



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS

19 May 2016

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

Dear Kathleen

**INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (“IAASB”)  
INVITATION TO COMMENT: ENHANCING AUDIT QUALITY IN THE PUBLIC INTEREST –  
A FOCUS ON PROFESSIONAL SKEPTICISM, QUALITY CONTROL AND GROUP  
AUDITS**

The Auditing and Assurance Standards Board (“AASB”) of the Malaysian Institute of Accountants (“MIA”) welcomes the opportunity to provide comments on the International Auditing and Assurance Standards Board (“IAASB”) Invitation to Comment (“ITC”), *Enhancing Audit Quality in the Public Interest - A Focus on Professional Skepticism, Quality Control and Group Audits*.

The AASB supports the efforts of the IAASB to enhance audit quality in the public interest and commends the IAASB for the outreach activities undertaken to facilitate responses to this consultation.

We are pleased to attach herewith the responses of the AASB to the questions raised in the ITC.

Should you have any queries regarding this AASB submission, please contact Simon Tay Pit Eu at +603 2279 9271 or at his email address: [simontaypiteu@mia.org.my](mailto:simontaypiteu@mia.org.my).

Yours sincerely,

**MALAYSIAN INSTITUTE OF ACCOUNTANTS**

**DATO' MOHAMMAD FAIZ AZMI**  
President

Encl.

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

**TEMPLATE FOR RESPONSES**

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

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

**RESPONDENT’S INFORMATION**

<p><b>Name:</b> <i>(Please also fill in name in header for ease of reference)</i></p>	<p>Auditing and Assurance Standards Board (AASB) of the Malaysian Institute of Accountants (MIA)</p>
<p><b>Description of the capacity in which you are responding (e.g., IFAC member body, audit oversight body, firm, SMP, individual, etc.)</b></p>	<p>National Standard Setter of Malaysia</p>
<p><b>Name of contact person at organization (if applicable):</b></p>	<p>Simon Tay Pit Eu, Director, Professional Standards and Practices, MIA</p>
<p><b>E-mail address:</b></p>	<p>simontaypiteu@mia.org.my</p>

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**GENERAL QUESTIONS**

- G1. Table 1 describes what we believe are the most relevant public interest issues that should be addressed in the context of our projects on professional skepticism, quality control, and group audits. In that context:
- (a) Are these public interest issues relevant to our work on these topics?
  - (b) Are there other public interest issues relevant to these topics? If so, please describe them and how, in your view, they relate to the specific issues identified.
  - (c) Are there actions you think others need to take, in addition to those by the IAASB, to address the public interest issues identified in your previous answers? If so, what are they and please identify who you think should act.

G1(a)	All areas identified are considered to be relevant.
G1(b)	<p>Other public interest issues to consider are:</p> <ul style="list-style-type: none"> <li>• Given the increasingly varied and complex scenarios that arise today and likely to evolve in the future, the International Standards on Auditing (“ISAs”) need to be sufficiently flexible on approaches to the audit and not contain unduly prescriptive requirements.</li> <li>• The use of shared service centres (“SSC”) should be addressed by standard-setting activities on quality control and group audits. Development of guidance clarifying applicable ISA concepts to an SSC environment and how audit quality can be reinforced in relation to work conducted at an SSC may be helpful.</li> <li>• Improving communication on the roles of regulators, oversight bodies of audit firms, Those Charged with Governance (“TCWG”) as well as preparers in supporting appropriate sceptical behavior among auditors can encourage quality auditing. Audit is only one component of the financial reporting supply chain. No meaningful change can be achieved if the other components are not simultaneously improving.</li> <li>• Communication by audit firms with stakeholders especially the shareholders who are purportedly the primary party to whom the auditors owe a responsibility. Such matters could cover the audit firm on how its quality and performance is managed, its interaction with its network, basis of audit fees, how independence is maintained and focus areas for the audit of the next financial year.</li> </ul>
G1(c)	Various stakeholders of the financial reporting chain will need to work together to reach consensus on the objectives to be achieved within the financial reporting chain, and agree on consistent interpretation of the requirements in the applicable standards. We believe that the IAASB plays a key role in facilitating such dialogues with the relevant stakeholders to improve the quality of financial reporting.

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

G2	We take note that the IAASB is currently gathering information about the use of audit data analytics. However, the IAASB needs to consider the implications arising from a digital environment which is fundamentally changing business delivery models (historical transaction-based versus real-time systems) and controls. In this aspect, the IAASB should carefully consider how evidence obtained electronically regarding data and systems can contribute effectively to the auditor's risk assessment, evidence gathering processes and the overall engagement quality.
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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>The following published, planned or ongoing academic research studies could be considered by the IAASB:</p> <ul style="list-style-type: none"> <li>• <i>“Toward a Conceptual Framework of Professional Skepticism in Auditing”</i> by Yoshihide Toba, Waseda Business &amp; Economic Studies 2011, NO.47.</li> <li>• <i>“An Examination of Issues Related to Professional Skepticism in Auditing”</i> by Erin Burrell Nickell, M.S.A. University of Central Florida, Summer Term 2012.</li> <li>• <i>“Enhancing Auditor Professional Skepticism: The Professional Skepticism Continuum”</i> by Steven M. Glover and Douglas F. Prawitt of Brigham Young University, Current Issues in Auditing, Volume 8, Issue 2 2014.</li> <li>• <i>“Professional Skepticism in Practice: An Examination of the Influence of Accountability on Professional Skepticism”</i> by Kimberly D. Wstermann, Jeffrey Cohen and Greg Trompeter 2014.</li> <li>• <i>“The Effect of Accounting Ethics in Improving Auditor Professional Skepticism”</i> by DR A. O. Enofe, Innocent Ukperbor and N. Ogbomo, International Journal of Advanced Academic Research, Vol. 1 Issue 2, November 2015.</li> <li>• <i>“The Impact of Perceived Ethical Intensity on Audit-Quality-Threatening Behaviours”</i> by Breda Sweeney, Bernard Pierce and Donald F. Arnold, January 2013.</li> </ul>
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**PROFESSIONAL SKEPTICISM**

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

PS1	<p>The definition: <i>an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence</i> is broadly appropriate. We believe the concept of a challenging mindset on the information provided by management (which may vary according to circumstances) could be more effectively incorporated into the definition as adopted in the ISAs. This would help reinforce the objective of a “critical assessment of audit evidence” that is necessary in order for the auditor to draw appropriate conclusions. It may be useful to define professional scepticism as a continuum, which varies according to the information provided, risk identified, existing controls and the audit outcomes as noted in a recent study entitled “Enhancing Auditor Professional Scepticism” undertaken by two professors in Bringham Young University.</p> <p>It is also important to focus on the application of professional scepticism on what constitutes appropriate audit evidence in different circumstances as well as concerns over documentation which is expected from auditors. We believe that actions in these areas will lead to overall level of enhanced audit quality.</p>
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PS2. What do you believe are the drivers for, and impediments to, the appropriate application of professional skepticism? What role should we take to enhance those drivers and address those impediments? How should we prioritize the areas discussed in paragraph 37?

PS2	<p>We broadly agree with the list of factors that influence application of professional scepticism in paragraphs 28 to 32. In addition to the factors mentioned in paragraphs 28 to 32, the culture of keeping silent under intense pressure from aggressive clients is an impediment, which is still prevalent. The fear of losing the audit engagement and consequently, being ‘punished’ by the audit firm management remains real. Accordingly, it is essential to address impediments to the application of professional scepticism at four levels: individual (as a staff and as a partner), engagement, firm and profession.</p> <p>It is especially important to recognise that effective application of professional scepticism by auditors is subject to personal traits and behavioural factors such as the overall culture and society norms. Firms also play an important role in cultivating a sceptical mindset in auditors as firms have better understanding of the root causes of poor application of scepticism.</p>
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	<p>Accordingly, we consider that priority should be given to:</p> <ul style="list-style-type: none"> <li>• Emphasising and enhancing the importance of the “tone at the top” and roles of engagement partners, engagement quality control reviews, audit committees, audit oversight bodies and others in influencing the appropriate application of professional scepticism.</li> <li>• How auditors can be effectively trained and their competencies further developed.</li> <li>• Whether the current requirements and guidance in the ISAs that refer to professional scepticism are clear as to what is expected from auditors.</li> </ul> <p>In reviewing the current requirements and guidance in the International Standards that refer to professional scepticism, we do believe it is appropriate to consider, and where appropriate to revise, the language adopted in the ISAs to better reinforce a sceptical mindset. There are certain requirements in the ISAs that may unduly promote a mindset of seeking to validate the assumptions and judgements adopted by management. This is particularly of relevance in areas involving significant management judgement, including accounting estimates that have high estimation uncertainty. A more independent evaluation may perhaps encourage scepticism.</p>
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PS3. Is the listing of areas being explored in paragraphs 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>We believe that the exploration of matters outlined in paragraphs 38 to 40 is appropriate.</p> <p>We recommend that actions need to be based on a comprehensive understanding of true root causes of perceived lack of professional scepticism or poor application/documentation of professional judgement. A more detailed analysis should be made on the shortcoming and audit deficiencies reported by regulators to identify the root causes.</p> <p>With respect to behavioural factors, changes to standards are likely to have limited impact. While application material can highlight these factors, there may be greater scope to influence and promote awareness of individual bias and other related factors through firm training.</p> <p>In addition, cultural and behavioural norms should also be examined as it may be likely that professional scepticism is not a “one-size-fits-all” for all.</p> <p>These are important to be undertaken before formalising the standard of professional scepticism. Otherwise, the proposed standard will have costs that not only exceed the benefits but also do not address the actual root causes and</p>
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	<p>eventually fail to improve scepticism at the individual auditor or team level, or even reduce overall audit quality.</p> <p>We recommend that IAASB consider prioritising work on audit tools including data analytics in a digital environment.</p>
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PS4. Do you believe the possible actions we might take in the context of our current projects relating to quality control and group audits will be effective in promoting improved application of professional skepticism? If not, why?

PS4	<p>We consider that elements of the proposed Quality Management Approach (“QMA”), reinforcement of firm leadership responsibilities for audit quality and aspects relating to group audits do have the potential to influence behaviours and reinforce the application of professional scepticism of staff within a firm.</p>
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PS5. What actions should others take to address the factors that inhibit the application of professional skepticism and the actions needed to mitigate them (e.g., the IAESB, the IESBA, other international standards setters or NSS, those charged with governance (including audit committee members), firms, or professional accountancy organizations)? Are there activities already completed or underway of which we and the Joint Working Group should be aware?

PS5	<p>Audit committees and others charged with governance should play a key role in reinforcing scepticism by challenging and asking probing questions to auditors.</p> <p>We also believe the practical application of professional scepticism should form the major teaching pedagogy in both academic and professional studies. The International Accounting Education Standards Board (“IAESB”) could facilitate a dialogue exploring education responses to professional scepticism and seeking to understand the evidence that such training has on the application of professional scepticism in practice.</p>
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**QUALITY CONTROL (INCLUDING QUESTIONS EXPLORING CROSSOVER ISSUES/ISSUES RELEVANT TO MORE THAN ONE PROJECT)**

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

- QC1. We support a broader revision of ISQC 1 to include the use of a QMA as described in paragraphs 45–67.
- (a) Would use of a QMA help to improve audit quality? If not, why not? What challenges might there be in restructuring ISQC 1 to facilitate this approach?
  - (b) If ISQC 1 is restructured to require the firm’s use of a QMA, in light of the objective of a QMA and the possible elements described in paragraphs 64 and Table 3, are there other elements that should be included? If so, what are they?
  - (c) In your view, how might a change to restructure ISQC 1 impact the ISAs, including those addressing quality control at the engagement level?
  - (d) If ISQC 1 is not restructured to require the firm’s use of a QMA, do you believe that we should otherwise address the matters described in paragraph 59 and table 2, and if so, how?

QC1(a)	<p>We support the overall aims of QMA. In particular, the need for effective firm leadership is emphasized such as creating appropriate culture and setting tone at the top, and a greater consideration being given to integrity and ethical values and the environment in which the firm operates. We find the interaction of a QMA with the firm’s culture and strategy useful as it would improve the mindset, values, ethics and attitudes of the engagement team so as to create a more effective integration of the firm’s quality management system into other aspects of its management structure and business processes.</p> <p>Incorporating elements of a QMA into the standard can be achieved through amendments to the application materials. It is important that a QMA must not be a one-size-fits-all model but rather it should set out the primary elements that should be incorporated by firms of different sizes and be scalable.</p>
QC1(b)	<p>We reiterate that alignment of the firm-wide objectives to individual partner and respective engagements remains imperative. We also believe it is important to measure quality control programmes rather than rely solely on exceptions to take action. Further, we would also recommend the development of integrated conflict management system to be included in the QMA as an introduction of a systematic approach to preventing, managing and resolving conflict led by a responsive and responsible leadership.</p>

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QC1(c)	<p>A QMA would support improved linkage between ISQC 1 and ISAs through a greater connection between the elements of a QMA and the audit engagement. The current requirements and guidance in ISAs may need to be reviewed to ensure that the connection of QMA can be successfully embedded.</p> <p>In addition, ISA 220 currently appears not to require documentation of how disagreements between the engagement partner and the engagement quality control reviewer are resolved. This may not be consistent with a QMA given it requires documentation on how quality risks are identified and resolved.</p>
QC1(d)	<p>As noted in our response to part (a), we believe that the matters described in paragraph 59 and Table 2 can be addressed through application materials in ISQC 1.</p>

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>The most meaningful actions and the reasons these actions are necessary are:</p>
QC2(a)(ii)	<ul style="list-style-type: none"> <li>• Strengthening responsibilities and considerations related to engagement acceptance and continuance decisions reinforce key principles such as acceptability of client relationships, resource capabilities and other ethical considerations;</li> <li>• Clarity regarding the responsibilities of the engagement partner on the type, extent and nature of involvement to be considered and developed using a set of principles allow flexibility in adapting to differing business</li> </ul>

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	<p>models without compromising audit quality; and</p> <ul style="list-style-type: none"> <li>• Strengthening the requirements or enhancing the application materials that discuss the responsibilities of the engagement partner over the performance, supervision, direction and review by the engagement partner as these areas are often subject to practical constraints and time pressure.</li> </ul>
QC2(a)(iii)	To the extent the changes are proposed to ISQC 1, it is important to ensure that any such changes give due consideration to applicability to non-audit assurance engagements as well as audit engagements.
QC2(a)(iv)	We urge the IAASB to clarify the interaction between non-audit assurance engagements with the overall firm's quality control required in ISQC 1.
QC2(b)	We support the existing position that the ISAs do not prescribe the person required to sign the auditors' report. This is a matter for local jurisdictions, which may, through law or other regulation, specify the person required to sign the report.

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)	We believe it will be helpful to disclose the matters highlighted in paragraph 102, which affect the manner in which an audit is conducted.
QC3(a)(ii)	
QC3(a)(iii)	<p>ISA 600 is based on the fundamental premise that the group engagement partner has sole responsibility for the group audit opinion. We continue to support the position in precluding reference in the auditors' report to the work of another auditor, unless required by law or regulation to include such reference.</p> <p>We recommend the IAASB to consider whether group audits should explain the</p>

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	manner and extent of work performed by them in order to obtain sufficient audit evidence (including reviewing the work of other auditors) on the group financial information.
QC3(a)(iv)	No further matters noted.
QC3(b)	We believe that requirements or application materials for such circumstances are important.

QC4. *The Firms' Role in Supporting Quality*

- (a) Paragraphs 106–123 set out matters relating to networks of firms and use of ADMs.
- (i) Which of the actions outlined in paragraphs 114–116 and 122–123 would be most meaningful to address issues related to firms operating as part of a network of firms and firms' changing business models and structures?
  - (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
- (i) What could we do to address the issues identified in the context of networks of firms? For example, should we develop more detailed requirements and application material to address reliance on network-level policies and procedures at a firm or engagement level?
  - (ii) Do you think it would be feasible for us to develop requirements and guidance for networks? Please provide a basis for your views.
  - (iii) Paragraphs 117–123 set out matters relating to the use of ADMs and related issues.
    - a. How should our standards emphasize the importance of appropriate quality control processes in relation to use of ADMs?
    - b. Are you aware of ADMs that raise issues not discussed in paragraphs? If so, please provide details.

QC4(a)(i)	The most meaningful actions to address and the reasons for these actions are as follows:
QC4(a)(ii)	<ul style="list-style-type: none"> <li>• Clarity in ISQC 1 and ISA 220 about what should be considered and documented by the individual firm to be able to place reliance on network policies and procedures at the firm level as we believe the contribution to</li> </ul>

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	<p>audit quality brought by common network policies and procedures can bring significant benefits to audit quality;</p> <ul style="list-style-type: none"> <li>• Clarifying that the system of quality control of individual firms need to take into account implications of using audit delivery models (“ADMs”), and the need for appropriate quality control policies and procedures in respect of the use of ADMs. To ensure the ISAs and ISQC 1 remain fit for purpose, the implication of the use of ADMs need to be addressed; and</li> <li>• To more explicitly address direction, supervision and review of procedures performed at a centralized location or by other centralized resources. The coordination and supervision of resources and audit work would be better managed.</li> </ul>
QC4(a)(iii)	We believe that it is not appropriate to impose direct requirements in ISQC 1 at the network level. Firms should be responsible to demonstrate that they provide quality audits, and the mechanisms that exist to support that objective that they justifiably rely upon, should rest with the firm that is issuing the audit report.
QC4(a)(iv)	We believe that there is merit in exploring whether the principles in ISA 402 or ISAE 3402 could be adapted for use in exploring how networks support individual member firms.
QC4(b)(i)	Refer to our comments in part (a) above.
QC4(b)(ii)	Refer to our comments in parts (a) and (b) above.
QC4(b)(iii)a	ISQC 1 should be expanded to cover the role of ADMs, addressing the extent of reliance, the type of work that can be and cannot be expected to be performed by ADMs. Restrictions on data confidentiality brought about by country specific regulations should also be addressed with guidance provided on alternatives, if any. The existing ISQC1 could provide more application guidance on how quality should be adopted by ADMs, and their roles and responsibilities amongst various firms that rely on their work.
QC4(b)(iii)b	No further matters noted.

**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

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

QC5(a)(i)	The most meaningful actions to address and the reasons for these actions are as follows:
QC5(a)(ii)	<ul style="list-style-type: none"> <li>• Leadership responsibilities could be clarified in ISQC 1 on how firm governance could be best addressed in ISQC 1. This action is meaningful because the leadership of a firm sets appropriate culture for the firm to cater for the increasing diversity in how firms organize themselves, the manner in which they are governed, and how engagement teams are structured;</li> <li>• Accountability of firm leadership. Responsibilities for the quality of the firm rest with the firm leadership for matters related to quality. With respect to paragraph 134, this action is meaningful and critical as the strengthened ISQC 1 specifically requires a firm to identify appropriate personnel within firm leadership to be responsible and accountable for independence matters and independence is a prerequisite for audit quality; and</li> <li>• The concept of public interest explicitly incorporated in ISQC 1. Ultimately, the quest for audit quality is strongly underpinned by public interest, that is, the protection of public interest is the responsibility of the audit firms along with other related parties. The key issue here is not how to define public interest because there are multiplicity of views as to its meaning. Another key area of concern is that the interest of a client's shareholders is not the only interest that needs to be addressed, but also other parties who are affected by the audit firm's audit quality such as employees and trading partners of the client's entity. Therefore, the design of the system</li> </ul>

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	<p>of quality control of the firm should take the public interest into consideration and such responsibility is inextricably linked to the leadership of the firm.</p> <p>In considering the public interest, the leadership of the firm should be mindful of the societal value of audit. As such, enhanced transparency in executive accountability and public interest protection is desirable.</p>
QC5(a)(iii)	<p>We believe that establishing a requirement in ISQC 1 for leadership of a firm to act in the public interest would be challenging. It would be helpful if requirements further define what application of that concept means in the specific context.</p> <p>Other actions to be considered:</p> <ul style="list-style-type: none"> <li>• Compulsory training on ethics – this needs added emphasis and taken more seriously by firms.</li> <li>• Compulsory training on leadership development – leadership training should be undertaken by those who have been identified as future leaders.</li> <li>• Establishing ongoing communications with client’s senior management and TCWG on audit quality issues.</li> <li>• Establishing ongoing development on resources devoted to audit to ensure the continuing availability of talent and human resources.</li> <li>• Succession planning of the audit firm to ensure the continuance of audit quality is not disrupted due to the sudden change of leadership or unfamiliarity threat of the new leader.</li> <li>• Ongoing review of leadership structure to ensure it is not outdated in view of the change in the economic or regulatory environment.</li> </ul>
QC5(a)(iv)	<p>Since the leadership structure of small and medium practices (“SMPs”) are relatively limited in size, there could be implementation issues related to adequately addressing audit quality and independence due to the lack of check and balance within the structure of SMPs.</p> <p>Another concern is the availability of resources set aside for staff and senior executive training. This will affect quality on an ongoing basis even with the use of a QMA.</p>
QC5(b)(i)	<p>We recommend that ISQC 1 set principles of what governance should achieve but not how they should be achieved because we believe this is influenced by jurisdictional legal regimes.</p>
QC5(b)(ii)	<p>We believe that ISQC 1 should address accountability of leadership of a firm for quality as this reinforces their responsibility for audit quality. We believe that it</p>

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	should be left to the firm to identify and appoint appropriate individuals and assign those responsibilities.
QC5(b)(iii)	It is likely that a QMA would better facilitate the ability to address quality matters and responsibilities. A QMA acknowledges that there is a system that supports audit quality and that responsibility is collectively assigned and shared.

QC6. *Engagement Quality Control Reviews and Engagement Quality Control Reviewers*

- (a) Paragraphs 136–146 set out matters relating to engagement quality control reviews and engagement quality control reviewers.
  - (i) Which of the possible actions outlined in paragraphs 143–146 would be most meaningful in addressing issues related to EQC reviews and EQC reviewers?
  - (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
  - (i) Should ISQC 1 mandate the performance of EQC reviews beyond audits of listed entities? If yes, what other entities should be considered and how could we best define these entities? If no, please explain your reasoning.
  - (ii) Do you believe it is necessary for ISQC 1 to require that firms define the minimum period of time between when an individual has been the engagement partner and when that individual would be eligible to serve as the EQC reviewer on the same engagement? If yes, how do you think this should be done and why? If no, please explain why.
  - (iii) Would you support the development of a separate EQC review standard? Please explain the reasoning for your response.

QC6(a)(i)	The most meaningful action to address is further clarifying the nature, timing and extent of matters to be considered by the engagement quality control (“EQC”) reviewer (including conflict resolution), while maintaining an appropriate distinction between the responsibilities of the engagement partner and those of the EQC reviewer.
QC6(a)(ii)	
QC6(a)(iii)	We do not support describing in the auditors’ report the fact that an EQC review has taken place. Including additional statements about further quality reviews that have taken place would inappropriately imply different degrees of “quality”

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	for an auditors' report.
QC6(a)(iv)	No further comments noted.
QC6(b)(i)	We believe that engagements of particular importance to a firm based on the risks posed to the firm should be subject to an EQC review. We also support elevating the criteria in the application material for identifying entities that would require an EQC review.
QC6(b)(ii)	Association with an engagement is a key criterion in the selection of the EQC reviewer as it relates to objectivity and independence. We agree that ISQC 1 should address this factor but be based on and aligned with relevant ethical requirements set in the IESBA Code.
QC6(b)(iii)	We do not have strong views as to whether the roles and responsibilities of the EQC reviewer are to be included in an existing standard or a new standard but rather there is sufficient clarity around the role and responsibilities and the balance of responsibilities compared to the engagement partner remains appropriate. However, we are of the view that creating a new standard is not of utmost priority.

QC7. *Monitoring and Remediation*

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

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QC7(a)(i)	We support each of the actions described in this section and believe that the linkage between inspections, other reviews and a QMA is particularly important, as strong linkage between these elements provide exponential strength to the overall system of quality control.
QC7(a)(ii)	
QC7(a)(iii)	Due to resource and financial constraints, audit firms may find the proposed actions challenging to apply.
QC7(a)(iv)	Guidance to audit firms on how to practically implement these requirements would be helpful.
QC7(b)(i)	We support the incorporation of a new requirement for firms to understand the causal factors of audit deficiencies. These causal factors should all directly feed into the QMA programme.
QC7(b)(ii)	Yes, the overall system of quality control will not be optional as there is no direct linkage between the QMA programme and the inspection/monitoring programme. Such a feedback loop system is essential to ensure that corrective steps are being taken in the right direction.

QC8. *Engagement Partner Performance and Rewards Systems*

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

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

QC8(a)	We believe that partner compensation is an operational matter of each firm. Furthermore, many firms are structured as partnerships, which by their nature are profit-sharing structures. It will be complicated to have direct links of quality in ISQC 1 to individual partner compensation.
QC8(b)	If a principle-based requirement is created, application materials as to how to assess performance in the area of audit quality would also be necessary.

QC9. *Human Resources and Engagement Partner Competency*

- (a) Paragraphs 171–187 set out matters relating to human resources and engagement partner competency.

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- (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 most meaningful action to address is to consider whether ISQC 1 should explicitly highlight the competencies of IES 8 (Revised). ISQC 1 and ISA 220 do not contain detailed requirements or guidance that specifically addresses the necessary skills and competencies that engagement partners should have.
QC9(a)(ii)	
QC9(a)(iii)	
QC9(a)(iv)	
QC9(b)(i)	We believe that the following actions would be particularly beneficial and meaningful:
QC9(b)(ii)	<ul style="list-style-type: none"> <li>• Updating application material in ISQC 1 or ISA 220 concerning the responsibilities of an engagement partner to include the concepts of leading by example and of mentoring.</li> <li>• Updating requirements and application material in ISA 220 to make the responsibilities of an engagement partner for leadership and project management (including the assessment of the competency and objectivity of the engagement team) more explicit.</li> <li>• Considering whether ISQC 1 should explicitly highlight the competencies in IES 8 (Revised) in the areas of Interpersonal and Communication Skills, Professional Skills and Professional Values, Ethics and Attitudes. IES8 explicitly references ISQC 1 and ISA 220, and includes a relationship diagram. We believe it would be helpful to see this relationship mirrored</li> </ul>
QC9(b)(iii)	

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	consistently in the IAASB standards, which would support and give credibility to IES 8 (Revised).
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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)	We believe that further research on the links to, and benefits accrued from, transparency reporting on audit quality would be appropriate. We also believe that it is important to understand the demand and requirements for transparency reporting globally and how these reports are used before establishing any global requirements.
QC10(b)	It is difficult to prescribe a one-size-fits-all structure for transparency reports due to different stakeholders and regulatory requirements from different jurisdictions.

**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	<p>No further issues noted except for the following:</p> <ul style="list-style-type: none"> <li>• The viability of remote or ‘desktop’ quality reviews or inspections taking into consideration the cost to individual firms that operate within a broad geographical network; and</li> <li>• Whether it is possible to automate quality control by using exceptions reporting, analysis of transactional data such as numbers of hours worked, revenue per hour worked, time spent in training.</li> </ul>
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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	No further actions noted.
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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	<p>We believe that pitfalls and challenges faced by SMPs in addressing audit quality are well documented. Compliance with certain aspects of ISQC 1 remains challenging for some SMPs, for example, the requirement on maintaining competence.</p> <p>The following could be difficulties encountered by many SMPs, which in turn could also be the root cause for audit quality falling short of the standards required:</p> <ul style="list-style-type: none"><li>• Balancing the cost of increased regulation and pressures to lower audit fees. The public at large is unaware of the added cost to audit practitioners emanating from increased regulation in the field of auditing.</li><li>• Difficulty to attract and retain experienced audit staff – thereby impacting the quantity and quality of resources invested in audits.</li><li>• Lack of requisite in-house technical resources.</li><li>• Challenges of keeping up with new technologies.</li><li>• Rising costs and competition.</li><li>• Ability to adapt to changing client needs.</li><li>• Succession planning.</li></ul> <p>Continuity planning for human resources remain one of the key challenges (for example, financial constraint) for SMPs and this is one of the issues covered in paragraph 171 of this ITC.</p>
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QC14. Are there any specific public sector considerations related to the issues and potential actions described in this section? Are there any other public sector considerations of which we should be aware? If so, please provide details and views about these matters.

QC14	No further considerations noted.
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## GROUP AUDITS

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

- GA1. We plan to revise ISA 600 (and other standards as appropriate) to respond to issues with group audits.
- (a) Should we increase the emphasis in ISA 600 on the need to apply all relevant ISAs in an audit of group financial statements? Will doing so help to achieve the flexibility that is needed to allow for ISA 600 to be more broadly applied and in a wide range of circumstances (see paragraphs 194–198)? If not, please explain why. What else could we do to address the issues set out in this consultation?
  - (b) Would the actions we are exploring in relation to ISA 600 improve the quality of group audits? If not, why?
  - (c) Should we further explore making reference to another auditor in an auditor's report? If yes, how does this impact the auditor's work effort?
  - (d) What else could the IAASB do to address the issues highlighted or other issues of which you are aware? Why do these actions need priority attention?

GA1(a)	In our view, it is important that the planned revision to ISA 600 brings clarity to the scope of engagements addressed by the standard. We encourage the IAASB to develop guidance on how the existing principle in paragraph 2 of the ISA should be applied to different engagement structures that exist today; for example, the use of SSCs and engagements involving more than one auditor. We believe that by emphasising the linkage between ISA 600 and the other ISAs, there would be more clarity on planning and performance of a group audit.
GA1(b)	
GA1(c)	We continue to support the principle that the group engagement partner retains overall responsibility for the group audit and opinion.
GA1(d)	We believe that it is important to provide guidance on risk assessment and identification of components by the group engagement team and component auditors in ISA 600.

**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

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- be most meaningful in addressing issues related to acceptance and continuance procedures?
- (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
- (i) Are access issues as described in paragraph 207(a) still frequently being experienced in practice? If yes, please provide details and, where possible, explain how these are being addressed today.
  - (ii) Do you agree that ISA 600 can or should be strengthened in relation to addressing access issues as part of acceptance and continuance?
  - (iii) Would expanding the understanding required for acceptance and continuance, as described in paragraph 215 (b), be achievable in the case of a new audit engagement?

GA2(a)(i)	We recognise and broadly agree with the analysis of the issues set out in paragraphs 204 to 217.
GA2(a)(ii)	<p>The actions identified in paragraph 215(e) – providing more clarity over the circumstances that may lead to access issues and examples of how they might be addressed – are those which in our view are of greater importance, given the increasing complexity of organisations and cross-border implications. We further explain our response on this matter in point (b)(i) below.</p> <p>We also believe that there are benefits in enhancing the required understanding of the group as a basis for acceptance, but also in benefiting downstream activities including component identification and risk assessment.</p> <p>It is also important to explore strengthening the connectivity between ISA 600 and ISQC 1 on the competence and capabilities of the collective engagement team performing the group audit engagement.</p>
GA2(a)(iii)	We agree that there are challenges with respect to obtaining sufficient appropriate audit evidence for certain components. We support clarifying guidance related to acceptance and continuance considerations in such circumstances, but would however caution against setting requirements that could have the inadvertent effect of precluding the appointment of any auditor.
GA2(a)(iv)	See point (iii) above.
GA2(b)(i)	Access issues are somewhat still common, for example, in situations when the group has limited control of the component (equity associate and joint

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	<p>ventures). Within a network of firms, guidance could be provided on potential procedures that can be performed. Such procedures, may include, for example, accessing information kept by group management in relation to that component, understanding how group management monitors and evaluates the investment and ensures the financial information of the component has been correctly accounted for by the group, if the group has representatives who are part of the component's management or on the Board of Directors of the component, discussing the component and its operational and financial status with these representatives, examining other external information such as publications and analysts' reports. If the component is a public company by itself, external information will also include any filings made by the component.</p>
GA2(b)(ii)	<p>Many of these issues are driven by questions of law or the application of laws and regulations in a given jurisdiction. Therefore, these may be issues that standards cannot fully address. It may be better to place more emphasis on practical guidance on potential alternative procedures, rather than simply requiring to withdraw from (or not accept) an engagement when issues are identified.</p>
GA2(b)(iii)	<p>The IAASB will need to consider carefully that any clarification on acceptance and continuance considerations should adequately take into account that only certain information may be made available to a potential auditor during the acceptance process. It will be important to ensure that the nature and extent of understanding expected under the ISA is not set at a level that would preclude audit firms from being able to make a decision to accept an engagement.</p> <p>We agree that for new appointments, it is inherently difficult for the group auditors to obtain more information about the group to make an informed decision prior to appointment. The IAASB should consider expanding the guidance to cover the possible alternatives and the minimum criteria to be applied for first-time appointment.</p>

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?

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

GA3(a)(i)	Effective mutual communications between a group team and component auditors is critical to an effective and high quality audit. We are therefore
GA3(a)(ii)	<p>supportive of proposals to reinforce aspects (timing and extent) of such communications.</p> <p>We support the principle that the ISA can specify matters to be communicated, but not the mechanism of how that is to be achieved. Nevertheless, we do believe that the principle of a component auditor taking responsibility for issuing an opinion to the group engagement team on the financial information of a component (in circumstances other than specified procedures, when no opinion is expressed) builds on an important discipline of accountability that reinforces audit quality.</p> <p>We believe that drawing a link between the importance of communications and the group engagement team's evaluation of the work of component auditors is relevant. However, it is not clear what "enhancements" can be made to requirements about matters to be communicated that will tangibly change how group engagement teams evaluate those communications (ISA 600.42). It appears the objectives here are more closely aligned with how the group engagement team's evaluation of work can be enhanced (see question GA4 and GA8).</p> <p>We are not convinced that strengthening related requirements would be helpful in all cases, as most of the issues relate to applying judgement properly in the engagement circumstances.</p> <p>One possible action that may have a direct impact would be to incorporate more explicit specificity in when certain communications take place, i.e., break the communication and evaluation requirements up into the phases of the audit.</p> <p>Application materials that highlight the importance of documenting significant communications is acceptable as long as it is presented in the context of the requirements of ISA 230 and does not establish additional unduly onerous documentation requirements over and above ISA 230.</p> <p>With respect to ISA 600.48, the group engagement team cannot override confidentiality laws in relation to communication of actual or suspected non-compliance with laws and regulations that may impact a component. We acknowledge the revisions to the IESBA Code, but nonetheless auditors may be constrained in what they are legally able to communicate.</p>

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GA3(a)(iii)	<p>In exploring how work at an SSC is scoped and evidence shared, communication will be a key element. Three-way communication may be required between a group engagement team, component auditors and SSC auditor.</p> <p>Likewise, we believe the ISA needs to directly address other communication impact arising from centralised testing and sharing of evidence across multiple teams. We also believe consideration should be given to guidance on how statutory audits that are required to be undertaken by component auditors may impact communications.</p>
GA3(a)(iv)	<p>Further consideration may need to be given to the growing challenge of access/legal restrictions on what can and cannot leave a territory. It is assumed that the current ISA is practicable with regards to communications. Any enhanced requirements would need to be evaluated to ensure that they would not be subject to any restrictions.</p>

**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>Overall, we support the actions identified in paragraphs 234 and 242 and believe that they will assist group engagement teams in evaluating their use of</p>
GA4(a)(ii)	<p>the work of component auditors. Expanding the guidance on the responsibilities of group engagement teams in understanding the component auditor and</p>

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	<p>assessing their competence is important given the continuing changes in client organisations, often moving into territories that may be outside a group engagement team's network or have different jurisdiction or professional requirements.</p> <p>We believe that enhancing the application materials to more clearly address how group engagement teams can demonstrate the basis for their reliance on common policies and procedures in determining the necessary levels of involvement in the work of component auditors is most beneficial. This may help clarify how a group engagement team's procedures, including the nature and extent of those procedures, may differ between component auditors from within the same network and those from other networks.</p> <p>The considerations on what is necessary to place justifiable reliance would also need to factor in the differences that exist in networks. Networks vary in size, degree and maturity of common quality processes and methodologies and levels of network interaction with individual firms. Firms within a network, with assistance from network central functions can assess the basis for justifiable reliance against the considerations articulated in application material.</p>
GA4(a)(iii)	<p>There are a broad range of circumstances that may be encountered, reflecting the evolving corporate structures of large groups. In acknowledging the spectrum of engagements that exist, the ISA needs to address how evidence can be effectively shared across a group engagement, and also across other audit engagements that may be required within that group corporate structure. In acknowledging the broad spectrum of engagements that exist, it is not possible for the ISA to address all potential circumstances. As such, requirements need to set out broad principles that are capable of being applied to those varying situations.</p>
GA4(a)(iv)	<p>No further matters noted.</p>
GA4(b)(i)	<p>Yes, the nature, timing and extent of involvement of the group engagement team should always vary in the work of the component auditor, depending on the circumstances. The level of involvement needs to commensurate with the group engagement team's evaluation of the significance of the component, the identified risks of material misstatement, evaluation of the component auditor's competence, including use of common methodology and quality review processes. The ISA needs to reflect the need for a group engagement team to apply professional judgement.</p> <p>ISA should reflect appropriate justifiable reliance by an engagement team on common network policies and processes for audit quality. The extent of involvement will therefore vary based on whether a component auditor is from the same network or a different network, and based on the group engagement</p>

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	<p>team’s evaluation of the factors it considers in relation to how a component auditor from within the same network is applying those common network elements.</p> <p>We believe that relevant considerations related to each of these factors could be included within application material in support of existing requirements on the group engagement team’s understanding of component auditors.</p>
GA4(b)(ii)	<p>We believe that group engagement teams are implicitly already responsible for making this determination. However, we do not believe explicit determination and related documentation would be helpful in all cases, as this may result in a somewhat unnecessary (excessive) work effort and documentation. A requirement for the group engagement team to explicitly document the conclusions for each individual component auditor is likely unnecessary, and unduly onerous in the case of a large group where a significant number of component auditors are involved. It would be more appropriate to focus on potential issues, that is, focus on component auditors where certain characteristics prompt a more detailed evaluation e.g., potential issues identified with regards to a component auditor’s competence, or concerns over being able to be sufficiently involved in a component auditor’s work (see access issues discussed previously).</p> <p>Explicit determination should be documented by the group engagement team where reliance is placed on the potential component auditor. This should be focused on only the material components which are deemed to be significant for the group.</p>

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)	The most meaningful action to address is to improve the linkage between ISA 600, and ISA 315 (Revised) and ISA 330 to better support the application of
GA5(a)(ii)	those standards in group audit engagements. Improving the linkage will enable

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	the group engagement team to better consider and respond to risks in the context of group audits.
GA5(a)(iii)	See our response to question GA7.
GA5(a)(iv)	No further matters noted.

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

- (a) Paragraphs 254–261 set out issues relating to applying the concept of materiality in a group audit. Do you agree with the possible actions recommended in paragraph 261 to clarify the different aspects of materiality in a group audit? If not, please indicate which actions are not appropriate and describe why.
- (b) Recognizing that significant changes to ISA 320 will not be contemplated until a review of ISA 320 has been performed in its entirety (potentially as part of a future project to address 9materiality more broadly), please describe any other relevant issues or additional actions that you think may be appropriate relating to component materiality, component performance materiality or the clearly trivial threshold at the component level.

GA6(a)	We agree with the possible actions recommended to clarify the different aspects of materiality in group audits, as further described in GA6(b) below.
GA6(b)	We believe it would be helpful to provide additional guidance on the distinction between the group audit’s clearly trivial reporting threshold and the threshold to be used by component auditors in conducting their audits. As a further extension of the question of how to deal with certain equity accounted or joint venture entities, we believe it would be useful to provide guidance on how the concept of component materiality may be applied.

**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?

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- (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
- (i) What are your views on scoping the audit based on identifying and assessing the risks of material misstatement for the group as a whole, rather than focusing the determination of the necessary work effort on the determination of whether components are considered significant or non-significant? Are there any practical challenges that we need to consider further?
  - (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?

<p>GA7(a)(i) GA7(a)(ii)</p>	<p>The meaningful actions to address are:</p> <ul style="list-style-type: none"> <li>• Bringing clarity to the question of what it means to apply all relevant ISAs in work conducted on a component's financial information. In particular, questions arise most commonly when the group team determines that an audit of one or more account balances, classes of transactions or disclosures is necessary at the component. In such cases, the component auditor is not conducting an audit of the full component entity. Therefore, are there ISAs and or requirements of certain ISAs that are no longer relevant?</li> <li>• Addressing in the ISA how audit evidence that has been conducted centrally is communicated and shared across teams. For example, in our view, when ITGC testing is conducted centrally by a group engagement team and a component auditor is placing reliance on system generated reports and controls, this is so pervasive to the component auditor work, that they need to have an understanding of the work performed and evaluated the results of the work to have a sufficient basis to form their opinion on the component's financial information.</li> <li>• Highlighting considerations for component auditors who are also</li> </ul>
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	<p>undertaking statutory audits and how the distinction in work effort might be different.</p> <ul style="list-style-type: none"> <li>• Clarifying the nature of specified audit procedures and their characteristics that distinguish them from agreed-upon procedures. We agree that confusion exists over the term “specified audit procedures” and how it compares to “agreed-upon procedures”. We do not believe that there was intended to be a difference between ISA 600.27(c) and 29, and if that is proven to be the case, we suggest simply aligning both to refer to “specified audit procedures”.</li> </ul>
GA7(a)(iii)	None noted.
GA7(a)(iv)	No further matters noted.
GA7(b)(i)	<p>We agree with the proposed view of scoping the audit based on identifying and assessing the risks of material misstatement for the group as a whole.</p> <p>We believe that updating the overall group audit scoping framework to focus on the specific risks of material misstatement at the group level would represent a very significant change that would require careful consideration and significant implementation effort. Further evaluation of likely impact and cost/benefit analysis would be necessary, in our view, before making such a holistic change.</p> <p>Additional application guidance could be included in the ISA to provide clarity on the different circumstances (for example, firms with different audit approaches, quality control procedures, languages and jurisdictions) that may lead to an approach being adopted and the communication thereof.</p>
GA7(b)(ii)	<p>We support the principle that the group engagement team should, as a matter of course, be assessing whether risks of material misstatement are being addressed by the components that they have determined to be ‘in-scope’.</p> <p>We support additional application guidance with regards to determining what level of work may be appropriate over non-significant components. Additional guidance and illustrative examples may be helpful on the extent of work to be performed over non-significant components and ‘how much is enough’, taking into account the relative size of the component, risk, building in an element of unpredictability in component selection.</p> <p>More clarity is needed to explain the reason and the level of work expected to be performed over non-significant components (which appears to be an oxymoron as these are components which are deemed not be significant to the group, yet work is still required to be carried out, hence, apparently defeating the purpose of scoping). It would appear that all entities, regardless of size,</p>

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	<p>would have to be evaluated and may be selected for testing for the purpose of group audits. Pareto’s principle should be applied in this context to ensure efforts are spent on matters that are truly important. There should perhaps be documentation on the basis for non-significant components being deemed to be so and evaluate whether these components could be subject to management fraud.</p>
GA7(b)(iii)	<p>It is important to note that for large group audit engagements, it will be impracticable for the group engagement partner to be involved across the entire spectrum of group sub-consolidations. The group engagement team needs to necessarily have an understanding of the group structure and sub-consolidation process but the quality of work at the sub-consolidation level is best addressed through the engagement partner in the jurisdiction in which that consolidation is taking place.</p> <p>However, the group engagement partner should still be responsible for the consolidated financial statements and for all aspects of audit quality control.</p> <p>The concept of “delegated quality control” may not be favourably looked upon by regulators. It also defeats the purpose of naming the audit partner as per ISA 700.</p>
GA7(b)(iv)	<p>We are of the view that the existing requirements in the ISA are appropriate. In the event that a separate section of the ISA is developed addressing requirements for component auditors, such a section can include an appropriate requirement that mirrors the intent of the existing requirements that are drafted in the context of the group engagement team’s requests of component auditors.</p> <p>The identification of any subsequent events is a key element of the two-way communication between the group engagement team and component auditors and drawing further attention to this in the communications section of the ISA would be appropriate.</p>

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

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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) GA8(a)(ii)	<p>We consider the most meaningful action to address are:</p> <ul style="list-style-type: none"> <li>• Strengthening the communication requirements between the group engagement team and the component auditors and emphasizing the importance of ongoing two-way communications; and</li> <li>• Strengthening the application material to address relevant considerations to be taken into account by a group engagement team in determining the nature and extent of review that is appropriate in the circumstances.</li> </ul> <p>Two-way communications play a key role in evidencing appropriate evaluation of the work of component auditors. Strengthening the application material to clarify the necessary work effort of the group engagement team builds on the group engagement team's evaluation of the component auditor, including their competence and adoption of common network policies and procedures designed to support audit quality.</p>
GA8(a)(iii)	<p>We do not support the explicit requirement mandating that the group engagement team review detailed working papers. Taking into consideration access issues that exist across jurisdictions, we foresee challenges it would pose to auditors to comply with the requirement.</p>
GA8(a)(iv)	<p>No further matter noted.</p>

GA9. *The Impact of New and Revised Auditing Standards*

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

GA9	<p>We support the IAASB's proposed action to consider the need to focus on disclosures and communication of Key Audit Matters in the group audit context. The AASB has not identified any other implications from the new and revised standards to be considered.</p>
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**The following questions are overall questions relating to group audits:**

GA10. Are there any other issues relating to group audits that we have not identified? If

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yes, please provide details. What actions should we take to address these issues?

GA10	The IAASB should evaluate the impact of technology and changes in audit approaches, including data analytics on group audits. In addition, the use of group substantive analytics and its application to the components should also be considered explicitly in ISA 600.
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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	None noted.
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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	None noted.
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GA13. Are there any specific public sector considerations related to the issues and potential actions described in this section? Are there any other public sector considerations of which we should be aware? If so, please provide details and views about these matters.

GA13	None noted.
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