



IAASB Update

EU REPARIS Audit Training of Trainers

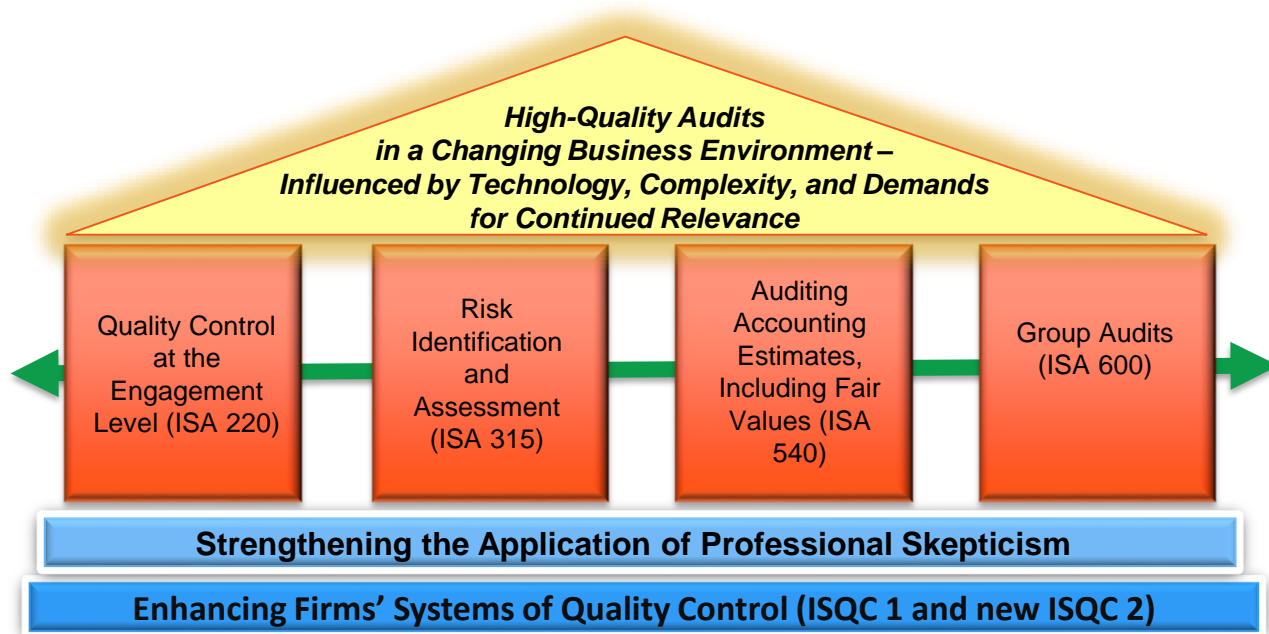
February 27, 2018

Megan Zietsman, IAASB Deputy Chair

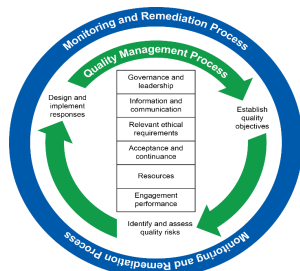


International Auditing
and Assurance
Standards Board

“The Global House of Audit – Under Renovation”



ISQC1 and ISA 220 Quality Management Approach



Data Analytics

- Request for Input issued – Analysis of Responses
- Continuing consideration in other ongoing projects

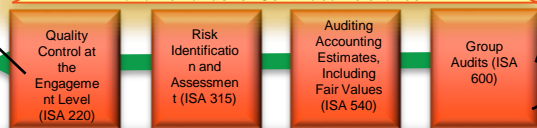
ISA 600 Group Audits

- Group Audits Project Update published
- Strong linkage with other standards, particularly ISA 220, ISQC 1 and ISA 315 (Revised)

Addressing Fundamental Elements of the Audit

The House of Audit Under Renovation

High-Quality Audits in a Changing Business Environment – Influenced by Technology, Complexity, and Demands for Continued Relevance



Professional Skepticism – (4 of 7) Key Observations

1. Increased attention to business acumen is central to the exercise of professional skepticism.
2. Environmental factors can influence the ability to exercise professional skepticism.
3. Awareness of personal traits and biases is essential.
4. Building in professional skepticism from the outset is key.

ISA 315 (Revised)

Identifying and Assessing the Risk of Material Misstatements

Understand the Entity and Its Environment

Understand the Applicable FRF

Identify Significant Classes of Transactions, Account Balances and Disclosures / Relevant Assertions

Spectrum of Inherent Risk

Identify Significant Risks

Other Projects

- Agreed-Upon Procedures
- Emerging Forms of External Reporting

ISA 540 Accounting Estimates

- Exposure Draft published
- Finalization in June 2018

Focus on ISAs and Quality Control Projects in 2018

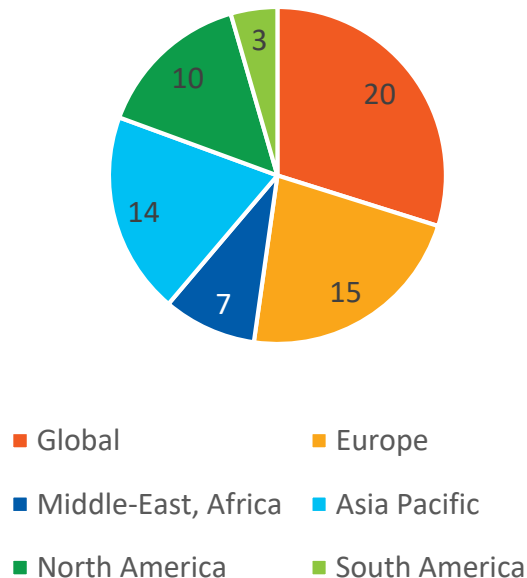
| Project | Targeted Timing |
|---|-----------------|
| Finalization of ISA 540 (Revised) | June 2018 |
| ISA 315 (Revised) Exposure Draft – Exposure Draft | June 2018 |
| Quality Control: | |
| Firms: ISQC 1 (Revised) – Exposure Draft | September 2018 |
| EQC Reviews: Proposed ISQC 2 – Exposure Draft | December 2018 |
| Audit Engagements: ISA 220 (Revised) – Exposure Draft | December 2018 |
| Other Projects: | |
| ISA 600, Agreed Upon Procedures and EER progressed; Data Analytics and Professional Skepticism considered in ongoing projects and as part of new project on Audit Evidence (targeted to commence in 2018); ongoing focus on SMP/SME | |

ISA 540 – Auditing Accounting Estimates

ISA 540 – Responses to ED

| Total | 69 |
|--|----|
| Regulators and Oversight Authorities | 9 |
| National Auditing Standard Setters | 9 |
| Accounting Firms | 10 |
| Member Bodies and Other Professional Organizations | 27 |
| Public Sector Organizations | 8 |
| Preparers of Financial Statements | 1 |
| Those Charged with Governance | 1 |
| Academics | 1 |
| Investors | 1 |
| Individuals and Others | 2 |

Geographic Areas



ISA 540 – Overview of Responses to Exposure Draft

- Support for the IAASB's objectives in revising ISA 540
- Concerns about **complexity, impracticality** of proposals
- Questions about implications for “simple” estimates and **scalability** overall despite proposed threshold of low/not low inherent risk
- Support for the **three ‘risk factors’** (estimation uncertainty, judgment, complexity) but should be incorporated into **existing approaches** to auditing estimates (events after balance sheet date, developing an independent estimate, testing management's process)
- Greater focus needed on **data, assumptions and methods**
- Calls for consideration of **PCAOB proposals**, including emphasis on avoiding unnecessary differences

ISA 540 – Current Status of Board Discussions

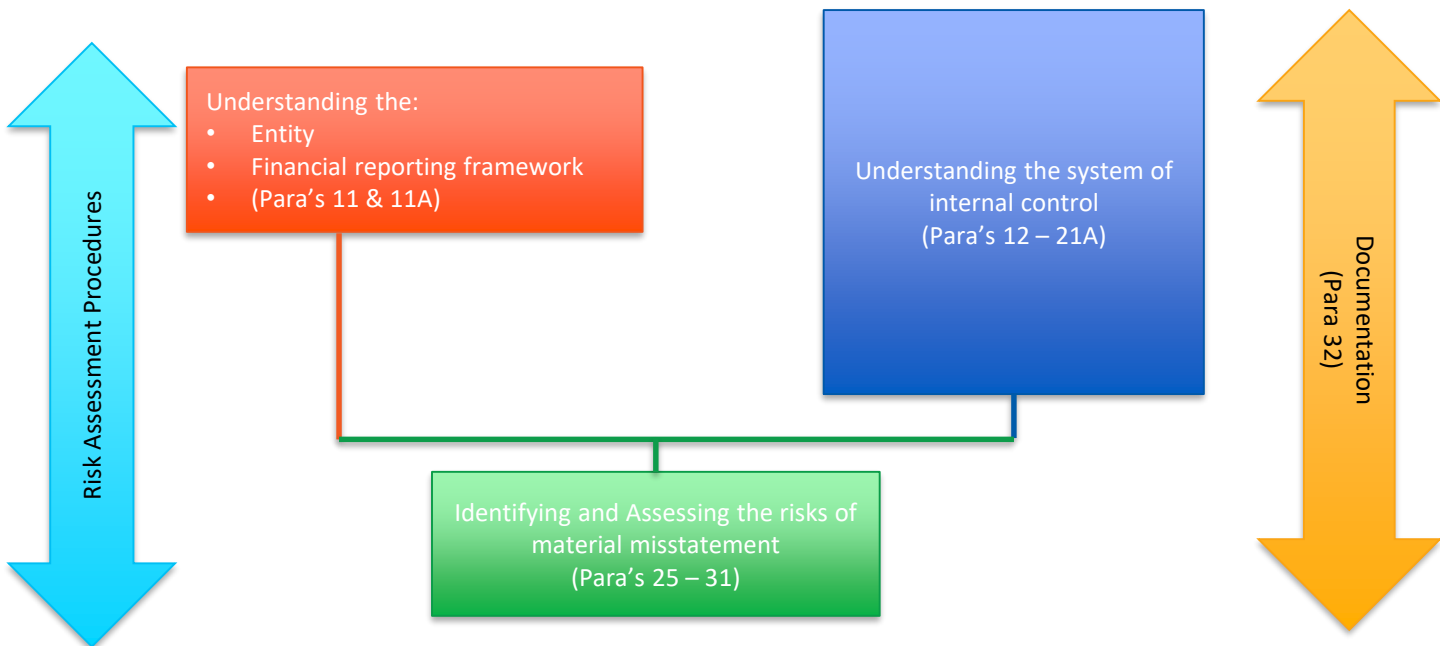
- All requirements discussed in December 2017, including revised proposals presented during the week
 - Refined requirement for **u/standing the entity** (para 10) to improve flow/clarity
 - **Threshold removed** in lieu of better reinforcement of scalability through requirements and application material
 - **Reinforced controls** requirements (para 13A, 16), particularly regarding significant risks and better alignment with ISA 315/330
 - Focussing on the importance of not disregarding **contradictory evidence** (para 15)
 - Work effort restructured to **align with approaches in extant ISA 540** and PCAOB standards, reorganized requirements from ED-540 rather than changing requirements.
 - Revisit **documentation** requirement

ISA 540 – Next Steps

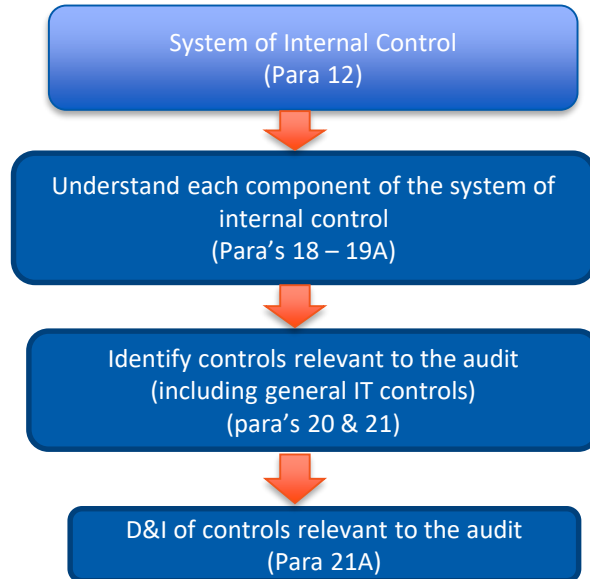
- First read of full revised standard in March 2018
 - Ongoing revisions to requirements
 - Restructure of application guidance and appendices
- Outreach
- Plan for final approval in June 2018

ISA 315 (Revised) – Identifying and Assessing the Risks of Material Misstatement

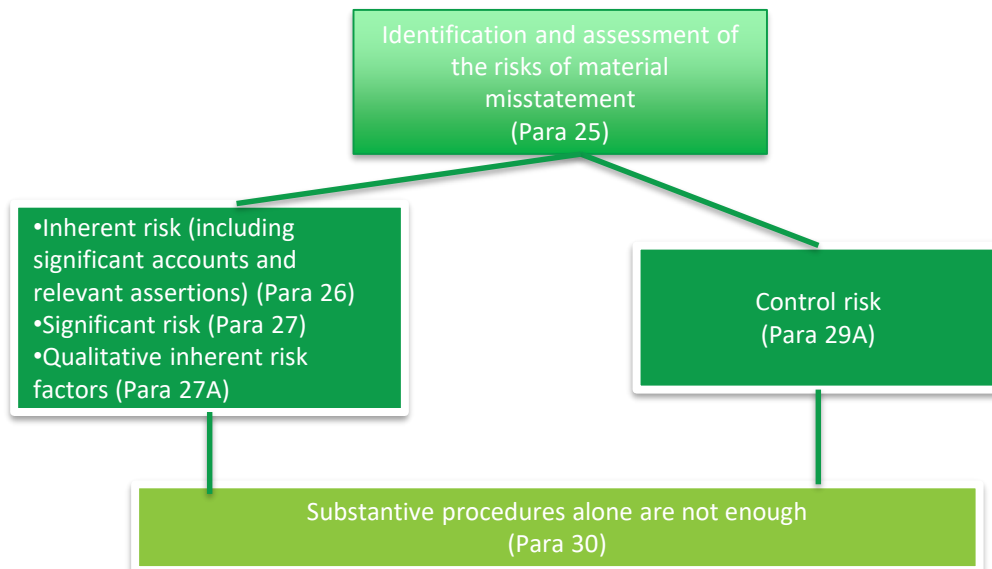
ISA 315 (Revised) - Summary



ISA 315 (Revised) – Understanding the System of Internal Control



ISA 315 (Revised) Identification and Assessment of the Risks of Material Misstatement



ISA 315 (Revised) – Matters Still Being Discussed

- Clarity around work effort related to **understanding / evaluating controls** and determining when they have been implemented (D&I)
 - ‘Indirect’ vs ‘direct’ controls
- Qualitative inherent risk factors – **susceptibility to bias** and linkage to fraud risk
- Interaction of qualitative inherent risk factors / identification of risks / significant accounts / relevant assertions
- **Spectrum of risk**
 - Significant risks
 - Linkage to ISA 200 and ISA 540
- **Material balances** (ISA 330 paragraph 18)

ISA 315 (Revised) – Other Matters

- **Coordination with ISA 540 Task Force**

- Qualitative inherent risk factors
- Spectrum of risk
- Controls relevant to the audit

- **Professional skepticism**

- **Data Analytics**

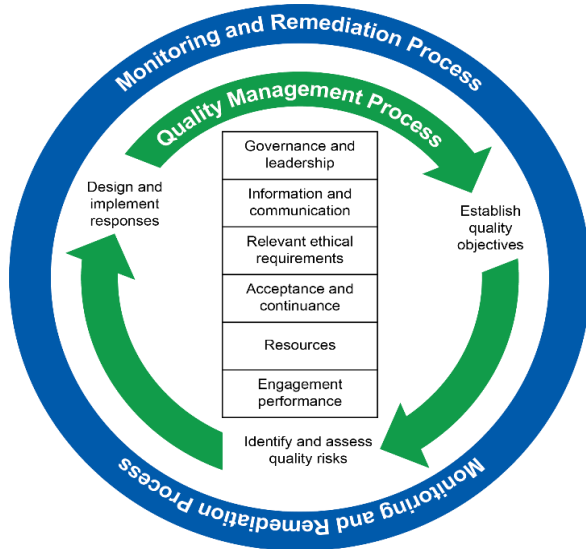
- Coordination with Data Analytics Working Group
 - Application material related to **risk assessment procedures using data analytics tools and techniques** (e.g.; analysis of attributes of transactions or accounts; analysis of journal entries)
- Keep changes principles-based and capable of being adapted as technology continues to innovate

- **Information technology**

- **Scalability**

ISQC 1 – Quality Control at Firm Level

ISQC 1 - Quality Control for Firms



- Continue to **focus on scalability** and keeping the standards **principles-based**, but at the same time **retaining robustness**
 - Plan to develop **examples to accompany the ED**
 - Guidance to emphasize importance of **applying professional judgment**
- **Eight components** that make up the system of quality management
 - Components similar to COSO / ISA 315 (Revised)

ISQC 1 - Quality Risk Assessment Process

- Firm establishes quality objectives, identifies and assesses quality risks and designs and implements responses in relation to the other components
 - In doing so, consider **circumstances of the firm and nature of engagements** it performs
 - **Risk identification and assessment** aspect contains **principles similar to ISA 315 (Revised)**
- **Prescribed quality objectives and required responses** within each component
 - Developed from **requirements in extant ISQC 1** - level of **specificity / granularity** adjusted for consistency and appropriateness
 - Firm establishes **more granular / additional quality objectives**, as necessary
 - Firm **required to identify additional responses** so that quality risks are addressed

ISQC 1 - Governance and Leadership

- Establishes the **“environment” for the system** of quality management
- Prescribed quality objectives and responses that **enhance requirements** from extant ISQC 1:
 - Addresses the firm’s **public interest role**, e.g., through consideration of interests of stakeholders
 - Enhancements to the **culture of the firm to focus on quality**, and extending the culture throughout the firm
 - Linkage between firm’s **strategic decision making** (financial or operational) **and quality**
 - Emphasizing leadership’s role in **allocating resources**
 - Enhanced and more explicit **responsibilities and accountability of firm leadership**, including the **necessary attributes** of leadership
 - New requirement for assigning **operational responsibility for independence**
 - New requirement addressing **performance evaluations of leadership**

ISQC 1 - Monitoring and Remediation

- Increased focus on **monitoring activities for the entire system of quality management**, i.e., less focus solely on inspection of completed engagements
- Monitoring activities, including inspection of completed engagements, more focused on **tailoring the nature, timing and extent of monitoring activities** to the circumstances New:
 - Framework to **guide firms through assessing findings** from **monitoring activities, external inspections and other information** in order to identify deficiencies and evaluate their effect on achieving the quality objectives
 - Requirements to **perform a root cause analysis** on deficiencies
- Enhanced requirements addressing **remediation and assessing effectiveness of remediation**
- Enhanced requirements addressing **communication on an ongoing basis** about the findings from M&R, as and when information arises

ISQC 1 - Other Components and Documentation

• **Information and communication**

- New requirements addressing obtaining, generating and communicating information internally and externally, with **focus on importance of two-way communication** within the firm

• **Resources**

- New requirements addressing **technological and intellectual resources**, with **enhancements to human resources**

• **Documentation**

- Overarching, **outcome-based requirement** to reflect “objective” of documentation
- **Specific documentation requirement** related to certain components, that support overarching requirement, and consistent application

ISQC 1 - Networks and Service Providers

- **Networks**
 - **Definition of a network or network firm** to remain the same as extant
 - **No requirements for the networks** themselves
 - **New requirements for a firm that is part of a network structure** to understand network-level activities and services and their relevance to the firm's SOQM, including determining the firm's responsibilities and supplementary actions in relation to such activities and services, and the required communications (including exchanging information regarding deficiencies)
 - AM addressing **communication of information about other network firms**
- **Service providers** (i.e., when firm uses an external party to provide services related to the SOQM)
 - **Similar principles** to when a firm is part of a network structure and relevant activities

Proposed ISQC 2 – Engagement Quality Control Review

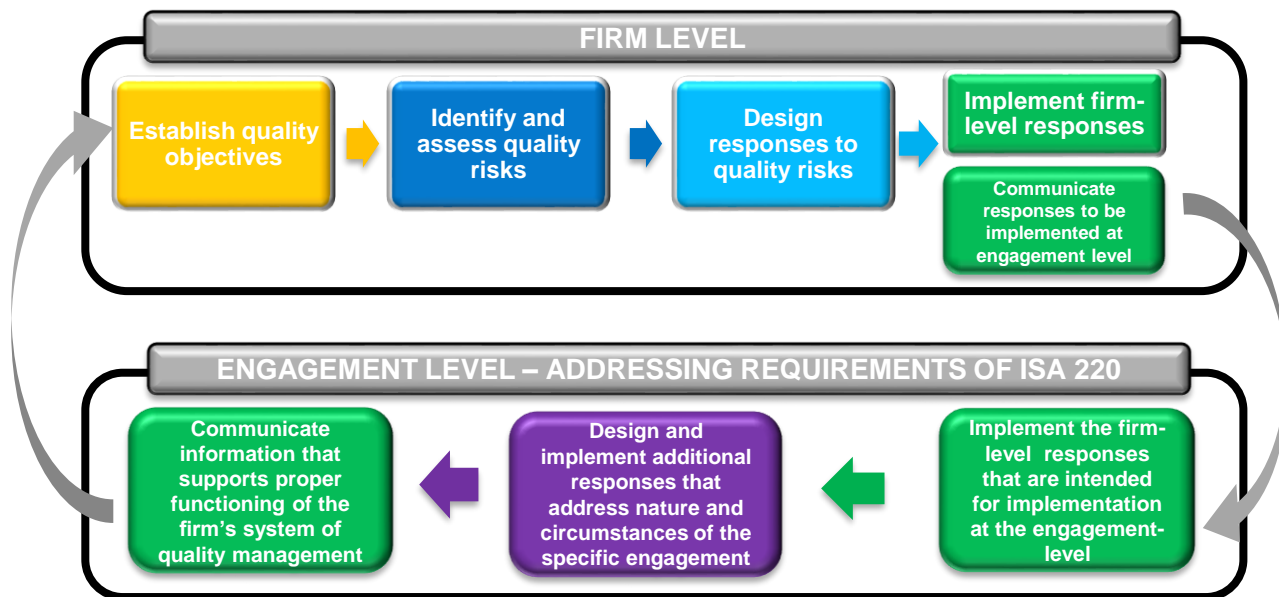
Proposed ISQC 2 – Strengthening and Clarifying the EQC Review

- New separate standard addressing EQC reviews
- Enhanced requirements and application material in relation to:
 - **Scope of engagements** subject to an EQC review
 - **Eligibility of an individual** to be appointed as an EQC reviewer, including objectivity, authority, technical competence and experience
 - **Appointment** of the EQC reviewer
 - Performance of the EQC review, including clarification of **appropriate timing of the review** and strengthening the **nature and extent of the review**
 - **Documentation** related to, and of, the EQC review
- IAASB-IESBA Joint Working Group – purpose is to explore objectivity of the EQC reviewer
 - Includes cooling-off period for engagement partner

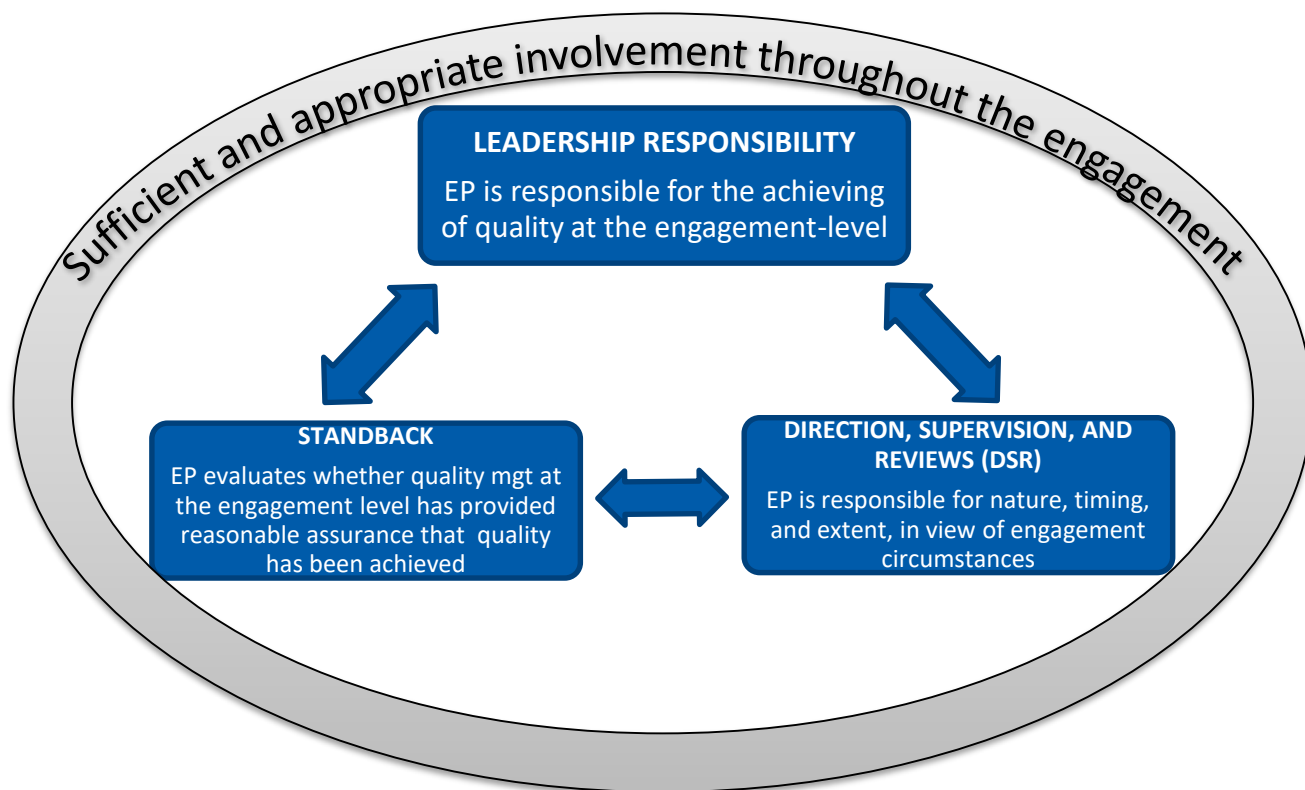


ISA 220 – Quality Control at the Engagement Level

Relationship Between ISQC 1 (Revised) and ISA 220 (Revised)



ISA 220 – Leadership Responsibilities



ISA 220 - Embed Quality Management Principles

- Reinforce the **EP's overall responsibility** for achieving quality at the engagement-level
 - Emphasize the importance of setting the right “**tone from the top**” and **leading by example**
 - Recognize EP's **ability to assign** certain activities to other members of the engagement team to assist the EP in fulfilling the overall responsibility.
- Refreshing focus on fulfilling **relevant ethical requirements**; requiring the EP to be proactive in:
 - **Understanding the relevant ethical requirements**, including independence
 - Being satisfied that other members of the **engagement team are aware** and also understand such requirements
 - Being satisfied that **firm's policies and procedures** that address relevant ethical requirements for the engagement have been **followed** and that **conclusions** reached are **appropriate**.

ISA 220 - Embed Quality Management Principles

- **Acceptance and Continuance of Client Relationships and Audit Engagements**
 - Making informed conclusions
 - Taking information learned in this process into account when addressing the other ISAs (including ISA 315 and ISA 330)
- **Broadening the focus on Engagement Resources**
 - Capturing the broader resources required or deployed to perform an audit (e.g., **including human, technological, and intellectual**)
 - Engagement Teams
 - The right **people**, in the right **place**, at the right **time**
 - Addressing implications of use of **service and audit delivery models**

ISA 220 - Embed Quality Management Principles

• Engagement Performance

- Emphasize importance of **tailoring the nature, timing and extent of direction, supervision and review** to the nature and circumstances of the engagement
- Ongoing consideration of strengthened requirements, especially relating to reviews and providing additional specificity as to what the **EP should review**
 - Align/balance with requirements of the engagement quality control reviewer (ISQC 2)

• New standback

- EP to be satisfied that quality management at the engagement level has provided reasonable assurance that quality has been achieved:
 - Has the EP's **involvement been sufficient and appropriate** to provide the basis for determining that **significant judgments** and **conclusions** are appropriate for the engagement
 - Have **significant changes** in the nature and circumstances of the engagement or the firm's policies and procedures been taken into account.

ISA 600 – Group Audits

ISA 600 – Group Audits

- Group Audits Task Force intends to continue to progress issues in light of changes being made in other projects
- **Proactive liaison** with other Task Forces (e.g., Quality Control TF, ISA 220 TF, ISA 315 (Revised) TF) on crossover issues
- Consideration of **specific group audits issues** (e.g., component materiality, consolidation, communication with the component auditors)
- **Project Update** published October 2017 about issues being considered in the revision of ISA 600 and explaining the linkages with other projects

Professional Skepticism

Professional Skepticism – Key Observations

- Key observations to-date of the joint Professional Skepticism Working Group (PSWG) (joint IAASB/IESBA/IAESB Working Group) as a result of outreach and discussions:

1. Increased attention to business acumen is central to the exercise of professional skepticism.

2 Environmental factors can influence the ability to exercise professional skepticism.

3. Awareness of personal traits and biases is essential.

4. Building in professional skepticism from the outset is key.

- IAASB/IESBA/IAESB: Professional Skepticism Stakeholder Publication [Toward Enhanced Professional Skepticism](#) (Aug 2017)
- The IAASB Sub-Group continues to coordinate with other Task Forces (e.g., ISA 540, ISA 315 (Revised), ISQC 1, ISA 220)

Other Projects and Initiatives

Data Analytics

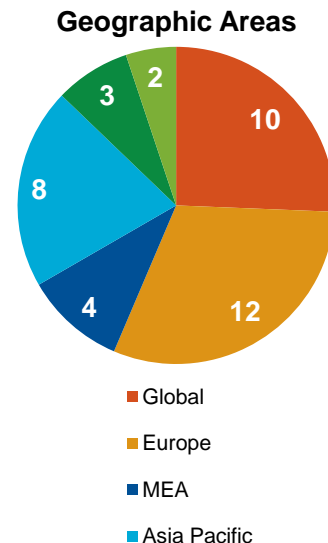
- Request for Input (RFI) (closed early 2017) - 51 responses received from a wide-variety of stakeholders
- Strong and consistent recognition that **data analytics has ability to enhance audit quality**
- Much support for the IAASB to undertake the initiative
- Positive remarks that the RFI identified many important issues – early stage analysis
- Encouraged continued **active participation by Data Analytics Working Group in standard-setting activities as current projects progressed**
- Must provide a clear explanation of what is meant by data analytics
- Caution regarding the way-forward
 - Targeted changes vs. separate standard
 - Data analytics is being considered in each current project as relevant (for example, ISA 315 (Revised), ISQC 1, ISA 220)

Agreed Upon Procedures

- Feedback received on the Discussion Paper, *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's Standards*
 - Support for standard-setting to revise ISRS 4400 – growing demand for AUP engagements on both financial and non-financial information
 - Agreement that multi-scope engagements not in scope of project
- Project proposal to revise ISRS 4400 approved in September 2017
 - Role of professional judgment in an AUP engagement
 - Independence of the professional accountant
 - Terminology used to describe procedures in AUP report
 - AUP engagements on non-financial information
 - Using the work of an expert
 - Format of the AUP report and restrictions thereon
- Board discussion on March 2018 on issues

Emerging Forms of External Reporting (EER)

- 39 responses to the Discussion Paper
- The paper covered:
 - The factors that can enhance credibility and trust, internally and externally, in relation to emerging forms of external reports;
 - The types of professional services covered by the IAASB's international standards most relevant to these reports, in particular assurance engagements;
 - The key challenges in relation to assurance engagements;
 - The type of guidance that might be helpful to support the quality of these assurance engagements.
- Commencement of development of non-authoritative guidance in late 2017



Auditor Reporting Implementation

www.iaasb.org/auditor-reporting

IAASB Publications to Support Implementation, including:

- Auditor Reporting Fact Sheet, “At a Glance” and Basis for Conclusions
- Publications on Going Concern and KAM, including 1-page overview on determining KAM and illustrative KAM examples
- The New Auditor’s Report: A Comparison between the ISAs and the PCAOB Final Standard
- More Informative Auditor's Reports - What Audit Committees and Finance Executives Need to Know
- Questions and Answers

Post-implementation review planned to commence in late 2018/early 2019

Other IAASB Projects and Initiatives

- Consultation on IAASB's Strategy 2020–2023 to commence in 2018
- Ongoing coordination with the International Ethics Standards Board for Accountants (IESBA)
 - Impact of newly restructured Code of Ethics for Professional Accountants
- Audit Evidence – planned to commence later in 2018
 - Aspects of some ongoing initiatives to be included; and other areas where issues identified including data analytics, professional skepticism and consideration of other standards (ISA 230 (Audit Documentation), ISA 520 (Analytical procedures), and ISA 530 (Audit Sampling))
- Audits of SME's / SMP's
 - Roundtables held in Paris early 2017
 - Continuing exploration by IAASB (scalability in existing projects; AUP; further consideration about what else can be done)
 - Executive session discussion in March 2018

Addressing the Needs of SMPs / Audits of SME's (Cont.)

- Working Conference held in Paris – 2 days (one day ISA's and one day Other Services)
- IAASB discussions in March 2017:
 - Make the standards more “usable” (examples, plain English, implementation guidance) – pick up in current projects, e.g., QC
 - Standards not easy to navigate - consider making Handbook electronic and interactive
 - Proportionality & scalability: consider how a framework can be developed and used when drafting new and revised standards
 - Separate standard for audits of SME's? Too early for a decision – Is it about complexity vs non-complexity? – Explore further
 - Other than audit: IAASB currently undertaking a number of consultations on other services (e.g., EER; AUP incl multi-scope)
 - Publish feedback statement from ‘Paris’ and continue public dialogue



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