involvement of others in the audit, including component auditors, other auditors, and auditor's experts, the disclosure of other auditors was specifically considered and not pursued in the IAASB's due process leading up to the issuance of the new and revised ISAs on auditor reporting. Any further enhancements to the auditor's report should be considered in conjunction with the IAASB's planned post-implementation review in order to evaluate any potential enhancements in a holistic and prioritized manner.</p> <p>The benefit in disclosing the involvement of others in the audit lies in the meaningfulness of the information to the user of the auditor's report. We believe that meaningful disclosure in this regard relates to information about the source of audit evidence; listing component auditors, other audits and auditor's experts would provide information about those involved in the process of obtaining audit evidence. While it might emphasize that the "auditor" is really a team, we are concerned of the potential negative consequence of diffusing the firm's responsibility for the audit. While disclosing that the firm used an international network firm for a substantial part of the audit may be of interest to users, disclosing that other auditors were involved in performing, for example, inventory observation is comparable to listing the names of experienced per-diem personnel on the audit team, which does not seem to be especially meaningful information.</p> <p>With respect to question in subparagraph (b), we strongly believe that additional application material is needed to address circumstances when other auditors that do not meet the definition of component auditors are involved in an audit engagement. Matters that could be addressed including understanding the other auditor and involvement in the work of the other auditor. In addition, application material that addresses the component auditor's responsibility to respond to the group auditor would be helpful.</p>
49.	APESB	--

50.	CAANZ	<p><u>Question 3(a)</u></p> <p>(i) We consider that the most meaningful actions to address are:</p> <ul style="list-style-type: none"> • Focusing on the core principles established by ISA 220 in relation to the engagement partner's responsibilities and the necessary direction, supervision and review of the work of others. • Expanding on the how the mandatory requirements apply when using another auditor's report as audit evidence. • We are concerned that the extent of suggestions in relation to the specific mandatory requirements and actions for an engagements partner could be counterproductive. It could lead to the partner spending more time enquiring documentation of compliance with each element rather than taking time to supervise, be involved, discuss judgements and evaluate. We believe that focusing on the core principles in relation to responsibilities, and providing specific guidance on how to apply principles and mandatory requirements in relation to directing work and review will be an effective approach. <p>(ii) See above.</p> <p>(iii) We do not support naming others in the audit report, as this could confuse users as to respective roles and responsibilities.</p> <p>(iv) Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.</p> <p><u>Question 3(b)</u></p> <p>Application guidance for circumstances when other auditors are involved in an audit engagement (ie auditors that do not meet the definition of component auditors) could be useful.</p>
51.	CAI	--
52.	CAQ	--
53.	CIIPA	--
54.	CIMA	--
55.	CPAA	<p><u>Question 3(a)</u></p> <p>(i) Actions we think should be prioritised in addressing the work of other auditors involved in the audit are:</p> <ol style="list-style-type: none"> 1. Clarification of how the requirements in ISA 600 can be applied to other auditors, who are not component auditors and not in the engagement team, and how to meet the requirements of ISA 220 with respect to the work of other auditors to be used on the audit. 2. Differentiation between the engagement partner and engagement team responsibilities.

		<p>(ii) We consider that these actions are worthwhile:</p> <ol style="list-style-type: none"> 1. As corporate structures do not always fit the usual group structure and evidence may be needed on equity investments, joint ventures or ADMs from other auditors in other locations or jurisdictions, requirements and application material in ISA 600 should be extended to cover using the work of another auditor more broadly. 2. As the amount of time an engagement partner spends on the audit is used as an indicator of audit quality, identification of the matters which need to be addressed by the engagement partner personally will assist in consistency across firms. This is important in order to clarify what their role should be and the areas on which they need to spend time directly, however this would need to be balanced to allow flexibility for small firms. <p>(iii) The majority of stakeholders who contributed to our survey on the ITC and participated in roundtables were not supportive of reference being made in the auditor's report to reports of other auditors or experts. CPA Australia is of the same view, as we consider that the engagement partner needs to retain responsibility for the opinion and not pass on responsibility to others by reference to their work. Nevertheless we see that greater transparency is usually beneficial and a move toward identifying the involvement of experts and component auditors may provide valuable information to users. Where an auditor report includes key audit matters, reference to experts or other auditors can be included in the KAM, if appropriate, and is one means of communicating their involvement when it is of significance to the audit or where there are issues regarding the sufficiency or appropriateness of audit evidence available from the other auditors.</p> <p>(iv) In some jurisdictions, including Australia and New Zealand, it would represent a significant change to require experts or other auditors, such as component auditors, to be named in the auditor's report. In the absence of evidence in support of this change, CPA Australia is not convinced that it would have a positive impact on meeting user information needs.</p> <p><u>Question 3(b)</u> Whilst our preference is for ISA 600 to be expanded to address using the work of another auditor, it may be sufficient to develop application material to explain how ISA 600 can be applied to the work of other auditors who are not component auditors.</p>
56.	DnR	Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE.
57.	EFAA	<p><u>Question 3(a)</u> The concerns expressed by regulators and audit oversight bodies appear to be around direction, supervision and performance of work and audit documentation. These concerns speak to deficiencies in the application of the standards not necessarily to any deficiencies in the standards themselves. That is, it would seem to us that the IAASB should focus on supporting the use of the standards by way of application material and guidance in the first instance and not seek to rush to add further requirements into the ISAs.</p> <p><u>Question 3(b)</u> We consider it of value for the IAASB to gather more information on this matter in the first instance.</p>
58.	FACPCE	--
59.	FEE	<p><u>Question 3(a)</u> (14) Regarding "Others Involved in the Audit", we do not support reopening the recent debate of disclosing them in the auditor's report. However, including a detailed reference in the scope section describing what has been covered during the audit should not be</p>

		<p>excluded. We note that this has happened in a number of instances in the UK's reporting regime and it has been presented in a way that generally does not name the 'other' auditor, nor does it undermine the fact that the group auditor is solely responsible for the group opinion. Also, in the Netherlands there is a separate section in the auditor's report where the scope of the group audit can be explained.</p> <p>(77) As referred to in paragraph 101, we do not support reopening the recent debate of disclosing in the auditor's report the involvement of other auditors.</p> <p>(78) However, we do believe that paragraph 102, suggesting a detailed reference to the involvement of another auditor or expert to enhance transparency as to the audit approach and the extent of the use and reliance on other auditors and experts, should be considered; but in light of not undermining the group auditor's sole responsibility for the audit opinion. According to article 27 of the Audit Directive, Member States shall ensure that in the case of a statutory audit of the consolidated financial statements of a group of undertakings, in relation to the consolidated financial statements, the group auditor bears the full responsibility for the audit report referred to in Article 28 of this Directive³. As mentioned in our response to question GA1 (c), auditors may choose to make a very general reference to the involvement of another auditor in the scope section of the auditor's report in explaining their approach to the audit. Whilst such reference may be helpful in cases where the group auditor believes that it would lead to more transparency, this should remain a non-mandatory option and not include detail such as audit firms' or individuals' names, extent of work performed, etc.</p> <p>(79) As stated above, whilst some explanation could possibly enhance transparency of the main auditor's approach by involving other auditors/experts during the engagement, it could be seen as diminishing the auditor's sole responsibility. We note that such references to other auditors have been made in the context of the UK extended audit report regime, however, this has typically referred to 'others' without reference to the actual name of the individual or firm.</p> <p>(80) No, we did not identify any other relevant issues or actions.</p> <p>(81) We have not identified any potential consequences.</p> <p><u>Question 3(b)</u></p> <p>82) As discussed in paragraph 100, clarification would be useful where other auditors are involved (who are not component auditors), as this is not sufficiently clear in the existing standards.</p> <p>(83) However, we do not believe that we should develop further requirements or application material for circumstances when other auditors are involved in an audit engagement as the purpose should not be to extend the definition of component auditors to include other auditors.</p>
60.	FSR	For specific answers to the queries in the ITC, we in general refer to the comment letter from FEE.
61.	IBA	--

³ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02006L0043-20140616&from=EN>.

62.	IBRACON	<p><u>Question 3(a)</u></p> <p>(i) We consider the most important those actions mentioned in paragraphs 101 and 102 where the document is exploring the ability to make reference to the work performed by other auditors in the auditor's report and/or by specialists; such as actuary. However, it should be noted that under ISA 701, for audits of listed entities, the auditor is required to report how key audit matters were addressed in the audit. Therefore, with regards to references to experts, to the extent that the auditor involved an expert in an area considered as a "key audit matter", the auditor's report would already include reference to their use as part of the description as to how the matter was addressed in the audit.</p> <p>(ii) There is a large number of components audited by other audit firms and there is significant involvement of specialists. It would bring more transparency in the auditor's report. Nevertheless, it should always be clear that the ultimate responsibility should remain with the audit partner.</p> <p>(iii) We believe that more guidance is necessary on working with other auditors for equity investees or when a firm audits an Investment Fund that has interest in investees audited by other auditors. There are varying views as to whether the audit of a Fund that holds significant investments in other entities (including investments with significant influence) should be considered as a group audit and the extent of procedures to be performed in such components. Analogies may help but guidance would allow more consistency in the market.</p> <p>(iv) It is unclear if there is a common approach in audits of investment funds in which investees are audited by other auditors (or other engagement teams in the firm or network). By issuing further guidance on this area, we believe that it would potentially improve the quality of such audits in a more consistent manner.</p> <p><u>Question 3(b)</u></p> <p>We believe more guidance on documentation of the specific items tested by the other auditors and conclusions reached and on archiving of working papers prepared by other auditors and access to them in case of an inspection would also be of great impact.</p>
63.	IBR-IRE	<p><u>Question 3(a)</u></p> <p>(28) While maintaining the very important principle that the EP remains responsible for the whole, the actions prescribed in the paragraph 100 (specific requirements and application material for other auditors involved in the audit engagement and the evaluation of the sufficiency and appropriateness of the work of these auditors), paragraph 101 (the possible ability to make reference to the report of another auditor) and paragraph 102 (explicit comment in the audit report on nature and extent of involvement of others in the audit) might be worth exploring.</p> <p>(29) If IAASB believes reference to the work of other auditors in the audit report is needed, this should be well scoped and conditions should be listed so that those references would not lead to misunderstandings from the stakeholders. We also refer to paragraph (94) of this comment letter.</p> <p>(30) No particular comment.</p> <p>(31) We have not identified other issues that are more relevant than those already included in the ITC.</p> <p>(32) No particular comment.</p>

		<p><u>Question 3(b)</u></p> <p>(33) Clarification would be useful where other auditors are involved (who are not component auditors), as this is not sufficiently clear in the extant standards although further requirements or application material for circumstances when other auditors are involved in an audit engagement are not deemed necessary.</p>
64.	ICAEW	<p><u>Question 3(a)</u></p> <p>(i) We agree that all of the matters outlined do need to be considered in the review of the standards. We do not consider that the responsibility of the engagement partner should be diminished in any way as a result of the involvement of others in the audit.</p> <p>(ii) These are topical matters and, as outlined in paragraph 94 of the ITC, concerns have been expressed about the current situation.</p> <p>(iii) None identified.</p> <p>(iv) No further comment.</p> <p><u>Question 3(b)</u></p> <p>Application material might be helpful.</p>
65.	ICAP	--
66.	ICAS	As far as other auditors/experts involved in the audit are concerned, reference to the extent of involvement of such parties in the audit could be made in the audit scope section of the new enhanced auditor's reports. Many UK companies currently include this type of information in their audit reports containing, for example, the extent and nature of the work performed by other components auditors as part of the group audit process. This has been seen as a positive inclusion and does not undermine, or create confusion over, the role of the group engagement partner.
67.	ICAZ	<p><u>Question 3(a)</u></p> <p>(i):</p> <p>a) specific requirements and application material are warranted when other auditors are used;</p> <p>b) greater transparency in the auditor's report about the involvement of others in the (group) audit;</p> <p>(ii) The above actions will provide guidance to auditors when making use of other auditors who are not necessarily component auditors as defined in ISA 600, currently in this instance the standard allows simply says the auditor may apply the requirements of ISA 600 without providing detailed guidance.</p> <p>Disclosures of the involvement of other auditors would be in line with the increased transparency in the auditor's reports which has come through with the new and revised auditor reporting standards.</p> <p>(iii) We don't support the proposed action of an auditor using another auditor's audit report as audit evidence as undue reliance can be placed on that other auditors work. Also making reference to that other auditor's report in the reporting auditors, audit report may infer that responsibility over the audit is shared between the two auditors.</p> <p>(iv) None</p>

		<p><u>Question 3(b)</u></p> <p>Yes. The absence of requirements or application material has resulted in auditors at time failing to what extent can they apply the requirements of ISA 600 for example, when faced with such a situation.</p>
68.	ICPAK	<p><u>Question 3(a)</u></p> <p>(i) Transparency in the auditor's report about the involvement of others in the (group) audit will be beneficial.</p> <p>(ii) These actions are necessary since the experts and other auditor also play a big role in the final report and they need to be held accountable.</p> <p>(iii) No</p> <p>(iv) The above actions will have monetary effects on the overall audit fees. It would also be useful to consider providing illustrative examples of how the report incorporating the disclosures of the auditor expert and other auditors will look like.</p> <p><u>Question 3(b)</u></p> <p>Yes, It will be important to provide requirements and guidance where other auditors other than component auditors are involved in the audit.</p>
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	--
72.	KICPA	<p>(i) We believe all of the actions outlined would make very much significant impacts in practice.</p> <p>As the complexity of companies and changes in auditing environments give rise to increasing involvement of other auditors and auditor's experts, we think the review as to the necessity of developing requirements and guidance in relation with the involvement of other auditors, and additional consideration of issues relating to the involvement of auditor's experts and concerns over the issues, would be helpful to improving auditing practice and the effectiveness of ISAs.</p> <p>We also believe IAASB's plan to review as to whether the use of other auditor's audit reports should be allowed and making the use should be described in the audit reports, in a circumstance where group auditor's access to the component or component auditor is not possible, would be very much significant, taking into account their possible impacts in auditing practice.</p> <p>In addition, reviewing whether the responsibility belonging to the auditor specifically goes to the engagement partner or engagement team members is also believed to be meaningful from the perspective of improving audit quality and practical effectiveness.</p> <p>(ii) Please refer to our answers in (i) of QC (3).</p> <p>(iii) Making other auditors' involvement described in the auditor's report would not be appropriate to be reflected in IAASB's standards, since audit-related law and regulation, practices and auditor's responsibility vary from jurisdictions.</p> <p>Under the existing standards, other auditor's works can be used just as audit evidence for the auditor with other auditor's audit report itself not allowed to be used. Under the circumstance, requiring all of the audit work of other auditors, which are used as audit evidence for the auditor, to be described could raise an issue over whether other evidence the auditor received should be</p>

		<p>described in the auditor's report as well. We think the involvement of other auditors is not necessarily described in the auditor's report, since audit procedures on key audit matters are already required to be described.</p> <p>Especially in a country where the supervision on and legal responsibility of auditors are strict and lawsuit against auditors are frequent, requiring relevant involvement to be described in the auditor's report, when the responsibility of others, including other auditors, and auditor's experts, is not well-clarified, could increase risks in relation with supervision and lawsuit. Besides, this could increase workloads of the auditor, arising from unnecessary documentation, not relevant to audit procedures and professional judgment, thereby adding burdens of the auditor and having a negative impact on audit quality as well.</p> <p>(iv) Please refer to answers in (i) and (iii) of the above QC3 (a).</p>
73.	MICPA	--
74.	SAICA	<p>94. Survey respondents were clearly divided, with 48.6% answering "Yes" and 51.4% answering "No". These mixed views would suggest that this could very well be a contentious issue which will require careful consideration if it is decided to explore the matter further.</p> <p>95. In order to further assist the IAASB, we include our additional observations as follows, including comments and issues that have been raised by some survey respondents. Although not representative of a general or common view, these comments could provide further context and insights into some of the issues involved.</p> <ul style="list-style-type: none"> ➤ On face-value the possible action could serve to address various practical challenges encountered regarding, for example, non-controlled entities and certain components in group audits. However, this must be balanced with the consideration whether audit quality will be achieved; in particular, to ensure that the auditor's report issued is appropriate in the circumstances. It will require revisiting certain fundamental concepts, including the needs of the users of the financial statements and the so-called sole responsibility concept that is encapsulated in the ISAs (in particular in ISA 600). ➤ It would appear that there has been general acceptance of the principle in ISA 600.3 that allow for the group auditor to decide to use the audit evidence on which the audit opinion on the financial statements of the component is based to provide audit evidence for the group audit. However, there is a level of discomfort associated with using such audit opinion directly as audit evidence for the group audit. ➤ The proposed option could apply "in certain circumstances". It will be challenging, but essential, to provide an unambiguous description of such circumstances, as well as the considerations and decisions that are required by the group engagement partner and group engagement team, communications between the group auditor and the component auditor, and documentation requirements. ➤ It will be important to explore and understand the consequences relating to an inappropriate group audit opinion, owing to an inappropriate audit opinion for an individual component(s) (including aspects relating to auditor liability). ➤ Questions regarding how the group engagement team would reduce group audit risk to an acceptable low level would need to be addressed – clear requirements and application material. <p>Overall, the option is not dismissed outright, but it needs to be explored with care.</p>

75.	SMPC	<p><u>Question 3(a)</u></p> <p>In our opinion, as many of the issues raised are based on concerns expressed by regulators and seem to reflect unsuitable or non-application of the extant ISAs, the IAASB should also consider clarification or guidance rather than a revision of the relevant requirements. We are concerned that making reference to the report of another auditor in the auditor's report undermines the auditor's overall responsibility for the audit. In addition, we do not consider that information on an auditor's expert is appropriate in the auditor's report, but support making such information available to management and those charged with governance. We believe that information included in the auditor's report should not detract from the communication that it is the engagement partner who takes overall responsibility for an audit engagement.</p> <p><u>Question 3(b)</u></p> <p>We support the Board considering clarification of the role of the engagement partner in situations where other auditors (other than component auditors) are involved in the audit.</p>
76.	WPK	--
Academics		
77.	AAA	The Committee believes that the Board should provide guidance to engagement partners for proper direction, supervision, and review of other auditors in firm engagements. In addition, the Board should consider expanded reporting on the use of other auditors on engagements, while recognizing that such reports may have unintended consequences, if audit quality is viewed as lower when others are involved. For example, Dee, Lulseged and Zhang (2015) show that audits with other participants have, on average, lower quality, and the market reacts consistently with this when the participation of others is disclosed in the audit report.
78.	AH	--
79.	Glover-Prawitt	--
80.	TRay	--
Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	<p><u>Question 3(a)</u></p> <p>(i) The ability to refer to the separate audited financial report of a component would help</p> <ul style="list-style-type: none"> • Eliminate practical problems relating to access to working papers of other auditors or the ability to direct their work • Focus responsibility for access to audit information on those charged with governance in the parent entity • Differentiate between active and passive control by the parent entity • Reduce costs of the group audit or eliminate excess costs that are not recoverable

		<ul style="list-style-type: none"> • Cause local auditors to focus on local audit risk • Cause parent entity auditors to focus on the strategic risk to the group <p>(ii) Reference to a audited financial statements of a component auditor provides a practical solution to a complex problem. There is also greater visibility to stakeholders, who can see more clearly how a group is managed from an audit perspective.</p> <p>(iii) As above</p> <p>(iv) The audit expectation gap may lessen if stakeholders have a better understanding of how audit responsibilities are managed across a complex group.</p> <p><u>Question 3(b)</u></p> <p>It is difficult to understand what authority that guidance might have.</p> <p>i.e. If a parent auditor does not have access to another auditor of a group entity, how can a parent entity auditor have any impact on how that audit is conducted?</p>
84.	JGrant	The use of in-house specialists is described in paragraph 95 of the ITC. The ISA Post-implementation Review noted that regulators had reported that audit firms used different terminology to describe in-house experts and this was causing a problem with the consistent application of ISA 620. Audit teams use the same sorts of mechanism to control the work of both specialists and experts. One, relatively easy way to address this issue would be to turn the guidance in ISA 220 paragraph A20 into a requirement.
85.	JK	<p>I question whether transparency dilutes responsibility. The audit report used to be clear. To exaggerate, it said “I have done a good audit and the financial statements are OK.” It is increasingly difficult to find this statement in transparency reports. Transparency reports, and indeed the financial statements, iterate all (too many?) areas were items could be wrong.</p> <p>The only new information in an audit report is the auditor’s opinion. All the KAM items are probably known from the prior year or from information released by the company during the year.</p> <p>KAM paragraphs highlight that, for instance, a company may have been paying bribes. Presumably this was reported by the company when the possibility came to light. The company may (or may not) have to pay some undetermined amount of fines sometime in the future. Having the auditor recite this provides no new information to users. The KAM may only serve to protect the auditor when the matter is subsequently resolved, because they provided a warning.</p>
86.	KKTuraga	--
87.	SDeViney	Yes, if only to clarify the difference

QC4. The Firms' Role in Supporting Quality

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

- (i) Which of the actions outlined in paragraphs 114–116 and 122–123 would be most meaningful to address issues related to firms operating as part of a network of firms and firms' changing business models and structures?
- (ii) Why do you believe these actions are necessary?
- (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
- (iv) Describe any potential consequences of possible actions that you believe we need to consider further.

(b) *Specifically:*

- (i) What could we do to address the issues identified in the context of networks of firms? For example, should we develop more detailed requirements and application material to address reliance on network-level policies and procedures at a firm or engagement level?
- (ii) Do you think it would be feasible for us to develop requirements and guidance for networks? Please provide a basis for your views.
- (iii) Paragraphs 117–123 set out matters relating to the use of ADMs and related issues.
 - a. How should our standards emphasize the importance of appropriate quality control processes in relation to use of ADMs?
 - b. Are you aware of ADMs that raise issues not discussed in paragraphs? If so, please provide details.

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	CalSTRS supports revising quality control standards to clearly set out: <ul style="list-style-type: none"> • Robust roles and responsibilities for firm leadership and engagement partners; • The basis for any reliance on a firm's system of quality control at the engagement level; and • The basis, where applicable, for reliance by a firm on network-level policies and procedures.
3.	CFA	CFA Institute believes the IAASB should seek to develop requirements for networks, notwithstanding the expressed difficulty of the IAASB developing requirements for networks due to differences in firm structures and the requisite laws and regulations these different jurisdictions may need to abide by.

		Investors and others do not differentiate an audit by firm network and other firm legal structures when relying on an audit. They simply see it as one audit no matter the structure of the engagement of other firms to get the job done.
4.	IA	Whilst we agree that paragraphs 67 to 83 identify the issues that are relevant to ensuring audit quality, we are concerned that current standards do not establish any requirements at the network level, nor do they explain how or to what extent a firm can rely on a network's policies and procedures ² . Many of the main audit firms rely on the work of firms within their network when auditing multinational groups. To ensure that such groups are subject to a quality audit, we consider that the Quality Management Approach should be applied to the network. In the event this is not possible - as the ITC states this would be likely to be challenging due to the networks' varied structures and policies - then at a minimum the Quality Management Approach should be pursued at the engagement level so that group audits are addressed. We are disappointed this is not covered in the ITC.
5.	ICGN	The actions described in paragraphs 68-83 should improve audit quality by further ensuring that firms respond appropriately to inspection findings. The focus is at the firm level. Paragraphs 67-83 suggests that addressing network issues would be very challenging (71). Given the importance of networks in coordinating global audits, there should be strong effort to address quality controls at the network level as well.
6.	NZSA	See response to QC2(a)
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	<p>Audits of internationally active banks are performed primarily by the largest networks of firms. Although the Committee is well aware of legal and cultural issues that can arise in connection with managing a network of firms but are not likely to be present in a more unified corporate structure, supervisors expect an acceptable level of quality controls at each individual firm within the network. Because of these jurisdictional limitations, the ITC displays a reluctance to extend the scope of quality control requirements to networks (paragraph 71 of the overview document). Nevertheless, the Committee believes that network firms should be expected to uniformly apply the requirements set forth in the auditing and ethical standards across the network. For that reason, the Committee encourages the Task Force to broaden the scope of quality control standards to include network firms.</p> <p>Audits of internationally active banks are performed primarily by the largest networks of firms. Although the Committee is well aware of legal and cultural issues that can arise in connection with managing a network of firms but are not likely to be present in a more unified corporate structure, supervisors expect an acceptable level of quality controls at each individual firm within the network. Because of these jurisdictional limitations, the ITC displays a reluctance to extend the scope of quality control requirements to networks (paragraph 71 of the overview document). Nevertheless, the Committee believes that network firms should be expected to uniformly apply the requirements set forth in the auditing and ethical standards across the network. For that reason, the Committee encourages the Task Force to broaden the scope of quality control standards to include network firms.</p>

² Paragraph 70.

10.	CPAB	<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>Paragraphs 114 – 116 of the ITC discuss the issue of controls within network firms and whether it would be possible to place reliance on these controls. This may be difficult to achieve given the current governance arrangements of each firm and limitations of information on global monitoring efforts at the local firm level.</p>
11.	EAIG	--
12.	EBA	<p>We also emphasise the need for and the importance of actions for audit firms in responding to inspection findings (paragraph 68 of the Overview of the ITC). These actions should help firms to strengthen their procedures and also raise the audit firms' responsibility for audit quality. The audit firms' actions shall be addressed through the audit firms' procedures, the actions of the engagement partner and the EQC reviewer.</p> <p>We understand that it may be difficult to develop requirements for networks of audit firms (paragraph 71 of the Overview of the ITC), but we believe that since the group engagement partner is responsible for the entire engagement, the engagement partner would need to obtain quality control assurance for the entire group engagement. Therefore, we suggest explaining in detail in ISQC 1 and/or ISA 600 how and to what extent an audit firm can rely on a network's policies and procedures, in order to obtain quality control assurance.</p> <p>In addition, we support considering further the incorporation of a QMA at a group/network level in ISQC 1 (paragraph 45 of the Overview of the ITC).</p> <p>The IAASB could also consider whether a link could be established between the exercise of professional judgment that is addressed in ISQC 1 (paragraphs A31 and A37) and the concept of professional scepticism. The standards concerned could mention, for example, that professional scepticism is one component of the exercise of sound professional judgment.</p>
13.	ESMA	--
14.	H3C	<p>Clarify the notion of “network” and the impact of belonging to a network on a firm’s quality control system</p> <p>The IAASB is considering investigating further the extent to which an auditor / audit firm can rely on quality control developed and implemented at network level for purposes of meeting the requirements of ISQC 1. We invite the IAASB, before moving forward in its research, to first clarify the meaning of “network”, and consider more generally the organization of a network and the impact of that organization on the respective responsibilities of the local firm and the network.</p>
15.	IAIS	<p>Firm level: quality control policies and procedures when operating as part of a network</p> <p>Some audit firms operate through a network of firms, sharing common methodologies, quality control processes, and monitoring of compliance with policies and procedures. Moreover, some audit firms are developing audit delivery models (or ADMs) that centralise some elements of the firm’s system of quality control, or certain aspects within a standard audit, in a location that could be physically set</p>

		<p>in a (sometimes offshore) location from where the majority of the engagement team is located. For audit firms, these types of activities are viewed as opportunities to improve efficiency through standardisation of routine audit tests and activities.</p> <p>We understand that some concerns have been raised with such practices, in particular:</p> <ul style="list-style-type: none"> – Some audit firms and/ or engagement teams (or group engagement teams), when using work performed by other auditors or component auditors from the same firm or network, may be over-relying on the network's system of quality control (including monitoring policies and procedures covering responsibilities under ISQC 1); and – The implications on a firm's system of quality control when using various ADMs are not appropriately covered by current requirements, particularly in regards to how the work is to be directed, performed, supervised and reviewed. <p>The IAIS is of the view that additional requirements or application material should be developed with respect to ISQC 1 in order to more explicitly address the extent to which audit firms should rely on shared network quality control and monitoring policies and procedures at the audit firm level. Further, such new material could include consideration of the results of external inspection findings of individual network firms and their implications on the network as a whole and the potential impact on the audit firm's own system of quality control, including its monitoring policies and procedures.</p>
16.	IFIAR	<p><i>Quality control policies and procedures operating through a network</i></p> <p>20. We recognise the importance of considering quality control policies and procedures operating through a network. However, we would caution how the IAASB considers such an approach and the impact that approach may have on audit quality. Any proposed revisions would need to ensure that, before relying on any network procedures, the local firm has sufficient evidence about the effectiveness of the global network controls, for example consideration of the nature, extent and results of global monitoring arrangements over global controls, the local firm's determination of which global controls are appropriate in the local environment and include an overarching requirement that the local firm issuing the audit report will need to obtain the necessary information relating to the competence and performance of other network personnel participating in the audit. There may also be operational issues such as restricted access in certain jurisdictions as well as consideration of the completeness of information obtainable by the local firms from the global network.</p> <p><i>Audit Delivery Models ('ADM's')</i></p> <p>27. We note that the ITC describes the use by the auditor of outsourcing and shared service centres (collectively referred to as ADMs in the ITC). We believe it is important that coordination between the engagement team and the ADM teams are addressed by the IAASB for example, to reflect the varying circumstances associated with the nature of the services provided by ADMs.</p> <p>28. Further we believe that the level of judgement involved, the complexity of the work and materiality of the balances should be included as some of the key factors in establishing whether it is appropriate to "outsource" work and the level of involvement required by the engagement partner in respect of the outsourced work. Consideration should be given as to how these responsibilities integrate with those in ISA 220.</p> <p>29. We encourage the IAASB to ensure that the quality control arrangements at an ADM incorporate relevant specific subject matter areas, for example independence, training, HR matters and internal monitoring of audit work performed by ADMs.</p>
17.	IOSCO	<p><i>Quality Control Considerations when Operating as Part of a Network</i></p> <p>Please see discussion of quality control considerations when operating as part of a network in the context of a group audit in the <i>Group Audits</i> section below.</p>

		<p><i>Exploring the Potential Effects that Firms’ Changing Business Models and Structures Have on Audit Quality (ADMs)</i></p> <p>We agree with the possible actions to address issues related to alternative delivery models (ADMs). Specifically, paragraph 123 of the Paper states that possible actions could include: “strengthening the auditor’s consideration of:</p> <ul style="list-style-type: none"> • The risk of material misstatement associated with the account or balance on which the audit procedure is being performed, such that appropriate procedures are put into place to assess: <ul style="list-style-type: none"> ○ The level of complexity of the audit procedure; and ○ The level of judgment required to perform the audit procedure, <p>In relation to the competencies and experience of the personnel at the centralized location or other centralized resources tasked with performing the audit procedure.”</p> <p>We support the possible action that would require the engagement team to consider the nature of the risk of material misstatement (i.e., level of complexity and level of judgment required) when determining appropriate procedures to put in place. Beyond these appropriate safeguards, we believe that auditors should be required to consider whether, given the level of complexity or required judgment, the audit procedure should be performed by the group engagement team (or component auditor(s), another member of the engagement team, etc.) rather than by an ADM.</p> <p>In addition, the Board should consider the usage of ADMs in the context of a group audit and what, if any, responsibility the group engagement team has for ADMs employed by component auditors (i.e., the expected level of involvement of the group engagement team with personnel at the ADM of a component auditor).</p>
18.	IRBA	<p>Firm Networks [ITC question QC4]</p> <p>72. As the audit regulator in South Africa, we share the concerns of regulators and audit oversight bodies as set out in paragraph 110 of the ITC.</p> <p>73. We believe that it is necessary for the requirements in ISQC 1 to be strengthened in relation to inspections that have taken place across firm networks and any communications related thereto.</p>
19.	MAOB	--
20.	UKFRC	<p>The Firms’ Role in Supporting Quality</p> <p><i>Reliance on other network firms</i></p> <p>We strongly support the IAASB proposal to re-address the quality aspects of ‘network firms’ in response to the issues that have been raised in relation to undue reliance by firms and engagement teams on the network’s system of quality control in the circumstances set out in paragraphs 109 to 111.</p> <p>In particular, we support the IAASB to develop guidance that helps audit firms and/or engagement partners consider the extent to which they can ‘<u>rely on</u>’ network quality control and monitoring policies and procedures, and the nature of that ‘reliance’. The nature and extent of reliance that may be appropriate will vary depending on a number of factors, including the structure and organisation of the network and central or local enforcement policies. For example, during our outreach activity, certain stakeholders noted that many organisations that describe themselves as ‘network’ firms (or ‘part of a network’) do not in fact operate under common quality control policies and procedures and have very loose connections with each other. Other ‘network firms’ may claim to have common quality control policies</p>

		<p>and procedures, but there are significant variations in the central or local enforcement of those common quality control policies and procedures.</p> <p>Our starting point is that the ISAs should provide a robust basis for the use of the work of any other auditor (whether or not a network firm) in the performance of an audit (whether or not a group audit). This should reflect the current fundamental principle that the principal auditor takes responsibility for all of the other auditor's work and the conclusions drawn from that work for all aspects of quality control over that work. Such quality control could, in principle, be exercised at the firm level or at the engagement level or both. That should be the underlying position in the ISAs. As noted above, there are a variety of 'network' arrangements that exist. Quality control over the work of any other firm whose work is used in the audit should, in our view, involve a 'risk-based' (proposed firm level QMA and a QMA-EL) approach. In some network arrangements, the network may have established network level controls over audit quality that address the work performed by a network firm, other than principal auditor, that is used by the principal auditor. Where the principal auditor believes it is appropriate to place some reliance on network level controls over risks to audit quality relating to the use of the work of another network firm, the ISAs should clearly set out the principal auditor's responsibilities. We believe that the principles in ISA 315 and ISA 330 in relation to reliance on entity controls over risks of material misstatement are a reasonable source of analogous material. In that context, we believe that the IAASB should consider at least the following matters:</p> <ul style="list-style-type: none"> (a) The principal auditor should be responsible for making audit quality risk assessments in relation to the use of the work of network firms at the firm level (as part of the proposed QMA) and at the engagement level (as part of a QMA-EL) – these risk assessments should be interconnected. (b) The principal auditor should be responsible for understanding the network level controls and evaluating their design and implementation (both generally and in relation to the specific network firm and the work it is performing). (c) On the basis of the risk assessment and control evaluations in (a) and (b), the engagement team should decide whether it wishes to place reliance on any network level controls that are designed to mitigate particular audit quality risks at the engagement level in relation to the use of network firms' work in the audit. If not, then the auditor should take a wholly 'substantive' approach in responding to those audit quality risks, through direction, supervision and review of the work performed and the quality control established at the level of the other network firms engagement to perform the work used in the audit. (d) If network level controls are to be relied upon, the ISAs should establish the necessary testing of those controls – this should clearly identify any differences in approach that may be considered appropriate for different aspects of the network's system of quality control (e.g. control environment vs control activity). Such testing could be performed either at firm level or at the engagement level and the ISAs and ISQC 1 would need to address the interface between firm and engagement levels in this context. (e) The IAASB should also consider the implications of the inherent limitations in any system of internal control and the resulting need to require some 'substantive' testing to respond to identified risks to audit quality even where some reliance is placed on network level controls. (f) The ISAs should recognise that this approach is dependent upon there being network level controls (though not necessarily a comprehensive network level system of internal control over audit quality). However, the emphasis should be on the nature of the controls/control system rather than on whether the other firm meets the definition of a network firm unless that definition is closely aligned with the existence of such controls at the network level.
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	<p>In addition, in the context of our proposal above, we support the IAASB's suggested action to strengthen the material in the standards in relation to internal and external audit quality reviews/inspections that have taken place across the network and related communications, including how the firm responds to findings and the impact on the firm's own system of quality control.</p> <p><i>Audit Delivery Models</i></p> <p>As explained in our response to QC1, stakeholders expect the audit profession to adapt and overcome the multiple and complex challenges that have resulted from changes in the global business environment, and we acknowledge the point made in paragraph 117 of the ITC that audit delivery models (ADMs) have often been implemented in response to changes in the global business environment in order to better facilitate the delivery of the audit engagement.</p> <p>We support the IAASB's proposal to explore quality matters in relation to the use of ADMs, and agree that it would be useful to explore how ISQC 1 and ISA 220 could address the use of ADMs, as it is critical that there are appropriate quality control policies and procedures in this area. We suggest that the IAASB should consider the use of ADMs as part of the development of requirements and guidance to embed a QMA and a QMA-EL.</p> <p>This approach would ensure that, for example:</p> <ul style="list-style-type: none"> • Improvement activities that the firm undertakes (such as ADMs) are planned and organised as part of an integrated audit quality management system. • Firms that currently use ADMs perform quality risk assessments to ensure that there are appropriate quality control policies and procedures in place to safeguard against inappropriate use of ADMs, or insufficiently skilled or competent personnel. • At the engagement level, engagement partners perform quality risk assessments to establish the appropriate level of direction and supervision of the work being performed, regardless of who performs the work and where it is performed. <p>We also suggest that similar principles to those set out above in relation to network level controls should form the basis for the approach adopted for ADMs' quality risk assessment (based on appropriate understanding of the ADM) and appropriate response (addressing both substantive and reliance on controls strategies). The IAASB should also recognise that ADMs may be established within the same firm as the principal auditor or within another network firm and that in the latter case there may or may not be network level controls. Accordingly, the suggestions made above in relation to placing some reliance on network level controls will need to recognise that the ADM controls could be designed, implemented and operated by the same firm as the principal auditor, by another network firm on a standalone basis or at the network level.</p> <p><i>Developing requirements and guidance for networks</i></p> <p>With regard to the suggestion to explore the development of requirements for networks set out in paragraph 116, network firms exist in a number of jurisdictions whose local laws, regulations and culture could make it difficult to develop an effective compliance framework. Accordingly, we believe it may be very difficult to develop auditing standards that could be imposed by a firm on its network that would be effective in enhancing quality. Instead, we suggest that the IAASB should focus, as indicated amongst their suggested possible actions, on strengthening ISQC 1 and ISA 220 in relation to the extent to which firms and engagement teams respectively can place some reliance on network quality controls. We reiterate our position that any requirements or application material in this regard should not undermine the fundamental principle that the engagement partner has overall responsibility for the direction, performance, supervision and review of an audit engagement.</p>
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National Auditing Standard Setters		
21.	AUASB	<p><u>Question 4(a)</u></p> <p>(i) ISQC 1 and ISA 220 could provide principles, application material and examples for firms to consider when assessing reliance on network policies and procedures in the following areas:</p> <ul style="list-style-type: none"> • Actions the firm can implement at the firm level, and the engagement level, to appropriately rely on network firm quality control and monitoring policies and procedures. • Clarifying that a firm's system of quality control takes into account the implications of using ADMs, and the need for appropriate quality control policies and procedures in respect of the use of ADMs. • To more explicitly address through practical examples, direction, supervision and review procedures performed at a centralised location or by other centralised resources. <p>(ii) The AUASB believes the above actions could be beneficial because in conducting audits, firms are increasingly using ADMs that are different to the traditional engagement team structures. To ensure the ISAs and ISQC 1 remain fit for purpose, the implications of the use of ADMs needs to be addressed.</p> <p>(iii) There are many interpretations or forms of what a network can encapsulate, from the use of an offshore shared service function as part of the engagement team using consistent technology, to an outsourced firm where there is less control over audit quality. This provides a broad spectrum of practical challenges for a firm's reliance on differing types of networks and approaches to quality control. Application material and practical examples demonstrating a scale of how much reliance may be placed on network policies and procedures across the broad spectrum would be useful. In the case of global network firms where reliance can be placed on a QMA, this may assist in reducing replication of quality control procedures undertaken centrally and enabling time and resources in the global network to be focused on undertaking the audit.</p> <p>(iv) The cost of compliance with increased requirements versus a possible increase in audit quality needs to be carefully considered.</p> <p><u>Question 4(b)</u></p> <p>Clarification and application material on interpreting the principles at the firm level, and the engagement level, to appropriately rely on network firm quality control and monitoring policies and procedures would be useful.</p>
22.	CAASB	<p><u>Question 4(a)</u></p> <p>The AASB and our Canadian stakeholders believe the following actions would be:</p> <p>Meaningful:</p> <ul style="list-style-type: none"> • More explicitly address the considerations about the extent to which firms can rely on network quality control and monitoring policies and procedures in designing policies and procedures (para. 114(a)) • Strengthen requirements and application material relating to inspections that have taken place across the network (para. 114(b)) <p>It would be meaningful to address these areas, although changes could likely be limited to revisions to, or addition, of application material rather than to requirements. Such changes could serve to improve clarity and consistency and close an expectations</p>

		<p>gap. However, the AASB is concerned that this could be difficult to achieve, as firms may not be permitted or willing to share such information across the network.</p> <p>Not supported:</p> <ul style="list-style-type: none"> • Consider whether requirements should be established for networks (para. 116) - The AASB and several Canadian stakeholders believe that the IAASB should not attempt to establish requirements for networks. Due to the nature of networks, this would be difficult to achieve. The ITC sets out reasons why it would be difficult in paragraph 116; we agree with these reasons. • Providing requirements or application material to more explicitly address direction, supervision and review of procedures performed at a centralized location or by other centralized resources (para. 123) – The AASB notes that ISQC 1 applies regardless of whether the firm uses ADMs or not. Roles, responsibilities and audit documentation should be the same, regardless of where or how audit procedures are performed. The AASB does not see an urgent need for additional material in ISQC 1 to deal with this topic. A Canadian regulator did express the view that the role of the engagement partner should be clarified when ADMs are used. However, this stakeholder also noted that it does not have significant concerns in this area: ADMs do not appear to be widely used, or when they are used, they seem to be more commonly used for lower risk areas of the audit. <p><u>Question 4(b)</u></p> <p>As noted above, the AASB does not believe that ISQC 1 should include requirements or application material to include networks. However requirements or application material to address how a firm should deal with inspections that have taken place across the network would be useful.</p>
23.	CNCC-CSOEC	<p>We agree with the action proposed in paragraph 114 (a) that consist in revisiting the existing requirements and application material in ISQC 1 to more explicitly address the considerations about the extent to which firms can rely on network quality control and monitoring policies and procedures in designing policies and procedures to comply with ISQC 1 at the firm level. This could effectively include, for example, more clearly describing what the firm is required to do at the firm level, and the engagement level, to appropriately rely on network firm quality control and monitoring policies and procedures. We draw your attention to the fact that exploring the results of quality controls has to comply with the requirements in terms of data privacy. In this context, we recommend that the IAASB requires that the results of the quality controls should be reported and analysed per country/ region and not per person.</p> <p>The proposed actions are needed in order to keep the standards relevant in the context of continually increasing complexities of international businesses combined with the evolving audit models needed to audit related financial statements. However, a flexible approach, as mentioned is necessary to address the individual circumstances of each network, and indeed, the existence of networks is important to recognise within the standards. Moreover, network and firm structures are highly influenced by law and regulation of the jurisdiction where they are established. The level of organisation greatly varies: it can go from a branding tool to the existence of very stringent procedures. As a result, we consider that regulation on a network wide level is a challenge.</p> <p>The Networks' complexity is evolving in order to follow the economic trends whereby operating and corporate models are becoming more and more complex, using for instance off-shoring, shared-service centres, etc. Audit firms need to reorganize their own structures and to review how best to organize engagement teams and conduct audits to get appropriately skilled and competent personnel to perform high-quality audits at a reasonable cost. Engagement team members may not all work together in the same place, as they might have done in</p>

		<p>the past. They may be in different jurisdictions or time zones. They may develop models such as "firm shared service centers," "centers of excellence," "on-shoring," "offshoring," or "outsourcing", referred to as called ADMs (i.e. Audit Delivery Models) in the ITC. Even if the ADMs are different to the traditional engagement team structures, we consider that there is no issue since ADMs people are part of the audit team and the network, moreover, the engagement partner retains responsibility for the direction, supervision, performance and review of the work performed, regardless of who performs the work and where it is performed.</p> <p>As a result, we do not understand the concerns expressed by regulators and audit oversight bodies about quality control in relation to ADMs. Moreover, we believe that most of the issues recognised in this section are linked to the application of the standard and how it has been interpreted rather than to a specific need for revision of the standard. Enhancing the standards and application material in the manner described might help achieve the desired outcome. However, the effect on the length and comprehensibility of the resulting standard will need to be considered further.</p>
24.	HKICPA	--
25.	IDW	<p>We specifically welcome the IAASB's acknowledgement of the importance of maintaining principles-based standards (paragraph 114).</p> <p>We agree that individual firms need to be able to justify any reliance on quality control measures at network level and that the IAASB should look specifically at this aspect. Given the different ways in which networks and their quality control arrangements may be organized, a flexible approach is needed. Following the principles of ISA 402 and ISAE 3402 may be appropriate in some cases, particularly for shared delivery centers. Where firms use shared delivery centers, such centers would need to be subject to the firm's QMAs; in some cases the "network" could monitor this proactively so as to address any issues as they arise and have some form of reporting in place to inform all "network firms" about their use of the shared delivery centers. We are aware that various different arrangements exist in practice, some networks have national initiatives, and others operate cross-border.</p> <p>Paragraph 111 refers to concerns about the group engagement team relying on quality control policies and procedures at firm or network level without due consideration of a basis for doing so. Some additional clarification as to the interaction of requirements affecting the engagement partner in ISA 220 with those of the firm in ISQC 1 might be useful. For example, the reliance discussed in ISA 220.4 forms part of introductory material and is not explicitly reflected in the requirements.</p> <p>We also agree that a firm's reactions to inspection findings should be explicitly addressed.</p> <p>In regard to networks spanning jurisdictions, we believe that all factors listed in paragraph 242(c) need to be taken into account together, since these factors have a collective impact on the nature and extent to which the group auditor needs to be involved in the work of component auditors.</p> <p>We do not believe it will be feasible for the IAASB to develop requirements specifically for networks given the differences in laws between jurisdictions and the very different nature of different networks. Indeed, since the term "network" is one that was created for independence purposes, the concept as defined in the IESBA Code may not be appropriate for addressing quality control issues. Consideration may need to be given to using a different term. Overall, a flexible, principles-based approach is needed. We have gained the impression that regulators may be calling for action by the IAASB where they themselves have been unable to act.</p> <p>Various ADMs are increasingly being used in practice – we agree that the clarifications listed in paragraph 122 (a)-(c) might be helpful, although they do not reflect a need to add to existing requirements. The IAASB could helpfully provide examples and guidance; however care needs to be taken to ensure that any new requirements are conditional in response to a firm's circumstances.</p> <p>We note the concern raised in the 4th bullet point of paragraph 119 relating to the relative rigor of direction, supervision and review of different personnel at different locations. In our view, the location ought not to be the governing factor in this context given modern means</p>

		of communication: rather the significance of work undertaken is a more important factor. For example, the direction, supervision and review of routine work (i.e., work of little complexity and requiring little use of professional judgement) with a low detection risk would be expected to differ from that governing work on complex, high risk areas requiring considerable professional judgment, irrespective of location. We suggest that clarification to this effect may be helpful.
26.	JICPA	<p>Following are our comments on Networks and ADMs.</p> <p>◆ <i>Networks</i></p> <p>Basically, we see no need to enhance the requirement relating to networks of firms. Paragraph 54 of ISQC 1 already addresses the consideration when the firm places reliance on the monitoring procedures on a network basis. If, however, there are specific issues of concern for stakeholders, it would be beneficial to explore them.</p> <p>We think it would be infeasible to develop requirements for networks, in light of the factors outlined in paragraph 116.</p> <p>◆ <i>ADMs</i></p> <p>The current ISQC 1 and ISAs are silent about the use of ADMs. We therefore think it would be useful to explore how ISQC 1 and the ISAs could acknowledge the use of ADMs.</p>
27.	MAASB	<p><u>Question 4(a)</u></p> <p>(i/ii) The most meaningful actions to address and the reasons for these actions are as follows:</p> <ul style="list-style-type: none"> • Clarity in ISQC 1 and ISA 220 about what should be considered and documented by the individual firm to be able to place reliance on network policies and procedures at the firm level as we believe the contribution to audit quality brought by common network policies and procedures can bring significant benefits to audit quality; • Clarifying that the system of quality control of individual firms need to take into account implications of using audit delivery models (“ADMs”), and the need for appropriate quality control policies and procedures in respect of the use of ADMs. To ensure the ISAs and ISQC 1 remain fit for purpose, the implication of the use of ADMs need to be addressed; and • To more explicitly address direction, supervision and review of procedures performed at a centralized location or by other centralized resources. The coordination and supervision of resources and audit work would be better managed. <p>(iii) We believe that it is not appropriate to impose direct requirements in ISQC 1 at the network level. Firms should be responsible to demonstrate that they provide quality audits, and the mechanisms that exist to support that objective that they justifiably rely upon, should rest with the firm that is issuing the audit report.</p> <p>(iv) We believe that there is merit in exploring whether the principles in ISA 402 or ISAE 3402 could be adapted for use in exploring how networks support individual member firms.</p> <p><u>Question 4(b)</u></p> <p>(i) Refer to our comments in part (a) above.</p> <p>(ii) Refer to our comments in parts (a) and (b) above.</p> <p>(iii):</p> <ol style="list-style-type: none"> ISQC 1 should be expanded to cover the role of ADMs, addressing the extent of reliance, the type of work that can be and cannot be expected to be performed by ADMs. Restrictions on data confidentiality brought about by country specific regulations should also be addressed with guidance provided on alternatives, if any. The existing ISQC1 could provide

		<p>more application guidance on how quality should be adopted by ADMs, and their roles and responsibilities amongst various firms that rely on their work.</p> <p>b. No further matters noted.</p>
28.	NBA	<p><u>Question 4(a)</u></p> <p>(i) In general, the actions related to the reliance on the quality control at network level if the appropriate functioning thereof can be clearly demonstrated, would be very useful.</p> <p>(ii) This would be very useful, especially for group engagement teams in [sic] order for them to effectively and efficiently perform a group audit.</p> <p><u>Question 4(b)</u></p> <p>(i) The IAASB can develop application material to address reliance on network-level policies and procedures at a firm or engagement level, but we do not see the need for developing more detailed requirements. This will only make the situation impracticable. Especially by explaining what needs to be done in order to rely on network-level policies and procedures (e.g. reviewing an audit manual and taking into account only internal or also external quality control reviews) and how information can be exchanged.</p> <p>(ii) Yes. Research can be done to find out what kind of information with regard to network policies and procedures is available in practice and what use thereof can be made.</p> <p>(iii) In our opinion, the requirements for the group audit team should apply for ADMs/SSCs equally. They are as important as the group audit team. It should be demonstrated that the SSC has appropriate quality control policies in practice.</p> <p>In EU regulation it is stated that “any outsourcing of audit functions shall not affect the responsibility of the statutory auditor or the audit firm to-wards the audited entity”. This could be incorporated in the quality control standards.</p>
29.	NZAuASB	<p><u>Question 4(a)</u></p> <p>(i) The NZAuASB considers that the most meaningful actions to address are:</p> <ul style="list-style-type: none"> • Providing guidance on what the firm is required to do at the firm level, and the engagement level, to appropriately rely on network firm quality control and monitoring policies and procedures. • Clarifying that firms’ systems of quality control need to take into account implications of using ADMs, and the need for appropriate quality control policies and procedures in respect of the use of ADMs. • To more explicitly address direction, supervision and review of procedures performed at a centralized location or by other centralized resources. <p>(ii) The NZAuASB believes the above actions are necessary because:</p> <ul style="list-style-type: none"> • An increasing number of firms are operating through a network of firms that share common methodologies and quality control and monitoring policies and procedures. ISQC1 and the ISAs do not establish any requirements for firms at the network level and do not address a firm’s ability to rely on network policies and procedures. Constituents indicated that guidance would be useful to clarify when reliance can be placed on network policies and procedures, and to ensure that a network firm does not place undue reliance on the network’s system quality of control, to the detriment of audit quality.

		<ul style="list-style-type: none"> In conducting audits firms are increasingly using ADMs that are different to the traditional engagement team structures. To ensure the ISAs and ISQC1 remain fit for purpose, the implications of the use of ADMs need to be addressed. <p>(iii) Other relevant issues to consider are: There are a range of interpretations as to what a network covers, from just a branding exercise to one where the network operates in a coherent and consistent manner. This provides a broad spectrum of practical challenges, from using an own global firm with centralized shared service centre and consistent technology to using a decentralized network where there is no oversight and no control. Based on discussions and feedback from constituents, guidance on how much reliance can be placed on network policies and procedures across the broad spectrum of networks will be helpful.</p> <p>(iv) The cost of compliance with increased requirements versus a possible increase in audit quality needs to be carefully considered.</p> <p><u>Question 4(b)</u></p> <p>(i) Clarification and guidance on what the firm is required to do at the firm level, and the engagement level, to appropriately rely on network firm quality control and monitoring policies and procedures, would be useful.</p> <p>(ii) The NZAuASB does not consider that it is feasible to establish requirements and guidance for networks, given the various network and firm structures, policies and procedures in practice. It is more practical to provide guidance on how much reliance the firm can place on the network policies.</p> <p>(iii) (a) Based on feedback received from constituents, the NZAuASB considers that the standards should emphasize the importance of appropriate quality control processes in relation to use of ADMs as follows:</p> <ul style="list-style-type: none"> Clarifying that firms' systems of quality control need to take into account implications of using ADMs, and the need for appropriate quality control policies and procedures in respect of the use of ADMs. Better emphasize the importance of considering how responsibilities for direction, supervision, performance and review are best achieved when ADMs are involved, specifically of procedures performed at a centralized location. <p>(b) Details of ADMs that raise issues not discussed in paragraphs: An emerging area to consider is the increase in the use of the Cloud, and how to future proof the standards for those circumstances. For example, how to address the high risk of cyber attack if the information is in the Cloud.</p>
Accounting Firms		
30.	BDO	<p><u>Question 4(a)</u></p> <p>(i) We generally support all the identified areas of focus – particularly factors to consider when individual firms are relying on network quality controls and monitoring quality. We believe that the IAASB may need to provide further implementation support or guidance rather than requirements in these areas given the:</p> <p>(a) Need for flexibility to allow firms and the networks to be responsible for their own governance and review structures (i.e. place responsibility on them to ascertain their own QMA and to implement internal inspection processes rather than rely on the IAASB to structure a solution for them); and</p> <p>(b) Range of differing legal and governance structures.</p> <p>(ii) See comments in QC4 (a) (i).</p>

		<p>(iii) The way in which innovation and technology have created opportunities for audit firms to leverage different aspects of ADMs (such as off-shoring, cross-border cooperation, on-shoring, etc.,) may mean that providing application material in this area may be particularly helpful.</p> <p>The IAASB should consider that ADMs, by their very nature, are flexible and develop in response to changes in economic factors as well as decisions about who is best placed (and competent) to perform the audit work. Any guidance issued by the IAASB would need to make clear that while the underlying principles of review, supervision and direction are in effect the same, there is no prescriptive way in which this can be achieved.</p> <p>(iv) The IAASB should not impose a particular type of network model or approach.</p> <p>Many networks have emerged from a combination of smaller firms; some are constituted on network, regional, national or individual bases. This variety may mean that in any recommendations concerning network firms, the IAASB will have to consider the impact and not assume that a one-size fits all approach to network governance or management.</p> <p>There should also be active consultation with the Forum of Firms and its Global Public Policy Committee to ascertain further impact of the proposed changes as well as the Small and Medium Practices (SMP) Committee.</p> <p><u>Question 4(b)</u></p> <p>(i) See our answer to QC4 (a) (i).</p> <p>(ii) See our answer to QC4 (a) (i).</p> <p>(iii) a. As noted above (QC4 (a) (iii) – the Standards should acknowledge the presence of ADMs. However, in employing a principles-based approach to quality control, the principles have to be seen in context of the collective ‘engagement team’ and how a firm or network firm achieves quality control is going to vary depending on extent and type of ADM.</p> <p>In our view, the IAASB will not be able to prescribe requirements for every situation – nor should it try to do so – but what it can do is provide examples of factors to consider when firms are cooperating across jurisdictions or adopting different models of delivery.</p> <p>The growth in online accounting resources (such as those enabled by cloud accounting), an increasingly global economy, and greater use of external experts, combined with flatter structures for engagement teams, will likely lead to the growth of ADMs in the future. Accordingly, having guidance to facilitate the application of the principles of quality control to different situations is important. As this is still an evolving area within the profession, we would not support this being provided by way of new requirements.</p> <p>b. None noted, except as indicated above.</p>
31.	CHI	<p><u>Question 4(a)</u></p> <p>i. The actions that would be most meaningful are to revisit existing ISQC 1 requirements and application material that relate to network quality control and monitoring policies and procedures, and network inspection arrangements.</p> <p>ii. This action is necessary because the current ISQC 1 does not adequately consider the role of the network in quality control.</p> <p>iii. We have nothing to add.</p> <p>iv. We have nothing to add.</p> <p><u>Question 4(b)</u></p>

		<p>i. As noted above, the current ISQC 1 does not adequately consider the role of the network in quality control. The IAASB should develop more detailed requirements and application material to address reliance on network level policies and procedures at a firm or engagement level.</p> <p>ii. It would be feasible for the IAASB to develop requirements and guidance for networks. Networks that are members of the Forum of Firms are expected to implement a quality oversight system as a condition of membership. IAASB should work with the Forum and its members to understand the arrangements that networks have put in place and use this understanding to develop requirements and guidance.</p> <p>iii. a. Paragraphs 122 and 123 list an appropriate set of actions. Most importantly, IAASB should emphasise the responsibility of the engagement partner for the direction, supervision, performance and review of the work performed, whatever the arrangements. b. Paragraph 117 covers the most common ADM arrangements. The issues raised are sufficient at this time.</p>
32.	DTT	<p>ISQC 1 and the ISAs do not include requirements for firms at the network level nor do they address in any significant detail a firm's ability to place reliance on network policies and procedures to address firm-level or engagement-level responsibilities for quality control.</p> <p>However, it is important to recognize in many cases firms within networks use common quality control policies and procedures, including common audit methodologies or approaches. This can be very effective in allowing network firms to communicate and work amongst each other; however, without strong central monitoring, local interpretations of the network methodology and diversity in practice can grow over time, diminishing the effectiveness and appropriateness of the network's methodology. While many networks monitor implementation of network methodology and policy, such implementation may (i) be undertaken by either centralized or local resources; and (ii) be evaluated in the context of different regulatory regimes. As there are oftentimes no set criteria for evaluators to measure compliance against and inconsistent designation of evaluators (local or centralized), it would be worthwhile to explore how and by whom compliance with network methodology and policy is currently performed, and whether a specific inspection regimen could be prescribed in a standard.</p> <p>Many local laws, regulations and/or customs limit centralized network resources from having access to both internal and external inspection findings at the specific firm level. The difficulties that may exist related to sharing of inspection findings information can make it challenging to obtain a full understanding of the state of a network firm's system of quality control. Because of the importance of understanding the results of inspections and other monitoring activities, DTTL is supportive of strengthening ISQC 1 requirements around the transparency of intra-network reporting of inspection results and remediation, recognizing, however, that there are local laws and regulations that may preclude the ability to share such information or may affect the manner and level of detail in which it can be shared.</p> <p>In an era when audit firm rotation is taking on more prominence and where it is likely that firms outside of a network will serve as component auditors, it is expected that there will be an increase in situations where auditors involved in an audit engagement will not all share common quality control and monitoring policies and procedures. Currently, the process for understanding the quality control process in such component auditors is relatively ad-hoc and cumbersome and relies on auditor by auditor procedures. Certainly, a service auditor model relative to how specific component auditors operate would be useful. However, such a model becomes problematic when reliance is a function of not only quality control at a network level but at a local jurisdiction level too. In order to issue a service auditor's report, a service auditor would likely need access to significant volumes of firm confidential data and be able to interpret various internal and external inspection findings. Unfortunately, DTTL believes that a service auditor reporting/reliance approach may not be workable (especially when firms from different networks are involved).</p> <p>DTTL would also agree with IAASB's observations that network and firm structures are highly influenced by unique local laws and regulations. Therefore, any attempt to rationalize a consistent structure would be extremely difficult to conceptualize and even more</p>

		<p>difficult to execute. DTTL would recommend this not be a priority for the IAASB. Rather, as discussed in the executive summary, DTTL believes it is more appropriate for the IAASB to focus on strengthening requirements relating to reliance on network level processes and controls at the firm or engagement level (i.e., considering what it takes to have a basis for such reliance).</p> <p>With respect to Alternative Audit Delivery Models (ADMs), they are a business reality, will likely take on additional prominence in the coming years, and contribute to the quality of an audit. The structures of such ADMs widely vary and continue to evolve. Quality control, regardless of the ADM structure, is very important. DTTL believes the various ADM structures underscores the need for a principles-based approach that is focused on a quality outcome – regardless of the form or structure of such ADM arrangements. This is another example of where the standards will not be able to anticipate or address every single type of arrangement.</p> <p>Many of the issues that arise relative to ADMs are issues that also arise in group audits. Although ADM communication matters may prove even more difficult to address. DTTL, therefore, believes that ADMs should be considered in the context of group audits and communications among components (i.e., falling under the ISA 600 umbrella).</p> <p>Paragraphs 125–135 set out matters relating to governance of firms, including leadership responsibilities for quality. There already exists within ISQC 1 some broad guidelines relative to leadership responsibilities for quality within the firm. These responsibilities are not inconsistent with current practice and the objectives of ensuring that leadership consistently emphasizes a quality message.</p>
33.	EYG	<p>For engagement teams that involve component auditors (or other auditors from individual firms within a network), it is important for these teams to be informed about the system of quality control in place across the network and to be able to place reliance on that system for the purposes of their engagements. We believe that both the network and individual firms within the network bear the responsibility of determining that the network/firm system of quality control can be relied upon by its engagement teams. Therefore, we strongly support the IAASB's exploration of enhancements to ISQC 1 to clarify the necessary conditions under which this reliance can occur, and the related documentation requirements. Further, expectations vary among regulators across jurisdictions regarding engagement team reliance on network/firm quality control, and individual firm reliance on network quality control, including how the basis for reliance is documented.</p> <p>We agree that network structures vary greatly, including in their governance, and network structures can be influenced in the various jurisdictions where a network, and firms that are members of that network, are established. Further, the extent to which policies and procedures are developed and monitored at the network level versus the individual firm level may vary greatly. For these reasons, we agree that it would be difficult for ISQC 1 to prescribe specific quality control requirements at the network level.</p> <p>Instead, we suggest an approach whereby ISQC 1 continues to acknowledge that networks are likely to have some extent of common quality control processes and procedures that apply to the individual firms. That is, a firm that belongs to a network is likely to have a system of quality control that consists of some combination of policies and procedures that operate at the network level and at the firm level. The exact combination in place for a particular individual firm is not relevant for the requirements of ISQC 1 (nor should it be prescribed).</p> <p>We believe that the documentation of the system of quality control for a network should specify the operating level (i.e., network v. firm) of each of the elements (and sub-elements, where different) of the system of quality control. When individual firms place reliance on network-level quality control policies and procedures, the network should determine and implement monitoring procedures to assess individual firm compliance with network policies and procedures. Further, the network should obtain information about individual firm compliance with firm-level quality control policies and procedures. The objective of these documentation and monitoring efforts should be that engagement teams have a basis for reliance on the system of quality control across a network, including its individual firms.</p>

	<p>Communicating inspection results across the network</p> <p>We view communications about inspections that have taken place across the network, and the results of these inspections, as intrinsically linked to communications that a network may make related to its assessment of its system of quality control and that of its individual firms (such as communications that may be made in connection with the activities we discuss in the prior paragraph). If there are inspection findings or other deficiencies identified by the network or individual firms that may affect, in particular, the use of the work of component auditors in certain countries or regions within the network, it would be appropriate for the network to communicate these findings in a manner that is conducive to use by group engagement teams within the network. For example, this approach may involve a network taking its required analysis of findings from inspection and monitoring activities (refer to QC7) and synthesizing the relevant information into a summary of the audit areas in which findings are most prevalent for a country or region. For these identified countries or audit areas, group engagement teams may consider, for example, increasing their involvement through site visits or understanding whether certain component auditors have completed any required training or other activities for which the network communication may have indicated to be planned remediation activities.</p> <p>For further views on the evaluating the use of the work of component auditors, refer to our response to GA4.</p> <p><u>Question 4(b)(iii)</u></p> <p>In our experience, ADMs differ from traditional engagement team structures simply because certain personnel assigned to engagements physically reside in and work from a different location within the firm or, in the case of a network, a different firm within the network. We view these engagement participants as members of the engagement team but working remotely. If the IAASB considers the following to be true, we believe many of the issues that have been raised in the ITC related to ADMs can be effectively addressed:</p> <ul style="list-style-type: none"> ▶ The personnel within ADMs fall within the definition of engagement team (refer to our response to QC3) ▶ When the ADM participants are employed within a separate entity from the individual firm that is responsible for the engagement, or is subject to separate governance, the ADM is subject to the requirements of ISQC 1 and the network/firm system of quality control <p>We do not believe it is appropriate to create specific requirements for ADMs in ISQC 1 or ISA 220, but that it would be useful for the IAASB to consider including guidance about the audit quality risks that may need to be addressed. Specifically, we recommend that:</p> <ul style="list-style-type: none"> ▶ Firm-level audit quality risk factors related to the use of ADMs should be included through the QMA approach to ISQC 1 (refer to our response to QC1) ▶ Engagement-level risks to the engagement partner fulfilling their responsibilities for direction, supervision and review when personnel from ADMs are involved in the engagement also should be included through a risk-based approach to ISA 220 (refer to our response to QC2) ▶ For ADMs within a network structure, our recommendations above in our response to QC4(a) also apply <p>Further, we believe the nature of audit procedures that are appropriate for performance by ADMs, as well as policies regarding documentation or privacy or client confidentiality restrictions, should be determined at the firm (or network-level) and set forth in policies and procedures. Such an approach allows firms to design policies that reflect the location, structure, purpose and governance of the ADMs, as well as the intended use and restrictions on use of the ADMs by engagement teams. Engagement teams should be responsible for adhering to these firm or network policies, and determining their planned approach to use of ADMs to comply with those policies, versus an approach in which the ISAs include specific performance requirements for engagement teams.</p>
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34.	GTI	<p>Given the disparity of arrangements, operations and cultures that exist within firms that operate as a network, we do not believe that it is possible to develop requirements within the International Standards that can be operated at a "network level." Further, even if such requirements were to be developed, it would be necessary for the network to have control over the member firms to enforce these requirements and also for local laws and regulations in individual jurisdictions to allow access to information by firms from outside the jurisdiction. These prerequisites may not exist in all network arrangements and in all jurisdictions. Including such requirements would result in the International Standards having authority over how a firm chooses to structure itself. We do not believe that this would be appropriate. The ultimate responsibility for quality should remain with the member firm and not with the network.</p> <p>However, we do believe that it is possible to develop requirements, at the member firm level, that would require the firm to document the basis for reliance on processes and procedures performed by the network entity. For example, if a firm intends to rely upon the results of inspections performed by the network entity in considering the effectiveness of processes and controls in place in other firms or offices within the network, the basis for that reliance would need to be documented. A further consideration for incorporation into ISA 220, would be the procedures that should be performed at the engagement level in situations where an engagement team intends to use another firm or office within its network. Such requirements should result in the engagement team evidencing a demonstrable basis for using the work performed by that firm or office.</p> <p>In respect of ADMs, we are of the view that the exposure lies more around the documentation of how the quality control processes and controls apply to the ADM structures. ADMs are typically subject to the same quality control processes and controls as other offices of the firm and are often treated as an extension of the engagement team itself. We are of the view that the principles in IQSC 1 adequately address ADM related activities.</p> <p>However, some challenges may arise in the practicalities of exercising those principles, for example, adequate review and supervision at a location that is remote from the core engagement team presents additional difficulties and considerations in carrying out those responsibilities. As such, this may be an area where practical guidance could be helpful, particularly in the area of documentation of the review and supervision.</p> <p>Irrespective of whether the audit evidence is generated from a network firm, from an ADM or from other auditors, the engagement partner still remains responsible for obtaining sufficient appropriate evidence on which to base the audit opinion.</p>
35.	KPMG	<p><i>Application of Quality Control to a Network (QC 4)</i></p> <p>We recognise that instituting requirements at the network level will be more difficult for the reasons cited in paragraph 116. Nevertheless, effective systems of quality control at the network level facilitate the ability of Member Firms and engagement teams to rely on those systems when performing global audits, e.g. group or other multi-location audits. Therefore, we support the idea of clarity in ISQC 1 and ISA 220 about what should be considered and documented by an individual firm as a basis for reliance on network policies and procedures at the Firm level. We recommend that the standards:</p> <ul style="list-style-type: none"> • Acknowledge that Engagement Partners are able to rely on network systems of quality control to help them meet their responsibilities provided they are able to obtain reliable assurance on the effectiveness of those systems; • Clarify how such assurance may be obtained and to what extent publication of a Transparency Report by the network / Member Firm that describes their QMA and the systems they have in place, including monitoring systems, to facilitate Member Firm / engagement team reliance would be helpful in this regard. <p><u>Question 4(b)(iii)</u></p>

		<p>We note that the requirements that apply to staff performing work at local Member Firms and at component auditors also apply to staff utilised by ADMs (Audit Delivery Models). Many of the issues considered in paragraph 123 as being relevant to ADMs would, in our view, be just as relevant to team members working for one Member Firm in a (large) country who are located in offices that are different from the office of the Engagement Partner. The physical location of individuals performing the work should not affect the requirements that apply. (QC 4biii)</p>
36.	PwC	<p><u>Question 4(a)</u></p> <p>(i) Member firms in our network have invested, as have some other networks, in developing common 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.</p> <p>When designed and operating effectively, these common network elements can bring significant benefits to audit quality and we believe member firms within a network should leverage them so that engagement teams within the firm are able to take credit for those elements in the conduct of their audits. We believe that 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. We comment further under point (ii) below.</p> <p>Appropriate application guidance could be developed to guide firms, and hence engagement teams, on the relevant considerations in that regard. Relevant considerations for the firm could include:</p> <ul style="list-style-type: none"> • Whether the common network policies and procedures have been appropriately designed to meet their intended objectives; and • Whether sufficient evidence has been obtained that a firm is applying the common network policies and procedures. <p>It is important that any enhanced guidance, in setting out relevant considerations, takes into account different network structures, the differing nature of audits undertaken by firms within a network (not all firms will undertake large multi-national audits), and the specific risks to audit quality identified through the firm's QMA system.</p> <p>Further to our comments in response to question G1, we also believe it is appropriate for the standards to recognise the evolving nature of how audits are structured, including the use of centralised delivery centres (audit delivery models), and how these contribute to enhancing audit quality. We provide further views on how this may best be achieved in our response to point (b) (iii) below.</p> <p>With respect to communicating inspection findings across a network, this may be possible for internal inspections conducted under relevant network processes. However, law or regulation often preclude communication of the results of external inspections of a firm. ISQC 1 can therefore only address this in application material, highlighting considerations for a firm in seeking to understand inspection findings of another firm.</p> <p>(ii) See response to point (i).</p> <p>(iii) We acknowledge the important role the network plays in supporting individual firms within a network in how those common systems are used, but believe it is neither feasible nor appropriate to impose direct requirements in ISQC 1 at the network level. A network, through its member firms, may develop and promote common systems, processes and methodology. However, it is</p>

		<p>the member firm's responsibility to adopt and implement such things in their jurisdiction. Therefore, we believe it is right that the focus of ISQC 1 be on how the firm addresses that responsibility, monitors its compliance and, as described in our response above, how it supports the engagement teams conducting audits in its jurisdiction in providing relevant evidence that supports judgements on sufficiency of work performed.</p> <p>As also noted in the ITC, most networks, by definition are a collaboration of separate legal entities. There is, therefore, no single legal entity to which any requirements in ISQC 1 could be attached and measured against. The burden of responsibility to demonstrate that they provide quality audits, and the mechanisms that exist to support that objective rest with the firm who is issuing the auditor's report.</p> <p>(iv) We believe there is merit in exploring whether principles in ISA 402 or ISAE 3402 could be adapted for use in exploring how a network supports member firms. However, we would caution against requiring reports similar to that of a 'service organization'. Doing so may not be compatible with how certain networks are structured and operate.</p> <p><u>Question 4(b)</u></p> <p>(i) See response to point (a).</p> <p>(ii) See response to point (a) and (b).</p> <p>(iii) a. We believe audit delivery models can contribute directly to enhancing audit quality and that a broadly similar construct to that which we describe under point (a) above can also be applied to centralised audit delivery centres.</p> <p>We broadly agree with the list of considerations identified in paragraph 123 (evaluation of risk, complexity, level of judgement involved, direction and supervision of work, communications, documentation and review etc.).</p> <p>It may be the case that, when common network policies and procedures applicable to firms within a network exist, there may similarly be common policies and procedures that apply to centralised audit delivery centres used within a network. For example, we apply a common set of standards that apply to work conducted at a service delivery centre that provides a framework that supports audit quality. There is also common guidance for engagement teams in how such work is planned, coordinated and what the engagement team's responsibilities are in evaluating that work for the purposes of the engagement.</p> <p>As a result, we believe application material for paragraph 32 of ISQC 1 on engagement performance could usefully describe what is expected by a firm in making use of an audit delivery centre. We expect a firm to have policies and procedures in place to address such matters as the direction, supervision, and review of the work performed at a centralised location, assessment of the risks of using a centralised location, and identifying those policies and procedures to promote audit quality and continuous improvement.</p> <p>As noted in our response to question QC2, we do believe that consideration should be given to how aspects of quality control are best brought to bear on an engagement. Where large volumes of work, supporting multiple audit engagements (component or statutory), is performed at a centralised delivery centre, establishing and monitoring quality over that work is likely best addressed through responsibility being assigned to an appropriate partner at that level. Engagement teams making use of such centres still have to evaluate the overall outcomes of work supported by such models and sufficiency of audit evidence obtained, but the cumulative impact to audit quality is, in our view, enhanced through such an approach.</p> <p>b. No comments.</p>
37.	RBI	--

38.	RSM	<p><u>Question 4(a)</u></p> <p>(i) We agree with the issues and actions listed in paragraphs 106 to 123. In particular, requirements and guidance should be improved to make it clear that network firms should leverage their network's systems of quality control but should not rely solely on those systems because network firms remain independent operating entities for regulatory and legal purposes. In many networks there are larger firms with the skills and resources to develop high quality systems of quality control. Smaller network firms can leverage those resources to effectively implement those systems at their firms.</p> <p>(ii) We believe action is necessary because issues and concerns have been raised by stakeholders associated with this process.</p> <p>(ii) None.</p> <p>(iv) N/A.</p> <p><u>Question 4(b)</u></p> <p>i) We do not believe it necessary to develop separate requirements or guidance for networks due to the diversity of quality control systems deployed by networks. Rather, for the reasons given in QC4(a)(i) above, we believe it best to develop requirements and guidance at the network firm level that can then be leveraged and deployed throughout a network.</p> <p>ii) No, for the reasons stated above.</p> <p>iii) a. We believe that ultimately the engagement partner must be able to demonstrate that they have sufficient knowledge of the operations, performance and quality control and of an ADM in order to place reasonable reliance on the work performed by the ADM. Due to the developing nature of these business models we believe that the IAASB should at this stage develop overarching principles and where currently relevant necessary requirements and guidance. b. No.</p>
39.	SRA	--
Public Sector Organizations		
40.	AGC	--
41.	AGSA	<p><u>Question 4(a)</u></p> <p>(i) No further comment - this is not applicable to the AGSA environment therefore not familiar with the circumstances. However based on information provided we support (a) & (c) in addressing the issues identified.</p> <p>(ii) No further comment - this is not applicable to the AGSA environment therefore we are not familiar with the circumstances.</p> <p>(iii) No further comment - this is not applicable to the AGSA environment therefore we are not familiar with the circumstances.</p> <p>(iv) No further comment - this is not applicable to the AGSA environment therefore we are not familiar with the circumstances.</p> <p><u>Question 4(b)</u></p> <p>No further comment - this is not applicable to the AGSA environment therefore we are not familiar with the circumstances</p>
42.	GAO	We are not providing comments relating to networks of firms and the use of ADMs.
43.	INTOSAI	--

Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	<p>We see ADMs as having the potential to make a positive contribution to audit quality. Provided the firm institutes a proper system of quality control and monitoring procedures over the ADM and the engagement team retains responsibilities for the direction, supervision, performance and review of work undertaken, ADMs can boost efficiency and audit quality. We encourage the IAASB to continue to support ADMs and other innovations and suggest it might be worth exploring whether there are parallels to the 'service organisation' concept in ISA 402/ISAE 3402 to address ADMs.</p> <p>The procedures outlined in paragraph 123 look sensible, however we would caution against excessive prescription. Audit quality is most likely to be achieved from permitting a flexible approach to component audits, while ensuring the engagement partner has a full understanding of the nature and timing of work being undertaken.</p> <p>The impact of changes to the laws on auditor rotation in the European Union is currently unclear. One result could be that more audits of public interest entities will be carried out by firms from more than one network. While there are already examples of such audits being conducted well, it might be helpful for more best practice guidance to be made available. However, we do not consider this necessarily will involve changes to ISAs</p>
47.	AIC	--
48.	AICPA	<p>With respect to the questions in subparagraph (a), we reiterate our belief that it is preferable to add application material and provide more implementation guidance than to make the requirements more prescriptive. We recommend more explicitly addressing through such guidance what to consider in assessing the network's system of quality control. Both at the firm level and at the engagement level, there needs to an understanding of the network's controls and any deficiencies or issues with those controls so that the firm and engagement partners can determine whether to rely on that system or whether there is a need to develop additional procedures. We note that this is equally true in larger firms with multiple offices.</p> <p>With respect to the questions in subparagraph (b), we do not believe that it is feasible to develop requirements and guidance for networks given the diversity of network arrangements.</p> <p>Regarding ADMs, even in firms that do not have such arrangements there is an increasing tendency to perform procedures remotely because so much of the evidence is available electronically and firms, to a great extent, maintain their engagement documentation in an electronic format. Even in small firms, many audit procedures no longer require any face-to-face interaction with management, or even client personnel. We support the recommendations in paragraph 123 to address these situations, as additional application material, and would stress the overall consideration of whether appropriate supervision and review can be effectively applied in certain circumstances and audit areas. Suggestions for application material include the importance of making a site visit in connection with an assurance engagement because so much can be learned through observation and face-to-face interaction with the client. Alternatively, firms are exploring the use of video-meeting technology to make "virtual" site visits and to conduct "face-to-face but not in-person" conversations.</p>

49.	APESB	<p>The existing guidance on network firms within ISA 600 is comprehensive, and APESB believes that no further guidance is required. The issues that stakeholders at our roundtables raised related to control and at times the limited ability to influence network firms. It is unlikely that additional guidance would be of practical assistance to firms when addressing these issues, especially when the structure and arrangements for network firms vary significantly.</p> <p><u>Audit Delivery Models (ADMs) (defined in paragraph 105)</u></p> <p>In Australia, APESB has issued GN 30 Outsourced Services (originally issued 2013 and revised 2015) which provides guidance on the professional and ethical obligations when dealing with outsourced services that are not covered by Auditing Standard ASA 600 Special Considerations – Audits of a Group Financial Report (2009). ASA 600 is the Australian equivalent of ISA 600.</p> <p>It is considered best practice, in GN 30, to inform and seek consent from the client before outsourced services are to be used. The GN also considers the factors that a firm or professional accountant should consider before using outsourced services, including assessing the competency of the outsourced personnel and the security measures around documentation and information.</p> <p>The content in GN 30 could assist the IAASB in developing application guidance in relation to ADMs.</p>
50.	CAANZ	<p><u>Question 4(a)</u></p> <p>(i) We consider that the most meaningful actions to address are:</p> <ul style="list-style-type: none"> • Expanding application guidance on the extent to which individual firms can rely on network-level policies and procedures. • Exploring how ISQC 1 and the ISAs could acknowledge the use of new audit delivery models (ADMs). <p>(ii) Audit firms are increasingly using ADMs that are different to the traditional engagement team structures. Application guidance on how firms can rely on network-level policies and procedures (for those who are part of a network) would be well received.</p> <p>(iii) The manner in which networks and ADMs are structured can vary significantly. Therefore the flexibility of the principle-based standards needs to be maintained.</p> <p>(iv) Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.</p> <p><u>Question 4(b)</u></p> <p>(i) Clarification as to what is required at the firm level and engagement level to appropriately rely on network-level policies and procedures would be well received.</p> <p>(ii) We agree that it would be challenging, and unproductive, for the IAASB to work on mandatory requirements for networks given the variety that exists and also the fact that a large number of practitioners to whom the standards apply may not be part of a network. We support practical application guidance giving examples of how the objective and mandatory requirements would be applied in different scenarios. This helps to establish an approach to application that can be utilised in other situations and as structures change and evolve.</p>

		<p>(iii) a. Guidance material that addresses how the engagement partner's responsibilities for direction, supervision, performance and review would be applied in example ADM scenarios would be well received.</p> <p>b. Auditing in the cloud is an emerging area, and raises issues such as the impact of changing technology on data privacy, personally identifiable customer information and data ownership on the audit approach, and how cyber security impacts audit risk. While technology changes the way in which components of an audit are undertaken, there is no substitute for the appropriate use of judgment and approaching each aspect of the audit with a sceptical mindset. In relation to quality control, it may be a different type of risk and may require specific controls and safeguards, but should not of itself impact the principles of managing quality in a firm's audit work.</p>
51.	CAI	<p>Experience of our members involved in the audit of larger, complex multi-national groups also suggest, in revising ISQC 1 and ISA 220 <i>'Quality control for an audit of financial statements'</i> along the lines set out in the ITC, it is essential IAASB clearly articulates both that quality control procedures are to be applied consistently across network firms and that the engagement partner responsible for the audit as a whole may rely on those procedures. This has benefits both in supporting consistency of practice and in allowing the engagement partner to focus more clearly on risks relating to the specific audit. Doing so would support an approach to audit quality that is responsive to the practical issues raised in the various scenarios identified in the ITC, including 'alternative delivery models' (such as 'off-shore' teams). It will also be beneficial in supporting an effective audit response to the use of shared service centres by global businesses to provide accounting services to components in many different jurisdictions.</p>
52.	CAQ	--
53.	CIIPA	<p>If there is a decision to address quality control processes in relation to use of ADMs, we believe that it is most important to differentiate ADMs which are firms within a network that operate under common monitoring and quality control policies and procedures and have these entities fall within the scope of "network firms" for the purposes of ISQC 1 and ISA 220.</p> <p>For ADMs that are not a network firm, we agree with the proposal to strengthen the auditor's consideration of the risk of material misstatement associated with the account or balance on which the procedure is being performed in determining whether additional quality considerations need to be made.</p>
54.	CIMA	--
55.	CPAA	<p><u>Question 4(a)</u></p> <p>(i) CPA Australia strongly supports the need to clarify how network firms apply quality control for audit work conducted centrally or remotely within the network, which is supported by the feedback from stakeholders through our ITC survey and roundtables. In particular, in order of priorities, stakeholders called for clarification of:</p> <ol style="list-style-type: none"> 1. Appropriate extent of reliance on the network for quality control and monitoring policies and procedures at the firm level. 2. Safeguards against inappropriate use or ineffective oversight of network firms' work. 3. Nature and extent of documentation required from centralised or remote locations. 4. When the audit procedures are capable of being performed, directed and supervised remotely. 5. Impact of inspection findings across the network.

		<p>(ii) There is great disparity with respect to what is meant by ‘network’ and the extent to which the network quality control can be relied upon by the network firms. Networks cannot be required to standardise their structures and governance arrangements, therefore the network firms must establish to what extent they can rely on quality control policies and procedures across the network, including when ADMs are used. Networks may be in place for the purpose of marketing and referral, in which case they may operate independently in every other way, or on the other end of the spectrum, networks may have common quality control systems, centralised services and common methodologies. The broad range of governance and operational structures in which networks operate and ADMs are used, means that the appropriate level of reliance will depend on the characteristics of the network. Ultimately if reliance cannot be placed on the quality control of a firm in a remote location or another jurisdiction where an audit is being conducted, it may be necessary for the engagement team to visit that location to conduct the audit work themselves, which does happen quite frequently.</p> <p>(iii) Other issues to consider include the impact of technology, including cloud services and other on-line services, which may create challenges for evidence gathering in these “remote” locations and for which cybersecurity may be a significant risk.</p> <p>(iv) We consider that developing requirements for networks may be unrealistic for the reasons provided in the ITC paragraph 116 and that the focus should be on the auditor to determine the nature of the network in which they operate and the extent to which reliance can be placed on the network’s quality control systems.</p> <p><u>Question 4(b)</u></p> <p>i) Application material would assist in addressing the practical challenges presented by different network structures and clarifying what an auditor needs to do in order to place reliance on the network’s quality control. We do not think that further requirements are necessary, but if there is contrary evidence of the need for requirements, they would need to be principles based.</p> <p>ii) We do not consider that it is necessary to develop requirements for networks as there may be commercial reasons for preferences to operate in different ways.</p> <p>a. We support emphasising the importance of appropriate quality control processes in relation to use of ADMs and clarifying the nature of the quality control processes which would be effective for ADMs.</p> <p>b. No further issues identified.</p>
56.	DnR	Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE.
57.	EFAA	This is a complicated area because of the diversity of arrangements outlined in the ITC. In light of these challenges, and differences in laws and jurisdictions, we are not convinced that the IAASB is able to develop requirements that would cater for all such eventualities. Neither are we convinced that the structure under which firms operate is of specific matter for IAASB consideration. However, we are of the opinion that whatever shape a network or alliance takes, individual firms should be required to demonstrate their quality control and monitoring policies and procedures and so IAASB actions that facilitate this aspect might be of value.
58.	FACPCE	--
59.	FEE	<p><u>Question 4(a)</u></p> <p>(15) One of the most pressing issues for networks is in the section “The firm’s Role in Supporting Quality”. Further clarity in ISQC 1 and ISA 220 Quality Control for an Audit of Financial Statements about what should be considered and documented by the</p>

		<p>individual firm in terms of reliance on network policies and procedures will be helpful, provided the IAASB maintains its principles-based approach in this context.</p> <p>(16) In addition, the issues identified in the context of network firms could be tackled by enhancing the ISQC 1 requirements on documentation, as well as on the work expected to be performed at the firm level and at the engagement level. We do caution against prescription; however, as a flexible approach is needed to take into account the very different circumstances of individual firms and networks, especially in relation to audit delivery models (ADMs).</p> <p>(84) One particularly important issue in our view is the one described in paragraph 114 which refers to providing further clarity in ISQC 1 and ISA 220 about what should be considered and documented by the individual firm in terms of reliance on network policies and procedures, provided the IAASB maintains its principles-based approach in this context.</p> <p>(85) These actions are needed in order to keep the standards relevant in the context of continually increasing complexities of international businesses combined with the evolving audit models needed to audit related financial statements. The proposed flexible approach is necessary to address the individual circumstances of each network, and the existence of networks is important to recognise within the standards. Nevertheless, given the current jurisdictionally-focussed audit regulatory system, regulation on a network-wide level is still a challenge. The level of organisation greatly varies: it can go from a branding tool to very stringent procedures. After giving proper consideration and documentation, it seems right that firms can rely on aspects of the network organisation, systems, and controls. Networks are necessary and their complexity is expected to evolve in order to follow the economic trends whereby operating and corporate models are becoming more and more complex, using for instance off-shoring, shared-service centres, etc.</p> <p>(86) An effective action would be for the firms to be required to ensure that the work that fundamentally needs significant professional judgment is not outsourced without explicit consideration as to why this is appropriate. The perception of responsibility and accountability is also important, also bearing in mind the fact that there are cases where the engagement team may not be able to visit specific locations in order to easily demonstrate sufficient interaction.</p> <p>(87) Most of the issues recognised in this section are linked to the application of the standard and how it has been interpreted rather than a specific need for a revision of the standard. Enhancing the standards and application material in the manner described might help achieve the desired outcome. However, the effect on the length and comprehensibility of the resulting standard will need to be considered further.</p> <p><u>Question 4(b)</u></p> <p>(88) As discussed in paragraph 114 (a), ISQC 1 should more clearly describe “what the firm is required to do at the firm level, and at the engagement level, to appropriately rely on network firm quality control and monitoring policies and procedures”. In addition, requirements with respect to documentation should be clarified.</p> <p>(89) Although high level principles may be helpful, care should be taken as to detailed requirements since we do not believe that it would be feasible for the IAASB to develop requirements and guidance for networks for the reasons explained in paragraph 116.</p> <p>(90) We think that the importance of appropriate quality control processes in relation to ADMs could be emphasized by requiring the firms’ documented systems of quality control to include the use of ADMs and the necessary safeguards and quality control policies required for effective oversight, as stated in paragraph 122 (c). A flexible approach is needed to take into account the very different circumstances of individual firms and networks. The relative significance of risk, rather than just location, should also be a driving</p>
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		<p>factor. It is also important to include policies and procedures for “minimum education and experience requirements for personnel at the centralized location or other centralized resources”, as indicated in bullet 1 in paragraph 120.</p> <p>(91) No, we are not aware of ADMs that raise issues other than the ones discussed in the ITC.</p>
60.	FSR	--
61.	IBA	--
62.	IBRACON	<p><u>Question 4(a)</u></p> <p>(i) In our view the discussion related to reliance of firm’s monitoring would be most meaningful to address issues related to firms operating as part of a network of firms and firms’ changing business models and structures. It is important to avoid the risk of duplication of efforts if additional burden is expected to be required from a member firm that is part of a network.</p> <p>(ii) This action would improve effectiveness of audits.</p> <p>(iii) No comments.</p> <p>(iv) No comments.</p> <p><u>Question 4(b)</u></p> <p>As part of a QMA, networks should be able to design a system of QC that involves procedures at network and member firm level. It should not matter how much comes from network v. member firm – as long as the entire system is adequately addressed and monitoring processes are in place to ensure that QC is operating at member firm (and engagement) level. There should be no prescription on what should be done at a network level – but acknowledgement that some QC may reside at network level.</p> <p>Further, the network and its individual firms should bear the responsibility of determining that its engagement teams can rely on this system, particularly group engagement teams.</p> <p>There should be differential treatment of component auditors within the network v. outside the network --- within the network, the group engagement team has more info about the competence and capabilities and the quality control policies and procedures that are applied.</p> <p>We will describe our view of QMA – risk-based approach in which ISQC sets forth clear objectives and principles for firm policies, along with specific risk factors to achieving those objectives that firms should address in their policies. Firms design their policies based on the risk assessment component of the QMA (firms need to take into account their unique governance structures, nature of engagements served, etc.)</p>
63.	IBR-IRE	<p><u>Question 4(a)</u></p> <p>(34) Any additional guidance should remain principle based and allow for the fact that laws and regulations will differ between countries. One area where additional clarification would be helpful is the assessment and documentation of how a firm relies on network policies and procedures.</p> <p>(35) We fully support the actions suggested in paragraph 122 and 123. However, we re-emphasize the need to remain principle-based and allow for the engagement partner to exercise professional judgment (with additional guidance as to how that judgment can be framed and documented). This would allow to address conflicts in laws and regulations more easily.</p> <p>(36) Allowing (but not requiring) networks to rely on network quality control and monitoring policies and procedures in designing policies and procedures to comply with ISQC 1 at the firm level is important. Indeed, describing what the firm is required to do at the firm</p>

		<p>level, and the engagement level, to appropriately rely on network firm quality control and monitoring policies and procedures would be useful.</p> <p>(37) However, IAASB should also consider that legal requirements or data privacy issues might preclude networks to exchange the result of internal or external inspections and this should indeed be considered in the standard.</p> <p>(38) The use of the “service organization” concept will create a much higher burden for smaller companies.</p> <p>(39) It is essential for the confidence that stakeholders have in the firms.</p> <p>(40) We have not identified other relevant issues.</p> <p>(41) No particular comment.</p> <p><u>Question 4(b)</u></p> <p>(42) As stated in paragraph 38, allowing but not requiring networks to rely on network quality control and monitoring policies and procedures in designing policies and procedures to comply with ISQC 1 at the firm level is important. Also, the EQC reviewer needs to be able to ensure quality of all parties.</p> <p>(43) See paragraph 36 above.</p> <p>(44) We suggest to emphasize that the use of ADMs is only possible to the extent that, at firm level or at the level of the networks or alliances, common policies and procedures for performing the work are in place, as well as quality control procedures and monitoring policies.</p> <p>(45) We are not aware of other issues in relation to ADMs.</p>
64.	ICAEW	<p><u>Question 4(a)</u></p> <p>(i) The matters outlined in those paragraphs are all relevant to the review of the standards. Addressing audit quality matters through networks, eg through common policies/procedures and monitoring, makes a key contribution to enhancing audit quality and it would be helpful for the standards to cover this, probably through application material.</p> <p>(ii) No further comment.</p> <p>(iii) None identified.</p> <p>(iv) No further comment.</p> <p><u>Question 4(b)</u></p> <p>(i) As stated above, we consider that it would be appropriate for application material to cover this.</p> <p>(ii) It would be a challenge to do more than cover briefly in application material. This is probably a matter for others to address given the wide variety of networks that exist in practice.</p> <p>(iii) (a) This can be addressed in the application material and perhaps through other guidance issued by the IAASB or others. The principles involved remain the same and therefore amending requirements is unlikely to be needed. (b) No.</p>
65.	ICAP	--

66.	ICAS	At the moment, ISQC1 and the ISAs are silent on the firms' use of Audit Delivery Models (ADMs), therefore, further guidance on the approach and procedures to be applied when using ADMs, both in terms of performance and quality control, is necessary throughout the standards and is not isolated to ISQC1.
67.	ICAZ	<p><u>Question 4(a)</u></p> <p>(i):</p> <ul style="list-style-type: none"> a) Describing what the firm is required to do at the firm level, and the engagement level, to appropriately rely on network firm quality control and monitoring policies and procedures. b) Strengthening the requirements and application material in ISQC 1 in relation to inspections that have taken place across the network and related communications. c) acknowledge the use of ADMs, and emphasize the need for appropriate policies and procedures for these structures as part of the firm's system of quality control and at the engagement level <p>(ii) In respect of (a) and (b) this would assist firms in customizing network firm quality control and monitoring policies to meet specific needs taking cognizance of size and other local regulatory requirements. This would also be in line with the proposed quality management approach.</p> <p>Proposed action (c) would clarify quality control issues to be considered when a firm is making use of ADM's</p> <p>(iii) None</p> <p>(iv) None</p> <p><u>Question 4(b)</u></p> <p>(i) We think additional requirements and application material may be necessary to address reliance on network firm policies and procedures.</p> <p>(ii) Yes. We think that the requirements will be more of guidance in establishing the extent to which a firm can place reliance on network firm policies and procedures.</p> <p>The feasibility issues identified in the ED may not be relevant given that the requirements will focus more on the factors that a network firm may consider in determining the extent to which they can place reliance on network firm's policies and procedures.</p> <p>(iii) a. The standards should come up with specific requirements and application material when a firm a making use of ADM's. These requirements should be incorporated in existing standards rather than coming up with a new and separate standard that addresses use of ADM's</p> <p>b. None</p>
68.	ICPAK	<p><u>Question 4(a)</u></p> <p>(i) Revisiting the existing requirements of ISQC1 to clarify when firms can rely on network quality control policies.</p> <p>It is also important to recognizing that the network and firm structures are affected by laws and regulation in the jurisdiction within which the entity is operating and as a result the networks may be structured differently.</p> <p>The implication of using ADMs and how matters arising due to the ADMs will be handled and addressed in the standards (For example when it comes to engagement partner responsibility, definition of the engagement team etc.)</p>

		<p>(ii) The above are important so as to understand issues facing networks and attempt to give a guide</p> <p>(iii) No</p> <p>(iv) None</p> <p><u>Question 4(b)</u></p> <p>(i) The firms are the once to come up with the structures because each firm operates differently and in different jurisdiction</p> <p>(ii) No (refer above)</p> <p>(iii) a. No comment b. No</p>
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	--
72.	KICPA	<p><u>Question 4(a)</u></p> <p>(i) The clarification of ISQC 1 and ISA 220 as to what should be considered and documented on common policies and procedures at the network level (audit methodologies and audit technologies), as a ground for the existence of accounting firms, is meaningful. Addressing the issue as to reliance on common quality control and monitoring system, when using the work of the component auditor from the same network is believed to be the most meaningful.</p> <p>As for the changing business models and structures, how to define centralized locations or resources from the perspective of the engagement team based on ISAs, and how to adjust policies and procedures related to direction, supervision and review to take account of differences in matters, such as language, culture, background, or levels of experience of individuals in the ADM, are believed to be significant. In addition, the consideration of auditors would be important in practice as below:</p> <p>(a) impacts of using ADM, and necessity of appropriate quality control policy and procedure to provide safeguards against the use of inappropriate ADM and ineffective supervision on auditor's works in ADM;</p> <p>(b) providing appropriate safeguards to define material misstatements of accounts and balances in relation with the appropriateness and experiences of engagement team members, in case of conducting audits in and with the centralized locations or resources, and to evaluate judgmental grounds required to conduct audit procedures in complexity;</p> <p>(c) whether audits can be conducted in far-off areas from the engagement team and companies subject to audits, whether the direction and supervision of audit procedures are possible in a remote manner, and whether face-to-face interaction with the management is appropriately required;</p> <p>(d) the nature and scope of documentation required to those who perform at a centralized location or by centralized resources and those who conduct the direction, supervision and review of the performance; and</p> <p>(e) whether performing audit procedures remotely would result in a breach of client confidentiality, or any legal or cross-border restrictions.</p> <p>(ii) We are seeing numerous cases in practice where the work of the component auditor, who shares the common quality control policies and procedures, are used in group audits. With this trend, it would be necessary to study the extent of reliance accounting</p>

		<p>firms or the engagement partner can make on network quality policies and procedures. This study result is believed to increase insights on the quality control issue, related to the use of general work of the component auditor.</p> <p>The quality control issue on the use of ADM is newly raised and expected to be evolved. In relation with the changing business model of accounting firms, the similar nature of quality control issues will be raised, thereby creating a necessity of setting up principles to address the issues. For the set-up, it would be necessary to review all the various issues in relation with the use of ADM. As stated in the consultation, it would be appropriate to review the issues in a form of reference and discussion materials, not of requirements of standards or changing application material, in a bid to maintain flexibility of standards in response to changing environments.</p> <p>(iii) We have no comments.</p> <p>(iv) Please refer to answers in (ii) of QC(4) (a).</p> <p><u>Question 4(b)</u></p> <p>(i) It would be necessary for IAASB to study and review about to which extent firms rely on policy and procedures at the network level.</p> <p>However, it would be very much challenging for IAASB to develop ISQC 1 requirements and application material to deal with the issues, in a circumstance where the network and firm structure vary, contracts in relation with common quality control policies and procedures differ, and the operation of network and firm is highly affected by law and regulation of the respective jurisdictions. Thus, it would be necessary for IAASB to consider sufficiently developing and providing non-authoritative guidance as well as ISQC1 requirements and application material.</p> <p>(ii) We believe developing ISQC1 requirements and guidance on the network itself in relation with communication and response to inspection findings is expected to be challenging, in that there are few countries putting law and regulation on the networks, and the structure and operation of networks and accounting firms are highly affected by the respective jurisdiction's law and regulation.</p> <p>(iii) a. We suggest IAASB underscore the principle of the engagement partner's responsibility as to the direction, supervision and review of the works, regardless of who conducts the work and where the work is conducted, in addition to providing detailed illustrative examples as to how the engagement partner can fulfill his/her responsibility in various circumstances.</p> <p>As mentioned in the consultation, it would be desirable to provide non-authoritative guidance, including reference and discussion materials, not in the form of changing existing requirements and application material, in order to maintain the flexibility of standards in response to the changing environments.</p> <p>b. We have no comments.</p>
73.	MICPA	--
74.	SAICA	<p>53. The overall concern presented in the ITC relates to instances where there may be undue reliance by individual firms on the network's system of quality control.</p> <p>54. Survey respondents were first asked to indicate on a scale of 1 to 6 whether they strongly agree (6) or strongly disagree (1) with the following statement (i.e. the extent to which you agree or do not agree): I believe there is a common understanding and sufficient consistency in application of the terms "network" and "network firm".</p> <p>60.5% of survey respondents indicated their disagreement with the above statement at a level of 3 and below.</p>

		<p>➤ This confirms the IAASB’s observations regarding network and firm structures being highly flexible and being influenced by the particular business and audit environment, including local laws and regulations.</p> <p>➤ At the same time, this could also indicate that there exists a need to explore the option that the standards (ISQC 1 and ISA 220) may have to more directly address considerations specific to networks.</p> <p>55. The ITC has specifically raised concerns relating to instances where there may be undue reliance by individual firms on the network’s system of quality control. The IAASB could consider an approach where the relevant standards (ISQC 1 and ISA 220 and possibly other standards, including ISA 600) include additional application material relating to “Considerations specific to networks” that cover the relevant elements of a quality control system.</p> <p>56. We support the proposed possible actions in paragraph 114 of the ITC. In this context, survey respondents were requested to rank in order of priority which of the actions would be most meaningful to address issues related to reliance on the network’s system of quality control. The resultant ranking is as follows [the most meaningful listed first, from (1) to (3)]:</p> <ol style="list-style-type: none"> (1) Describing more clearly what the firm is required to do at the firm level, and the engagement level, to appropriately rely on the network entity (network-wide) quality control and monitoring policies and procedures (2) Incorporating in ISQC 1 and ISA 220 policies and procedures derived from the “service organisation” concept (applying principles similar to those in ISA 402 and ISAE 3402) (3) Strengthening ISQC 1 in relation to inspections that have taken place across the network and related communications (the impact for and communication to the individual firms in the network) <p>57. Further to the results in the previous paragraph:</p> <p>➤ Appropriate focus should be placed on both the responsibilities and considerations at the network-entity level and at the level of individual firms within the network. Using principles from ISA 402 and ISAE 3402 could be an appropriate means to address relevant concerns from both perspectives.</p> <p>➤ The aspect of documentation should be emphasised in the context of demonstrating that the appropriate considerations were applied and providing support for the “reliance”-decision at the level of individual firms.</p> <p>58. Networks of firms are a reality of today’s audit environment. We believe that it is outside the ambit of the standards to set requirements in relation to networks themselves (as discussed in paragraph 116 of the ITC). However, it should still be possible to incorporate requirements and application material relating to what is required by the network entity <i>and</i> by individual firms to appropriately rely on the network entity (network-wide) quality control and monitoring policies and procedures. Therefore, still applying a principles-based approach.</p> <p><u>ADMs</u></p> <p>59. ADMs are sometimes referred to as audit firm shared service centres or on-shoring or offshoring or outsourcing (in essence, using centralized resources for certain audit activities). The overall concern relates to how an engagement team addresses the requirements for retaining responsibility for the direction, supervision, performance and review of the work performed at ADMs.</p> <p>60. Survey respondents indicated the following priority in terms of which of the identified issues pose the greatest threat/s to audit quality when ADMs are used in performing audit work (i.e. relating to the engagement team retaining responsibility for the work performed) [the greatest threat listed first, from (1) to (4)]:</p>
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		<p>(1) Concerns around sufficient and appropriate documentation in relation to the procedures performed, evidence of the review of work performed and demonstrating how the engagement team assessed the work in relation to the audit being performed</p> <p>(2) Insufficient supervision over, and the review of procedures performed (concerns whether such is sufficient and as rigorous as for other members of the engagement team)</p> <p>(3) Remoteness challenges – competence of personnel performing procedures; being removed from the engagement team it is supporting; inability to interact with the management of the audit client</p> <p>(4) Concerns around whether quality control and monitoring policies and procedures are sufficient in terms of ensuring that the firm’s leadership and oversight are extended to centralized locations or over centralized resources</p> <p>These results should be interpreted in the context that survey respondents were in agreement with all of the issues identified, with a limited differentiation between the various issues in arriving at the prioritised list above.</p> <p>61. Remoteness challenges are inherent in using ADMs. The IAASB’s proposed possible actions in terms of strengthening the auditor’s consideration of the following would be meaningful to address the related threats to audit quality:</p> <ul style="list-style-type: none"> ➤ Assessing the complexity of the audit procedures to be performed and the level of judgement required in performing those procedures. ➤ Whether the audit procedure can be performed remotely; in particular not requiring face-to-face interaction with management. Whether the audit procedure can be directed and supervised remotely (and how this could be achieved). ➤ Whether the use of a remote location would result in a breach of client confidentiality, or any legal or cross-border restrictions. ➤ The nature and extent of documentation required by those performing the audit procedures at a remote location, as well as by those directing, supervising and reviewing their work. <p>62. 64.9% of survey respondents indicated that they believe it is appropriate that the standards incorporate considerations specific to ADMs. Also refer to our comments in paragraphs 33 to 35 under “Engagement partner roles and responsibilities” in this regard.</p> <p>63. Although the use of ADMs may not by themselves create the need for additional requirements, we agree it would be useful to explore how ISQC 1 and the ISAs could acknowledge the use of ADMs, and emphasize the need for appropriate policies and procedures for these structures as part of the firm’s system of quality control. As mentioned in relation to networks, the IAASB could consider an approach where the relevant standards (ISQC 1 and ISA 220 and possibly other standards, including ISA 600) include additional application material relating to “Considerations specific to ADMs” that cover the relevant elements of a quality control system.</p> <p>64. The IAASB has appropriately noted that firms are applying ISQC 1 and ISA 220 in situations involving ADMs and continue to develop their own internal methodologies in respect of the types of work that may be performed at centralized locations or by other centralized resources, as well as guidelines as to how that work should be performed. These firms could provide the IAASB with valuable input in this regard.</p> <p>65. We did not specifically identify ADMs other than those discussed in the ITC, or issues other than those addressed by our comments above.</p>
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75.	SMPC	<p>We agree that it will be challenging for the Board to develop requirements for networks because of the reasons outlined. In addition, the SMPC is aware that the borders between networks, associations and alliances are increasingly blurred. In practice differences between some organizations self-defined as networks and others that qualify themselves in different ways are not always very clear when analyzing their real structure and performance. For example, even the less formal organizations have in common some training (or regular conferences) and some kind of quality control, to be sure that when referring someone, quality is appropriate. The use of common brands, disclosure terms etc. can also be very similar in networks and associations and it is clear that an association can be a network even if it calls itself otherwise.</p> <p>The SMP Committee agrees that individual firms need to be able to support and document their reliance on network quality control policies and monitoring procedures. As there are a number of different ways in which these may be organized, and because of the differences in laws and regulations in jurisdictions, a flexible and principles-based approach is needed by the IAASB.</p> <p>On occasion the SMP-auditor may be excluded from the role of component auditor if the group auditor perceives that they can more easily deal with a component auditor who is part of the group auditor's network. However, this may not always be the case. For example, the increased benefit to audit quality resulting from common policies of a network firm (about which the group auditor would also need to be satisfied were working effectively) may be outweighed by a variety of other factors, such as industry know-how of a non-network firm or familiarity with cultural aspects that the network firm lacks. For this reason, the SMPC considers it important that where networks span jurisdictions, all factors listed in paragraph 242(c) be taken into account together, and not individually. The factors listed have a collective impact on the selection of component auditor and the nature and extent to which the group auditor needs to be involved in the work of component auditors.</p>
76.	WPK	<p><u>Quality Control Considerations When Operating as Part of a Network (see note 106 ff.)</u></p> <p>In our opinion specific requirements for networks (see note 116) appear not only difficult to define but also impossible since a network has no legal identity. As a result sanctions for non-compliance with specific requirements would be not enforceable.</p> <p>However we support the proposal to clarify what should be considered and documented by the individual firm as a basis for the reliance on network policies and procedures at the firm level (see note 114). In this context it would be helpful to clarify how and to what extent a member firm can rely on a published transparency report by the network.</p>
Academics		
77.	AAA	--
78.	AH	--
79.	Glover-Prawitt	--
80.	TRay	--
Individuals and Others		
81.	CBarnard	--
82.	CK	--

83.	DAHughes	<p><u>Question 4(a)</u></p> <p>(i) It is not possible to generalize requirements across networks or to generalize when it may be appropriate to rely on quality control procedures outside the firm. A “network” is not satisfied by a single explanation of what the term means.</p> <p>There may also be networks within networks e.g. a Victorian state network, an Australian network, an Asia-Pacific network, all operating at different levels within a global network. Different ownership and management structures may operate at each level of “network”.</p> <p>Ultimately, the engagement partner has responsibility for audit quality and needs to recognize when reliance can be placed on procedures conducted at any particular network level.</p> <p>(ii) The term “networks” is a complex idea at best; refer above – multiple levels of “network” may co-exist within “a network”.</p> <p>It is not feasible to develop requirements and guidance when the scope of the term has several different interpretations, and the subject is not clearly identifiable,</p> <p>(iii) In my experience, dependence on any quality control procedures operated outside the immediate ownership of the firm, is limited. This is because independent firms, within a network of independent firms must ultimately manage their own practice risk.</p> <p>Hence the extent of dependence on quality control processes conducted outside the firm, becomes a function of the firm’s risk appetite. Independent firms have no ability to control what happens in another firm in the same network.</p> <p>(iv) The nature and extent of co-operation and collaboration between network firms with independent ownership would benefit from discussion of the strengths and weaknesses in the different models operated on a voluntary basis between firms.</p> <p><u>Question 4(b)</u></p> <p>(i) It is already difficult to extend any reliance on requirements operated in a network of independent firms beyond the engagement partner’s firm. If more onerous requirements are introduced I consider that firms will find being part of a network too onerous.</p> <p>(ii) The definition of network needs more careful consideration; similarly a better understanding is needed of the complex relationships in networks without common ownership, before any further generic guidance or requirements are developed.</p>
84.	JGrant	As discussed under questions PS3 and PS4 above more needs to be done in ISQC1 to emphasise the importance of partners and more senior staff providing less experienced staff with coaching / on the job training.
85.	JK	--
86.	KKTuraga	--
87.	SDeViney	--

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

- (a) Paragraphs 125–135 set out matters relating to governance of firms, including leadership responsibilities for quality.
- (i) Which of the possible actions outlined in paragraphs 131–135 would be most meaningful in addressing issues related to firm governance and leadership responsibility for quality?
 - (ii) Why do you believe these actions are necessary?
 - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
 - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further
- (b) Specifically:
- (i) Do you believe it is necessary for us to explore how the governance of a firm could be addressed in ISQC 1?
 - (ii) Should ISQC 1 specifically address accountability of firm leadership, or appropriate personnel within firm leadership, for matters related to quality, including independence-related matters? If so, how should this be done, and what direction should ISQC 1 provide to firms in appointing appropriate individuals to assume these responsibilities?
 - (iii) Would the use by firms of a QMA provide better support or context for the importance of quality-related responsibilities for firm leadership, and related accountability, and therefore better facilitate the ability of firms to address these matters?

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	CalSTRS supports revising quality control standards to clearly set out: <ul style="list-style-type: none"> • Robust roles and responsibilities for firm leadership and engagement partners; • The basis for any reliance on a firm's system of quality control at the engagement level; and • The basis, where applicable, for reliance by a firm on network-level policies and procedures
3.	CFA	We also, firmly agree with the notion that audit quality is driven by “tone at the top” and this behavioral aspect should be strengthened in the standard. Also, we think that the IAASB should go a step further and include the importance of “tone at the middle” which has been suggested in public conversation as a means to embed ground level action in conducting the audit. In other words, it is audit firm staffing below the senior firm leadership who has most significant impact on audit quality at the engagement level. This would have the effect of driving the “tone” into the ranks of audit firm personnel.

4.	IA	<p>The ITC identifies the critical factors that can impact audit quality that have not necessarily been addressed to date, for example, offshoring, remuneration, governance, business model and transparency. This is very welcome, however, certain of the factors, for example, the remuneration structures and/or governance model of firms are at the end of the section and dealt with relatively briefly. As noted elsewhere in this response, we consider that there needs to be more emphasis on these factors.</p> <p>In particular, we consider it important that requirements around audit firm governance are strengthened. This has a vital role in promoting a culture that emphasises the public interest role of the audit and the importance of audit quality. The UK has had an Audit Firm Governance Code since 2010 which provides a formal benchmark of good governance practice against which firms that audit listed companies can report for the benefit of investors. Our members invest internationally and want to know how consistency in audit quality is ensured and auditing standards applied globally. Given the importance of the global networks, we would like to see an Audit Firm Governance Code promulgated internationally and applied at the network level.</p>
5.	ICGN	--
6.	NZSA	Good governance is essential to robust business outcomes, but again the user of a set of accounts would be interested in a metric measuring governance. This could take the form of a grading based on an assessment of compliance with generally accepted best practise, or where compliance is not forthcoming, the adequacy of explanation as to why this is the case.
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	A firm's internal governance structure should be characterised by a tone at the top that attaches the highest priority to full adherence to ethical standards and, amongst other features, promotes compliance with proactive and robust audit procedures that enable auditors to demonstrate their due professional care in performing high-quality audits. As a corollary, auditing and ethical standards should require that accounting firms demonstrate that all audit engagements have been performed in accordance with strict adherence to both the letter and the spirit of the requirements. Audit procedures for areas that require the exercise of a high degree of judgment, such as auditing accounting estimates (eg accounting provisions measured on the basis of expected credit losses), warrant suitable quality control arrangements over auditors' professional judgments so that similar situations do not result in decisions with high variances.
10.	CPAB	We note that specific reference is made to governance of the firm, including leadership responsibilities for quality (paragraphs 125-135). However there is no clear statement that the concept of professional skepticism will be reinforced in this element of the quality control standards. We recommend that the IAASB include this in their review of the responsibilities of firm leadership given it is a key component of audit quality. In particular, the importance of applying professional skepticism and being seen to apply professional skepticism needs to be emphasized.
11.	EAIG	--

12.	EBA	--
13.	ESMA	--
14.	H3C	--
15.	IAIS	<p>The audit firm's culture has an important influence on the values, ethics and attitudes of audit partners and other members of the engagement team given the environment in which the engagement team works can materially affect the mind-set of staff and the way they discharge their responsibilities.</p> <p>The engagement partner, being responsible for individual audit engagements, plays an essential role in ensuring audit quality and maintaining the confidence of financial statement users.</p> <p>Consequently, it is in the public interest that the roles and responsibilities of both the firm and the engagement partner in promoting audit quality are robust and clearly articulated within IAASB standards.</p> <p>The IAIS agrees with the list of specific audit quality related issues identified by the IAASB. In our view, effectively addressing those issues is crucial for enhancing audit quality. In terms of actions proposed to address those issues, we have the following comments:</p> <p>....[several responses allocated to relevant sections]</p> <p>Governance of an audit firm includes the responsibility to establish policies and procedures designed to support the performance of quality audits, monitoring compliance with the established policies and procedures, and instilling a culture of accountability for audit quality throughout the audit firm.</p> <p>The areas the IAIS believes may need to be further addressed within the ISAs include:</p> <p><i>Governance structure</i></p> <p>Leadership responsibilities could be emphasized in ISQC 1 by highlighting the importance of audit firm leadership in setting an appropriate culture within the audit firm ("tone of the top") and being responsible for extending that culture throughout the audit firm.</p>
16.	IFIAR	<p><i>Tone at the top of the firm, including leadership responsibilities for quality</i></p> <p>14. Senior management within the firm taking responsibility for audit quality is critical for setting an appropriate tone at the top and culture within the firm. In order to achieve this, the IAASB should consider defining clear responsibilities regarding firms' leadership being 'in control' of audit quality, including promoting a culture which supports appropriate professional scepticism, and related firm governance matters.</p>
17.	IOSCO	<p>We agree with the possible actions listed in paragraphs 131 to 135 of the Paper to address the issues related to governance of the firm. Specifically, paragraph 132 of the Paper states that "leadership responsibilities could be clarified in ISQC 1 through additional requirements or application material, or clarifications of existing requirements and application material, to more explicitly incorporate commonly used and familiar terminology (e.g., "tone at the top" and "leading by example)".</p> <p>We believe that not only should ISQC 1 emphasize the importance of "tone at the top" of the firm and for setting an appropriate culture for the firm, but also highlight the responsibility of leadership to establish an appropriate "tone in the middle". Mid-level management of audit engagements are in a unique position as compared to the engagement partner in that they often spend more time with the most</p>

		<p>junior members of the engagement team. Mid-level management must understand their role in achieving audit quality and the importance of their significant and direct influence on junior members of the engagement team's role in achieving audit quality.</p> <p>This emphasis on the "tone in the middle" and junior engagement team members' role in audit quality is important. Nonetheless, it should not decrease the level of the engagement partner's overall responsibility for the audit. As we previously noted in the Professional Skepticism section of this letter, this emphasis of the role of engagement team members beyond the engagement partner could also lead to increased levels of professional skepticism applied by engagement team members.</p>
18.	IRBA	<p>Firm leadership has a vital role to play in promoting a culture that emphasises the importance of the role of audit in the public interest and therefore the importance of audit quality. Good firm governance arrangements enhances accountability to stakeholders.</p> <p>The extant ISQC 1 requires the firm to establish policies and procedures that require the firm's chief executive officer (or equivalent) or the firm's managing board of partners (or equivalent) to assume ultimate responsibility for the firm's system of quality control²⁹. Furthermore, the extant ISQC 1 requires that the firm shall establish policies and procedures such that the person(s) assigned operational responsibility for the firm's system of quality control has sufficient and appropriate experience and ability, and the necessary authority to assume that responsibility³⁰.</p> <p>We have found that in some instances, the operational responsibility for the firm's system of quality control is assigned to persons who do not have sufficient or appropriate experience or the necessary authority.</p> <p>As a result, we are supportive of the IAASB evaluating whether and, if so, how firm governance can be addressed in ISQC 1, for example by:</p> <ul style="list-style-type: none"> • Requiring a firm to develop and implement its specific governance code. • Requiring accountability of firm leadership, at the appropriate level, for audit quality. • Requiring the firm to identify appropriate personnel, at the appropriate level, within firm leadership to be responsible for and accountable for independence matters. • Audit quality being clearly written into the firm's strategic objectives. • Introducing 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. We also believe that the introduction of AQIs will enable audit firms, audit regulators and audit standard-setters to better track and assess improvements in audit quality over time. <p>This being said, each person within the firm should be responsible for audit quality and be held accountable for independence, not just the leadership of the firm.</p> <p>We believe that there would be a strong connection between firm governance and the QMA, should the QMA be adopted by the IAASB.</p>
19.	MAOB	<p>The inclusion of firm governance as a component of ISQC 1 would give more prominence to and provide more guiding principles on the accountability and responsibility of the firm leadership.</p>

²⁹ ISQC 1, paragraph 18

³⁰ ISQC 1, paragraph 19

		<p>In this regard, the AOB wishes to highlight that the effectiveness of firm governance on audit quality is still an issue. This can be observed in the case of larger firms where the governance structure is in place, but consistency and execution of the audit engagement continue to be a concern.</p> <p>To a certain extent, the effectiveness of firm governance could be measured based on the consistency of performance of the firms' individual partners as a result of internal or external inspection activities. This should relate back to the global and country leaderships' explanation and accountability on the performance of their network partners.</p>
20.	UKFRC	<p>Audit firm's leadership collectively has responsibility and accountability for modelling and articulating the audit firm's culture and values, demanding the highest standards of ethical behaviour throughout the firm, encouraging transparency, and a willingness to challenge and make difficult decisions to maintain the firm's culture and values. Audit firm governance is therefore a critical component of quality. Yet the importance of embedding a robust governance framework is largely absent in the quality control standards and we therefore strongly support the IAASB's proposal to enhance the international standards in this area.</p> <p>In exploring the topic of audit firm governance, we would encourage the IAASB to take account of the FRC's work on audit firm governance and the experience of UK firms' adoption of the code, discussed below.</p> <p><i>UK Audit Firm Governance Code</i></p> <p>Audit firms in the UK are already familiar with the topic of audit firm governance. In January 2010, the FRC, jointly with the ICAEW, introduced the Audit Firm Governance Code³¹ (AFGC). The AFGC applied to firms auditing 20 or more listed companies. Essentially it resulted in audit firms introducing governance structures that are applied elsewhere in the corporate environment, including the introduction of independent non-executives, and a publication ('transparency reports') of a statement of the firms' values, culture and compliance to create an opportunity for dialogue with stakeholders.</p> <p>The intended benefits of the AFGC was to support audit firms in their objectives of performing high quality work, giving confidence to shareholders, and play four additional roles:</p> <ul style="list-style-type: none"> • enhance the stature of firms as highly visible exemplars of best practice governance; • enrich firms' transparency reports; • encourage changes in governance which improve the way that firms are run; and • strengthen the regulatory regime by achieving transparent and effective governance without disproportionate regulation. <p>The AFGC includes comply or explain governance provisions, similar to the list of governance principles set out in paragraph 127 of the ITC. Under a "comply and explain" regime, there is no requirement to comply with the provisions of the code (provided firms can explain why not), recognising that not 'one-size-fits-all' and that principles should be adapted appropriate to the size and nature of the audit firm. In addition to complying with professional regulations and requirements, firms are also expected to publish an annual "transparency report" explaining how the firm has complied with the main independence requirements of the AFGC and integrated other provisions called for by the code. We have commented on this aspect of the AFGC in our response to QC10 below.</p> <p>The FRC recently consulted on the implementation and operation of the AFGC and published the <u>findings</u>³² which summarised the comments received and outlined potential actions that the FRC could take to enhance the code further. Overall, the vast majority of</p>

³¹ <https://www.frc.org.uk/Our-Work/Publications/APB/Audit-Firm-Governance-Code.pdf>

³² FRC Review of the UK Audit Firm Governance Code Feedback statement and proposed revisions (December 2015)

		<p>respondents, including investors, saw the introduction of the AFGC as a positive development which has enhanced audit firm governance. In addition, the FRC consultation specifically asked if the concept of the AFGC should be spread elsewhere in the world, and whilst recognising there would be some challenges, respondents, including investors, were broadly in favour of the promulgation of the AFGC internationally.</p> <p><i>Addressing audit firm governance in ISQC 1</i></p> <p>We fully agree that a firm's governance, culture and strategy are at the core of a QMA and foundational to its effectiveness. To avoid making ISQC 1 too complex and unwieldy, we believe that detailed considerations relating to audit firm governance could be addressed in a separate standard with only high level requirements established in ISQC 1. Audit firm governance could be addressed through overarching principles along with specific requirements in relation to certain issues raised in the ITC, such as accountability and independence (paragraph 122 and 134 respectively), culture and values. As noted earlier, these principles would need to be internationally applicable and sufficiently high level to allow firms of all sizes to pursue their unique business activities. They would also need to be both aspirational and credible and guide the development, where necessary, of more detailed principles, rules and guidance. It will also be necessary to consider whether any requirements relating to particular aspects of audit firm governance should be applied to all or some firms and, if only some, where the balance of the public interest would lie. The comply or explain approach described above may assist in developing more detailed requirements, as appropriate, from principles.</p>
National Auditing Standard Setters		
21.	AUASB	<p><u>QC5(a):</u></p> <ul style="list-style-type: none"> (i) The AUASB view is that ISQC 1 could address the principles of accountability by firm leadership, or appropriate personnel within firm leadership, for matters related to quality. (ii) The AUASB considers the above action would be beneficial because accountability will clarify that those responsible for quality control have a role to play in addressing quality control issues and in continually improving audit quality. (iii) Nothing further noted. (iv) Nothing further noted. <p><u>QC5(b):</u></p> <p>Nothing further noted.</p>
22.	CAASB	<p><u>QC5(a):</u></p> <p>In the AASB's view it would be meaningful to incorporate commonly used and familiar terminology (para. 132). Such changes could serve to improve consistency across the profession.</p> <p>However the AASB did not support the remaining proposed actions. From the AASB's point of view, it is not clear whether ISQC 1 is deficient in this area. In addition, the proposals appear to be very prescriptive in nature. It is not clear how such level of prescription would be achieved if a QMA to the standard is taken. Finally, the AASB expressed concern about the IAASB going beyond its mandate in this area.</p> <p><u>QC5(b):</u></p> <ul style="list-style-type: none"> (i) No, as noted above

		<p>(ii) The AASB felt that ISQC 1 should not address accountability of firm leadership, or appropriate personnel within firm leadership, for matters related to quality, including independence-related matters. In many firms, this is already done in practice. In others, particularly in smaller firms, it would be difficult for firms to achieve. The AASB feels that the IAASB's proposals should be scalable, and does not believe that this suggestion is scalable.</p> <p>(iii) As noted in QC1, views of Canadian stakeholders on the QMA are split. Without greater detail about a system of quality control prepared using a QMA, it is difficult to comment on whether the use of a QMA would provide better support or context for quality-related responsibilities for firm leadership and related accountability</p>
23.	CNCC-CSOEC	<p>Firm leadership has a vital role in promoting a culture that emphasizes the importance of the role of the audit in the public interest and therefore the importance of audit quality. Firm leaders are responsible for establishing policies and procedures to achieve quality-related objectives, monitoring compliance with such policies and procedures and instilling a culture of accountability for quality throughout the firm in the context of all the services it provides. Governance of a firm includes leadership responsibility for quality, oversight by firm leadership over the implementation of responses to risks of the firm not meeting its quality objectives and the oversight of firm leadership itself.</p> <p>ISQC 1 addresses leadership responsibilities for quality within the firm, requiring that the firm establish policies and procedures designed to promote an appropriate internal culture, recognizing that audit quality is essential in performing engagements and requiring that the firm's chief executive officer (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent) assume ultimate responsibility for the firm's system of quality control.</p> <p>However, we consider that ISQC1 should not address the subject of firm's governance. As a matter of fact, firm's governance and structures are highly influenced and linked to local laws and regulations of the jurisdiction in which the firms are established. We are of the view that ISQC1 should therefore not go into the details of the firms' organisation. We therefore recommend that the IAASB does not provide any additional requirements on this subject.</p>
24.	HKICPA	--
25.	IDW	<p>Much of the discussion about governance of audit firms centers on larger firms, and concerns expressed by oversight bodies responsible for their regulation. For smaller firms other considerations may apply, or there may be other ways in which objectives can be fulfilled. We urge the IAASB to remain sensitive to this in setting standards for international application by firms of varying size. In our view, the potential for firms to scale their QMA to their individual circumstances and environment is a key benefit compared to the current approach to quality control under ISQC 1.</p> <p>Although we understand the concerns surrounding the lack of a requirement in ISQC 1 or ISA for assignment of formal responsibility for certain areas to a particular individual, we believe that this is an issue requires further clarification. Ultimately, the officers or managing partners of a firm are legally and administratively responsible for quality control systems within a firm: they can delegate functions and tasks in relation to these matters, but not their responsibility. In any case, officers and managing partners, or anyone to whom they have delegated specific functions or tasks, cannot be made strictly liable for breaches of firm policies and procedures, but only be made responsible for not having taken appropriate steps to develop and maintain an appropriate system. This is in line with the "business judgment rule" that applies to management of all organizations.</p> <p>In this context, the idea put forward in paragraph 134 regarding a possible requirement for the identification of an individual responsible for independence is interesting, but may require more consideration of the practicalities involved. For example, the assignment of</p>

		<p>responsibility cannot mean that when another person violates the firm's independence the assigned individual can be held responsible for that violation, unless systematic violations reveal that the system designed to ensure adherence to independence requirements had been inappropriately designed or is not operating effectively. In our view, it is more appropriate to require firms to have adequate systems in place, and for these to be operating effectively. Therefore, we believe that the IAASB should clarify to firms how governance is an important factor relating to quality rather than for the IAASB to require individuals be named on paper. ISQC 1 could, however, provide guidance on the sorts of responsibilities involved and their delineation as explained above.</p> <p>We agree that reference to the importance of firms generally recognizing the need for the profession to act in the public interest could be included in a standard's introduction or application material. We do not, however, believe that it would be appropriate for standard setters, including the IESBA and the IAASB, to seek to formulate a requirement for auditors or firms to act in the public interest. Indeed, for the reasons discussed in the ITC, we agree that an objective or a requirement for individual professional accountants is neither desirable nor practicable. There is no commonly established definition of public interest, and it remains highly subjective. Neither firms nor individual auditors can determine what the public interest is in any given situation. It is the role of standards to provide requirements and guidance to assist the various members of the profession to meet their public interest mandates, and there ought to be no override (via an objective or a requirement) in either the IAASB's or IESBA's standards or code to the effect that firms or individuals shall act in the public interest.</p> <p>We agree that the IAASB could explore how the governance of a firm could be addressed in ISQC 1. However, the IAASB will need to take into account the fact that different legal environments in different jurisdictions mean that governance structures may differ considerably. This means that the IAASB would only be able to develop any guidance in this area in very general terms.</p> <p>As noted above, we support the IAASB introducing a QMA. Since this would largely be based on COSO ERM it would include issues such as objectives and determination of strategy to address identified risks to quality. Consequently, a QMA will integrate quality related responses into the firm's system of QM.</p>
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26.	JICPA	<p><u>QC5(a):</u> Following are our comments on the actions outlined in paragraphs 131 to 135:</p> <ul style="list-style-type: none"> ◆ <i>Exploring how firm governance could be addressed in ISQC 1 (paragraphs 131 to 132)</i> There are different interpretations about what “firm governance” means. We agree that ISQC 1 should address “firm governance” in terms of fostering a firm culture that emphasizes quality. The actions outlined in paragraph 132 pertain to this standpoint and therefore seem beneficial. On the other hand, we do not support this action if the IAASB explores the issue of addressing “firm governance” in ISQC 1 in terms of a firm’s governance and management structure. These elements are influenced by laws and regulations in jurisdictions and fall outside the scope of ISQC 1. ◆ <i>Considering whether ISQC 1 could address the accountability of firm leadership (paragraph 133)</i> The leadership responsibility for quality includes, by necessity, explanations as to how this responsibility itself is fulfilled. It would therefore be meaningful to address the accountability of firm leadership on quality in ISQC 1. Flexibility should be, however, ensured for the firms to allow them to use various ways to fulfill their accountability responsibilities in light of their circumstances. ◆ <i>Incorporating the concept of “Public Interest” into ISQC 1 (paragraph 135)</i> “Public Interest” is interpreted differently by different stakeholders. Therefore, we think it would be meaningful that the IAASB sustain an ongoing commitment to the development of a common consensus among stakeholders on the concept of “public interest” relating to audits in order to prevent unlimited and unreasonable expansion of the expectations on audit. While we understand that the establishment of the consensus is uneasy, if the consensus is established, it can be described in the introduction of ISQC 1. If describing it in the introduction of ISQC 1 is for any reason difficult, the IAASB can explore other actions to raise awareness, such as describing it in the AQ Framework. <p><u>QC5(b):</u> Please see our comment on governance and accountability on QC 5(a) above.</p>
27.	MAASB	<p><u>QC5(a):</u> [i/ii] The most meaningful actions to address and the reasons for these actions are as follows:</p> <ul style="list-style-type: none"> • Leadership responsibilities could be clarified in ISQC 1 on how firm governance could be best addressed in ISQC 1. This action is meaningful because the leadership of a firm sets appropriate culture for the firm to cater for the increasing diversity in how firms organize themselves, the manner in which they are governed, and how engagement teams are structured; • Accountability of firm leadership. Responsibilities for the quality of the firm rest with the firm leadership for matters related to quality. With respect to paragraph 134, this action is meaningful and critical as the strengthened ISQC 1 specifically requires a firm to identify appropriate personnel within firm leadership to be responsible and accountable for independence matters and independence is a prerequisite for audit quality; and • The concept of public interest explicitly incorporated in ISQC 1. Ultimately, the quest for audit quality is strongly underpinned by public interest, that is, the protection of public interest is the responsibility of the audit firms along with other related parties. The key issue here is not how to define public interest because there are multiplicity of views as to its meaning. Another key area of concern is that the interest of a client’s shareholders is not the only interest that needs

		<p>to be addressed, but also other parties who are affected by the audit firm's audit quality such as employees and trading partners of the client's entity. Therefore, the design of the system of quality control of the firm should take the public interest into consideration and such responsibility is inextricably linked to the leadership of the firm.</p> <p>In considering the public interest, the leadership of the firm should be mindful of the societal value of audit. As such, enhanced transparency in executive accountability and public interest protection is desirable.</p> <p>[iii] We believe that establishing a requirement in ISQC 1 for leadership of a firm to act in the public interest would be challenging. It would be helpful if requirements further define what application of that concept means in the specific context.</p> <p>Other actions to be considered:</p> <ul style="list-style-type: none"> • Compulsory training on ethics – this needs added emphasis and taken more seriously by firms. • Compulsory training on leadership development – leadership training should be undertaken by those who have been identified as future leaders. • Establishing ongoing communications with client's senior management and TCWG on audit quality issues. • Establishing ongoing development on resources devoted to audit to ensure the continuing availability of talent and human resources. • Succession planning of the audit firm to ensure the continuance of audit quality is not disrupted due to the sudden change of leadership or unfamiliarity threat of the new leader. • Ongoing review of leadership structure to ensure it is not outdated in view of the change in the economic or regulatory environment. <p>[iv] Since the leadership structure of small and medium practices ("SMPs") are relatively limited in size, there could be implementation issues related to adequately addressing audit quality and independence due to the lack of check and balance within the structure of SMPs.</p> <p>Another concern is the availability of resources set aside for staff and senior executive training. This will affect quality on an ongoing basis even with the use of a QMA.</p> <p><u>QC5(b):</u></p> <p>(i) We recommend that ISQC 1 set principles of what governance should achieve but not how they should be achieved because we believe this is influenced by jurisdictional legal regimes.</p> <p>(ii) We believe that ISQC 1 should address accountability of leadership of a firm for quality as this reinforces their responsibility for audit quality. We believe that it should be left to the firm to identify and appoint appropriate individuals and assign those responsibilities.</p> <p>(iii) It is likely that a QMA would better facilitate the ability to address quality matters and responsibilities. A QMA acknowledges that there is a system that supports audit quality and that responsibility is collectively assigned and shared.</p>
28.	NBA	<p><u>QC5(a):</u></p> <p>(i) The quality control standards should be broadened to address the relationship between firm's culture and the 'tone at the top' to an effective quality control system.</p>

		<p>(ii) The structure and governance of an organization also influence the potentially dominant culture within that organization. A firm's culture reflects the cumulative actions and behaviors of its personnel, including those that affect audit quality. Those cumulative actions and behaviors are influenced by firm leadership's communications, directives, actions, and behaviors, also referred to as the 'tone at the top'.</p> <p>(iii) No comment.</p> <p>(iv) It is important to emphasize that the firm should act in the public interest. How the firm should act in the public interest can be described in more detail.</p> <p><u>QC5(b):</u></p> <p>(i) Yes. The NBA has proposed to incorporate this explicitly in a new regulation.</p> <p>(ii) Yes. In the Netherlands, in our proposed new regulation we are making a split between a quality policy maker and a quality manager. The quality policy maker can delegate operational tasks to the quality manager, but remains responsible for the quality control system.</p> <p>(iii) Yes. The QMA should allow flexibility to adapt the approach to the specific circumstances of the firm and take size and operational characteristics of the firm into account.</p>
29.	NZAuASB	<p><u>QC5(a):</u></p> <p>(i) The NZAuASB does not consider that any of the proposed actions are necessary. It is unlikely that the proposed actions will lead to an improvement in audit quality whilst adding another layer of complexity to comply with. It is not a standard setting role to prescribe audit firm governance and how firms are structured. The standards should remain principle based and avoid a prescriptive approach.</p> <p>(ii) The NZAuASB does not consider that any of the proposed actions are necessary. Refer the response above in QC5 (a) (i)</p> <p>(iii) The NZAuASB has not identified any other relevant issues to consider.</p> <p>(iv) Nothing further noted.</p> <p><u>QC5(b):</u></p> <p>(i) The NZAuASB does not consider it necessary to explore how the governance of a firm could be addressed in ISQC1, and cautions the IAASB to consider whether it has the mandate to do so. Good governance is a significant principle but trying to define requirements for good governance is likely to be outside the scope of the IAASB.</p> <p>(ii) The NZAuASB does not consider it necessary to further address accountability of firm leadership in ISQC1.</p> <p>(iii) Refer response in QC5 (a) (i). The NZAuASB does not consider it necessary to amend ISQC1 to require firms to use a QMA.</p>
Accounting Firms		
30.	BDO	<p><u>QC5(a):</u></p> <p>(i) We support a number of the proposals outlined in paragraphs 131-135, particularly with reference to a QMA. However, we would envision that such proposals would need to be sufficiently flexible to address the specific circumstances in each firm.</p>

		<p>Within BDO we have already put in a place an Audit Quality Framework within which the objectives of the various drivers of audit quality can be achieved through specific actions by each member firm in our network. We can envisage that adapting this within a QMA may help to drive further quality control within firms.</p> <p>(ii) See response to QC5 (a) (i).</p> <p>(iii) The IAASB will need to exercise care not to prescribe specific means by which leadership should operate. Many firms have cultures and communication structures that are interdependent and have developed processes and policies over a number of years in response to past experience. A one-size fits all to 'tone at the top' may not work in these environments. The IAASB should also not assume that leadership rests on the shoulders of one individual, although providing (in concert with the IAESB) more guidance or a link to the IES 8 requirements around the engagement partner providing leadership and acting in the public interest may have a more direct impact on engagement level quality.</p> <p>(iv) None noted, except as indicated above.</p> <p><u>QC5(b):</u></p> <p>(i) We believe that firm leadership provides a vital role in promoting a culture that emphasizes the importance of operating in the public interest. Providing greater clarity about expectations of a firm in terms of good governance would be helpful to firm leaders. The IAASB should cover the range of different types of firms and not just focus on the larger network firms.</p> <p>(ii) While we support the general drive towards greater accountability, this is a matter which should be best determined within a firm or network. An alternative approach could be to establish a broad requirement in respect of accountability within ISQC 1 and then to provide more implementation support or guidance on how that may be achieved in different contexts. We believe that providing more clarity on the need to have in place effective accountability through use of a guidance mechanism would likely prove more effective than a prescriptive set of Standards that would have to be applied irrespective of the size, resources or commercial and structural nature of a firm.</p> <p>(iii) As we noted in response to earlier questions, we believe there is merit in the IAASB considering a QMA as part of ISQC 1. In our view, this could be a helpful tool in order to assist firms in establishing policies and procedures to support leadership and accountability measures. Rather than prescribe a specific model, however, we advocate the IAASB issuing an information paper (along the lines of A Framework on Audit Quality document). Issuing an outline of a potential QMA and exploring how it could be used across a whole range of factors to help support good governance (and ultimately protect the public interest), might have dual benefit of:</p> <ul style="list-style-type: none"> (a) supporting firms as they look to improve their own processes, and (b) encouraging firms who already have existing frameworks to benchmark these (and their related outcomes) against a recognized QMA.
31.	CHI	<p><u>QC5(a):</u></p> <p>(i) The actions that are most meaningful are:</p> <ul style="list-style-type: none"> • Clarification of leadership responsibilities;

		<ul style="list-style-type: none"> • Clarification of the meaning of the existing terminology; • Increasing the emphasis about the firm leadership setting and maintaining an appropriate culture; • Firm leadership being accountable for quality. <p>(ii) These actions are collectively necessary to address the current absence of firm governance in ISQC 1. A revised ISQC 1 has to take a strong approach to governance and leadership. It has to reflect developments in governance practice, and in some jurisdictions, in transparency reporting.</p> <p>(iii) We consider that the issues and actions are, at this time, sufficient.</p> <p>(iv) We have nothing to add.</p> <p><u>QC5(b):</u></p> <p>(i) Yes.</p> <p>(ii) Yes. This could be done through the preparation of an annual, internal report on quality control. This report should include a statement of responsibility by the firm's leadership and include reference to reports and presentations on quality that have been given to the firm's leadership during the year.</p> <p>ISQC 1 could specify that a member of the firm's leadership should have specific responsibility for quality, including independence. Guidance could be given on how this individual might delegate the exercise of this responsibility to other personnel in the firm.</p> <p>(iii) QMA is an appropriate solution as it provides the right context for integrating leadership and accountability with quality. This would be more effective than trying to add leadership and governance to the existing ISQC 1. QMA gives the opportunity to modernise ISQC 1 and emphasise the importance of leadership, governance and accountability.</p>
32.	DTT	<p>The ITC suggests that quality should be better defined and accountability within a firm be more clearly delineated and prescribed. DTTL's experience has led to the conclusion that facts and circumstances are always different and that broad principles work best in assigning and coming to conclusions on accountability. Dictating specific structures in a standard which would be relevant to all auditors is likely to be unworkable. As a result, DTTL believes ISQC1 should be updated for changes in terminology such as "tone at the top", but that specific matters relating to governance of the firm, including leadership responsibilities for quality, should remain principles based with detailed approaches to be addressed by the firms.</p>
33.	EYG	<p><u>QC5(a):</u></p> <p>We agree that tying responsibility for quality into firm leadership and governance is fundamental to improving quality. Firm leadership should be responsible for driving a quality-oriented culture that involves leaders setting the appropriate tone to convey that performing high-quality audits is the top priority and cascading supporting messages throughout the firm. We believe frequent and consistent messaging from senior leadership, and actions to back it up, significantly influences firm culture.</p> <p>With regard to our views on the possible actions in paragraphs 131-135 of the ITC, we believe that the actions in paragraphs 132 and 133 regarding clarification of leadership responsibilities for audit quality and expansion of such responsibilities to include accountability for quality are the most meaningful actions. (Please refer to (b)(i) below for our views on paragraph 131 and (b)(ii) below for our views on paragraphs 132-134).</p> <p>With regard to the suggestion in paragraph 135 of the ITC that the concept of the public interest could be explicitly incorporated into ISQC 1, we are not convinced that this would be appropriate. As the "public interest" does not have an internationally agreed and recognized</p>

		<p>definition, we agree it will likely be difficult to include this concept directly in the ISAs and require leadership to act in accordance with it. Rather, we believe that expanding ISQC 1 to address leadership responsibilities and accountability for audit quality, as well as implementing a QMA for which leadership has oversight responsibilities, will achieve the objective of leadership responsibility for facilitating and sustaining audit quality. By obtaining this objective, we believe the public interest will be served.</p> <p><u>QC5(b):</u></p> <p>(i) We agree with the statement in paragraph 125 of the ITC that governance of a firm includes leadership responsibility for quality, oversight by firm leadership over the implementation of response to risks of the firm not meeting its quality objectives, and the oversight of firm leadership itself. With regard to whether these concepts should be addressed in ISQC 1:</p> <ul style="list-style-type: none"> ▶ We support further elaboration within ISQC 1 on the leadership responsibilities related to quality (see our response to (b)(ii) below). ▶ As part of a QMA, the quality risk assessment process should identify risks to the firm not meeting its quality objectives, which would need responses in the form of firm policies and procedures. We agree that leadership should have oversight responsibilities for the system of quality control, including the risk assessment process and related responses (see our response to (b)(iii) below). <p>Regarding oversight of firm leadership itself, we do not believe this either falls within the scope for ISQC 1 to address or within the IAASB's purview to address in another fashion. We believe senior leadership of the firm is responsible for audit quality, and oversight of the systems that control quality as outlined above, which includes oversight responsibility for the firm's compliance with ISQC 1; these are the appropriate boundaries for addressing governance in the context of ISQC 1. Higher-level firm governance that involves the oversight of senior leadership goes beyond oversight of their quality control responsibilities for assurance services conducted in accordance with IAASB standards and therefore is not within the remit of the IAASB.</p> <p>(ii) We strongly support senior leadership responsibilities for audit quality and for the firm's system of quality control, as set out in ISQC 1 paragraphs 18 and 19. We agree with exploring the expansion of these requirements to address: leadership accountability: responsibility for monitoring of quality within the firm; and responsibility for firm culture, including one that encourages collaboration and consultation. Any expansion, however, would need to address these in a principles-based manner to accommodate differences in firm and network structures.</p> <p>We agree that it is often useful and necessary, particularly in larger firms, to have individuals with leadership responsibilities for particular elements of the system for quality control, including for independence. However, the needs for such leadership will vary based on the size, structure and governance of the firm. We do not believe it is appropriate to single out independence as the only element that may require element-level leadership.</p> <p>(iii) Yes, we believe the use of a QMA by firms would be useful in assisting leadership in fulfilling their responsibilities for audit quality. Specifically, we believe that setting the tone at the top and accountability can be viewed as the "bookends" to a quality management process. The tone at the top, including setting the firm's priorities and objectives for audit quality, is the starting point for creating the firm's culture of quality; while accountability is the measurement of whether a pervasive culture of quality has been instilled and specific quality objectives have been met. Leadership is also responsible for the oversight of the system of quality control, which can be viewed as largely consisting of the activities that occur between the two "bookends".</p>
34.	GTI	<p>We agree that firm leadership has a vital role in promoting quality and that leadership of firms should be addressed by ISQC 1. Firm leadership should be held accountable for quality, however, we strongly believe that ISQC 1 is not an appropriate place to include</p>

		<p>requirements for the governance of firms and that this should be the remit of local laws and regulations. We do not believe that the requirements in ISQC 1 should be so specific as to determine how firms organize their internal leadership, for example, the International Standards should not dictate that a firm should identify a specific individual within leadership for any specific area of quality control, i.e. independence. This may be something that is not practical to implement for smaller firms</p> <p>We agree with emphasis being given to senior firm leadership setting the appropriate culture for the firm and driving an appropriate “tone at the top” with regards to audit quality, however, it is also important that a firm possess an appropriate tone throughout the organization. For members of an engagement team, most of their daily interactions will not be with members of senior level leadership, so it is important that personnel at all levels within a firm positively reinforce and promote the quality culture.</p> <p>The concept of public interest is important, however, it is not clear that merely adding emphasis to this in an International Standard would have any perceivable effect on quality.</p>
35.	KPMG	<p>This approach will place leadership responsibilities and accountability for quality at the core of a Firm's governance objectives, which, coupled with appropriate monitoring systems, will provide a powerful tool to properly support Engagement Partners in performing an increasingly challenging role. (QC 5)</p> <p>We do not believe that it is necessary to establish an explicit requirement in ISQC 1 for Firm leadership to act in the public interest. It is already a long-established principle in the Code of Ethics for Professional Accountants that the profession act in the public interest, and this principle underpins many of the requirements set out in auditing standards. As a result we do not consider it necessary to establish a specific requirement in the context of ISQC 1. The various proposals in the ITC aimed at clarifying leadership responsibility and accountability for quality and enhancing auditor performance clearly demonstrate how this principle is being applied to auditing. (QC 5)</p>
36.	PwC	<p><u>QC5(a):</u></p> <p>(i) We agree that leadership and tone-at-the-top are important to setting a culture of quality, and that having an effective structure and mechanisms for governance can play a role. We therefore support the need to address the matters described in paragraph 127 within ISQC 1 and, consistent with our principle, we believe assigning responsibility and accountability for audit quality to those best placed to influence it is important.</p> <p>Within our network, all firms already identify a partner with overall responsibility for independence and we would support such a requirement being included in ISQC 1. However, we do note that each individual also has a clear personal responsibility to assess their own independence and comply with firm policies. We elaborate further on our views in response to point (b) below.</p> <p>(ii) See response to point (i).</p> <p>(iii) While we fully support the importance of tone-at-the-top in reinforcing a culture of audit quality, we believe that establishing a requirement for firm leadership to “act in the public interest” is likely impractical because the term is poorly defined and therefore subject to differing interpretations. It will be more effective if requirements and application material are written in a manner that underpins what the Board believes reflects application of that concept in the specific context. Explicitly incorporating such a term into ISQC 1, particularly into any requirement, could cause confusion or unhelpful interpretation due to the lack of an agreed and accepted definition.</p> <p>(iv) No comments.</p>

		<p><u>QC5(b):</u></p> <p>(i) Not explicitly. It is entirely appropriate for ISQC 1 to establish clear expectations of firm leadership (including its governing bodies) in relation to audit quality, including the need for safeguards to mitigate against business drivers being able to override quality. However, the structure of a firm's governing model is necessarily influenced by jurisdictional legal regimes and its business model and operations, which are far beyond the remit of the IAASB. ISQC 1 should set principles of what governance should achieve, but not rules for how that should be achieved, which would likely be unduly rigid.</p> <p>It would be difficult to readily transfer a structure between jurisdictions. There are often different legal requirements or existing governance structures between territories that may not be compatible with other jurisdictions, for example, the co-determination model required under the Commercial Code in Germany (which requires members from the audit firm), or the establishment of a Public Interest Body for larger UK audit firms under corporate governance best practices.</p> <p>(ii) We believe in principle that ISQC 1 should address the topic of accountability of firm leadership (including leadership, partners and personnel) for matters related to quality, including independence matters, as this reinforces their responsibility for the outcomes. However, it should be left to the firm to decide what processes to follow regarding accountability. A prescriptive checklist would not be appropriate.</p> <p>Application material could be introduced to promote effective application in the individual firm circumstances. This is something we are currently taking into consideration as part of updates to our own current accountability framework, aimed to drive higher audit quality.</p> <p>As an example, we require that member firm leadership teams be accountable for the behaviours of their partners and staff, monitor compliance, and develop and implement a territory evaluation / accountability framework to effectively address circumstances in which partners or staff cause non-compliance with standards and policies. Each member firm's own policies govern the processes for accountability for audit quality and actual consequences / sanctions for audit quality failures after consideration of all facts and circumstances.</p> <p>To be practicable, however, we believe ISQC 1 will need to address what 'accountability' means in practice, including what evidence is needed to demonstrate accountability. We would assume that the existence and implementation of an effective accountability framework by a firm would be adequate evidence of this.</p> <p>Lastly, within our network, all firms already identify a partner with responsibility for independence and ethical compliance. While we would support standards requiring firms to address such responsibilities, we believe it should be left to the firm to identify and appoint appropriate individuals and assign those responsibilities. Responsibilities within a firm will depend on its size, structure and organisation.</p> <p>(iii) It is possible that a QMA would better facilitate the ability to address quality matters and responsibilities, as any greater emphasis on such responsibilities is likely to warrant closer attention to them by firms. In addition, a QMA acknowledges that there is a system that supports audit quality and that responsibility is collectively assigned and shared.</p>
37.	RBI	--

38.	RSM	<p><u>QC5(a):</u></p> <ul style="list-style-type: none"> (i) We agree with the issues and actions listed in paragraphs 131 to 135, in particular the focus on tone at the top. (ii) Without full support of the leadership quality control systems will not be as effective as they would be otherwise. (iii) In addition to tone at the top, we believe it necessary to stress the importance of quality control throughout the practice, including as it relates to other services that are closely related to the assurance practice. (iv) None. <p><u>QC5(b):</u></p> <ul style="list-style-type: none"> (i) We believe it necessary to explore governance of a firm. (ii) We believe it necessary to address accountability. (iii) It is not possible for us to provide meaningful feedback on the application of a QMA approach without examples of how this would be applied in practice.
39.	SRA	--
Public Sector Organizations		
40.	AGC	--
41.	AGSA	<p><u>QC5(a):</u></p> <ul style="list-style-type: none"> (i) All actions are considered meaningful. (ii) Emphasis should be placed on the responsibility of firm leadership to set the tone at the top for quality to be driven which will ultimately enhance governance. (iii) No further comments as the above actions will be effective. (iv) No further comments. <p><u>QC5(b):</u></p> <ul style="list-style-type: none"> (i) Yes – improved governance controls will enhance audit quality. (ii) Yes – ISQC 1 needs to emphasise leaderships responsibility for audit quality however it should not provide an incorrect message that audit quality is only limited to certain individuals within firm. All auditors should take responsibility and ownership for audit quality. However specific individuals can be identified to drive audit quality and these should be personnel that are experts in the field auditing and accounting and who have the necessary skills and competencies to deliver the required service. (iii) Yes –The proposed QMA is supported.
42.	GAO	We agree that ISQC 1 should include commonly used language in its requirements and application guidance, including familiar terminology such as tone at the top and leading by example.

43.	INTOSAI	--
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	<p>The UK has the Audit Firm Governance Code, which seeks to address the issues raised in paragraphs 131-135. We recommend that the IAASB reflect on the FRC's experience, including building in experience of its recent update to the Code.</p> <p>We would not support an explicit requirement in ISQC 1 for firm leadership to act in the public interest, as referenced in paragraph 135. In our view, the public interest is served by complying with global auditing and ethics standards. As such, there is no need for an additional requirement to act in the public interest. Indeed, given that views as to what constitutes the public interest are so broad, such a requirement might be misused to undermine the accountancy profession for commercial decisions that, while complying in full with global standards, fail to meet some notions of the public interest.</p>
47.	AIC	--
48.	AICPA	<p>We agree with firm leadership taking responsibility, setting the appropriate tone at the top, and leading by example, and we agree with putting these concepts and words in ISQC1. We are concerned about being overly prescriptive; it is important to remember in this context both the importance of firm leadership setting an appropriate culture and that the objective of a firm's system of quality control is to obtain reasonable, not absolute, assurance.</p> <p>We recommend adding application material stressing the importance of leadership at every level taking responsibility for quality: at the firm level, at the practice office or practice unit level, and at the engagement level.</p> <p>As noted above, without specific examples it is difficult to determine whether a QMA would better support quality, or would just be an additional layer of procedures that adds minimum value.</p>
49.	APESB	No specific comments on this section, but please refer to the response above for QC1 re QMAs, which addresses aspects of QC5.
50.	CAANZ	<p><u>QC5(a):</u></p> <p>(i) We believe that ISQC 1 appropriately sets mandatory requirements for leadership in relation to audit quality. We do not believe that ISAs are the appropriate vehicle to mandate how a firm should structure its business. We support the promotion of the public interest but question whether including the term will of itself achieve any change in approach.</p> <p>(ii) See above.</p> <p>(iii) There are concerns that the expanding number of standards, together with a regulatory focus on demonstrating compliance against specific mandatory requirements, is driving a compliance mindset. The focus on passing an audit inspection detracts from</p>

		<p>applying professional skepticism and judgement to form an opinion. We note that the IAASB does not frame audit quality as simply meeting the mandatory requirements of the auditing standards. We support the IAASB considering how standards achieve the objectives and if new standards are considered important, what existing mandatory requirements can be removed. An ever increasing list of mandatory requirements will not be effective.</p> <p>We believe audit firms that embed quality as a central objective of their business model will be significantly advantaged.</p> <p>(iv) Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.</p> <p><u>QC5(b):</u></p> <p>(i) See our comment in relation to QC5(a)(i).</p> <p>(ii) We do not support specifically requiring a firm to identify a single individual within firm leadership to be responsible and accountable for matters related to quality and independence matters. We are of the view that the ultimate responsibility for audit quality in any audit firm rests with the leadership of that firm as a whole. Also it may not be appropriate for a smaller firm or sole practitioner.</p> <p>(iii) The use of a QMA by firms might provide better support or context for the importance of responsibility and accountability for quality of firm leadership. We note that some firms already utilise this approach.</p>
51.	CAI	--
52.	CAQ	--
53.	CIIPA	--
54.	CIMA	--
55.	CPAA	<p><u>QC5(a):</u></p> <p>(i) We consider that the following actions would be meaningful in relation to leadership responsibilities for quality:</p> <ol style="list-style-type: none"> 1. Allocation of responsibility and accountability for matters related to quality and independence matters. 2. Emphasising leadership's role in setting a strong ethical culture within the firm and ensuring that it permeates throughout the entire firm and not solely audit divisions. <p>(ii) We consider that these actions are necessary to address inconsistencies in the approach firms' leadership take to quality and to address the concerns regarding allocation of responsibility and accountability for independence.</p> <p>(iii) No other issues or actions have been identified.</p> <p>(iv) None identified.</p>

		<p><u>QC5(b):</u></p> <p>(i) We suggest that caution be exercised in addressing governance of the firm in ISQC 1. ISQC 1 is applicable only to the audit and assurance practice and we query the appropriateness of the IAASB seeking to impose governance requirements over the entire firm. Broader governance issues may be better addressed by IESBA where those issues relate to all parts of the practice including non-audit or assurance services.</p> <p>(ii) We consider that ISQC 1 could address firm leadership’s responsibilities for quality and independence in so far as it impacts audit and assurance engagements. This could be done through additional or revised requirements requiring allocation of responsibility for quality and independence to individuals within the firm of sufficient seniority to have the authority to implement quality control systems, independence procedures and influence firm culture.</p> <p>(iii) A QMA approach would help to focus firm leadership on areas of greatest risks to quality and independence and to that extent would provide context for addressing quality and independence and assist firms in focusing resources on relevant areas of the highest risk.</p>
56.	DnR	Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE.
57.	EFAA	<p><u>QC5(a):</u></p> <p>We are supportive of efforts that seek to secure and strengthen the ties between quality control and firm leadership albeit noting that in SMPs the distance between these two areas is often very short. Because of the nature of SMPs, leaders of the firms are often directly responsible for quality. In addition, the relatively flat hierarchies often seen in smaller practices tend to mean that “Tone at the Top” and how it flows through the practice is more evident and the culture of accountability more keenly observed because it is ultimately more personal.</p> <p><u>QC5(b):</u></p> <p>We are comfortable with the IAASB considering placing further emphasis on good governance and the importance of quality at all levels within a firm. We are not sure what further actions the IAASB could undertake in this regard.</p> <p>The inability of the profession to agree on a definition of the public interest might mean that any attempts to add this aspect into ISQC1 would be unsuccessful. Additionally, we are not convinced that this is required. Auditors should be clear that there is a societal role to audit but that public interest role should not necessarily deter or encourage the audit profession from striving for better quality and continuous improvement. The ethical base of the profession should be sufficient encouragement.</p>
58.	FACPCE	--
59.	FEE	<p><u>QC5(a):</u></p> <p>(17) With respect to the “Governance of the Firm, Including Leadership Responsibilities for Quality” section, we agree that one of the most important actions would be to incorporate specific references such as the “tone at the top” and “lead by example” in ISQC 1, and also to require accountability for firm leadership and the use of appropriate personnel.</p> <p>(92) In general, the IAASB should be clear on the fact that the governance aspects discussed in the ITC are in relation to the audit practice part of the firm. It is in this remit that ISQC 1 revision would be influential.</p>

		<p>(93) In relation to firm governance, it will be helpful to “evaluate whether and, if so, how firm governance could be best addressed in ISQC 1, including through the use of a QMA”, as stated in paragraph 131.</p> <p>(94) In addition, it would be useful to incorporate specific references such as the “tone at the top” and “leading by example”, as indicated in paragraph 132, and address the relationship between firm’s culture and ‘tone at the top’ for an effective quality control system. It would also be beneficial to require accountability for firm leadership, as stated in paragraph 133. Nevertheless, the guidance provided should be flexible enough to make it capable of consistent global application, stating the objective and the means to achieve it.</p> <p>(95) A reference to the importance of recognizing the public interest in the context of an audit could be included in a standard’s introduction or application material.</p> <p>(96) Last but not least, it is important to tackle the independence issues as mentioned in paragraph 134. Although the concept of independence partners is already established in some jurisdictions and indeed works well, we do not believe that having someone responsible for independence is a whole encompassing solution. It is more important to have a proper system in place than a responsible person. Each engagement team member needs to take its own responsibility for independence.</p> <p>(97) It is essential to address how firms’ governance best fits in ISQC 1 – or somewhere else in the suite of IAASB standards – so as to demonstrate whether and how corporate governance principles may be useful or applicable in the context of identifying, assessing, and responding to quality risks. Leadership should be addressed as part of a governance aspect.</p> <p>(98) Also, using terminology which is easily recognized and understood by users of the standards will highlight the importance of having an appropriate culture for an organization.</p> <p>(99) Moreover, addressing the concept of accountability of firm leadership will help leaders understand the importance of the role they are playing in supporting and continually enhancing the audit quality through effective leadership.</p> <p>(100) In addition, governance is very important considering that leaders can have a great effect on staff behaviour.</p> <p>(101) As governance in smaller firms may be different from that in the context of very large firms, the IAASB should be careful not to require excessive documentation of governance procedures that are effectively, but perhaps more implicitly, considered in a smaller firm environment.</p> <p>(102) Nothing to report.</p> <p><u>QC5(b):</u></p> <p>(103) Yes, we believe that it is necessary for the IAASB to explore how the governance of a firm could be addressed in ISQC 1, as long as the IAASB focusses on the interaction between firm governance and audit quality and the role of the engagement quality control reviewer, and does not result in more onerous responsibilities for SMPs.</p> <p>(104) Yes. ISQC 1 revision should reinforce the requirements on accountability of firm leadership and the use of appropriate personnel since, in general, it may be effective when individuals can be held accountable for any deficiencies identified in meeting quality related matters. For instance, this could be done through strengthening the requirements on documentation of the work they have performed to address quality.</p> <p>(105) Yes, we believe that it would as part of the implementation of quality control activities through the development of appropriate policies and procedures.</p>
60.	FSR	--

61.	IBA	--
62.	IBRACON	<p><u>QC5(a):</u></p> <p>(i) The IAASB is considering changes to ISQC 1 to include policies and procedures to emphasize the need for, and importance of, actions firms take to respond to inspection findings. Such changes would build on firm leadership's responsibility for sustaining and continuously improving audit quality, and setting the right "tone at the top". The firm must monitor and consider all feedback on quality, including the results of internal and external inspections of a firm's system of quality control and of individual engagements, as well as other quality reviews that a firm might perform.</p> <ul style="list-style-type: none"> • Root cause - <ul style="list-style-type: none"> - There needs to be a common understanding of what such analysis entails • Other Monitoring – <ul style="list-style-type: none"> - Support required in the analysis of external inspection results in the same manner as internal inspection results. <p>(ii) We believe these actions improve the awareness of importance of a quality work. See above.</p> <p>(iii) No comments.</p> <p>(iv) No comments.</p> <p><u>QC5(b):</u></p> <p>(i) We believe it is necessary to explore how the governance of a firm could be addressed in ISQC 1.</p> <p>(ii) See comments above.</p> <p>(iii) See comments above.</p>
63.	IBR-IRE	<p><u>QC5(a):</u></p> <p>(46) In relation to firm governance, it will be helpful to evaluate whether and, if so, how firm governance could be best addressed in ISQC 1, including through the use of a QMA. As stated above, "tone at the top" is key and it is important that the firm leadership sets an appropriate culture for the firm and takes responsibility and be accountable for extending that culture throughout the firm and the quality results of the firm.</p> <p>(47) Accountability of firm leadership, or appropriate personnel within firm leadership, for matters related to quality is essential.</p> <p>(48) With respect to independence we would caution against relying solely on an individual to address independence concerns. These should clearly remain the responsibility of the engagement teams supported by adequate policies and procedures.</p> <p>(49) Addressing the concept of accountability of firm leadership will help leaders understand the importance of the role they are playing in supporting and continually enhancing the audit quality.</p> <p>(50) We reiterate our view that a QMA would provide an adequate basis to frame the quality issue at firm (and network) level and that the IAASB should consider actions that are principle-based and risk-responsive so that they can be more easily deployed in firms of all sizes.</p> <p>(51) No particular comment.</p>

		<p><u>QC5(b):</u></p> <p>(52) Yes, we fully support the fact that IAASB explores how the governance of a firm could be addressed in ISQC 1, by focusing, however, on the interaction between firm governance and audit quality and the role of the EQC reviewer. In doing this, IAASB should always keep in mind that this should be risk-responsive and not result in burdensome responsibilities. Specific considerations of SMPs' environment and challenges should be included in any guidance issued.</p> <p>(53) Yes, we believe this would be helpful.</p> <p>(54) A QMA would help frame the design of policies and procedures that are responsive to the quality objectives and risks identified.</p>
64.	ICAEW	<p><u>QC5(a):</u></p> <p>(i) The UK Audit Firm Governance Code, referred to in paragraph 126 of the ITC, only applies to the very largest firms. We consider that it is more appropriate for these matters to be dealt with by the appropriate authorities within specific countries rather than introducing any significant reference to it in the IAASB standards.</p> <p>We support introducing more application material on firm leadership and culture. We would not support introducing the 'public interest' concept into the standards as this would be difficult to interpret. The ITC coverage of public interest issues (in the first section) is the appropriate way of dealing with these matters.</p> <p>(ii) Having the appropriate culture of valuing quality is crucial and the material in the standards should be reviewed if it is believed that there are currently weaknesses regarding this.</p> <p>(iii) We consider that tone in the middle and tone at the bottom are also important to achieving audit quality and these should be considered as part of the project.</p> <p>(iv) No further comment.</p> <p><u>QC5(b):</u></p> <p>(i) We support referring to this in the standards as appropriate but, as per our answer to Q5a)i) above, we do not regard this as something to be covered by requirements in the IAASB standards.</p> <p>(ii) We support this being considered as part of the revision of the standards. Assigning responsibility and giving clear guidance regarding what is required plays a key part in achieving audit quality.</p> <p>(iii) A QMA would provide a helpful context for these responsibilities but we would not consider this as essential to ensuring the assignment of the required roles.</p>
65.	ICAP	<p>We agree that leadership and tone-at-the-top are important to setting a culture of quality, and that having an effective structure and mechanisms for governance can play a role. We therefore support the need to address the matters described in paragraph 127 within ISQC1 and, consistent with our principle, we believe assigning responsibility and accountability for audit quality to those best placed to influence it is important.</p>
66.	ICAS	<p>As far as firm governance and leadership is concerned, any IAASB review of how this could be addressed in ISQC1 should be limited to changes that are likely to have a positive impact on audit quality. References to the importance of the culture of the firm, and 'tone at the top', and 'leading by example', within ISQC1 will reinforce the responsibility for the firm leadership to establish and encourage an appropriate culture at all levels in the firm.</p>

67.	ICAZ	<p><u>QC5(a):</u></p> <ul style="list-style-type: none"> (i) <ul style="list-style-type: none"> a) Clarifying leadership responsibilities to include governance responsibility b) Including accountability responsibilities c) Identify appropriate personnel within firm leadership to be responsible and accountable for independence matters. (ii) The actions above would assist in the following ways: <ul style="list-style-type: none"> a) Align firm practices with current corporate governance trends which filter down to the improvement of quality of work done by firms b) Regulators will especially require firm leadership to be accountable to quality as this would assist them in enforcing quality control requirements. c) Independence is a topical and fundamental issue to audit engagements hence identifying specific and appropriate personnel to be responsible and accountable for independence matters. This would bring more prominence to quality control on independence. (iii) None (iv) None <p><u>QC5(b):</u></p> <ul style="list-style-type: none"> (i) Yes (ii) Yes <ul style="list-style-type: none"> a) Addressing accountability: ISQC 1 should have a specific requirement that firm leadership are accountable to quality. b) Addressing appropriate personnel: ISQC 1 should require firms to appoint appropriate personnel within firm leadership, for matters related to quality, including independence- related matters and provide application material on the factors a firm needs to consider in identifying these personnel. (iii) Yes. Since under QMA one of the key pillars is accountability.
68.	ICPAK	<p><u>QC5(a):</u></p> <ul style="list-style-type: none"> (i): <ul style="list-style-type: none"> ➤ Recognizing that firm structures vary ➤ Clarity on what is expected from firm leadership and governance ➤ Identifying appropriate personnel within firm leadership who will be responsible and accountable for independence matters. (ii) to hold the firm leaders to task where they fail to deliver on their duties there needs to be a clear explanation with regard to what is expected of them. (iii) No.

		<p>(iv) None.</p> <p><u>QC5(b):</u></p> <p>(i) Yes, it is necessary to explore governance of firms and address this in ISQC1 so that firms are on the same page and understand what is expected of them.</p> <p>(ii) No.</p> <p>(iii) No comment</p>
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	--
72.	KICPA	<p><u>QC5(a):</u></p> <p>(i) Clarifying the current requirements and application material of ISQC1 to clearly address leadership responsibilities and highlighting the importance of a firm's leadership in all of the stages of quality control are considered the most meaningful. In addition, it would be useful to provide exemplary cases of firm's leadership to be exercised in all of the stages of quality control to improve the clarity of leadership's responsibilities, thereby making it possible to ensure that leadership's responsibilities are well-established in practice.</p> <p>(ii) Please refer to answers in (i) of QC5 (a).</p> <p>(iii) We have no comments.</p> <p>(iv) Please refer to answers in (i) of QC5 (a).</p> <p><u>QC5(b):</u></p> <p>(i) We find meaningful IOSCO, IFIAR or IAASB's exploring firm's governance for the purpose of conducting studies and developing non-authoritative guidance. As stated in the consultation, however, ISQC 1's addressing the governance would not be effective, since the structure and governance of firms are mostly influenced by the respective jurisdiction's law and regulation.</p> <p>(ii) We believe ensuring appropriate personnel in relation with quality control within firm's leadership (including identification of appropriate personnel to be responsible and accountable for independence matters) and clarifying the responsibilities would strengthen the responsibility of those in charge of quality control within the firm, thereby contributing to building a leadership atmosphere valuing the overall organizational quality control.</p> <p>(iii) Please refer to the above answers, in general, regarding the incorporation of a QMA in QC1.</p>
73.	MICPA	--

74.	SAICA	<p><u>QC5(a) & (b)(ii):</u></p> <p>39. In terms of indicating which of the possible actions proposed by the IAASB would be most meaningful to address issues related to leadership responsibilities for quality, the survey respondents indicated their preference for the following three actions [the most meaningful listed first, from (1) to (3)]:</p> <ol style="list-style-type: none"> (1) ISQC 1 to require accountability of firm leadership, or appropriate personnel within firm leadership, for matters related to quality (2) Give more emphasis in ISQC 1 to the importance of firm leadership setting an appropriate culture for the firm and for extending that culture throughout the firm (3) ISQC 1 to more specifically require a firm to identify appropriate personnel within firm leadership to be responsible and accountable for independence matters <p>40. A significant number of survey respondents (32.4%) indicated that they do not support the following possible action as being particularly meaningful in addressing issues related to leadership responsibilities: Enhance ISQC 1 to more explicitly incorporate commonly used and familiar terminology such as “tone at the top”, “leading by example”, etc. It would appear that is mostly in the context that these terms are in the first instance associated with firm governance, including firm culture (see discussion in paragraphs that follow).</p> <p>41. Further to possible action (3), above, pertaining to independence matters, we have identified views that in today’s business and audit environment(s) the consideration of independence (and independence decision-making) has become a specialist area. This would support the IAASB’s proposed action for ISQC 1 to more specifically require a firm to identify appropriate personnel within firm leadership to be responsible and accountable for independence matters.</p> <p>42. We have observed mixed views with respect to how accountability for matters related to quality, including independence- related matters could be addressed. Some suggest that such matters remain part of roles and responsibilities at executive level, while others suggest that certain matters must be addressed above “the service level”. Practical issues such as different authority levels linked to certain engagement and audit client characteristics could also be considered.</p> <p>43. In order to further assist the IAASB in exploring the issues and possible actions that have been proposed, we include the following matters that have been raised by some survey respondents. Although not representative of a general or common view, these comments could provide further context and insight into some of the issues and possible actions, or additional issues and possible actions.</p> <ul style="list-style-type: none"> ➤ With respect to enhancing the accountability of firm leadership, a number of practical questions have been raised, including how does a firm ensure accountability of leadership and consequences for action?; how is, or how best could accountability be demonstrated (i.e. the matter of providing evidence; documentation)?, etc. ➤ Even though audit quality is ultimately the responsibility of firm leadership, all staff is responsible for audit quality (i.e. associated with the concept of firm culture). ➤ There are a number of recognised frameworks /codes of corporate governance which should be referred to in order to establish proper firm governance, without the need to duplicate the details in the IAASB standards.
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		<p><u>QC5(b)(i):</u></p> <p>44. There is a general appreciation and recognition of the importance of firm culture and extending that culture throughout the firm. Firm governance, overall (which includes firm culture), is essential in enabling a firm to achieve its objectives, and in creating an environment and providing the structures and process that assist all in the firm to properly discharge their responsibilities and to accept accountability at the appropriate level.</p> <p>45. The concept of firm governance is logically associated with the overall concept of good corporate governance. In South Africa the focus on, and importance of good corporate governance have been reinforced by the release, in March 2016, of the Draft King IV Report on Corporate Governance in South Africa. Good governance is about effective leadership, and the principles and practices that assist any organisation (also an audit firm; audit firms are businesses) to improve its ability to sustain itself and the environments in which it operates.</p> <p>46. The consideration of firm governance inevitably also brings to the fore the consideration of competing goals, such as a firm performing audit and assurance services in the public interest, while at the same time striving to achieve the firm's commercial goals. Although these goals may naturally result in a degree of "tension", it is precisely this tension that should drive a firm to achieve the appropriate balance, since these goals are interrelated and the one cannot be achieved without the other. Through our participation in various forums we believe that there is a general view that "quality trumps all else"; i.e. if what the profession does and delivers is not "quality" and is not seen to be "quality" the profession's (and in particular, the external audit's) continued relevance could be in jeopardy. Again, it is about getting the balance right.</p> <p>47. Survey respondents were asked to indicate the extent to which corporate governance principles have been formalised within their firms (formal structures, policies, procedures and processes), using a scale of 1 to 6, where (1) means corporate governance occurs in a highly informal and non-structured way and (6) means it has been fully implemented and formalised (structured and documented) and forms an integral part of "doing business" and exercising oversight.</p> <p>23.5% of survey respondents indicated "6" and 29.4% indicated "1" or "2". The highest number of respondents indicated their assessment as "4" (38.2%). This shows a relatively wide spread, that is, amongst other, a product of the fact that 74% of practitioner respondents categorised themselves as being from the small and medium-sized firm constituency.</p> <p>It is clear that a large portion of firms have already taken steps (or are in the process of taking steps) to pro-actively formalise and implement principles and practices of corporate governance within their firm structures. These firms could provide the IAASB with valuable input in this regard.</p> <p>48. In line with recognising the importance of firm governance, 56.8% of survey respondents indicated that they believe it is appropriate to include the governance of firms in ISQC 1; i.e. incorporating requirements and application material that specifically addresses aspects of firm governance.</p> <p>However, it is clear from the responses that there is a qualification to this answer, namely that although ISQC 1 could be enhanced by incorporating the principles of firm governance, the ability (or acceptability) of setting detailed requirements in this regard would probably be limited. There exist numerous recognised corporate governance frameworks or codes that should be applied by audit firms, without the need to bring the detail into the auditing standards.</p> <p>Any enhancements to ISQC 1 in this regard must be in accordance with a principles-based approach. Most of the enhancements would probably have to be included as part of an introduction to the requirements, as well as application material to clarify a limited number of principles-based requirements (e.g. around a firm developing its own governance code).</p>
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		<p>49. On the other hand, it should be noted that a significant portion of survey respondents (43.2%) did not agree with the approach addressed in the previous paragraph. As far as could be ascertained the concerns of these respondents relate primarily to the following:</p> <ul style="list-style-type: none"> ➤ The boundaries of addressing matters of firm governance in accordance with a principles-based approach should be clear, since it would be inappropriate to address in the auditing standards actual firm structure and the management of the firm. This is also related to the fact that firm structures are affected by law or regulation in the jurisdiction(s) in which the firm operates. ➤ Concerns by SMPs regarding flexibility and scalability based on firm size, client profile, etc. (refer to separate paragraph below that addresses specific considerations for SMPs). <p><u>QC5(b)(iii):</u></p> <p>50. We support the view that we had identified during our consultations and participation in various forums that firm governance principles (i.e. principles of good corporate governance) will probably come to the fore more prominently in the context of the adoption a QMA.</p>
75.	SMPC	<p>We agree that firm leadership has a vital role in establishing and monitoring policies and procedures to achieve quality-related objectives and promoting a culture for accountability for quality throughout the firm. However, as noted in our response to QC1(c) we encourage the Board to be sensitive to the needs of firms of all sizes (including the smallest) and develop standards which are scalable to their individual circumstances and environment.</p> <p>We agree that establishing a requirement in ISQC 1 for firm leadership to act in the public interest would be challenging to design and implement and do not believe it would be appropriate. In our opinion, the lack of a clear definition and common understanding of public interest remains an issue. The interpretation of acting in the public interest would likely prove highly subjective. In addition, there may be varying degrees of public interest inherent in the engagements performed by firms. However, we strongly suggest that the IAASB publicly and prominently acknowledge the public interest in the contribution of SMEs, including SMPs, to the global economy. This, of itself, is reason to ensure that the changes proposed are scalable.</p> <p>The proposal to only include an emphasis on the importance of public interest considerations in relation to the design of the firm's system of quality control in the introduction to ISQC 1 or in the application material is supported.</p>
76.	WPK	--
Academics		
77.	AAA	<p>The Committee believes that formal support by and accountability of top management are important drivers of success in achieving quality control. An important firm-level quality control mechanism is tone at the top established by firm leadership. Prior research (e.g., Schaubroeck et al. 2012; Pickerd, Summers and Wood 2015; Pyzoha, Taylor, and Wu 2016) provides evidence of the importance of a strong "tone at the top" in ensuring operational, internal control, financial reporting effectiveness, and auditors' engagement-level judgments when auditing complex areas (e.g., complex estimates). For example, the quality control climate related to identifying and communicating audit errors internally impacts reporting of the errors (Gold, Gronewald and Salterio 2014). Also, the perceived leadership style of the firm's reviewers influences audit quality related decisions by engagement team members (Otley and Pierce 1995). Moreover, a tone at the top message that is balanced in equally emphasizing firm-level audit quality and firm performance goals reduces auditors' tendency to over rely on management's assumptions when auditing complex estimates susceptible to management biases. However, a</p>

		<p>tone at the top message focused solely on audit quality may be needed to reduce auditors' tendency to over rely on audit evidence prepared by management's specialists (Pzyoha et al. 2016). Tone should be set by the firm leadership across the entire practice, and at the engagement partner level for specific audits.</p> <p>From a governance perspective, responsibility for quality control should be vested in the firm's managing board of partners. The board of partners, as the analog of the board of directors for companies, oversees management of the firm and manages the firm's important risks. Research supports the notion that strong boards help to mitigate and remediate risks and control-related issues (e.g., Goh 2009; Hoitash, Hoitash and Bedard 2009).</p>
78.	AH	--
79.	Glover-Prawitt	--
80.	TRay	--
Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	<p><u>QC5(a):</u></p> <ul style="list-style-type: none"> (i) Firm governance extends beyond audit services and should be outside the scope of ISQC1. Attempts to "manage" firm governance rather than governance over an audit division, could restrict practice and the evolution of audit services. (ii) Not supported; audit services are more likely to evolve in a multidisciplinary firm rather than a segregated audit practice. Governance responsibilities appropriate to the audit division are already covered in ISQC1 (iii) Refer above (iv) Supply in the audit market is likely to continue to diminish with ever-increasing regulation. Reduced competition will result in lower quality audits. <p><u>QC5(b):</u></p> <ul style="list-style-type: none"> (i) No. (ii) This is already adequately covered in ISQC1 (iii) Firms already employ practice risk management strategies, which include policies and procedures to monitor audit quality in accordance with ISQC1
84.	JGrant	<p>As suggested in the ITC I think it probably would be worthwhile to mandate a partner with specific responsibilities for ethics. This was done in the UK some years ago using Ethical Standards to require audit firms to appointment an 'ethics partner' and to describe the role such a partner needed to perform. However, in the early years it proved difficult for audit inspectors to know whether ethics partners were working as they should. This was largely due to a lack of documentation. If IAASB does decide to require firms to appoint an ethics partner</p>

		it also needs to consider what documentation that person should be required to keep including probably a log of actions taken and advice given
85.	JK	--
86.	KKTuraga	--
87.	SDeViney	<p><u>QC5(a):</u></p> <p>(i) A requirement to identify specific personnel responsible and accountable for independence matters would be most meaningful, because it is a specific and practical requirement.</p> <p>Also, the Board should consider approaching concerns discussed in paragraph 135 in context of the consideration of the needs and expectations of users when evaluating risks and materiality during engagement planning, rather than introducing the concept of “public interest”.</p> <p>(ii) Establishing authorities and responsibilities in pursuit of objectives is a necessary principle of internal control. While many matters of audit organization governance and leadership may appropriately vary, clearly assigning authorities and responsibilities for key elements of quality control at the firm-level can be expected.</p> <p>(iii) Yes. For each engagement type, financial reporting framework and specialized industry for which engagements are performed, identification of specific personnel responsible and accountable for developing, evaluating and maintaining quality control materials.</p> <p><u>QC5(b):</u></p> <p>(i) Not any further than already addressed, other than expected assignment of responsibility for key elements of the quality control system as noted in answers to QC5(a).</p> <p>(ii) I don’t believe this is necessary.</p> <p>(iii) I don’t think so. Specific, practical requirements or application material is needed more than additional conceptual guidance.</p>

Q6. Engagement Quality Control Reviews and Engagement Quality Control Reviewers

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

- (i) Which of the possible actions outlined in paragraphs 143–146 would be most meaningful in addressing issues related to EQC reviews and EQC reviewers?
- (ii) Why do you believe these actions are necessary?
- (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
- (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	CalSTRS agrees and reinforces the need for Engagement Quality Control Reviews and Engagement Quality Control Reviewers. We concur that an effective EQC review is an important engagement-level quality control. EQC reviews are also a key aspect of the monitoring component of a firm's system of quality control. We support independent inspections of the EQC Reviewers' conclusions and recognize the importance of strengthening the requirements as well as communicating the results to the Audit Committee of an audit client. The Audit Committee should address whether the Quality Control systems in place are robust as well as describing the EQC findings and ways to improve.
3.	CFA	Given the complexity of many audit engagements, we believe that the engagement quality control review (EQC) is an integral component of ensuring audit quality and as such a detailed review of the EQC responsibility is critical. We draw your attention to the importance of the EQC review given the December 6, 2013 issuance of the PCAOB report: Observations Related to the Implementation of the Auditing Standard on Engagement Quality Review which highlighted significant audit deficiencies which should have been identified by the engagement quality control review partner.
4.	IA	--
5.	ICGN	--
6.	NZSA	--
7.	SAAJ	--

Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	The documentation of communication between the engagement partner and the EQC reviewer should cover matters other than those where there are differences of opinion between the partner and reviewer, including discussion of key audit matters, matters involving significant professional scepticism and significant professional judgment.
10.	CPAB	<p>We support the IAASB's proposal to review the standards in respect of the engagement quality control review (EQCR). We believe that a clearly defined objective needs to be articulated for the EQCR to drive improved behavior by engagement quality control reviewers and audit firms in performing reviews and establishing policies and procedures for EQCRs respectively. We believe this objective should address the extent and timing of the EQCR including the depth of review required by an EQCR.</p> <p>Further, we encourage the IAASB, in making changes to the standards, to clarify and highlight throughout the standards the need for professional skepticism in the performance of an EQCR. This can be reflected in changes that require the engagement quality control reviewer to review and challenge the audit work performed in respect of the more judgmental and higher risk areas, thereby clearly addressing the significant decisions made by the engagement partner.</p>
11.	EAIG	We encourage the IAASB to take into account the existence of joint audit situations, ¹² in particular in determining the extent of the requirements for engagement quality reviews in those situations.
12.	EBA	<ul style="list-style-type: none"> Engagement quality control reviewer's role: the EBA supports enhancing the role of the engagement quality control ('EQC') reviewer in order to ensure appropriate application of professional scepticism. For example, (in line with our comments below on the EQC reviewer's involvement in the audit), our view is that the EQC reviewer should be fostering the exercise of professional scepticism from the planning stage of an audit, challenging the audit team as to how it will be exercised. <p>In addition, we believe that the involvement of the engagement partners and EQC reviewers in the application of professional scepticism, quality control and group audits are key to assuring audit quality (besides the detailed comments for each of these which are included in this comment letter). Therefore, the ISQC 1 and other ISAs should provide more clarity on the responsibilities of each of these parties, in particular the ECQ reviewer (paragraph 67 of the Overview of the ITC).</p> <p>In the EU regulatory framework, Article 8(1) of Regulation (EU) No 537/02014 requires that an EQC review is performed to assess whether the statutory auditor or the key audit partner could reasonably have come to the opinion and conclusions expressed in the draft of these reports. Considering also that the EQC reviews shall enhance audit quality and are particularly important for audits which require significant judgments, we support that the requirement for performing an EQC review is extended to all public-interest entities, which besides listed entities, include banks (paragraph 79 of the Overview of the ITC).</p> <p>In addition, we welcome strengthening the requirements for the EQC reviews and, in particular, the timing, involvement and documentation related to such EQC reviews (paragraphs 80 and 81 of the Overview of the ITC) as follows:</p>

¹² Regulation (EU) No 537/2014 Art.17(4)(b)

		<ul style="list-style-type: none"> Ensuring the involvement of the EQC reviewer from the start of the engagement and throughout the audit process, including at the acceptance and continuance of the client relationship and at the planning phases of the audit. Strengthening communication between the engagement partner and the EQC reviewer in order to ensure matters involving the application of significant professional scepticism and professional judgment are sufficiently discussed. Documentation of communication between the engagement partner and the EQC reviewer shall be extended to other matters than those where differences of opinion between both parties appear (for example, discussion of key audit matters, matters involving significant professional scepticism and judgment).
13.	ESMA	19. The EU legal framework ⁸ requires that an engagement quality control (EQC) review shall be performed to assess whether the statutory auditor or the key audit partner could reasonably have come to the opinion and conclusions expressed in the draft reports. ESMA supports the IAASB proposals, in paragraph 80 of the Overview of the ITC, to strengthen the EQC reviews requirements and provide clarity for example, in relation to the timing, scope, involvement and documentation.
14.	H3C	--
15.	IAIS	<p>Firm and engagement level: engagement quality control reviews (EQCR) and engagement quality control reviewers</p> <p>Given the importance of the role of the engagement quality control review (EQCR), related requirements and guidance need to be robust and clear, and consideration should be given to potentially expanding them beyond audits of listed entities to other entities that have a large number and wide range of stakeholders (such as insurance companies and pension fund), as this would serve the public interest. The IAIS believes that strengthening the requirements and application material in ISQC 1 and ISA 220 related to EQCR should be considered, in particular the IAASB could develop new requirements to:</p> <ul style="list-style-type: none"> – Ensure integrity and independence of the engagement quality control reviewers; and – Document the timing and substance of the EQCR procedures performed and any significant or substantive discussions between the engagement partner and reviewers; <p>Given the cross-cutting nature of the topic, consideration should be given to moving the requirements and guidance relating to EQCR into a new separate standard.</p>
16.	IFIAR	<p>21. We note that the ITC does not clearly address the objective of engagement quality control reviews, although the issue has been recognised. We believe that a clearly defined objective needs to be articulated for the EQCR in order to drive improved behaviour by engagement quality control reviewers and audit firms in performing reviews and establishing policies and procedures for EQCR respectively.</p> <p>22. We encourage the IAASB to clarify and highlight throughout the standards, the fundamental principle of professional scepticism in the performance of an EQCR. This can be reflected in changes that require the engagement quality control reviewer to review and challenge the audit work performed in respect of the judgemental and higher risk areas, thereby clearly addressing the significant decisions made by the engagement partner.</p>

⁸ Article 8(1) "Engagement quality control review" of the Audit Regulation.

		<p>23. There is a lack of granularity in the ITC on the criteria for selecting engagement quality control reviewers. The criteria for selection should consider the results of audit quality assessments, both external and internal, and links with the relevant ethical provisions in respect of long association with an audit client.</p>
17.	IOSCO	<p>We agree that the application material in ISQC 1 regarding the criteria for selection of engagements for review by an EQC reviewer should be elevated from application material to requirements. Specifically, we believe that application material in paragraph A49 of ISQC 1 regarding maintaining the objectivity of the EQC reviewer should be elevated to requirements. Further, the application material in paragraph A47 of ISQC 1 related to the sufficient and appropriate technical expertise, experience and authority of the EQC reviewer should be elevated to requirements.</p> <p>Additionally, the extant paragraph A47 of ISQC 1 describes situations where the EQC reviewer for an audit of the financial statements of a listed entity is likely to be an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of listed entities.</p> <p>The Board could consider expanding the application material in paragraph A47 of ISQC 1 to describe situations or circumstances where it may be more appropriate for a partner to serve as the EQC reviewer to avoid hierarchical mismatches that could possibly impair a more junior (e.g., senior manager as compared to partner, or possibly a more junior partner as compared to a more senior partner) reviewer's objectivity or intimidate the more junior staff member in raising matters with the engagement partner in a manner that negatively impacts his or her effectiveness. This additional guidance should not necessarily be limited to audits of the financial statements of a listed entity as currently written in extant paragraph A47, but rather should apply to any circumstance in which the firm has concluded an EQC review would be appropriate.</p> <p>Additionally, we acknowledge the difficulty in identifying a global definition of a public interest entity; however, inclusion of criteria to be considered by firms when determining whether to perform an EQC review should likely lead to EQC reviews of entities beyond publicly listed entities.</p>
18.	IRBA	<p>Since the Engagement Quality Control (EQC) review 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 an EQC review in order to find actions that it can take to enhance the effective performance of EQC reviews.</p> <p>An effective EQC review is an important engagement-level quality control and may positively contribute to enhancing audit quality.</p> <p>Our comments on the matters contained in the ITC on an EQC review are discussed below.</p> <p><i>[Comments addressing scope, cooling off and separate EQCR standard have been included in Q6(b)(i), (ii) and (iii)]</i></p> <p><u>Roles and responsibilities of an EQC reviewer versus that of an engagement partner</u></p> <p>An appropriate distinction should be made between the roles and responsibilities of the EQC reviewer and the engagement partner. As such, we believe that the roles and responsibilities of the EQC reviewer in relation to the engagement partner should be clarified in ISQC 1 and ISA 220, and the engagement partner's role not be diluted.</p> <p><u>EQC review transparency in the auditor's report</u></p> <p>We do not believe that providing transparency in the auditor's report by communicating whether an engagement was subject to an EQC review is an appropriate response to providing more prominence to an EQC review. The possible negative consequences, discussed in the ITC, outweigh the possible positive consequences.</p>

		<p><u>Documentation</u></p> <p>Documentation requirements in ISA 220 should be strengthened to include:</p> <ul style="list-style-type: none"> • The objective of, scope of and areas subject to the EQC review; • The timing and substance of the EQC review procedures performed; and • The significant discussions between the engagement partner and the EQC reviewer.
19.	MAOB	<p>The extant ISQC 1 sets out the requirements and related application material for a firm to establish policies and procedures with respect to the performance of an engagement quality control (EQC) review, as well as the criteria for eligibility of EQC reviewers. The requirements set out in ISA 220 <i>Quality Control for an Audit of Financial Statements</i> complement these.</p> <p>In this regard, the AOB is of the view that the current requirements are sufficient in addressing the EQC reviewer's responsibilities and related documentation requirements.</p> <p>In the event that further guidance is needed to address the concerns raised, the AOB recommends that these be incorporated into the existing requirements and related application material of affected standards respectively. The AOB is of the view that the development of a separate EQC review standard may have the unintended consequences of diluting accountability and shifting of responsibility from the engagement partner.</p>
20.	UKFRC	<p>The engagement quality control review (EQC review) is a critical component of the audit firms' quality monitoring processes. As part of the EU Audit Reform, the EQC review is now incorporated into Article 8 of the EU Audit Regulation³³. As such, the EQC review is seen of such importance that it has become a formal and legal obligation for the audit of every public interest entity³⁴ in the European Union. In the FRC's Annual Inspection Report 2014/15³⁵ we noted that the number and nature of findings arising from our inspection of individual audits continues to indicate that firms' internal quality control and monitoring procedures require further strengthening or improved application in practice. In light of these findings, our 2015/16 thematic inspections included a review of firms' internal quality monitoring procedures and the EQC review in the audit of financial statements. The findings from the FRC's Thematic Review on EQC Review³⁶ were consistent with some of the concerns raised in paragraph 137 of the ITC such as the selection of the EQC reviewer (second bullet); issues regarding timely and effective involvement (third and fourth bullet), and sufficient evidence of the review (last bullet) as follows:</p> <ul style="list-style-type: none"> • <i>Eligibility</i> – There was evidence that an EQC reviewer had insufficient specialist knowledge to perform the role, limiting the ability to evaluate key judgements and conclusions. • <i>Evidence and Effectiveness of the Review</i> – There was insufficient evidence in a number of reviews that an EQC reviewer had performed an adequate and timely review. In addition, there was evidence that the EQC reviewer's involvement in the planning, performance and/or completion stages of the audit was left too late for the EQC reviewer to provide meaningful input and insufficient evidence of the nature or extent of the EQC reviewer's work. On some audits, the EQC reviewer's questions had not been satisfactorily resolved by the audit team.

³³ Of The European Parliament And Of The Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities

³⁴ as defined by the Member States

³⁵ <https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Inspections-Annual-Report-2014-15.pdf>

³⁶ <https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Thematic-Review-Engagement-Quality.pdf>

		<p>Other findings from the FRC's Thematic Review on EQC Review included:</p> <ul style="list-style-type: none"> • <i>Objectivity</i> – The review noted issues regarding limited guidance or training in some cases as to the matters the EQCR should consider in evaluating their objectivity. In addition, there was evidence that audit tender documents included information about the EQC reviewer that implied the EQC reviewer was part of the audit engagement team. Recent outreach activity has also highlighted that there is often a misunderstanding within some audit firms as to the purpose of an EQC review. In particular, in some instances, engagement teams consider the EQC review as part of the engagement team performance. • <i>Monitoring</i> – The FRC review noted that whilst some firms have formal processes for EQC reviewers to obtain feedback from audit teams or as part of the firms' monitoring processes to evaluate contribution to quality, not all firms' monitoring considers the effectiveness of the EQC review. <p><i>Addressing issues related to EQC reviews and EQC reviewers</i></p> <p>In respect of addressing the issues outlined in the ITC in paragraph 137, and the FRC review findings set out above, whilst we do not disagree with suggestions set out in paragraph 143, we believe that the IAASB would better address the issues if they were to approach the topic of EQC review in a more holistic manner, and of course in the context of a QMA. This would mean first clarifying the purpose of the EQC review (in the context of a QMA), from which the IAASB would be in a better position to determine the most appropriate procedures to be performed, and the appropriate level and skill of the person performing the EQC review, as explained more fully below:</p> <ul style="list-style-type: none"> • In clarifying the <u>purpose</u> (or objective) of the EQC review, the IAASB can address some of the issues raised above, including certain misunderstandings as to where within the firms' quality management framework, the EQC review resides. In our view, an EQC review forms part of the firm's quality risk control (and compliance) oversight function – effectively a firm's control over the engagement team's work. Drawing again on the three lines of defence model, the engagement partners are the 'first line of defence' in directly assessing, controlling and mitigating risks to audit quality at the engagement level, then the EQC review, as an objective evaluation of the quality of the engagement team's performance in that regard, is part of the firm's 'second line of defence'. We believe it would be helpful to clarify that the role of the EQC review is a firm level control. As such, for example, it should not be a responsibility of the engagement team to determine whether an EQC review is required and ISA 220 should address only the responsibilities of the engagement team. • Having clarified the purpose, or objective, of the EQC review, the IAASB would be in a better position to establish the appropriate nature, timing and extent of <u>procedures</u> to meet that objective. In this context, we agree with the suggestion in paragraph 143 to strengthen the requirements and application material by further specifying the nature and extent of matters to be considered in the EQC review. However, given the EQC review falls outside the <i>performance</i> of the audit, we expect such enhancements to be made to ISQC 1 as opposed to ISA 220. This will address concerns raised by stakeholders that the EQC review is misunderstood as part of the performance of the audit. In exploring enhancements to the nature, timing and extent of procedures, we suggest that the IAASB explore the new requirements for EQC reviews set out in the EU Audit Regulation. In addition, there are a number of suggestions in the FRC's Thematic Review on EQC Review where enhancements could be made in practice that we would encourage the IAASB to consider. For example, emphasising the importance of conducting the review in a timely manner at appropriate stages during the engagement. <p>There are matters in relation to the EQC review that would lend themselves to enhancements in ISA 220, particularly in relation to the engagement team's response and reactions to matters raised during the review. For example, as noted above, the findings from the FRC's Thematic Review on EQC Review highlighted that on some audits, the EQC reviewer's questions had not been</p>
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		<p>satisfactorily resolved by the audit team. In this regard, it is the engagement team's responsibility to ensure that the firm's oversight procedures are adhered to.</p> <ul style="list-style-type: none"> The <u>person</u> performing the EQC review (i.e. eligibility, skills and competencies). We support the suggestions made in paragraph 143 to strengthen the requirements and guidance regarding the selection of the EQC reviewer. For example, it is important that EQC reviewers perform their work with an objective mindset, otherwise they cannot deliver on their oversight role effectively. As set out in the FRC's Thematic Review on EQC Review, 'objectivity' is one area where there is evidence that firms need to make improvements to their policies and procedures and would welcome greater prominence of this topic in that regard. We also believe that the IAASB should give greater prominence to the importance of the EQC reviewers' ability to confidently challenge engagement team's judgements.
National Auditing Standard Setters		
21.	AUASB	<p>(i) The AUASB view is that the most meaningful action to address the relevant issues is by clarifying the nature, timing and extent of matters to be considered by the EQC reviewer, while maintaining an appropriate distinction between the responsibilities of the engagement partner and those of the EQC reviewer.</p> <p>(ii) The AUASB considers this may be helpful in establishing the appropriate balance between time, cost and documentation of the EQCR at the engagement level and address any issues with demonstrating the application of a sceptical mind when undertaking an EQCR.</p> <p>(iii) The AUASB view is that the role of the EQCR could be better communicated to TCWG at an engagement level and the role it plays within the firm's wider quality control processes to assist in addressing any concerns around audit quality. This however would need to be done on an engagement by engagement basis as is appropriate.</p> <p>(iv) The cost of compliance with increased requirements versus a possible increase in audit quality needs to be carefully considered.</p>
22.	CAASB	<p>The EQC review is an area that provides significant practical challenges for SMPs in Canada. It can be difficult for SMPs, particularly those in smaller communities to find someone capable of performing the EQC review. The AASB and Canadian stakeholders ask the IAASB to address scalability when it considers actions related to the EQC review and EQCR. For example, the IAASB should carefully consider the implications for SMPs of any proposed revisions, in particular requirements to mandate EQC reviews beyond listed entities, and requirements related to the selection of the EQCR.</p> <p>In the AASB's view the following actions would be:</p> <p>Most meaningful:</p> <ul style="list-style-type: none"> Clarify the role of the EQCR in relation to the engagement partner (para. 145) – It is critical to clearly define the roles. This action will address concerns that the role of the EQCR, in some cases, is seen as equal to that of the engagement partner. Some Canadian stakeholders expressed the view that changes in this area could drive a necessary change in behaviour and improve the consistency and effectiveness of EQC reviews. <p>Meaningful:</p> <ul style="list-style-type: none"> Expanding requirements to have an EQC review beyond audits of listed entities (para. 143, 1st bullet) – The AASB and several Canadian stakeholders believe that changes to the requirements in this area are not required to change practice. What would be more beneficial is additional application material to explain the requirements in paragraphs 35(b) and (c). This is an

		<p>area that is not well understood and has resulted in inconsistencies in practice. In addition, a Canadian regulator noted that documentation of what the EQCR reviewed could be improved.</p> <ul style="list-style-type: none"> • Strengthen requirements and application material regarding selection of the EQCR (para. 143, 2nd bullet) • Strengthen documentation requirements to include timing and substance of the EQC review performed (para. 143, 3rd bullet) • Strengthen requirements and application material by further specifying the nature and extent of matters to be considered by the EQCR (para. 143, 5th bullet) <p>The AASB and our Canadian stakeholders were largely supportive of the above proposals, but noted that scalability for SMPs will likely be a challenge.</p> <p>Not supported:</p> <ul style="list-style-type: none"> • Disclosure in the auditor's report if the engagement was subject to an EQC review (para. 144, 2nd bullet) – Such disclosure is not seen as adding relevant information to the auditor's report. The EQC review is only one aspect of quality control. Canadian investors noted that disclosure would only be useful if the findings were also disclosed. The AASB does not believe that this is feasible. During an audit, many issues may be identified, not only by the EQCR, but also by other members of the engagement team. Such issues are dealt with prior to the issuance of the audit report. To include such information in the audit report could cause confusion or be misinterpreted.
23.	CNCC-CSOEC	<p>We do not support the action that consists in expanding the types of engagements that would require an EQC review beyond audits of listed entities, i.e. expanding the EQC reviews to all PIEs.</p> <p>ISQC1 requires that firms establish policies for audits of financial statements of listed entities to have an EQC review conducted by an EQC reviewer. Firms must also establish criteria to determine when other audits require an EQC reviewer. Regulation (Eu) N°537/2014 of the European Parliament and of the Council of 16 April 2014³ requires an EQC review for the entities the regulation relates to i.e. the public-interest entities, i.e. "PIEs". Article 8 of the regulation provides explicit elements that need to be assessed during an EQCR for those entities.</p> <p>However, we consider that expanding, in an international standard, the EQC review to all PIEs is not appropriate for the following reasons: PIEs are not systematically considered as engagements with higher audit risk. In France, certain PIEs are not listed and are subject to a joint audit, which we consider contribute to audit quality to the same extent as an EQCR. Moreover, implementing EQC review to all PIEs should result in difficulties in practice with the rotation mechanism for the statutory auditors and the audit firms required by the EU regulation. We therefore consider that other entities to be considered for EQC review should be those with public exposure and high risk areas for the society, causing engagement to have higher misstatement, compliance, liability or reputational risk. We recommend that the IAASB gives flexibility in determining which engagements should be subject to EQC Review. The best solution may be to let national jurisdictions decide on the scope beyond audits of listed entities.</p> <p>As EQCR is only one part of quality control, a separate standard is not appropriate. Our concern with such a proposal would be partly repetition in that significant material would need to be stated in two different places, and secondly, the relative importance of the role of</p>

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

		<p>the engagement partner might be lost due to the over emphasised role of the EQCR. In addition, the ethics Code dealing with long association of personnel, the IAASB should concentrate on the role and responsibilities of the EQCR and how it is articulated with the ones of the engagement partner. SMP concerns will need to be taken into account in this context. They are less likely to have a pool of suitable EQCR candidates than larger firms, so care needs to be taken not to impact audit quality by forcing a potentially less suitable EQCR to assume this important role. We therefore do not support the development of a separate EQC review standard.</p> <p>For similar reasons, we do not believe that it would be appropriate to have an EQCR 'announced' in the auditor's report. Reporting publicly on what is actually a 'firm-internal monitoring process' could send the wrong signal about the audit, and whether users would actually benefit from such information remains unclear. However, as part of the firm's quality monitoring, EQCR is an issue that ought to be of interest to those charged with governance, and its application should be reported to them.</p>
24.	HKICPA	<p>In the IESBA Code of Ethics for Professional Accountants (COE), "public interest entity" (PIE) is defined as:</p> <ul style="list-style-type: none"> (a) A listed entity; and (b) An entity (i) by regulation or legislation as a public interest entity; or (ii) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator. <p>Currently, there is no definition of "public interest entities" in the ISAs. It would be useful to align the definition in the standards. Additional guidance should be developed to clarify IAASB's intentions. If IAASB were to adopt the definition in the COE, in effect, for Hong Kong, it would still only cover listed entities as currently, there is no local legislation or regulation imposing such requirement as set out in (b).</p>
25.	IDW	<p>We appreciate the concerns relating to experiences with EQCR as discussed in the ITC and note the IAASB's acknowledgment of SMP perspectives and concerns.</p> <p>We agree that a serious approach to QMA will involve firms implementing appropriate responses to quality risks they have identified, and that EQCR is an area the IAASB should now revisit in this context.</p> <p>In this regard, we agree that proposals to revisit the selection criteria for audits requiring an EQCR identified in paragraph 143 are appropriate. We do not, however, agree that the IAASB should require an EQCR for all audits of public interest entities. We are aware that the IAASB discussed a similar proposal in determining the applicability of reporting on Key Audit Matters (KAM) within its recently completed auditor reporting project. The classification of which particular entities are of particular significance to the public interest is a matter for each jurisdiction, and cannot be satisfactorily resolved at an international level. Rather than formulating a blanket requirement to encompass all audits of PIEs, we suggest the IAASB develop application material to provide a clear path for determining the necessity for the EQCR based on the degree of public protection involved. For example, it could consider a presumption that financial institutions and insurers that accept deposits from the public or sell policies to the public, respectively, as requiring an EQCR. However, not all banks and insurance companies will necessarily fulfil such criteria – in these cases the presumption can be overcome. For example, investment banks or similar financial institutions that have few owners and creditors or depositors may not require an EQCR; similarly banks funded by other banks whose business is lending to companies may involve relatively low risk and thus a lower public interest. Equally insurance companies with limited insurance portfolios whose policy holders are sophisticated entities may not necessarily require an EQCR.</p> <p>We agree that the IAASB should consider strengthening requirements and guidance as to the selection of an appropriate EQC-reviewer. Here the IAASB needs to be highly sensitive to the SMP concerns as regards the periods of time for any cooling off provisions. It might be detrimental to quality if smaller firms were driven to appoint a less suitable EQC reviewer by the need to comply with such requirements.</p>

		<p>Documentation requirements could be strengthened where appropriate, but proportionate to the benefit of so doing.</p> <p>It might be appropriate to expand application material to explain the terms and expectations of an EQCR and to also reflect the fact that other forms of review (internal and external) may contribute to audit quality. For example, having an IFRS expert review certain aspects of the audit may mean that the EQC-reviewer would not need to focus on this area even though the focus of the EQCR will be on risk areas. A blanket approach to EQCR (i.e., covering every aspect of the audit) would generally be inappropriate and excessive. In this context, the actions identified in the last bullet point of paragraph 143 appear to be appropriate for setting the minimum focus, as an EQCR should not be a re-performance exercise.</p> <p>We do not support the proposal discussed in paragraph 144 for the IAASB to create a separate standard for EQCR. This could lead to calls for separate standards for others e.g., engagement partners, senior staff, junior staff etc. The EQCR is an integral part of quality control, not an exercise in its own right – hence a separate standard would provide too much prominence. Our concern would be that the relative role of the EQC-reviewer to that of the engagement partner might be lost if a separate standard were developed. In our view, scalability issues associated with the EQCR can be addressed by other means.</p> <p>For similar reasons we do not believe that it would be appropriate to have an EQCR “announced” in the auditor’s report, which is also discussed in paragraph 144. Reporting publically about what is actually a firm-internal monitoring process could send the wrong signal about the audit, and whether users would actually benefit from such information remains unclear. Since, it is not necessarily true that a EQCR improves the actual quality of the audit, or that because an audit was subject to an EQCR it must have involved more risks than an audit without an EQCR, there is a danger that public reporting might infer either or both of these to be the case. Publically reporting EQCR could, in the longer term, lead to pressure for unnecessary performance of an EQCR. We do however believe that, as part of the firm’s quality monitoring, EQCR is an issue that ought to be of interest to those charged with governance, and its application should be reported to them.</p> <p>We agree that clarification of the respective roles of the engagement partner and the EQC reviewer would be beneficial, since “muddying” their responsibilities could impact audit quality. In particular while the engagement partner has primary responsibility for the quality of the audit, the EQC-reviewer may contribute to quality, but does not necessarily do so. Clarification is required that the EQC reviewer’s responsibility is less than that of the engagement partner.</p> <p>Since the EQCR is not a member of the engagement team, but part of the internal quality control process, it would not be appropriate to require the EQCR to communicate with those charged with governance, as discussed in paragraph 146. However, we believe that it may, in some circumstances, be appropriate for the engagement partner to inform those charged with governance of the fact that the firm will undertake an EQCR in respect of the engagement, as this is relevant to the latter’s responsibility for the quality of the audit. This may not be appropriate in all engagements, and the IAASB should be aware of the potential for unintended consequences in practice before considering a firm requirement in this area. Of course those charged with governance may seek communication with the EQC reviewer, should they deem it necessary.</p>
26.	JICPA	<p>We support the following actions outlined in paragraphs 143 to 146.</p> <ul style="list-style-type: none"> ◆ <i>Expanding the types of engagements that would require an EQC review beyond audits of listed entities (paragraph 143, the first bullet)</i> <p>We support expanding the types of engagements that would require an EQC review beyond audits of listed entities. In Japan, we have already expanded the types of engagements by setting the following conditions:</p>

		<ul style="list-style-type: none"> - The firm is required to establish policies and procedures requiring an EQCR for all audit engagements, unless certain conditions (see following) are met; and - A firm is permitted to establish policies and procedures not requiring an EQCR for the audit engagement provided that the effect of the audited financial statements to the public and users of the audit reporting is limited. Nevertheless, the firm is also required to establish policies and procedures for carefully considering whether an EQCR should be performed for such an engagement if any risk factor illustrated in the standard exists. <p>◆ <i>Strengthening the requirements and application material regarding the selection of the EQC reviewer (paragraph 143, the second bullet)</i></p> <p>We believe that a “cooling off” period would be meaningful for ensuring the objectivity of the EQC reviewer. We also think it will be necessary to explore whether special considerations for the SMPs should be established.</p> <p>◆ <i>Strengthening the documentation requirements in ISA 220 (paragraph 143, the third bullet)</i></p> <p>We see no need to require detailed documentation of all discussion between the EQC reviewer and the engagement team. It would be meaningful, however, to require documentations of the significant items discussed, the timing of the EQCR, and the key procedures performed by the EQC reviewer.</p> <p>◆ <i>Strengthening the requirements and application material in ISA 220 by further specifying the nature and extent of matters to be considered by the EQC reviewer (paragraph 143, the fifth bullet)</i></p> <p>The fifth bullet of paragraph 143 proposes that ISA 220 emphasizes the importance of the EQC reviewer’s responsibilities for assessing the judgments made by the engagement partner and the engagement team in the areas of significant risk, and also the need for involvement in the review of components in a group audit situation as appropriate. We believe that these are meaningful points to emphasize.</p> <p>◆ <i>Clarifying the roles of the EQC reviewer and the engagement partner in ISQC 1 and ISA 220 (paragraph 145)</i></p> <p>Enhancing the provisions regarding the EQCR in ISQC 1 and ISA 220 should not expand the responsibilities of the EQC reviewer to a level equivalent, or beyond, the responsibilities of the engagement partner. It is also important, in our view, to ensure the effectiveness of the EQCR. We therefore support the action.</p> <p>We do not support the following actions:</p> <p>◆ <i>Adding application material to ISA 220 for the use of subject-matter experts or other qualified individuals, separate from subject-matter experts that assisted the engagement team, to assist an EQC reviewer where appropriate (paragraph 143, the fourth bullet)</i></p> <p>The role of the EQC reviewer includes evaluating the appropriateness of the judgments made by the engagement team on the use of the auditor’s experts and on the result of the work of the auditor’s experts. The use of subject-matter experts by the EQC reviewer, separate from the auditor’s experts that assisted the engagement team, would be inconsistent with the general expectation that an audit is to be conducted within a reasonable period of time and a reasonable cost. If the EQC reviewer is unsatisfied with the judgments made by the engagement team in relation to the auditor’s experts, it is the EQC reviewer’s responsibility to either ask the engagement team to resolve the issues, or, if necessary, to inquire with the auditor’s expert about the issues. The EQC reviewer should not be required, however, to use his/her own expert.</p>
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27.	MAASB	<p>(i/ii) The most meaningful action to address is further clarifying the nature, timing and extent of matters to be considered by the engagement quality control ("EQC") reviewer (including conflict resolution), while maintaining an appropriate distinction between the responsibilities of the engagement partner and those of the EQC reviewer.</p> <p>(iii) We do not support describing in the auditors' report the fact that an EQC review has taken place. Including additional statements about further quality reviews that have taken place would inappropriately imply different degrees of "quality" for an auditors' report.</p> <p>(iv) No further comments noted.</p>
28.	NBA	<p>(i) The most important action is to address the issue of the objectivity of the EQC reviewer.</p> <p>(ii) Because it is necessary to address the issues relating to the application of this requirement in practice.</p> <p>(iii) The firm should ensure that sufficient time should be made available for an EQCR and timely involvement during the complete audit process should be ensured. The firm's culture should support this.</p> <p>It could be clarified that an EQCR is not a substitute for nor does it replace the responsibility of the engagement partner.</p> <p>(iv) No comment</p>
29.	NZAuASB	<p>(i) The NZAuASB considers that the most meaningful action to address is:</p> <ul style="list-style-type: none"> Further clarifying the nature, timing and extent of matters to be considered by the EQC reviewer, while maintaining an appropriate distinction between the responsibilities of the engagement partner and those of the EQC reviewer. The NZAuASB encourages the development of guidance which is based on principles, rather than in a check list approach. In particular, the IAASB should emphasise the need for the EQC reviewer to consider if and how the engagement partner applied professional scepticism, for example, by providing more guidance to the EQC reviewer on how to ask the right questions / challenge the auditor. <p>(ii) Feedback from auditors indicated that further guidance and clarification would be useful, specifically on the timing and documentation requirements. The New Zealand regulator considers that the EQC review requirements and timing and involvement in key areas should be more prescriptive, and that the EQC reviewer's application of professional scepticism should be more clearly demonstrated/ evidenced in the audit file. Constituents were ambivalent about the need for a separate EQC</p>

		<p>review standard. The NZAuASB considers a separate EQC review standard risks detracting from the engagement partner prominence and responsibility for audit quality.</p> <p>(iii) 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.</p> <p>(iv) The cost of compliance with increased requirements versus a possible increase in audit quality needs to be carefully considered. It is also important to maintain an appropriate distinction between the responsibilities of the engagement partner and the EQC reviewer. Increasing the EQC reviewer's role in the engagement risks transforming the reviewer into a second partner and will divert from the main purpose of the EQC review, which is that of an independent reviewer able to challenge the engagement's team approach and conclusions.</p>
Accounting Firms		
30.	BDO	<p>(i) The IAASB's potential expansion of the criteria for selecting those engagements subject to EQC Review (e.g., financial institutions) is logical since this would normally involve PIEs. The level of involvement of the EQC Reviewer could also be explored through the use of more application material (particularly in ISA 220), as could further consideration about the nature and extent of matters to be considered by the EQC Reviewer (perhaps through use of examples highlighting the significance of risks of material misstatements in particular areas via guidance rather than a list of requirements).</p> <p>On balance, and with a view to protecting the public interest, we would also support a drive by the IAASB to consider proposals that address the nature and timing of EQC Reviewer involvement during various stages of the audit.</p> <p>(ii) See our answer in QC6 (a) (i).</p> <p>(iii) In section G1(b) we indicated that the IAASB should consider providing clarity about how the ISAs can be better applied on audits of SMEs.</p> <p>Within a number of markets globally, the ability of some smaller firms (for example, SMPs) to retain a presence in the audit market has been hampered by increases in regulation and the volume of work placed on them to comply with ISAs - effectively forcing them out of the market. From a public interest perspective, fewer audit firms being able to provide an audit service can lead to a lack of innovation, competition and ultimately may have the unintended effect of leading to poorer audit quality for users.</p> <p>(iv) None noted, except as indicated above.</p>
31.	CHI	<p>(i) The actions that would be most meaningful are:</p> <ul style="list-style-type: none"> • Strengthening the documentation requirements in ISA 220 to more clearly show a record of the conduct of the EQCR; and • Further specifying the nature and matters to be considered by the EQCR. <p>To address these actions, as well as the other issues identified by IAASB, we believe that a separate EQCR standard should be developed.</p> <p>(ii) In respect of the specific actions that we have referred to, we concur with the observations in paragraph 137 about the depth, focus and documentation of the EQCR. Checklists alone cannot evidence EQCR. IAASB has to strengthen standards with a view to improving the documentation of the EQCR.</p>

		<p>Regarding the development of a separate standard, as noted in paragraph 144, EQCR is important to stakeholders, as well as to firms' risk management. The advantages of having a separate standard outweigh the disadvantages. A separate standard will recognise the importance of EQCR.</p> <p>(iii) We have nothing to add.</p> <p>(iv) We have nothing to add.</p>
32.	DTT	<p>DTTL is supportive of the expansion of the requirement for an EQC review to include Public Interest Entities. This would be consistent with the approach adopted in the IESBA Code which currently has more rigorous independence requirements for Public Interest Entities. However, DTTL does not support the suggestion that the IAASB explore either setting a definition for Public Interest Entities or describing characteristics of particular public interest entities other than listed entities. This topic was explored by the IESBA in the development of the sections 290 and 291 of the Code. As this topic remains within the purview of IESBA, DTTL recommends the IAASB remain focused on matters that may enhance the performance of the EQC reviews.</p> <p>For example, as referenced in paragraph 138 of the ITC, PCAOB Auditing Standard No. 7 (AS 7) does have additional emphasis with respect to (i) the objective of an engagement quality review; (ii) the need for independence, integrity and objectivity in an engagement quality reviewer; and (iii) the EQC process itself focusing on areas of significant risk or judgment. It may be appropriate, in the context of possible enhancements in the areas outlined above, to consider how the matters are addressed in AS 7; however, DTTL is not recommending that there necessarily be complete alignment with all the requirements of AS 7.</p> <p>As discussed in the executive summary, given the objective of an EQC review and the importance of the role as an element of a firm's system of quality control, a definitive separate standard that includes a balance of principles, robust requirements, and supporting application material may be effective in communicating the importance of the role and also emphasizing the related responsibilities. It is important to clearly balance these EQC responsibilities relative to those of the engagement partner, but at the same time emphasizing accountability of the EQC reviewer. Importantly, the scope of the EQC reviewer duties should not expand beyond those of the engagement partner who is ultimately responsible for the quality of the audit.</p> <p>While DTTL is supportive of the EQC reviewer using assistants in the execution of the EQC review, paragraph 143 also explores the use of subject-matter experts or other qualified individuals in the execution of the EQC review. DTTL questions whether this creation of another "quasi" engagement team is consistent with the EQC process. The role of the EQC review is not to re-perform the audit, rather it is to serve as an independent review of the more complex or significant areas DTTL recognizes that the work of specialists/experts in an audit engagement currently is and should continue to be subject to appropriate review by suitably experienced members of the engagement team. In performing the EQC review, the EQC reviewer has the ability to question these individuals about their work and related conclusions, but should not be required to find others to reperform their analysis. To reemphasize, the role of the EQC reviewer should be to understand that process and to hold discussions with the partner and specialist/expert as deemed necessary.</p> <p>Paragraph 146 explores the possibility of the EQC reviewer communicating with Those Charged with Governance (TCWG). Having the EQC reviewer available to support the audit partner in discussions with the client on contentious matters may be beneficial on occasion. However, requiring the EQC reviewer to specifically communicate to TCWG will confuse the issue of who is in charge of the audit and who is making the key decisions. Therefore, DTTL cautions against such an approach.</p>
33.	EYG	<p>We believe the most meaningful actions related to engagement quality control reviews and reviewers are:</p> <ul style="list-style-type: none"> ► Considering the linkage between professional skepticism and the role of the engagement quality control reviewer (refer to "Objectivity of the engagement quality control reviewer" below)

	<ul style="list-style-type: none"> ► Clarifying the work effort of the engagement quality control for significant matters and significant judgments (refer to “Work effort of the engagement quality control review” below) ► Implementing a risk-based approach to selecting engagements for engagement quality control review (refer to (b)(i) below) <p>Objectivity of engagement quality control reviewer</p> <p>Objectivity of the engagement quality control reviewer (EQC reviewer) is of course fundamental to the EQC reviewer’s responsibility to perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor’s report. We agree with the selection criteria in paragraph A49 of ISQC1, and would support the IAASB considering these and other possible relevant criteria as specific risk factors or criteria to be addressed in the development of firm policies and procedures related to the selection of EQC reviewers.</p> <p>As we expressed in our response to PS2, we believe there is a direct linkage between the role of the EQC reviewer and professional skepticism that is derived from this responsibility to provide this objective evaluation (i.e., in simplest terms, the reviewer could be viewed as a “hired skeptic”). We believe the IAASB should explicitly consider this linkage as it evaluates expansions to requirements for the EQC review to ensure that the objectivity and the ability of the EQC reviewer to provide an additional “layer” of professional skepticism to the audit are not compromised. We also believe that understanding this linkage may assist in making an appropriate distinction between the role of the engagement partner and the EQC reviewer (as suggested in paragraph 145 of the ITC). However, in our practical experience, we find this distinction quite clear.</p> <p>Refer to (b)(ii) for our views on a cooling-off period for engagement partners prior to being appointed as EQC reviewers.</p> <p>Work effort for the engagement quality control review</p> <p>We support the IAASB exploring the strengthening of the requirements and application material in ISA 220 and whether further specification of the nature and extent of matters to be considered by the EQC reviewer should be made. But, we also believe that the EQC reviewer needs to be provided flexibility to consider how best to achieve the purpose of the EQC review (i.e., an objective evaluation of the significant judgments and conclusions reached by the engagement team) based on the facts and circumstances of the engagement.</p> <p>Accordingly, we think it is important to maintain the principle in paragraph A27 of ISA 220 that the extent of the EQC review may depend on the complexity of the audit and the nature of the entity. We would add that the extent should also depend on the nature of the risks and the related risk assessment. Therefore, we agree that the EQC reviewer should understand the significant risks and the responses to those risks. More generally, we believe that the EQC reviewer should understand the risks driving the audit strategy (e.g., those identified in the client acceptance/continuance process, risks arising from changes in the entity’s business or other significant changes in risks from the prior period).</p> <p>With an understanding of these risks, the EQC reviewer should consider the level of interaction and review necessary to evaluate the significant judgments related to these risks. This may include:</p> <ul style="list-style-type: none"> ► The extent to which reviewing component auditor documentation related to significant judgments or other significant matters is necessary ► Whether to obtain subject-matter expertise for a particular audit area or judgment to perform the EQC review (which we believe may include direct interaction with external or internal specialists involved on the engagement) ► Interacting with those charged with governance <p>As mentioned in paragraph 146 of the ITC, we agree that there are mixed views about whether, and in what circumstances, communication between the EQC reviewer and those charged with governance are appropriate. In our view, there may be circumstances when the EQC</p>
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	<p>reviewer believes that attending an audit committee meeting when certain significant judgments are discussed and directly hearing the audit committee's views may be useful to their objective evaluation of these judgments. However, we do agree that the EQC reviewer should not have interactions with those charged with governance that would be viewed as participating in the engagement (e.g., appearing to cross the boundary into the role of the engagement partner). For the purposes of the ISAs, we do not believe that EQC reviewer interactions with those charged with governance should either be required or precluded.</p> <p>Documentation of the EQC review</p> <p>As it relates to requiring documentation of timing and substance of the EQC review, we are uncertain of the difference between documenting the "substance" of the EQC review and the current documentation requirement for the EQC reviewer to document that "the procedures required by firm policies for EQC review have been performed".</p> <p>Nevertheless, we agree that it should be evident in the audit documentation which significant matters or significant judgments were reviewed as part of the EQC review, and as a result, it should be evident that the EQC reviewer has evaluated the engagement team's conclusions. We believe any further documentation requirements or guidance should be principles-based to focus on the EQC reviewer documenting the basis for meeting the objectives of the EQC review. Specifically requiring documentation of specific discussions between the engagement partner and reviewer would be an overly narrow requirement, in our view, because such a requirement would not be focused on the overall objective of the EQC review.</p> <p>Relationship between EQCR and pre-issuance reviews</p> <p>The proposed actions in paragraph 143 of the ITC include adding application material about the use of subject-matter experts to perform pre-issuance reviews when an EQC review is not performed for the engagement. We do not support including this application material. We would contend that the decision of whether an engagement requires an EQC review is separate from the decision of whether an engagement requires a pre-issuance review, which typically serves a special or targeted purpose. Specifically, many engagements have both because the reviews serve different purposes, while others may be subject to one or the other. Most importantly, we agree with the statement in paragraph 148 of the ITC that it is not appropriate to consider a pre-issuance review of some variety as a less extensive replacement for an EQC review.</p> <p>Required communication with those charged with governance about the EQC review and disclosure in the auditor's report</p> <p>In regard to the proposals to require communication to those charged with governance that the engagement is subject to EQC review, and also possibly disclose this fact in the auditor's report, we do not believe that either proposal is necessary or appropriate. In our view, the fact that an engagement was subject to an EQC review is not an indicator of audit quality (i.e., engagements that are not subject to an EQCR are not necessarily lower quality). EQC review is a quality control process that is applied to engagements of a certain criteria – generally speaking, audits of higher risk and complexity.</p> <p>To communicate to those charged with governance that an engagement is subject to EQC review would also require explaining why the engagement has been selected and the role of the EQC reviewer, and perhaps even the results of the EQC review. We are not convinced that this level of communication is necessary or serves the objective to improve audit quality.</p> <p>We do not support disclosure in the auditor's report that the engagement was subject to EQC review because we believe that this disclosure would imply that audits that are not subject to EQC review are of lower quality, which would not be accurate, or in the public interest. Further, as we expressed in our response to QC3, we believe that any further enhancements to the auditor's report should be considered in conjunction with the IAASB's planned post-implementation review in order to evaluate any potential enhancements in a holistic and prioritized manner.</p>
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34.	GTI	<p>In considering potential amendments to ISQC 1 and ISA 220, it is important to keep in mind the respective roles and responsibilities of the engagement partner and the EQC reviewer. If a separate standard for the EQC review was to be created, care would be needed to maintain the appropriate balance between the roles and responsibilities of the engagement partner and of the EQC reviewer. ISQC 1 and ISA 220 already include requirements in respect of the appointment and the role of the EQC reviewer illustrating the relative importance of the two roles. As such, any additional requirements expanding the roles and responsibilities of the EQC reviewer relative to those of the engagement partner should be carefully considered. However, we do believe that the role of the EQC review relative to other quality control processes that many firms have adopted, such as pre-issuance reviews or hot reviews, should be further explained and clarified.</p> <p>In respect of the requirements and related application material establishing the criteria for the eligibility of the EQC reviewer, we would also recommend further explanation and clarity around what is meant by the requirement in paragraph 39(a) of ISQC 1 for the EQC reviewer to have the necessary ... authority. Experience has indicated that regulators interpret this in a manner different to firms.</p>
35.	KPMG	<p>We generally support strengthening the requirements relating to Engagement Quality Control (EQC) reviews, in particular, the alignment of requirements with a risk-based approach, and the documentation thereof. Specifically, we agree that it would be helpful for the IAASB to consider mandating the performance of EQC reviews beyond audits of listed entities, perhaps including other public interest entities in the scope. We do not believe that it is necessary to develop a separate standard for EQC reviewers, however, we consider that it is helpful to retain the current presentation of requirements in respect of EQC reviewers to enable these to be better understood in a broader context, including clarifying and differentiating between the respective roles and responsibilities of the Engagement Partner and the EQC reviewer. Furthermore, although a separate standard might raise awareness, it will result in a great deal of repetition in the literature.</p> <p>We do not support specifically communicating in the auditor's report about whether an engagement was subject to an EQC review. Although an EQC reviewer is an important element of a Firm's system of quality control, it is only one element and therefore identification of this element in isolation may not give a clear picture regarding the quality controls applied overall. Furthermore, the fact that an engagement has not been subject to EQC reviewer does not necessarily mean it has not been subject to other, meaningful and appropriate quality control procedures.</p> <p>In terms of other proposals, such as whether the EQC reviewer should be supported by additional subject matter experts, or engage in communications with those charged with governance, we do not believe such proposals to be helpful or appropriate. The EQC reviewer is an important part of the Firm's internal quality control process and, as such, it is critical that he/she remain objective and independent of the engagement team. We are concerned that such proposals may compromise this position, such as by creating a "shadow team" or by creating a perception that those charged with governance have an open channel to communicate directly with the EQC reviewer and obtain a "second opinion".</p>
36.	PwC	<p>(i) We support bringing clarity to the objective and scope of the role of the engagement quality control (EQC) reviewer. Key to addressing this is to get consensus on what the roles and responsibilities of an EQC review is, and how it relates to other aspects of a QMA / quality management system in supporting quality on an engagement.</p> <p>It is fundamentally important that the respective roles and responsibilities between the engagement partner and EQC reviewer are clear. This includes addressing key questions of timing and extent of involvement in the audit by the EQC reviewer and recognising the behavioural implications changes in roles might inadvertently drive. Proposed changes to the EQC role should clearly identify the risk that is trying to be addressed, how that might best be addressed (and by whom) and what the relevant costs/benefits might be.</p>

		<p>The EQC reviewer brings a critical challenge to areas of significant management judgement and provides a check on the quality of the audit work done in response to those areas, including key judgements made by the engagement team. It is impracticable to expect the EQC reviewer to check and be responsible for all aspects of audit quality – they are not the engagement partner. Such an extension of scope would be unworkable in practice.</p> <p>We believe consensus is needed on the objective of the EQC review and for the responsibilities of the EQC reviewer to be discussed in that light. Seeking to have every judgement subject to EQC review is not warranted and likely an unachievable aspiration.</p> <p>We are comfortable with elevating additional considerations for the selection of the EQC reviewer into the requirements in ISQC 1 and ISA 220, reinforcing key concepts such as objectivity, association and relevant experience. We agree that there needs to be appropriate guidance on when an individual may not fulfil the role of EQC reviewer and that appropriate collaboration with IESBA on such material is appropriate. We believe it is more helpful if the two Boards collaborate on the question of a ‘cooling-off’ period rather than leaving any decision solely to firms, which may result in inconsistencies across practice and which may not be considered acceptable to regulatory authorities.</p> <p>We also agree with the proposal to expand the scope of audits subject to an EQC review to include certain public interest entities, which is consistent with our current practice as a network. We agree that, given the challenges associated with the definition of this term in the international arena, this is likely best achieved through more specific criteria that would lead to that result in practice, but that would allow judgement to be applied if there were clear indicators that a particular engagement did not warrant such a review. Linkage with the proposed concepts of a QMA would also be appropriate in requiring firms to establish additional criteria for identifying those engagements that should require an EQC review based on risks to achieving the firm’s quality objectives.</p> <p>(ii) See response to point (i).</p> <p>(iii) We share the concerns expressed in the ITC on the potential disadvantages and consequences of an unduly excessive focus on the EQC review. Such reviews are one element of the system of quality control.</p> <p>We do not support describing in the auditor’s report the fact that an EQC review has taken place. It is important that users feel able to rely on any audit opinion that has been expressed, and including additional statements about further quality reviews that have taken place would inappropriately imply degrees of ‘quality’ (and hence reliability) of an auditor’s report.</p> <p>We are also concerned about suggestions that the EQC reviewer may need to be involved in review of the work done at components in a group situation. Such individuals are not responsible for the work undertaken by component auditors but should evaluate key judgements made with regards to engagement scope and the conclusions drawn by the group engagement team on any significant matters that have arisen at components.</p> <p>(iv) If the responsibilities of the EQC reviewer become very onerous, relative to the responsibilities of the engagement partner, this could have a direct impact on the population of individuals available to act as EQC reviewer. This can be exacerbated by jurisdictional constraints on who can act as an EQC reviewer. What is important is that the appropriate experience and expertise can be brought to bear on significant judgements in the audit engagement, and there are limits to the number of qualified professionals available to fill these roles.</p>
37.	RBI	--

38.	RSM	<p>(i) We agree with the actions listed in paragraphs 143 to 146, in particular proposals to give greater prominence to the EQC reviewer role provided that this does not have an unintended consequence of reducing the role of the engagement partner.</p> <p>(ii) We believe action is necessary because issues and concerns have been raised by stakeholders associated with this process.</p> <p>(iii) We believe that the proposals should focus more on the importance of early involvement of the EQC reviewer in the audit process, including at the client acceptance/re-evaluation stage because it is often at client acceptance that key decisions are made concerning the engagement that the EQC reviewer should be consulted about.</p> <p>(iv) None.</p>
39.	SRA	--
Public Sector Organizations		
40.	AGC	<p>(i) We support all of the actions outlined in paragraphs 143-146. From a public sector perspective, the actions that would be most meaningful are those directed at supporting a firm's identification of engagements other than audits of listed entities where an EQCR would be most valuable.</p> <p>(ii) In the public sector, audits of listed entities are rare. As a result, there is a significant risk that many public sector engagements will not be selected for engagement quality control review. Further, other assurance engagements (such as direct engagements) could be more explicitly addressed in current requirements.</p> <p>(iii) The Invitation to Comment discussion of monitoring and remediation appropriately identifies that there are a variety of both pre-issuance and post-issuance reviews performed by firms attempting to address audit quality concerns or risks. We would support the Board considering how pre-issuance reviews or other pre-issuance activities could be integrated more explicitly into the system of quality control engagement performance elements in addition to the Board's current consideration that they may be an input to monitoring.</p> <p>We do not support the proposed action of communicating in the auditor's report whether the engagement was subject to an EQC review. An EQC review is only one of the multitude of actions and procedures applied to address risks to audit quality. As such, it would appear inappropriate to draw specific attention to this specific element of the firm's system of quality control in the auditor's report.</p> <p>(iv) It is important the Board recognize the integration of certain classification decisions and the consequences on the applicability of other requirements. For example, if changes are made to the concept or definition of listed entity, impacts on other standards such as auditor reporting must also be considered.</p>
41.	AGSA	<p>(i) All are meaningful and should be implemented except the following:</p> <ul style="list-style-type: none"> • Reference to an EQC review in the audit report. • Discussions with governance structures. <p>(ii):</p> <ol style="list-style-type: none"> 1. These actions will clarify the roles and responsibilities EQC reviewer to enhance audit quality. 2. Ensuring stricter controls in place to support the audit conclusions.

		<p>3. Strengthen documentation requirements</p> <p>(iii):</p> <p>1. The scope of EQCR needs to be better clarified- currently it is limited to significant judgments however instances arise where an audit component is not a significant judgment or significant risk but is still qualitatively material (for example, political sensitivity) based on the nature of the audit. These qualitatively material areas can impact the audit opinion and therefore should be included in the scope of the EQC reviewers. Currently the EQC reviewers are reluctant to review these sections as they are not within their scope.</p> <p>2. Emphasis must be placed on the independence and objectivity requirements of EQCRs</p> <p>(iv) No further comments.</p>
42.	GAO	<p>We support the development of a separate EQC review standard. The standard should include the following:</p> <ul style="list-style-type: none"> • Flexibility for small- and medium-sized practices, which would allow alternatives, including possibly peer review instead of the EQC review. The standard should be developed keeping in mind the restrictions that small or medium sized practitioners would face. • Requirements for an EQC or alternative review, such as a peer review, that would evaluate quality control for all engagements complying with IAASB's standards, not just audits of listed entities. • Examples of how an audit organization can structure the EQC review process for nonlisted entity audits and engagements. • A cooling off period¹³ for an individual serving as the EQC reviewer after being on the audit team for the same engagement. <p>We do not support the proposal to communicate in the auditor's report whether the engagement was subject to an EQC review. The EQC review is only one possible action or procedure applied to address risks to audit quality.</p>
43.	INTOSAI	<p>(i) We support all of the actions outlined in paragraphs 143-146. From a public sector perspective, the actions that would be most meaningful are those directed at supporting a firm's identification of engagements other than audits of listed entities where an EQCR would be most valuable.</p> <p>(ii) In the public sector, audits of listed entities are rare. As a result, there is a significant risk that many public sector engagements will not be selected for engagement quality control review. Further, other assurance engagements (such as direct engagements) could be more explicitly addressed in current requirements.</p> <p>(iii) The Invitation to Comment discussion of monitoring and remediation appropriately identifies that there are a variety of both pre-issuance and post issuance reviews performed by firms attempting to address audit quality concerns or risks. We would support the Board considering how pre-issuance reviews or other pre- issuance activities could be integrated more explicitly into the system of quality control engagement performance elements in addition to the Board's current consideration that they may be an input to monitoring.</p> <p>We do not support the proposed action of communicating in the auditor's report whether the engagement was subject to an EQC review. An EQC review is only one of the multitude of actions and procedures applied to address risks to audit quality. As such,</p>

¹³ A cooling off period is a period of time between when the individual is on the engagement and is allowed to be the EQC.

		<p>it would appear inappropriate to draw specific attention to this specific element of the firm's system of quality control in the auditor's report.</p> <p>(iv) It is important the Board recognize the integration of certain classification decisions and the consequences on the applicability of other requirements. If changes are made to the concept or definition of listed entity, impacts on other standards such as auditor reporting must also be considered.</p>
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	<p>We agree that the engagement quality control reviewer (EQCR) is an important contributor to audit quality. However, we caution that changes to the EQCR requirements must be measured and proportionate to ensure that the EQCR's contribution to quality is maintained and enhanced.</p> <p>In particular, we recognise the challenges for SMPs in paragraph 140 and would advise against arbitrary extensions to the engagements which require an EQCR as these will discriminate against SMPs.</p> <p>While it's important that the EQCR role is performed well, new requirements may not necessarily increase audit quality. If the requirements become too onerous, it may be that firms are unable to identify enough qualified candidates for the role, limiting their ability to undertake public interest audits.</p> <p>We would expect there to be a cooling-off period between being engagement partner and EQCR. While there are advantages to knowing the industry, the former engagement partner would be subject to the threat of self-review to his/her independence. A former engagement partner should only become EQCR once sufficient time has passed for this threat to independence to be overcome. A longer period might be appropriate for larger public interest entities.</p> <p>We would not support the development of a separate EQCR standard. While the role is undoubtedly important, there is no equivalent standard for any other role on the audit, including the engagement partner. A separate standard would risk overstating the relative importance of the EQCR compared to these other roles.</p>
47.	AIC	--
48.	AICPA	<p>We have no objections to strengthening the documentation requirements in ISA 220 as described. Likewise, we support adding application material that clarifies the use of subject-matter experts to assist the EQC reviewer. Given the increasing complexity of accounting standards along with heightened focus on audit quality, we believe it is imperative that the EQC reviewers consider the need for assistance in their reviews to effect a timely and meaningful assessment of the audit risks and responses. With regard to additional specificity around the nature and extent of matters to be considered by the EQC reviewer, we support additional application material if considered necessary to address disparities in practice; we do not support additional requirements as the circumstances and judgments as to significant risks varies depending on the engagement circumstances.</p>

		<p>We suggest that additional guidance be provided on the extent to which an EQC reviewer can be consulted during an engagement without compromising the reviewer's objectivity. We strongly believe earlier involvement and engagement of the EQC reviewer leads to improved audit quality. Guidance on the resolution of disagreements between the EQC reviewer and the engagement team would also be helpful.</p> <p>We oppose a requirement for the engagement partner to communicate with those charged with governance that an engagement is subject to an EQC review. The potential for misunderstanding is very high. Why should this one quality control measure, internal to the firm, be communicated when no other of the firm's processes and procedures, such as other reviews that the engagement is subject to, are communicated? We also oppose any requirement for communication between the EQC reviewer and those charged with governance. The potential for misunderstanding the EQC reviewer's role on the engagement is extremely high, as well as the potential for giving the impression that the EQC reviewer's responsibility for the engagement is higher than that of the engagement partner.</p>
49.	APESB	--
50.	CAANZ	<p>(i) We consider that the most meaningful actions to address are:</p> <ul style="list-style-type: none"> • Clarifying application guidance in relation to the nature, timing and extent of matters to be considered by the EQC reviewer. • Maintaining an appropriate distinction between the responsibilities of the engagement partner and those of the EQC reviewer. <p>(ii) Feedback we received is that it is currently not clear how much involvement by the EQC reviewer is envisaged by the ISAs.</p> <p>(iii) We do not support mandating communication between the EQC reviewer and those charged with governance, as this could confuse respective roles and responsibilities. While some may choose to do this, the key objective of an EQC review is an internal, independent look at the team's judgements. The EQC reviewer will not be able to offer any additional or different insights to those charged with governance than those offered by engagement partner.</p> <p>(iv) Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.</p>
51.	CAI	--
52.	CAQ	--
53.	CIIPA	--
54.	CIMA	--
55.	CPAA	<p>(i) Our ITC survey respondents were divided on whether there is a need to strengthen requirements for engagement quality control (EQC) reviews. Those who supported the strengthening of requirements identified the following actions, as those which would be most effective:</p>

		<ol style="list-style-type: none"> 1. Extending the requirements for EQC reviews beyond audits of listed entities, to public interest entities or entities based on other risk-based criteria. 2. Documentation of review procedures and significant discussions with the engagement partner. 3. Specifying the nature and extent of matters to be considered by the EQC reviewer. <p>There were divided views in the roundtables conducted as to whether direct communication between the EQC reviewer and TCWG was appropriate. There was some concern that it would impact their appearance of independence, and that such communication constitutes a confusion of the role of the engagement partner and the EQC reviewer. Stakeholders certainly considered that if there was to be contact between the EQC reviewer and the entity, that it should be very limited, such as a meeting with the audit committee annually.</p> <p>Some survey respondents also thought that use of experts to support the EQC reviewer or expert reviews where an EQC review is not conducted could be worthwhile, as well as the auditor's report identifying that the engagement was subject to a quality control review.</p> <p>CPA Australia supports the review of the existing requirements and their application, as well as the gathering of evidence to ascertain the benefits of EQC reviews before extending them to other entities.</p> <p>(ii) ISA 220 allows for EQC reviews for other audit engagements of non-listed entities, but does not provide any requirements or guidance as to the basis on which the firm should determine that an EQC review is required. ISQC 1 requires that firms establish policies and procedures which set out criteria for determining when EQC reviews should be conducted on engagements other than listed entity audits and provides limited application material. We support the elevation of application material to a requirement to develop criteria based on risk for conducting an EQC review. Clearer application material in this regard would be helpful.</p> <p>We support clarification of the nature and extent of matters to be considered in an EQC review and the documentation needed to facilitate a consistent approach in conducting EQC reviews across firms.</p> <p>(iii) Whilst ISQC 1 currently requires the firm to establish policies and procedures for eligibility of EQC reviewers, clearer requirements would encourage consistency between firms and ensure a suitable level of competency and experience for eligibility as an EQC reviewer. More junior members of the firm may have more difficulty providing EQC review for more senior partners, as they may not have sufficient authority to provide effective oversight.</p> <p>(iv) We do not support addressing a cooling off period for EQC reviewers previously involved in the audit as explained in QC6(b)(ii) below nor do we support a new standard for EQC reviewers as we consider that the existing standards should be able to accommodate the additional material needed adequately.</p>
56.	DnR	Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE. [also see p. 2]
57.	EFAA	We are supportive of the IAASB addressing matters of inconsistency between ISQC1 and ISA 200. We are not aware of any other relevant issues.
58.	FACPCE	--
59.	FEE	We agree with most actions proposed in the section "Engagement Quality Control (EQC) Reviews and Engagement Quality Control Reviewers (EQCR)", except for the development of a separate EQC review standard. This would perhaps result in a disproportionate

		<p>focus and expectations compared with the audit engagement partner, who of course is not the subject of a specific auditing standard. We also do not believe it is appropriate to have the EQCR ‘announced’ in the auditor’s report. The IAASB should be bold in the approach of keeping the EQCR as an internal role without having any link with the client. Lastly, EQC reviews should be considered for entities such as those with public exposure and high risk areas for society.</p> <p><u>Response to specific questions</u></p> <p>(106) All the areas discussed in paragraphs 143 and 145 should be enhanced. Examples of such actions would include strengthening the requirements and application material to specify the scope of engagement subject to EQCR and to the selection of reviewers, i.e. to ensure that they have the appropriate expertise. Also, it is important to reinforce the material so as to ensure that sufficient time is allocated to the reviewer to perform their tasks and also to consider the timing of the performance of the EQCR. Furthermore, it would in some instances be desirable to have more robust documentation as well as to have a proper distinction as to the role of the engagement partner and the role of the engagement quality reviewer.</p> <p>(107) As EQCR is however only one part of quality control, a separate standard is not appropriate; but we very much support enhancements to existing standards, primarily to ISA 220. Our concern with such a proposal would be partly repetition in that significant material would need to be stated in two different places, and secondly, the relative importance of the role of the engagement partner might be lost due to the over-emphasised role of the EQC. In addition, in the Code of Ethics dealing with long association of personnel, the IAASB should concentrate on the role and responsibilities of the EQCR and how it is articulated with the ones of the engagement partner. SMP concerns will need to be taken into account in this context. They are less likely to have a pool of suitable EQCR candidates than larger firms, so care needs to be taken not to impact audit quality by forcing a potentially less suitable EQCR to assume this important role.</p> <p>(108) For similar reasons, we do not believe that it would be appropriate to have an EQCR ‘announced’ in the auditor’s report, as discussed in paragraph 144. Reporting publicly on what is actually a ‘firm-internal monitoring process’ could send the wrong signal about the audit, and whether users would actually benefit from such information remains unclear. However, as part of the firm’s quality monitoring, EQCR is an issue that ought to be of interest to those charged with governance, and its application should be reported to them.</p> <p>(109) If these actions are taken, then it is more likely that the EQCR review will provide better and timelier insights which will help towards the improvement of the quality of the audit engagements.</p> <p>(110) Paragraph 146 refers to mixed views heard regarding whether it is appropriate to have communication between the EQC reviewer and those charged with governance. We believe that the IAASB should be bold in the approach of keeping the EQCR as an internal role without having any link with the client, its management, but also those charged with governance. No external reporting should be foreseen, enabling the EQC reviewer to focus on internal quality control procedures.</p> <p>(111) It is important to also prompt the EQC reviewer to refer to Article 8 in the Regulation (EU) No 537/2014⁴ which relates to the public-interest entities and which provides explicit elements that need to be assessed during an EQCR for those entities. The regulation is in the course of being implemented in June 2016.</p> <p>(112) A possible consequence of enhancing the requirements and application material of an EQCR is that it may result in the EQC reviewer having responsibilities not balanced in comparison with those of the engagement partner; this should be considered</p>
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⁴ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0537&from=EN>

		when making the relevant amendments. Furthermore, in adding responsibilities to the EQCR, caution should be taken not to create a role so difficult or broad that no individual could meaningfully fulfil it.
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	--
63.	IBR-IRE	<p>(55) We do not think that the types of engagements that would require an EQC review should be expanded, although additional application material concerning the criteria for the selection of the engagements subject to EQC review might always be helpful.</p> <p>(56) Clearer application material regarding the selection of the EQC reviewer and regarding the substance of the EQC review procedures would also be welcomed. It is important to reinforce the material so as to ensure that sufficient time is allocated to the reviewer to perform their tasks and to consider the timing of the performance of the EQCR.</p> <p>(57) We are not in favor of additional documentation requirements in ISA 220 to include the timing and the substance of the EQC review procedures performed, and significant or substantive discussions between the engagement partner and the EQC reviewer.</p> <p>(58) We believe this would contribute to the effectiveness and usefulness of the EQCR review. With respect to the mixed views expressed in paragraph 146, we believe that the EQC partner should remain a non-client facing role.</p> <p>(59) We have not identified other relevant issues.</p> <p>(60) See above paragraphs 59-62.</p>
64.	ICAEW	<p>We consider that EQC reviews play a key role in firms having effective systems of quality control and we agree that greater clarity and further guidance should be given on certain EQC review matters, for example on the issues identified in paragraphs 137-140 of the ITC. In particular we consider that more guidance in the application material on EQC reviewer eligibility and what should be done in an EQR review would be helpful. However, we are concerned that too great a shift towards giving the EQC reviewer greater responsibilities and elevating the perceived significance of the role might have a detrimental impact by potentially confusing (and at worst) diminishing the role and responsibility of the engagement partner. The engagement partner retaining primary responsibility is critical to the effectiveness of ISA audits.</p> <p>Availability of suitable people to be EQC reviewers could be a significant issue if there is too great an enhancement made to the role. We consider that the role should not be restricted to partners as firms might consider that there are other staff or suitable third parties able and available to take on the role.</p> <p>On balance we would not support the mandating of EQC reviews beyond audits of listed companies although it might be preferable for the requirement to be for public interest entities rather than listed companies. We believe that judgement is central to decisions on whether to have an EQC review for other entities and this judgement for audits of non-listed companies might be diluted if the norm for them is regarded as not needing an EQC review.</p> <p>We do consider that there could be greater coverage in the application material of when to have an EQC review and how to go about it, picking up many of the issues in paragraphs 137-140 of the ITC including considerations for SMPs. We would support much greater coverage of reviews in general and not just EQC reviews. We understand that some firms consider that there should be reviews of all audit engagements, with the type of review to be performed dependent on the risk. Firms should have clear policies and procedures on reviews, not restricted to EQC reviews.</p>

		<p>On balance we would not support the development of a separate EQC review standard. We understand and support the desire to give prominence to the importance of EQC reviews, but we consider that this can be done within the overall standard for quality control. One risk of separating the requirements is breaking the perception of integration with the whole system of quality control.</p> <p><u>Response to specific questions</u></p> <p>(i) We consider that EQC reviews play a key role in firms having effective systems of quality control and we agree that greater clarity and further guidance should be given on certain EQC review matters, for example on the issues identified in paragraphs 137-140 of the ITC. In particular we consider that more guidance in the application material on EQC reviewer eligibility and what should be done in an EQR review would be helpful. However, we are concerned that too great a shift towards giving the EQC reviewer greater responsibilities and elevating the perceived significance of the role might have a detrimental impact by potentially confusing (and at worst) diminishing the role and responsibility of the engagement partner. The engagement partner retaining primary responsibility is critical to the effectiveness of ISA audits.</p> <p>We do not support mandating reporting of whether there was an EQC review in the auditor's report, as suggested in the last bullet of paragraph 144 of the ITC. We welcome firms being as transparent as possible in their audit reports but making this a requirement might give undue prominence to the role of EQC review compared to other aspects of the quality control system and, as stated in the last sentence of that bullet, inadvertently give readers a negative view about the quality of an audit that has not been subject to an EQC review.</p> <p>(ii) Audit firms currently find EQC reviews a challenging area to implement effectively, as evidenced by the number of inspection findings. The IAASB and others, including professional bodies such as ICAEW, can help by providing more practical guidance on the topic. The ICAEW Audit and Assurance Faculty has covered the topic in various ways in its guidance including in recent webinars and hangouts.</p> <p>(iii) Availability of suitable people to be EQC reviewers could be a significant issue if there is too great an enhancement made to the role. We consider that the role should not be restricted to partners as firms might consider that there are other staff or suitable third parties able and available to take on the role.</p> <p>In the EU there is a new Regulation that applies to public interest audits and this has introduced a number of new requirements with some differences compared to ISQC 1. Then IAASB should consider whether to make any changes to its standards in the light of the Regulation requirements.</p> <p>(iv) No further comment.</p>
65.	ICAP	<p>We support bringing clarity to the objective and scope of the role of the engagement quality control (EQC) reviewer. Key to addressing this is to get consensus on what the roles and responsibilities of an EQC review is, and how it relates to other aspects of a QMA / quality management system in supporting quality on an engagement.</p> <p>It is important that the respective roles and responsibilities between the engagement partner and EQC reviewer are clear. This includes addressing key questions of timing and extent of involvement in the audit by the EQC reviewer and recognising the behavioral implications changes in roles might inadvertently drive. Proposed changes to the EQC role should clearly identify the risk that is trying to be addressed, how that might best be addressed (and by whom) and what the relevant costs/benefits might be.</p> <p>The EQC reviewer brings a critical challenge to areas of significant management judgement and provides a check on the quality of the audit work done in response to those areas, including key judgements made by the engagement team. It is impracticable to expect the</p>

		EQC reviewer to check and be responsible for all aspects of audit quality – they are not the engagement partner. Such an extension of scope would be unworkable in practice.
66.	ICAS	--
67.	ICAZ	<p>(i):</p> <ul style="list-style-type: none"> a) Elevating the application material in ISQC 1 and ISA 220 concerning criteria for selecting those engagements subject to EQC review to requirements. b) Strengthening the requirements and application material in ISQC 1 in relation to the establishment of criteria by the firm for selecting those engagements that require an EQC review. c) Adding a new requirement, or clarifying the existing requirement, to focus on the selection of engagements for review based on identified risks of the engagements, such that engagements with higher audit risk or, if a firm is using a QMA, those that pose greater risk of negatively affecting the firm's ability to meet its quality objectives would be more likely to be selected. d) Strengthening the requirements and application material regarding the selection of the EQC reviewer, for example, elevating the application material in ISQC 1 concerning policies and procedures to maintain objectivity of the EQC reviewer to requirements e) Strengthening the documentation requirements in ISA 220 to include the timing and the substance of the EQC review procedures performed, and significant or substantive discussions between the engagement partner and the EQC reviewer f) Strengthening the requirements and application material in ISA 220 by further specifying the nature and extent of matters to be considered by the EQC reviewer <p>(ii) The above requirements and application material will allow for consistency from one firm to the other on the following matters:</p> <ul style="list-style-type: none"> a) Selection of engagements which require a EQC review b) Nature and timing of work performed by a EQC reviewer <p>The above requirements clarifies the nature of work to be carried by the EQC reviewer and the documentation requirements thereof.</p> <p>(iii) None</p> <p>(iv) None</p>
68.	ICPAK	Adding a new requirement, or clarifying the existing requirement, to focus on the selection of engagements for review based on identified risks of the engagements, such that engagements with higher audit risk or, if a firm is using a QMA, those that pose greater risk of negatively affecting the firm's ability to meet its quality objectives would be more likely to be selected.
69.	ICPAU	--
70.	INCPC	--

71.	ISCA	<p>Practitioners in Singapore felt that any new application materials developed relating to engagement quality control reviews and EQCRs should not be elevated to requirements. They are also strongly against having a separate standard for EQCRs. An engagement quality control review should be performed in accordance with a firm's risk management policy.</p> <p>More specifically, the role of an EQCR should be clearly articulated in the standard to emphasise its objectivity and independence. The EQCR should be an impartial party with no interaction with the client. The engagement partner should be the one fronting the client on behalf of the engagement team. By maintaining such independence, the EQCR would then be able to make decisions without being unduly influenced by any client pressures. Accordingly, there is also no compelling reason for the EQCR to have separate communication with the audit committee. This would ensure independence and safeguard the quality of an audit.</p>
72.	KICPA	<p>(i) We believe that adding ISA 220 application material as to the use of subject-matter experts or other qualified individuals and specifying the nature and extent of matters to be considered by the EQC reviewer would be the most meaningful.</p> <p>(ii) Adding the ISAA 220 application material as to the use of subject-matter experts or other qualified individuals is designed for standards to keep up with developments and changes in the auditing practice, not for strengthening requirements, thereby creating positive impacts in the practice.</p> <p>Specifying the nature and extent of matters to be considered by the EQC reviewer would improve the effectiveness and efficiency of EQC reviews and further develop EQC reviews.</p> <p>(iii) We do not support the requirements to communicate whether relevant engagements are subject to EQC review in the auditor's report. As mentioned in the consultation, this could inadvertently form a negative view about the quality control of an audit that has not been subject to an EQC review.</p> <p>In addition, we do not support the revision of ISA 260 to require the engagement partner's communications with those charged with governance to include communications that the engagement is subject to an EQC review, in addition to the role and function of the EQC review. If considered necessary, the auditor could include such communications, but there would be no needs for making it mandatory.</p> <p>Requiring EQC reviewer's direct communication with those charged with governance could make the role of the engagement partner vague, thereby making a negative impact on audit quality.</p> <p>(iv) Please refer to answers in (i), (ii) and (iii) of QC6 (a).</p>
73.	MICPA	--
74.	SAICA	<p><u>QC6(a)(i), (ii), & (iv):</u></p> <p>Engagement quality control reviews (EQCRs) and reviewers</p> <p>66. The overall concern presented in the ITC is that engagement quality control reviews (EQCRs) are not sufficiently robust.</p> <p>67. External inspections performed by the audit regulator in South Africa have raised significant findings with respect to EQCRs (as per the IRBA Public Inspections Report 2014/2015), as have indeed also been noted internationally in relevant surveys of inspection findings conducted by the International Forum for Independent Audit Regulators (IFIAR).</p> <p>68. With respect to the issues raised and possible actions pertaining to the performance of EQCRs and the EQC reviewers that perform them (as addressed in paragraphs 137-139 and 143 of the ITC), survey respondents indicated their views as follows in</p>

		<p>terms which of the following factors pose the biggest impediment /threat(s) to an effective EQCR [the greatest threat listed first, from (1) to (5)]:</p> <ol style="list-style-type: none"> (1) Appropriate selection of an EQC reviewer (taking into account qualifications, experience, objectivity, own inspection results) (2) Insufficient depth and focus of the review in terms of the nature and extent of matters to be considered by the EQC reviewer (3) Timing of the EQCR – when the EQC reviewer becomes involved and the time allocated for the EQCR (4) Improper application of the requirement that the EQC reviewer does not otherwise participate in the engagement (maintaining objectivity) (5) Inadequate documentation, including with respect to the timing and substance of EQC review procedures performed and discussions amongst the EQC reviewer and the engagement partner <p>These results should be interpreted in the context that survey respondents were in agreement with all of the issues identified, with a limited differentiation between the various issues in arriving at the prioritised list above. Therefore, all off these matters are valid concerns in terms of responding to the quality risks involved.</p> <p>69. With reference to item (4) in the previous paragraph, it should be noted that some survey respondents have linked the matter of the EQC reviewer's objectivity to the issue of selection of the EQC reviewer (the eligibility of the EQC reviewer), and are of the view that these requirements should be strengthened.</p> <p>70. With reference to item (2) in paragraph 68 above, 97.4% of survey respondents agreed that strengthening the requirements and application material in ISA 220 by further specifying the nature and extent of matters to be considered by the EQC reviewer is expected to have a positive impact in terms of addressing issues related to the depth and focus of EQCRs.</p> <p>The following matters have been noted by some survey respondents in answering this question:</p> <ul style="list-style-type: none"> ➤ This could certainly contribute to more focussed reviews and thereby enhancing the effectiveness of EQCRs. Furthermore, it will narrow any gaps that may exist in relation to what is expected, and it would promote consistency in practice. ➤ This action is subject to also addressing the issues relating to the skills of the EQC reviewer and the timing of the EQCR (refer to items (1) and (3) in paragraph 68 above) (i.e. "timing and technical skills remain an issue in the industry"). ➤ Amendments must be principles-based and further application material could be added to clarify matters and considerations, and to provide examples of relevant factors and circumstances that may be encountered. However, a balance must be maintained in terms of the required work effort (i.e. "the review should not become a second audit"). ➤ There is support for clarifying that the responsibilities of the EQC reviewer also extend to evaluating the risk assessment judgments made by the engagement team (and not only focussing on risk response). ➤ EQCRs could probably also be scoped more appropriately (in terms of when they are required and the scope of individual reviews in certain circumstances) in the context of the adoption and application a QMA. <p>71. 66.7% of survey respondents agreed that the following could have a positive impact in terms of addressing issues related to the depth and focus of an EQCR: Adding application material to ISA 220 for the use, by the EQC reviewer, of subject-matter experts</p>
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		<p>or other qualified individuals, separate from subject-matter experts that assisted the engagement team, to assist an EQC reviewer where appropriate.</p> <p>However, the positive response is qualified by some concerns noted by survey respondents that can be summarised as follows:</p> <ul style="list-style-type: none"> ➤ Provided that this is limited to application material only. There is a risk that the expected work effort in an EQCR could be expanded to an extent where it no longer makes sense in terms of the balance between quality value-add relating to engagement performance and the demand on resources and cost. ➤ There appears to be a real concern that this could be going a step too far – the notion of “not re-performing the audit” (also in the context of the roles and responsibilities of the engagement partner and that of the EQC reviewer). ➤ There is a view that this also speaks to the eligibility of an EQC reviewer and the selection of an EQC reviewer for a particular audit (including a suggestion of a distinction between “generalist” reviewers and “specialist” reviewers). <p>72. Further to the results above, we are of the view that the possible action suggested in paragraph 145 of the ITC is crucial in that an appropriate distinction between the responsibilities of the engagement partner and those of the EQC reviewer must be maintained in light of the objectives of the respective roles. We are aware of concerns raised by firms, that have also been observed in inspection findings in South Africa, that the engagement partner on occasion places undue reliance on the EQCR process and, as a result does not fully discharge his/her responsibility for the engagement and its performance (sometimes referred to as “stepping away”).</p> <p>73. 65.8% of survey respondents indicated that they do not support the proposal for the IAASB to further explore the possibility of communicating in the auditor’s report that a particular audit was subject to an EQCR.</p> <p>74. Our further consultations, including attending a discussion forum of larger audit firms also indicated that there appears to be little support for this option.</p> <p>75. We agree with a view that the EQCR is a matter, like numerous others, that relate to the auditor’s and the firm’s quality control policies and procedures. It is not something that has a bearing on the auditor’s opinion as communicated in the auditor’s report and how such opinion should be received and interpreted by the users of the financial statements and the auditor’s report thereon. We believe that there is a real risk, as stated in paragraph 144 of the ITC, that users of the auditor’s report could inadvertently form a negative view about the quality of an audit that has not been subject to an EQCR notwithstanding that such an audit may not have met the firm’s criteria for selection.</p> <p>76. Some of the survey respondents also raised an additional concern with respect to the possible consequences of creating different “grades” (or categories) of audits, namely that audit clients (and users) may start requesting (or insisting) on EQCRs for engagements that would not otherwise qualify for an EQCR. This could result in disproportionate demands in terms of resources required and the cost of some audits.</p> <p><u>QC6(a)(iii):</u></p> <p>77. The majority of survey respondents (57.9%) indicated that they believe that an EQCR is an effective measure in enhancing quality at the engagement level (i.e. it effectively contributes to improve quality of audits, taking into account an appropriate balance between value-add and cost). 28.9% noted their strong agreement with this statement, while 10.5% noted their strong disagreement.</p>
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		<p>We deduce from these results that there is an acknowledgement of the important role that EQCRs play (and should continue to play) in mitigating relevant quality risks, but that there is also scope to further clarify or enhance the requirements and application material (or to provide other supporting material or non-authoritative guidance).</p> <p>78. Furthermore, it may be necessary to explore the possibility that the current definition and objectives of an EQCR as contained in ISQC 1 and ISA 220 may no longer be sufficient to address what is expected of an EQCR (or what has become to be expected from an EQCR since it has been implemented). Alternatively, there could be an expectation gap and it may be necessary to revisit and reconfirm the fundamental “building blocks” of an EQCR in terms of being a quality safeguard with respect to engagement performance.</p>
75.	SMPC	<p>The SMP Committee agrees that the EQC Review is a key aspect in firms having effective systems of quality control. We support the IAASB exploring the issues identified in paragraphs 137-139 in the ITC.</p> <p>We agree that SMPs face particular challenges with the often limited availability of individuals able to take on the role of an EQC reviewer. We are therefore concerned about the possible expansion of engagements that would require an EQCR beyond audits of listed entities and do not support this proposal.</p> <p>In many jurisdictions PIEs include quite small entities, which are often audited by SMPs. We are therefore concerned that the proposals may disproportionately affect SMPs, without necessarily enhancing the quality of the audit, and as a result impact the market concentration and could ultimately force some SMPs out of the PIE audit market, which may also impact audit quality and would not be in the public interest.</p> <p>As recognized in the ITC, setting a minimum global definition or describing characteristics of entities of particular public interest other than listed entities that would be required to taken into account in setting a criteria for EQC reviews could be very difficult. The definition of a PIE varies from country to country and an entity may be a PIE because of the nature of its operations, its size or the number of its employees. The Board may wish to review the Federation of European Accountants (FEE) survey <i>Definition of Public Interest Entities (PIEs) in Europe</i>⁸ which although published in 2015, still gives an impression of the wide diversity of definitions of PIEs applicable across European Countries. We also encourage the Board to consider the number of PIEs which are currently audited by SMPs worldwide, so as to obtain an understanding of the number of firms that could potentially find some of the current proposals problematic. A suggestion for consideration could be harmonizing with the public accountability concept used by the IASB in the IFRS for SMEs⁹.</p> <p>On balance we do not support the possible action of developing a separate EQC Review standard. From an SMP perspective a separate standard might seem sensible, in particular for those firms who specifically do not take on work involving the type of risks an EQCR is intended to address. We also understand the objective to give greater prominence to the contribution of the EQCR to audit quality. However, since the EQCR was conceived as an internal firm check, we believe this could be achieved through revisions to ISQC 1 and consider it would give too much prominence to the role of the EQCR in comparison to the role of the engagement partner. Indeed, clarification of their respective roles may be helpful since the engagement partner has primary responsibility for the quality of the audit, whereas the EQC-reviewer may contribute to quality, but does not necessarily do so.</p>

⁸ http://www.fee.be/images/publications/auditing/PIE_definition_survey_outcome_141015.pdf

⁹ See <http://www.ifrs.org/IFRS-for-SMEs/Pages/IFRS-for-SMEs.aspx>

76.	WPK	<p><u>Engagement Quality Control Reviews and Engagement Quality Control Reviewers (see note 136 ff.):</u></p> <p>From June 17th 2016, the regulation (EU) No 537/2014 comes into force in all EU member states. Article 8 of this regulation also contains provisions for Engagement Quality Control Reviews (EQCR). This is mandatory for all public-interest entities, which by definition includes credit institutions. The regulation defines what at least is to be assessed and documented by the engagement quality control reviewers. Possible provisions of the IAASB should be in line with the EU requirements and should not go beyond.</p> <p>Furthermore we do not believe it is necessary to mention in the auditor's report that an EQCR was conducted (see note 144, second point). The need to conduct an EQCR for public interest companies is regulated by law. Furthermore, an EQCR is just one element of the quality control system. Therefore, on the one hand the communication of only the EQCR in the auditor's report may not give a full picture regarding the entire quality assurance system. On the other hand, as you mentioned, it could form a negative view about the quality of an audit that has not been subject to an EQCR.</p> <p>Additionally we do not support the proposal regarding the communication between the EQC reviewer and those charged with governance of the entity (see note 146). The EQCR is part of the internal (!) quality assurance system. It must retain an instrument of the audit firm and not of the audited firm. The reviewer must remain objective and independent.</p> <p>We welcome the fact that the problems of SMPs have been recognized and named (see note 140), however in our view possible actions to address these problems are missing.</p>
Academics		
77.	AAA	<p>The Committee views engagement quality reviews (EQRs), both internal and external, as a critical part of quality control for audit firms. Internally, EQRs involve firm partners working together in a professional, non-adversarial process toward finding solutions to complex problems (Emby and Favere-Marchesi 2010).</p> <p>Research shows that engagement quality reviews (EQRs) improve audit risk assessment judgments (Ayers and Kaplan, 2003; Matsumura, Subramanyam, and Tucker 1997), induce engagement partners to plan higher levels of audit testing (Matsumura and Tucker 1995), and reduce the tendency to focus more on confirmatory evidence (Tan 1995). External reviews, such as peer reviews and formal inspections, provide important information about audit firm quality useful to both audit firms and stakeholders (Casterella, Jensen and Knechel 2009).</p> <p>Firms should select knowledgeable EQR partners similarly to how they assign lead partners to engagements. Partners in close geographic proximity to the office reviewed, and partners with expertise in the industries for engagements they review, tend to provide more thorough reviews than those where partners are farther away and less knowledgeable (Anantharaman 2012).</p>
78.	AH	--
79.	Glover-Prawitt	--
80.	TRay	--

Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	<p>(i) Criteria for the selection of an EQC reviewer should be defined. An EQCR with limited practical experience is more likely to accept the findings of a more experienced auditor, and may be hesitant to question the judgment of a more senior auditor. The qualifications of the EQCR also impact the focus of the review and the attention given to areas of risk.</p> <p>(ii) Auditor rotation scheduling is already difficult in smaller firms with a limited number of audit partners; however, an EQC review conducted by an engagement partner with limited experience has limited value.</p> <p>(iii) The role of an EQCR needs to be undertaken by a senior audit partner with a depth and breadth of experience. However, the role of EQCR may not attract remuneration rewards and does not generate revenue for an audit firm. Consequently, a more holistic understanding of the role of the EQCR needs to be promoted within audit firms and remuneration models need to be adapted accordingly.</p> <p>(iv) As above</p>
84.	JGrant	<p>As discussed above EQCRs could usefully focus on scepticism.</p> <p>It is some years since the ISA Post-implementation Review noted that regulators had difficulties in this area. There is a discussion in paragraph 144 of the ITC on whether a separate standard should be prepared. It seems to me that there is a very strong case for unbundling EQCRs from ISQC1 and therefore responding more quickly to the need for improved standards in this area.</p>
85.	JK	<p>Again, robustness of documentation. Not robustness of the audit.</p> <p>Auditing public companies requires a different mindset than auditing a private company – particularly if there is a single shareholder and no lender. SMPs have a different responsibility for different issues in an SME than in a listed company. That is, some matters would be very important to the owner of an SME that might be trivial to a listed entity.</p>
86.	KKTuraga	--
87.	SDeViney	--

Q6. Engagement Quality Control Reviews and Engagement Quality Control Reviewers

(b) Specifically:

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

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	--
3.	CFA	--
4.	IA	--
5.	ICGN	--
6.	NZSA	--
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	--
10.	CPAB	--
11.	EAIG	--
12.	EBA	See response to QC6(a)

13.	ESMA	--
14.	H3C	--
15.	IAIS	See response to QC6(a)
16.	IFIAR	--
17.	IOSCO	See response to QC6(a)
18.	IRBA	<p><u>Scope</u></p> <p>The scope of EQC reviews should be expanded beyond audits of listed entities.</p> <p>As such, we believe that:</p> <ul style="list-style-type: none"> • The application material in ISQC 1 and ISA 220 concerning criteria for selecting those engagements subject to an EQC review should be elevated to requirements. • The requirements and application material in ISQC 1 in relation to establishing criteria by the firm for selecting those engagements that require an EQC review should be strengthened. • A new requirement should be added to ISQC 1 to focus the selection of engagements that require an EQC review to be based on identified risks from the engagements, such that engagements with higher audit risk or, if the QMA is adopted, those that pose a greater risk of negatively affecting the firm's ability to meet its quality objectives would be more likely to be selected. • A new requirement should be added to ISQC 1 to require an EQC review of particular public interest entities (PIEs). Although it is difficult to develop a globally acceptable definition for PIEs, for South Africa we have developed a definition that is contained in the IRBA Code of Professional Conduct for Registered Auditors¹⁴. This may assist in developing a globally acceptable definition. <p>This being said, we draw the IAASB's attention to the International Ethics Standards Board for Accountants' (IESBA) <i>Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client</i> that includes proposed wording that may appear to mean that all audits of PIEs require an EQC review. This is contrary to the extant ISQC 1 and could be confusing.</p> <p>In addition, the scope of an EQC review should be expanded to require the EQC reviewer to review and challenge the application of professional scepticism by the engagement partner in respect of the judgemental and higher risk areas in the engagement.</p>
19.	MAOB	See response to QC6(a)
20.	UKFRC	<i>Mandate the performance of EQC reviews beyond audits of listed entities</i>

¹⁴ IRBA Code of Professional Conduct for Registered Auditors – [Final Amendments relating to Public Interest Entities](#), paragraphs 290.26 and 290.26(a)

		With respect to the question as to whether ISQC 1 should mandate the performance of EQC reviews beyond audits of listed entities, under EU Audit Regulation an engagement quality control review is already required for audits of financial statements of public interest entities, and this requirement is included in ISQC (UK and Ireland) 1 (Revised June 2016). We support the decision of the European Parliament in this regard, as, given the importance and value placed on the EQC review and the role of the EQC reviewer by stakeholders, particularly investors, it is in the public interest to do so. Accordingly, we would support the IAASB's proposal to extend the EQC review requirement beyond listed entities to other entities of a particular public interest.
National Auditing Standard Setters		
21.	AUASB	The AUASB view is not to mandate the requirements or application material in ISQC 1 and ISA 220 related to EQC reviews beyond listed entities. Australian auditors apply the provisions in ISA 220 to "those other audit engagements, if any, for which the firm has determined that an EQCR is required" using professional judgement to determine which other entities should have an EQCR. SMPs in particular commented that the current approach in ISQC 1 allows flexibility within the firm structure for decisions to be made on an engagement by engagement basis as to the application of an EQCR.
22.	CAASB	In general, the AASB and Canadian stakeholders have the view that the EQC review should be done based on risk, not mandated. ISQC 1, paragraph 35(b) requires firms to establish criteria against which assurance engagements other than audits of listed entities shall be evaluated to determine whether an EQC review should be performed. As noted above, many Canadian stakeholders are already performing EQC reviews on higher risk audits. There is limited application material in paragraph A41 therefore the requirement is open to interpretation. As a result some entities may be subject to EQC review, while others are not, although the risk may be the same for both. It may be appropriate to include additional application material to clarify how engagements may be selected for review. There may be potential consequences or other challenges if an EQC review is mandated for entities other than listed entities. For example, many small to mid-size not-for-profit entities in Canada are audited do not require an EQC review, because they are low risk. Should the IAASB mandate EQC review for audits of entities of particular public interest other than listed entities, the cost of such audits could increase significantly with little perceived benefit.
23.	CNCC-CSOEC	See response to QC6(a)
24.	HKICPA	See response to QC6(a)
25.	IDW	See response to QC6(a)
26.	JICPA	Please see our comment on QC6(a) above.
27.	MAASB	We believe that engagements of particular importance to a firm based on the risks posed to the firm should be subject to an EQC review. We also support elevating the criteria in the application material for identifying entities that would require an EQC review.
28.	NBA	Yes. An EQCR should also be performed for PIEs since they are of public interest. The reputation of a firm might be at stake if there is an audit deficiency at a PIE.

29.	NZAuASB	<p>The EQC review requirement is applied more broadly in New Zealand than required in the ISAs. A listed entity is not defined in the New Zealand legislation. Consequently all the requirements in the ISAs that are applicable to listed entities have been replaced with 'Financial Market Conduct (FMC) Entities with a higher public accountability', which is a broader scope than a listed entity, and defined in the New Zealand Financial Markets Conduct Act 2013. It includes listed and non- listed issuers, banks, insurers, credit unions and other entities that are regulated by the Financial Markets Conduct Authority. The NZAuASB considers there is a compelling reason to extend the EQC requirements to listed entities in the ISAs to FMC Reporting entities in New Zealand, to better reflect the nature of the market in New Zealand.</p> <p>The NZAuASB suggests that the ISAs are not amended beyond the audits of listed entities in this regard, but that it is left to individual jurisdictions firstly to determine which entities it should apply to, over and above listed entities, and for firms/auditors to continue to use professional judgement to determine which other entities should have an EQC review. Given all the different market conditions and circumstances that exist in the various jurisdictions, it may cause unintended consequences should the IAASB extend the requirements for an EQC review beyond the audits of listed entities, for example to PIEs.</p>
Accounting Firms		
30.	BDO	As noted in answer to QC6 (a) (i) we would support extension of the ISQC 1 mandate to the additional entities listed in the ITC to the extent that the applicable criteria indicate that they are PIEs.
31.	CHI	<p>Yes.</p> <p>As discussed in paragraph 143, there are certain types of public interest engagements to whom the scope of EQCR ought to be extended. IAASB could specify that EQCR should apply where there is a definition of "public interest" in law or regulation (such as in the European Union). IAASB could supplement this with guidance for determining "public interest" in the context of EQCR.</p> <p>In addition, IAASB ought to consider presenting guidance that encourages firms to develop policies for requiring EQCR on higher risk engagements. The firm should define "higher risk", taking into account the guidance.</p>
32.	DTT	See response to QC6(a)
33.	EYG	<p>We believe that requiring EQC reviews for audits of listed entities continues to be the appropriate minimum requirement. That said, we do believe it is important for firms to execute against the requirements in paragraph 35(b) and 35(c) of ISQC 1, which require firms to set out criteria for which other engagements are selected for EQC review and to require EQC review for engagements that meet that criteria. Paragraph A41 of ISQC 1 provides high-level guidance on what these criteria could comprise.</p> <p>It is not helpful, in our view, to have criteria for EQCR linked to "public interest" or public-interest entities, because of the lack of an internationally agreed or recognized definition of either "public interest" or PIEs. Entities that meet the definition of PIE in any particular jurisdiction may vary greatly in their size, complexity and risk profile.</p> <p>Instead, firms should be required to take a risk-based approach to setting criteria for engagements subject to EQC review, and the risks to be considered are those that are relevant to the objective of the EQC review (i.e., the risk profile of the significant judgments to be made by the engagement team, including risks to the appropriateness of the auditor's report).</p> <p>As part of a QMA, enhanced criteria could be elevated to risk factors for consideration in a firm's quality risk assessment process that forms the basis for development of risk-responsive EQC review policies and procedures (refer to our response to QC1).</p>

34.	GTI	<p>Further, we do not agree that there should be a mandated list of entities that are required to be subject to a quality control review. Such a list would be a further step towards a rules based rather than principles based approach in ISQC 1. By mandating a list of entity types or industry types subject to an EQC review, some entities would inevitably be scoped in that do not have the risk profile to warrant the appointment of an EQC reviewer. Further, smaller firms or sole practitioners, who are unlikely to be taking on higher-risk clients, may be required to appoint an EQC reviewer simply because they have a client in an industry determined to need the appointment of an EQC reviewer. This will further add to the burden already faced by the smaller practices. A firm's policies for requiring an EQC reviewer need to be scalable and adaptable to changes in circumstances. For example, if the economy is declining, firms may require an EQC reviewer on more engagements, or if an industry specific issue arises, firms may want to appoint an EQC reviewer on all engagements in that particular industry.</p> <p>Because the addition of an EQC reviewer to an engagement is currently a risk based decision, there is nothing in the standard that would prohibit such a reviewer being appointed as determined necessary by the firm. Including parameters for consideration of the addition of an EQC reviewer may provide value in making the assessment, but the ultimate decision to add the reviewer should lie with the firm. Such parameters could be worded as such so that the higher risk clients (such as financial institutions / depository taking institutions) would likely always require the EQC review. Alternatively, national auditing standard setters could also determine additional engagements to those specified in the ISA, if any, for which a firm should appoint an EQC reviewer.</p>
35.	KPMG	See response to QC6(a)
36.	PwC	As described in our comments in point (a) above, we believe that engagements that are of particular importance to a firm, whereby a significant concern with such an engagement could pose a risk to the firm, the region (if applicable), or the network should be subject to an EQC review. Such considerations could be addressed in application material, including noting that those engagements may also potentially be other assurance-type engagements beyond an audit.
37.	RBI	--
38.	RSM	We do not support the mandating of EQC reviews beyond the audits of listed companies. However, we do agree that EQC review is necessary for entities other than listed companies and believe it would be helpful to include guidance describing the criteria that could be used to assess the need for such reviews.
39.	SRA	--
Public Sector Organizations		
40.	AGC	We agree that ISQC 1 could mandate the performance of EQR beyond audits of listed entities provided appropriate criteria and definitions are established that can be consistently applied in various jurisdictions. We do not believe the IAASB should only define the entity, but rather that the criteria should outline the nature of the engagement that would be most appropriately supported by the appointment of an engagement quality control reviewer as an additional requirement to audit quality risks. This criteria could include, as one element, the form of entity being audited (e.g. a pension plan).

41.	AGSA	Yes – all public interest audits and audit with a significant engagement risk classification should be considered for EQCR.
42.	GAO	See response to QC6(a)
43.	INTOSAI	We agree that ISQC 1 could mandate the performance of EQR beyond audits of listed entities provided appropriate criteria and definitions are established that can be consistently applied in various jurisdictions. We do not believe the IAASB should only define the entity, but rather that the criteria should outline the nature of the engagement that would be most appropriately supported by the appointment of an engagement quality control reviewer as an additional requirement to audit quality risks. This criteria could include, as one element, the form of entity being audited (eg. a pension plan).
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	See response to QC6(a)
47.	AIC	--
48.	AICPA	<p>With respect to the questions in subparagraph (a), we believe, based on monitoring of the implementation of the ASB's Statement on Quality Control Standard No. 8, <i>A Firm's System of Quality Control</i>, which is converged with ISQC1, that the requirement in paragraph 35b of ISQC1 to set out criteria for determining when an EQC review is to be performed should be strengthened to require that the criteria be based on the firm's identified risks related to its engagements. Paragraph A41 of SCQC No. 8 has application material that states that the structure and nature of the firm's practice are important considerations for establishing which engagements are to be subject to an EQC review. This application material goes further than the application material in ISQC 1; based on implementation monitoring, we recommend that rather than strengthening the application material this guidance be elevated to a requirement. Application material could be added emphasizing that as a firm's practice evolves, the criteria for when an EQC review is required may need to be revised.</p> <p>With respect to the questions in subparagraph (b), we have concerns about expanding the types of engagements that would require an EQC review beyond audits of listed entities. Firms may specialize in an industry or area and requiring that all engagements in that industry or area be subject to EQC review is overly prescriptive and does not recognize the varying degree of risks to the firm of those engagements. In addition, we believe that the difficulty in defining entities of particular public interest makes this impracticable. However, as mentioned above, we support strengthening the requirement in paragraph 35b to require that the criteria be based on the firm's identified risks related to its engagements and enhancing the application material in paragraph A41 to be more specific about such risks, for example, entities subject to regulatory oversight.</p>
49.	APESB	APESB agrees that EQC reviews could be made mandatory for Public Interest Entities (PIEs). The requirements under ISQC 1 require firms to establish criteria to determine when an EQC review should be performed for entities other than listed entities. We believe the

		<p>criteria applied by a number of the large firms in Australia already capture PIEs. The IAASB could include a specific requirement so that EQC reviews are consistently performed on audits of all PIEs.</p> <p>In defining PIEs in the ISAs, we are confident that the IAASB will ensure the definition is consistent with definitions set out by other international standard setters such as the IESBA.</p>
50.	CAANZ	<p>In our view the types of engagements that would require an EQC reviewer should not be expanded beyond audits of listed entities. National standard setters are best placed to determine which entities it should apply to, over and above listed entities. For example, a 'listed entity' is not defined in New Zealand legislation. Consequently all references to listed entities in the ISAs have been replaced with 'Financial Market Conduct (FMC) reporting entities considered to have a higher level of public accountability'. This includes banks and insurance companies, so the EQC review requirement is already applied more broadly in New Zealand.</p>
51.	CAI	--
52.	CAQ	--
53.	CIIPA	--
54.	CIMA	--
55.	CPAA	<p>We do not support mandating EQC reviews beyond listed entities until clear evidence can be established as to the benefits of EQC reviews for other entities, but instead we suggest limiting the additional requirements to establishing criteria for firms to determine whether an EQC review should be conducted.</p>
56.	DnR	<p>Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE. [also see p. 2]</p>
57.	EFAA	<p>We do not support the mandating of the performance of EQC reviews beyond listed entities. We are not convinced that the issues raised by the ISA Implementation Monitoring Project and concerns raised by audit oversight bodies would be addressed by the mandating of EQC for audits beyond those of listed entities to include those of "particular public interest". We believe that such a move would cause disproportionate burden to SMPs and smaller practices and the costs and benefits of such actions have not been properly assessed by the IAASB. We are also aware that there are many definitions of public interest entities within the European Union and as such significant differences for the requirement for EQC would ultimately result. Should the IAASB wish to consider extending the requirement for EQC further then we would suggest that they do so after having undertaken a full impact assessment on the proposal.</p>
58.	FACPCE	--
59.	FEE	<p>(113) Mandating EQC reviews for listed entities should be the minimum requirement. Other entities to be considered should be those with public exposure and high risk areas for society, causing an engagement to have higher misstatement compliance, liability, or reputational risk. According to the IAASB's recent discussions concerning key audit matters reporting, there may be a similar need for flexibility in determining which engagements should be subject to EQCR. The best solution may be to let national jurisdictions decide on the scope beyond audits of listed entities.</p>
60.	FSR	<p>There is also a need for further application material in relation to the relevance of an EQC review on audits of non-listed companies.</p>

61.	IBA	--
62.	IBRACON	Yes. For entities which are required to file their audited financial statements with regulators.
63.	IBR-IRE	(61) EQC reviews of listed entities is a minimum requirement. Other engagements with a high public profile and high risk areas for the society, causing an engagement to have higher misstatement compliance, liability or reputational risk should be flagged for consideration for an EQC review as well. The consideration for the need of an EQC reviewer should ideally be framed in the context of the QMA.
64.	ICAEW	On balance we would not support the mandating of EQC reviews beyond audits of listed companies although it might be preferable for the requirement to be for public interest entities rather than listed companies. We believe that judgement is central to decisions on whether to have an EQC review for other entities and this judgement for audits of non-listed companies might be diluted if the norm for them is regarded as not needing an EQC review. We do consider that there could be greater coverage in the application material of when to have an EQC review and how to go about it, picking up many of the issues in paragraphs 137-140 of the ITC including considerations for SMPs. We would support much greater coverage of reviews in general and not just EQC reviews. We understand that some firms consider that there should be reviews of all audit engagements, with the type of review to be performed dependent on the risk. Firms should have clear policies and procedures on reviews, not restricted to EQC reviews.
65.	ICAP	--
66.	ICAS	--
67.	ICAZ	ISQC 1 should not mandate entities that require an EQC review since this would be difficult in coming with a requirement that can apply to different circumstances globally. Also mandating this would go against the general nature of the IAASB standards which are principle based as compared to being prescriptive.
68.	ICPAK	Yes The entities can be defined as Public Interest entities
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	See response to QC6(a)
72.	KICPA	We believe there is no need for making mandatory EQC reviews for audits of not-listed entities. As for non-listed entities, auditors are well-establishing criteria to determine whether the audits need EQC reviews or not. If ISQC 1 provides the criteria to determine whether the audits need EQC reviews as for the audits of non-listed entities, such standards should be applicable to all of the environments of jurisdictions. However, it would be difficult, but only result in undermining the easy application of ISQC 1 in practice.
73.	MICPA	--

74.	SAICA	<p>79. With reference to the possible actions proposed in paragraph 143 of the ITC relating to extending the scope of EQCRs beyond audits of listed entities, the Code of Professional Conduct for Registered Auditors in South Africa have recently been changed to enhance the criteria and characteristics for identifying public interest entities and have, in essence, adopted a minimum definition for entities to be considered as public interest entities (refer to Changes to the IRBA Code of Professional Conduct – Public Interest Entities, IRBA, March 2016). This expanded definition should also assist firms in developing policies and procedures for identifying audits that should be subject to an EQCR.</p> <p>80. Survey respondents were asked to rank the remaining possible actions discussed in paragraph 143 of the ITC in order of priority in terms of which would be most meaningful to ensure that EQCRs properly extend to entities other than listed entities. The results are as follows [the most meaningful listed first, from (1) to (3)]</p> <ol style="list-style-type: none"> (1) Strengthening ISQC 1 in relation to the establishment of criteria by the firm for selecting those engagements that require an EQCR (2) Adding new requirements or clarifying existing requirements in terms of focussing on the selection of engagements based on identified risks – audit risks and quality risks (3) Elevating the application material in ISQC 1 and ISA 220 concerning criteria for selecting those engagements subject to EQCR to requirements in the standards
75.	SMPC	See response to QC6(a)
76.	WPK	<p><u>Engagement Quality Control Reviews and Engagement Quality Control Reviewers (see note 136 ff.):</u></p> <p>From June 17th 2016, the regulation (EU) No 537/2014 comes into force in all EU member states. Article 8 of this regulation also contains provisions for Engagement Quality Control Reviews (EQCR). This is mandatory for all public-interest entities, which by definition includes credit institutions. The regulation defines what at least is to be assessed and documented by the engagement quality control reviewers. Possible provisions of the IAASB should be in line with the EU requirements and should not go beyond.</p> <p>Furthermore we do not believe it is necessary to mention in the auditor's report that an EQCR was conducted (see note 144, second point). The need to conduct an EQCR for public interest companies is regulated by law. Furthermore, an EQCR is just one element of the quality control system. Therefore, on the one hand the communication of only the EQCR in the auditor's report may not give a full picture regarding the entire quality assurance system. On the other hand, as you mentioned, it could form a negative view about the quality of an audit that has not been subject to an EQCR.</p> <p>Additionally we do not support the proposal regarding the communication between the EQC reviewer and those charged with governance of the entity (see note 146). The EQCR is part of the internal (!) quality assurance system. It must retain an instrument of the audit firm and not of the audited firm. The reviewer must remain objective and independent.</p> <p>We welcome the fact that the problems of SMPs have been recognized and named (see note 140), however in our view possible actions to address these problems are missing.</p>
Academics		
77.	AAA	See response to QC6(a)
78.	AH	--

79.	Glover-Prawitt	--
80.	TRay	--
Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	It may be preferable for ISQC1 to refer to public interest entities (PIEs) rather than listed entities. Many larger privately owned entities may be considered to be PIEs and may have significant economic impact. This would better align audit requirements with terms used in financial reporting and ethical standards.
84.	JGrant	See response to QC6(a)
85.	JK	--
86.	KKTuraga	--
87.	SDeViney	<p>No. EQC reviews are only one possible response to a quality risk. Standards should provide flexibility for both appropriate responses based on risk and the structure of the audit organization, as well as innovation. For example:</p> <ul style="list-style-type: none"> ○ Management oversight processes. ○ Integration of independent supervision or consultation as part of regular audit processes. ○ Tracking and monitoring certain audit quality indicators. ○ Increased efforts to develop policies, quality control materials, training or audit software tools. ○ Limited-scope quality control reviews. ○ Cross-cutting reviews across many engagements for particular topics or high risk areas (such as sampling or implementation of a new standard or policy). ○ Post-release reviews. ○ EQC reviews upon request, as part of a corrective action plan, or as a response to risk assessment judgments made in planning and performing the audit. <p>In particular, the requirement to conduct an EQC review prior to report release assumes existing standards for supervision and review of the engagement are not sufficient to support the auditor's report. If they were, and the function of an EQC review is strictly monitoring, then it should be sufficient to conduct the review on a post-release basis (with existing standards already providing necessary guidance if any issues are noted post-release).</p>

Q6. Engagement Quality Control Reviews and Engagement Quality Control Reviewers

(b) *Specifically:*

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

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	--
3.	CFA	--
4.	IA	--
5.	ICGN	--
6.	NZSA	--
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	--
10.	CPAB	--
11.	EAIG	--

12.	EBA	See response to QC6(a)
13.	ESMA	--
14.	H3C	--
15.	IAIS	See response to QC6(a)
16.	IFIAR	--
17.	IOSCO	See response to QC6(a)
18.	IRBA	<u>Cooling-off period</u> ISQC 1 and ISA 220 should include a requirement for a “cooling-off” period for an EQC reviewer that has previously been involved in the engagement.¹⁵
19.	MAOB	See response to QC6(a)
20.	UKFRC	<u>Cooling-off period</u> With respect to the question relating to a minimum “cooling-off period”, we support the IAASB’s recognition that a “cooling-off” period is beneficial to audit quality in safeguarding objectivity. In that regard, we would support a requirement that defines an appropriate period that an individual who had previously been involved in the audit, including in the role of the engagement partner, would not be eligible to fill the role of the EQC reviewer.
National Auditing Standard Setters		
21.	AUASB	ISA 220 could provide application material around the objectivity of the EQCR through the use of examples or illustrations and linking these principles to the appropriate ethical requirements that apply jurisdictionally.
22.	CAASB	No. The subject of rotation is dealt with in the IFAC Code of Ethics.
23.	CNCC- CSOEC	See response to QC6(a)

¹⁵ The International Ethics Standards Board for Accountants (IESBA) has indicated in paragraph 28 of its *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client* that the IAASB will consider this as part of its current revisions of ISQC 1

24.	HKICPA	See response to QC6(a)
25.	IDW	See response to QC6(a)
26.	JICPA	Please see our comment on QC6(a) above.
27.	MAASB	Association with an engagement is a key criterion in the selection of the EQC reviewer as it relates to objectivity and independence. We agree that ISQC 1 should address this factor but be based on and aligned with relevant ethical requirements set in the IESBA Code.
28.	NBA	Yes. We support this requirement in order for the EQC reviewer to be ob-jective. IESBA is now dealing with this issue.
29.	NZAuASB	Rotation requirements of the EQC reviewer is set in the IESBA Code of Ethics, and therefore should not be addressed in ISQC1. The IESBA is currently consulting on long association and rotation requirements of the EQC reviewer. Instead of addressing the rotation requirements of the EQC reviewer in the ISAs the IAASB should work with the IESBA.
Accounting Firms		
30.	BDO	While we recognize that the objective of the EQC Review is enhanced when there is an appropriate time interval between when an individual has been an engagement partner and when that individual would be able to serve as the EQC Reviewer, we do not at this time support having ISQC 1 specify the length of such interval. The interval may depend, in part, on the nature and complexity of the audit, so a range rather than a specific time interval may be appropriate. Recognition should also be given to resource issues for SMPs, which may find it more difficult to comply with a long interval. At this time, we would prefer leaving the length of the interval to the applicable regulators.
31.	CHI	Yes IESBA is addressing “long association”. The minimum period of time should be identified in light of the revisions that are made to the IESBA Code of Ethics.
32.	DTT	See response to QC6(a)
33.	EYG	No, we do not believe it is necessary for ISQC 1 to require that firms define a “cooling-off” period before an engagement partner can be appointed as the reviewer for the engagement. We believe that ISQC 1 should focus on underlying principles that support the objectivity of the EQC reviewer. Firms should take into account these principles in developing firm policies and procedures related to the selection and appointment of reviewers. If it is determined that the standards should define a “cooling-off” period of this nature, we believe this is a matter that should be pursued as a revision to the IESBA Code of Ethics, and not as a revision to the IAASB standards.
34.	GTI	We agree that there should be a "cooling off" period for a partner between serving as the engagement partner and as the EQC reviewer on the same engagement. The purpose of an EQC review is to provide an objective evaluation of the significant judgments made by the engagement team, inclusive of the engagement partner. It would be difficult for an engagement partner, subsequent to serving on the

		engagement, to objectively review significant judgments that had been made when performing the role of engagement partner. We suggest that a cooling off period should be of sufficient length to ensure that the EQC reviewer does not have to review judgments made in their previous role as engagement partner. However, we do not believe that is appropriate for the IAASB to establish a specific time period related to a cooling off period and that establishment of specific periods should be left to the IESBA or local jurisdictions.
35.	KPMG	See response to QC6(a)
36.	PwC	Association with an engagement, and how it relates to objectivity and independence, is a key criterion in the selection of the EQC reviewer. As noted in our response to point (a) we believe the IAASB and IESBA need to work together to develop requirements and guidance in this area. Firms should be required to determine policies and criteria based on these relevant requirements.
37.	RBI	--
38.	RSM	We do not believe it necessary to create a minimum period between serving as an engagement partner and an EQC reviewer in ISQC1 or the ISAs because this matter of auditor objectivity might better be considered as a whole by IESBA where all audit engagement roles are considered.
39.	SRA	--
Public Sector Organizations		
40.	AGC	We agree a cooling off period between the period of time an individual has been the engagement partner and when that individual would be eligible to serve as the EQC reviewer on the same engagement is appropriate. This issue could be addressed as a component of the IESBA code of ethics discussion of long association and rotation.
41.	AGSA	Yes, there must be independence so that an objective review can be performed. A cooling off period of 2 years is suggested.
42.	GAO	See response to QC6(a)
43.	INTOSAI	We agree a cooling off period between the period of time an individual has been the engagement partner and when that individual would be eligible to serve as the EQC reviewer on the same engagement is appropriate. This issue could be addressed as a component of the IESBA code of ethics discussion of long association and rotation.
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--

46.	ACCA	See response to QC6(a)
47.	AIC	--
48.	AICPA	We do not support a requirement for a defined “cooling-off” period between serving as engagement partner and serving as EQC reviewer. While we agree that serving as engagement partner one year and EQC reviewer the next is far from optimal, the focus should be on the EQC reviewer’s ability to be objective. Requiring a minimum period would result in a focus on the “rule” and diminish the consideration of objectivity. We are also concerned about the impact of this requirement on SMPs. Finding EQC reviewers is more difficult for smaller practitioners and relatively speaking more costly. A “cooling-off period” would only increase the difficulty. If the IAASB decides to mandate a “cooling-off period,” it should be structured to vary based on the size of the firm, the number of audits performed or other pertinent criteria.
49.	APESB	The IAASB is considering the option of including requirements on cooling off periods for EQC reviewers previously involved in the audit prior to being appointed as the EQC reviewer. However, we are aware that the International Ethics Standards Board for Accountants (IESBA) will set out requirements on cooling off periods for EQC Reviewers as part of their Long Association Project. Given the history of collaboration between the IAASB and the IESBA, APESB believes that consistent requirements on cooling off periods for EQC Reviewers should be developed and implemented by both standard setters.
50.	CAANZ	Rotation requirements are set out in the IESBA Code of Ethics for Professional Accountants, and therefore should not be addressed in ISQC1.
51.	CAI	--
52.	CAQ	--
53.	CIIPA	--
54.	CIMA	--
55.	CPAA	We consider that the proposed cooling off period for EQC reviewers previously involved in the audit is a matter which would be more appropriately addressed by IESBA rather than the IAASB. IESBA is currently in the process of consultation on long associations, including cooling off periods for engagement partners and EQC reviewers engaged on public interest entity audits, through Exposure Draft Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client, for which comments were due on 9 May 2016. Whilst the outcomes of that consultation will only impact audits of public interest entities (PIEs), if a safeguard was needed for non-PIEs it would be more appropriate to be considered in the same framework and not through the IAASB standards.
56.	DnR	Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE. [also see p. 2]
57.	EFAA	We believe that the minimum period of time between when an individual has been the engagement partner and when that individual would be eligible to serve as the EQC reviewer on the same engagement is a matter for legislation and the IESBA Code.
58.	FACPCE	--

59.	FEE	(114) Yes, the minimum period of time should be defined because a new engagement quality reviewer will carry out the audit with 'fresh eyes' to maintain objectivity, and it is more possible to spot issues than if he/she was involved as an engagement partner in the latest engagements. The IESBA is now dealing with this issue, and we very much support a flexible approach allowing firms to adopt the optimum solution in terms of quality for their circumstances.
60.	FSR	--
61.	IBA	--
62.	IBRACON	Yes. A former executive of an engagement may not appear to be objective to perform an engagement quality control right after stepping out from the audit engagement.
63.	IBR-IRE	(62) Yes, we do believe that this minimum period of time is necessary. We refer to the IESBA initiative in this respect.
64.	ICAEW	Yes we consider that ISQC 1 should require that firms define the minimum period of time between when an individual has been the engagement partner and when that individual would be eligible to serve as the EQC reviewer on the same engagement. This should be linked to the IESBA requirements on 'cooling off'.
65.	ICAP	--
66.	ICAS	--
67.	ICAZ	No, This issue is already being addressed in the IESBA code of ethics. Therefore we recommend that the standard makes reference to compliance with ethical requirements with regards the EQC reviewer.
68.	ICPAK	There should be a cooling period say 5 years before the individual can become the EQC reviewer.
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	See response to QC6(a)
72.	KICPA	The action could be necessary to improve audit quality and enhance the independence of the EQC reviewer. However, we request sufficient reviews on the impacts the requirements could make in practice, given that the efforts and costs, arising from the compliance with the requirements, could exceed the benefits, in a circumstance where the scenario that necessitates such requirements does not take place. For one, one of the scenarios includes an event to prove that audit quality is undermined by the individual engagement partner becoming to serve as the EQC reviewer on the same engagement. Especially in case of SMPs, such requirements could give rise to heavier burdens than expected, due to their lack of human resources.
73.	MICPA	--
74.	SAICA	81. The principle of requiring a "cooling off period" in certain instances is already well established within the Code of Ethics. It is a recognised safeguard to independence threats.

		82. We support this proposed action, based on concerns that have been raised with respect to the eligibility of the EQC reviewer and the selection of an EQC reviewer, as well as the identified need to strengthen the requirements and application material with respect to the EQC reviewer maintaining his/her objectivity.
75.	SMPC	See response to QC6(a)
76.	WPK	--
Academics		
77.	AAA	See response to QC6(a)
78.	AH	--
79.	Glover-Prawitt	--
80.	TRay	--
Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	No. This duplicates (or may possibly contradict) requirements in the ethical code.
84.	JGrant	See response to QC6(a)
85.	JK	--
86.	KKTuraga	--
87.	SDeViney	No. See answer to QC6(b)(i). Standards should allow for monitoring activities to be based on quality control risks and flexible to fit the structure and operations of different audit organizations. For example, audit organizations may establish different levels of review or involvement by others or technical specialists as part of normal audit processes that would provide for sufficient monitoring of quality apart from a formal EQC.

Q6. Engagement Quality Control Reviews and Engagement Quality Control Reviewers

(b) *Specifically:*

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

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	--
3.	CFA	--
4.	IA	--
5.	ICGN	--
6.	NZSA	--
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	--
10.	CPAB	--
11.	EAIG	--

12.	EBA	See response to QC6(a)
13.	ESMA	--
14.	H3C	--
15.	IAIS	See response to QC6(a)
16.	IFIAR	--
17.	IOSCO	See response to QC6(a)
18.	IRBA	<p>Need for a separate standard</p> <p>The ITC sets out both the advantages and the disadvantages of developing a separate EQC review standard.</p> <p>We believe that the disadvantages outweigh the advantages and therefore believe that an EQC review should be retained in ISQC 1:</p> <ul style="list-style-type: none"> • An EQC review forms part of a firm's system of quality control under the element of Engagement Performance and should not be separated from this. • Undue prominence may be given to an EQC review in relation to other important factors in quality control, in particular the role of the engagement partner.
19.	MAOB	See response to QC6(a)
20.	UKFRC	<p><i>Separate EQC review standard</i></p> <p>In respect to the question as to whether the IAASB should develop a separate EQC review standard, we support the IAASB's recognition that the importance of the role should be given additional prominence in the standards. As we believe that EQC reviews are a firm level control, this should be in the ISQCs – either ISQC 1 or a new standard in that series. Whilst we are not convinced that a separate standard as set out in paragraph 122 is required, we would encourage the IAASB to continue to consider this option.</p>
National Auditing Standard Setters		
21.	AUASB	<p>The primary role and responsibilities on any audit engagement are that of the engagement partner, thus the role of the EQCR may be seen to be elevated disproportionately if there were a separate standard for the EQCR. The AUASB is of the view that clarifying the nature, timing and extent of matters to be considered by the EQC reviewer and communication with TCWG on the role of the EQCR as noted above would be useful in supporting greater quality control, rather than creating a separate standard.</p>

		The AUASB noted that Australian constituents had mixed views on the need for a separate EQC review standard. Some commented that having a separate standard would provide greater clarity and elaboration of the requirements and application material for an EQC review, including the area of documentation as noted above, coupled with greater prominence of the role of the EQC review. Those opposed to a separate standard noted it may be too conceptual and duplicate what is already in ISQC 1 and ISA 220, and as such, not address the perceived gaps in quality control with the view to improving overall audit quality.
22.	CAASB	<p>The AASB and Canadian stakeholders did not arrive at a consensus conclusion on the issue of a separate EQC review standard.</p> <p>Comments supporting a separate standard include:</p> <ul style="list-style-type: none"> • It will be clearer and may assist in understanding of the role of the EQC review. • In a separate standard, it may be easier to define what constitutes a “quality” audit and set out guidance on the minimum expectations for both the engagement partner and the EQCR. • A separate standard could more clearly set out what constitutes a risky engagement and, therefore, when an EQC review would be required. <p>Comments against a separate standard include:</p> <ul style="list-style-type: none"> • Sufficient revisions can be made within ISQC 1 to clarify the role of the EQC review. • The lack of a separate standard currently does not pose a high risk. • Having a separate standard may be misinterpreted by some as elevating the role of the engagement quality control review to a higher status than warranted. • The current standard is not overly lengthy; there is no need to bifurcate. <p>These pros and cons are similar to those identified by the IAASB in the ITC. No new arguments, either in support of or against, have been brought to the AASB’s attention.</p>
23.	CNCC-CSOEC	See response to QC6(a)
24.	HKICPA	See response to QC6(a)
25.	IDW	See response to QC6(a)
26.	JICPA	If ISQC 1 is restructured to incorporate QMA, we think it would be meaningful to weigh the desirability of developing a separate EQC review standard.
27.	MAASB	We do not have strong views as to whether the roles and responsibilities of the EQC reviewer are to be included in an existing standard or a new standard but rather there is sufficient clarity around the role and responsibilities and the balance of responsibilities compared to the engagement partner remains appropriate. However, we are of the view that creating a new standard is not of utmost priority.
28.	NBA	No, we do not consider this necessary. The EQCR is part of the overall quality control requirements for the firm, it is not an engagement issue. Therefore a separate standard might give the wrong signal, and we feel that it is not necessary for the prominence of the EQCR.

29.	NZAuASB	The NZAuASB does not consider that a separate standard on EQC review is needed, only some clarification and maybe more guidance.
Accounting Firms		
30.	BDO	Carving out the EQC Review requirements into a separate ISA (or ISQC) could help to provide greater clarity to those performing this specific role as described in paragraph 144. In addition, the current construct of ISQC 1 may have the unintended consequence of mixing concepts relating to firm level and engagement level issues. An EQC Reviewer operates in the context of a system of internal control within a firm; however their actual role is to focus on matters associated with a particular engagement. Having a separate Standard in respect of the EQC Review would more clearly distinguish this role from the other more pervasive matters discussed in ISQC 1.
31.	CHI	--
32.	DTT	See response to QC6(a)
33.	EYG	We believe that the current structure of the IAASB standards is appropriate, whereby requirements for firms to develop policies and procedures related to EQC review are located in ISQC 1 and performance requirements for EQC reviewers are located in ISA 220. It does not appear consistent with the structure of the IAASB standards to include together in a separate ISQC standard both requirements for firms related to EQC reviews and performance requirements for the EQC reviewer. We believe it is especially important that performance requirements are located in the ISAs or other IAASB performance standards, as appropriate, and not in ISQC 1 or a new ISQC standard.
34.	GTI	--
35.	KPMG	See response to QC6(a)
36.	PwC	We do not consider the location of requirements to be a key issue. The most important outcome is that there is sufficient clarity around the role and responsibilities and that the balance of respective responsibilities compared to the engagement partner remains appropriate.
37.	RBI	--
38.	RSM	We support the need for a separate standard if the proposals for enhanced prominence of the EQC review role warrant it in terms of complexity or volume. However, at this stage without more information on the proposals it is not possible to assess this fully.
39.	SRA	--

Public Sector Organizations		
40.	AGC	We would support the development of a separate EQC review standard. This would serve to provide firms with more detailed requirements and guidance to support their implementation of the role. A separate standard would elevate the importance of the role and provide the opportunity to expand on how other activities of a firm, such as pre-issuance reviews, should be properly integrated into the system of quality control.
41.	AGSA	Yes, if it cannot be catered for adequately in ISQC 1 then consider a separate standard for EQCRs – can be part of ISQC quality standard series within the ISA's. This would enhance the importance of the EQCR and hopefully encourage better compliance from auditors. Furthermore guidance will ensure that a uniform and consistent approach for the industry.
42.	GAO	See response to QC6(a)
43.	INTOSAI	We would support the development of a separate EQC review standard. This would serve to provide firms with more detailed requirements and guidance to support their implementation of the role. A separate standard would elevate the importance of the role and provide the opportunity to expand on how other activities of a firm, such as pre-issuance reviews, should be properly integrated into the system of quality control.
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	See response to QC6(a)
47.	AIC	--
48.	AICPA	We do not support the development of a separate EQC standard. We believe that the requirements in ISQC1 regarding EQC review are not deficient and a separate standard is not warranted. We agree with all the disadvantages listed and believe that they outweigh the advantages. A separate standard will place undue emphasis on an EQC review, which is only one quality control measure. A separate standard would give the impression that the EQC reviewer's responsibility for the engagement is equal to that of the engagement partner's, if not more so. To this point, we agree that clarification of the role of the EQC reviewer in relation to the engagement partner would be helpful. As discussed in our response to QC11, we support further clarification about the role of an EQC review and its relationship with other reviews and monitoring procedures.
49.	APESB	APESB believes that there is no need for a separate standard on EQC reviews. In line with our response to question 7 below, large firms have developed internal processes relating to EQC Reviews. However, SMPs may benefit from being provided with a compiled summary of the requirements relating to EQC reviews and EQC reviewers. This could be in the form of either an Appendix to ISQC 1 or an IAASB

		Staff Audit Practice Alert. Such a document may be used as a way of promoting the role of the EQC reviewer and the importance of being involved at the right time or to the right extent when conducting an EQC review.
50.	CAANZ	We do not believe a separate EQC review standard needs to be developed. Clarification of mandatory requirements for EQC reviewers can be achieved through revising existing standards.
51.	CAI	On a specific point, in our view is it not necessary to develop a separate standard relating to the conduct of Engagement Quality Control Reviews. On balance, relevant requirements are best framed in the context of overall requirements for quality control.
52.	CAQ	--
53.	CIIPA	--
54.	CIMA	--
55.	CPAA	We do not support the need for a new standard for EQC reviewers. EQC reviews are adequately addressed in ISQC 1 and ISA 220 and so where there is a need for further requirements or application material these could be included by revising the material in ISQC 1 or ISA 220 as appropriate.
56.	DnR	Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE. [also see p. 2]
57.	EFAA	--
58.	FACPCE	--
59.	FEE	<p>(18) We agree with most actions proposed in the section “Engagement Quality Control (EQC) Reviews and Engagement Quality Control Reviewers (EQCR)”, except for the development of a separate EQC review standard. This would perhaps result in a disproportionate focus and expectations compared with the audit engagement partner, who of course is not the subject of a specific auditing standard. We also do not believe it is appropriate to have the EQCR ‘announced’ in the auditor’s report. The IAASB should be bold in the approach of keeping the EQCR as an internal role without having any link with the client. Lastly, EQC reviews should be considered for entities such as those with public exposure and high risk areas for society.</p> <p>(115) No, because of the reasons noted in paragraph 144. As mentioned above, primarily ISA 220 documentation related to EQC reviews should be reinforced. While we acknowledge that the standard is already prescriptive and could be followed thoroughly by an effective EQC reviewer, still it would be beneficial to better articulate what the responsibilities of the EQC reviewer are and how they are linked to the engagement partner’s ones.</p>
60.	FSR	We support the development of a new standard covering EQC review or an IAPN, as we see this as an area of uneven approaches in practice.
61.	IBA	--
62.	IBRACON	Not necessarily a separate standard but a separate topic describing the EQC Roles and Responsibilities and more detailed guidance in assignment of EQC reviewers such as subordination, expertise, conflicts of interest, etc.

63.	IBR-IRE	(63) We are not in favor of developing a specific standard for the EQCR as his role of just one of the element of the quality system. In addition, we do not believe that referring to an EQCR in the audit report will provided added value to the reader of the report.
64.	ICAEW	On balance we would not support the development of a separate EQC review standard. We understand and support the desire to give prominence to the importance of EQC reviews, but we consider that this can be done within the overall standard for quality control. One risk of separating the requirements is breaking the perception of integration with the whole system of quality control.
65.	ICAP	--
66.	ICAS	In relation to engagement quality control reviews, we do not believe that this should be subject to a separate standard as this is likely to repeat much of the same information already contained in ISQC1.
67.	ICAZ	No. EQC's should be read in the context of quality control standards and having them separately might result in the loss of the context of the standard.
68.	ICPAK	No, this can be incorporated in the ISQC1
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	See response to QC6(a)
72.	KICPA	We do not support the development of a separate EQC review standard, unless there surely needs a separate standard to clarify and specify the role and responsibility of the EQC reviewer. We believe disadvantages would be more outstanding, such as the duplication with the existing standards, and the excessive emphasis on EQC review as compared to other factors including the lack of consistency with ISQC 1, rather than the advantages of highlighting the importance of EQC review.
73.	MICPA	--
74.	SAICA	83. In different forums and discussion sessions we have attended, we were left with the overall sense that there are mixed views in terms of a separate standard for EQCR; views motivated in terms of the interpretation and weight assigned to the various advantages and disadvantages noted in paragraph 144 of the ITC. 84. Survey respondents also indicated these “mixed views”, with 52.6% supporting and 47.4% not supporting the development of a separate standard for Engagement Quality Control Review.
75.	SMPC	See response to QC6(a)
76.	WPK	In our opinion a separate EQCR standard (see note 144, first point) does not appear necessary as the meaning and purpose of an EQCR was already sufficiently clear so far. The design of a specific EQCR should not be regulated in detail.
Academics		
77.	AAA	See response to QC6(a)

78.	AH	--
79.	Glover-Prawitt	--
80.	TRay	--
Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	No. The ECQ review should not be limited to the requirements of a single standard but should examine those critical aspects of auditing standards relevant to the engagement.
84.	JGrant	See response to QC6(a)
85.	JK	--
86.	KKTuraga	--
87.	SDeViney	No. See answer to QC6(b)(i). EQC reviews should be viewed as only one of many possible elements in a quality control system or responses to quality control risks. Moreover, additional prescription for quality responses regardless of the assessment of quality risks, structure of the audit organization, etc, would seem contrary to the risk-based concept of "QMA".

QC7. Monitoring and Remediation

- (a) Paragraphs 147–159 set out matters relating to monitoring and remediation.
- (i) Which of the possible actions outlined in paragraphs 156–159 would be most meaningful in addressing issues related to monitoring and remediation?
 - (ii) Why do you believe these actions are necessary?
 - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
 - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
- (i) Do you support the incorporation of a new requirement(s) in ISQC 1 for firms to understand the causal factors of audit deficiencies relating to inspection findings and other reviews? If not, why? Are there any potential consequences or other challenges of taking this action that you believe we need to consider?
 - (ii) Do you support the incorporation of a new requirement(s) in ISQC 1 for the results of the firm's monitoring of the effectiveness and appropriateness of the remedial actions to be considered in the design and assessment of the effectiveness of the firm's system of quality control? Please provide further detail to explain your response.

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	--
3.	CFA	<p>Audit inspections by the international regulators as organized under the International Forum of Independent Audit Regulators (IFIAR) provide a key oversight role in audit quality. To that end, we agree that the IAASB should strengthen ISQC 1 to include policies and procedures to emphasize the need for, and importance of, actions firms take to respond to inspection findings.</p> <p>IFIAR released its 2015 annual inspection findings earlier this month revealing that 43% of inspected audits of listed public interest entities had at least one inspection finding. This compares to 47% in the previous year. Announcing the survey findings, IFIAR Chair Janine van Diggelen said:</p>

		<p><i>“While this is a four percentage point drop in deficient audits over last year, IFIAR is not yet satisfied that enough has been done by the audit profession to understand and address shortfalls in audit quality. The outcomes continue to show a lack of consistency in the execution of high-quality audits and highlight concerns over the robustness of the firms’ internal quality management systems.”</i></p> <p>It is clear that audit firms in general are not doing enough to address the deficiencies in the audits, and therefore ISQC 1 should embed a requirement for these deficiencies to be considered and changes made to improve root cause problems.</p>
4.	IA	--
5.	ICGN	--
6.	NZSA	--
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	--
10.	CPAB	--
11.	EAIG	--
12.	EBA	--
13.	ESMA	ESMA also highlights the need and importance for audit firms in responding to internal and external inspection findings (paragraph 68 of the Overview of the ITC). In this regard, ESMA supports the requirement of obtaining an understanding of the root causes of audit deficiencies and the establishment of policies and procedures for corrective measures. These actions shall help firms in strengthening procedures and raising their accountability.
14.	H3C	--
15.	IAIS	<p>Firm level: monitoring and remediation</p> <p>Monitoring audit quality within an audit firm implies an effective quality control system, based on policies and procedures, which provide for regular assessment of the adequacy and effectiveness of that system. This quality control system is important for identifying emerging risks and opportunities and ensuring that standards are being adhered to. In addition to addressing any shortcomings that have been</p>

		<p>identified on individual audits, it is important that audit firms take appropriate actions to address systemic issues revealed by both internal and external monitoring activities.</p> <p>While ISQC 1 contains requirements related to monitoring of an audit firm's system of quality control, it does not contain explicit requirements for audit firms with respect to policies and procedures to address and respond to the results of inspections performed by external inspectors. Strengthening requirements and adding new application material within ISQC 1 to address such matters could lead to improved audit quality with firms achieving greater consistency in practice with respect to responding effectively to inspection findings of individual engagements. Such requirements could address:</p> <ul style="list-style-type: none"> • An analysis of any external findings and appropriate responses thereto, in the same way that internal findings are considered; • Consideration of whether such findings would have implications for other engagements as well as the quality control system, including appropriate remediation; • Consideration of performance of other types of reviews at different stages of an audit that are also focused on achieving quality such as "pre-issuance" and "post-issuance" reviews and the results thereof; and • Obtaining an understanding of the causal factors of audit deficiencies and addressing those factors in the internal monitoring system in terms of updating policies and procedures and monitoring the effectiveness of those updates. <p>Such enhanced requirements could be supported by appropriate application material.</p>
16.	IFIAR	<p>24. The discussion in the ITC relating to monitoring focuses on root cause analysis and the consideration of external inspection findings. We believe it is also important that issues relating to firm's internal monitoring are addressed. In particular, the IAASB needs to review the requirements relating to internal monitoring reviews of individual audit engagements in order to avoid 'compliance' focus, or a so called "tick-box approach" and to promote an approach focussed on substantive reviews of the quality of work performed on higher risk and judgemental areas, with appropriate time and resources allocated for this. Firms' approaches to internal monitoring should allow for comparison to external inspections performed by regulators.</p> <p>25. Further, internal monitoring reviews of 'firm wide' controls need to be given greater weight and their effectiveness assessed in light of findings from internal monitoring of individual audit engagements. If a quality management approach is adopted, it is essential that the audit firm can demonstrate that its internal controls over audit quality are effective.</p> <p>26. Regarding root cause analysis, we support appropriate requirements for audit firms to perform root cause analysis on weaknesses identified through internal and external inspections, in particular regarding the factors to take into account when performing root cause analysis. In addition to assessing audit deficiencies, root cause analysis should also be performed to identify the attributes of high-quality audit engagements to promote quality across the audit practice.</p>
17.	IOSCO	<p>We agree with the Board's possible actions described in paragraphs 156 to 159 of the Paper to address the issues related to monitoring and remediation. Audit quality could improve if firms implement a system for monitoring the results of feedback on audit quality from all sources, including a root cause analysis of audit deficiencies and implementation of policies and procedures to identify necessary corrective actions. We believe that a robust monitoring and remediation program would likely be identified as a necessary quality control step through application of a risk management framework such as the QMA noted in the Paper. We believe that detailed requirements regarding a monitoring and remediation program (including root cause analysis) should be included in ISQC 1, regardless of whether a QMA requirement is ultimately included in ISQC 1.</p>

18.	IRBA	--
19.	MAOB	--
20.	UKFRC	<p>We support the IAASB's proposal to enhance audit firms' monitoring processes, including remedial actions, through the quality control standards. As noted in our response to QC6, in the FRC's Annual Inspection Report 2014/15³⁷ we noted that the number and nature of findings arising from our inspection of individual audits continues to indicate that firms' internal quality control and monitoring procedures require further strengthening or improved application in practice. In light of these findings our 2015/16 thematic inspections included a review of firms' internal quality monitoring procedures³⁸ (FRC AQM Thematic Review). The FRC AQM Thematic Review echoes some of the matters outlined in paragraph 150 of the ITC, including the importance of investing the appropriate time and resources to monitoring activities. However, overall it highlights that a number of firms allocate substantial resources to their monitoring of the quality of audits and this is to be commended. As a consequence, notwithstanding that firms are keen to develop this area further, a number of good practices have been described in the FRC AQM Thematic Review that the IAASB may wish to consider when enhancing the guidance on this topic in the International Standards.</p> <p><i>Using a QMA to provide a stronger link to monitoring and remediation</i></p> <p>With regard to the suggested solutions set out in paragraphs 156 to 158 of the ITC, we would like to emphasise the importance of the IAASB's proposal in paragraph 159 that the use of QMA by the firm would create an opportunity to provide a stronger link to monitoring and remediation within the firms' system of quality control. In fact, as components of the quality management system are put in place, processes for monitoring are essential to ensure that the policies and procedures are being adhered to and quality benchmarks and standards are being met. Monitoring and remediation are therefore essential to the primary goal of a quality system, which is continuous improvement (as also mentioned in our response to QC4). It is therefore critically important that the IAASB ensures that the introduction of any new application material or requirements related to monitoring processes are embedded within the QMA.</p> <p><i>Understanding the causal factors of audit deficiencies and monitoring of the effectiveness and appropriateness of the remedial actions</i></p> <p>Regarding the incorporation of requirements for firms to understand causal factors and monitoring the effectiveness and appropriateness of the remedial actions, we strongly support the IAASB incorporating material into ISQC 1 on this matter in relation to both external inspection findings and internal monitoring findings, and the effectiveness of remedial actions thereon. As explained in the FRC AQM Thematic Review, the identification of effective remedial actions by firms is a challenge. Whilst certain remedial actions may address a particular deficiency, they may not address the underlying cause and the deficiency may therefore reoccur. It is therefore important that firms gain a clearer understanding of the underlying causes of recurring deficiencies to enable them to implement remedial actions which are likely to be effective. However, as mentioned above a QMA model is a cycle of continuous improvement, and accordingly, any remedial actions implemented into the firm's processes and procedures should naturally be subject to the firm's monitoring processes. In 2016/17, the FRC will conduct further thematic reviews, including the firms' performance of root cause analysis, and the IAASB may wish to consider the findings of that review in their work.</p>

³⁷ <https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Inspections-Annual-Report-2014-15.pdf>

³⁸ <https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Thematic-Review-Firms-audit-qualit.pdf>

National Auditing Standard Setters		
21.	AUASB	<p><u>QC7(a):</u></p> <p>(i) The AUASB acknowledges that the possible actions outlined primarily being, understanding of causal factors of audit deficiency, analysis of QC findings and necessary actions and monitoring of the effectiveness and appropriateness of remedial action are being addressed in practice by the firms under the principles outlined in paragraphs 48 to 54 of ISQC 1. The AUASB's view is that the principles in ISQC 1 do not appear to be interpreted as being incomplete, misleading or unclear.</p> <p>(ii) Nothing further noted.</p> <p>(iii) The AUASB considered a possible further option may be for ISA 220 to include additional application material to address circumstances in relation to remediating files where audit inspection findings and other reviews identify non-compliance with auditing standards.</p> <p>(iv) Nothing further noted.</p> <p><u>QC7(b):</u></p> <p>Nothing further noted.</p>
22.	CAASB	<p><u>QC7(a):</u></p> <p>Monitoring is an area that provides a significant challenge for SMPs in Canada. It can be difficult for smaller firms, particularly those in smaller communities to find someone capable of performing the monitoring function. The AASB and Canadian stakeholders ask the IAASB to address scalability when it considers actions related to monitoring. For example, revisions should not result in overly prescriptive requirements that are difficult for SMPs to apply. Further the amount of monitoring (i.e., the number of files subject to monitoring or the frequency of monitoring) should not be increased significantly.</p> <p>In the AASB's view the following actions would be:</p> <p>Most meaningful:</p> <ul style="list-style-type: none"> • Require obtaining an understanding of causal factors of audit deficiencies (para. 157(a)) • Clarify necessary actions regarding analysis of audit deficiencies and corrective measures as a preventive measure (para. 157(b)) • Monitoring by firm leadership of the effectiveness and appropriateness of remedial actions (para. 158) <p>It is always important to consider the causal factors so that corrective actions can be put in place. The AASB, along with many Canadian stakeholders, noted that some firms are already considering and addressing the causal factors. Conducting causal analysis is an integral part of a plan to improve audit quality. However, some Canadian stakeholders cautioned the IAASB to be careful to not increase the documentation requirements significantly as this would create an unnecessary burden on SMPs. Another Canadian stakeholder suggested that the IAASB's focus should be on creating requirements or application material that emphasize the need to leverage or learn from existing inspections, rather than requiring additional inspections.</p> <p>Many firms, particularly larger firms, have an internal monitoring process in place that requires engagement partners to consider and respond to the results of the monitoring. Canadian stakeholders noted that it would be good to require firms to have a similar process in place to for external monitoring, and therefore support the IAASB's proposals in this area.</p>

		<p>Meaningful:</p> <ul style="list-style-type: none"> • Strengthen requirements/application material on analysis of external findings (para. 156, 1st bullet) • Consider whether inspection findings have implications on other engagements and the firm's system of quality control (para. 156, 2nd bullet) <p>Including requirements and application material in ISQC 1 could help improve consistency in practice. Further, consideration of external findings is seen to be of great benefit to firms. When firms consider the broader impact of findings on their practice, it is possible to make more wide-spread improvements.</p> <p>Not supported:</p> <ul style="list-style-type: none"> • Use of QMA to provide a stronger monitoring and remediation link (para. 159) – As noted in the covering letter and response to QC1, the AASB and Canadian stakeholders are not convinced that ISQC 1 should be redrafted using a QMA. The IAASB states that the use of a QMA would create an opportunity to provide a stronger link to monitoring and remediation within the firm's system of quality control. As the QMA has not been sufficiently articulated in the ITC, the AASB cannot conclude whether the IAASB's statement is accurate. <p><u>QC7(b):</u> The AASB is supportive, for the reasons noted in QC7(a). Potential consequences or other challenges may include creating a compliance mindset, where practitioners are more focused on the process (i.e., completing a checklist) than on the purpose of such monitoring and remediation. Any revisions to ISQC 1 should be done in a manner that shines a positive light on monitoring, with the end result being that practitioners and firms consider whether audits have been done with the proper focus.</p>
23.	CNCC-CSOEC	<p>We believe that it is important to require firms to consider external findings, as mentioned in paragraph 156 of the ITC. What is essential for the firms is not only to conduct an analysis of the external findings and policies and procedures but also to address the issues identified from these findings and monitor with effectiveness and appropriateness the remedial actions.</p> <p>We support the action proposed in paragraph 157 (a) that would consist in obtaining an understanding of the causal factors of audit deficiencies identified by inspections and other reviews (such as EQC reviews, pre-issuance reviews, post-issuance reviews etc.), including consideration of information gathered at the engagement level regarding each audit deficiency.</p>
24.	HKICPA	--
25.	IDW	<p>We generally agree that a feedback mechanism dealing with remedial actions derived from inspections findings along the lines contemplated by COSO ERM will be needed as an integral part of a QMA.</p> <p>We are also aware that various firms are using review mechanisms other than EQCR, and our members report that those mechanisms operating as the engagement progresses (e.g., "hot reviews") are often more effective than so-called "cold reviews". Indeed, introducing proactive mechanisms can potentially reduce the need for, or extent of, post-completion monitoring and review. Advances in technology are also driving progress in this area. These are factors we believe the IAASB should take into account.</p>

26.	JICPA	<p><u>QC7(a):</u> We support the action to strengthen the requirements and enhance the application material in ISQC 1 in order to address external inspection findings. This action would be a meaningful way to keep ISQC 1 relevant to today's audit environment.</p> <p>We do not, however, support the action to incorporate the concepts of pre-issuance review and post-issuance review in ISQC 1. We acknowledge that some firms perform these types of reviews. The firms should have the discretion to perform them or not in light of their circumstances. The EQCR should be the focus in ISQC 1 as an internal review, and the IAASB should explore means for enhancements in relation to EQCR.</p> <p><u>QC7(b):</u></p> <p>(i) We agree that ISQC 1 should incorporate a new requirement(s) for firms to understand the causal factors of audit deficiencies relating to inspection findings and other reviews. To pursue this action, we recommend that the meaning of "audit deficiency" be defined. We also have trouble discerning whether "deficiencies," the term used in the current ISQC 1 in paragraphs 49 to 51, has a similar meaning to the term "deficiency in internal control" defined in ISA 265. We believe that the terms "audit deficiency" and "deficiencies" in ISQC 1 should be clarified in exploring this action.</p> <p>(ii) We agree that ISQC 1 should incorporate a new requirement(s) for the results of the firm's monitoring of the effectiveness and appropriateness of the remedial actions to be considered in the design and assessment of the effectiveness of the firm's system of quality control. Similar to our previous comment on QC7(b)(i), we believe that the terms "audit deficiency" and "deficiencies" in ISQC 1 should be clarified in exploring this action.</p>
27.	MAASB	<p><u>QC7(a):</u></p> <p>(i/ii) We support each of the actions described in this section and believe that the linkage between inspections, other reviews and a QMA is particularly important, as strong linkage between these elements provide exponential strength to the overall system of quality control.</p> <p>(iii) Due to resource and financial constraints, audit firms may find the proposed actions challenging to apply.</p> <p>(iv) Guidance to audit firms on how to practically implement these requirements would be helpful.</p> <p><u>QC7(b):</u></p> <p>(i) We support the incorporation of a new requirement for firms to understand the causal factors of audit deficiencies. These causal factors should all directly feed into the QMA programme.</p> <p>(ii) Yes, the overall system of quality control will not be optional as there is no direct linkage between the QMA programme and the inspection/monitoring programme. Such a feedback loop system is essential to ensure that corrective steps are being taken in the right direction.</p>
28.	NBA	<p><u>QC7(a):</u></p> <p>(i) Monitoring and remediation are part of a QMA which is proposed in the ITC. Improvements in firms' systems of quality control can also improve audit quality not only by detecting more audit deficiencies prior to the issuance of the audit report, but also by preventing and deterring the occurrence of many of such deficiencies. Root cause analysis of external and internal findings can strengthen firms' processes for monitoring the effectiveness of their quality control systems. We consider root cause analysis the most important action to be taken.</p>

		<p>(ii) Root cause analysis to detect the issues at the level of the organization and to find out whether these are structural, will help to improve the organization.</p> <p>(iii) Root cause analysis is described, but could be given more attention.</p> <p>(iv) No comment</p> <p><u>QC7(b):</u></p> <p>(i) Yes. The importance for the whole organization should be emphasized.</p> <p>(ii) Yes. This section completes the circle of the QMA.</p>
29.	NZAuASB	<p><u>QC7(a):</u></p> <p>(i) Feedback from constituents, including the New Zealand regulator, indicates that these actions are already in place in all the large firms and most of the medium size firms. Incorporating these proposed requirements into ISQC1 is unlikely to improve audit quality whilst adding another layer of complexity to comply with. The standards should remain principle based and avoid a prescriptive approach. It would be more helpful to provide guidance to SMPs and sole proprietors on how to implement the principles in ISQC1.</p> <p>(ii) The NZAuASB does not consider it necessary to include this as a requirement as it is unlikely that it lead to an improvement in audit quality. The standards should remain principle based and avoid a prescriptive approach.</p> <p>(iii) The NZAuASB has not identified any further actions to consider.</p> <p>(iv) 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.</p> <p><u>QC7(b):</u></p> <p>(i) The NZAuASB does not support the incorporation of a new requirement for firms to understand the causal factors of audit deficiencies as this is already occurring, and firms have appropriate measures to ensure that they are learning from their mistakes and that those are not repeated. The standards should remain principle based and avoid a prescriptive approach.</p> <p>(ii) The NZAuASB does not support the incorporation of a new requirement to consider the results of the firms monitoring in the design and effectiveness of the firm's system of quality control. The compliance cost is likely to exceed the benefit of improved quality.</p>
Accounting Firms		
30.	BDO	<p><u>QC7(a):</u></p> <p>(i/ii) We would support the suggestions outlined in paragraph 156. In that regard, sufficient flexibility would need to be incorporated in any guidance to recognize the possible resource constraints of SMPs.</p> <p>We would also support consideration of a QMA to application of monitoring and remediation as we believe this will provide an opportunity for firms to benchmark existing methods of monitoring and remediation in the context of the wider model.</p> <p>(iii) See our answer in QC7 (a) (i) and (ii).</p> <p>In determining how best to provide enhancements or to strengthen requirements for a root cause analysis, the IAASB should consider a comparison of firm transparency reports. The transparency reports of many of the firms of the major networks show</p>

		<p>clearly that there is a wide range of inspection regimes and variable outputs (e.g., gradings, scorecard or extent of disclosure) available for further consideration by the IAASB.</p> <p><u>QC7(b):</u> We support the proposals outlined in QC7 (b) (i) and (ii). Both aspects are already incorporated into our own Audit Quality Framework and related Quality Monitoring Program.</p>
31.	CHI	<p><u>QC7(a):</u></p> <p>(i) The actions that would be most meaningful are:</p> <ul style="list-style-type: none"> • Monitoring by firm leadership of inspection findings (external and internal) and remedial actions; • Linkage between monitoring and QMA; and • Policies and procedures for analysing and responding to findings. <p>(ii) The involvement of firm leadership (and potentially the integration with QMA) emphasises the importance of monitoring and the responsibility of firm leadership to receive reports, and consider the implications of reports.</p> <p>We mention policies and procedures for analysing and responding to findings, because regulators frequently refer to “root cause analysis”. In light of this, IAASB ought to help auditors by referring to “root cause” analysis in requirements and application material.</p> <p>(iii) A revised ISQC 1 should do more to address the conduct of the “whole firm review” of the operation of the firm’s policies and procedures. Firms need assistance with this, and firms need to understand that internal monitoring is more than the review of completed engagements.</p> <p>The existing application guidance on the frequency of the review of completed engagements is brief and, arguably, dated. This guidance should be revised and the wording changed so that it does not imply that engagement reviews be performed at three-year intervals.</p> <p>(iv) We have nothing to add.</p> <p><u>QC7(b):</u></p> <p>(i) Yes We have nothing to add. This should be addressed.</p> <p>(ii) Yes Remedial actions are important, and it is right to give greater emphasis to these in the design and assessment of the firm’s system of quality control. The presentation should encourage learning from the findings as an important part of the remedial action.</p>
32.	DTT	<p>DTTL believes audit regulators and oversight bodies expect firms to investigate and understand the root causes of inspection findings (both internal and external) and to use them as the basis for determining remedial actions and ultimately assessing the effectiveness of those actions. ISQC1 does not currently explicitly contemplate these matters. In this regard:</p> <ul style="list-style-type: none"> • DTTL agrees that improved guidance in ISQC 1 could lead to greater consistency in practice to respond to all quality control feedback. This could include requirements around (1) consistently addressing causal factors of exceptions arising in external inspections, internal inspections and other monitoring processes; and (2) analyzing the potential prevalence of causal factors in the entire population

		<ul style="list-style-type: none"> DTTL also agrees that policies and procedures to clarify the nature of remedial actions and the monitoring of such remedial actions is important to consider in ISQC1.
33.	EYG	<p><u>QC7(a):</u> Expanded analysis of findings from inspections and other reviews We support adding in ISQC 1:</p> <ul style="list-style-type: none"> ▶ Required analysis of findings from external inspections in the same way that findings from internal inspections are considered, with supporting application material about the role of external inspections and how these interact with the internal monitoring system ▶ Consideration of whether inspection findings are relevant for other engagements (i.e., identifying which findings are not unique to the particular engagement inspected), as well as considering the implications of the findings for the firm’s system of quality control (refer to (b)(ii) below) <p>We also note the IAASB’s planned consideration of how the performance of pre-issuance reviews, post-issuance reviews or other firm approaches to reviewing engagements outside of the internal inspection process may factor into the firm’s system of quality control. We do believe that these are quality control activities; however, we see these as not necessarily having the same objectives as formal monitoring or inspections depending on how these are used and implemented in a particular firm. For example, some reviews may be related to remediation activities, others may be due to the implementation of new auditing or accounting standards, some may be part of coaching exercises (i.e., a learning activity) or still others may be for fact-gathering purposes to determine how certain issues are being dealt with in practice. Therefore, we believe it is necessary for firms to have the flexibility to determine which of their quality control activities outside of the internal inspections process comprise part of the firm’s monitoring process, and any required consideration of the results of such activities in evaluating the deficiencies that have been identified through these activities (i.e., under paragraph 49 of ISQC 1) should be limited to those resulting from activities that have been designated by the firm as monitoring activities.</p> <p>As a general rule, we do not view the reviews that occur prior to the issuance of the auditor’s report as inspection activities that are conducted to fulfill the requirement of paragraph 48(a) if ISQC 1. The objective of these reviews is often to prevent audit quality issues and, when issues are identified, to promptly set the engagement onto a corrective path. Although common quality issues may be identified through this process, they are not typically captured in the same formal manner as those that are identified in internal inspections.</p> <p>Also, we note that paragraph 157 of the ITC mentions analysis of “deficiencies” identified through engagement quality control reviews. We do not view the EQC review as a monitoring activity, nor do we believe that EQC reviewers should be required to capture “deficiencies” for consideration as part of the firm’s monitoring processes.</p> <p>Nevertheless, we agree that quality deficiencies or findings are identified through various sources and activities within a firm’s system of quality control, and we strongly agree that the source of the findings is irrelevant to the need to consider whether corrective action is necessary. We also do not believe that corrective action should be delayed until after the formal cyclical inspection process is complete. Instead, firms should have the flexibility to be proactive and continuously invest in new approaches and tools to identify and address emerging audit quality risks and provide resources to support audit teams on quality matters. Therefore, we recommend that ISQC 1 take a principles-based approach to the consideration of deficiencies or findings that are identified through sources other than those that are designated monitoring activities. These principles should be dealt with separately from the required analysis and remediation activities for findings from internal and external inspections.</p>

		<p>Additional issue to consider - Cyclical inspection process</p> <p>Paragraph 48(a) of ISQC 1 requires cyclical internal inspections for each engagement partner, whereby the application material in paragraph A66 presumptively suggests a cycle that spans three years.</p> <p>We believe that this cyclical approach that is focused on engagement partner coverage should be re-considered in light of the implementation of a QMA that is focused on risk. Although A66 also presents risks factors for consideration in selecting engagements, the required focus on engagement partner coverage results in:</p> <ul style="list-style-type: none"> ▶ Predictability for engagement partners of when they will be subject to inspection because the capacity of internal inspection activities typically does not allow for inspection of an engagement partner more than once in three years ▶ A reduction in the ability to select engagements for inspection based on risk because the population of engagements for selection in any particular year is limited to those for which the assigned engagement partners are required to be inspected in that year (i.e., inability to apply a risk-based selection across the entire engagement profile of the firm in any one year) <p>We believe the basis for engagement inspection selection should be directed to assessing audit quality at the firm-level rather than that of individual partners. We would prefer a principles-based approach to selecting engagements for annual internal inspections focused first on the risk profile of the engagement portfolio, rather than engagement partner coverage. Some engagement partners may have a portfolio of many low risk engagements, while others may have a portfolio of only a few higher risk engagements.</p> <p><u>QC7(b)(i):</u></p> <p>We are supportive of requiring consideration of the causal factors of audit deficiencies that have been identified through the firm's monitoring processes in order for firms to consider whether there are certain common trends that indicate threats to audit quality that should be addressed through remediation activities.</p> <p>As it relates to requiring an analysis of the causal factors of audit deficiencies, we believe there first needs to be a common understanding of what such analysis entails – both in nature and extent.</p> <p>We have incorporated a root cause analysis in our firm processes to analyze deficiencies, and we continue to develop, enhance and improve this process to result in a common process that can be used consistently across our network globally. What we have learned from our experiences so far is:</p> <ul style="list-style-type: none"> ▶ There is typically not just one, but sometimes several underlying issues within a single engagement that lead to an audit deficiency. Understanding the interrelationship of these issues can be complex and the responses to address these issues can be multi-faceted. ▶ Root cause analysis may need to be scaled up or scaled down depending on the findings. For example, when a trend is identified as part of performing a root cause analysis on a few engagements within a given industry or country, the law of diminishing returns may set in, such that there is a low probability that any significantly different causal factors will be found in similar engagements. Conversely, when certain perhaps more surprising or unique factors or trends are identified, this may prompt an expansion in the selection of engagements to be analyzed. ▶ When there are systemic or common inspection findings across engagements, firms may need to take interim corrective actions before the process of root cause analysis is complete. We believe the ability to take corrective measures quickly, without the benefit of findings from root cause or other inspection analyses, still needs to be supported by ISQC 1 (i.e., paragraph 49(b) of ISQC 1).
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		<p>We believe it would be helpful for the IAASB to engage with stakeholders in collecting and assimilating views on what comprises effective root cause analysis. This would be a beneficial exercise to inform the determination of whether a requirement for such analysis should be introduced into ISQC 1 in addition to informing any supporting application material about the process that should be included in ISQC 1.</p> <p><u>QC7(b)(ii):</u></p> <p>Yes, we support the incorporation of a new requirement in ISQC 1 for the results of the firm's monitoring of the effectiveness and appropriateness of the remedial actions to be considered in the design and assessment of the effectiveness of the firm's system of quality control. This is consistent with our response to QC4 in which we express our views about the intrinsic linkage that inspection results and other identified deficiencies have to the ability of engagement teams to place reliance on the network or individual firm's system of quality control.</p>
34.	GTI	<p>We support the incorporation of new requirements for firms to understand the causal factors of audit deficiencies for all types of engagement reviews performed, including those performed internally by the firm and regulated external reviews. It is important that any such additional requirements lead a firm to perform this analysis at an appropriate level. This analysis should not be performed at too granular a level that requires detailed documentary evidence of the causal factors of all individual deficiencies on an engagement basis, or at too high a level such that no useful information is obtained from the performance of the review. The analysis of deficiencies noted from pre-release or post-release reviews could be done, for example, by identifying deficiencies by theme and performing causal analysis on those themes. Further guidance on the appropriate level of documentation of the performance and results of this analysis would also be helpful, provided the guidance is not overly prescriptive. We further support including requirements that the firm address the findings of the causal analysis on a firm-wide basis. This should also include monitoring the effectiveness of the remedial actions taken by the firm to address the deficiencies and the effectiveness of the overall quality management system.</p> <p>If a QMA is adopted, the performance of engagement reviews is potentially an area that can be made more scalable for smaller practices, by allowing some level of flexibility for the performance of internal reviews based on the level of risk associated with the engagement.</p>
35.	KPMG	<p>We are supportive of the possible actions outlined related to monitoring and remediation. We encourage the IAASB to take a principles-based approach related to setting requirements in this area, as the circumstances encountered by different Firms will vary widely. (QC 7)</p> <p>In describing the QMA in the standards, we suggest the Board focus on indicators of quality, and the evaluation of monitoring systems directed at the Firm's quality control policies and procedures as well as those that operate at the engagement level. (QC 7)</p> <p>We also believe that monitoring of quality at both the Firm level and the engagement level should be a dynamic process that provides real-time information, in greater depth, to enable a clearer understanding of any quality issues identified. For example, ISQC 1 could explicitly encourage certain reviews, or parts of reviews, to take place prior to the completion of the audit ("in-flight" reviews). This would improve audit quality in several ways: (QC 7)</p> <ul style="list-style-type: none"> • Such reviews could serve as a preventative measure rather than a detective measure. In instances where the engagement team has not obtained sufficient appropriate audit evidence, or otherwise not complied with the standards, the issue might be remedied before the audit is complete; • "In-flight" reviews may provide Firm leadership with better insights into any quality issues that reside with particular Engagement Partners.

36.	PwC	<p><u>QC7(a):</u></p> <p>(i) We support each of the actions described in this section and believe that the linkage between inspections, other reviews and a QMA is particularly important, as strong linkage between these elements provides strength to the overall system of quality control. We believe it is important that findings identified from all relevant sources are considered, thematic findings analysed from a root cause perspective to allow for meaningful action to be taken, and that the link between the inspection/review program and QMA is strengthened. We believe this is best addressed at the firm level as it is impracticable to require individual engagement partners to perform such analysis. The firm will have access to the relevant information to be able to analyse and cascade key messages to engagement partners.</p> <p>Based on our internal experience we find this can successfully contribute to improved understanding across engagement teams thereby promoting where action is necessary to enhance audit quality.</p> <p>There can be various formal and informal processes that contribute to the evidence a firm obtains of effective monitoring of ISQC 1 policies, procedures and controls. We believe it would be helpful to clarify in ISQC 1 what is needed to evidence the effectiveness of relevant monitoring controls. In our experience, expectations in this area vary.</p> <p>(ii) See response to point (i).</p> <p>(iii) We consider that a system of quality control should encompass a combination of:</p> <ul style="list-style-type: none"> • Where deemed appropriate, taking into account the risk assessment and other factors from the firm's QMA, reviews conducted within the firm prior to the issuance of the auditor's report, • Reviews conducted within the firm after the issuance of the auditor's report, and • Where applicable, reviews conducted under relevant network quality management policies and standards (where such exist) by appropriate individuals, independent from the firm that issues the auditor's report. <p>We believe application material in ISQC 1 could usefully highlight the role that such reviews can make in contributing to audit quality. In addition, application material could reinforce the linkage back to the QMA. For example, thematic findings from such reviews may indicate a concern that needs to be addressed within the QMA, just as findings from the QMA process may identify matters to be considered at an engagement review level. The purpose, objective and precision of other inspections and reviews must be understood before any findings therefrom are considered relevant and action taken.</p> <p>(iv) No further comments.</p> <p><u>QC7(b):</u></p> <p>(i) Causal factors, once identified as thematic root-causes of identified issues, should all directly feed into a firm's QMA program. As noted in our response to question G1, appropriately understanding root-causes of issues is essential before taking action. That applies equally to firms as well as the IAASB. As part of incorporating a QMA into ISQC 1, we support application material addressing how such matters are considered, which in our view would ordinarily result in an action to amend or implement a policy, process, execution or monitoring procedure(s) designed to mitigate the root-cause of the noted deficiency.</p> <p>Guidance that explains that the determination of the corresponding actions may impact multiple elements within a QMA program, including those less directly related to the particular matter, would also be considered helpful.</p> <p>We believe, however, it is important that any application material also acknowledge that whilst understanding the root causes of engagement level findings is important, to address the correct action points specific for that engagement team, the link between</p>
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		<p>the identified causal factors and a QMA should focus on thematic issues or those of a significant nature to the firm, region, or the network.</p> <p>(ii) If there is not a direct linkage between the QMA program and the inspection/monitoring programme it is unlikely the overall system of quality control will be optimal. In particular, maintaining a strong linkage between the two facilitates the identification of potential concerns at an engagement level before they materialise. We would therefore support this action.</p>
37.	RBI	--
38.	RSM	<p><u>QC7(a):</u></p> <p>(i) We agree with the actions listed in paragraphs 147 to 159, in particular the addition of the SMP perspective for this area. It is important that the challenges experienced by SMPs with respect to monitoring are acknowledged and fully addressed by the proposals.</p> <p>(ii) It is important that practical proposals are developed that are suitable for the particular risks and pressures faced by these firms associated with their size, resources and ownership structures.</p> <p>(iii) None.</p> <p>(iv) As described above, greater focus on the practical needs of SMPs in this area is needed.</p> <p><u>QC7(b):</u></p> <p>(i) We agree that there is a need for firms to understand the causal factors of audit deficiencies relating to inspection findings and other reviews because in order to implement effective remedies it is necessary to understand the root cause of the deficiency.</p> <p>(ii) We support the incorporation of a new requirement in ISQC 1 for the results of the firm's monitoring of effectiveness and appropriateness of the remedial actions to be considered in the design and assessment of the effectiveness of the firm's system of quality control. We recommend that the timing of these processes be considered within the guidance to make sure that remediation is timely and is implemented promptly so that repeat findings can be avoided.</p>
39.	SRA	--
Public Sector Organizations		
40.	AGC	<p><u>QC7(a):</u></p> <p>(i) From a public sector perspective, the actions that would be most meaningful are those directed at how the performance of pre-issuance and post-issuance reviews, and the results thereof, may factor into the firm's system of quality control, the role and results of external reviews and how these interact with the internal monitoring system, and the implementation of requirements to obtain an understanding of causal factors of identified audit deficiencies.</p> <p>(ii) The above actions would be an opportunity to improve the overall efficiency of monitoring the system of quality control given the extent of post-issuance reviews currently being performed. Public sector auditors also often elect to participate in independent peer reviews whose results are currently not a recognized component of monitoring. Further, public sector auditors may operate in an environment of organizational risk management and control in addition to that set out in ISQC 1. Both the AQM approach</p>

		<p>and a review of monitoring and remediation are an opportunity to further integrate these overlapping requirements to improve efficiency and effectiveness.</p> <p>(iii) No unique public sector considerations were noted.</p> <p>(iv) No potential consequences were noted for consideration.</p> <p><u>QC7(b):</u></p> <p>(i) We support the consideration of causal factors as best practice and new requirements for firms to understand the causal factors of audit deficiencies relating to inspection findings and other reviews.</p> <p>(ii) We support this incorporation as an appropriate monitoring consideration as this would align system monitoring with the design expectation.</p>
41.	AGSA	<p><u>QC7(a):</u></p> <p>(i) All actions outlined are considered meaningful.</p> <p>(ii) These actions strengthen monitoring and improve guidance and consistency in a firm</p> <p>Corrective actions that are adequately put in place to address the root causes of findings will ensure that gap arrears and audit efficiencies are addressed.</p> <p>Sharing findings with the auditors will raise awareness on audit quality issues and promote better quality audits.</p> <p>(iii) IAASB should consider incorporating pro-active or hot reviews. These reviews are different to EQCRs due to the fact that they are more focussed and specific as they target those audit areas that are assessed as highly complex and challenging. These reviews assist in improving the overall quality on the audits.</p> <p>(iv) No further comments.</p> <p><u>QC7(b):</u></p> <p>(i) Yes we support the incorporation of all the new proposed requirements.</p> <p>(ii) Yes we support the incorporation of all the new proposed requirements. This should be formalised into the firms system of quality control and be adequately monitored.</p>
42.	GAO	<p>In addition to creating a separate EQC review standard, we believe the auditor should analyze and summarize the results of the audit organization's monitoring process at least annually, identifying any systemic or repetitive issues needing improvement, and recommend corrective actions. We believe the auditor should evaluate the effects of deficiencies noted during monitoring of the audit organization's system of quality control to determine and implement appropriate actions to address the deficiencies. The audit organization should communicate, at least annually, the results of the monitoring of its system of quality control to engagement managers and other appropriate individuals within the audit organization, including the audit organization's leadership. This communication should enable the audit organization and these individuals to take prompt and appropriate action, when necessary, in accordance with their defined roles and responsibilities. Information communicated should include the following:</p> <ul style="list-style-type: none"> • a description of the monitoring procedures performed; • the conclusions drawn from the monitoring procedures; and

		<ul style="list-style-type: none"> when relevant, a description of systemic, repetitive, or other significant deficiencies and of the actions taken to resolve or amend those deficiencies. <p>The monitoring and remediation process would also have to allow flexibility for small and medium sized practices (SMPs).</p>
43.	INTOSAI	<p><u>QC7(a):</u></p> <p>(i) From a public sector perspective, the actions that would be most meaningful are those directed at how the performance of pre-issuance and post-issuance reviews, and the results thereof, may factor into the firm's system of quality control, the role and results of external reviews and how these interact with the internal monitoring system, and the implementation of requirements to obtain an understanding of causal factors of identified audit deficiencies.</p> <p>(ii) The above actions would be an opportunity to improve the overall efficiency of monitoring the system of quality control given the extent of post-issuance reviews currently being performed. Public sector auditors also often elect to participate in independent peer reviews whose results are currently not a recognized component of monitoring. Further, public sector auditors may operate in an environment of organizational risk management and control in addition to that set out in ISQC 1. Both the AQM approach and a review of monitoring and remediation are an opportunity to further integrate these overlapping requirements to improve efficiency and effectiveness.</p> <p>(iii) No unique public sector considerations were noted.</p> <p>(iv) No potential consequences were noted for consideration.</p> <p><u>QC7(b):</u></p> <p>(i) We support the consideration of causal factors as best practice and new requirements to for firms to understand the causal factors of audit deficiencies relating to inspection findings and other reviews.</p> <p>(ii) We support this incorporation as an appropriate monitoring consideration as this would align system monitoring with the design expectation.</p>
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	<p>We support firms taking steps to understand the causal factors of audit deficiencies. However, we believe this analysis should be undertaken solely with a view to enhancing audit quality. With respect to deficiencies, this would mean focusing on those audit deficiencies that led to the wrong audit judgement being taken on a material misstatement. Indeed, to the extent that this analysis identifies audit procedures that do not lead to the identification of material misstatements, consideration could be given by the IAASB to downgrading or even removing these procedures. We would encourage any requirements in this area to be introduced in a way that avoids unnecessary prescription. It would be beneficial for best practices to be allowed to develop rather than seeking to impose standards on firms.</p>

		<p>We believe it is important that analysis of causal factors adopts a ‘human factors’ approach that seeks to understand why people behaved the way they did. Audit is primarily a human discipline and it is vital that analysis of why auditing standards were not followed looks to find out why rather than apportion blame for not having done so. A further factor in fostering a culture conducive to effective root cause analyses is the identification and investigation of ‘near misses’: in other words, situations that did not lead to a failure to follow ISAs but which might have done. Our perception is that currently audit regulation may sometimes hinder rather than foster such candour towards ‘near misses’. Similarly, we understand some firms perform a root cause analysis on good audits to understand whether there are innovations that can be replicated on other audits.</p> <p>A holistic approach to root cause analysis, that takes account of the role every stakeholder must play in encouraging and fostering audit quality, is most likely to deliver the best results. Helpful examples of how a human factors approach has worked in other industries can be found in the health and airline sectors.</p>
47.	AIC	--
48.	AICPA	<p>With respect to the questions in subparagraph (a), we support all the recommendations suggested in paragraph 156, with an emphasis on new application material rather than on strengthened requirements. While the logical order of the requirements in ISQC1 regarding monitoring and remediation can be discerned on careful reading, this section could benefit from additional clarification.</p> <p>The suggestion in paragraph 158 of the ITC of firm leadership monitoring of the effectiveness and appropriateness of remedial actions would be a meaningful action to address issues related to monitoring and remediation. Sometimes remediation is focused more on the specific engagement deficiencies identified instead of evaluating the deficiencies in the context of whether there is an overall firm issue. (For example, is the issue systemic, a tone at the top issue, a firm structural issue, a resource management issue, a policy issue, a training issue, a personnel issue, etc.?) Having firm leadership involved in this process would help ensure that the remediation is actually meaningful and that the deficiencies are not repeated in the next inspection cycle.</p> <p>With respect to the question in subparagraph (b):</p> <p>(i) We recommend that the IAASB engage with stakeholders to collect views on what comprises effective root cause analysis. This outreach would help the IAASB determine whether to introduce such a requirement into ISQC 1. In addition, this outreach would help to develop supporting application material. Without ample guidance, the risk exists that the root cause analysis will become a perfunctory exercise intended to meet the letter but not the spirit of the requirement. We believe that while obtaining an understanding of the causal factors of audit deficiencies is helpful, root cause analysis is a means to an end (remediation), and not the end itself. We recommend that as the IAASB further considers this action, the focus be on developing appropriate corrective measures, at the appropriate level, aimed at preventing recurrence of the deficiencies.</p> <p>(ii) We support the proposed requirement for the results of the firm’s monitoring of the effectiveness and appropriateness of the remedial actions to be considered in the design and assessment of the effectiveness of the firm’s system of quality control. Consideration might be given to the usefulness of an annual assertion by firm’s leadership regarding the effectiveness of the firm’s system of quality control.</p>
49.	APESB	<p>Stakeholders at the APESB roundtable events believed that the processes used to deal with quality control deficiencies vary significantly. Large firms are more likely to have sophisticated systems in place while SMPs may rely on the Professional Bodies’ Quality Control Reviews to identify and address any deficiencies. The existing requirements for monitoring in ISQC 1 cover reviews and any deficiencies</p>

		<p>noted from such a review. However, additional application guidance could be provided to clarify that this relates to both external and internal reviews.</p> <p>As noted in the Audit Quality ITC, the implementation of a QMA would require firms to address any quality risks identified through reviews (whether internal or external) and will therefore also address deficiencies noted.</p>
50.	CAANZ	<p><u>QC7(a):</u></p> <p>(i) We consider that the most meaningful actions that a firm/practitioner should do are:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the causal factors of any audit findings or deficiencies for the particular firm or engagement. • Developing and implementing remedial actions which specifically address the identified causal factors. • Monitoring by firm leadership of the effectiveness and appropriateness of remedial actions. <p>(ii) Consideration of firms' systems to improve consistency of approach by all partners and staff may be a more effective way to achieve continual improvement in audit quality. Also actions to address the cause of an issue, as opposed to just the resulting error, is likely to be more effective.</p> <p>(iii) No further comments.</p> <p>(iv) Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.</p> <p><u>QC7(b):</u> See above.</p>
51.	CAI	--
52.	CAQ	<p><u>QC7(a):</u></p> <p>The CAQ also acknowledges that auditing firms could benefit from supplemental guidance on methodologies for understanding causal factors and developing and monitoring remediation efforts in support of their overall system of quality control. The CAQ supports the IAASB providing guidance that outlines overarching principles for identifying causal factors and providing information that firms may wish to consider with regard to the key elements that could be included in such analysis. The guidance should include discussion regarding how various factors can impact skepticism also could assist firms in performing root cause analysis. The guidance also could be instructive on how firms could use the information about the potential underlying causes of both negative and positive quality events revealed during the root cause analysis to undertake remedial acts as part of enhancing their system of quality control.</p> <p><u>QC7(b):</u> No comment</p>
53.	CIIPA	--

54.	CIMA	--
55.	CPAA	<p><u>QC7(a):</u></p> <p>(i) The majority of the stakeholders who responded to our survey considered that there is a need to clarify appropriate responses to internal reviews and external inspections of audits. Respondents supported undertaking the following actions identified in the ITC, in order of priority:</p> <ol style="list-style-type: none"> 1. Design, implementation and monitoring of remedial actions to address deficiencies. 2. Understanding of causal factors of deficiencies identified. 3. Consideration of implications for other audit engagements and the firm's system of quality control. 4. Analysis of findings. <p>(ii) We consider that these actions are necessary because they would ensure a consistent response to address both internal and external inspection findings. Responding to findings is a direct and practical way to improve audit quality in areas which are directly relevant to the firm. Given the extensive resources which are directed to the conduct of inspections or reviews by regulators, professional bodies or the firms themselves, taking advantage of the information gathered and insights gained in a systematic way is essential, otherwise the benefits of the process may be wasted. A consistent process will also ensure accountability in following up on the findings, understanding causal factors, designing and implementing remedial actions right through to monitoring the effectiveness of remedial action and considering implications for other engagements and the quality control system.</p> <p>(iii) Revisions to ISQC 1 could also address the ambiguity regarding the timeframe which is intended when evaluating one engagement per engagement partner on a "cyclical basis".</p> <p>(iv) In relation to remedial action we support the consideration of inspection findings and the development of an appropriate response to be implemented within a practical timeframe.</p> <p><u>QC7(b):</u></p> <p>(i) We support new requirements to understand the causal factors of deficiencies in inspection findings. Our discussions with auditors indicates that root cause analysis of causal factors coupled with remedial action, almost always has a positive impact on audit quality.</p> <p>(ii) We support new requirements to consider results of monitoring of remedial actions in the design and assessment of the firm's quality control system.</p>
56.	DnR	Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE.
57.	EFAA	<p><u>QC7(a):</u></p> <p>Paragraphs 152 and 153 of the ITC articulate the challenges experienced by SMPs in this regard.</p> <p><u>QC7(b):</u></p> <p>We would be supportive of a QMA that incorporates aspects from monitoring and remediation which add substance to continual quality improvement. However, our support is tempered by our assertion that, in our opinion, such inclusion would necessarily require a relevant</p>

		and proportionate approach to documentation such that the costs of implementation in SMPs and smaller practices do not outweigh the benefits.
58.	FACPCE	--
59.	FEE	<p><u>QC7(a):</u></p> <p>(19) The “Monitoring and Remediation” section effectively completes the circle of the QMA and we agree that the firms should be required to consider external findings. Perhaps the key aspect though is ensuring the firm deliberates what to do thereafter in order to address the issues identified from these findings. It is also important to understand the causal factors of audit deficiencies relating to inspection findings and other reviews, and the root cause, if possible.</p> <p>(116) As noted in paragraph 148, the Federation believes that so-called ‘hot reviews’ that prevent audit deficiencies are superior measures. It is also important to require firms to consider external findings, as mentioned in paragraph 156. What is most essential though is not only to conduct an analysis of the external findings and policies and procedures, but also to consider what the audit firm will do to address the issues identified from these findings.</p> <p>(117) We believe that by considering external findings, an entity will be able to understand whether an issue was a result of factors which are outside the firm, i.e. client’s pressure for deliverables, or whether a finding relates to an internal factor which can be resolved by the audit firm.</p> <p>(118) It is also important to consider what steps need to be taken to avoid recurrence of the issue.</p> <p>(119) A relevant issue to consider when reflecting on the causal factors of audit deficiencies, as described in bullet 1 in paragraph 157, is that many of these root causes are structural and may not be able to be solved.</p> <p>(120) Technological developments also ought to be considered in this context.</p> <p>(121) We have not identified any potential consequences.</p> <p><u>QC7(b):</u></p> <p>(122) Yes, it is important to understand the causal factors of audit deficiencies relating to inspection findings and other reviews, and the root cause if possible. This will help prevent similar deficiencies occurring in future engagements.</p> <p>(123) Yes, we support the incorporation of such requirements because if audit deficiencies are not remediated they will most probably appear again in future engagements. We also believe that this section completes the circle of the QMA.</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><u>QC7(a):</u></p> <p>(i) In our view, “Pre-issuance and Root Cause Analysis” are possible actions that would be most meaningful in addressing issues related to monitoring and remediation.</p> <p>(ii) We believe that Pre-issuance would help improve quality by assuring, at certain level, that teams have obtained sufficient and adequate audit evidence. Root Cause Analysis would help audit firms to develop an adequate and effective quality improvement plan.</p>

		<p>(iii) No comments.</p> <p>(iv) No comments.</p> <p><u>QC7(b):</u></p> <p>(i) We support the incorporation of new requirements in ISQC 1 for firms to understand the causal factors of audit deficiencies relating to inspection findings and other reviews. However, we reinforce the need of appropriate guidance to perform such analysis as well as designing quality controls in this area</p> <p>(ii) We support the incorporation of a new requirement(s) in ISQC 1 for the results of the firm's monitoring of the effectiveness and appropriateness of the remedial actions to be considered in the design and assessment of the effectiveness of the firm's system of quality control. We believe the new requirement would improve the effectiveness of process.</p>
63.	IBR-IRE	<p><u>QC7(a):</u></p> <p>(64) We share the concern outlined in paragraph 152 (that compliance with the monitoring requirements in ISQC1 is one of the most challenging aspects of a system of quality control for SMPs) and would welcome actions in this respect.</p> <p>(65) We support causal factor and root cause analysis of inspection findings foreseen in paragraph 157 as a way to further improve quality of an audit firm. Remediation plans would need to be assessed at the level of the audit firm, not engagement by engagement, unless specifically inspected</p> <p>(66) Otherwise, we do not think further actions are necessary.</p> <p>(67) No particular comment.</p> <p>(68) We have not identified any potential consequences.</p> <p><u>QC7(b):</u></p> <p>(69) Yes, it is important to understand the causal factors of audit deficiencies relating to inspection findings and other reviews, and the root cause if possible. This will help mitigate deficiencies in future engagements.</p> <p>(70) Yes, we support the incorporation of such requirements because if audit deficiencies are not remediated they will most probably appear again in future engagements. We also believe that this section completes the circle of the QMA.</p>
64.	ICAEW	<p>We agree that monitoring and remediation play a key role in effective quality control and the issues in paragraphs 150-152 of the ITC, including the SMP perspective, are all important. It would be helpful to give greater coverage to these matters in the IAASB standards, in particular on remediation, and for more practical guidance to be issued to help firms develop their systems in this area. We consider that all of the matters and possible actions identified in paragraphs 156-159 of the ITC are important. The main way to do this is likely to be through additional application material although the IAASB should give careful consideration to introducing requirements for understanding the causal factors of audit deficiencies that are proportionate and for the design and assessment of the effectiveness of the system of quality control to take account of the results of monitoring activities.</p> <p>As with EQC reviews, audit firms currently find it challenging to implement monitoring and remediation policies and procedures effectively, as evidenced by the number of inspection findings and the recent focus on the need for root cause analysis and the need to do more to act on review findings. The IAASB and others, including professional bodies such as ICAEW, can help by providing more practical guidance on the topics. The ICAEW Audit and Assurance Faculty has covered the topics in various ways including in recent webinars and hangouts</p>

		<p>and we are currently developing practical guidance for auditors on root cause analysis. We will share this guidance with the IAASB as soon as it is available.</p> <p>As we have stated in previous representations to the IAASB, we do not consider that some of the monitoring requirements in ISQC 1, in particular the requirement for independent review of completed engagements, are justified for non-audit engagements. In our answer to QC1d), we have proposed that the IAASB considers the scope of ISQC 1 and, for example, considers whether a different standard or standards are necessary for compilation engagements and other non-audit engagements.</p> <p>We agree that it is important for firms to understand the causal factors of audit deficiencies relating to inspection findings and other reviews, and to take the necessary actions based on that understanding. We therefore support the IAASB giving careful consideration as to whether to introduce new requirements in the standards in this area. It should definitely be covered in the application material and in other ways as we have described in our response.</p> <p>Although we believe that all audit firms can benefit from some root cause analysis, it might not be appropriate to extend the new requirements to all audits and possibly it should be restricted to public interest entity audits or be qualified by saying 'where appropriate'. We agree that all firms need a commitment to continuous improvement and for this to be apparent in the way the firm operates but requiring detailed formal processes covering this area might not be appropriate to the circumstances of smaller firms.</p> <p>We also agree that it is important for the results of the firm's monitoring of the effectiveness and appropriateness of the remedial actions to be considered in the design and assessment of the effectiveness of the firm's system of quality control. We therefore support the IAASB giving careful consideration as to whether to introduce new requirements in the standards in this area. It should definitely be covered in the application material and in other ways as per our answers to QC7a)i) and a)ii).</p> <p>If there is such a requirement introduced, it will be necessary to highlight that application of the requirement will depend on the circumstances as introducing formal written processes might not be appropriate for some firms including SMPs.</p> <p><u>QC7(a):</u> <u>Response to specific questions</u></p> <p>(i) We agree that monitoring and remediation play a key role in effective quality control and the issues in paragraphs 150-152 of the ITC, including the SMP perspective, are all important. It would be helpful to give greater coverage to these matters in the IAASB standards, in particular on remediation, and for more practical guidance to be issued to help firms develop their systems in this area. We consider that all of the matters and possible actions identified in paragraphs 156-159 of the ITC are important. The main way to do this is likely to be through additional application material although the IAASB should give careful consideration to introducing requirements that are proportionate for the matters covered by QC7b) below.</p> <p>(ii) As with EQC reviews, audit firms currently find it challenging to implement monitoring and remediation policies and procedures effectively, as evidenced by the number of inspection findings and the recent focus on the need for root cause analysis and the need to do more to act on review findings. The IAASB and others, including professional bodies such as ICAEW, can help by providing more practical guidance on the topics. The ICAEW Audit and Assurance Faculty has covered the topics in various ways including in recent webinars and hangouts and we are currently developing practical guidance for auditors on root cause analysis. We will share this guidance with the IAASB as soon as it is available.</p> <p>(iii) Some of the matters being raised are not just for the IAASB to consider and act upon. For example, there is a link with the professional scepticism section of the ITC (and the activities of the Joint Working Group) as it is likely that some of the causal factors will be related to behaviours and the other issues covered in that section. Indeed in our answer to PS1 above we have</p>
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		<p>stated our view that the link between professional scepticism and the role of root cause analysis should be highlighted more explicitly in materials issued by the standard-setting boards. For example, if there is a finding that there was a lack of scepticism, this is insufficient as an explanation in itself without exploring why there was a lack of scepticism and digging deeper. It could be that the auditor lacked the personal skills needed to challenge or the analytical skills or knowledge necessary to exercise the scepticism, or it could be that there was time pressure or some other personal pressure that prevented the auditor from doing what should have been done. The evolution of the profession's approach to the topic should move from the high level term 'professional scepticism' to dealing with the many detailed underlying factors that underpin it.</p> <p>(iv) The position of SMPs does need to be considered and, in particular if new requirements are introduced as in b) below), whether these requirements should apply to SMPs.</p> <p>As we have stated in previous representations to the IAASB, we do not consider that some of the monitoring requirements in ISQC 1, in particular the requirement for independent review of completed engagements, are justified for non-audit engagements. In our answer to QC1d) above, we have proposed that the IAASB considers the scope of the successor to ISQC 1 and, for example, considers whether a different standard or standards are necessary for compilation engagements and other non-audit engagements. In our view compliance with the ICAEW's less onerous Practice Assurance Standard on quality control is appropriate for non-audit engagements.</p> <p><u>QC7(b):</u></p> <p>(i) We agree that it is important for firms to understand the causal factors of audit deficiencies relating to inspection findings and other reviews, and to take the necessary actions based on that understanding. In fact understanding causal factors should not just be restricted to engagements where shortcomings have been identified as firms can also learn from understanding the reasons why some audits went well. We therefore support the IAASB giving careful consideration as to whether to introduce new requirements that are proportionate in the standards in this area. It should definitely be covered in the application material and in other ways as per our answers to QC7a)i) and a)ii) above.</p> <p>Although we believe that all audit firms can benefit from some root cause analysis, it might not be appropriate to extend the new requirements to all audits and possibly it should be restricted to public interest entity audits or be qualified by saying 'where appropriate'. We agree that all firms need a commitment to continuous improvement and for this to be apparent in the way the firm operates but requiring detailed formal processes covering this area might not be appropriate to the circumstances of smaller firms.</p> <p>(ii) We also agree that it is important for the results of the firm's monitoring of the effectiveness and appropriateness of the remedial actions to be considered in the design and assessment of the effectiveness of the firm's system of quality control. We therefore support the IAASB giving careful consideration as to whether to introduce new requirements that are proportionate in the standards in this area. It should definitely be covered in the application material and in other ways as per our answers to QC7a)i) and a)ii) above.</p> <p>If there is such a requirement introduced, it will be necessary to highlight that application of the requirement will depend on the circumstances as introducing formal written processes might not be appropriate for some firms including SMPs.</p>
65.	ICAP	<p><u>QC7(a):</u></p> <p>We believe it is important that findings identified from all relevant sources are considered, thematic findings analysed from a root cause perspective to allow for meaningful action to be taken, and that the link between the inspection/review program and QMA is strengthened. We believe this is best addressed at the firm level as it is impracticable to require individual engagement partners to perform such analysis.</p>

		<p>The firm will have access to the relevant information to be able to analyse and cascade key messages to engagement partners and other team members.</p> <p>There can be various formal and informal processes that contribute to the evidence a firm obtains of effective monitoring of ISQC 1 policies, procedures and controls. We believe it would be helpful to clarify in ISQC1 what is needed to evidence the effectiveness of relevant monitoring controls.</p> <p><u>QC7(b):</u> No comment</p>
66.	ICAS	<p>With regard to the monitoring and remediation aspects within quality control reviews, it is not only important for firms to undertake root cause analysis and review. Equally important is the development of an action plan to redress these issues and to take steps to ensure that they do not recur. Some means of monitoring the progress against this action plan should also be introduced.</p>
67.	ICAZ	<p><u>QC7(a):</u></p> <ul style="list-style-type: none"> (i) Strengthening the requirements and enhancing the application material for: <ul style="list-style-type: none"> a) An analysis of any external findings and appropriate responses thereto, in the same way that internal findings are considered; b) Consideration of whether inspection findings would have implications for other engagements as well as the firm's system of quality control; c) Consideration of how the performance of pre-issuance reviews and post-issuance reviews, and the results thereof, may factor into the firm's system of quality control; and d) The role and results of external reviews and how these interact with the internal monitoring system. Obtaining an understanding of the causal factors of audit deficiencies identified by inspections and other reviews (ii) These requirements and application material would clarify actions that firms need to take in respect to inspections other than internal inspections. Also this would be in line with the proposed QMA based quality system (iii) None (iv) None <p><u>QC7(b):</u></p> <ul style="list-style-type: none"> (i) Yes. This would address regulators concern raised on failure by firms to come up with remedial actions to address external inspections findings. (ii) Yes. This would be in line with the QMA as the firm would now be designing a quality control system to address findings from monitoring activities.
68.	ICPAK	<p><u>QC7(a):</u></p> <ul style="list-style-type: none"> (i) Strengthened requirements and new application material within ISQC 1 to improve Audit Quality Use of a QMA could help improve audit quality Monitoring by firm leadership which will ensure continuous improvement

		<p>(ii) These actions are necessary to ensure an effective system of quality control is in place which is assessed and where deficiencies are noted corrective action is taken as appropriate</p> <p>(iii) No</p> <p>(iv) None</p> <p><u>QC7(b):</u></p> <p>(i) Yes</p> <p>(ii) No, the requirements can be incorporated within monitoring</p>
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	<p>We believe that it is most meaningful to consider how results from external and internal inspections interact with the internal monitoring system to identify and address the root causes. A well-rounded monitoring system should always take into account causal factors arising from lapses and deficiencies identified from all sources of review and improve upon them.</p> <p>Such root cause analysis has already been practised in the ASEAN region with the ASEAN Audit Regulators Group (AARG). ACRA formed the AARG in 2011 with two fellow ASEAN audit regulators, Malaysia's Audit Oversight Board and Thailand's Securities and Exchange Commission, to foster collaboration between audit regulators and promote audit quality in the ASEAN region. The AARG discusses common issues relating to audit regulation and related key issues such as audit talent and engages with the international audit firms at a regional level. The AARG also helps other ASEAN economies to develop their independent audit regulation, for example, through audit inspection workshops for ASEAN audit regulators. In June 2015, the AARG concluded a meeting that discussed initiatives to raise audit quality and market transparency in the region.</p>
72.	KICPA	<p><u>QC7(a):</u></p> <p>(i) We believe three actions (a) an analysis of external findings and appropriate responses thereto, (b) consideration of whether inspection findings would have implications for other engagements as well as the firm's system of quality control, and (c) consideration of how the performance of pre-issuance reviews and post-issuance reviews, and the results thereof, may factor into the firm's system of quality control, would be the most meaningful.</p> <p>(ii) The analysis of inspection findings and appropriate responses thereto, and consideration of how the findings impact the firm's quality system or other engagements could contribute to improving the firm's quality control capability as well as enhancing the firm's voluntary efforts to develop its quality control system, as we believe.</p> <p>(iii) We have no comments.</p> <p>(iv) Please refer to answers in (ii) of QC7 (a).</p> <p><u>QC7(b):</u></p> <p>(i) We believe it is necessary to appropriately strengthen ISQC1's relevant requirements, as taking action on findings is essential to the substantive improvement of the quality control system.</p> <p>However, the nature of inspection findings or the nature and details of remedial actions vary from jurisdictions, not to mention that the severity of remedial actions and the details of requirements as to findings could be influenced by the law and regulation and</p>

		<p>regulatory practices of the respective jurisdictions. Considering this, it would be more useful to clarify the current requirements with developing application material, taking into account some circumstances, or to expand the provision of non-authoritative guidance. It would also be necessary to consider providing requirements and guideline in detail as to the appropriate scope and method of information sharing to ensure that client confidentiality is not violated when sharing the information on the finding results of inspection.</p> <p>In addition, as stated in the consultation, SMPs have identified monitoring, including compliance with the requirements set out in ISQC 1, as one of the most challenges, largely stemming from resource constraints and funding the cost of compliance. We think it would be necessary for IAASB to consider the fact that the new requirement(s) could make SMPs shoulder unexpected burdens, including strengthening documentation, if ISQC1 requirements are further strengthened. Plus, when the firm is requested remedial actions on external inspection findings from the regulatory body, there have been few cases where the firm fails to take action just because it is not able to understand the root cause. Rather, the lack of resources, including personnel, lies to the main cause of the failure.</p> <p>(ii) We have no comments.</p>
73.	MICPA	--
74.	SAICA	<p><u>QC7(a):</u></p> <p>87. Overall, survey respondents are supportive of the proposed possible actions in paragraphs 156-159 of the ITC.</p> <p>88. In terms of indicating which of the possible actions proposed by the IAASB would be most meaningful to address issues relating to monitoring and remediation, the survey respondents indicated their preference for the following four actions [the most meaningful listed first, from (1) to (4)]:</p> <ol style="list-style-type: none"> (1) ISQC 1 to require that a firm develop policies and procedures to require that audit deficiencies should be subject to further analysis to understand their root causes, and that corrective measures that should be designed, implemented and monitored to assess their effectiveness (2) ISQC 1 (and ISA 220) to require obtaining an understanding of causal factors of audit deficiencies identified by all types of monitoring reviews (internal and external) (3) ISQC 1 to address the analysis of any external inspection findings and appropriate responses thereto, in the same way that internal monitoring results are considered (4) Strengthen ISQC 1 for the consideration of how pre-issuance reviews and post-issuance reviews, and the results thereof, may factor into the firm's system of quality control (i.e. ensuring the investment of appropriate time and resources in internal monitoring activities) <p>89. Also refer to our comments below on the specific questions included as part of QC 7.</p> <p>90. We have not specially identified any other issues related to monitoring and remediation, or any other potential consequences to proposed possible actions.</p> <p><u>QC7(b):</u></p> <p>91. In the South African context these matters have been very much in the “auditor’s eye”, owing to the IRBA’s introduction of its Remedial Action Process in 2014/2015 (the IRBA is the audit regulator and perform external inspections at firm level and at</p>

		<p>engagement level). The Remedial Action Process has been introduced to drive appropriate firm and auditor behaviour in the interest of enhancing sustainable audit quality; i.e. ensuring that the root causes of deficiencies are isolated and that proper (and effective) remedial actions are implemented to increase the likelihood of satisfactory inspections or re-inspections.</p> <p>92. A number of the possible actions in paragraphs 156-159 in the ITC relate to whether matters regarding the analysis of root causes and the implementation of remedial actions should be formalised in the standards (ISQC 1 and ISA 220). We support a holistic approach to the monitoring of audit quality that takes into account all monitoring results and that ensures appropriate responses, not only to individual findings, but across the firm in terms of considering the possible impact on other engagements, on other firms and on the firm's quality control system. This would contribute to maximising the likelihood that quality audits are performed on a consistent basis (as envisaged in the IAASB Framework for Audit Quality).</p>
75.	SMPC	<p>We agree with the challenges identified for SMPs in monitoring and remediation. In our view, it would be helpful if some of the matters outlined could be addressed in the IAASB standards through application material. We also consider that IFAC PAOs and national standard setters have a role in providing practical guidance. Whilst we appreciate the desire to introduce requirements for understanding the causal factors of audit deficiencies, the Board must be sensitive to the challenges of SMPs and therefore any requirements should be capable of being applied proportionally and in enhancing the quality of the firm's audit engagement.</p> <p>The IAASB may also consider the scope of the engagements included within the monitoring requirements in ISQC 1. For example, the inspection of a "completed engagement" (para. 48) and the extent to which this would be necessary for other assurance and related service engagements, and how this might be scalable according to the type of engagement.</p>
76.	WPK	<p><u>Monitoring and Remediation (see note 147 ff.):</u></p> <p>We welcome the inclusion of internal or external monitoring activities in ISQC 1 (internal and external inspections and other quality reviews that a firm might perform; see note 156). In the end, all deficiencies, regardless of by whom and by what process these deficiencies were identified, must be analyzed by the audit firm and appropriate actions must be taken.</p> <p>In our view further monitoring activities (pre-issuance, post-issuance; see notes 148 and 156) should not become a mandatory requirement, but presented as further options that can be implemented depending on the risk profile of the audit firm. SMPs should not be additionally burdened.</p>
Academics		
77.	AAA	<p>The Committee notes that the initiative cited in our response to QC1 by the six largest networks uses root cause analysis to identify underlying reasons for identified inspection findings and reduce their incidence (IFIAR 2016). This approach appears to be consistent with the Board's monitoring and remediation objectives. Their efforts, if successful, may provide a model for other networks and firms to follow.</p> <p>In general, research supports formal performance measurement and feedback mechanisms as integral components of organizational performance measurement systems. When key performance measures are identified and communicated to facilitate organizational decision-making and evaluation, management uses the information for feedback and remediation purposes (e.g., Grafton, Lillis and Widener 2010, Hall 2008). For example, research has shown that firms remediating material weaknesses in internal control issue higher quality subsequent financial reports (e.g., Bedard et al. 2012).</p> <p>We expect audit firms, as business organizations focused on providing quality audits, to respond similarly to quality-related issues. Academic research provides evidence consistent with this expectation. For example, Gul, Sami, and Zhou (2009) find that audit firms in China tended to render higher quality audits after policies implemented by China's government to increase independence. In the U.S.,</p>

		audit firms failing to remediate their significant quality-related issues risk losing their abilities to attract and retain clients in jurisdictions in which low quality audits are observed (e.g., Abbott, Gunny, and Zhang, 2008; Boone, Khurana, and Raman 2014; Swanquist and Whited 2015). While SMPs may have more difficulty in implementing full-scale QMA systems, evidence indicates that, in the U.S., triennially inspected (smaller) firms can make adjustments to their audit judgments based on quality review findings (Gramling, Krishnan, and Zhang, 2011).
78.	AH	--
79.	Glover-Prawitt	--
80.	TRay	--
Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	<p><u>QC7(a):</u></p> <p>(i) The actions outlined make sense but they need to be scalable according to the size and complexity of the client. In Australia, listed companies below the top 300 are generally not large or complex and audit fees are very tight. Excessive monitoring is not feasible or cost-effective.</p> <p>For larger complex audits, close monitoring including pre-issuance and post-issuance reviews may be appropriate. For smaller, non-complex listed audits, a checklist approach to ensure documentation and sign-offs are provided on file could be sufficient.</p> <p>(ii) For example: An engagement partner working on a large complex audit may have only one major client with a given reporting deadline. In contrast engagement partners with smaller non-complex listed audits may have several audits to sign-off with the same reporting deadline. In the first example audit quality is more concerned with ensuring there is sufficient appropriate audit evidence for areas of judgment. In the second example, audit quality is more concerned with ensuring all matters are properly documented to provide sufficient appropriate audit evidence on every client file being closed within the same timeframe. With electronic working papers, the latter checks can be automated as an electronic checklist.</p> <p>(iii) Criteria to determine when pre and post issuance reviews are needed require careful consideration. Given the multiple levels of review and consultation already required in an audit, this could become another layer of bureaucracy rather than value.</p> <p>(iv) Smaller firms are likely to exit the listed audit market if there are insufficient reviewers available for more layers of review, together with fee constraints and the costs to sustain regulatory reviews. Outside the USA there are large numbers of small listed companies, which are growing businesses needing value from their audits. Smaller audit firms are better placed to audit smaller listed entities as the auditors in these firms often have a general practice background.</p> <p><u>QC7(b):</u></p> <p>(i) These changes are not supported as firms are required to follow up on inspection findings, as part of the regulatory oversight process (and their own risk management processes) already.</p>

		(ii) In my experience, this happens already and new requirements in ISQC1 are not needed. When regulators return after an inspection, their first area of inquiry is to follow up on action taken in response to their previous inspection report. Proactive firms monitor the regulatory findings reported for other firms to determine the extent to which action might be needed in their own organization, before their next inspection.
84.	JGrant	--
85.	JK	--
86.	KKTuraga	--
87.	SDeViney	<p><u>QC7(a):</u></p> <p>(i) All actions described would be meaningful and should be required elements of a quality control monitoring system.</p> <p>(ii) No comment</p> <p>(iii) See answer to QC1(b) for required information elements that would be a necessary foundation for quality risk assessments and determination of appropriate responses.</p> <p><u>QC7(b):</u></p> <p>(i) Yes</p> <p>(ii) Yes</p>

QC8. Engagement Partner Performance and Rewards Systems

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

- (a) Do you believe that establishing a link between compensation and quality in ISQC 1 would enhance audit quality? Why or why not?
- (b) What actions (if any) do you believe we should take in this regard? Are there potential consequences of possible actions that you believe we need to consider?

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	--
3.	CFA	--
4.	IA	--
5.	ICGN	--
6.	NZSA	--
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	--
10.	CPAB	It is imperative that the quality control standards of audit firms address the link between compensation and audit quality. The IAASB should seek to develop requirements which positively influence the extent to which those policies take into account audit quality.
11.	EAIG	--

12.	EBA	--
13.	ESMA	--
14.	H3C	--
15.	IAIS	--
16.	IFIAR	30. Firms' compensation policies need to be consistent with the overriding objective of promoting audit quality. We therefore believe that the IAASB should seek to develop requirements which positively influence the extent to which those policies take account of audit quality.
17.	IOSCO	<p>We acknowledge that the engagement partner plays a pivotal role in an audit and is responsible for the overall quality on his or her assigned engagement. We believe that audit quality is an important factor upon which all members of the audit engagement team should be evaluated. In addition, we believe audit quality should be a consideration for human resource policies and performance evaluations of engagement partners and engagement teams that may ultimately lead to differences in compensation or possible future roles for those individuals in the firms. The Board may also wish to consider whether the benefits of establishing a requirement to directly link audit quality and remuneration would exceed the risks with respect to audit quality.</p> <p>We understand why some have expressed a view that it would be appropriate to provide that an element of partner's remuneration should be variable and include incentives or sanctions more closely linked to whether audit quality has been achieved; however, we believe that there may be significant challenges to establish an explicit provision requiring a firm to link audit quality achievement to partner remuneration.</p> <p>One such reason is that there is not currently a commonly understood metric as to how to define audit quality that would enable there to be such a direct linkage. Nonetheless, we note that different organizations have several projects underway and thought pieces published as to how to measure audit quality, particularly through the usage of Audit Quality Indicators (AQIs) so we encourage the Board to monitor developments in this area.</p> <p>Additionally, while internal or external inspection findings may appear to some to be an observable data point that is indicative of audit quality, we note that linking remuneration to inspection findings may have unintended consequences (e.g., partner resistance to accept the findings and then make changes in order to avoid the direct financial penalty). Having said this, perhaps the Board can think of ways to encourage the firms to create a culture that is more receptive to independent findings after reasonable discussions.</p> <p>And finally, under certain inspection regimes, the larger and more risky audits are selected for inspection at a greater frequency than less risky audits. Often, engagement partners and engagement teams that are deemed to be of higher quality may be assigned to the higher risk audits to address the risk level. By linking partner remuneration to audit quality (specifically when using internal or external inspection results as a direct indicator of audit quality), the historically higher quality personnel may be penalized disproportionately as compared to engagement partners of lower risk engagements.</p>

		<p>Notwithstanding the risks described above related to the addition of an explicit requirement of a direct link between audit quality achievement and partner remuneration, we believe the Board should continue to consider ways to encourage firms to place a greater emphasis on audit quality in human resource policies related to the evaluation of personnel, and the corresponding link to personnel assignments, leadership responsibilities, and remuneration.</p> <p>We also note that, previous comments notwithstanding, any changes to the standard or considerations related to linkage between audit quality and performance evaluations or remuneration should apply not only to the engagement partner, but also to key members of the engagement team. This could lead to increased levels of professional skepticism applied by engagement team members, which is consistent with our requested emphasis on enhancing the “tone in the middle” as described within the <i>Professional Skepticism</i> section of the letter and above, within the <i>Governance of the Firm, Including Leadership Responsibilities for Quality</i> section of the letter.</p>
18.	IRBA	<p>76. There is a strong link between audit quality and engagement partner performance and reward systems.</p> <p>77. Although we do not believe that the IAASB can mandate the structure of an engagement partner’s remuneration, we do believe that ISQC 1 can specifically require firms to have a policy in place that governs the remuneration of partners and other key staff with particular attention to individuals within the firm leadership that have a responsibility for audit quality. We also recommend that such a policy can include a provision for incentives for partners and other key staff to address audit quality.</p>
19.	MAOB	--
20.	UKFRC	<p>We support the IAASB exploring what steps could be taken to improve audit quality through performance and rewards systems for all audit staff i.e. not just engagement partners, but would not support an approach that would mandate the structure of an engagement partner’s remuneration. Instead, we would support an approach where formal and transparent policies in relation to remuneration are required, and any policies on partner and staff remuneration could be designed to promote and secure audit quality. In the EU, a link to compensation and audit quality has been introduced in the Audit Directive (Article 24a), but it does not mandate the structure of the remuneration, stating that a statutory auditor or an audit firm shall have in place adequate remuneration policies, including profit-sharing policies, providing sufficient performance incentives to secure audit quality. Embedding such an approach would be more effective in enhancing audit performance and improving audit quality provided it was part of a firm’s overall commitment to quality, where delivering consistently high quality audits is part of the firm’s culture from firm leadership through to the most junior members of the audit team.</p>
National Auditing Standard Setters		
21.	AUASB	<p>(a) The AUASB acknowledges and agrees that the principles in ISQC 1 should reflect that audit quality plays an important role in partner and staff reward and performance systems, without adding prescriptive requirements over the linkage.</p> <p>(b) Nothing further noted.</p>
22.	CAASB	<p>The AASB and some of its Canadian stakeholders do not support the proposals in this area. It is not within the mandate of audit standard-setters to prescribe a firm’s governing policies on these topics. If any changes are made to ISQC 1, they should be limited to application material. This would provide flexibility for firms to develop the best approach to comply with the standards. There are many factors that affect engagement quality (for example, the quality of the accounting records), some of which are out of the control of the engagement partner. Compensation should not be linked to factors which are out of the individual's control.</p>

		The AASB believes that the IAASB should take no action on this topic, for the reasons noted in QC8(a) above.
23.	CNCC- CSOEC	<p>Yes, we consider it is important to reward quality and believe that establishing a link between compensation and quality in ISQC1 would be pertinent. We note that already firms reward quality. It would therefore be misleading to induce the false impression that firms do not reward quality but only commercial and developments successes.</p> <p>We consider that the standards could clarify that quality considerations and measures are an important part of performance assessment. However, we recommend that the IAASB retains a flexible approach that is necessary in order for the standard not to unduly influence the management of firms, given the broad differences in firms' structures, sizes, etc.</p>
24.	HKICPA	--
25.	IDW	<p>We agree that some form of link between rewards and quality may potentially support quality. However disincentives and incentives can be just as powerful, and there may be a number of different ways in which firms could seek to employ these. Factors such as differing governance structures would also play a role in such determination. Firms will likely need to include various factors in their overall appraisal's structures as there may be multiple aspects of a partner's performance that will contribute to the overall figure of remuneration. In addition, whether a firm prefers to offer additional rewards for high quality or to impose disincentives for lower quality is not a matter that the IAASB can mandate. For these reasons, any requirements and guidance in this area would need to be principles-based.</p> <p>Furthermore, as the ITC points out, linking performance and rewards may not be meaningful in the case of smaller SMPs, who due to reputational perceptions are already under market place pressure to maintain quality of service and where the partners performing the engagements are directly remunerated by fees earned. In our view, such policies would need to be left to individual firms to determine how best to deal with this aspect of quality management, and so any requirement in this area would have to be general rather than specific, and conditional in order to be practicable in the case of SMPs.</p>
26.	JICPA	<p>(a) We believe that establishing a link between compensation and quality in ISQC 1 would enhance audit quality. However, the action should address more than the linkage between low quality and the low remuneration level. We believe that it should also address the incentives that facilitate the commitment to the engagement that high quality is especially required, and the achievement of high-quality work (e.g., linking the performance of high-quality work or quality improvement activity to higher remuneration). This is necessary for attaining a firm culture that fosters quality.</p> <p>(b) Please see our comment on QC 8(a) above.</p>
27.	MAASB	<p>We believe that partner compensation is an operational matter of each firm. Furthermore, many firms are structured as partnerships, which by their nature are profit-sharing structures. It will be complicated to have direct links of quality in ISQC 1 to individual partner compensation.</p> <p>If a principle-based requirement is created, application materials as to how to assess performance in the area of audit quality would also be necessary.</p>
28.	NBA	<p>(a) Yes. The remuneration policy and the incentives arising from it must be linked to the organization's strategy and objectives in which quality plays an important role. A firm is driven by professionals and should have quality as its main priority.</p>

		(b) We recommend the IAASB to address this topic and to require that quality becomes a predominant factor in remuneration and career perspectives.
29.	NZAuASB	<p>(a) The NZAuASB does not believe that establishing a link between compensation and quality in ISQC1 would enhance audit quality. The difficulty with linking compensation with quality is how to measure good quality. One can readily identify the exceptions (for example a poor result from a regulator review or independence breaches) and penalise a partner for poor quality. However, that would not provide the incentive to promote good quality but instead drive behavior to avoid being penalised. It is difficult in practice to reward behavior that achieves outstanding quality. There may be unintended consequences that may have the opposing effect. For example, it may result in a more compliance focus rather than a quality focus. There is also a risk of the regulator defining what audit quality is, and partners being driven by that because of the reward system.</p> <p>(b) The NZAuASB does not consider any further standard setter action is required.</p>
Accounting Firms		
30.	BDO	<p>(a) We support initiatives designed to consider the link between compensation and audit quality in ISQC 1. We also support the assertion made by the IAASB in paragraph 166 that ISQC 1 should not be used as a proxy to mandate the structure of an engagement partner's remuneration.</p> <p>(b) However, it should be recognized that audit firms have very different structures resulting in engagement partners and other professionals often having a wide variety of roles in addition to those relating specifically to audits. Accordingly, we believe it would be extremely challenging to develop specific criteria to be considered in evaluating the linkage between audit quality and compensation and would instead suggest that a more holistic approach would provide more value to stakeholders.</p> <p>(c) We agree with the possible actions outlined in paragraphs 166-170.</p>
31.	CHI	<p>(a) Yes We agree that there should be a link, but it is better to present it in terms of "performance". Audit quality is an important component of assessing a partner's performance. Therefore, it is logical that audit quality measures, including meeting audit quality objectives, should be one of the components that influence a partner's compensation.</p> <p>(b) ISQC 1 should stress that quality is a component of the assessment of partner (and staff) performance. The measurement of quality has to include the meeting of objectives that have been set about quality. The most appropriate action is that firms should develop a performance and rewards system that includes consideration of audit quality. Guidance could be developed to help firms assess quality as a performance measure.</p>
32.	DTT	Extant ISQC 1 highlights the correlation between quality and compensation. Anything more prescriptive than the existing guidance would likely be far too simplistic and likely too invasive for an international standard. There are too many subjective judgments and variables associated with the definition of quality to set forth a discrete formula for measuring quality performance. Quality and compensation decisions are necessarily based on specific facts and circumstances, so while broad principles are appropriate, prescriptive guidance would likely be counterproductive. For example, DTTL policies require that DTTL member firms consider audit quality in the performance evaluation process, such as by considering internal and external inspection results. Additional matters such as compliance with firm

		<p>policies, as well as the partner's success in meeting firm quality goals are also considered in a partner's overall evaluation. These areas are just part of what is considered in evaluating a partner and are subject to variation and modification each year.</p> <p>Further, it is important to point out that auditors often refer to the IESBA Code of Ethics for guidance on matters related to integrity, professional competence, due care, and professional behavior. As a result, if more guidance is included within ISQC1, there is a risk that auditors may refer to ISQC1 and assume that it is complete without consideration of the IESBA Code of Ethics.</p>
33.	EYG	<p>We agree with the statement in paragraph 166 of the ITC that ISQC 1 should not be used as a vehicle to mandate the structure of an engagement partner's remuneration.</p> <p>We believe that the principle in paragraph A5 of ISQC 1 continues to be a sound principle (i.e., that an internal culture focused on engagement quality includes "establishment of policies and procedures that address performance evaluation, compensation and promotion (including incentive systems) with regard to its personnel, in order to demonstrate the firm's overriding commitment to quality").</p> <p>We support requiring policies and procedures to address engagement partner remuneration that are aligned with this principle, including a specific linkage to audit quality. We also support requiring compensation policies that take into account audit quality for those individuals in the firm responsible for audit quality. However, we believe such requirements should be principles-based as there are many methods for achieving a linkage between compensation and audit quality. For example, we do not believe it is appropriate for ISQC 1 to require specific methods such as remuneration committees, or provisions in profit-sharing plans or how inspection findings should specifically affect compensation. Further, we believe that firms should consider consequences in response to negative audit quality events that are not limited to effects on remuneration (e.g., remedial training, additional supervision and/or reassignment).</p> <p>Although ISQC 1 may make reference to the IESBA Code requirements (or other relevant ethical requirements) that deal with threats to independence from the provision of non-audit services and safeguards needed with respect to related compensation, we do not believe that including these references are essential, nor do we believe that requirements from the IESBA Code should be duplicated in the IAASB standards.</p>
34.	GTI	<p>ISQC 1 should address the linkage between quality and performance evaluations and compensation for engagement partners. Engagement partners will often be motivated by compensation, so relating quality to how compensation is ultimately determined will likely change behavior. The standard could contain a general conditional requirement for the firm to develop a framework that recognizes quality as a meaningful part of a partners' performance evaluation and compensation.</p> <p>Further, guidance outside of the standard, for example through a staff practice note or through the Forum of Firms, could be provided on how to apply such a framework that allows for equitable compensation for engagement partners in audit, assurance and other related services with engagement partners in other practice areas. It could also include considerations of how to apply this framework on a scalable basis.</p>
35.	KPMG	<p>We are also broadly supportive of the proposals set out in the ITC regarding Engagement Partner performance in respect of quality control and rewards systems as an important feature of a Firm's quality control systems. We recommend that these be principles-based to take account of the different structures and systems in place across different firms/ networks. (QC 8 and 9)</p>
36.	PwC	<p>(a) First and foremost, we believe partner compensation is a firm operational matter. As such, we support the view in the ITC that ISQC 1 should not impose an unduly rigid structure of engagement partner remuneration, and this is consistent with the</p>

		<p>overarching principles and comments noted in our cover letter. Identifying the acceptable boundaries of standard setting and avoiding inappropriately encroaching on firm operational matters needs to be considered.</p> <p>We do support a principle-based requirement for firms to assess performance in the area of audit quality, to establish criteria to do so, and to consider incentives or sanctions for engagement partner remuneration when audit quality is not achieved. See also our response to question QC5 (b)(ii) on an appropriate accountability framework.</p> <p>Establishing a link between compensation and audit quality may to some extent influence audit quality (it could be a driver of audit quality), but it is one of many factors to be considered as part of a remuneration structure. The IAASB should give careful consideration when deciding whether to draw a more direct link. While ISQC 1 can indicate that a firm should have an appropriate mechanism (system) to link audit quality and performance assessment, it cannot be prescriptive about what that mechanism should be. For example, many firms are structured as partnerships, which by their nature are profit-sharing structures. Others adopt more “employee” based structures or may be sole practitioner firms. Different legal and cultural factors also need to be taken into account. As such prescription in linking quality to individual partner compensation is therefore complicated.</p> <p>(b) Where a principle based requirement is created, application material on how to assess performance in the area of audit quality would also be necessary (upon which firms can then tailor their own policy and criteria based on local circumstances).</p>
37.	RBI	--
38.	RSM	<p>(a) We agree that ISQC 1 should not be used as a vehicle to mandate the structure of an engagement partner’s remuneration. We believe that application materials should be developed to help firms create remuneration systems that encourage and reward quality.</p> <p>However, it should be acknowledged that it is extremely difficult to link remuneration to quality at SMPs, particularly when those firms are led by equity partners who share profits. As discussed above it is therefore important that SMPs have strong monitoring systems.</p> <p>(b) None.</p>
39.	SRA	--
Public Sector Organizations		
40.	AGC	--
41.	AGSA	<p>(a) Yes – there should be link between compensation and quality in ISQC 1 with the intention of driving better performance and quality of audits. This should form part of the engagement manager’s performance evaluation and assessment criteria however this should not be the only criteria against which he/she is assessed. This would also help drive better ownership and accountability of audit quality by the engagement manager.</p> <p>However, not all persons are motivated by monetary compensation. There should be a stronger link between consequences and quality – i.e. consequence management for poor audit quality.</p>

		(b) No further comment.
42.	GAO	In our view, consistently high audit quality should be expected of all engagement partners regardless of compensation. Consequently, we do not see a benefit in linking compensation to audit quality.
43.	INTOSAI	--
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	From a human factors point of view, it seems possible that too rigid a link between quality and personal compensation could incentivise engagement partners to hide issues rather than deal with them. Such a link may also be wholly impractical for small and medium-sized practices. Accordingly, while we are aware that some larger firms have incorporated such a link into their partnership agreements, we would advise against mandating it within ISQC 1.
47.	AIC	--
48.	AICPA	<p>We strongly agree with the IAASB that ISQC 1 should not be used as a vehicle to mandate the structure of an engagement partner's remuneration, neither with respect to compensation that may be withheld and paid out in the longer term based on the results of pre-determined criteria in the intervening period nor in any other regard.</p> <p>We are concerned that incentives to address audit quality could have the unintended consequence of giving the impression that forgoing the incentive through delivering lower quality is an acceptable viable option (that is, it may lower the baseline of what is considered acceptable quality). The highest level of audit quality should always be the goal.</p> <p>We agree that ISQC1 could seek to address the linkage between compensation and audit quality, although as audit quality is only one of many factors that should be considered as part of a remuneration structure, the linkage is difficult to draw. Examples would be useful. We note that for sole practitioners, there is no way to tie compensation to quality in any meaningful way.</p>
49.	APESB	<p>During the APESB roundtable events, a stakeholder commented that as a profession we don't focus on the consequences of bad quality. To counteract this, the stakeholder believes that firms should have appropriate Human Resources (HR) policies that recognise and reward good quality.</p> <p>The IESBA Code specifies that an Audit Partner cannot be remunerated based on selling other services to an audit client. The IAASB could encourage the IESBA to consider whether using audit quality as a factor to determine remuneration is appropriate. However, we do not think that the ISAs should mandate specific requirements relating to a firm's remuneration systems.</p> <p>The Audit Quality ITC in paragraph 170 proposes that the ISAs could include new application material around threats and safeguards relating to the provision of non-assurance services. APESB believes that as these matters are addressed in IESBA's Code and that they</p>

		should not be duplicated in the ISAs. It would be preferable for IAASB to refer to the relevant sections in the IESBA Code to ensure requirements and associated application guidance are not read out of context or misinterpreted.
50.	CAANZ	<p>(a) Feedback from our members emphasises a view that audit practitioners are not primarily driven by compensation and indeed many firms operate straight equity sharing. Quality of audit work is safeguarded through a large variety of other means, such as direct accountability to other partners in the firm. Also quoted is the combined effect of ethical and professional training from university or professional qualification onwards, the public interest emphasis of being a member of a professional body, the application of auditing standards predicated on public interest, and professional pride.</p> <p>We believe that a clear emphasis on accountability for the quality of audit work is important but do not believe a focus on compensation will be effective.</p> <p>We note that in relation to compensation, there is already a provision in the IESBA Code of Ethics for Professional Accountants that prohibits audit partners from being compensated or evaluated for selling other services to an audit client.</p> <p>A question sometimes raised is whether there should be a monetary link between quality review or inspection results and partner pay. We believe the standards should focus on accountability. Such a monetary link may be given as an example of how accountability could be applied if appropriate to an individual firm but we do not believe it is appropriate, necessary or practical to be a mandatory requirement.</p> <p>(b) See above.</p>
51.	CAI	--
52.	CAQ	--
53.	CIIPA	--
54.	CIMA	--
55.	CPAA	<p>(a) We suggest caution in requiring a linkage between audit quality and compensation as this will favour engagement partners who sign off on the more straightforward, less risky and less complex engagements and potentially disadvantage engagement partners who conduct the more difficult audits where systems, controls or records are poor, or more complex and risky engagements. Whilst audit quality indicators are a useful tool, it will not be appropriate in all circumstances to use such indicators for remunerating engagement partners. The use of audit quality indicators may certainly be a useful tool to monitor and benchmark the audit quality of engagement partners, offices of a firm or firm-wide, however we do not see the need to link audit quality directly to compensation and requiring that link may have unintended negative consequences.</p> <p>(b) We consider that performance and reward systems are matters for the governance of firms which should not be stipulated in auditing and assurance standards. If reward systems create conflicts of interest or threats to compliance with the ethical principles, they are addressed in the Code. There are many other means of promoting audit quality at the individual engagement partner level, such as allowing enough time and budget to complete the audit, allocating audit teams with suitable competencies and specialist skills, providing professional development opportunities to engagement partners and providing public acknowledgment of quality audits or providing feedback on poor quality audits.</p>

		We do not consider that there is a need for application material on the threats and safeguards for the provision of non-audit services as this is dealt with in the Code of Ethics for Professional Accountants issued by IESBA and so this would create duplication and potential for inconsistency.
56.	DnR	Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE.
57.	EFAA	We support the actions identified.
58.	FACPCE	--
59.	FEE	<p>(20) With reference to the “Engagement Partner Performance and Rewards Systems”, although we can appreciate the plausible link, and we do agree with the importance of aligned incentives, developing standards at this stage would seem inappropriate if for no other reason than because the measurement criteria of audit quality have not been universally agreed.</p> <p>(124) Yes, it is important to reward quality. However, while remuneration policy and related incentives should be linked to the organisation’s overall strategy – in which quality plays an important role – quality is still very subjective. It is therefore difficult to directly link quality to compensation.</p> <p>(125) The standards should clarify that quality considerations and measures are an important part of performance assessment. This is particularly crucial in forming the desirable ‘tone at the top’. A flexible approach is called for, given the broad differences in firms’ structures, sizes, etc.</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>(a) Yes. It would allow more accountability</p> <p>The IAASB is considering strengthening the requirements for EQC reviews and reviewers by specifying the nature and extent of matters to be considered how to document the review, considering whether communication between the EQC and the audit committee is appropriate, and possible transparency in the auditor’s report that there was an EQC review.</p> <ul style="list-style-type: none"> • Engagement partner/EQCR – <ul style="list-style-type: none"> ➤ Would prefer a principles-based approach without more “rules” on EP or EQCR performance – The EP and EQCR need to have clear objectives for their roles, and flexibility for achieving those objectives, so that the role is scalable from the smallest to largest engagements. ➤ We also suggest that the IAASB consider whether more should be stated in ISA 220 about engagement team responsibilities for audit quality – Continual strengthening of EP/EQCR requirements may inappropriately convey that other team members are not accountable for quality of their own work. • Partner remuneration – <ul style="list-style-type: none"> ➤ Supportive of elevation of principle in ISQC 1.A5 to requirement (i.e., that an internal culture focused on engagement quality includes “establishment of policies and procedures that address performance evaluation,

		compensation and promotion (including incentive systems) with regard to its personnel, in order to demonstrate the firm's overriding commitment to quality)
		(b) Guidance on how audit firms may implement such requirements
63.	IBR-IRE	(71) We believe a remuneration policy, which provides direction to a long term and quality-focused culture of accountancy organizations, will enhance audit quality. (72) We suggest IAASB to consider positive reward for positive contribution to quality as a relevant incentive.
64.	ICAEW	(a) We consider that the key matter to cover in the standards is the need for a culture and policies/procedures that clearly value achievement of audit quality as a top priority. Whilst performance and rewards systems for remuneration can provide evidence regarding this, we do not consider it appropriate for there to be requirements in the IAASB standards regarding compensation. However, we would support coverage of these matters in application material, highlighting the part that performance and rewards systems can play in achieving good audit quality. We also consider that the impact of fee pressures and time constraints should be covered and the need to support partners and staff to do what is right for quality when they face these pressures. This is part of a much broader process regarding appraisal of partners and staff than just focusing on compensation. (b) As stated in the answer to a) above, we support coverage of these matters in application material but consider that any compensation requirements in this area would be inappropriate. We agree with the comment in paragraph 162 of the ITC that a requirement to link remuneration to audit quality incentives would be challenging for SMPs to implement and may have unintended consequences. This is one reason why we consider that including a requirement in standards would be inappropriate. The position of SMPs should be included in any coverage of the issues in the application material.
65.	ICAP	--
66.	ICAS	Although remuneration policy and related incentives should be linked to the organisation's overall strategy - in which quality plays an important role - quality is still very subjective. It is therefore difficult to link audit quality directly to compensation.
67.	ICAZ	(a) No. In determining remuneration so many other factors have to be considered over and above quality, therefore establishing this link may be difficult to apply in practice. (b) None
68.	ICPAK	(a) This may not be viable because firms set the compensation rates for the partners without consulting IAASB or any other regulator. There is also no common measure for quality that can be used to say that the quality for audit firm B is better than that of firm C THEREFORE B payed higher than A since the revenue they get varies based on client base. (b) None
69.	ICPAU	--
70.	INCPC	--

71.	ISCA	<p>An audit is a systematic and independent examination of an organisation's accounts by a professional (i.e. an auditor). An auditor is governed by the Code of Professional Conduct and Ethics which defines the five fundamental principles an auditor has to uphold to act in the public interest. The IAASB must recognise that audit is a profession with a reputation to uphold and capable of improving and upholding quality on our own. Hence, we are of the opinion that establishing a link between compensation and quality may not be the best option to enhance audit quality. Furthermore, such reward systems would not work for small and medium practices, especially sole proprietors. We believe that the non-financial repercussions (such as failing a practice monitoring review) are more severe than forgoing the rewards one would have received and would serve as a stronger deterrent.</p> <p>Notwithstanding the above, we agree that a rewards system may affect an engagement partner's behaviour and a firm's culture to a certain extent. Hence, we are of the view that it should be left to the leadership of the firm to decide what the best course of action is to motivate its practice.</p> <p>The IAASB may wish to commission a study to examine the correlation between compensation and quality before making any decisions in this regard.</p>
72.	KICPA	<p>(a) The establishment of a link between compensation and quality in ISQC1 could be one of the ways to improve audit quality. The establishment could not be applicable to all of the firms, though.</p> <p>As mentioned in the consultation, the establishment of link between compensation and quality in ISQC1 may be challenging to implement and have unintended consequences, especially for SMPs that has very few partners and suffers from the lack of personnel or has partners not performing audits.</p> <p>Thus, it would not be appropriate to incorporate new requirements or strengthen existing ones in ISQC1 with requirements or application material on building up a link between partner's compensation and audit quality. Rather, it would be desirable to make widespread what IAASB wants to deliver via the development of non-authoritative guidance, thereby making it helpful to improving practice.</p> <p>(b) We are supportive of IAASB's view that ISQC 1 should not serve as a vehicle to mandate the structure of an engagement partner's remuneration. We believe what and how ISQC 1 describes for now in its application material, regarding the compensation or incentive system, would be appropriate, as one of the illustrative examples of promoting an internal organizational culture based on quality.</p> <p>Specifically requiring in ISQC1 that firms have a policy in place governing remuneration of partners with the particular attention on individuals within the firm leadership who are responsible for audit quality could mandate the compensation system of the firm and bring about unintended consequences to SMPs, as we think.</p> <p>What ISQC1 considers to address in its application material, in terms of the threats and safeguards in relation with the compensation for non-assurance services, is overlapped with what is already addressed in the IESBA Code. In addition, some jurisdictions have various rules and regulations regarding this topic, which makes it not worthwhile to include the above in ISQC1, just for the purpose of increasing consistency with the IESBA Code.</p>
73.	MICPA	--
74.	SAICA	--

75.	SMPC	As noted in the ITC, from an SMP perspective the inclusion of a requirement that a component of an audit partner's remuneration be linked to incentives related to achieving audit quality may be challenging to implement and could have unintended consequences. The SMP Committee is also not convinced that it is appropriate, or within the IAASB's mandate, to set standards to require that elements of a partner's remuneration should be variable and include incentives or disincentives linked to whether audit quality has been achieved. However, in practice, leading firms, small and large do in fact incentivize audit quality and penalize its absence including through promotion and remuneration structures. Guidance to follow such practice would be helpful.
76.	WPK	--
Academics		
77.	AAA	--
78.	AH	--
79.	Glover-Prawitt	--
80.	TRay	--
Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	(a) In my experience, failing to meet quality standards, which introduces risk to a firm, is a metric for evaluating engagement partner performance already. It is unlikely that in a multidiscipline practice, remuneration would be determined by reference to ISQC1 but rather by reference to the risk and reward the partner brings to the firm. Any link in ISQC1 would be superficial. (b) This is a practice management issue and should be outside the scope of IAASB activity. The introduction of requirements for governance, risk, remuneration etc are all practice management issues. If these matters become the subject of ISQC1 requirements, this scenario could force the evolution of firms that deliver only audit services. If auditors have only audit experience, without the experience of a multidisciplinary practice supporting the audit practice, in my view, audit quality is likely to deteriorate.
84.	JGrant	I agree with the comments made in paragraph 167 of the ITC – this is a key area in the Audit Quality Framework.
85.	JK	--
86.	KKTuraga	--
87.	SDeViney	No. As is well-documented in academic research, performance and motivation are influenced by many factors other than compensation. Unless there is consensus within the profession, supported by consensus academic research, on “the right” compensation structure or

		elements that lead to audit quality, then it would not be appropriate have prescriptive requirements of professional standards in this area. Moreover, any linkages made would also be limited by the ability to measure audit quality in real time.
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QC9. Human Resources and Engagement Partner Competency

- (a) Paragraphs 171–187 set out matters relating to human resources and engagement partner competency.
- (i) Which of the possible actions outlined in paragraphs 176–178 and 187 would be most meaningful in addressing issues relating to human resources and engagement partner competency?
 - (ii) Why do you believe these actions are necessary?
 - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
 - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically, which of the possible actions outlined, or other actions not described, in paragraphs 176–178 and 187 would most positively impact audit quality:
- (i) Arising from issues related to knowledge, skills, competence and availability of a firm's partners and staff?
 - (ii) Related to engagement partner competency?
 - (iii) Why do you believe these actions are necessary? If you would not support a particular action, please explain why, including any potential consequences of those actions that you believe we need to consider.

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	--
3.	CFA	--
4.	IA	It is also important that audit teams have the appropriate structure and sufficient middle ranking personnel. It requires people of a certain level of seniority to bring together the two ends of the audit (the detailed verification and numbers at one end with the high level judgements at the other) and to exercise scepticism by "kicking the tyres" and probing those in the business to gain a clear understanding of whether the numbers genuinely reflect what is happening in practice. This also has implications for the quality of the senior ranks of the audit profession in the future.
5.	ICGN	--
6.	NZSA	--
7.	SAAJ	--

Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	--
10.	CPAB	It is imperative that the quality control standards of audit firms address the link between compensation and audit quality. The IAASB should seek to develop requirements which positively influence the extent to which those policies take into account audit quality.
11.	EAIG	--
12.	EBA	--
13.	ESMA	--
14.	H3C	<p>Need for appropriate recruitment and training</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>
15.	IAIS	<p>Values, Ethics and Attitudes</p> <p>As part of their human resource policies and procedures, how an audit firm compensates and rewards its staff is a key aspect of the ‘tone at the top’ and the attitude towards audit quality throughout the firm. It is important that audit quality considerations, including the need for staff to exhibit appropriate behaviours, are incorporated within appraisal and reward systems.</p> <p>Knowledge, Time and Experience</p> <p>It is important that policies and procedures supporting audit quality objectives are designed such that:</p> <ul style="list-style-type: none"> – Partners and staff have sufficient time and resources to deal with issues as they arise; – Engagement teams are suitably qualified given the risk of the engagement; – Performance appraisals are timely and appropriate coaching is given; and – Adequate training is provided, including specialized industry training where appropriate.

16.	IFIAR	<p><i>Human Resources</i></p> <p>30. Firms' compensation policies need to be consistent with the overriding objective of promoting audit quality. We therefore believe that the IAASB should seek to develop requirements which positively influence the extent to which those policies take account of audit quality.</p>
17.	IOSCO	--
18.	IRBA	--
19.	MAOB	--
20.	UKFRC	<p>[Response to QC9 – all parts]</p> <p>We agree with the IAASB that the knowledge, skills and competence of firms' employees and the manner in which those employees are assigned to specific roles within the organisation and to specific audit engagements is essential to quality management. We agree that such human resource matters should be included as an important element of a QMA. An audit firm needs to put in place a process that identifies and establishes the appropriate knowledge, skills and competence ("competencies") required by personnel who perform work that impact the firms' audit quality objectives, and for the purpose of this response, this includes adhering to ethical standards. The audit firm also needs to evaluate, through its monitoring process, the effectiveness of the actions taken to satisfy the competence needs such as training, career development, promotion and performance appraisals and evaluation. This would ensure that audit quality objectives are not compromised. Ultimately, competencies of all the firm's employees, including engagement partner competencies, must be a vital consideration in the firm's determination of risks to audit quality in a QMA.</p> <p>We therefore agree with the proposed actions set out in paragraph 176 to clarify, in the context of a quality management framework, the importance of career development, promotion, performance appraisals and evaluation. We also support the IAASB exploring further guidance, in the context of a quality management framework, of the importance of effective continuity planning. In addition to those actions described in the ITC, as it is ultimately the engagement partner's responsibility to ensure that the engagement team have sufficient competence and objectivity to undertake the engagement, we propose that the IAASB develop additional application material, in the context of QMA-EL, to support the engagement partner's assessment of risks to audit quality, and what responses may be necessary considering the particular facts and circumstances of the engagement.</p> <p>Exploring the topics of knowledge, skills and competence of audit firm employees is also an area that lends itself well to a coordinated approach with other IFAC boards, particularly the International Accountants Education Standards Board (IAESB), and also agree with the IAASB that a more detailed review of the relationship between International Education Standard 8 (and other relevant International Education Standards), and ISQC 1 and ISA 220 would be beneficial to the IAASB's research in this regard.</p>
National Auditing Standard Setters		
21.	AUASB	<p>(i) The AUASB supports the IAASB's proposed action to consider whether ISQC 1 and ISA 220 should explicitly highlight the competencies in IES 8. In the Australian and NZ jurisdictions, competency requirements for engagement partners will be consistent with IES 8 (revised) with the update of the Registered Company Auditor Competency Standard (work undertaken by CPA Australia,</p>

		<p>CA ANZ and IPA) to reflect International Education Standard IES 8 (revised) which incorporates the changes relating to professional competence for engagement partners on audits of financial statements.</p> <p>(ii) Nothing further noted.</p> <p>(iii) Nothing further noted.</p> <p>(iv) Nothing further noted.</p>
22.	CAASB	<p>[QC9 (a) & (b)]</p> <p>The AASB does not support the proposals in this area. Certain aspects of a firm's human resources function are already addressed in ISQC 1, paragraphs 29-31 and A24-A31. We believe that the aspects of human resources addressed in the ITC are largely outside the IAASB's mandate.</p>
23.	CNCC-CSOEC	<p>[QC9 (a) & (b)]</p> <p>The knowledge, skills and competence of a firm's employees and the manner in which those employees are assigned to an engagement are essential to achieving audit quality and therefore would be an important consideration in the firm's determination of quality risks in establishing a QMA.</p> <p>We think that the most meaningful action would be aligning IES 8 with ISQC 1 and ISA 200 per paragraph 187 would be beneficial. These actions are necessary because human resource, and thus personnel management, is a primary factor to achieve a high quality audit.</p> <p>Special consideration should be placed on staff retention, which is a major issue for many firms. Audit is increasingly not seen as an attractive long term career option for many of the most talented young professionals. This has the potential to seriously affect the long term sustainability of the profession and is a longer term public interest issue.</p> <p>Also, additional application material addressing this issue "to support the requirements for a firm to have sufficient personnel with appropriate competence, capabilities and commitment to ethical principles" would lead to a positive impact to audit quality in the longer term.</p>
24.	HKICPA	<p>[QC9 (a) & (b)]</p> <p>We support the IAASB's proposals to undertake a more detailed review of the relationship between IES 8(Revised) and the quality control standards to determine whether greater attention can be given in the quality control standards to the requirements in IES 8 (Revised).</p>
25.	IDW	<p>[QC9 (a) & (b)]</p> <p>We believe that human resources management is key to a QMA.</p> <p>We agree that clarification may be helpful in some areas. However, any requirement to align career development and promotion solely to quality management objectives will likely not be reasonable. We refer to our response regarding incentives and disincentives in response to QC8.</p> <p>In regard to engagement partner competency we agree that a detailed review of the relationship between IES 8 and ISQC 1 / ISA 220 would be very helpful. We believe that integrating the notions of interpersonal and communication skills into ISCQ 1 in any meaningful way would prove challenging.</p>

26.	JICPA	<p>(a) We believe that the actions outlined in paragraphs 176 to 178 and 187 are too detailed to address in ISQC 1 and ISA 220. The provisions on human resources and engagement partner competency in ISQC 1 and ISA 220 are sufficient, and we do not support the actions.</p> <p>(b) Please see our comment on QC9(a) above.</p>
27.	MAASB	<p><u>Question 9(a):</u></p> <p>(i/ii) The most meaningful action to address is to consider whether ISQC 1 should explicitly highlight the competencies of IES 8 (Revised). ISQC 1 and ISA 220 do not contain detailed requirements or guidance that specifically addresses the necessary skills and competencies that engagement partners should have.</p> <p>(iii) Whilst IES 8 requires that partners demonstrate competency in specific areas, it does not provide any direction or guidance on dealing with issues identified.</p> <p>(iv) No further matters identified.</p> <p><u>Question 9(b):</u></p> <p>We believe that the following actions would be particularly beneficial and meaningful:</p> <ul style="list-style-type: none"> • Updating application material in ISQC 1 or ISA 220 concerning the responsibilities of an engagement partner to include the concepts of leading by example and of mentoring. • Updating requirements and application material in ISA 220 to make the responsibilities of an engagement partner for leadership and project management (including the assessment of the competency and objectivity of the engagement team) more explicit. • Considering whether ISQC 1 should explicitly highlight the competencies in IES 8 (Revised) in the areas of Interpersonal and Communication Skills, Professional Skills and Professional Values, Ethics and Attitudes. IES8 explicitly references ISQC 1 and ISA 220, and includes a relationship diagram. We believe it would be helpful to see this relationship mirrored consistently in the IAASB standards, which would support and give credibility to IES 8 (Revised).
28.	NBA	<p><u>Question 9(a):</u></p> <p>(ii) The remuneration policy for partners and staff and the incentives arising from it should be linked to audit quality. This should be emphasized more explicitly.</p> <p>(ii) This will ensure that the focus remains on quality. Human resources is an important factor to achieve audit quality. The right incentives should be given to promote focusing on quality.</p> <p><u>Question 9(b):</u></p> <p>(i) Attention should be given to have a proper mix of competencies in an audit team.</p> <p>(ii) 'Leading by example' and mentoring of the engagement partner will probably have the most impact.</p> <p>(iii) A committed and inspiring partner will ensure a proper focus on audit quality for the whole audit team and will help to develop the competencies of the audit team.</p>

29.	NZAuASB	<p><u>Question 9(a):</u></p> <ul style="list-style-type: none"> (i) The NZAuASB considers that the most meaningful action to address is to consider whether ISQC1 should explicitly highlight the competencies in IES 8 (Revised). (ii) ISQC1 and ISA 220 do not contain detailed requirements or application material that specifically address the necessary skills and competence that engagement partners should have, The NZAuASB understands that the Australian and New Zealand professional accounting bodies have updated their Registered Company Auditor Competency Standard to reflect IES 8. To ensure that the standards are consistent with the requirements of the International Educational standards, and the requirements of the accounting bodies, the NZAuASB supports the IAASB's proposed action to consider whether ISQC1 should explicitly highlight the competencies in IES 8. (iii) The NZAuASB does not believe any of the other actions are necessary or meaningful to address the issue of partner competency. Highlighting the required competencies is all that the standard can do - any further changes will not actually impact on partner competencies. (iv) No other matters identified. <p><u>Question 9(b):</u></p> <ul style="list-style-type: none"> (i) To ensure that the standards are consistent with the requirements of the International Educational standards, and the requirements of the accounting bodies, the NZAuASB supports the IAASB's proposed action to consider whether ISQC1 should explicitly highlight the competencies in IES 8. (ii) The NZAuASB does not believe any of the other actions are necessary or meaningful to address the issue of partner competency. Highlighting the required competencies is all that the standard can do - any further changes will not actually impact on partner competencies. (iii) The NZAuASB does not believe any of the other actions are necessary or meaningful to address the issue of partner competency. Highlighting the required competencies is all that the standard can do - any further changes will not actually impact on partner competencies.
Accounting Firms		
30.	BDO	<p><u>Question 9(a):</u></p> <ul style="list-style-type: none"> (i) We are broadly supportive of the possible actions outlined in paragraphs 176-178 and 187. (ii) Providing additional application material to support the requirements addressing career development and promotion and linking this to performance reviews (and the reflection on audit quality performance) is very important. For engagement partners and auditors involved in the performance management process it provides an opportunity to have more regular feedback (and an opportunity to improve their audit quality) and from a firm perspective, this provides information about sectors, departments or locations that may have specific recruitment or development challenges. <p>We would also advocate some consideration of IES 8 learning outcomes and potential learning and development Audit Quality Indicators (AQIs) or other measures in any consideration of this area.</p>

		<p>Whether the needs highlighted in the ITC would be satisfied by the creation of an ISA, or inclusion within ISQC 1 is debatable. We could envisage how an information paper on a QMA or supplementary update to A Framework of Audit Quality may help foster these elements of career development and progression of competence.</p> <p>The IAASB should also work with the IAESB as they seek to update and revise the ‘develop and maintain’ concepts in IES 7 with the potential to moving to a learning outcomes or ‘output’ approach to measurement of CPD as this may ensure that learning and development activities for engagement partners (and engagement team members) can be more clearly applied and monitored in the workplace.</p> <p>(iii) With respect to the ISA 220 requirements regarding having sufficient personnel with appropriate competence, capabilities and commitment to ethical principles, we believe these are well-known, and as a result the IAASB may struggle to add to, or create, related application material.</p> <p>It may be more useful for the application material to highlight the importance (linked to paragraph 176) of developing competency frameworks (as part of A Framework on Audit Quality) in order to ensure development and maintenance of skills within each firm and to enable greater focus and attention on those areas lacking in expertise at the non-engagement partner levels (i.e. other members of the engagement team who likely perform most of the audit work).</p> <p>(iv) We understand the temptation to focus on the negative financial consequences for poor audit quality and we note that this area has been the subject of internal discussion by firms as part of their consideration of AQLs. However, we believe it is equally important to focus on practices that support a positive relationship between remuneration and audit quality.</p> <p><u>Question 9(b):</u></p> <p>(iii) We strongly support making a more explicit link between the learning outcomes approach adopted for IES 8 and the ISA 200 application materials.</p> <p>We value the focus in IES 8 on the concepts of leading by example and of mentoring. Both concepts align with our support for encouraging on the job training by sharing knowledge and experiences within the engagement team. This approach could be particularly useful for encouraging the active and open dialogue on matters concerning professional skepticism within engagement teams.</p> <p>(ii) As noted earlier, we support the use of a competency framework approach for firms as they seek to develop skills in auditors through to the engagement partner level. This will help ensure that the competence and capabilities of those performing the audit are maintained and developed in order to ensure audit quality.</p> <p>(iii) See our answer to QC9 (b) (ii).</p>
31.	CHI	<p><u>Question 9(a):</u></p> <p>(i) The most meaningful actions are:</p> <ul style="list-style-type: none"> • Additional application material concerning career development and promotion; • Aligning IES 8 (Revised) with the IAASB’s standards. <p>(ii) Application material will help firms use quality considerations in career development and promotion. More guidance will help firms develop their human resource systems, including when setting objectives, planning education needs and making promotion decisions.</p>

		<p>Alignment with IES 8 (Revised) is important to achieve consistency between standards.</p> <p>(iii) We have nothing to add.</p> <p>(iv) We have nothing to add.</p> <p><u>Question 9(b):</u></p> <p>(i) Additions to application material.</p> <p>(ii) Alignment with IES 8 (Revised).</p> <p>(iii) IAASB has identified several areas, which are best addressed in application material.</p> <p>The alignment with IES 8 (Revised) is logical, and should be done to achieve alignment between standards.</p>
32.	DTT	<p>[QC9 (a) & (b)]</p> <p>The knowledge, skills, and competence of a firm's employees, and the manner in which those employees are assigned, supervised, and how their performance on engagement is reviewed, are essential to achieving audit quality. So too is the evaluation of partners' competencies and assignments. At present, neither engagement partner competency nor staffing guidance is addressed directly by ISQC1 and ISA 220. Similar to the response to QC8, DTTL believes that overly detailed or prescriptive standards that involve substantial and specified qualitative evaluation will add to administrative burdens and detract from the focus on performing a quality audit. Further such prescriptiveness would confine and narrow evaluations, when considerations of specific facts and circumstances are warranted. Therefore, DTTL believes it is best that firms develop their own internal policies based on the broad principles in ISCQ1.</p>
33.	EYG	<p>[QC9 (a) & (b)]</p> <p>We recognize that audit quality is directly dependent on the competencies, knowledge and ethical behaviors of auditors. We agree that firm policies and procedures that address the human resources element of the system of quality control are important to achieving this objective. We believe the most meaningful action to address the matters related to human resources discussed in the ITC is to consider how the current requirements and application material in ISQC 1 can be effectively converted through the implementation of the QMA into quality objectives, and risks to meeting those quality objectives (refer to our response to QC1 for our views on the QMA and refer to "Continuity planning" below for how this could be accomplished for the human resources element of quality control).</p> <p>Paragraph 177 of the ITC proposes additional application material to suggest that firms should maintain evidence of the procedures performed to maintain the sufficiency of personnel with appropriate competence and capabilities. We are uncertain how this documentation would be different from that already required in paragraph 57 of ISQC 1 for firms to maintain appropriate documentation to provide evidence of the operation of each element of the firm's system of quality control.</p> <p>Continuity planning</p> <p>We note that, in paragraph 171 of the ITC, continuity planning is described in the context of dealing with losses of key employees or an office, including due to sanctions affecting key personnel and mandatory rotation of the engagement partner. In paragraph 172 of the ITC, effective continuity planning is described as that which "involves developing and maintaining an appropriate structure for managing people with the firm that supports the firm's commitment to attracting, developing, motivating, retaining and rewarding personnel in line with the firm's strategy and quality objectives". We find these two "definitions" as distinctly different, such that we are not certain what requirements are proposed to be added to address continuity planning in the possible action in paragraph 178 of the ITC.</p>

		<p>We would agree that firm policies and procedures should address continuity planning as described in paragraph 172 of the ITC. We believe this is an appropriate objective for the human resources element of the system of quality control. Further, we believe that the policies that support this objective are those that are suggested in paragraphs A24-A28 of ISQC 1.</p> <p>It is also clear that engagements that are not staffed with the proper set of skills and competence will increase risks to audit quality, and such risks should be considered in developing the firm's policies and procedures related to human resource. Included in these risks are the losses of employees or resources as described in paragraph 172 and the examples in paragraph 173 (i.e., the risk that a firm's financial considerations may undermine a firm's ability to effectively maintain resources that are appropriate experienced and trained, and the risk that firms are influenced by the need to meet financial metrics, such that the firm's policies do not allow for appropriate investment in training or education of personnel or the firm's policies result in insufficient partner hours being allocated to an engagement).</p> <p>We support the IAASB implementing a QMA into ISQC 1 along the lines as we have described in our response to QC1, and we would support the IAASB specifically considering how best to restructure the requirements and application material for the human resources element to distinguish between objectives for firm policies and procedures and risk factors that support the development of policies that achieve those objectives.</p> <p>Engagement partner competency</p> <p>We believe it is worthwhile to explore the relationship between the engagement partner competencies required by IES 8 and those that are included in ISQC 1 and the ISAs with a goal of clarifying the relationship between IES 8 and the IAASB standards. To the extent that specific competencies in IES 8 are determined to be worth highlighting in the IAASB standards, the requirements of IES 8 could be referenced in the IAASB standards (in a similar manner to which the IESBA Code of Ethics has been referenced), but we do not believe that the requirements from IES 8 should be replicated into the IAASB standards.</p> <p>In regard to the proposal to create a defined term for "more experienced team members", we are uncertain whether it is intended that this new defined term would affect ISAs other than ISA 220 (e.g., whether this new term would replace use of the term "auditor" in any other ISA requirements).</p>
34.	GTI	<p>[QC9 (a) & (b)]</p> <p>We view the career development and promotion of staff as an important aspect of a good system of quality control for a firm. Having timely performance reviews as part of that system makes good business sense and is likely already in place at many firms. We have no strong views on the inclusion of application material or otherwise in respect of highlighting such aspects of a system of quality control. However, if application material were to be included, care should be taken to make this viable for smaller practices.</p> <p>We would expect that most firms have already developed adequate continuity plans and as such we have no strong views on its inclusion or otherwise in ISQC 1. In the context of firms assessing associated risk and required responses in this area, we are of the view that this would naturally form part of a QMA.</p> <p>Partner competency is implicit within the current standards and does not need to be revisited. However, strong links to the Education Standards, especially in the area of partners acting as role models, and in a mentoring or coaching capacity to the engagement team may be beneficial.</p>

35.	KPMG	<p>[QC9 (a) & (b)]</p> <p>We are also broadly supportive of the proposals set out in the ITC regarding Engagement Partner performance in respect of quality control and rewards systems as an important feature of a Firm's quality control systems. We recommend that these be principles-based to take account of the different structures and systems in place across different firms/ networks. (QC 8 and 9)</p>
36.	PwC	<p>(i) We support the proposed actions in paragraph 187 to give greater attention to the requirements of IES 8 within ISQC 1 and ISA 220 through greater specificity in application material. In particular, we agree that emphasising the role and responsibility of experienced team members in setting the tone within the team and in coaching and mentoring junior team members is important as this underpins behaviours that support professional scepticism. Setting the appropriate tone and reinforcing the primacy of quality within the team can also go some way to addressing the “time” challenges associated with pressure to complete the engagement.</p> <p>With respect to considering whether ISQC 1 should explicitly highlight the competencies in IES 8 (Revised) in the areas of Interpersonal and Communication Skills, Professional Skills and Professional Values, Ethics and Attitudes, we note that IES 8 explicitly references ISQC 1 and ISA 220, and includes a relationship diagram. We believe it would be helpful to see this relationship mirrored consistently in the IAASB standards. Drawing out relevant considerations for firms and engagement teams will, in our view, help drive consistency in practice.</p> <p>We support addressing continuity planning in ISQC 1, if addressed in the right context (that is, assessing risks of not meeting quality objectives). Commitment to developing experienced staff, supported through appropriate training, is a vital component in a firm's ability to deliver a high quality audit.</p> <p>Coupled with mentoring and training, we agree that timely and informative performance appraisals support building experienced and competent individuals. Performance evaluations and “continuous development” are already required by many professional bodies. As such, reinforcing these concepts in ISQC 1 and ISA 220 would be consistent with practice.</p> <p>(ii) See response to point (i).</p> <p>(iii) IES 8 requires that partners demonstrate competence in specific areas. However, it does not provide any direction or guidance on dealing with issues identified. We consider it appropriate for individuals to set quality objectives, undertake performance reviews, be subject to internal inspection reviews on their engagements, and be subject to an accountability framework (as described in our response to question QC5). Clarifying expectations regarding remediation of identified partner or engagement team competence issues, including the link back to a firm's QMA, would also be worth addressing, as the need for remediation actions becomes more explicit in a QMA - that is, that risks to audit quality, including engagement partner competence are identified, assessed and addressed.</p> <p>Further to our response to question PS3, we consider it relevant to consider the impact of technology on the audit. As noted in point (i) above, mentoring and training are important factors in relation to the competencies and skills required of auditors. Evaluating the impact of technology on training needs and how use of technology impacts on ‘learning from others’ (more experienced team members) is relevant.</p> <p>(iv) No further comments.</p>
37.	RBI	--

38.	RSM	<p><u>Question 9(a):</u></p> <p>(i) We agree with the actions listed in paragraphs 176 to 178. However, we are not convinced that inclusion of IES 8 would be beneficial. Rather we believe that referencing the requirements of IES 8 within ISQC 1 and/or ISA 220 would be preferable.</p> <p>(ii) See above.</p> <p>(iii) None.</p> <p>(iv) N/A.</p> <p><u>Question 9(b):</u></p> <p>(i) We believe that including guidance on Continuity Planning would be of most benefit.</p> <p>(ii) None.</p> <p>(iii) At present there is limited international consideration or guidance on this area.</p>
39.	SRA	--
Public Sector Organizations		
40.	AGC	--
41.	AGSA	<p><u>Question 9(a):</u></p> <p>(i) All actions are considered meaningful.</p> <p>(ii) It will result in engagement managers being better informed and improve their accountability. It promotes career development.</p> <p>(iii) It is unclear from the information above what explicit details will be provided on project management however we just wish to highlight that project management is an area that should be given due to consideration in the standards.</p> <p>(iv) No further comments.</p> <p><u>Question 9(b):</u></p> <p>(i) The following will have the most positive impact:</p> <ul style="list-style-type: none"> Updating requirements and application material in ISA 220 to make the engagement partner's responsibilities for leadership and project management (including the assessment of the competence and objectivity of the engagement team) more explicit. Considering whether ISQC 1 should explicitly highlight the competencies in IES 8 (Revised) in the areas of Interpersonal and Communication Skills, Professional Skills and Professional Values, Ethics and Attitudes. <p>(ii) The following will have the most positive impact:</p> <ul style="list-style-type: none"> Strengthening the requirements or enhancing the application material that discusses the responsibilities of the engagement partner in relation to relevant ethical requirements by members of the engagement team.

		<ul style="list-style-type: none"> ○ Updating application material in ISQC 1 or ISA 220 concerning the engagement partner responsibilities to include the concepts of leading by example and of mentoring. ○ Updating requirements and application material in ISA 220 to make the engagement partner's responsibilities for leadership and project management (including the assessment of the competence and objectivity of the engagement team) more explicit. <p>(iii) It will result in engagement managers being better informed and improve their accountability.</p>
42.	GAO	<p>[QC9 (a) & (b)]</p> <p>Changes in ISQC 1 and ISA 220 should consider changes in the revised International Education Standard 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised), including those related to professional skills and personal competencies.</p>
43.	INTOSAI	--
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	<p>[QC9 (a) & (b)]</p> <p>We do not support the possible actions in paragraphs 176-178. We do not see how the IAASB could introduce new requirements without making them either overly prescriptive or unsuitable for all sizes of firm.</p> <p>We can see some value in highlighting the ways in which firms can link the spirit of IES 8 (Revised) with ISQC 1 and ISA 220. As before, we would encourage the IAASB to approach this in a way that emphasises best practice rather than introduces more detailed rules.</p>
47.	AIC	--
48.	AICPA	<p>[QC9 (a) & (b)]</p> <p>Of the actions described in paragraphs 176-178, we strongly support the inclusion of continuity planning in the context described. This is an important concept and the inclusion would strengthen a firm's system of quality control.</p> <p>With regard to the actions described in paragraph 187, we have no objections. We reiterate our support for expanding application material rather than requirements, and we urge the IAASB to write the application material in "plain English." We are concerned about excessive inclusion of material from IES 8; perhaps application material that reminds firms of the need to be familiar with IES 8 would suffice.</p> <p>Paragraph 174 of the ITC discusses performance evaluations of staff by SMPs. We agree that SMPs would not require formal documentation requirements for staff.</p>

49.	APESB	--
50.	CAANZ	<p>(i) We consider that the most meaningful action to address is considering whether ISQC 1 should explicitly highlight the competencies in IES 8 (Revised).</p> <p>(ii) Application guidance that is consistent with IES 8 would be useful.</p> <p>(iii) No further comments.</p> <p>(iv) Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.</p>
51.	CAI	--
52.	CAQ	--
53.	CIIPA	--
54.	CIMA	--
55.	CPAA	<p><u>Question 9(a):</u></p> <p>(i) We do not consider that further requirements or application material on human resources and engagement partner competencies is a high priority relative to other matters raised in the ITC. Nevertheless, clarification of the following matters in ISQC 1 application material would be beneficial:</p> <ol style="list-style-type: none"> 1. Application material to clarify the need not to undermine quality objectives due to financial considerations. 2. Application material, rather than requirements, with respect to continuity planning in order to meet quality objectives. 3. Highlighting the competencies in IES 8 (Revised) in interpersonal and communication skills, professional skills and professional values, ethics and attitudes. <p>We note that in Australia an updated Registered Company Auditor Competency Standard, prepared jointly by CPA Australia, Chartered Accountants ANZ and Institute of Public Accountants, is due to be published in mid 2016 and reflects the competencies in IES 8 (revised).</p> <p>We consider that it would be beneficial to revise ISA 200 to reflect:</p> <ol style="list-style-type: none"> 1. the engagement partner's responsibility for setting a tone which encourages engagement team members to raise questions. 2. the engagement partner's responsibility for leadership and project management, including assessment of competency and independence (whilst the ITC notes 'objectivity', we consider that in the context of an audit that is insufficient).

		<p>(ii) Whilst these matters are not a high priority, the actions identified may be of assistance in reinforcing how human resources and engagement partner competencies may contribute to quality control. We note that, the encouragement of engagement team members to raise questions by setting the right tone, is also critical to the supporting the exercise of professional scepticism by the engagement team.</p> <p>(iii) We have not identified any additional actions.</p> <p>(iv) Certain actions suggested in the ITC may result in overly prescriptive requirements, which may not be suitable to different circumstances and may be particularly difficult for SMPs to document. The actions which may have these consequences include:</p> <ol style="list-style-type: none"> 1. Provision of timely and effective performance appraisals and evaluations. 2. Evidence of procedures performed to have sufficient personnel with appropriate competence, capabilities and commitment to ethical principles. 3. Responsibility of the engagement partner to lead by example and provide mentoring. <p><u>Question 9(b):</u></p> <p>(i) We have identified the actions which we think may be beneficial in answer to QC9(a)(i) above and we consider that these would as a result benefit audit quality.</p> <p>(ii) We have identified the actions which we think may be beneficial in answer to QC9(a)(i) above and we consider that these would as a result benefit audit quality.</p> <p>(iii) We have explained why we believe these actions are necessary in QC9(a)(ii) and potential consequences of actions which we do not support in QC9(a)(iii) and (iv).</p>
56.	DnR	Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE.
57.	EFAA	<p>[QC9 (a) & (b)]</p> <p>We would be interested in understanding more of what the IAASB is trying to address in this area. We understand that regulators and audit oversight bodies have noted concerns with the documentation of some firms' procedures to support the assessment of partner and staff competence both during recruitment and assignment of staff to the engagement team.</p> <p>However, Human Resource experts and other commentators in this area believe that formal assessment of employees is "old fashioned" and not in line with today's world where instant and honest feedback is preferred. In our opinion the IAASB should re-assess the impact it is trying to have in this area to ensure that it is clear about the actions that it may wish to take.</p>
58.	FACPCE	--
59.	FEE	<p><u>Question 9(a):</u></p> <p>(i) (126) We think that the most meaningful action would be aligning IES 8 with ISQC 1 and ISA 200 per paragraph 187 would be beneficial.</p> <p>(ii) (127) These actions are necessary because human resources, and thus personnel management, is a primary factor in achieving a high quality audit.</p>

		<p>(iii) (128) No, we did not identify any other relevant issues or actions.</p> <p>(iv) (129) We have not identified any potential consequences.</p> <p><u>Question 9(b):</u></p> <p>(i) (130) Special consideration should be placed on staff retention, which is a major issue for many firms. Audit is increasingly not seen as an attractive long term career option for many of the most talented young professionals. This has the potential to seriously affect the long term sustainability of the profession and is a longer term public interest issue.</p> <p>(131) Also, additional application material addressing this issue “to support the requirements for a firm to have sufficient personnel with appropriate competence, capabilities and commitment to ethical principles” would lead to a positive impact to audit quality in the longer term.</p> <p>(132) Similarly, continuity planning, as discussed in paragraph 178, may be quite challenging for SMPs. Albeit SMPs may face less risk caused by high staff turnover levels often experienced by larger firms.</p> <p>(ii) (133) We believe that bullet 3 in paragraph 187 to “updating application in ISQC1 or ISA 220 concerning the EP responsibilities to include the concepts of leading by example and of mentoring” would most positively impact audit quality. It is also important to consider the need for the engagement partner to be accessible too.</p> <p>(134) Moreover, “updating requirements and application material in ISA 220 to make engagement partner’s responsibilities for leadership and project management more explicit”, as stated in bullet 4 in paragraph 187, would have a constructive effect on audit quality.</p> <p>(iii) (135) The absence of qualified and experienced internal personnel makes it challenging to conduct complex work on accounting and auditing issues as well as later on to correct any identified audit deficiencies. Furthermore, specifying required competences will provide audit firms the prospect to consider whether their existing methodology to staff employment and training is the right one.</p> <p>(136) In relation to engagement partner competency, we believe that an engagement partner should lead by example, and appropriately mentor the junior staff and managers in order to gain respect; this will possibly lead to the creation of a better working environment and to more constructive work being produced.</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><u>Question 9(a):</u></p> <p>(i) Engagement staffing</p> <p>(ii) Properly assigning the audit firms professionals to their audit clients taking into consideration competence/experience vis a vis clients risk factors</p> <p>(iii) No comments</p> <p>(iv) No comments</p> <p><u>Question 9(b):</u></p>

		Refer to comments above [QC9(a)]
63.	IBR-IRE	<p><u>Question 9(a):</u></p> <p>(i) (73) Aligning IES 8 with ISQC 1 and ISA 200 per paragraph 187 would be most beneficial.</p> <p>(ii) (74) Human resources and thus personnel management is a primary factor to achieve a quality audit.</p> <p>(iii) (75) We have not identified other relevant issues.</p> <p>(iv) (76) No particular comment.</p> <p><u>Question 9(b):</u></p> <p>(i) (77) Actions and possible elements included in paragraphs 176 and 187 would positively impact audit quality.</p> <p>(ii) (78) No particular comment.</p> <p>(iii) (79) No particular comment.</p>
64.	ICAEW	<p>[QC9 (a) & (b)]</p> <p>26. The most meaningful actions for the IAASB to take in this area are those set out in paragraph 187 of the ITC regarding IES 8 (Revised). We have made representations regarding this in recent years to both the IAASB and the IAESB, and this should be a top priority for the IAASB project. We consider that the IAASB standards, which are the ones addressed to audit firms, should pick up the matters covered in IES 8 (Revised). A key aspect of ICAEW's implementation of IES 8 (Revised) is to require our audit firms to have the systems in place to provide evidence that their audit engagement partners do have the competencies required by IES 8 (Revised). Our monitoring activities will cover these systems but firms need to be clear regarding their responsibilities for these matters which is best achieved through the IAASB standards that are addressed to them. With respect to the last bullet of paragraph 187 of the ITC we consider that ISQC 1 should explicitly highlight the IES 8 (Revised) competencies.</p> <p>27. One key matter is the need for effective coaching and mentoring to develop the auditors of the future. As we state in the above section on professional scepticism, new audit models are likely to make traditional on the job coaching and mentoring for juniors very challenging and yet we consider that this is as essential going forward as it has been in the past. The Joint Working Group should consider how this can be achieved with the opportunity of using data analytics being part of this consideration.</p> <p>28. An important part of the debate on competencies should be on matters relating to technological changes and the skills that auditors of the future will need to have. The IAASB should add this to its agenda under this heading.</p> <p>29. We consider that people issues are central to matters related to audit quality and in our view should be emphasised far more prominently in the IAASB standards. Our recent work, including matters arising from the AuditFutures initiative, is highlighting this, for example, by calling for the educating of responsible professionals and rethinking accounting education.</p> <p><u>Response to specific questions</u></p> <p>i) The most meaningful actions for the IAASB to take in this area are those set out in paragraph 187 of the ITC regarding IES 8 (Revised). We have made representations regarding this in recent years to both the IAASB and the IAESB, and this should be a top priority for the IAASB project. We consider that the IAASB standards, which are the ones addressed to audit firms, should pick up the matters covered in IES 8 (Revised). A key aspect of ICAEW's implementation of IES 8 (Revised) is to require our member audit firms to have the necessary systems in place and to provide evidence that their audit engagement partners do have the</p>

		<p>competencies required by IES 8 (Revised). Our monitoring activities will cover these systems but firms need to be clear regarding their responsibilities for these matters which is best achieved through the IAASB standards that are addressed to them. With respect to the last bullet of paragraph 187 of the ITC we consider that ISQC 1 should explicitly highlight the IES 8 (Revised) competencies.</p> <p>We support including the matters in paragraphs 176-178 of the ITC in application material but this is a secondary issue compared to the point about IES 8 (Revised) matters, as above.</p> <p>ii) See answer in a)i) above. We consider that at the moment there may be confusion amongst auditors and audit firms regarding responsibility for implementing IES 8 (Revised). Auditors and audit firms are generally unfamiliar with IESs as they are addressed to IFAC member bodies and there is a risk that they will give insufficient attention to the matters covered by IES 8. We believe that the key to achieving successful implementation of IES 8 (Revised) is for audit firms to have the necessary systems in place to ensure their audit engagement partners have the required competencies. This is best addressed through the IAASB standards that the audit firms are required to follow.</p> <p>iii) The key matter is IES 8 (Revised) as above. The matters here do link to much else covered in the ITC, in particular they link very directly to the professional scepticism section of the paper. Matters related to competencies should be central to the Joint Working Group's activity on that topic.</p> <p>iv) One key matter is the need for effective coaching and mentoring to develop the auditors of the future. As we state in our answer to PS2, new audit models are likely to make traditional on the job coaching and mentoring for juniors very challenging and yet we consider that this is as essential going forward as it has been in the past. The Joint Working Group should consider how this can be achieved with the opportunity of using data analytics being part of this consideration.</p> <p>v) An important part of the debate on competencies should be on matters relating to technological changes and the skills that auditors of the future will need to have. The IAASB should add this to its agenda under this heading.</p> <p>vi) We consider that people issues are central to matters related to audit quality and in our view should be emphasised far more prominently in the IAASB standards. Our recent work in our AuditFutures initiative is highlighting this, for example, by calling for the educating of responsible professionals and rethinking accounting education.</p>
65.	ICAP	<p>We agree that emphasising the role and responsibility of experienced team members in setting the tone within the team and in coaching and mentoring junior team members is important as this underpins behaviors that support professional skepticism.</p> <p>Commitment to developing experienced staff, supported through appropriate training, is a vital component in a firm's ability to deliver a high quality audit.</p> <p>Coupled with mentoring and training, we agree that timely and informative performance appraisals support building experienced and competent individuals. Performance evaluations and "continuous development" are already required under many professional bodies. As such, reinforcing these concepts in ISQC 1 and ISA 220 would be consistent with practice.</p> <p>We consider it appropriate for Engagement partner to set quality objectives, undertake performance reviews, be subject to internal inspection reviews on their engagements, and be subject to an accountability framework.</p>

66.	ICAS	<p>[QC9 (a) & (b)]</p> <p>As a means of developing its culture, a firm should also consider how it might incentivise and reward its staff for demonstrating a challenging and professionally skeptical attitude and not just for complying with the technical requirements of the audit process. The issue of staff retention is also an issue that firms need to address. If younger staff cannot be incentivised to stay, then this might impact the audit firm's long-term future if there is no succession plan in place.</p>
67.	ICAZ	<p><u>Question 9(a):</u></p> <ul style="list-style-type: none"> (i) a) Application material to support that part of career development and promotion is providing timely and informative performance appraisals and evaluations b) Additional application material to support the requirements for a firm to have sufficient personnel with appropriate competence, capabilities and commitment to ethical principles could highlight the importance of maintaining evidence of the procedures performed to address the requirements. c) Application material on continuity planning. d) Updating application material in ISA 220 to explain the reference to "more experienced team members" (ii) These actions would clarify how a firm can ensure that it has competent Human resources and at partner level. The explanation of more experienced team members would remove ambiguity and inconsistencies in the interpretation of the term. (iii) None (iv) None <p><u>Question 9(b):</u></p> <ul style="list-style-type: none"> (i) a) Timely performance appraisals and evaluations b) maintaining evidence of the procedures performed to address the requirements on competence and experience of human resources (ii) a) Considering whether ISQC 1 should explicitly highlight the competencies in IES 8 (Revised) in the areas of Interpersonal and Communication Skills, Professional Skills and Professional Values, Ethics and Attitudes (iii) These actions will assist firms in identifying factors to consider and procedures to perform to ensure that they have competence and experienced resources.
68.	ICPAK	<p><u>Question 9(a):</u></p> <ul style="list-style-type: none"> (i) Having additional application material to support the requirements for a firm to have competent and adequate staff Promoting career development and promotion by giving timely performance appraisals Succession planning for staff (ii) These actions are crucial to ensure quality audits, competent and motivated staff (iii) No additional (iv) None

		<p><u>Question 9(b):</u></p> <p>(i) Experience</p> <p>(ii) None</p> <p>(iii) The actions will ensure a firm has competent staff and partners</p>
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	--
72.	KICPA	<p><u>Question 9(a):</u></p> <p>(i) We believe strengthening the requirements or enhancing the application material that discusses the responsibilities of the engagement partner in relation to the relevant ethical requirements by members of the engagement team would be the most meaningful.</p> <p>(ii) Clarifying the responsibility of the engagement partner tasked with the ethical requirements of the engagement team members would improve the compliance of ethical requirements of team members, in general, in addition to effectively establishing an atmosphere emphasizing ethics within the firm.</p> <p>(iii) The purpose and details of actions IAASB is considering are mostly significant and meaningful to improve audit quality. Strengthening requirements and the application material in ISQC1 and ISA 220 as for ethics and education, just as the issue of human resources and engagement partner competency, however, could cause burdens to SMPs, in addition to unexpected consequences in practice. Thus, it would be more effective to develop and provide non-authoritative guidance. Incorporating what is already addressed in IES 8 into ISQC1 or ISA 220 only results in the duplication of existing standards, making standards voluminous and complex, in addition to creating pressure to continuously update standards up to changes in IESs, and having difficulties of determining the extent of updates and risks of missing updates. In addition, IESs deal with qualifications of CPAs and auditors, whose details vary from the respective jurisdictions, making it not relevant to ISQC1 or ISA 220. Thus, it would be desirable to minimize the incorporation.</p> <p>(iv) Please refer to answers in (ii) and (iii) of QC9 (a).</p> <p><u>Question 9(b):</u></p> <p>Please refer to answers in (iii) of QC9 (a).</p>
73.	MICPA	--
74.	SAICA	--
75.	SMPC	<p>[QC9 (a) & (b)]</p> <p>Talent recruitment and retention are key challenges facing the profession. For example, the AICPA Top Issues Survey in 2015 found that talent pool concerns had emerged as the most pressing issue for all but the smallest CPA firms. The SMP Committee agrees that HR</p>

		<p>management is essential to achieving audit quality. We are also concerned about the potential knock-on effect on the pool of talent available to SMPs resulting from the predicted significant fall in graduate recruitment at some of the biggest auditors in some jurisdictions.</p> <p>Based on the difficulties highlighted by SMPs in undertaking performance of staff reviews, the proposal to include additional application material that performance evaluations may be based on the facts and circumstances of the firm could be helpful, especially if it emphasizes continual feedback. We are concerned with the possibility of highlighting the importance of maintaining evidence of the procedures performed to address the requirements for a firm to have sufficient personnel with appropriate competence, capabilities and commitment to ethical principles. We agree that effective personnel management is a key factor determining the quality of a firm's services. However, a rigid requirement to document processes may not work in an SMP environment, since the relatively limited number of staff available often means no "formal process" exists. The standard will need to be sufficiently flexible, to prevent documentation requirements simply becoming an end in themselves.</p> <p>We would support a more detailed review of the relationship between IES 8 (Revised) and ISQC 1 and ISA 220. In our opinion, highlighting the competencies in IES 8 (Revised) in the areas of interpersonal and communication skills, professional skills and professional values, ethics and attitudes could be difficult.</p>
76.	WPK	--
Academics		
77.	AAA	--
78.	AH	--
79.	Glover-Prawitt	--
80.	TRay	--
Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	<p><u>Question 9(a):</u></p> <p>(i) The ISQC1 reference to IES8 would be a worthwhile reminder of the broader competencies needed. They should not be repeated in ISQC1, but a cross-reference could be useful.</p> <p>(ii) Over the past decade or more, auditors have focused on technical expertise and financial reporting issues. It is worth bringing attention back to the "softer" skillset needed, as on-the-job training remains an important aspect of the professional development of an auditor.</p>

		<p>(iii) It may be worth considering guidance as to how a more senior auditor trains, supervises and mentors more junior auditors. In particular, the guidance needs to consider these issues in a digital environment, with less face-to-face communication.</p> <p>(iv) No further comment</p> <p><u>Question 9(b):</u></p> <p>(i) Career development after becoming an engagement partner could be explored. There is a tendency for new engagement partners to have less focus on growing competencies and more focus on growing a client base.</p> <p>(ii) Career paths for engagement partners need to be explored to develop a more formal basis for partner progression. For example, perhaps a more senior audit partner should progress to the role of an EQCR or be available for consultations on subjective issues, perhaps to elevate a role that has limited financial incentive.</p> <p>(iii) The audit profession needs more senior audit members to remain in the profession to use their experience to drive quality. Presently, there is no financial or status incentive for engagement partners to participate in “audit quality roles” per se. A cultural shift towards quality and value, and away from a compliance perspective, is needed.</p>
84.	JGrant	<p>[Response to QC9 (a) & (b)]</p> <p>Human resources and engagement partner competency. As described in the Audit Quality Framework one of the important attributes of audit quality at the engagement level is that partners and staff have the necessary competencies. The term competency is used in ISQC1 and the ISAs but it is hard to know what level of competency is required by the standards.</p> <p>This is a very difficult area as competencies are difficult to define and even harder to measure. Some useful work has been done by IAESB in its revision of IES 8 but it is not the complete answer to the problem, nor does IES8 fit into the regulatory regime as it does not apply to audit firms. Something more in this area is needed in ISQC1. The key must be for audit firms to define for themselves what competencies they need and to build systems to ensure they recruit, retain and reward individuals using that system. All firms have such systems but they vary greatly and place more or less emphasis on aspects of audit quality. Specifying some requirements in this area may be possible in ISQC1 and this could usefully be linked to the need for staff appraisals to deal with professional scepticism.</p>
85.	JK	--
86.	KKTuraga	--
87.	SDeViney	<p>(i) Including detailed application material addressing necessary skills and competencies for on engagement partners would be most meaningful.</p> <p>(ii) Such a list would provide a specific, practical resource for audit organizations and serve to converge thinking related to competency and appropriate engagement assignments within the profession.</p> <p>(iii) No.</p> <p>Continuity planning is a control relevant to an audit organization’s performance objectives, but would only be relevant to quality control objectives to the extent existing acceptance and continuance requirements are ignored.</p>

QC10. Transparency Reporting

- (a) Do you believe we are able to positively contribute to the evolving developments related to transparency reporting? If so, what, in your view, would be the most appropriate action we could take at this time?
- (b) If you would not support us taking actions as described in paragraph 190(b), please explain why, including any potential consequences of those actions that you believe we need to consider.

	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	--
3.	CFA	<p>CFA Institute strongly urge the IAASB to further seek ways in which audit firm transparency reports contribute to audit quality. We agree with the following statement by IOSCO in their November 2015 report:</p> <p><i>Transparency reporting can foster internal introspection and discipline within audit firms and may encourage audit firms to sharpen their focus on audit quality, which would be of benefit to investors and other stakeholders. In comparing audit firms competing for an audit engagement, audit firm transparency reporting can aid those responsible for selecting a public company's auditor in their decision making process by providing information on a firm's audit quality.</i></p> <p>From IOSCO's report we believe that the following should be firmly rooted in the reports:</p> <ul style="list-style-type: none"> • clear, useful and presented in sufficient detail to be meaningful to the different groups of likely users of the report • fact-based and not potentially misleading • unbiased and not oriented toward marketing or selling services • concise, specific to the firm and avoids the use of boilerplate language • timely, accurate and complete • balanced in communicating the audit firm's output measures of audit quality in addition to any input measures • sufficient in terms of explaining the limitations of the indicators of audit quality, including that the indicators may not be comparable across audit firms <p>These transparency reports should enhance audit quality and provide investors with useful information provided they are objectively prepared in a transparent and non-boiler plate manner. Further, these reports should not dilute the usefulness of them by containing an overabundance of marketing information and be written in a plain English manner to enhance understanding by the reader.</p>

4.	IA	In the UK we welcomed the transparency reports that the UK firms publish and the insight they give into the firms' systems of quality control and would welcome these being required internationally. In particular, the main UK audit firms have co-ordinated their approaches to publishing Key Performance Indicators on matters such as the results of their own quality control reviews and those of the FRC's Audit Quality Review Team. These disclosures are helpful and investors would like to see them promulgated internationally.
5.	ICGN	--
6.	NZSA	The NZSA wholeheartedly supports the current movement toward increased transparency of reporting and, from a user's perspective, believes the new Audit Report represents the single biggest improvement in the Audit industry in the last 40 years. Transparency can only be good for the users of financial information.
7.	SAAJ	We believe auditing firms need to disclose their daily efforts to improve audit quality and application of professional skepticism in their transparency reports referred in the paragraphs 72-74, so that financial statements users could easily understand how they continuously tackle such challenges.
Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	--
10.	CPAB	We support the IAASB's consideration of exploring the role that transparency reporting can play in increasing the dialogue and discussion of audit quality with external stakeholders. Although we support this initiative, more work is needed to confirm this reporting is useful to investors and other users and enhances audit quality.
11.	EAIG	--
12.	EBA	--
13.	ESMA	ESMA supports addressing elements of transparency reports ⁹ into the ISQC1, as mentioned in paragraphs 72-74 of the Overview of the ITC. Transparency reporting by audit firms can contribute to improving audit quality by facilitating external scrutiny of an audit firm's quality control arrangements and enhancing their accountability to external stakeholders. As transparency reporting practices continue to evolve we encourage the IAASB to explore ways to stimulate continued improvements in audit quality reporting by the audit firms on their practices, policies and results to investors and other stakeholders.

⁹ In the EU legal framework, Article 13 "Transparency report" of the Audit Regulation.

14.	H3C	--
15.	IAIS	<p>Firm level: transparency reporting</p> <p>Neither ISQC 1 nor the ISAs include requirements or application material relating to transparency reports.</p> <p>The IAIS believes that transparency reports issued by audit firms, highlighting particular aspects of their policies and approach to audits, provides an opportunity for audit firms to distinguish themselves on aspects of audit quality. Adding transparency reporting application material within ISQC 1 may provide audit firms with useful guidance for developing internal processes for producing consistent, relevant and supportable transparency reports.</p>
16.	IFIAR	<p>31. Transparency reporting by firms can contribute to improving audit quality by facilitating external scrutiny of a firm's quality control arrangements and enhancing their accountability to external stakeholders. We therefore support the IAASB considering further whether ISQC 1 has a role to play in this developing area, having regard to experience in those jurisdictions where such reporting is already required.</p>
17.	IOSCO	<p><i>Transparency Reporting</i>¹⁶</p> <p>We note that jurisdictions are at varying stages of development of transparency reporting, and it may be either required by legislation or voluntarily provided by firms. We support the Board's suggested path forward described in paragraph 190 of the Paper. We believe that possible work to be performed by the Board related to either a requirement to issue audit firm transparency reports or information to be contained in an audit firm transparency report, should not affect the ability of a jurisdiction, securities regulator and/or audit oversight regulator to develop and implement its own requirements. As audit firm transparency reporting continues to evolve we encourage the Board to explore ways to stimulate continued improvements in reporting by the audit firms on their practices, policies and results to investors and other stakeholders.</p>
18.	IRBA	<p>78. Transparency reporting by firms can contribute to improving audit quality by facilitating external scrutiny of a firm's quality control arrangements and enhancing their accountability to external stakeholders. Transparency reporting serves the public interest.</p> <p>79. We believe that the IAASB has a role to play in the developing area of transparency reporting (having regard for experience in those jurisdictions where transparency reporting is already required).</p> <p>80. As part of the IAASB's considerations of the role it can play in this developing area, we believe that it should:</p> <ul style="list-style-type: none"> • Carefully consider the evolving landscape of governance. • Perform or commission research to be undertaken on matters relating to transparency reporting, such as who are the users of transparency reports, what information is useful to users in transparency reports and what education needs are there to inform stakeholders about transparency reporting. • In identifying the elements/content of the transparency report, be mindful of what elements/content could be most valuable to the user of the transparency reports, bearing in mind the cost to accumulate such elements/content.

¹⁶ See for example, IOSCO's Final report: *Transparency of Firms that Audit Public Companies* <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD511.pdf> and IOSCO's *Survey Report on Audit Committee Oversight of Auditors* <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD531.pdf>.

		<ul style="list-style-type: none"> Perform a comparison of current practices and requirements relating to transparency reporting in order to understand the varying practices and requirements among jurisdictions with an aim to achieve global consistency in transparency reporting. Determine what type of assurance is needed over a transparency report and who should be the provider of that assurance. <p>81. In dealing with transparency reporting, the IAASB should explore setting requirements for transparency reporting at a principle level, as other matters of principle are dealt with in ISQC 1. The local independent regulatory bodies can expand on these requirements to suit local legislation and the business environment.</p>
19.	MAOB	--
20.	UKFRC	<p>In the UK, audit firms are already familiar with Transparency Reporting, as the Statutory Audit Directive, which came into force in 2006, introduced a mandatory requirement for annual transparency reporting by auditors of UK companies with securities admitted to trading on a UK regulated market. In its first year when the requirement to report was optional, seven of the ten largest firms chose to publish a voluntary transparency report. Since then the number of firms required to produce transparency reports has fluctuated year on year. As mentioned in our response to QC5, findings from the FRC's recent review of the implementation and operation of the Audit Firm Governance Code (issued in May 2015), outlined feedback and potential actions that the FRC could take in relation to transparency reporting. Overall, the vast majority of respondents saw the introduction of transparency reports as a positive development, noting that further improvements could be made if firms adopt a more tailored approach and include content which is less boilerplate and of greater relevance to investors, regulators and other stakeholders.</p> <p>As noted in paragraph 188 of the ITC, there is clear evidence that firms across many jurisdictions issue publicly available reports that provide transparency regarding certain elements of the firm and its operations, most typically in respect of matters related to audit firm governance. In our view, transparency reporting is in essence the only realistic means to increase confidence that the firms' governance structure is working in the interests of investors and the public interest. We would also like to draw attention to the recent report issued by IOSCO in November 2015 that states that "Transparency reporting can foster internal introspection and discipline within audit firms and may encourage audit firms to sharpen their focus on audit quality".</p> <p>As the IAASB has a clear role in contributing to enhanced quality and consistency of practice throughout the world, and through that strengthen public confidence in the global auditing and assurance profession, it is feasible for the IAASB to set principles and guidance to assist firms in delivering transparency reports that can be tailored to their specific circumstances. Given this, the successes we have seen in the UK, and the recent report by IOSCO, we strongly support the IAASB exploring developments related to transparency reporting.</p>

National Auditing Standard Setters		
21.	AUASB	<p>The AUASB agrees that the most appropriate action at this time would be for the IAASB to positively contribute to evolving developments related to transparency reporting.</p> <p>The Corporations Act 2001 in Australia requires transparency reporting by auditors on their website if they have conducted ten or more audits of various entities including listed companies and authorised deposit-taking institutions.</p> <p>Anecdotally, transparency reports produced in Australia do not appear to be widely read and as such would not be seen on their own to be improving audit quality in this jurisdiction.</p> <p>Nothing further noted.</p> <p>The AUASB would support the IAASB in developing a thought piece or other non-authoritative material on the topic and practice of transparency reporting and its impact on audit quality.</p>
22.	CAASB	<p>The majority of Canadian stakeholders, including users of auditor's reports, were not convinced that transparency reporting provides additional value. Transparency reports may be seen as being a marketing tool for firms rather than a tool to enhance audit quality.</p> <p>Two Canadian stakeholders felt that transparency reports could be useful. One noted that financial statement users may find the information in a transparency report useful when selecting an audit firm. Another noted that reports similar to transparency reports are issued in the public sector. This stakeholder felt that, if prepared with audit quality in mind, these reports could have a significant impact on audit quality. If firms have a responsibility to publicly report how they manage audit quality, they may be more likely to perform high quality audits.</p> <p>The AASB believes that the IAASB could monitor and facilitate ongoing dialogue on the topic of transparency, but should focus on other priority projects first. The AASB is not convinced that the IAASB needs to take an active role at this time. Rather, the IAASB should encourage other groups to first conduct research into the need for guidance, if any, on transparency reporting.</p> <p>The AASB supports monitoring and facilitating ongoing dialogue and encouraging others to do research as noted in QC10(a). The AASB believes that any work on transparency reporting should take a lower priority until there is more broad public support for the concept of transparency reporting. The IAASB should not divert resources away from these projects to issue guidance or develop a thought piece or other non-authoritative material on transparency reporting at this time.</p>
23.	CNCC-CSOEC	<p>In Europe, we have had compulsory transparency reporting for many years now and we agree with the IAASB that practice continues to evolve and that trying to establish requirements related to firm transparency reporting could inhibit innovation on this area and possibly result in less useful information being provided to stakeholders.</p> <p>Nevertheless, we believe that the IAASB is able to positively contribute to the evolution of transparency reporting despite the fact that this is primarily a matter for local laws and regulations.</p> <p>We also consider that the transparency reporting should not be published only for oversight bodies. We are of the view that such a document can be an excellent communication tool.</p>
24.	HKICPA	Currently, there is no such requirement for transparency reporting in Hong Kong.

25.	IDW	<p>We refer to our response to G1.</p> <p>We do not believe that international requirements for transparency reporting would be appropriate at the present time. There are currently very different objectives underlying the requirements in the few jurisdictions that already require transparency reporting.</p> <p>We suggest that should the IAASB decide to look at this area, it continue the dialogue with interested parties, possibly developing a thought piece in due course as discussed in paragraph 190(b).</p>
26.	JICPA	<p>We support the action to facilitate ongoing dialogue on the topic and encourage academic research to explore the impact of transparency reporting on audit quality. The practice of transparency reporting is evolving in certain jurisdictions, and some firms voluntarily disclose information on audit quality. For example, we believe it would be meaningful from a long-term perspective to conduct academic research to explore how the following are impacted by the descriptions in the transparency report:</p> <ul style="list-style-type: none"> • Audit quality • Stakeholders' perception about audit quality and their decision making • Direction of the discussion on how to improve the corporate reporting system as a whole
27.	MAASB	<p>We believe that further research on the links to, and benefits accrued from, transparency reporting on audit quality would be appropriate. We also believe that it is important to understand the demand and requirements for transparency reporting globally and how these reports are used before establishing any global requirements.</p> <p>It is difficult to prescribe a one-size-fits-all structure for transparency reports due to different stakeholders and regulatory requirements from different jurisdictions.</p>
28.	NBA	<p>Transparency reporting might contribute to quality improvement. However, the IAASB should recognize that transparency reporting in certain areas is already arranged for in local laws and regulations (for instance in Europe). Therefore actions by the IAASB (if any) should build on the initiatives already taken.</p>
29.	NZAuASB	<p>The NZAuASB agrees that the most appropriate action at this time would be for the IAASB to positively contribute to evolving developments related to transparency reporting.</p> <p>See above.</p>
Accounting Firms		
30.	BDO	<p>We support the intention of the IAASB to consider providing for greater consistency of transparency reporting - particularly in respect of quality control matters across the networks and firms. We remain supportive of the IAASB's aim outlined in paragraph 189 to seek to further understand the demand and requirements for transparency reporting around the world and to facilitate the evolution of voluntary transparency reporting by actions such as those outlined in paragraph 190(b). From a prioritization perspective, and given that this is a constantly evolving area, we believe the IAASB's work effort would be better directed towards other matters (for example, use of data analytics to obtain assurance).</p> <p>Not Applicable.</p>

31.	CHI	<p>a) Yes. Not all jurisdictions have transparency reporting requirements, and those that do usually confine the requirement to auditors of public interest entities. Therefore, there is a role for IAASB to encourage voluntary transparency reporting by firms that are not subject to an obligation in law or regulation. There is also a role for IAASB to encourage best practices in transparency reporting, which could go beyond minimum national legal requirements.</p> <p>b) Not applicable.</p>
32.	DTT	<p>Current practices and requirements for transparency reporting vary significantly between jurisdictions. The ITC recognizes that transparency reporting is an area where practice is likely to continue to evolve to meet the needs of users of such reports and that risks exist in trying to establish requirements related to firm transparency reporting.</p> <p>DTTL agrees that prescriptive transparency reporting requirements could inhibit innovation in this area and possibly result in less useful information being provided to stakeholders. In addition, DTTL agrees that it would be best to allow firms to innovate in order to ascertain market requirements. Audit committees and the external market will be the best judges and navigators in relation to the direction of transparency reporting.</p>
33.	EYG	<p>We do not believe it is necessary for the IAASB to produce guidance for transparency reporting. Transparency reporting has been performed for several years in many jurisdictions and accordingly, many firms have sufficient experience in producing transparency reports. Further, the specific requirements for transparency reporting vary across jurisdictions.</p> <p>Although we support transparency reporting because it provides useful information for companies, users and other stakeholders, we do not believe that 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. We believe that it is appropriate for the IAASB to focus in the near term on initiatives that contribute directly to audit quality.</p>
34.	GTI	Refer to responses on the detailed questions, we have no other issues to include.
35.	KPMG	--
36.	PwC	<p>We can see a number of advantages to preparing such reports, which include greater transparency to stakeholders as well as bringing a sharper focus internally towards disclosed audit quality matters. A number of our network firms currently publish annual transparency reports which describe the quality-oriented systems they have in place, the steps they take to safeguard their independence etc., which are well received in their respective jurisdictions. Consequently, as a network we are also currently considering what the advantages and challenges would be in preparing a network-wide transparency report. We are also experimenting with audit quality indicators and the role they might have in our transparency reports.</p> <p>Developments in this area are still at an early or 'pilot' stage and, in our view, it is premature to consider standard setting. We believe that there is still much to learn, and research into whether and how such reporting can promote audit quality would be valuable. For example, it would be important to understand demand and requirements for transparency reporting globally, and how these reports are used. This currently differs between jurisdictions, while some firms issue reports on a voluntary basis as well, and it would be difficult to arrive at global consistency in what is reported (for example, our UK and Australian member firms prepare transparency reports but</p>

		<p>these include different elements). The costs of compiling reports should also be considered, which will vary depending on the size of the firm.</p> <p>It is important to recognise that it is not just about disclosing more or simply responding to requests from different groups for disclosure. Being transparent about the right matters to be disclosed and in the right way should drive how such reports evolve – i.e., what is needed or wanted by the users to enhance their value.</p> <p>As this is an evolving area much like integrated reporting, and consistent with our principles and other comments outlined in our cover letter, care should be taken to ensure any future requirements, if deemed appropriate, are adaptable and broad enough to foster (and not inhibit) innovation, while instilling a structure to act as an appropriate guide.</p>
37.	RBI	--
38.	RSM	We agree with the actions listed in paragraphs 188 to 190, in particular the issuance of such reports by firms involved in the audits of Public Interest Entities.
39.	SRA	--
Public Sector Organizations		
40.	AGC	<p>At this time, we would encourage the Board to continue to monitor industry developments in respect of transparency reporting. We do not see a role for the Board at this time.</p> <p>We support the actions described in paragraph 190(b).</p>
41.	AGSA	<p>Yes – The actions are supported. The outcomes of these actions will then direct further initiatives that the IAASB can consider.</p> <p>No further comments.</p>
42.	GAO	We are not providing comments related to transparency reporting.
43.	INTOSAI	<p>At this time, we would encourage the Board to continue to monitor industry developments in respect of transparency reporting. We do not see a role for the Board at this time.</p> <p>We support the actions described in paragraph 190(b).</p>
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--

46.	ACCA	We agree with the analysis in paragraphs 188-190(a). We support the IAASB's conclusion that it is best for regulators and audit oversight bodies to establish their own requirements that take account of local requirements. We are supportive of the actions in paragraph 190(b).
47.	AIC	--
48.	AICPA	We believe that it is premature for the IAASB to take action regarding transparency reporting as the area is evolving. We note that in considering transparency reporting, the IAASB will need to address privacy concerns for SMPs. For sole practitioners, there is no distinction between their firm and themselves; details about the firm can be directly attributed to the practitioner personally. That can lead to private information being publicized, which is a problem for safety or security reasons. Also, with a small client base compared to other firms, anything that is client metric-driven might allow others to surmise client identities, since there is not as much audit data to aggregate.
49.	APESB	--
50.	CAANZ	We agree it would be useful to explore the impact of transparency reporting on audit quality as suggested in paragraph 190(b) as these reports can be used to show how firms are implementing innovative actions to achieve continuous improvement in audit quality. We reviewed the 2014 transparency reports released in Australia and published our findings. One of the elements we specifically looked for was evidence of firms addressing recognised drivers of audit quality as set out in the IAASB's Framework for Audit Quality.
51.	CAI	--
52.	CAQ	--
53.	CIIPA	--
54.	CIMA	--
55.	CPAA	(a) We consider that it would be most appropriate for the IAASB to contribute to the evolution of transparency reporting by issuing guidance on the description of firm's quality control system for the purpose of transparency reporting and the information to be included, in order to promote greater consistency between jurisdictions and firms. Practice varies considerably between jurisdictions as to the required content of transparency reports. Whilst transparency reports are required to be prepared in Australia by audit firms conducting 10 or more listed company or other specified audits, feedback we have received suggests that they are not widely relied upon as they are seen by some as more of a marketing tool. (b) We have no objections to the actions suggested in paragraph 190(b) in addition to guidance but we would anticipate that those actions would have less impact than guidance which would provide practical assistance to firms.
56.	DnR	--
57.	EFAA	We believe that the IAASB is well placed to foster an open dialogue on this subject but ultimately this is a matter for regulators and legislation.

58.	FACPCE	--
59.	FEE	<p>137. The IAASB is able to positively contribute to the evolution of transparency reporting despite the fact that this is primarily a matter for local laws and regulations. Keeping abreast of what is happening around the world with transparency reporting and how the demand of such information is evolving would be seen as a good first step forward.</p> <p>138. The importance of transparency reporting is also demonstrated in an information paper published by the Federation on <i>Overview of Audit Quality Indicators (AQI)</i>⁵. Transparency reporting is the preferred tool to communicate on AQIs.</p> <p>139. Nothing to report.</p>
60.	FSR	--
61.	IBA	--
62.	IBRACON	<ul style="list-style-type: none"> • EQCR/Involvement of other auditors. • Oppose disclosure that audit was subject to EQCR (risk that an audit that was not subject to EQCR will be viewed as lower in quality). • Also, oppose any efforts on auditor reporting at this time given the new standards – would prefer that the IAASB wait until it conducts its post-implementation review before exploring new enhancements <p>We believe this would not necessarily help improve audit quality in the near future – unless there would be full disclosure of external/internal inspections</p>
63.	IBR-IRE	No particular comment.
64.	ICAEW	<p>Yes we do agree that the IAASB should play a leading role in the development of good practice and principles on transparency reporting but taking a non-prescriptive approach so as to encourage innovation by firms. This would be consistent with the comment in paragraph 190b) of the ITC that practice is likely to continue to evolve to meet the needs of users of such reports. But the risk of the IAASB not playing a leading role is that inappropriate and indeed prescriptive requirements might be issued in some countries. The actions outlined in the bullets in paragraph 190b) of the ITC seem appropriate.</p> <p>We also consider that the IAASB should take the lead on Audit Quality Indicators (AQIs) where we are seeing a wide variety of approaches in different countries (see our reference to this in our response to the recent PCAOB consultation on AQIs where we called on the IAASB to include AQIs as a key part of this quality control project, in particular by issuing supplementary guidance regarding the use of AQIs based on the Audit Quality Framework).</p> <p>The IAASB's major project on auditor reporting and the implementation of the new and revised ISAs on that also links very directly to this project. One of the main factors in achieving successful implementation of extended auditor reporting will be the encouragement to audit firms to be as transparent as possible including on their approach to issues related to professional scepticism and audit quality. These words or phrases might not be used in individual audit reports but readers are likely to draw conclusions on these matters based on the content and transparency of what the firm says about the audit and their approach. For example, it is a way that firms will be</p>

⁵ http://www.fee.be/images/publications/auditing/1511_Overview_of_Audit_Quality_Indicators_Initiatives.pdf

		able to demonstrate their professional scepticism to the readers of the reports. As explained in the previous answer to a), we support the IAASB taking these actions.
65.	ICAP	--
66.	ICAS	We agree that the evolution of transparency reporting is a matter for local laws and regulations and therefore the IAASB should continue to monitor the extent and demand for such reporting and consider how to facilitate ongoing dialogue and encourage academic research to explore the impact of transparency reporting on audit quality.
67.	ICAZ	Yes. Through on ongoing discussions and research on the matter N/A
68.	ICPAK	Yes, IAASB is able to positively contribute to the evolving developments related t transparency reporting. What IAASB can do is to encourage member bodies/regulators to demand of transparency reporting This should be left to the regulatory bodies in the different jurisdictions
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	--
72.	KICPA	We believe there would be few chances IAASB could directly contribute to the evolving developments, related with transparency reporting. As acknowledged in the consultation, current practices and requirements for transparency reporting are regulated by the respective regulatory bodies, and the details vary from each other, according to the respective jurisdiction's regulatory purpose and environment. The variance and difference are not necessarily considered as inappropriate, making it no need for maintaining consistency. If consistency needs to be made, regulatory bodies are well-advised to cooperate and coordinate each other. The actions IAASB is considering do not necessarily mean bad, but would not be "must," taking into account the priority of IAASB's activities and appropriate allocation of its resources.
73.	MICPA	--
74.	SAICA	We did not select transparency reporting as a topic for purposes of the SAICA seminar on the ITC or for the SAICA online survey. However we wish to provide some input on this topic (also informed by our participation in other forums). Transparency reporting is very much an emerging area and a formal response by way of international standard-setting would not be appropriate at this stage; rather allow practice to develop, including how national regulators and oversight bodies choose to address transparency reporting at the jurisdictional level. The most appropriate action for the IAASB at this stage would be to continue with information-gathering, including related outreach activities and research. As stated in the ITC (paragraph 189), "seek to understand the demand and requirements for transparency reporting around the world, and how investors, regulators and others are using these reports."

		<p>In South Africa currently there are no specific transparency reporting requirements. There may be some communication /disclosure of certain elements of what could be encapsulated in the broader context of transparency reporting, but this has not been formalised as a reporting practice for firms.</p> <p>In principle there is an appreciation for the fact that transparency reporting could be a means to enhance communication with relevant stakeholders; however, it is an evolving area that should be approached with due care and flexibility. Some of the questions that have come to our attention that illustrate these early stages of development include (not an exhaustive list):</p> <ul style="list-style-type: none"> • What is the purpose of transparency reporting and is this commonly understood from the perspective of the firms reporting the information and the users of the information? Are the need and demand for transparency reporting, and the opportunities and risks understood will enough? • Who are the users of transparency information and what are their information needs (including the message that is intended to be communicated versus the message as it is being received and used)? How do transparency reports influence stakeholder behaviour, as well as internal behaviour within firms? • What are the considerations around fair and balanced reporting (including the public interest perspective)? • What is the common terminology to describe the principles of transparency reporting and the elements of such reports (including considerations regarding measurement and disclosure)? • How to address jurisdictional variation in laws and regulations?
75.	SMPC	<p>Currently transparency reporting is required in certain jurisdictions, and is generally confined to larger firms. The SMP Committee believes that requiring transparency reporting as an element of a firm's system of quality control would be beyond the IAASB mandate and it is only appropriate for regulators and audit oversight bodies to establish any requirements in this area. In our view, a requirement would likely impose burdens on SMPs that outweigh the public benefit. Moreover, it could widen the public perception of differences between larger and smaller firms if the IAASB standards were to require some firms to publish transparency reports and others not.</p> <p>We support the Board facilitating ongoing dialogue on the topic and encouraging academic research. For example, we understand that in certain jurisdictions many firms actually submit very similar transparency reports each year.</p>
76.	WPK	--
Academics		
77.	AAA	<p>The Committee notes that the 8th European Union Company Law Directive, Article 40 requires audit firms to provide annual transparency reports. In the U.S., the Advisory Committee on the Auditing Profession (U.S. Department of the Treasury 2008) recommended that the PCAOB study quality and quality control indicators and consider requiring audit firms to produce annual transparency reports. Research on the relationship between disclosures in transparency reports and audit quality is limited to date; one study does not find strong evidence of a positive relationship (Deumes et al. 2012). We therefore encourage support of additional research on the effectiveness and information content of transparency reports.</p>
78.	AH	--
79.	Glover-Prawitt	--

80.	TRay	--
Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	Transparency reports appear to be getting little attention outside audit firms. Directors appear to have little interest in these reports, which are more like marketing documents. I am not aware of other stakeholders referring to these reports. While I support transparency, I consider research is needed to determine whether these reports are satisfying their purpose, before any further action is taken.
84.	JGrant	Transparency reporting. It is unclear to me whether anyone really uses the information provided in the transparency reports define by European law. I would not think that this is an important area of priority for IAASB.
85.	JK	--
86.	KKTuraga	--
87.	SDeViney	The Board's perspective and engagement on this emerging dialog would certainly be helpful. The most appropriate action would be to allow dialog to continue and mature, and possibly to provide application materials or non-authoritative material as discussed in paragraph 190(b) for audit quality measures that could or should be tracked as part of a firm's quality control monitoring system. A focus on a firm's quality control monitoring system rather than on a firm's external reporting would seem far more appropriate for this subject.

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

	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	--
3.	CFA	--
4.	IA	--
5.	ICGN	--
6.	NZSA	--
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	--
10.	CPAB	--
11.	EAIG	--
12.	EBA	--

13.	ESMA	--
14.	H3C	--
15.	IAIS	--
16.	IFIAR	--
17.	IOSCO	--
18.	IRBA	--
19.	MAOB	The AOB wishes to emphasise that while good governance, firm culture and a Quality Management Approach (QMA) may be in place, it is equally important to consider a measurable outcome to assess the effectiveness of their execution, and their subsequent impact on engagement performance. Other comments on these areas are elaborated as follows: <i>[detailed responses to ITC questions followed]</i>
20.	UKFRC	--
National Auditing Standard Setters		
21.	AUASB	<p>AUASB believes that the ITC could have included a discussion in relation to quality control around the use of specialists within engagement teams— IT, actuaries, modelling and the interaction between the specialist partner's role and the audit partner responsibilities. Further clarity and examples may need to be considered on these areas once the feedback from the ITC as a whole has been evaluated.</p> <p>ISQC 1 is focused on the firm – the IAASB could consider whether it would assist audit quality to reflect the role of other stakeholders in the audit cycle as outlined in the Audit Quality framework issued by the IAASB in February 2014.</p> <p>With the approach to audits continually evolving with the use of data analytics and other emerging audit techniques that assist in improving audit quality, the IAASB needs to consider any impact this may have on ISA 500 Audit Evidence. We acknowledge and support that the IAASB has an active Data Analytics working group.</p>
22.	CAASB	As previously noted, the AASB does not believe that wholesale changes to ISQC 1 are required. However in reviewing the ITC, the AASB believes the list of quality control issues identified is very thorough. No other matters have come to our attention from Canadian stakeholders.
23.	CNCC-CSOEC	No, we have not identified any other issues relating to quality control.

24.	HKICPA	--
25.	IDW	We refer to our general comments in our letter as to the need to focus more closely on key areas.
26.	JICPA	--
27.	MAASB	No further issues noted except for the following: The viability of remote or 'desktop' quality reviews or inspections taking into consideration the cost to individual firms that operate within a broad geographical network; and Whether it is possible to automate quality control by using exceptions reporting, analysis of transactional data such as numbers of hours worked, revenue per hour worked, time spent in training.
28.	NBA	The QMA is not missing any elements. The IAASB should focus on the key matters that have an influence on quality control which are described in the summary of our response in the cover letter: <ul style="list-style-type: none"> • Develop a pro-active QMA to avoid audit deficiencies and define clear roles and responsibilities for quality control; • Address the relationship between the firm's culture an 'tone at the top' and quality control systems; • Link the remuneration policies and related incentives to audit quality; • Perform root cause analysis to prevent recurring audit deficiencies.
29.	NZAuASB	The NZAuASB has not identified any further actions.
Accounting Firms		
30.	BDO	None noted.
31.	CHI	We have nothing to add.
32.	DTT	--
33.	EYG	Refer to our suggestions in our response to QC 2 regarding the emphasis of audit quality responsibilities for all engagement team members and in our response to QC 8 regarding the consideration of a risk-based approach to cyclical internal inspections.
34.	GTI	Refer to responses on the detailed questions, we have no other actions to include.
35.	KPMG	--

36.	PwC	--
37.	RBI	--
38.	RSM	--
39.	SRA	--
Public Sector Organizations		
40.	AGC	--
41.	AGSA	<p>One of the most common areas when inspection findings are noted is regarding re-performance of audit work on file. Currently ISA 230 talks about an experienced person being able to re-perform the audit work and arrive at the same conclusions. Unfortunately this principle is understood and applied differently by the auditors in the profession. The IAASB should expand its guidance and application material on the concept of re-performable audit documentation with the intention of ensuring better consistency and improve audit quality.</p> <p>Furthermore, ISA 230 should indicate that the amendment of audit files when requested for quality inspections should not be allowed.</p>
42.	GAO	The IAASB should consider quality control issues that occur in specialized audits, such as audits of governments and employee benefit plans.
43.	INTOSAI	--
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	<p>Apart from ensuring that the appropriate techniques and mechanics of audit testing are deployed during the auditing process the principal element of quality control is reflected in the evaluation of the audit evidence obtained and as such, is the outcome and documentation of the professional scepticism applied in that evaluation process (and referred to in section 3 above).</p> <p>Training audit personnel in audit skills is a long term process, particularly as regards attitude of mind, taking several years of exposure to practical situations, as well as theoretical training on both technical accounting matters and procedures. It is important that only</p>

		<p>skilled and experienced personnel with the required professional scepticism are those reaching conclusions on the outcomes of audit work, particularly on matters of subjectivity and judgement.</p> <p>The need for, and nature of, formalised quality control procedures within audit firms tends to vary according to the size of the entities subject to audit and consequently the numbers of staff involved in the audit, the geographical spread of audit locations, the use of other audit firms (whether in a network or independent), supporting specialist advisers and completion deadlines.</p> <p>As a result of the factors referred to in 3.8 (above), small audit firms will not have the need for complex quality control procedures and possibly can more easily demonstrate the use of professional scepticism than a larger firm.</p> <p>AAT is of the view that there is a need for a more stringent approach to the quality control of the audits of public interest entities (PIE's) to cover all entities which are substantially dependent upon public monies, including listed entities, providers of public utilities and public services, entities funded by public monies (both by grants and commercial contracts) and charitable entities in all forms.</p> <p>The oversight of such audits needs to be open and transparent to the public at large, whereas the oversight of other entities needs to focus on the needs of the users of their financial statements.</p>
46.	ACCA	We have no other issues to raise.
47.	AIC	--
48.	AICPA	Based on our monitoring of implementation issues in our jurisdiction, we believe that there is much confusion about monitoring. The roles of, and distinctions between, pre-issuance reviews, post-issuance reviews, and EQC reviews are not defined in professional literature. It is not well understood in practice the extent to which these reviews are intended to improve engagement quality as compared to improving system quality. An explanation of how a review protocol could be adopted, and how each review relates to monitoring, with examples of such a program, would bring clarity and drive consistency in practice.
49.	APESB	--
50.	CAANZ	--
51.	CAI	--
52.	CAQ	--
53.	CIIPA	--
54.	CIMA	--
55.	CPAA	None identified.
56.	DnR	--
57.	EFAA	Please refer to our key remarks.
58.	FACPCE	--

59.	FEE	<p>In our view a critical overriding consideration of these proposals should be that the IAASB should take care not to lengthen the standards considerably without any guarantee that it will lead to real enhancement of audit quality. The IAASB should concentrate on the key matters relevant to quality:</p> <ul style="list-style-type: none"> • Proactive aspects of QMA that could potentially prevent audit deficiencies – after the event, measures can only detect it • Human resources and behavioural management is key, since the right skillset amongst individuals is crucial • Root cause analysis has a key role in prevention of recurring future audit deficiencies <p>Even if all of the proposals in isolation can be justified as having value, we encourage the IAASB to step back and look at them in the context of their overall impact to the practitioner, and assess whether or not unnecessary length and detail detracts from their principles-based roots and in reality is a threat to audit quality.</p>
60.	FSR	--
61.	IBA	--
62.	IBRACON	--
63.	IBR-IRE	<p>The IAASB should encourage others to seek improved jurisdictional cooperation in order to address issues about the access to working papers that are very common today.</p> <p>Audit inspection authorities should also develop a consistent approach to reporting of audit failures and other shortcomings. The statistics quoted by IFIAR do have a number of caveats attached to them in terms of not depicting consistent patterns, but nevertheless they can unduly damage trust in the profession.</p> <p>Last but not least, we consider that public perception of the audit as a high quality and valuable service needs to be encouraged by all stakeholders, including management, but also regulators.</p>
64.	ICAEW	None identified, although we consider that the IAASB's extensive work and outreach on extended auditor reporting links very directly to the matters in this ITC (see answer to QC10a) above).
65.	ICAP	<p>Quality control standards should be designed to embed and reinforce audit quality throughout the audit process, by focusing on:</p> <ul style="list-style-type: none"> • the key inputs and drivers of audit quality, rather than primarily relying on detective measures; • identifying and assessing the risks to achieving audit quality as a basis for designing and implementing quality processes and controls that are commensurate with identified risks; and • Promoting continuous improvement. <p>A culture of, commitment to quality is fundamental need for the audit firms, audit engagements and auditors. There has to be an unwavering focus on delivering the high quality audits expected by stakeholders, including investors, those charged with governance, regulators and the public. The concept of a Quality Management Approach (QMA) is entirely consistent with this goal and ICAP supports the Board in exploring how a QMA can be incorporated effectively into ISQC1.</p> <p>ISQC 1 has moved the audit profession's thinking forward about the role each firm plays in promoting, supporting and managing quality in the audits, reviews, and other assurance and related services. Focus of ISQC 1 on the recognised drivers on audit quality (quality</p>

		<p>elements) has provided a structure for firms to develop their quality controls and systems. The requirements in ISQC 1 quality management systems and review should be an integral part of Quality Review programme.</p> <p>The term audit quality encompasses the key elements that create an environment which maximizes the likelihood that quality audits are performed on a consistent basis. A quality audit is likely to have been achieved by an engagement team that:</p> <ul style="list-style-type: none"> • Exhibited appropriate values, ethics and attitudes; • Was sufficiently knowledgeable, skilled, and experienced and had sufficient time allocated to perform the audit work; • Applied a rigorous audit process and quality control procedures that complied with law, regulation and applicable standards; • Provided useful and timely reports; and • Interacted appropriately with relevant stakeholders.
66.	ICAS	We have not identified any other issues.
67.	ICAZ	--
68.	ICPAK	--
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	--
72.	KICPA	We have no comments.
73.	MICPA	--
74.	SAICA	--
75.	SMPC	We do not have any other issues relating to quality control that have not been identified.
76.	WPK	--
Academics		
77.	AAA	--
78.	AH	--
79.	Glover-Prawitt	--
80.	TRay	--

Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	<p>Has partner rotation contributed to audit quality?</p> <p>When an engagement partner's client base is dominated by a single audit client (i.e. one client contributes to a substantial portion of the individual partner's fee base and chargeable time) is there a need to look more closely at how audit quality is achieved? Are there additional risks that need to be addressed in these circumstances?</p> <p>When audit fees are quoted for extended periods or with particular arrangements (e.g. substantial audit fee discount given in year one; fixed fees for subsequent 4 years), is there an impact on audit quality?</p>
84.	JGrant	--
85.	JK	--
86.	KKTuraga	--
87.	SDeViney	--

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

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	<p>We agree that the following actions described in paragraphs 68-83 could support improvements to overall audit quality:</p> <ul style="list-style-type: none"> • Firm level monitoring and remediation; • Firm level quality control policies and procedures when operating as part of a network; • Firm level transparency reporting; • Engagement partner roles and responsibilities; and • Engagement quality control reviews and reviewers. <p>The Audit Committee should require the auditor's opinion to include commentary on any management assertion that the system of internal financial controls is operating effectively and efficiently, that assets are safeguarded, and that financial information is reliable as of a specific date, based on a specific integrated framework of internal controls.</p>
2.	CalSTRS	--
3.	CFA	--
4.	IA	--
5.	ICGN	--
6.	NZSA	--
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	--
10.	CPAB	--

11.	EAIG	<p>15. As for group audit, we note that a number of concerns of European audit regulators relating to audit firm and audit engagement quality control have been taken into account by the IAASB in developing the ITC. We encourage the IAASB to pursue its focus on investigating the possible enhancements of standards which would improve auditors' performance on those areas of quality control that most commonly give rise to inspection findings by European audit regulators.</p> <p>16. We draw the IAASB's attention to the fact that several of those findings would appear to point to areas where the standards could be improved, namely:</p> <ul style="list-style-type: none"> – <i>Relating to leadership responsibilities for audit quality</i>: role of management in audit quality, internal culture to promote audit quality ("tone at the top"); – <i>Relating to human resources</i>: link between remuneration and audit quality; – <i>Relating to engagement performance, including EQCR</i>: objective, timing and extent of procedures for an Engagement Quality Control Review, selection of the reviewer, quality control for audit work performed in a different location, pre-issuance reviews, link between ISA 220 and ISQC 1; – <i>Relating to monitoring</i>: scope and frequency of review of firm-wide procedures, root cause analysis after findings, requirements in ISQC 1 for the firms to take action and/or remediate for external inspection findings; – <i>Relating to acceptance and continuance</i>: consideration of all ethical requirements, including locally applicable provisions; – <i>Relating to globally established policies at network level</i>: adaptation of global policies to take into account local requirements; – <i>Relating to complying with ethical requirements</i>: engagement partner's responsibilities, clarity on ethical requirements; – <i>Relating to proportionality</i>: the need to address the proportionate application of ISQC 1, depending on the size of the audit firm. <p>17. We highlight the fact that some of the topics mentioned above, as well as other areas related to quality control, are covered by European legal provisions⁶ which we believe the IAASB should consider in further developing the standards, for example:</p> <ul style="list-style-type: none"> – The responsibility of the engagement partner when audit work is outsourced; – Engagement quality control reviews, in particular, the documentation of those reviews; – Audit firms' internal monitoring of findings; – Remuneration policies applying to all persons involved in, or in a capacity to influence the conduct of the audit engagement; – Internal control measures for dealing with and recording incidents which have, or may have, serious consequences for the integrity of the firm's activities or on the audit firm's or engagement partner's independence, including in the case of a group audit; – Disclosures regarding a firm's quality control system in the transparency report; – The scalability of quality control measures, including engagement quality control review.
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⁶ Directive 2006/43/EC Art. 24a and 24b, and Regulation (EU) No 537/2014 Art. 6.1, 8 and 13

12.	EBA	--
13.	ESMA	--
14.	H3C	<p>Universal principles and scalability in application</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>
15.	IAIS	For the IAIS, the work that is underway to address ISA 540 issues is particularly important, especially to the extent it can help to enhance the quality of insurer audits generally and, perhaps in some cases, play a role in the effective monitoring of systemically important insurers.
16.	IFIAR	--
17.	IOSCO	--
18.	IRBA	<p>In line with the objectives of both ISQC 117 and ISA 22018, we believe that quality control is the cornerstone to all audit engagements. The IAASB has received a great deal of feedback on the issues and concerns with regards to quality control, most notably through feedback received in developing its 2015-2016 Work Plan (which includes results of the post-implementation review of the clarified ISAs) and from its subsequent exploration and deliberations, both internally and externally, on the issues.</p> <p>The Quality Control section of the ITC provides a comprehensive exploration of the quality control issues and possible actions to address them.</p> <p>In general, we are in agreement with the actions the IAASB has outlined in response to the issues identified. We also re-emphasise the need for the IAASB to reinforce the concept of professional scepticism in ISQC 1 and ISA 220.</p> <p>However, below we provide a more detailed response to the following areas:</p> <ul style="list-style-type: none"> • Quality management approach (QMA). • Engagement quality control review. • Firm networks. • Engagement partner roles and responsibilities. • Engagement partner performance and rewards system. • Transparency reporting. • Firm governance and audit quality indicators.
19.	MAOB	--
20.	UKFRC	We have no further comments.

¹⁷ ISQC 1, paragraph 11

¹⁸ ISA 220, paragraph 6

National Auditing Standard Setters		
21.	AUASB	The AUASB considers more clarity in application material coupled with additional examples and illustrations providing practitioners with practical insights and challenges into how to apply and implement the principles outlined in ISQC 1 and ISA 220 would be beneficial in assisting quality control and overall audit quality.
22.	CAASB	The AASB and Canadian stakeholders have not identified other specific actions that others could take in relation to quality control.
23.	CNCC-CSOEC	No we have not identified any other specific actions that others could take in relation to quality control.
24.	HKICPA	--
25.	IDW	<p>As noted in our response to GA2-GA9 below, we suggest that regulatory authorities pursue agreements to enable satisfactory access to component auditor documentation as a matter of some urgency.</p> <p>We also urge the regulatory community to seek cooperation in determining how to best report findings in an appropriate manner. For example, when IFIAR representatives present an overview of combined findings of their members, it is unclear whether they have combined findings using different methodologies. However, the fact that figures for overall “audit deficiencies” are provided, has a detrimental impact on the trust the public places in the profession as a whole, which we do not believe to necessarily be justified by inappropriate accumulations of findings using different methodologies. In addition, we are aware that the methodologies change over time, which means that trend analyses would be inappropriate, even though they are published.</p> <p>Another factor that deserves further consideration is the need to instill better acceptance that a high quality audit should be acknowledged as a service of value and not as a mere commodity to be acquired as cheaply as possible. We would encourage the profession as well as regulators to promote this. In addition to its role in providing information to third parties, the audit provides valuable support to those charged with governance – in particular to audit committees in fulfilling their role in corporate governance.</p>
26.	JICPA	--
27.	MAASB	No further actions noted.
28.	NBA	We recommend the IAASB to investigate together with audit oversight bodies and regulators how ‘quick wins’ can be established e.g. by writing Staff Papers (see also the summary of our response in the cover letter).
29.	NZAuASB	Professional bodies could review the adequacy of the requirements for continuous professional development for engagement partners.
Accounting Firms		
30.	BDO	None noted.
31.	CHI	We have nothing to add.
32.	DTT	--

33.	EYG	As we suggest in our response to QC 8, we believe that the IAASB should engage with firms and regulators to develop a common understanding of the nature and extent of processes that are necessary to perform an effective analysis of the causal factors of audit deficiencies.
34.	GTI	Refer to responses on the detailed questions, we have no other considerations to include.
35.	KPMG	--
36.	PwC	No comments
37.	RBI	--
38.	RSM	None
39.	SRA	--
Public Sector Organizations		
40.	AGC	--
41.	AGSA	No further comments
42.	GAO	The IAASB should consider whether requirements may be necessary for determining who is competent to lead or participate in a peer review team. Such a process might include regular evaluations of peer review leaders' and other team members' competency to perform peer reviews through a periodic certification program.
43.	INTOSAI	--
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	As highlighted in our answers above, we see specific actions for regulators in relation to root cause analysis.
47.	AIC	--
48.	AICPA	--
49.	APESB	--
50.	CAANZ	No further comments
51.	CAI	--

52.	CAQ	--
53.	CIIPA	--
54.	CIMA	--
55.	CPAA	None identified.
56.	DnR	Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE.
57.	EFAA	Please refer to our key remarks.
58.	FACPCE	<i>[In response to overview questions]</i> (a) We believe that the actions mentioned in paragraphs 68-83 improve the quality of the audit firm level and at the level of custom. (b) We believe that the actions taken would suffice. (c) No, we believe that the issues included would be sufficient.
59.	FEE	(142) The IAASB should encourage others to seek improved jurisdictional cooperation in order to address issues about the access to working papers that are very common today. (143) Audit inspection authorities should also develop a consistent approach to reporting of audit deficiencies and other shortcomings. The statistics quoted by IFIAR do have a number of caveats attached to them in terms of not depicting consistent patterns, but nevertheless they can unduly damage trust in the profession. (144) Last but not least, we consider that public perception of the audit as a high quality and valuable service needs to be encouraged by all stakeholders, including management, but also regulators.
60.	FSR	In our opinion, there is, however, a need to create more awareness of the different aspects of the existing framework for quality control. There is always the risk that more rule-based regulation could lead to more tic-box checking and that the main issues related to performing a quality audit would not be addressed.
61.	IBA	--
62.	IBRACON	--
63.	IBR-IRE	(85) No particular comment.
64.	ICAEW	The IAASB's major project on auditor reporting and the implementation of the new and revised ISAs on that links very directly to this project. One of the main factors in achieving successful implementation of extended auditor reporting will be the encouragement to audit firms to be as transparent as possible including on their approach to issues related to professional scepticism and audit quality. These words or phrases might not be used in individual audit reports but readers are likely to draw conclusions on these matters based on the content and transparency of what the firm says about the audit and their approach. For example, it is a way that firms will be able to demonstrate their professional scepticism to the readers of the reports.

65.	ICAP	--
66.	ICAS	We have not identified any other issues.
67.	ICAZ	None
68.	ICPAK	No
69.	ICPAU	<i>[In response to overview questions]</i> (a) YES (b) YES (c) NO
70.	INCPC	<i>[In response to overview questions]</i> (a) Yes, they would. We agree that the active involvement of the engagement partner in risk assessment, planning, supervision and review of the work performed is a key attribute of audit quality. (b) No, you should not. The actions contemplate a reasonable structure of revising quality control standards at firms and engagement partner levels. (c) No, which we can refer to now.
71.	ISCA	--
72.	KICPA	We have no comments
73.	MICPA	--
74.	SAICA	--
75.	SMPC	The SMP Committee considers that stakeholders (including, regulators and supervisors) also have a key role to play in the perception of audit quality as their actions can directly impact the prestige and perception of the function, role and professionalism of auditors. For example, we recognize the important role of inspection findings reports, but are also aware how such findings can be widely and often reported, which may lead to some in society questioning the quality and ultimately also the value of audits. We believe that all stakeholders have a role in promoting the value of an audit and alleviating fee pressure, as well as explaining the responsibility for financial reporting (especially in financial scandals) of each party in the financial reporting supply chain. It is important that measures are taken to promote the positive image of an audit as more than just a commodity and obligation. This is necessary to assist with the pressure to lower fees (cheaper is not always better), as well as addressing issues with attracting and retaining top talent, which in-turn impacts audit quality.
76.	WPK	--
Academics		
77.	AAA	--

78.	AH	--
79.	Glover-Prawitt	--
80.	TRay	--
Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	No further comment
84.	JGrant	--
85.	JK	--
86.	KKTuraga	<p><i>[In response to overview questions]</i></p> <p>(a) I do not think so, since the mindset of the engagement partners/auditors relating to entity needs a total turnaround. The role of engagement partner is to identify all critical issues impacting the entity's performance has to be reported and not be diluted. Personal gain over the firm's reputation needs to be seriously viewed. The benchmarking of standards considering all the personal benefits overriding scuttled can to an larger extent improves the quality of audit management.</p> <p>(b) Yes. All stakeholders views are to be called for and deliberated thread bare and standards needs to be tough to avoid any dilution in implementation in QMA.</p> <p>(c) Yes. All issues needs to be tackled in one go instead going on a phase wise which impacts the quality of audit and its management and leads to laxity in following the requirements as and when incorporated which results in wastage of time, money and energy.</p>
87.	SDeViney	--

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

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	--
3.	CFA	--
4.	IA	--
5.	ICGN	--
6.	NZSA	--
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	--
10.	CPAB	--
11.	EAIG	--
12.	EBA	--
13.	ESMA	--

14.	H3C	--
15.	IAIS	--
16.	IFIAR	--
17.	IOSCO	--
18.	IRBA	--
19.	MAOB	--
20.	UKFRC	We have no further comments.
National Auditing Standard Setters		
21.	AUASB	Scalability of a QMA for small to medium size firms. If a QMA approach were adopted in ISQC 1, then appropriate application material as to how this would be scalable and flexible for SMPs would be required.
22.	CAASB	Considerations specific to SMPs have been noted in our answers above.
23.	CNCC- CSOEC	We consider that the specific consideration for SMPs related to the issues and potential actions described in this section is scalability. Moreover, the scalability issue need to be tackled in a fair manner by the IAASB, but not to the extent that it impairs quality. A level playing field should be found for all auditors in relation to quality control, but scalability should not be understood as less quality. The scalability could be driven by the types of clients that are being audited as opposed to the size of the firms. Also, applying the QMA might be a challenge for smaller firms; the IAASB will therefore need to be particularly clear on how smaller firms can apply a QMA. An impact assessment might be necessary on this part of the market.
24.	HKICPA	When revising ISQC 1 and ISA 220, the proposed revisions should be made scalable for SMPs. In Hong Kong, there is a statutory requirement to perform an audit of financial statements for all companies incorporated in Hong Kong. SMPs in Hong Kong predominately audit small owner-managed entities.
25.	IDW	Yes. In part we have commented on SMP issues in responding to many of the questions above. In general we believe that the adoption of a QMA in revising ISQC 1 would be beneficial as it would be more suitable for application by smaller firms because it is inherently scalable.

		<p>We are aware that many larger firms have already started to move towards a QMA, whereas we believe it is unlikely that SMPs will have consciously taken similar steps. However, we suspect that some aspects of QMA as discussed in the ITC may reflect general business practices already applied within many SMPs.</p> <p>The challenge of coping with changes to standards is often disproportionate to SMPs, these do not have the same benefits of scale as may be the case in larger firms. However, a shift from a substantially rules-based ISQC 1 to a more flexible QMA ought to also provide an opportunity for SMPs to develop quality control measures better aligned to their individual circumstances.</p> <p>In revising ISQC 1, the IAASB should ensure that conditional requirements and sliding scale requirements are responsive to the environment and situations of SMPs, so as to promote the scalable application of its quality control standards. This, together with a more risk-based approach under a QMA can mean that SMPs may face fewer difficulties than is currently the case under ISQC 1. Furthermore, we believe that the smallest SMPs (i.e., micro-firms) may find that quality control at firm level will overlap with quality control at engagement level.</p>
26.	JICPA	--
27.	MAASB	<p>We believe that pitfalls and challenges faced by SMPs in addressing audit quality are well documented. Compliance with certain aspects of ISQC 1 remains challenging for some SMPs, for example, the requirement on maintaining competence.</p> <p>The following could be difficulties encountered by many SMPs, which in turn could also be the root cause for audit quality falling short of the standards required:</p> <ul style="list-style-type: none"> • Balancing the cost of increased regulation and pressures to lower audit fees. The public at large is unaware of the added cost to audit practitioners emanating from increased regulation in the field of auditing. • Difficulty to attract and retain experienced audit staff – thereby impacting the quantity and quality of resources invested in audits. • Lack of requisite in-house technical resources. • Challenges of keeping up with new technologies. • Rising costs and competition. • Ability to adapt to changing client needs. • Succession planning. <p>Continuity planning for human resources remain one of the key challenges (for example, financial constraint) for SMPs and this is one of the issues covered in paragraph 171 of this ITC.</p>
28.	NBA	Yes. The QMA should be scalable. The nature and extent of the policies and procedures developed by an individual firm to comply with the QMA will de-pend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.
29.	NZAuASB	The NZAuASB considers that the scalability of a QMA could be a challenge for small firms and sole practitioners, as is the current ISQC1. Including guidance that could assist firms of all sizes and with all different types of practices to implement the requirements would be very useful.

Accounting Firms		
30.	BDO	As we indicated in our comment on section G1 (b), we believe that the IAASB should undertake a much wider consideration of how efficiently ISAs can be used on (and their relevance to) SME audit engagements.
31.	CHI	IAASB has identified several SMP considerations in the discussion paper. The considerations are generally relevant. IAASB has to consider the balance between making changes to standards that are needed to improve audit quality and achieve IAASB's public interest objectives, and the cost to a firm of implementing the changes. We do not agree that there should be "SMP opt outs" but it should be recognised that the public interest considerations are different for a small firm with no public interest clients. However, it also has to be recognised that there are standards that all auditors have to meet and to help SMPs meet these standards, appropriate material can be presented in the application guidance and other means of support.
32.	DTT	--
33.	EYG	No comment.
34.	GTI	Refer to responses on the detailed questions, we have no other issues or considerations to include.
35.	KPMG	--
36.	PwC	No comments
37.	RBI	--
38.	RSM	We believe that consideration does need to be given to the needs of SMPs as recognized in the IAASB 2015-16 Work Plan which describes the need for proportionality of ISQC 1. However, such consideration should not create a two tier profession, rather overall we believe the proposals should place greater scrutiny on the audits of Listed Entities only where necessary to address specific risks and to provide more guidance and application materials to enhance audit quality where needed or necessary.
39.	SRA	--
Public Sector Organizations		
40.	AGC	--
41.	AGSA	No further comments

42.	GAO	For SMPs, the IAASB should consider the scalability of the potential engagement quality control standard, ensuring any additions to the requirements or application guidance to address quality control concerns appropriately consider the impact of implementation from the single practitioner level to the large audit organization level. This may be accomplished by alternative procedures or examples in the application guidance for SMPs to follow. A peer review program might enhance consistency of audit quality without requiring EQC reviews of audit organizations without the resources to conduct them. The focus of a peer review should be on the audit organization's system of quality control rather than individual engagements.
43.	INTOSAI	--
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	We are satisfied that considerations specific to SMPs have been adequately reflected in the IAASB's analyses. However, we suggest that more is done to articulate how the transition will work for SMPs.
47.	AIC	--
48.	AICPA	<p>We strongly support additional considerations for SMPs, including more robust application material to assist SMPs in implementing the requirements of ISQC1 as noted in our opening comments. An area that can be clarified is how to implement ISQC1 when a firm's practice does not include any audits, especially with regard to the element of engagement performance. ISQC1 needs to be flexible and scalable to accommodate the needs of various firms, recognizing however that meeting some requirements of ISQC1 will be harder for SMPs, as they have with fewer resources; regardless, this does not absolve them from the obligation to comply with the requirements.</p> <p>If the QMA is adopted, we believe that implementation material with examples that provide risks and approaches specific to SMPs will be necessary.</p>
49.	APESB	<p>A stakeholder at our roundtable events commented that services are provided according to engagement risk so there should be no need to change the baseline requirements for SMPs. While we agree with this in principle, APESB is of the view that the following measures could assist SMPs in relation to quality control:</p> <ul style="list-style-type: none"> • Implementation of a QMA which allows quality control processes to be tailored to the requirements of a firm; and • Providing resources, whether as an appendix to a Standard or an IAASB Staff Audit Practice Alert, that clearly outlines the existing roles and responsibilities of engagement partners and EQC reviewers.
50.	CAANZ	Whilst we agree with the IAASB's view that an 'audit is an audit', in practice, we know that there are issues in scaling an audit for smaller entities. We encourage the IAASB to explore options in relation to scaling an ISA audit (additional guidance) or developing either an audit standard or other assurance project for use by the auditors of small entities.

51.	CAI	We however have concerns that cost implications of the proposed changes relating to quality control may be underestimated. For larger, complex audits the steps proposed are, in general, appropriate but in our view more consideration is needed to allowing for proportionate application of requirements for quality control in the context of smaller firms and less complex audits.
52.	CAQ	--
53.	CIIPA	--
54.	CIMA	--
55.	CPAA	Clearly quality control requirements need to be scalable for SMPs, which should be achievable if the requirements remain principles based.
56.	DnR	Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE.
57.	EFAA	Our responses to the above questions are based upon SMP considerations.
58.	FACPCE	--
59.	FEE	<p>(145) The scalability issue will need to be tackled in a fair manner by the IAASB, but not to the extent that it impairs quality. A level playing field should be found for all auditors in relation to quality control, but scalability should not lead to a reduction in audit quality. It is therefore suggested that scalability should be driven by the types of clients that are being audited as opposed to the size of the firms.</p> <p>(146) Also, applying the QMA might be a challenge for smaller firms; the IAASB will therefore need to be particularly clear on how smaller firms can apply a QMA. An impact assessment might be necessary on this part of the market. Please refer to our response in QC1 for further details.</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	As discussed in question QC1 for QMA, it is important to consider the impact of changes to existing requirements for small and medium sized firms. More detail or new requirements tend to impact their ability to compete with larger firms in the market for listed entities or entities with more complex structures. Although we support initiatives with the objective of enhancing audit quality, special attention should be given to SMPs regarding scalability of the requirements and guidance.
63.	IBR-IRE	(86) The scalability issue will need to be tackled in a fair manner by the IAASB, but not to the extent that it impairs quality. A level playing field should be found for all auditors in relation to quality control, but scalability should not be understood as less quality. The scalability could be driven by the types of clients that are being audited as opposed to the size of the firms. The QMA would help in that respect. A QMA might be a challenge for smaller firms and guidance would be necessary to illustrate how it could operate and what its benefits could be. An impact assessment might be useful in that respect.
64.	ICAEW	Consideration of the needs of SMPs should be central to the IAASB project. This was recognised in the IAASB 2015-2016 Work Plan (reproduced on page 18 of the ITC) which refers to concerns regarding proportionality of ISQC 1 and the need to consider this being one

		of the key reasons for the project. We are concerned about the impact on SMPs of the proposal to introduce a QMA requirement despite the IAASB objective to address their needs – see our comments on this in the next sub-section below.
65.	ICAP	--
66.	ICAS	The scalability of the proposed QMA will need to be given careful consideration and need to be tackled in a fair manner by the IAASB, but not to the extent that it impairs quality. A level playing field should be found for all auditors in relation to quality control, but scalability should not lead to a reduction in audit quality. It is therefore suggested that scalability should be driven by the types of clients that are being audited as opposed to the size of the firms.
67.	ICAZ	Application material may be needed where a SMP outsources the services of an EQC reviewer to take into account independence, competence issues amongst others.
68.	ICPAK	No
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	--
72.	KICPA	SMPs are facing many difficulties with fully complying with ISQC1, as some of the current ISQC1 requirements are not fit for their size or the nature of services they provide. We recognize that IAASB is trying to come up with many innovative measures, including incorporation of a QMA, and making enormous efforts to strengthen firms' quality control, in a bid to address the difficulties. We recommend that IAASB consider enforcing uniform requirements without considering SMPs that usually do not have enough personnel and resources could eventually end up with expanding mismatch in practice, since it is difficult for SMPs to comply with the requirements.
73.	MICPA	--
74.	SAICA	93. We have noted the following considerations related to SMPs (including matters raised and comments made by survey respondents) <ul style="list-style-type: none"> ➤ The challenges for SMPs as mentioned in paragraphs 152-153 of the ITC are real. The IAASB could explore the possibility to provide application material in terms of highlighting considerations of scalability (which may also become more apparent if a QMA is adopted). The call for scalability is strong in the context of what is stated in paragraph 153 of the ITC, namely whether “the layers of quality control, combined with external inspections, when taken in total, may be excessive in certain circumstances.” ➤ If the IAASB adopts a QMA, guidance (in the form of application material or by other means) will have to be specific and clear in order to ensure that SMPs in particular are able to appropriately “scale” their responses to quality risks in their particular environments (otherwise, additional requirements will simply add additional demands in terms of resources, time and cost).

		<ul style="list-style-type: none"> ➤ SMPs would benefit from additional application material (or other supporting material or guidance) that addresses the outsourcing of monitoring procedures (i.e. the quality risks involved and safeguards that could address such risks). ➤ Although this cannot be addressed in the standards directly, a need has been identified for support to SMPs in designing and carrying out an appropriate remedial action plan. This could require interventions from professional accountancy organisations (and other providers).
75.	SMPC	<p>The public interest in the work performed by the profession is not uniform. While there is a widespread recognition of the collective contribution of SMEs to the global economy, and hence the sector's high level of public interest (which makes the scalability of ISAs critical), the public interest inherent in any one SMP's client base is typically much less than that of a large listed company. Similarly the composition of audit teams and degree of engagement partner involvement may vary considerably due to a number of factors, including the size of the firm.</p> <p>We believe that the IAASB should remain sensitive to the need for its standards to be fully capable of proportionate application in all audit situations. When developing or modifying its standards, the IAASB should not look to add requirements, which are perhaps only justified for the more regulated "higher end" of the audit market, but less relevant or practical in smaller engagements and must ensure that any new requirements are either conditional, or where not, are capable of scalable application.</p> <p>We appreciate that a QMA may benefit SMPs in the long-term as it may allow for flexibility in the application of policies and procedures based on the nature and extent of a firm's current and future activities and follows a risk-based approach. However, we also recognize that some aspects of the required changes will have cost implications. To the extent that larger firms may have already moved in this direction, the IAASB needs to be sensitive to the potential for changes to have a disproportionate impact on SMPs.</p>
76.	WPK	--
Academics		
77.	AAA	--
78.	AH	--
79.	Glover-Prawitt	--
80.	TRay	--
Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	The benefits of a general practice background for an auditor of growing businesses should be further discussed. Growing businesses need value-add in addition to quality from their audits. A broader business background enables the auditor of a growing business to identify risks and opportunities during the course of the audit.

84.	JGrant	--
85.	JK	--
86.	KKTuraga	--
87.	SDeViney	--

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

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	--
3.	CFA	--
4.	IA	--
5.	ICGN	--
6.	NZSA	--
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	--
10.	CPAB	--
11.	EAIG	--
12.	EBA	--
13.	ESMA	--

14.	H3C	--
15.	IAIS	--
16.	IFIAR	--
17.	IOSCO	--
18.	IRBA	--
19.	MAOB	--
20.	UKFRC	We have no further comments.
National Auditing Standard Setters		
21.	AUASB	Nothing further noted.
22.	CAASB	During our consultations, Canadian public sector practitioners noted that requirements based on criteria of being publicly accountable or of particular public interest may be problematic in the context of the public sector. Almost all of the engagements completed in the public sector could be captured by this terminology.
23.	CNCC- CSOEC	We have no specific considerations to report.
24.	HKICPA	--
25.	IDW	We have chosen not to comment on practicalities of auditing aspects in the public sector.
26.	JICPA	--
27.	MAASB	No further considerations noted.
28.	NBA	A QMA could also be used in the public sector.

29.	NZAuASB	The NZAuASB has not identified any specific public sector considerations related to the issues and potential actions described in this section.
Accounting Firms		
30.	BDO	None noted.
31.	CHI	We have nothing additional to comment on this.
32.	DTT	--
33.	EYG	No comment.
34.	GTI	--
35.	KPMG	--
36.	PwC	No comments
37.	RBI	--
38.	RSM	None
39.	SRA	--
Public Sector Organizations		
40.	AGC	We have identified public sector considerations related to the issues and potential actions in respect of audit quality in the above responses.
41.	AGSA	No specific comments here – all our comments and inputs above stem from our experience and challenges in the public sector audit space.
42.	GAO	A significant number of engagements that occur in the U.S. public sector are performed by SMPs, so considering the impact of the changes to quality control standards on SMPs is critical when evaluating any action that could directly or indirectly affect public sector audit practice.

43.	INTOSAI	We have identified public sector considerations related to the issues and potential actions in respect of audit quality in the above responses.
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	We are not aware of any specific public sector considerations.
47.	AIC	--
48.	AICPA	--
49.	APESB	--
50.	CAANZ	No further comments
51.	CAI	--
52.	CAQ	--
53.	CIIPA	--
54.	CIMA	--
55.	CPAA	No public sector issues identified.
56.	DnR	Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE.
57.	EFAA	--
58.	FACPCE	--
59.	FEE	(147) Nothing to report.
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	--
63.	IBR-IRE	(87) No particular comment.
64.	ICAEW	--

65.	ICAP	--
66.	ICAS	We have not identified any other issues.
67.	ICAZ	None
68.	ICPAK	No
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	--
72.	KICPA	We have no comments
73.	MICPA	--
74.	SAICA	--
75.	SMPC	We have no comments on public sector considerations.
76.	WPK	--
Academics		
77.	AAA	--
78.	AH	--
79.	Glover-Prawitt	--
80.	TRay	--
Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	--
84.	JGrant	--
85.	JK	--

86.	KKTuraga	--
87.	SDeViney	--