

Clarified ISAs—Findings of the Post-Implementation Review

Foreword from the IAASB Chairman

The objective of the International Auditing and Assurance Standards Board (IAASB) is to serve the public interest by setting high-quality auditing, assurance and other related standards, and to facilitate the convergence of international and national standards. These objectives contribute to enhanced quality and consistency of practice throughout the world and strengthen public confidence in the global auditing and assurance profession.

In March 2009, the IAASB completed its Clarity Project that had involved a comprehensive review of all the International Standards on Auditing (ISAs) to improve their clarity and thereby facilitate their consistent application. Approximately half of the clarified ISAs included substantive changes aimed at improving practice in a variety of respects. At the time the Clarity Project was finalized, the IAASB committed to gathering information to help it evaluate whether further changes to the ISAs might be needed.

This report summarizes the findings from a post-implementation review of the clarified ISAs. Input has been received from within the profession (including from accounting firms and International Federation of Accountants (IFAC) member bodies) and from external groups (including independent audit inspection bodies and other regulators). The IAASB is extremely grateful to all those who have taken the time to submit their views.

The findings suggest that the clarified ISAs are generally understood and most of those that ~~were had~~ been revised appear to have achieved the goals that the IAASB had when revising them. Inevitably, however, there are many suggestions as to how individual ISAs can be further improved. These suggestions vary significantly and an important challenge that the ~~Task Force~~ IAASB has faced is how best to summarize them to assist ~~the IAASB~~ in identifying those that need to be addressed as a matter of priority. This paper describes the process that has been applied by the ~~Task Force~~ IAASB to summarize the comments that have been received and identifies the main themes that have emerged. This does not mean that the value of individual comments will be lost. All comments will be retained by the IAASB and will be referred to in the event that a relevant ISA is revised in the future.

This report is very timely. Subject to progress on current and other planned projects, the findings in it will provide input to the IAASB's decision on commencing an additional standard-setting project in 2014. Furthermore, the IAASB ~~will soon~~ is starting to develop its Strategy and Work Plan for 2015–2019, a draft of which will be issued for consultation later in 2013. The findings from this post-implementation review are an important input to this process.

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A. Background of the Project

1. In March 2009, the International Auditing and Assurance Standards Board (IAASB) completed its Clarity Project. ~~This project involved a comprehensive review and redrafting of all 36 International Standards on Auditing (ISAs) and International Standard on Quality Control (ISQC) 1⁴ to improve their clarity and understandability of the International Standards on Auditing (ISAs) and International Standard on Quality Control (ISQC) 1 and, thereby, facilitate their consistent application.~~² In addition to improving the clarity, the IAASB substantively revised approximately half of the ISAs. The clarified standards comprise:

- One new ISA addressing communication of deficiencies in internal control;
- Sixteen ISAs that contain new and revised requirements;
- Nineteen ISAs redrafted to apply new conventions and addressing clarity issues; and
- Redrafted ISQC 1.

(Appendix 1 summarizes the standards that have changed.)

2. One of the initiatives that the IAASB committed to undertake in its *Strategy and Work Program, 2009—2011*, was the development of a process for assessing the effectiveness of the implementation of the clarified ISAs.

3. In June 2009 the IAASB agreed that this project would be undertaken in two Phases:

Phase One	Obtaining pre-implementation information from a number of countries and firms about their experiences in introducing the clarified ISAs into their national standards or firm audit methodologies
Phase Two	A post-implementation review of the clarified ISAs, and certain recently revised ISAs, ³ to determine whether there is a need for further refinement of those standards

4. Work on Phase One was undertaken in 2009 and 2010 and resulted in a report that was published in November 2010.⁴ The main findings were:

- The clarity conventions applied to the format, structure and drafting of the ISAs were viewed as helpful improvements.
- Many thought that the added rigor of the revised standards was appropriate and a helpful response to issues arising from the global financial crisis.
- Larger accounting firms were embedding the clarified ISAs in their methodologies with relatively few problems being identified, other than concerns from some about a relatively narrow aspect of the standard dealing with group audits (ISA 600).⁵

⁴ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

² The clarified ISAs became effective for audits of financial statements for periods beginning on or after December 15, 2009.

³ In addition to those ISAs that were revised as part of the Clarity Project the IAASB invited comments on other recently revised standards including ISQC 1 and ISAs addressing quality control, documentation, fraud, planning, the auditor's risks assessment and response, and auditor reporting.

⁴ Report available at: <http://www.ifac.org/download/IAASB-Implementation-Monitoring-Clarified-ISAs.pdf>

⁵ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*: a number of firms raised issues on how to apply the requirements to significant components that are accounted for under the equity method under the applicable financial reporting framework.

- There was some concern about whether the ISAs could be applied in a cost-effective manner to the audits of smaller entities. ~~The IAASB recognized~~ the need for specific information on the extent and nature of any implementation difficulties on smaller audits. Accordingly, the IAASB initiated a survey for Small and Medium Practices (SMPs) ~~from a range of countries that had already implemented the clarified ISAs, the results of which would be analyzed as part of Phase Two of the project~~ this survey are described in Section D.

5. The primary objective of Phase Two of the project was to determine what, if any, changes are needed:

- In order to increase the consistency of practitioners' understanding of the ISAs, and
- For recently revised ISAs, to achieve the IAASB's goals in revising them.

However, the IAASB also anticipated receiving comments on how the clarified ISAs could be further enhanced to improve audit quality and acknowledged that, if other suggestions were made that would help improve the ISAs, they would also be considered.

6. Phase Two was targeted at those stakeholders most directly involved in the audit process, in jurisdictions that had implemented the clarified ISAs in line with the effective date² set by the IAASB. Respondents would therefore be able to base their comments on the use of the clarified ISAs for two audit cycles. The IAASB encouraged input from audit inspection bodies and other regulators, auditors (both in the public and private sector), and national auditing standard setters (NSS), but emphasized that the consultation was also open to any respondent who wished to provide their views.

7. Information gathered during the post-implementation review comprised:

- Written responses from stakeholders,⁶ supplemented with additional dialogue where necessary.
- A survey on the application of the ISAs on smaller audits undertaken in ten countries (see Section D); and
- A survey of audit committee members from four countries about communications between auditors and those charged with governance⁷ (see Section E).

8. The findings from this project will be an important input to the IAASB's planning process, both in the short term and in the context of its 2015—2019 strategy deliberations. When considering the concerns that have been raised, the IAASB will consider whether changes to the ISAs may be needed, or whether the concerns raised are more likely implementation or training issues, and therefore whether other courses of action may be more appropriate.

⁶ In order to obtain candid input, the IAASB advised potential respondents that their letters would not be made public. This report, and Appendix 2, summarizes the comments submitted to the IAASB.

⁷ The survey was undertaken to determine whether there were any issues arising from the application of ISA 260, *Communication with Those Charged with Governance*, and ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*.

B. Overview of Responses Received

9. Thirty written responses (see Appendix 24 for the list of respondents) were received from a broad range of stakeholders, including:

	No. of Responses	%
Audit inspection bodies and other regulators	6	20
National auditing standard setters (NSS)	4	13
Accounting firms	12	40
Public sector auditors	3	10
IFAC member bodies	4	13
Individuals	1	4
	30	100

10. Geographically, the responses were received from:

	No. of Responses	%
Africa	2	7
Australia / Oceania	6	20
Asia	1	3
Europe	5	17
North America	3	10
South America	1	3
International ⁸	12	40
	30	100

C. Summary of Written Responses

11. In providing their feedback, respondents were asked to share their views on a list of key areas of focus for the IAASB, including areas of consistency, effectiveness and efficiency. However, there was not a defined set of questions and respondents were free to present their views on any topics. A wide range of comments were received, some of which specifically addressed the key areas of focus, but the majority did not.

12. While comments of a general nature were received, the vast majority of comments were related to individual ISAs and included areas where the respondents had the view that changes to individual ISAs are needed. The level of detail in the written responses varied greatly. Some letters focussed on more strategic issues, while others provided very detailed points on the requirements and application material.

13. Some of the comments from audit inspection bodies arose from concerns in audits they had inspected. Such concerns may relate to deficiencies in the ISAs, but could also be the result of auditors not applying the ISAs ~~properly~~ appropriately for a variety of reasons.

⁸ These letters have been submitted in representation of the views of a global or otherwise multi-jurisdictional organization and cannot be allocated to any specific geographical area.

General Comments

14. A number of respondents made general comments on the following aspects of the clarified ISAs and their implementation. However, not all respondents commented on all topics and, as a result, it is not possible to reach definite conclusions on these matters.

<p>Improvements in ISAs</p>	<p>Some practitioners responded <u>commented</u> that the IAASB had achieved its goals in revising the ISAs and a few others reported that the clarification exercise had been well-received by auditors.</p> <p>Several respondents had the view that the clarified ISAs were <u>are</u> clear and understandable and one accounting firm noted that it was a significant improvement on the ISAs that preceded them.</p> <p>A few respondents noted that the clarified ISAs helped auditors to better focus on areas of risk.</p>
<p>Benefits in global standards but limits on what can be achieved through <u>Global harmonization in audit quality</u></p>	<p>While it is accepted that a common framework of auditing standards is beneficial to audit quality on a global basis, a few accounting firms cautioned against assuming that the ISAs would automatically result in harmonization in audit quality, given differences in culture and the stage of development of the auditing profession in different jurisdictions.</p> <p>A few respondents noted the need for implementation support and training if accounting firms, especially smaller firms, are to implement the clarified ISAs efficiently. They noted the role of NSS and IFAC member bodies in this regard, and that efforts will vary, in part, with the size of the country and the resources available.</p>
<p>Consistency</p>	<p>A few accounting firms commented that the clarified ISAs were <u>are</u> being applied consistently within their firms, but noted that <u>training, additional guidance, methodology and technical support are essential</u> to achieve this training, additional guidance, methodology and technical support was essential. However, a regulator commented that it was <u>is</u> concerned about inconsistency of interpretation across <u>within</u> accounting firms. A few respondents questioned whether audit regulators interpreted the standards in the same way as accounting firms. One accounting firm suggested that there should be more active liaison between the IAASB and audit regulators.</p> <p><u>It was also noted that</u> Tthe extent to which the standards are applied consistently within a country depends on the nature and extent of national coordination, including national training provided, and the approach of audit regulators.</p> <p>A few respondents expressed doubt that the clarified ISAs are interpreted consistently between <u>across</u> countries and are concerned about differences that may arise on translation. One accounting firm observed that this needs to be addressed through increased implementation support.</p>
<p>Specificity</p>	<p>There were differing views on whether the right balance has been achieved between principles and rules in the ISAs. Audit inspection bodies and other regulators called for additional requirements in a number of the ISAs. Others took the view that, while clarification has</p>

	<p>helped auditors to understand what they need to do, this had resulted in too many overly detailed requirements, especially for smaller audits. An IFAC member body took the view that the clarified ISAs are too long and, in some cases, over-engineered.</p> <p>Many respondents, including accounting firms, called for additional guidance in specific areas. An IFAC member body agreed that more guidance was<u>is</u> needed but considered that it should be non-mandatory and therefore not included in the ISAs.</p>
<p>Revisions to the format of the ISAs</p>	<p>While there was support for the concept of articulating an objective for each ISA, a few respondents did not agree with the way this had been executed in the ISAs, noting that the objectives were<u>are merely</u> a summary of the requirements and added little value. One respondent doubted whether the objectives were<u>are</u> used in practice.</p> <p>There were mixed views on whether the separation of the requirements from the application and other explanatory material was beneficial. Some found that this added to clarity, but others had the view that it made the standards harder to read. A few respondents reported different views on this within the same organization. One accounting firm suggested that the IAASB should explore the use of information technology (IT) to make it easier to read the guidance alongside the requirements.</p>
<p>Increase in volume of documentation</p>	<p>Many<u>Some</u> of the concerns expressed by audit inspection bodies and other regulators related to inadequate audit documentation. However, several respondents had the view that the clarified ISAs had led to an unnecessary increase in the volume of audit documentation—especially for very small companies. While a few respondents had the view that additional documentation clarified the <u>auditor’s</u> thought process, some had the view that the documentation requirements were<u>are</u> excessive and led to a compliance mentality.</p>
<p>Future changes</p>	<p>A few respondents commented that they did not believe that substantial changes to the ISAs were<u>are</u> warranted, or would be beneficial, and that, at this time, the IAASB should refrain from making minor modifications to the standards as a result of these findings. They had the view that audit execution using the clarified ISAs would continue to improve over time as auditors gain more experience in their use.</p> <p>Views were also expressed that the IAASB needed to consider updating some of the standards that have not recently been revised for changes in the business environment, such as the increased emphasis on financial statement disclosures, electronic confirmations, changes in physical inventory procedures and the use of shared service centers.</p>

Comments on Individual ISAs

- In order to analyze the comments received, the ~~Task Force~~IAASB grouped related comments from the responses by ISA under relevant “themes”. The ~~Task Force~~IAASB prioritized the themes based on the following criteria:

	Criteria
Key	There is a body of evidence to suggest that the ISA is not being consistently understood and applied in a manner that achieves the IAASB’s goals in revising it. Changes to the ISA are likely to have the greatest potential for improving audit quality.
Important	There is some evidence to suggest that the ISA is not being consistently understood and implemented in the a manner that achieves the IAASB’s goals in revising it. Changes to the ISA may have potential for improving audit quality.
Less important Other	There is limited evidence that suggests that a change to the ISA may have merit.

16. In applying the criteria, the ~~Task Force~~IAASB took into account the nature of the comment as well as the source of the respondent, in particular, whether it was from an audit inspection body and other regulator. Audit inspection bodies and other regulators expressed concern in a number of areas, many of these related to whether:

- The ISAs promote the appropriate level of professional skepticism in auditors;
- The group auditor is sufficiently involved in the audit of components;
- Engagement quality control reviews (EQCR) are sufficiently rigorous; ~~and~~
- The auditor is sufficiently involved in the work of the auditor’s experts; and
- Certain ISAs are sufficiently specific as to the extent of audit evidence that was required.

17. Using the criteria, the ~~Task Force~~IAASB identified six key themes and seven important themes. These are summarized below (more detail can be found in Appendix 32).

ISA	Key Themes	Important Themes
ISA 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing</i> ⁹	Many respondents had the view that more emphasis on professional skepticism in the ISAs was is needed. A number highlighted individual ISAs where they thought the concept needed to be reinforced.	
ISA 220, <i>Quality Control for an Audit of Financial Statements</i> and ISQC 1, <i>Quality Control for Firms that Perform Audits and Reviews of Financial</i>	Concerns were expressed, in particular by audit inspection bodies and other regulators, that the requirements in ISA 220 and ISQC 1 regarding EQCRs were are not sufficiently robust.	

⁹ Skepticism has been allocated to ISA 200, however is pervasive throughout the ISAs and all ISAs will need to be considered when further consideration is given to this issue.

ISA	Key Themes	Important Themes
<i>Statements, and Other Assurance and Related Services Engagements</i>		
ISA 240, <i>The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements</i>		<p>Concerns were expressed about the inconsistency in <u>of practice relating to the the rebuttal and subsequent testing of the presumed significant fraud risk enfor</u> revenue recognition (particularly relating to the extent of testing or alternatively the rebuttal of the presumption).</p> <p>Concerns were also expressed about the inconsistent approaches taken to the testing of journal entries.</p>
ISA 315, <i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</i>	<p>Many respondents were concerned about the inconsistency in the nature and number of significant risks identified in practice.</p> <p>Concerns were also expressed that the requirements to obtain an understanding of internal control can be difficult to apply in practice.</p>	<p>Concerns were expressed that IT risks were <u>are</u> not sufficiently addressed in the standard.</p>
ISA 320, <i>Materiality in Planning and Performing an Audit</i>		<p>Concerns were expressed about the inconsistency in the determination of both materiality and performance materiality, with a call for more guidance in certain areas.</p>
ISA 520, <i>Analytical Procedures</i>		<p>Concerns were expressed that ISA 520 does not sufficiently demonstrate the work effort needed to place reliance on analytical procedures.</p>
ISA 600, <i>Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)</i>	<p>Many concerns have been <u>were</u> raised by both those within the profession and external respondents in relation to inconsistency in the degree to which the group auditor becomes involved in the work of component auditors.</p> <p>Also of concern is the</p>	<p>Concern was expressed across the range of stakeholders about the application of ISA 600 in relation to:</p> <ul style="list-style-type: none"> • The approach to material equity investments; • When the engagement partner is at a different location from where the vast majority of the audit work is performed; and

ISA	Key Themes	Important Themes
	inconsistency in the determination of component materiality, and the resulting impact on the work effort.	<ul style="list-style-type: none"> “Fund of funds” <u>audits</u>.
ISA 620, <i>Using the Work of an Auditor’s Expert</i>		Concerns were expressed about the inconsistency of <u>in</u> the auditor’s work effort in relation to the auditor’s expert’s work.

18. The ~~Task Force~~ IAASB also identified thirty-seven ~~nine less important~~ other themes. Some of these were very insightful, but did not rise to a level of an “important” theme ~~were considered “less important”~~ because only a few respondents had noted the concern.
19. In addition, there were numerous comments that had been made by only one respondent. These “isolated comments” are not described in this report, but have been retained by the IAASB and will be referred to in the event that a relevant ISA is revised.

D. Proportionality of the ISAs for Smaller Audits

20. The clarified ISAs were developed with a view to being applied to audits of all sizes.¹⁰ One of the key findings from Phase One of the ISA Implementation Monitoring project was that there was some concern about the application of the ISAs to smaller entities, notably whether they can be applied in a cost-effective manner. ~~The IAASB recognized the need for specific information on the extent and nature of any implementation difficulties.~~
21. The IAASB therefore initiated a survey for SMPs on the audits of small- and medium-sized entities (SMEs) from a range of countries that have already implemented the ISAs. The survey covered two audit cycles and responses were received from sixty-nine SMPs across ten jurisdictions as follows:

Jurisdiction	No. of entities surveyed
Australia	7
Canada	4
Hungary	3
Malta	6
Netherlands	8
New Zealand	3
Singapore	2
Slovenia	19

¹⁰ An IAASB Staff publication was issued in August 2009 to explain how the ISAs can be applied to audits on a proportional basis, [Applying ISAs Proportionately with the Size and Complexity of an Entity](#).

South Africa	3
United Kingdom	14
TOTAL	69

22. The main findings from the SMP survey were as follows:

- Many of the auditors had the view that the introduction of the clarified ISAs ~~has~~ had a positive impact on their work; in particular, benefits were noted in relation to audit planning and quality control.
- Many had the view that the implementation of the clarified ISAs ~~has~~ improved the auditor's focus on risk, ~~had~~ enhanced audit quality and, in some cases, ~~that~~ their audits were more likely to identify material misstatements in the financial statements. Many also commented that their management letter recommendations had improved and identified other benefits.
- The impact on the time spent on performing the audit resulting from the implementation of the clarified ISAs was, in some cases, difficult to separate from the effect of other changes in the audits. However, the responses suggested that, on average, the implementation of the clarified ISAs increased audit time by about 10% in the first year of implementation (but with a wide range of results on individual audits), but that this increase was reduced in the second year.
- Auditors' views on the proportionality of the ISAs varied in all countries covered by the survey. Overall, ~~there was an almost even split on~~ views were equally divided as to whether changes to the ISAs ~~were~~ are needed or not. Many also thought that additional training and guidance ~~was~~ are needed to assist with implementation in a cost-effective manner.

23. In addition to the SMP survey, comments were received from a variety of stakeholders in the written responses. The main themes of these comments were:

- ~~The~~ A call for more guidance to demonstrate the scalability of the requirements;
- Concern about over-documentation. This arises in part from ~~the~~ uncertainty ~~in~~ how much needs to be documented, but also from the purchase of "off-the-shelf" audit packages that make extensive use of checklists as a way of achieving ISA compliance. Some called for IAASB to provide more guidance on the nature and extent of documentation required;
- Issues around implementing certain ~~standards~~ individual ISAs in the SME environment, including:
 - ISA 260—in many SMEs the same people comprise both those charged with governance and management, and the level of required communication is ~~suggested to be~~ considered excessive;
 - ISA 540¹¹—the requirements ~~have been suggested~~ are considered to be overly rigorous for the types of accounting estimates ordinarily found in SME audits; and
 - ISA 550¹²—the nature of related party transactions in an SME sometimes results in extensive documentation ~~in this area~~, which a few have questioned as being excessive; ~~and~~

¹¹ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

- ~~The A~~ call for more guidance to demonstrate the scalability of ISQC 1.¹³
24. In its report on Phase One, the IAASB noted that the effective implementation of the ISAs, on audits of entities of all sizes, is closely linked to the effectiveness of related training programs. To assist national professional bodies and accounting firms in providing auditors with training in the ~~new standards~~ clarified ISAs, the IAASB had developed some video modules explaining the key changes to a number of the revised ISAs. Very few respondents commented on the usefulness of these modules.
25. Some professional bodies appear to ~~be putting more~~ have put considerable effort than others towards providing ~~adoption and~~ implementation support for SMPs using the ISAs on SME audits, including practice aids, guides, e-learning modules and educational events. It ~~has been noted~~ was observed that there is ~~not much~~ only limited sharing of this material on an international basis.

E. Survey of Audit Committees on Communication Standards

26. ~~In addition to input from the written responses, f~~ Four countries¹⁴ agreed to undertake a survey of audit committees to specifically address the implementation of ISA 260 and ISA 265. A total of forty-three entities responded to the survey and provided their views on the communications between the external auditor and those charged with governance. The entities participating in the review varied in size and included listed companies, private entities, public sector entities, public unlisted entities and not-for-profit entities.
27. The findings from the survey suggested that there were no significant ~~issues or~~ concerns about the implementation of these ~~standards~~ ISAs in the audit committees that participated. Most respondents agreed that:
- The auditor's responsibilities were adequately communicated;
 - Communication about the planned scope and timing was sufficient, and that the information was useful; and
 - Information provided on the significant findings ranged from adequate to useful, and was relevant and timely.
28. A few ~~respondents~~ participants in the survey commented that the level at which weaknesses in internal control was communicated was not satisfactory: a few ~~had~~ commented that minor matters had been "over-reported", however, a few others ~~had~~ noted that not enough had been reported.

¹² ISA 550, *Related Parties*

¹³ An IAASB Staff publication was issued in October 2012 to explain how ISQC 1 can be applied proportionately: [Applying ISQC1 Proportionately with the Nature and Size of a Firm](#)

¹⁴ Respondents were from Australia, Brazil, the Netherlands and South Africa.

List of Respondents

Audit Inspection Bodies and Other Regulators	
1	Canadian Public Accountability Body
2	European Audit Inspection Group
3	Financial Reporting Council (UK)
4	Independent Regulatory Board for Auditors (South Africa)
5	International Organization of Securities Commissions (letter still to be received)
6	Australian Securities & Investments Commission
National Auditing Standard Setters	
7	Australian Auditing and Assurance Standards Board
8	Canadian Auditing and Assurance Standards Board
9	Instituto Dos Auditores Independentes Do Brasil
10	Institut Der Wirtschaftsprüfer
Accounting Firms	
11	BDO International
12	Deloitte
13	Ernst & Young Global
14	Grant Thornton International Ltd
15	HLB International
16	KPMG IFRG Limited (Network)
17	Kreston International
18	Mazars
19	MNP LLP – formerly Meyers Norris Penny (Canada)
20	Nexia International
21	PKF International Limited
22	PricewaterhouseCoopers
Public Sector Auditors	
23	Auditor General of New Zealand
24	Australasian Council of Auditors-General
25	Wales Audit Office
IFAC Member Bodies	
26	CPA Australia
27	The Institute of Chartered Accountants in England and Wales
28	The Malaysian Institute of Certified Public Accountants
29	South African Institute of Chartered Accountants
Individuals (1)	
30	Individual

Summary of Main Comments on Individual ISAs

This Appendix summarizes the written comments received in relation to the post-implementation review categorized as between key, important and ~~less important~~ other themes. Isolated comments have not been included. ISAs not included in this Appendix had either no comments, or isolated comments.

Contents

<u>ISA 200</u>	<u>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing</u>
<u>ISA 200 / ISQC 1</u>	<u>Quality Control for an Audit of Financial Statements / Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements</u>
<u>ISA 230</u>	<u>Audit Documentation</u>
<u>ISA 240</u>	<u>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</u>
<u>ISA 315</u>	<u>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</u>
<u>ISA 320</u>	<u>Materiality in Planning and Performing an Audit</u>
<u>ISA 330</u>	<u>The Auditor's Responses to Assessed Risks</u>
<u>ISA 402</u>	<u>Audit Considerations Relating to an Entity Using a Service Organization</u>
<u>ISA 450</u>	<u>Evaluation of Misstatements Identified during the Audit</u>
<u>ISA 501</u>	<u>Audit Evidence—Specific Considerations for Selected Items</u>
<u>ISA 505</u>	<u>External Confirmations</u>
<u>ISA 520</u>	<u>Analytical Procedures</u>
<u>ISA 530</u>	<u>Audit Sampling</u>
<u>ISA 540</u>	<u>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</u>
<u>ISA 550</u>	<u>Related Parties</u>
<u>ISA 580</u>	<u>Written Representations</u>
<u>ISA 600</u>	<u>Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)</u>
<u>ISA 620</u>	<u>Using the Work of an Auditor's Expert</u>
<u>ISA 805</u>	<u>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</u>

ISA 200, OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING

IAASB's main goals¹⁹ for the revised ISA 200

1. **To reinforce auditor understanding of the overall objectives of the auditor when conducting an audit in accordance with ISAs.**
2. **To enhance understanding of the fundamental concepts underpinning an audit, including reasonable assurance, sufficiency and appropriateness of audit evidence, professional judgment, and professional skepticism.**
3. **To explain the scope, authority and structure of the ISAs.**

Key theme

1. **Professional skepticism¹⁰**

Many respondents expressed the general view that the ISAs need to more explicitly reinforce auditors' professional skepticism, in light of the increasing complexity of business and transactions and the increasing use of accounting estimates. In addition to this general observation, a number of respondents made suggestions as to how this might be achieved ~~by~~ through changes to individual ISAs. Suggestions, which are not repeated in the summaries that follow, include:

- **ISQC 1**—More requirements or guidance needed to influence auditor behavior; in particular the importance of the audit engagement partner encouraging the engagement team to exercise appropriate professional skepticism when performing audit procedures;
- **ISA 200**—The need to expand the definition of professional skepticism or provide additional guidance;
- **ISA 220**—More emphasis on professional skepticism needed;
- **ISA 230**—The need for requirements or guidance so that audit documentation better demonstrates that professional skepticism has been applied; ~~to demonstrate that professional skepticism has been applied in the audit documentation;~~
- **ISA 240**—More emphasis on professional skepticism needed; especially with respect to management's estimates and judgments. Regulators also considered that changes to ISA 240 are needed to ensure auditors gather sufficient audit evidence in relation to fraud risks and respond appropriately to suspicions of fraud;
- **ISA 260**—A requirement needed for the auditor to communicate to those charged with governance how professional skepticism has been applied;
- **ISA 315**—More guidance needed on how to apply professional skepticism when planning the audit, in particular in the assessment of risks;
- **ISA 500**—Requirements or guidance needed to encourage the auditors to ~~look for~~ seek more evidence to contradict management's assertions;

¹⁹ The IAASB's *Plan for a Post-Implementation Review of the Clarified International Standards on Auditing* set out the main goals for revising the ISAs for those standards included in the post-implementation review. These goals were set out in Appendix 2 of the Plan and have been repeated in these findings to assist with understanding the prioritization of the themes identified in each respective ISA.

- **ISA 540**—More emphasis needed on the importance of auditors' challenging management's assumptions; and
- **ISA 600**—More guidance needed on the importance of applying professional skepticism when understanding the work of the component auditor, and assessing the sufficiency of the component auditor's work for group purposes.

Important theme

None

~~Less important~~Other themes

1. **Definitions**

A few respondents identified ~~problems~~issues with the definitions of “fair presentation framework” and “compliance framework”, and what it means for information to be “derived from an entity's accounting system”.

ISA 220, QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS and ISQC 1, QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF FINANCIAL STATEMENTS, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS

IAASB's main goals for the revised ISA 220 and ISQC 1

ISA 220

1. **To create a robust framework for quality control on individual audits and to establish specific responsibilities for the audit engagement partner regarding quality control.**
2. **To establish requirements for the work to be performed by engagement quality control reviewers.**

ISQC 1

1. **To promote at the firm level the establishment and maintenance of a system of quality control that provides reasonable assurance that the firm and its personnel comply with professional standards and applicable legal and regulatory requirements, and that engagement reports issued are appropriate in the circumstances.**
2. **To require that firms' system of quality control have appropriate emphasis on the role of leadership and the promotion of an internal culture that recognizes that quality is essential in performing engagements.**
3. **To require firms to have appropriate policies and procedures that address engagement quality control review and monitoring.**

Key theme

1. **Engagement Quality Control Reviews (EQCR)**

~~There is evidence to suggest~~ Several respondents believe that the framework for EQCRs ~~should~~ be made more robust, and that greater consistency in these reviews could be achieved by changes to both ISA 220 and ISQC 1. Specific areas highlighted, in particular by audit inspection bodies and other regulators, were:

- **Engagement quality control reviewer**—Some believe that more specific criteria should be established for who should perform EQCRs, including consideration of the results of internal or external quality monitoring reviews of that individual's work.
- **Timing of EQCR**—The focus of the requirements regarding the timing of the EQCR seems to be mainly on the completion stage and there is evidence that the reviews are conducted at a very late stage in the audit. Some believe that involvement during the planning stage is critical for an effective EQCR, since it allows the reviewer to provide meaningful input into the nature, extent and timing of the audit procedures to be performed.
- **Work effort**—There appear to be varying views of what the objective of the EQCR is, and what the role of the reviewer should be. Concern has been raised on inconsistencies in the depth of review of the underlying audit work and documentation. Some noted that the standards, and the ~~negative~~-wording of the EQCR conclusion, appear to put emphasis on considering the adequacy of audit documentation, when they believe that the EQCR should be more ~~about~~ focussed towards whether risks have been appropriately addressed.

- **Documentation**—Some believe that documentation requirements should be more extensive and include what the EQCR covered, as well as the issues, if any, identified by the review and how they were resolved.

Important theme

None

~~Less important~~Other themes

1. **When an EQCR is required**

It was noted that the criteria for determining when an EQCR ~~was~~is required for entities that ~~were~~are not listed entities ~~was~~is not clear, and that further guidance is needed to assist with consistent application.

2. **Definitions**

A few respondents identified ~~problems~~issues with the definitions of “listed entity”, and “engagement partner” and “partner”, especially in the context of public sector engagements where the work is outsourced to private sector accounting firms.

3. **Scope of internal monitoring reviews**

A few respondents noted that there are inconsistencies in the performance of the internal monitoring reviews required by ISQC 1,²⁰ in particular, the extent ~~to which~~that firm-wide procedures are addressed.

4. **Remediation**

A few respondents noted the need for firms to reconsider issuing a different audit opinion when external inspections indicate the audit was seriously flawed.

SMPs

Some respondents are of the view that ISQC 1 should have additional application ~~guidance~~material to demonstrate how it can be applied proportionately by SMPs. In addition, a small number of firms have questioned the proportionality of requirements relating to the need for an independent reviewer to undertake internal monitoring.

²⁰ ISQC 1, paragraph 48

ISA 230, AUDIT DOCUMENTATION

IAASB's main goals for the revised ISA 230

1. **To reinforce auditor understanding of the benefits of audit documentation and the important role it serves in an audit, and in providing a record and evidence that the audit was performed in accordance with the ISAs.**
2. **To clarify auditor responsibilities regarding documentation required for purposes of complying with ISAs, and to enhance the consistency of, and auditor's professional judgments in deciding, the form, content and extent of audit documentation.**
3. **To require that audit documentation adequately focuses on the significant matters in the audit, including significant conclusions reached and significant judgments made in reaching those conclusions.**
4. **To reinforce that the assembly of the audit file must be completed on a timely basis, and to clarify the circumstances in which amendments can be made to the audit documentation after the assembly of the audit file has been completed.**

~~Many~~ Some of the concerns expressed by audit inspection bodies and other regulators related to inadequate audit documentation. However, several respondents from accounting firms and IFAC member bodies expressed the view that the clarified ISAs ~~had~~ have led to a significant increase in the volume of audit documentation – especially for very small audits. While a few of these respondents had the view that additional documentation clarifies ~~ed~~ the auditor's thought process, most had the view that the documentation requirements ~~were~~ are excessive and lead to a compliance mentality.

The issue of documentation overload does not seem to relate specifically to ISA 230 but rather to the specific documentation requirements in ~~other~~ individual ISAs. Some respondents have expressed particular concerns in relation to ISA 315.

**ISA 240, THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF
FINANCIAL STATEMENTS**

IAASB's main goals for the revised ISA 240

1. **To reinforce auditor understanding of the nature and characteristics of fraud and conditions that may give rise to fraud in an entity.**
2. **To enhance understanding of the auditor's responsibilities with respect to fraud in an audit of financial statements.**
3. **To emphasize the importance of professional skepticism and to ensure that fraud is explicitly considered when identifying, assessing and responding to risks of material misstatement.**
4. **To mandate certain procedures in all audits in order to enhance the auditor's ability to identify risks of material misstatements due to fraud, recognizing the possibility of management override of internal control.**

Key theme

None

Important themes

1. **Presumed significant fraud risk ~~for~~ revenue recognition**

Respondents have noted that the presumed significant risk of material misstatement arising from fraud in revenue recognition, and the related rebuttal, are being inconsistently interpreted. Some have understood the requirement to mean that revenue recognition automatically creates a fraud risk and hence always designate it as a significant risk. Others rebut the presumption without providing a basis ~~on which~~ to justify the rebuttal despite the documentation requirement.²¹ This may result in the work effort not focusing on appropriate risks.

2. **Testing journal entries**

The interpretation of the requirement to test the appropriateness of journal entries²² appears to be resulting in inconsistencies in the work effort of auditors, particularly related to sample sizes and, given the variation in what can be considered as to be a journal entry, the identification of the underlying population.

²¹ ISA 240, paragraph 47

²² ISA 240, paragraph 32

**ISA 315, IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT
THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT**

IAASB’s main goals for the revised ISA 315

1. **To define the preliminary engagement and planning activities that enables the auditor to establish an overall audit strategy and audit plan so that the audit will be performed in an effective manner.**
2. **To enhance the ability of the auditor to identify and assess risks of material misstatement at the financial statement and assertion levels, through obtaining an appropriate understanding of the entity, its environment and the entity’s internal control.**
3. **To strengthen the linkage between the identified and assessed risks of material misstatement and the auditor’s overall and specific responses to those risks.**
4. **To require appropriate attention to be given to those risks of misstatements evaluated as “significant risks”.**
5. **To require due consideration to be given to the evaluation of the sufficiency and appropriateness of audit evidence obtained, including having an appropriate basis for decisions (as applicable) to rely on the operating effectiveness of internal controls.**

Key themes

1. Inconsistency in the nature and number of significant risks identified

There appears to be inconsistency in the number of significant risks being identified in practice. This has a consequential effect on the work effort to respond to these risks. Some believe the definition of significant risk is not clear. Some view it as circular because it focuses on the implications of the risk (i.e., “requires special audit considerations”) rather than the nature of the risk itself.

2. Identification of controls relevant to the audit

Respondents noted that the requirements to obtain an understanding of internal control²³ and control activities²⁴ “relevant to the audit” can be difficult to apply in practice. It was noted that the guidance on identifying controls that are relevant to the audit is not clear and in some cases controls that are identified for testing do not address the identified risks of material misstatement. A number of respondents thought that the requirements in ISA 315 ~~were~~ are excessive if, as is the case on many smaller audits, a substantive approach to testing is adopted.

Important theme

1. Risks and controls arising from IT

Some suggest that ISA 315 is not sufficiently reflective of the complexity of the information systems used by many larger entities and the central importance of these systems to the audit of the financial statements. Some believe that, because IT risks are not emphasized sufficiently

²³ Paragraph 12 of ISA 315 requires the auditor to obtain an understanding of internal control relevant to the audit.

²⁴ Paragraph 20 of ISA 315 requires the auditor to obtain an understanding of control activities relevant to the audit...in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks.

in ISA 315, general IT controls may not be tested sufficiently when reliance is placed on IT-dependent controls.

~~Less important~~ Other themes

1. Practical issues relating to risk assessment

Some respondents identified practical issues relating to assessing risk at the assertion level, and suggested that consideration be given to additional application and other explanatory material explaining the risk assessment process.

2. Documentation of risk assessment procedures

A few respondents have the view that more guidance is needed regarding the nature and extent of documentation for understanding the business and especially internal controls, in particular for the audits of SMEs.

3. Organization of the standard

A few have the view that the organization of the standard is very complex, such that the requirements and guidance are difficult to implement in a work flow or logical sequence of risk assessment procedures.

ISA 320, MATERIALITY IN PLANNING AND PERFORMING AN AUDIT

IAASB’s main goals for the revised ISA 320

1. **To provide a strengthened framework for auditor judgments regarding materiality.**
2. **To improve the consistent application of the concept in planning and performing the audit.**
3. **To enhance the consistency by which misstatements identified in an audit are accumulated and evaluated.**

Key theme

None

Important theme

1. **Inconsistency in the determination of materiality and performance materiality**

To assist in promoting greater consistency in practice, further guidance on the following topics has been suggested:

- More specification of the benchmarks and percentages for various bases, including industry specific considerations;
- How qualitative factors affect the quantitative determination of materiality;
- Year-on-year materiality assessments, especially when there are significant fluctuations and when a change in benchmark may be appropriate;
- Whether it is appropriate and indeed permitted to determine separate materiality levels for application to the balance sheet and the income statement;
- Documentation of the considerations in determining materiality to demonstrate the professional judgment made; and
- The determination of performance materiality.

(There are also issues noted regarding component materiality – see key themes for ISA 600).

~~Less important~~Other themes

1. **Materiality for particular classes of transactions, account balances and disclosures**

A few respondents have the view that the requirement to determine materiality for a particular class of transaction, account balance or disclosure²⁵ adds unnecessary complexity. The requirement applies in specific circumstances but some believe it is unclear when and how to apply the requirement.

2. **Classification materiality**

A few have called for guidance on how to address classification misstatements in the planning phase.²⁶

²⁵ ISA 320, paragraph 10

²⁶ Paragraph A15 of ISA 450 provides guidance on considerations relating to classification materiality, and there is the view that similar guidance should be included in ISA 320.

3. **Materiality and estimation uncertainty**

A few respondents have the view that further guidance on the relationship between materiality and estimation uncertainty is needed, including appropriate actions when estimation uncertainty is greater than materiality.

ISA 330, THE AUDITOR’S RESPONSES TO ASSESSED RISKS

IAASB’s main goals for the revised ISA 330

1. **To define the preliminary engagement and planning activities that enables the auditor to establish an overall audit strategy and audit plan so that the audit will be performed in an effective manner.**
2. **To enhance the ability of the auditor to identify and assess risks of material misstatement at the financial statement and assertion levels, through obtaining an appropriate understanding of the entity, its environment and the entity’s internal control.**
3. **To strengthen the linkage between the identified and assessed risks of material misstatement and the auditor’s overall and specific responses to those risks.**
4. **To require appropriate attention to be given to those risks of misstatements evaluated as “significant risks”.**
5. **To require due consideration to be given to the evaluation of the sufficiency and appropriateness of audit evidence obtained, including having an appropriate basis for decisions (as applicable) to rely on the operating effectiveness of internal controls.**

Key theme

None

Important theme

None

~~Less important~~Other themes

1. Responses to risks, in particular significant risks

A few respondents have the view that in practice there is a poor linkage between the significant risks that have been identified and the responses to those risks. In particular, it was noted that further guidance ~~is~~was needed to encourage tailoring responses to the specific issues, as in practice responses may appear “generic” in nature.

2. Work effort for low risks of material misstatement

A few respondents observed that, in practice, there continues to be challenges in designing the appropriate balance of further procedures, in particular when the risk of material misstatement is low. This results₁ in some cases₁ in too much work being performed. The respondents suggested that further guidance on the extent of further procedures for low risks of material misstatement may be helpful.

3. “Material” classes of transactions and account balances

A few respondents noted that additional guidance to clarify what ~~was~~is meant by “material classes of transactions and account balances”²⁷ would be helpful.

²⁷ ISA 330, paragraph 18

4. **Testing internal controls**

A few respondents noted concerns relating to testing internal controls, including over-reliance on management sign-off's and inadequate testing of general IT controls. Regulators expressed a number of wider concerns relating to the testing of internal controls including poor competencies among audit teams in how to conduct internal control testing and a lack of appreciation of:

- The benefits of an audit strategy involving the testing of internal controls;
- The limitations of high-level controls in relation to certain account assertions; and
- The work to be performed when internal controls are tested on a rotational basis.

ISA 402, AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE ORGANIZATION

IAASB’s main goals for the revised ISA 402

1. **To strengthen auditor understanding of the nature and significance of the service provided, and the service organization’s effect on an entity’s internal control.**
2. **To assist the auditor in applying the ISAs’ risk-based approach when a user entity uses a service organization.**

Key theme

None

Important theme

None

~~Less important~~Other themes

1. **Auditor’s work effort when relying on internal control reports of a service organization**

Respondents have noted that in some cases more reliance is being placed on reports (in particular Type 1 reports) from the service organization’s auditor than is appropriate in light of the limited assurance that they provide, and therefore the nature and extent of the auditor’s subsequent nature and extent of procedures may be insufficient.

2. **Shared service centers**

A few respondents expressed the concern that ISA 402 does not address intra-group shared service centers, which have become more common in the modern business world.

3. **Sample Sizes**

A few respondents considered that ISA 402 needs to clarify that sample sizes should be based on the materiality of the audited entity and not the materiality of the service centre.

ISA 450, EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT

IAASB’s main goals for the revised ISA 450

1. **To provide a strengthened framework for auditor judgments regarding materiality.**
2. **To improve the consistent application of the concept in planning and performing the audit.**
3. **To enhance the consistency by which misstatements identified in an audit are accumulated and evaluated.**

Key theme

None

Important theme

None

~~Less important~~ Other theme

1. **Accumulation of misstatements**

A few respondents have the view that further guidance is needed on how to accumulate misstatements and what are considered as “corrected” misstatements in this context.

ISA 501, AUDIT EVIDENCE—SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS

ISA 501 was not revised as part of the IAASB’s Clarity project.

Key theme

None

Important theme

None

~~Less important~~ Other theme

1. Inventory counts

A few respondents observed that as the nature of inventory counts has evolved, the requirements²⁸ to attend the inventory count have become redundant and impracticable in many cases. It has been suggested that additional guidance²⁹ to address perpetual counting of inventory would be helpful.

²⁸ ISA 501, paragraph 4

²⁹ In addition to paragraph A10 of ISA 501

ISA 505, EXTERNAL CONFIRMATIONS

IAASB’s main goals for the revised ISA 505

1. **To reinforce auditor understanding of the strengths and limitations of external confirmation procedures, thereby assisting the auditor in determining whether to use such procedures as substantive audit procedures.**
2. **To increase the rigor of the auditor’s process for obtaining confirmations and evaluating the results from them.**

Key theme

None

Important theme

None

~~Less important~~Other theme

1. **Increasing use of electronic confirmations**

Given the increased use of electronic confirmations, a few respondents recommended explicitly addressing this in ISA 505.

ISA 520, ANALYTICAL PROCEDURES

ISA 520 was not revised as part of the IAASB’s Clarity project.

Key theme

None

Important theme

1. Audit evidence from analytical procedures

A few respondents expressed the concern that ISA 520 does not sufficiently demonstrate the work effort needed in order to place reliance on analytical procedures. ~~In particular, additional guidance was~~ Changes to ISA 520 were suggested in the following areas:

- Emphasizing the importance of a Auditing the inputs used as the basis for analytical procedures (e.g., budgets);
- Describing the nature and extent of audit evidence required, in particular in relation to ~~c~~Corroborating evidence for management’s explanations for variations;
- Setting thresholds for identifying differences requiring investigation by the auditor; and
- Performing additional procedures where the evidence does not support the level of assurance needed.

A few respondents noted that the standard ~~does~~ not provide adequate guidance on the sufficiency of evidence that ~~was~~ is needed from analytical procedures, taking into account other cumulative evidence that ~~has~~ been obtained. Reference was made to recent American Institute of Certified Public Accountants (AICPA) guidance in this area.³⁰

³⁰ AICPA Section 520, paragraph 5C

ISA 530, AUDIT SAMPLING

ISA 530 was not revised as part of the IAASB’s Clarity project.

Key theme

None

Important theme

None

~~Less important~~Other theme

1. Calculation of judgmental sample sizes

A few respondents expressed concern with how sample sizes are calculated, in particular those that are deemed to be judgmental samples—sizes, and were of the view that, as a result, inconsistent work is being performed.

ISA 540, AUDITING ACCOUNTING ESTIMATES, INCLUDING FAIR VALUE ACCOUNTING ESTIMATES, AND RELATED DISCLOSURES

IAASB's main goals for the revised ISA 540

1. To strengthen auditor rigor in auditing accounting estimates, including fair value accounting estimates, and related disclosures.
2. To assist the auditor in applying the ISAs' risk-based approach to the audit of accounting estimates, in particular by focusing on the degree of estimation uncertainty and designing appropriate responses to it.
3. To emphasize the importance of professional skepticism and ensure that attention is paid to indicators of possible management bias and their audit implications.

Key theme

None

Important theme

None

~~Less important~~ Other themes

1. Risk assessment procedures

Some respondents expressed concern that:

- It is not clear to which estimates the requirements in ISA 540 are intended to apply (e.g., it was noted that many amounts appearing in financial statements are now estimates and applying the requirements of ISA 540 to all estimates ~~was~~ is likely to be impractical); and
- There is inconsistency in the work effort around obtaining an understanding of the estimate, including the underlying data, the model used, internal consistency of management assumptions used and how management has assessed estimation uncertainty.

2. Applying ISA 540 to certain accounting estimates

There is a wide ~~range~~ variety of accounting estimates in contemporary financial statements. Some respondents have called for more specific audit guidance to assist with the application of the requirements of ISA 540, ~~relating~~ to some of the more complex accounting estimates arising from application of the financial reporting standards, such as loan loss provisioning, valuation of ~~some~~ certain financial instruments, and goodwill impairments.

3. Work effort on management assumptions

A few respondents noted an inconsistency ~~in~~ of the work effort on management's assumptions used in calculations of estimates, including work on whether management had considered alternative assumptions or outcomes.

4. Relationship between estimates and significant risks

A few respondents believed that a stronger link needs to be made between estimates with a high degree of estimation uncertainty and the existence of a significant risk.

ISA 550, RELATED PARTIES

IAASB’s main goals for the revised ISA 550

1. **To reinforce auditor understanding of the nature and characteristics of related party relationships and transactions, and the potential effects of such relationships and transactions on the financial statements.**
2. **To assist the auditor in applying the ISAs’ risk-based approach to the audit of related parties.**
3. **To strengthen auditor rigor in auditing related parties and related party transactions by emphasizing the importance of professional skepticism and ensuring that attention is paid to fraud risks, significant unusual transactions and dominant parties.**

Key theme

None

Important theme

None

~~Less important~~ Other theme

1. **Inadequate work on identifying related parties and related party transactions**

There were a few concerns raised that auditors ~~were~~ are over-emphasizing testing of related parties and related party transactions that had been disclosed to them, rather than searching for related parties or related party transactions that had not been disclosed.

ISA 580, WRITTEN REPRESENTATIONS

IAASB’s main goals for the revised ISA 580

1. To clarify the role of written representations as part of the evidence-gathering process, thereby helping to prevent undue reliance on representations and enhance the consistency of practice.
2. To make clear the preconditions for an audit and obtain management’s agreement to their responsibilities as part of engagement acceptance (ISA 210).
3. To require written representation confirming the fulfilment of management responsibilities.

Key theme

None

Important theme

None

~~Less important~~ Other theme

1. **Obtaining representations for public sector audits**

A few public sector respondents have highlighted the particular circumstances of public sector audits related to obtaining representations, where management are distinctly different from those charged with governance, and have noted that it is not clear in ISA 580 from whom the representations should be obtained.

**ISA 600, SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL STATEMENTS
(INCLUDING THE WORK OF COMPONENT AUDITORS)**

IAASB’s main goals for the revised ISA 600

1. **To assist the auditor in applying the ISA’s risk based approach to the audit of groups.**
2. **To emphasize that the group auditor has sole responsibility for the audit of the group financial statements and to ensure that the group auditor has a sufficient and appropriate basis for the group audit opinion.**
3. **To strengthen and enhance the consistency of, the conduct of group audits including in relation to:**
 - (a) **The required understanding needed by the group auditor of the group, its components and their environments, and, where applicable, of component(s) auditors.**
 - (b) **The determination of the type of work performed on the financial information of components (with special consideration given to significant components) and of the degree of group auditor involvement in the work performed by component auditors.**
 - (c) **Communications between the group auditor and the component auditor(s).**

Key themes

1. Group auditor’s involvement in the work performed by component auditors

A wide range of respondents, from both the profession and audit inspection bodies and other regulators, have suggested that there is inconsistency in the extent to which group auditors involve themselves in reviewing the work of the component auditor, and evidencing the work that they have performed on the component auditor’s work. Areas suggested for further consideration include the need to be more specific on:

- The level of understanding needed of components, especially where the environment of the component is very different from the domestic environment (e.g., in relation to business practices, legal structures, law and regulations, and customs);
- The level of understanding about the competence and independence of the component auditor including, for firms in the same network, how much reliance is to be placed on quality control systems;
- The need for the group auditor to document the extent and nature of their involvement in the work of component auditors, and why they consider it to be appropriate;
- The need for more specific guidance on when the group auditor needs to review the working papers of the other auditor, the nature of the review and how to evidence the extent and nature of that review;
- The group auditor’s involvement in the consolidation process; and
- The extent to which the group auditor specifies group risks to component auditors and the meaning of “significant risks” in a group context.

2. Component materiality

It has been noted by several respondents that there is significant variation in practice relating to the calculation of component materiality, and as a result component materiality may be set too

high and therefore insufficient work is performed on the components. Some suggested that the rationale for setting component materiality below group materiality may not be well understood.

Important theme

1. Application of ISA 600 in certain situations

Questions have been raised about the applicability and, if applicable, the practicality and cost effectiveness of ISA 600 in certain circumstances including:

- **When an equity investment or joint venture is considered to be a material significant component.**

Concern has been raised that ISA 600 does not provide sufficient guidance when the auditor does not have access to relevant information (for example, if the auditor has no legal right of access to management and the accounting records of a company that is an equity investment), and that the auditor of the investee has no legal obligation to cooperate with the group auditor. These issues are compounded if the reporting dates are different.

- **When the engagement partner is in a different location from where the vast majority of the audit work is performed.**

There are mixed views on whether ISA 600 applies when the group opinion is signed by a partner in a jurisdiction different from where the group's operations, accounting records and management are located, and hence where vast majority of the underlying audit work is performed.

- **When the audited entity is a "fund of funds" structure**

A few respondents questioned whether ISA 600 applied to the financial statements of a "fund of funds" structure, and called for guidance on what is considered sufficient appropriate audit evidence in these situations. A small number of other audit issues were identified in relation to collective investment schemes.

~~Less important~~ Other themes

1. Communication between the group auditor and component auditors

Some respondents had the view that communication between the group and component auditor needs to be more consistent.

2. Acting as a group auditor

A few questioned whether ISA 600 ~~is~~ was specific enough as to whether an auditor is entitled to act as the group auditor.

3. What is meant by "an audit" of component information in some cases

A few have questioned whether the "audit of a component" requires all the ISAs to be applied.

4. Definition of a component

In the current environment where businesses are operating in integrated structures, a few respondents were of the view that there is inconsistent application of ISA 600 due to the different interpretations of what the definition of a component is, in particular relating it was noted that the branches and, shared service centres give rise to difficulty, as well as where the

~~financial reporting structure of, and where the organization of the entity differs from~~
its legal structure. This has resulted in an inconsistency in the work effort depending on whether
~~if the function~~ has been identified as a component or not.

5. **Work effort by component auditors**

Several respondents called for further guidance on how to scope the group audit when there
~~were~~ are no significant components and a rotational approach is adopted.

6. **Meaning of “specified audit procedures”**

A few suggested that additional guidance be provided.

ISA 620, USING THE WORK OF AN AUDITOR'S EXPERT

IAASB's main goals for the revised ISA 620

1. **To assist the auditor in determining when to use the work of an auditor's expert in an audit of financial statements.**
2. **When using an auditor's expert, to require the auditor to have a rigorous process for agreeing the nature, scope and objectives of the work to be performed by the auditor's experts, and evaluating the adequacy of such work for the auditor's purposes.**
3. **To provide guidance on when a member of the engagement team with expertise in a specialized area of accounting and auditing is used (ISA 220), and when management uses an expert in preparing the financial statements (ISA 500).**

Key theme

None

Important theme

1. Work performed by the auditor on the expert's work

Respondents, predominantly from audit inspection bodies and other regulators, have expressed concern about the inconsistency in the procedures that auditors are performing in relation to the expert's work, including:

- Insufficient understanding of the expert's methods and assumptions, and whether they are generally accepted in the expert's field;
- Work performed by the expert with little involvement from the auditor;
- Inconsistent follow-up on the findings and recommendations of the experts;
- Insufficient testing of the source data used by the experts; and
- Over-reliance on the qualifications of the expert with no further consideration as to their appropriateness.

Questions have also been raised on whether the same work effort in respect of an expert is required ~~in second and subsequent years~~ on a recurring basis.

~~Less important~~ Other themes

1. The distinction between the auditor's expert and specialist is not always clear

A few respondents noted that the distinction between an auditor's expert (covered by requirements in ISA 620) and a specialist (covered by guidance in ISA 220) is not always clear, and therefore that the requirements of ISA 620 relating to the auditor's expert are not being consistently applied. They highlighted work on taxation and valuations, noting that it is unclear whether ~~the specialist is~~ individuals involved are using accounting and auditing skills or expertise in the subject matter.

2. Extent of work effort of expert not clear, including documentation

Comments were received that ISA 620 is not clear on the procedures, if any, that the auditor's expert is required to perform, and whether these procedures are required to be performed in

accordance with the ISAs (e.g., sampling). It was also noted that the extent of documentation the expert is required to prepare is not clear, and should be clarified.

3. **Work effort not clear in relation to management's expert**

Two respondents had the view that auditors ~~were~~ are not performing sufficient work in relation to management's experts and questioned whether additional guidance ~~was~~ is needed.

4. **Engaging an auditor's expert**

A few respondents noted that auditors are not always engaging experts when the engagement team has insufficient expertise to challenge the work of a management expert.

ISA 805, SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT

IAASB's main goals for the revised ISA 805

1. To establish consistency in the performance and reporting of special purpose audits.
2. To assist auditors in the appropriate application of the ISAs' risk-based approach in conducting special purpose audits.

Key theme

None

Important theme

None

~~Less important~~Other theme

1. A number of respondents requested further guidance on when ISA 805 as opposed to ISAE 3000³¹ ~~ought to~~should be applied. A particular problem seems to exist for hybrid information (e.g., information that includes historical financial information and prospective financial information or non-financial information).

³¹ ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*