

**To:** IAESB  
**From:** Prof. Arnold Schilder  
Chairman, International Auditing and Assurance Standards Board (IAASB)

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## **International Auditing and Assurance Standards Board (IAASB) – 2017 Q4 Activity Report**

The summaries below are the highlights from the October and December 2017 IAASB meeting. For more information on any of the individual projects or initiatives, please visit [www.iaasb.org/projects](http://www.iaasb.org/projects).

### **Auditing Accounting Estimates**

In October 2017, the Board discussed the respondents' comments on the Exposure Draft of Proposed ISA 540 (Revised)<sup>1</sup> and the ISA 540 Task Force's proposed direction regarding the scalability of the ISA. The Board also discussed how the concept of a spectrum of inherent risk could be more clearly reflected in the ISA to support scalability of the auditor's response, whether inherent risk is low or not low, and the conforming amendments to ISA 500.<sup>2</sup> The Board supported aligning the terms used for the risk factors with those being considered for similar factors in the revision of ISA 315 (Revised) and in the PCAOB's proposals on auditing accounting estimates. The Board also supported the proposed direction of the ISA 540 Task Force in restructuring the ISA and discussed the potential implications, for the scalability of the standard, of removing the threshold of low inherent risk.

In December 2017, the IAASB further discussed key issues raised by respondents in relation to the Exposure Draft of ISA 540 (Revised), including the scalability of the ISA, the use of the term "reasonable," the exercise of professional skepticism and the Task Force's approach to the application material. The IAASB also discussed the Task Force's revisions to requirements and application material based on comments received on the Exposure Draft. The IAASB asked the Task Force to focus on redrafting the application material according to the planned approach with a view to conducting a first read of ISA 540 (Revised) in March 2018, ahead of a targeted approval in June 2018.

### **Identifying and Assessing the Risks of Material Misstatement**

In October 2017, the Board broadly discussed revisions to the definition of 'controls,' as well as what it means to obtain an understanding of the five components of internal control. The board also discussed proposed changes in relation to IT aspects when obtaining an understanding of the entity and its environment, the entity's financial reporting framework and the components of internal control (including in relation to general IT controls). The Board broadly supported the proposed changes but highlighted that the boundary of the auditor's understanding in relation to financial reporting needed to be clarified.

In December 2017, the Board discussed a first read of proposed changes to the requirements and application material of ISA 315 (Revised). The Board broadly supported the proposals, but asked for further consideration by the Task Force on various matters, including aspects of the definitions of 'controls' and 'relevant assertions,' and regarding the introduction of the term 'business model' and its interactions with current requirements of the standard. The Board also questioned the use of 'sufficient and appropriate' as it relates to potential confusion with "sufficient appropriate audit evidence" and whether a change may have unintended consequences if this concept were to be introduced as proposed. The Board encouraged further consideration about how fraud can be included as a qualitative inherent risk factor, taking into account how this would link to the fraud risk factors in ISA 240.<sup>3</sup> The Board continued to be supportive of the introduction of "spectrum of risk" but thought the spectrum of risk could be better emphasized and explained earlier in the standard. The Board recognized the need for further consideration about scalability, but agreed that scalability should be presented through the requirements and application material in context of the auditor's consideration of risk thereby eliminating the need for "considerations for smaller entities." The Task Force will continue to progress the proposed changes to the standard for a second read of an exposure draft in March 2018.

### **Quality Control at the Engagement Level**

In December 2017, the IAASB supported the direction of the proposed changes to ISA 220. In particular, the Board supported the proposed changes that emphasize that the engagement partner is responsible and accountable for audit

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<sup>1</sup> ISA 540 (Revised), Auditing Accounting Estimates and related disclosures

<sup>2</sup> ISA 500, Audit Evidence

<sup>3</sup> ISA 240, The Auditor's Responsibility Relating to Fraud in an Audit of Financial Statements

quality. The Board encouraged the ISA 220 Task Force to consider, as it progresses revisions to ISA 220, how the proposed changes will strengthen the performance of quality audits.

### **Quality Control at the Firm Level**

In December 2017, the Board discussed a first read of the proposed exposure draft of ISQC 1 (Revised) and was broadly supportive of the direction of the standard. The Board focused on the scalability of the standard, clarifying the interrelationship of the components, and the appropriate placement of the governance and leadership component. As well as requesting the Task Force to clarify the meaning of deficiencies and major deficiencies, the Board asked that a framework be developed for assessing deficiencies in the system of quality management and requested clarification of how such deficiencies may impact the achievement of the overall objective of the standard. The Board also asked the Task Force to reconsider the threshold for the identification of quality risks and encouraged the Task Force to explore the development of appropriate guidance to accompany the proposed exposure draft that addresses the application of the standard to a spectrum of firms. The Task Force will continue to progress the proposed changes to the standard for a second read of an exposure draft in March 2018.

### **Group Audits**

In December 2017, the Board received a presentation about the interconnections between ISA 600 and other ongoing projects, and how the Task Force is monitoring the activities of the other task forces, providing input and considering implications of changes in the other standards on ISA 600.

### **Emerging Forms of External Reporting (EER)**

In October 2017, the Board approved a Project Proposal to develop non-authoritative guidance to address key challenges, identified by the IAASB, which arise in the performance of assurance engagements over emerging forms of external reporting. The Board noted and supported the proposed resourcing model for the project, which would involve grant funding from the Gordon and Betty Moore Foundation, obtained through the WBCSD, and discussed the nature and importance of the arrangements established to secure the independence of the IAASB. The Board also agreed to publish a Feedback Statement setting out a high-level summary of the responses to the Integrated Reporting Working Group's *Discussion Paper: [Supporting Credibility and Trust in Emerging Forms of External Reporting-Ten Key Challenges for Assurance Engagements](#)*.

In December 2017, the Board received an update on the project. It was noted that the grant agreement with the WBCSD was finalized for the funding of the project and that the Project Proposal and Feedback Statement has been finalized to be published on the IAASB's website. The board also received an update on the plan for developing the framework for the non-authoritative guidance for EER during the next year, including the required research to be gathered and the establishment of a Project Advisory Panel (PAP).

The board was supportive of the overall direction of the project and gave its support for the establishment of the PAP.

### **Professional Skepticism**

In December 2017, the IAASB discussed the Professional Skepticism Subgroup's analysis and related conclusions regarding different "mindset" concepts of professional skepticism and the use of the words in the ISAs. The Board supported the conclusions of the Subgroup, including that the current concept of the attitude of professional skepticism involving a "questioning mind" continues to be appropriate and should be retained within the ISAs. The IAASB Professional Skepticism Subgroup will liaise as needed with the Professional Skepticism Joint Working Group.

### **Data Analytics**

In December 2017, the IAASB received a video presentation as well as feedback statement in regards to the outreach and responses received from the public. The update included, in broad the work done by the Working Group since the last board meeting, but specifically the opportunity to work with the ISA 315 (Revised) Task Force in developing specific application material relating to Data Analytics.

### **International Accounting Standards Board (IASB) Annual Update**

In October 2017, the IAASB received a presentation from Mary Tokar, IASB member, about recent IASB activities, with a focus on matters that may be of particular interest to the IAASB. The presentation included an update on the central theme of their current agenda 'Better Communication in Financial Reporting,' which included updates on their work on the Primary Financial Statements, the Disclosure Initiative and their recently published Materiality Practice Statement. Mary Tokar also discussed the IASB's research program, their implementation support for new International Financial Reporting Standards' and relevant upcoming consultations. The summaries below are the highlights from the October and

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