

16 May 2016

Kathleen Healy
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, 10017
USA

Dear Kathy,

IAASB Exposure Draft, Enhancing Audit Quality in the Public Interest: A Focus On Professional Scepticism, Quality Control and Group Audits

Thank you for the opportunity to comment on this Exposure Draft. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) in the attachment. Thank you also for providing the template which we found very helpful. The NZAuASB welcomes the opportunity to provide you with its comments.

The NZAuASB supports the IAASB's project to enhancing audit quality in the public interest. Audit quality is important, and the NZAuASB commends the IAASB for this excellent initiative and its commitment and outreach activities undertaken in respect of this project. Notwithstanding this, the NZAuASB found it very challenging to engage with constituents on the invitation to comment (ITC) document, given the length and number of questions being consulted on. Constituents generally found the ITC quite overwhelming, which in turn has made it challenging to obtain and provide the IAASB with meaningful feedback from them on all the issues. The NZAuASB noted that it was particularly challenging to engage with non-practitioners on the issues, and as a result the NZAuASB has received feedback mostly from practitioners. The NZAuASB recommends that in future it would be more effective to issue a number of consultation papers focusing on each topic, rather than one overall consultation paper. Given the length of the ITC the NZAuASB focused on those questions it considered to be the most relevant to New Zealand constituents, and did not obtain feedback on all the questions in the ITC.

Given that the public interest is broader than the role of the auditor, the NZAuASB strongly recommends that the importance of the IAASB's audit quality framework be kept top of mind. The contextual factors that contribute to audit quality need to be remembered, debated and addressed, as the audit is only part of the financial reporting supply chain and highly influenced by the quality of financial reporting. The NZAuASB sees a range of other issues in the broader context including the roles of directors and who should take responsibility for the quality of an entity's financial statements, education of the directors, how an audit committee can play an effective role in improving audit quality etc. Trying to resolve audit quality issues without adequately addressing the roles and responsibilities of others, especially preparers, is likely to be inadequate or insufficient to achieve the outcomes sought by the IAASB.

The NZAuASB acknowledges that the discussion points, and areas of focus, are seen as particularly important to regulators and that the IAASB needs to respond to show that the message has been heard. The NZAuASB is aware of more than one audit market regulator who consistently raise issues regarding the application of professional scepticism as part of its regular audit quality review reporting. However, from the NZAuASB's perspective, it was not always clear what problem the IAASB was trying to fix and whether the response was best placed with the standards developed by the IAASB or elsewhere within the Audit Quality framework. An overreaching comment from constituents is that less is more and the IAASB needs to take care to ensure that the response taken is appropriate to

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the underlying issue or problem that needs to be addressed. For example, the NZAuASB is not entirely clear whether the problem or issue relates to a gap within the existing standards or whether the root cause is actually a matter of interpretation and application of the requirements. The NZAuASB considers that a clear problem definition (including a clear root cause analysis) is required, and is concerned that the proposed actions will increase the cost of compliance with the standards disproportionately to the enhancement of audit quality. The NZAuASB encourages the IAASB to carefully consider the cost of compliance with increased requirements versus a possible increase in audit quality. The NZAuASB stresses the importance of the principles based approach to the development and structure of the Standards, as well as the continued need and importance of the application of professional judgement, as opposed to the introduction of new rules, which could potentially have the unintended consequence or opposite effect of what is being sought as such rules may undermine the importance of critical thinking throughout the audit.

Throughout the NZAuASB's engagement with key stakeholders, a consistent concern and message was received regarding the impact that continued enhancement and expansion of requirements, rules and standards is having on the sustainability of the audit business model in New Zealand. It is acknowledged that this feedback also picks up concerns being expressed as a result of the IESBA's proposed changes to the rules and requirements associated with long association of audit personnel on the audit. The NZAuASB strongly encourages the IAASB to remain mindful of the impact of changes proposed individually by the IAASB, and collectively by all IFAC standard setting Boards, and the potential impact of increased requirements on the existing audit business model, which is already under increasing pressure in jurisdictions of the size and nature of New Zealand. The long term viability of the audit and assurance business model, and the assurance profession's ability to attract and retain talent, are fundamental elements of a sustainable audit quality framework. "Audit affordability" is a very real and important consideration in the public interest. Any ongoing increase in auditing requirements needs to be carefully considered (and the costs quantified) to ensure that they do not have the unintended consequence of driving audits to become unaffordable for SMEs and uneconomical for SMPs (in particular in the not-for-profit sector). It is in the public interest that these entities have access to high quality audit services which are cost effective and affordable, but where the maintenance and adherence to high standards of quality are also paramount.

The NZAuASB further recommends that implementing the new and revised auditor reporting standards, in particular the requirements to include KAM, should remain a short term focus and priority of the IAASB if it is seeking further enhancement and maturity in audit quality. It is important for the IAASB to continue, directly or indirectly through other IFAC bodies, education and support for the implementation of these new standards. The IAASB should give the KAM regime time to work and continue to provide guidance and support material for the practitioners to ensure that significant perceived benefits are achieved.

In developing its response to the questions in the ITC, the NZAuASB considered the feedback from constituents that it consulted with in New Zealand in several ways. In addition to requesting submissions and direct feedback, the NZAuASB held two roundtables with key stakeholders in New Zealand. Participants at these roundtable sessions included academics, representatives from the professional bodies, some directors and assurance practitioners. The NZAuASB consulted separately with the auditor regulator (the Financial Markets Authority (FMA)), and also specifically targeted SMPs for feedback.

A summary of the NZAuASB's key comments in respect of the three topics covered by the ITC are as follows:

Professional scepticism

The NZAuASB concurs with the majority view of stakeholders and its constituents that the existing definition of professional scepticism is appropriate, and that the application of professional scepticism is not a matter that can be best addressed through the expansion or development of the IAASB's standards. The NZAuASB is strongly of the view that the application of professional scepticism is one that goes to the heart of the challenge to the maintenance of audit quality, but can only be effectively enhanced through high quality education that encourages and develops the mind-set of the auditor. A focus on training auditors to demonstrate higher levels of professional scepticism will

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provide a better avenue for improving the application of the concept in practice. Audit standard setting and additional guidance is unlikely to be effective, on their own or in isolation unless these measures are complemented by appropriate training and education. The NZAuASB points to the training programme developed by Chartered Accountants in Australia and New Zealand (demonstrated at last year's NSS meeting) as a tangible example of how best to address the underlying challenge of ensuring auditors are demonstrating appropriate levels of professional scepticism in the performance of their audit responsibilities.

The NZAuASB considers there is scope for further guidance to improve the application/ evidencing and/or documentation of professional judgement. The NZAuASB considers that the diagram on page 13 of the ITC very aptly illustrates how professional scepticism drives action and how the documentation of professional judgements made, and actions taken, may provide evidence that professional scepticism was applied. Further guidance on how to better document the auditors' thought processes, various scenarios considered etc. when dealing with highly judgemental matters may better demonstrate the application of professional scepticism to regulators and may also encourage auditors to better apply professional scepticism. The IAASB should remain mindful that the primary purpose of enhancing the nature and extent of documentation should focus on improving audit quality, rather than the implementation of requirements that may be perceived as being for the primary benefit of the Regulator.

Quality control

Feedback from constituents indicates that amending ISQC1 to include the use of a quality management approach (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 had already implemented. The proposal seems to be mainly driven by the audit oversight bodies which seek uniformity amongst different audit firms in terms of how their quality control activities and framework are documented. It is important to determine what matters are better left to the regulators and what matters are best addressed in the auditing standards. The NZAuASB considers it would be more helpful to improve guidance to assist small firms and sole practitioners in the application of ISQC1, and does not recommend restructuring ISQC1 to incorporate a QMA.

Another 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 non- traditional audit delivery models are used. The NZAuASB is supportive of a focus on how the role of the engagement partner can be clarified in the standards, and considers that clarifying the engagement partner role will ensure ongoing effective implementation of the principled based ISAs.

An increasing number of firms in New Zealand are operating through a network of firms. The NZAuASB recommends that guidance would be useful to clarify when reliance can be placed on network policies and procedures, and where procedures are performed at a centralized location or by other centralized resources.

Feedback from auditors and the New Zealand regulator indicated that further guidance and clarification on the role of the engagement quality control (EQC) reviewer would be helpful. The regulator considers that the EQC review requirements and timing should be more prescriptive, and that the EQC reviewer's application of professional scepticism should be more clearly demonstrated /evidenced in the audit file. The NZAuASB agrees with the majority of its constituents that a separate EQC review standard is not needed, only some clarification and more guidance.

Group Audits

There are very few complex cross border multi location group audits conducted in New Zealand that require the use of component auditors in other jurisdictions, and the majority of New Zealand constituents indicated that the issues noted in the ITC are not issues experienced in New Zealand. The overall view is that the issues are not with the standards, but with the application thereof. The NZAuASB considers it would be helpful to have more guidance on how to assess the competency of the component auditor, and to provide further examples to illustrate the variety of

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circumstances that may affect the determination of the necessary nature, timing and extent of the involvement of the group auditors in the work of the component auditor.

The NZAuASB's detailed responses to the specific questions asked in the ITC are included in the attachment.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Sylvia van Dyk (sylvia.vandyk@xrb.govt.nz).

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'Neil Cherry', with a large, sweeping underline.

Neil Cherry

Chairman

Email: neil.cherry@xrb.govt.nz

ENHANCING AUDIT QUALITY IN THE PUBLIC INTEREST: A FOCUS ON PROFESSIONAL SCEPTICISM, QUALITY CONTROL AND GROUP AUDITS

TEMPLATE FOR RESPONSES

The following template is intended to facilitate responses to the IAASB’s Invitation to Comment (ITC), *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*. The questions set out below are replicated from the questions in the ITC on pages 87–95. Question numbers are coded to the consultation topics as follows:

- **G = General Question**
- **PS = Professional Scepticism**
- **QC = Quality Control**
- **GA = Group Audits**

RESPONDENT’S INFORMATION

Name: <i>(Please also fill in name in header for ease of reference)</i>	The New Zealand Auditing and Assurance Standards Board (NZAuASB), a sub-committee (Board) of the External Reporting Board (XRB).
Description of the capacity in which you are responding (e.g., IFAC member body, audit oversight body, firm, SMP, individual, etc.)	National Standard Setter of New Zealand
Name of contact person at organization (if applicable):	Sylvia van Dyk, Director Assurance Standards
E-mail address:	Sylvia.vandyk@xrb.govt.nz

GENERAL QUESTIONS

G1. Table 1 describes what we believe are the most relevant public interest issues that should be addressed in the context of our projects on professional skepticism, quality control, and group audits. In that context:

- (a) Are these public interest issues relevant to our work on these topics?
- (b) Are there other public interest issues relevant to these topics? If so, please describe them and how, in your view, they relate to the specific issues identified.
- (c) Are there actions you think others need to take, in addition to those by the IAASB, to address the public interest issues identified in your previous answers? If so, what are they and please identify who you think should act.

G1(a)	Yes. All areas identified are considered to be relevant.
G1(b)	<p>Other relevant public interest issues to consider are:</p> <ol style="list-style-type: none"> i. Improving engagement and communication more broadly about audit quality with users and the markets. Given that the public interest is broader than the role of the auditor, it is important that the IAASB keep the audit quality framework top of mind. The contextual factors that contribute to audit quality need to be remembered, debated and addressed, as the audit is only part of the financial reporting supply chain and highly influenced by the quality of financial reporting. <p>Audit quality is very important. The challenge is how to define it for the user. The public interest areas noted in the ITC are focused internally, and improvements in those areas may satisfy the regulators, for example, enhancing documentation of the auditor's judgement. However, questions to consider are how to define audit quality to the user, and what does the market expect? What will be important for the outside world?</p> <ol style="list-style-type: none"> ii. Enhancing the understanding of directors/audit committee members to enable them to better challenge the auditors and have a more effective role in improving audit quality. iii. Improving the quality of financial reporting. A corporate reporting culture shift is a prerequisite of significant improvement of audit quality. iv. Ensuring a sustainable business model for the auditing profession. A continuing increase in documentation and compliance requirements is likely to impact on the profitability of firms, and hence on the availability of auditing services in the market. It may also impact on attracting and retaining new talent to the auditing profession. Audit affordability becomes an issue where additional compliance requirements are added. The NZAuASB strongly encourages the IAASB to remain mindful of the impact of changes proposed individually by the IAASB, and collectively by all IFAC standard setting Boards, and the potential impact of increased requirements on the existing audit business model, which is already under increasing pressure in jurisdictions of the size and nature of New Zealand. Any ongoing increase in auditing requirements needs to be carefully considered (and the costs quantified) to ensure that they do not have the unintended consequence of driving audits to become unaffordable for SMEs and uneconomical for SMPs (in particular in the not-for-profit sector). It is in the public interest that these entities have access to high quality audit services which are cost

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	<p>effective and affordable, but where the maintenance and adherence to high standards of quality are also paramount.</p> <p>v. The role that the regulator plays in the financial reporting chain and enhancing audit quality and promoting confidence in the audit.</p>
G1(c)	<p>Actions others need to take:</p> <p>i. The accounting professional bodies should play a role in better educating and communicating about audit quality with users and the markets, especially those charged with governance.</p> <p>ii. Audit Committees and independent directors need to further their understanding of their roles and responsibilities. Competent audit committee members should challenge both management and the auditor which is likely to positively impact the application of professional scepticism.</p> <p>iii. Regulators should require those charged with governance and audit committee members to be 'licensed' and to keep up to date with professional development to ensure their competency.</p> <p>iv. Regulators should be encouraged to provide more 'balanced' reporting by sharing what went right in addition to areas where improvement is required, and to better acknowledge the role of professional judgement. The focus on compliance and documentation may facilitate a "checklist" mentality approach which is likely to negatively impact the application of professional judgement.</p> <p>v. The better the financial reporting, the better the audit will be. There is therefore a role for legislators and an effective penalties regime, accounting standard setters, preparers, professional bodies and other key stakeholders.</p>

G2. To assist with the development of future work plans, are there other actions (not specific to the topics of professional scepticism, quality control, and group audits) that you believe should be taken into account? If yes, what are they and how should they be prioritized?

G2	<p>i. Continue the focus on implementing the new and revised auditor reporting standards, in particular the requirements to include KAM. The IAASB should give the KAM regime time to work and continue to provide guidance and support material for the practitioners to ensure that significant perceived benefits are achieved</p> <p>ii. How to address the audit expectation gap. There continues to be a lack of understanding as to what an audit means.</p> <p>iii. The audit quality framework identifies all the parties in the financial reporting framework that impacts on audit quality. The IAASB should continue to encourage stakeholders to explore ways to improve audit quality, and to facilitate the dialogue between key stakeholders.</p> <p>iv. Communication with TCWG – encourage more open communication and interaction on an informal basis with TCWG to talk through issues.</p>
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G3. Are you aware of any published, planned or ongoing academic research studies that may be relevant to the three topics discussed in this consultation? If so, please provide us with relevant details.

G3	<p>Some published, planned or ongoing academic research studies on:</p> <p>(1) Professional scepticism; (2) Quality control; (3) Group audits.</p> <p><u>(1) PROFESSIONAL SCEPTICISM/SKEPTICISM</u></p> <p>This update seeks to provide additional academic research to those identified in Brazel & Schaefer's (2015) study¹ that identified 59 studies, 27 unpublished working papers. Unfortunately their full list of references was not available so could only identify 21 studies – hence there could be some overlap with the sixteen references below. Appendix 1 has the abstracts.</p> <p>Broberg, P. (2013). <i>The auditor at work: a study of auditor practice in Big 4 audit firms</i> (PhD thesis). Lund University, Sweden, School of Economics and Management. Retrieved from http://www.diva-portal.org/smash/record.jsf?pid=diva2%3A622010&dswid=7427</p> <p>Chen, Q., Kelly, K., & Salterio, S. E. (2012). Do changes in audit actions and attitudes consistent with increased auditor scepticism deter aggressive earnings management? An experimental investigation. <i>Accounting, Organizations and Society</i>, 37(2), 95-115. doi:http://dx.doi.org/10.1016/j.aos.2011.11.001</p> <p>Chiang, C. (2016). Conceptualising the linkage between professional scepticism and auditor independence [Article]. <i>Pacific Accounting Review</i>, 28(2), 180-200. doi:10.1108/PAR-08-2015-0034</p> <p>Endrawes, M. (2010). <i>Professional scepticism of auditors: a cross-cultural experiment</i>. (PhD thesis). University of Western Sydney. Retrieved from http://researchdirect.westernsydney.edu.au/islandora/object/uws:8931</p> <p>Epstein, B. J. (2015, June). <i>Auditor Liability and Professional Skepticism: A Look at Lehman Brothers and MF Global</i>. Retrieved from http://www.epsteinnach.com/wp-content/uploads/2015/06/Auditor_Liability_Professional_Skepticism_White_Paper_Final.pdf</p> <p>Glover, S. M., & Prawitt, D. F. (2013). <i>Enhancing Auditor Professional Skepticism</i>. Retrieved from http://www.thecaq.org/docs/research/skepticismreport.pdf {appears to be a different ref to Brazel & Schaefer's (2014) reference}</p> <p>Gong, Y. F., Kim, S., & Harding, N. (2014). Elevating professional scepticism: An exploratory study into the impact of accountability pressure and knowledge of the superior's preferences. <i>Managerial Auditing Journal</i>, 29(8), 674-694. doi:10.1108/MAJ-08-2013-0914</p> <p>Harding, N., Azim, M., Jidin, R., & Muir, J. (2015, June). <i>A Consideration of Literature on Trust and Distrust as they Relate to Auditor Professional Scepticism</i>. Retrieved from http://ssrn.com/abstract=2627545.</p> <p>Khan, M. J., & Harding, N. (2016). <i>The Importance of Seduction in Understanding the Impact of Trait Skepticism on Audit Judgments</i>. Presented at the meeting of the AFAANZ conference, Gold Coast, Australia. Retrieved from http://www.afaanz.org/openconf/2016/modules/request.php?module=oc_program&actio</p>
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¹ Brazel, J.F. & Schaefer, T.J. (2015, December). Executive Summary: State of the Art Research Related to Auditor Professional Skepticism. IAASB Main Agenda Item 7B. Please note that this was missing Agenda items C & D which included a list of the research.

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	<p>n=view.php&id=154&file=1/154.pdf</p> <p>Kim, S., & Trotman, K. T. (2015). The comparative effect of process and outcome accountability in enhancing professional scepticism. <i>Accounting & Finance</i>, 55(4), 1015-1040. doi:10.1111/acfi.12084</p> <p>Law, P., & Yuen, D. (2016). Professional scepticism in two economies with cultural differences and the public interest: evidence from China and the United States. <i>Applied Economics</i>, 48(2), 89-106. doi:10.1080/00036846.2015.1073845</p> <p>Martinov-Bennie, N., Cohen, J., & Simnett, R. (2011). Impact of the CFO's affiliation on auditor independence. <i>Managerial Auditing Journal</i>, 26(8), 656-671. doi:doi:10.1108/02686901111161322</p> <p>Martinov-Bennie, N., Dyball, M. C., & Leung, P. (2013). <i>A Study on How Firms Conceptualise and Apply Professional Scepticism in an Audit Context</i>. Retrieved from http://www.charteredaccountants.com.au/Students/Academics/Research-funding/Final-reports</p> <p>Noviyanti, S., & Winata, L. (2015). The Role of "Tone at The Top" and Knowledge of Fraud on Auditors' Professional Skeptical Behavior. <i>Contemporary Management Research</i>, 11(1), 55-74. doi:10.7903/cmr.12239</p> <p>Plumlee, D., Rixom, B. A., & Rosman, A. J. (2012, April). <i>Training Auditors to Think Skeptically</i>, Retrieved from http://web.ku.edu/~audsymp/myssi/_pdf/Plumlee%20et%20al.%202012%20Training%20Auditors%20to%20Think%20Skeptically%20-%20April%202012%20KU%20Symposium.pdf</p> <p>Ruhnke, K., & Schmidt, M. (2016). Changing the Institutional Framework of Statutory Audit: Internal Stakeholders' Perceptions of the Associated Benefit and Costs. <i>European Accounting Review</i>, 25(1), 59-79. doi:10.1080/09638180.2014.939683</p> <p><u>(2) QUALITY CONTROL – ISA220 & ISQC1</u></p> <p>Hegazy, M., & Tawfik, M. (2015). Performance measurement systems in auditing firms: Challenges and other behavioural aspects. <i>Journal of Accounting in Emerging Economies</i>, 5(4), 395-423. doi:doi:10.1108/JAEE-04-2012-0014</p> <p>Khalifa, R., Sharma, N., Humphrey, C., & Robson, K. (2007). Discourse and audit change: Transformations in methodology in the professional audit field. <i>Accounting, Auditing & Accountability Journal</i>, 20(6), 825-854. doi:10.1108/09513570710830263</p> <p>Maroun, W. (2015). Reportable irregularities and audit quality: Insights from South Africa [Article]. <i>Accounting Forum</i>, 39(1), 19-33. doi:10.1016/j.accfor.2014.03.002</p> <p>Pflugrath, G., Martinov-Bennie, N., & Chen, L. (2007). The impact of codes of ethics and experience on auditor judgments. <i>Managerial Auditing Journal</i>, 22(6), 566-589. doi:doi:10.1108/02686900710759389</p> <p>Soni, F., Maroun, W., & Padia, N. (2015). Perceptions of justice as a catalyst for whistleblowing by trainee auditors in South Africa. <i>Meditari Accountancy Research</i>, 23(1), 118-140. doi:doi:10.1108/MEDAR-01-2014-0004</p> <p>von Wielligh, S. P. J. (2008). Current practices for resource allocation in external audits of listed South African long-term insurers. <i>Meditari Accountancy Research</i>, 16(1), 139-152. doi:doi:10.1108/10222529200800008</p> <p><u>(3) GROUP AUDITS – ISA600</u></p> <p>Carson, E., Simnett, R., Trompeter, G., & Vanstraelen, A. (2014, November). <i>The Impact of Group Audit Arrangements on Audit Quality and Pricing</i>. Retrieved from http://ssrn.com/abstract=2528328</p> <p>Eilifsen, A., & Messier, W. F. (2015). Materiality Guidance of the Major Public Accounting Firms. <i>Auditing</i>, 34(2), 3-26. doi:10.2308/ajpt-50882</p>
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	<p>Glover, S. M., & Wood, D. A. (2014, January). <i>The Effects of Group Audit Oversight on Subsidiary Entity Audits and Reporting</i> Retrieved from http://ssrn.com/abstract=2117889</p> <p>Hanes, D. R. (2013). Geographically distributed audit work: Theoretical considerations and future directions [Article]. <i>Journal of Accounting Literature</i>, 32, 1-29. doi:10.1016/j.acclit.2013.09.001</p> <p>Gold, A., Lindscheid, F., Pott, C., & Watrin, C. (2012, August). <i>The Effect of Engagement and Review Partner Tenure and Rotation on Audit Quality: Evidence from Germany (August 15, 2012).</i> Available at SSRN: . Retrieved from http://ssrn.com/abstract=1631947</p> <p>Hanes, D. R. (2013). Geographically distributed audit work: Theoretical considerations and future directions [Article]. <i>Journal of Accounting Literature</i>, 32, 1-29. doi:10.1016/j.acclit.2013.09.001</p> <p>Lauck, J., & Bhattacharjee, S. (2015, November). <i>The Effects of Supervisor Preferences and Group Engagement Oversight on Component Auditor Skepticism in a Group Audit Engagement (November 1, 2015).</i> Available at SSRN: . Retrieved from http://ssrn.com/abstract=2690421</p> <p>Shu, P.-G., Chen, T.-K., Hung, W.-J., & Chiang, T.-L. (2013). Economic Dependence and Reputation Concern for the Audit Firm, Audit Groups, and Individual Auditors - The Case of Taiwan [Article]. <i>Review of Pacific Basin Financial Markets & Policies</i>, 16(2), - 1. doi:10.1142/S0219091513500124</p> <p>Stewart, T. R., & Kinney Jr, W. R. (2013). Group Audits, Group-Level Controls, and Component Materiality: How Much Auditing Is Enough? [Article]. <i>Accounting Review</i>, 88(2), 707-737. doi:10.2308/accr-50314</p> <p>Trotman, K. T., Bauer, T. D., & Humphreys, K. A. (2015). Group judgment and decision making in auditing: Past and future research [Article]. <i>Accounting, Organizations & Society</i>, 47, 56-72. doi:10.1016/j.aos.2015.09.004</p>
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PROFESSIONAL SCEPTICISM

PS1. Is your interpretation of the concept of professional scepticism consistent with how it is defined and referred to in the ISAs? If not, how could the concept be better described?

PS1	The NZAuASB concurs with the majority view of participants at the roundtables that the definition of professional scepticism is appropriate, and that it is more the application, evidencing and/or documentation of professional scepticism that is the bigger issue.
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PS2. What do you believe are the drivers for, and impediments to, the appropriate application of professional scepticism? What role should we take to enhance those drivers and address those impediments? How should we prioritize the areas discussed in paragraph 37?

PS2	<p>Drivers for the appropriate application of professional scepticism are:</p> <ul style="list-style-type: none"> • Appropriate tone at the top (firm and engagement level) • Clarity and understanding of audit objectives (by the auditor and TCWG) • Clarity and understanding of what constitutes acceptable evidence • Integrity, objectivity, independence of mind, professional competence, skills and due care in applying professional judgement • Fortitude (strength of mind to deal with matters arising during the course of the audit with courage) <p>Impediments to the appropriate application of professional scepticism are:</p> <ul style="list-style-type: none"> • Cognitive bias • Personality traits • Cultural or local norms • Tight deadlines • Fee pressures • Fear of upsetting the client • Performance criteria used in evaluating auditors tend to be anchored towards economic factors (for example, the engagement is completed within the agreed fees, audit client is happy, etc.) • Anchoring towards client explanations (especially by the inexperienced auditors) • Heavy workloads • Resource constraints • Over familiarity with client • Checklist approach to audit, not understanding audit objectives (for example, through use of technologies to support the application of audit methodologies) • Auditing of “own” work – self review threats. This could also be caused by the auditor becoming too involved in the process due to insufficient understanding by
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	<p>management.</p> <ul style="list-style-type: none"> • How auditors are appointed and their remuneration fixed may not appropriately accommodate their independence from those responsible for the financial statements. The current payer-selector model for audit services negatively affects private sector auditors' ability to raise difficult issues with their clients compared to public sector auditors. <p>What role should the IAASB take to enhance the drivers and address the impediments?</p> <p>The NZAuASB agrees with the areas being explored by the IAASB as set out in paragraph 37 of the ITC.</p> <p>How to prioritise?</p> <p>The NZAuASB considers that priority should be given to:</p> <ul style="list-style-type: none"> • How auditors can be effectively trained and their competencies further developed. A focus on training auditors to demonstrate higher levels of professional scepticism will provide a better avenue for improving the application of the concept in practice. Audit standard setting and additional guidance is unlikely to be effective on their own or in isolation unless these measures are complemented by appropriate training and education. The NZAuASB points to the training programme developed by Chartered Accountants in Australia and New Zealand (demonstrated at last year's NSS meeting) as a tangible example of how best to address the underlying challenge of ensuring auditors are demonstrating appropriate levels of professional scepticism in the performance of their audit responsibilities. • Emphasising and enhancing the importance of the 'tone at the top', and the role of engagement partners, EQC reviewers, audit committees, audit oversight bodies, TCWG and others in influencing the appropriate application of professional scepticism. • Linking the application of professional scepticism to the risk approach more clearly in the standards, in particular those that address the audit of highly judgemental or subjective areas. In particular, emphasising the importance of professional scepticism in the decision to accept or continue an engagement. • Clarifying what constitutes evidence of the application of professional scepticism and further guidance on how auditors should document the application of professional judgement in their working papers. <p>The NZAuASB considers that the diagram on page 13 of the ITC very aptly illustrates how professional scepticism drives action and how the documentation of professional judgements made, and actions taken, may provide evidence that professional scepticism was applied. Further guidance on how to better document the auditors' thought processes, various scenarios considered etc. when dealing with highly judgemental matters may better demonstrate the application of professional scepticism to regulators and may also encourage auditors to better apply professional scepticism. However, the IAASB should remain mindful that the primary purpose of enhancing the nature and extent of documentation should focus on improving audit quality, rather than the implementation of requirements that may be perceived as being for the primary benefit of the Regulator.</p>
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PS3. Is the listing of areas being explored in paragraph 38–40 complete? If not, what other areas should we or the Joint Working Group consider and why? What do you think are the most important area to be considered?

PS3	<p>The NZAuASB supports the areas being explored. Other areas/actions to consider are:</p> <ul style="list-style-type: none"> • active involvement in debating the contextual factors and the roles of others in the financial reporting chain responsible for improving audit quality. • guidance on the application of professional scepticism in the other assurance engagement standards, that is, the ISAE 3000 series. There is an increasing demand for assurance engagements of non-financial information; • guidance on the application of professional scepticism and adequacy of evidence when using the work of experts. The auditor may not be experienced or knowledgeable to appropriately challenge the expert. Challenges arise where another expert comes up with a different answer.
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PS4. Do you believe the possible actions we might take in the context of our current projects relating to quality control and group audits will be effective in promoting improved application of professional scepticism? If not, why?

PS4	<p>Linking the application of professional scepticism to the risk approach more clearly in the standards, in particular those that address the audit of highly judgemental or subjective areas, and clarifying what constitutes evidence of the application of professional scepticism and how auditors should document the application of professional judgement in their working papers, may be effective in promoting improved application of professional scepticism.</p>
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PS5. What actions should others take to address the factors that inhibit the application of professional scepticism and the actions needed to mitigate them (e.g., the IAESB, the IESBA, other international standards setters or NSS, those charged with governance (including audit committee members), firms, or professional accountancy organizations)? Are there activities already completed or underway of which we and the Joint Working Group should be aware?

PS5	<ul style="list-style-type: none"> • Universities, Professional accounting bodies and firms should focus training on the application of professional scepticism and critical thinking. The lessons learned from audit failures and what has gone wrong must be better incorporated into training and educational material for auditors. • Firms and engagement partners should set the ‘tone at the top’. • The IESBA should emphasise professional scepticism in the Code of Ethics and link it to the principles in the Code. • TCWG and audit committee members should be skeptical and challenge management more on the information prepared, and also ask the auditors challenging questions.
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QUALITY CONTROL (INCLUDING QUESTIONS EXPLORING CROSSOVER ISSUES/ISSUES RELEVANT TO MORE THAN ONE PROJECT)

The following questions relate to quality control matters set out in paragraphs 45–190. If you believe actions relating to quality control beyond those discussed in these paragraphs should be prioritized, please describe such actions and your supporting rationale as to why they require priority attention.

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

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

QC1(a)	<p>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
QC1(b)	<p>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>
QC1(c)	<p>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</p>

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	guidance, but not new requirements. The cost of compliance with increased requirements versus a possible increase in audit quality needs to be carefully considered.
QC1(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.

QC2. Engagement Partner Roles and Responsibilities

- (a) Paragraphs 69–86 set out matters relating to the roles and responsibilities of the engagement partner.
- (i) Which of the actions outlined in paragraphs 85–86 would be most meaningful to address issues related to engagement partner responsibilities?
 - (ii) Why do you believe these actions are necessary?
 - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
 - (iv) Describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Do you think it is necessary for the ISAs to include requirements or otherwise address the circumstances described in paragraph 79 in which an individual other than the engagement partner is required to or otherwise customarily sign(s) the auditor’s report or is named therein? If yes, please explain why, and provide your views about how this could be done (including describing the work effort you believe would be necessary for such an individual).

QC2(a)(i)	<p>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.</p> <p>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.
QC2(a)(ii)	<p>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

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	<p>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.</p> <ul style="list-style-type: none"> • 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.
QC2(a)(iii)	The NZAuASB has not identified any other relevant issues to consider.
QC2(a)(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.
QC2(b)	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.

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)?

QC3(a)(i)	<p>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
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	<p>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.</p> <ul style="list-style-type: none"> • 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.
QC3(a)(ii)	<p>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.
QC3(a)(iii)	<p>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>
QC3(a)(iv)	<p>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>
QC3(b)	<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>

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?

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- (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.

QC4(a)(i)	<p>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.
QC4(a)(ii)	<p>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. • 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.
QC4(a)(iii)	<p>Other relevant issues to consider are:</p> <p>There are a range of interpretations as to what a network covers, from just a branding</p>

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	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.
QC4(a)(iv)	The cost of compliance with increased requirements versus a possible increase in audit quality needs to be carefully considered.
QC4(b)(i)	Clarification and 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.
QC4(b)(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.
QC4(b)(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: <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.
QC4(b)(iii)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.

QC5–QC10 address the more significant issues relating to quality control specific matters

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

- (a) Paragraphs 125–135 set out matters relating to governance of firms, including leadership responsibilities for quality.
- (i) Which of the possible actions outlined in paragraphs 131–135 would be most meaningful in addressing issues related to firm governance and leadership responsibility for quality?
- (ii) Why do you believe these actions are necessary?
- (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.

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(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?

QC5(a)(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.
wQC5(a)(ii)	The NZAuASB does not consider that any of the proposed actions are necessary. Refer the response above in QC5 (a) (i)
QC5(a)(iii)	The NZAuASB has not identified any other relevant issues to consider.
QC5(a)(iv)	Nothing further noted.
QC5(b)(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.
QC5(b)(ii)	The NZAuASB does not consider it necessary to further address accountability of firm leadership in ISQC1.
QC5(b)(iii)	Refer response in QC5 (a) (i). The NZAuASB does not consider it necessary to amend ISQC1 to require firms to use a QMA.

QC6. Engagement Quality Control Reviews and Engagement Quality Control Reviewers

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

(i) Which of the possible actions outlined in paragraphs 143–146 would be most meaningful in addressing issues related to EQC reviews and EQC reviewers?

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

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- (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
- (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.

(b) Specifically:

- (i) Should ISQC 1 mandate the performance of EQC reviews beyond audits of listed entities? If yes, what other entities should be considered and how could we best define these entities? If no, please explain your reasoning.
- (ii) Do you believe it is necessary for ISQC 1 to require that firms define the minimum period of time between when an individual has been the engagement partner and when that individual would be eligible to serve as the EQC reviewer on the same engagement? If yes, how do you think this should be done and why? If no, please explain why.
- (iii) Would you support the development of a separate EQC review standard? Please explain the reasoning for your response.

QC6(a)(i)	<p>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.
QC6(a)(ii)	<p>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 review standard. The NZAuASB considers a separate EQC review standard risks detracting from the engagement partner prominence and responsibility for audit quality.</p>
QC6(a)(iii)	<p>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>
QC6(a)(iv)	<p>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</p>

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	conclusions.
QC6(b)(i)	<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>
QC6(b)(ii)	<p>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.</p>
QC6(b)(iii)	<p>The NZAuASB does not consider that a separate standard on EQC review is needed, only some clarification and maybe more guidance.</p>

QC7. Monitoring and Remediation

(a) Paragraphs 147–159 set out matters relating to monitoring and remediation.

- (i) Which of the possible actions outlined in paragraphs 156–159 would be most meaningful in addressing issues related to monitoring and remediation?
- (ii) Why do you believe these actions are necessary?
- (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
- (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.

(b) Specifically:

- (i) Do you support the incorporation of a new requirement(s) in ISQC 1 for firms to understand the causal factors of audit deficiencies relating to inspection findings and other reviews? If not, why? Are there any potential consequences or other challenges of taking this action that you believe we need to consider?
- (ii) Do you support the incorporation of a new requirement(s) in ISQC 1 for the results of the firm's monitoring of the effectiveness and appropriateness of the remedial actions to be considered in the design and assessment of the effectiveness of the firm's system of quality

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control? Please provide further detail to explain your response.

QC7(a)(i)	<ul style="list-style-type: none"> 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.
QC7(a)(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.
QC7(a)(iii)	The NZAuASB has not identified any further actions to consider.
QC7(a)(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.
QC7(b)(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.
QC7(b)(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.

QC8. Engagement Partner Performance and Rewards Systems

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

- Do you believe that establishing a link between compensation and quality in ISQC 1 would enhance audit quality? Why or why not?
- 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?

QC8(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
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	because of the reward system.
QC8(b)	The NZAuASB does not consider any further standard setter action is required.

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.

QC9(a)(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).
QC9(a)(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.
QC9(a)(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.
QC9(a)(iv)	No other matters identified.
QC9(b)(i)	To ensure that the standards are consistent with the requirements of the International

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	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.
QC9(b)(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.
QC9(b)(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.

QC10. Transparency Reporting

Paragraphs 188–190 set out matters relating to transparency reporting.

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

QC10(a)	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.
QC10(b)	See above.

The following questions are overall questions relating to quality control:

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

QC11	The NZAuASB has not identified any further actions.
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QC12. Are there any other specific actions that others could take in relation to quality control? If yes, please provide details.

QC12	Professional bodies could review the adequacy of the requirements for continuous professional development for engagement partners.
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QC13. Are there any specific considerations for SMPs related to the issues and potential actions described in this section? Are there any other considerations for SMPs of which we should be aware? If so, please provide details and views about these matters.

QC13	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.
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QC14. Are there any specific public sector considerations related to the issues and potential actions

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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.

QC14	The NZAuASB has not identified any specific public sector considerations related to the issues and potential actions described in this section.
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GROUP AUDITS

The following questions relate to group audit matters set out in paragraphs 191–305. If you believe actions relating to group audits beyond those discussed in these paragraphs should be prioritized, please describe such actions and your supporting rationale as to why they require priority attention.

GA1. We plan to revise ISA 600 (and other standards as appropriate) to respond to issues with group audits.

- (a) Should we increase the emphasis in ISA 600 on the need to apply all relevant ISAs in an audit of group financial statements? Will doing so help to achieve the flexibility that is needed to allow for ISA 600 to be more broadly applied and in a wide range of circumstances (see paragraphs 194–198)? If not, please explain why. What else could we do to address the issues set out in this consultation?
- (b) Would the actions we are exploring in relation to ISA 600 improve the quality of group audits? If not, why?
- (c) Should we further explore making reference to another auditor in an auditor’s report? If yes, how does this impact the auditor’s work effort?
- (d) What else could the IAASB do to address the issues highlighted or other issues of which you are aware? Why do these actions need priority attention?

GA1(a)	The NZAuASB supports increasing the emphasis in ISA 600 on the need to apply all relevant ISAs, as long as it does not add new requirements. Specifically, to improve the linkage between ISA 600, and ISA 315 (Revised) and ISA 330, to better support the application of those standards in group audit engagements.
GA1(b)	The NZAuASB has indicated a number of areas in the questions below on Group Audits where clarification will be helpful.
GA1(c)	The NZAuASB does not support the reference to another auditor in the auditor’s report. The overall responsibility of the audit engagement rests with the engagement partner.
GA1(d)	The NZAuASB has not identified any other actions to consider. A consistent view expressed by constituents is that there is a scope for application guidance, but not new requirements. The cost of compliance with increased requirements versus a possible increase in audit quality needs to be carefully considered.

GA2–GA9 address the more significant issues relating to group audits in greater detail.

GA2. *Acceptance and Continuance of the Group Audit Engagement*

- (a) Paragraphs 204–217 set out matters relating to acceptance and continuance of the group audit engagement.
 - (i) Which of the possible actions outlined in paragraphs 215–217 would be most meaningful in addressing issues related to acceptance and continuance procedures?
 - (ii) Why do you believe these actions are necessary?
 - (iii) Are there other relevant issues that we should consider, or actions that would be more

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effective than those described? If you would not support a particular action, please explain why.

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

(b) Specifically:

- (i) Are access issues as described in paragraph 207(a) still frequently being experienced in practice? If yes, please provide details and, where possible, explain how these are being addressed today.
- (ii) Do you agree that ISA 600 can or should be strengthened in relation to addressing access issues as part of acceptance and continuance?
- (iii) Would expanding the understanding required for acceptance and continuance, as described in paragraph 215 (b), be achievable in the case of a new audit engagement?

GA2(a)(i)	Feedback from constituents indicated that there is no need for any action. There are not many complex cross border multi location group audits conducted in New Zealand and the issues noted in the ITC are not really issues experienced here. Most of the New Zealand practitioners are component auditors.
GA2(a)(ii)	The NZAuASB has not identified the need for any action.
GA2(a)(ii)	The NZAuASB has not identified the need for any action.
GA2(a)(iv)	The NZAuASB has not identified the need for any action.
GA2(b)(i)	Feedback from constituents indicated that there is no need for any action. There are not many complex cross border multi location group audits conducted in New Zealand and the issues noted in the ITC are not really issues experienced here. Most of the New Zealand practitioners are component auditors.
GA2(b)(ii)	The NZAuASB has not identified the need for any action.
GA2(b)(iii)	The NZAuASB has not identified the need for any action.

GA3. Communications between the Group Engagement Team and Component Auditors

- (a) Paragraphs 218–225 set out matters relating to communications between the group engagement team and component auditors.
 - (i) Which of the possible actions outlined in paragraph 224 would be most meaningful in addressing issues relating to communication between the group engagement team and the component auditor?
 - (ii) Why do you believe these actions are necessary?
 - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why?
 - (iv) Please also describe any potential consequences of possible actions that you believe we

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need to consider further.

GA3(a)(i)	The NZAuASB does not consider any of the actions are necessary and that the issue is not with the standards, but with the application of the standards.
GA3(a)(ii)	The NZAuASB does not consider any of the actions are necessary and that the issue is not with the standards, but with the application of the standards.
GA3(a)(iii)	The NZAuASB has not identified any other relevant issues to consider. Also, the NZAuASB does not consider it is necessary to develop a separate standard for Component auditors. The group auditors should emphasise the communications required from the component auditors in the group instruction provided to the component auditors. The majority of auditors in New Zealand are component auditors rather than group auditors, and their feedback indicate that they do not consider a separate standard for component auditors are necessary.
GA3(a)(iv)	The NZAuASB has not identified any other relevant issues to consider.

GA4. Using the Work of the Component Auditors

(a) Paragraphs 226–242 set out matters relating to using the work of the component auditors.

- (i) Which of the possible actions outlined in paragraph 234 and 242 would be most meaningful in addressing issues related to using the work of the component auditor?
- (ii) Why do you believe these actions are necessary?
- (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
- (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.

(b) Specifically:

- (i) Should the nature, timing and extent of involvement of the group engagement team in the work of the component auditor vary depending on the circumstances? If yes, how could changes to the standard best achieve this objective?
- (ii) Should ISA 600 be strengthened to require the group engagement partner to make an explicit determination about whether the group engagement team can use the work of a potential component auditor?

GA4(a)(i)	<p>The NZAuASB considers that it would be helpful to have</p> <ul style="list-style-type: none"> • more guidance on how to assess the competency of the component auditor, especially when they are not part of the same member firm. • further examples to illustrate the wide variety of circumstances that that may affect the determination of the necessary nature, timing and extent of the involvement of the group auditors in the work of component auditors.
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GA4(a)(ii)	The NZAuASB believes the above actions would assist the group auditor with the new and continuing challenges in obtaining the necessary understanding of the competency of the component auditor, and the extent of the group auditor’s involvement in the work of the component auditor, in more complex group structures which are continuing to evolve.
GA4(a)(iii)	<p>Constituents have expressed the need for additional guidance in respect to:</p> <ul style="list-style-type: none"> • the required documentation with regard to how the group auditor has obtained sufficient appropriate evidence over the work of the component auditor • documenting the risk assessment performed by the group auditor when assessing the components. • the required communication between the group and component auditors.
GA4(a)(iv)	The NZAuASB has not identified any potential consequences for further consideration.
GA4(b)(i)	The NZAuASB believes that the nature, timing and extent of involvement of the group engagement team in the work of the component auditor should vary depending on the circumstances, as currently required by ISA 600. Providing further examples to illustrate the wide variety of circumstances that that may affect the determination of the necessary nature, timing and extent of the involvement of the group auditors in the work of component auditors would be helpful.
GA4(b)(ii)	The NZAuASB does not consider this is necessary, as the standard is clear that the group auditor has to assess competency of the component auditor. The issue is not with the standards, but with the application of the standards.

GA5. Identifying and Assessing the Risks of Material Misstatement in a Group Audit

- (a) Paragraphs 243–253 set out matters relating to identifying and assessing significant risks in a group audit:
- (i) Which of the possible actions outlined in paragraphs 251–253 would be most meaningful to address issues relating to identifying significant risks for the group audit?
 - (ii) Why do you believe these actions are necessary?
 - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
 - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.

GA5(a)(i)	<p>The NZAuASB considers the following action to be the most meaningful:</p> <p>To improve the linkage between ISA 600, and ISA 315 (Revised) and ISA 330, to better support the application of those standards in group audit engagements. This could be achieved by providing additional examples for relevant aspects and principles in ISA 315 (Revised) and ISA 330 that may arise from a group audit.</p>
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GA5(a)(ii)	The NZAuASB believes that improving the linkage between ISA 600, and ISA 315 (Revised) and ISA 330 may help the group engagement team in better considering all aspects of where such risks may exist in a group audit, and how those risks should be responded to, including at the component level.
GA5(a)(iii)	The NZAuASB has not identified any other actions to consider. A consistent view expressed by constituents is that there is a scope for application guidance, but not new requirements.
GA5(a)(iv)	The cost of compliance with increased requirements versus a possible increase in audit quality needs to be carefully considered.

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

- (a) Paragraphs 254–261 set out issues relating to applying the concept of materiality in a group audit. Do you agree with the possible actions recommended in paragraph 261 to clarify the different aspects of materiality in a group audit? If not, please indicate which actions are not appropriate and describe why.
- (b) Recognizing that significant changes to ISA 320 will not be contemplated until a review of ISA 320 has been performed in its entirety (potentially as part of a future project to address materiality more broadly), please describe any other relevant issues or additional actions that you think may be appropriate relating to component materiality, component performance materiality or the clearly trivial threshold at the component level.

GA6(a)	The NZAuASB agrees with the possible actions recommended to clarify the different aspects of materiality in a group audit.
GA6(b)	The NZAuASB agrees that component materiality is intrinsically linked to ISA 320 and that it therefore cannot be narrowly addressed in the context of a project that is addressing ISA 600 more broadly. The NZAuASB supports the IAASB’s intention to continue to monitor the current work being undertaken by the IASB on materiality and to determine the need to address materiality more broadly in a future project. The NZAuASB believes that in the interim more guidance about how the concepts of component materiality and the component materiality in the context of a group audit are expected to be applied would be useful. Minority interests are also an area that is challenging and more guidance would be helpful. For example, how to deal with the situation where all the components are individually immaterial to the group.

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

- (a) Paragraphs 262–292 set out matters relating to responding to identified risk of material misstatement in a group audit (including the group engagement team’s involvement in the consolidation process).
 - (i) Which of the actions outlined in paragraphs 272–273, 279, 288 and 292 would be most meaningful to address issues relating to responding to identified risks of material misstatement in a group audit?
 - (ii) Why do you believe these actions are necessary?

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- (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
- (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.

(b) Specifically:

- (i) What are your views on scoping the audit based on identifying and assessing the risks of material misstatement for the group as a whole, rather than focusing the determination of the necessary work effort on the determination of whether components are considered significant or non-significant? Are there any practical challenges that we need to consider further?
- (ii) Are there other possible actions related to auditing groups where there are a large number of non-significant components that we should explore? Are there other approaches to auditing such groups that need to be considered? Do the possible actions presented lead to any additional practical challenges?
- (iii) Should the standard be strengthened for the group engagement team to be more involved at the sub-consolidation level in the appropriate circumstances? Are there further issues or practical challenges that have not been considered?
- (iv) Should the requirements or application material relating to subsequent event procedures be strengthened or clarified? Are there further issues or practical challenges that have not been considered?

GA7(a)(i)	<p>The NZAuASB considers it would be helpful to :</p> <ul style="list-style-type: none"> • clarify that the manner in which the requirement to perform an “audit of financial information of the component using component materiality” is applied may vary depending on the specific circumstances, and that it may not necessarily mean that the component auditor is expected to apply all requirements in all relevant ISAs in all circumstances where the audit is performed solely for the purposes of the group audit; • emphasise the need for clear instructions to the component auditor from the group engagement team, and for a mutual understanding between the component auditor and group engagement team about what is expected of the component auditor; • strengthen the application material to address the group engagement team’s considerations about the work to be performed on the non-significant components, both at the group level and the component level.
GA7(a)(ii)	<p>The NZAuASB considers that this will assist with planning and performing the group audit in the most effective manner, both at the group level and the component level.</p>
GA7(a)(iii)	<p>The NZAuASB has not identified any other relevant issues to consider. A consistent view expressed by constituents is that there is a scope for application guidance, but not new requirements.</p>
GA7(a)(iv)	<p>The cost of compliance with increased requirements versus a possible increase in audit</p>

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	quality needs to be carefully considered.
GA7(b)(i)	The NZAuASB considers that even in significant components there may be risks of misstatement that may not be relevant to the group financial statements. The NZAuASB considers that a more risk based, principled approach is more likely to result in the work performed being sufficient or appropriate for the purposes of the group financial statements. This may also help to clarify the work to be performed on the components, including for significant and non-significant components.
GA7(b)(ii)	The NZAuASB has not identified any other possible actions.
GA7(b)(iii)	The NZAuASB does not consider any further action is required.
GA7(b)(iv)	The NZAuASB does not consider any further action is required.

GA8. Review and Evaluation of the Work of Component Auditors by the Group Engagement Team

- (a) Paragraphs 293–303 set out matters relating to the review and evaluation of the work of component auditors by the group engagement team.
- (i) Which of the actions outlined in paragraphs 299 and 303 would be most meaningful in addressing issues relating to the review and evaluation of the work of component auditors by the group engagement team?
 - (ii) Why do you believe these actions are necessary?
 - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
 - (iv) Please also describe any potential consequences of those actions that you believe we need to consider further.

GA8(a)(i)	The NZAuASB considers that the most meaningful action to address is to clarify the necessary work effort of the group engagement team in relation to reviewing the component auditor's working papers.
GA8(a)(ii)	This action is necessary because there is not much guidance in ISA 600 relating to the requirement to determine whether it is necessary to review other relevant parts of the component auditor's working papers. Some examples of what working papers to review under various circumstances would be helpful.
GA8(a)(iii)	The NZAuASB has not identified any other actions to consider. A consistent view expressed by constituents is that there is a scope for application guidance, but not new requirements.
GA8(a)(iv)	The cost of compliance with increased requirements versus a possible increase in audit quality needs to be carefully considered.

GA9. The Impact of New and Revised Auditing Standards

How should the matters set out in paragraphs 304–305 be addressed in our plans to revise ISA 600? Are there any other implications from our new or revised standards that should be considered?

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GA9	The NZAuASB supports the IAASB’s proposed action to consider the need to focus on disclosures and the communication of KAM in a group audit context. The NZAuASB has not identified any other implications from the new and revised standards to consider.
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The following questions are overall questions relating to group audits:

GA10. Are there any other issues relating to group audits that we have not identified? If yes, please provide details. What actions should we take to address these issues?

GA10	<p>Constituents have raised the following additional issue for the IAASB to consider:</p> <ul style="list-style-type: none"> • Guidance on the form of reporting of the ‘clearance opinion’ from the component auditor to the group auditor, specifically in those circumstance where the component auditor is not expected to apply all the requirements in all relevant ISAs where the audit is performed solely for the purposes of the group audit.
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GA11. Are there any other specific actions that others could take in relation to group audits? If yes, please provide details.

GA11	The NZAuASB has not identified any other specific actions.
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GA12. Are there any specific considerations for SMPs related to the issues and potential actions described in this section? Are there any other considerations for SMPs of which we should be aware? If so, please provide details and views about these matters.

GA12	The NZAuASB has not identified any specific considerations for SMPs related to the issues and potential actions described in this section.
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GA13. Are there any specific public sector considerations related to the issues and potential actions described in this section? Are there any other public sector considerations of which we should be aware? If so, please provide details and views about these matters.

GA13	The NZAuASB has not identified any specific public sector considerations.
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