

IAASB

**Invitation to Comment—What We
Heard from Outreach**

Megan Zietsman, IAASB Member and
Enhancements Group Chair

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Agenda Item 6

What We Heard from Outreach – Overall Themes

- Strong calls for the IAASB to maintain a principles-based approach to its standards, but also to sharpen their focus and provide increased clarity on how to apply them to different and evolving circumstances
 - Support for the current standards (including ISQC 1) as a sound starting point for consideration of future enhancements, including strengthening certain important elements
 - More practical guidance is also needed – calls for more examples of “what good looks like”
 - Not necessarily in the ISAs, but may be Staff guidance or other solutions
- Reinforce importance of understanding the business and operational drivers as foundational to performing quality audits
- Consider the impact of culture on the standards and on how they can and should be applied

What We Heard from Outreach – Professional Skepticism

- It's about the appropriate mindset of the auditor; cannot be fixed in isolation by changes to the definition or within standards
- Sufficient knowledge of the business enables the auditor to ask probing questions, more effectively challenge management and identify contradictory audit evidence – linkage to ISA 315 project
- It's about behavior; how auditors be encouraged to act as critical challengers?
 - Can changes to certain standards more effectively direct auditors as to what is expected (e.g., the approach taken in ISA 240)?
 - How does the culture of the firm influence and encourage skeptical behavior?
- Impact of training and education is important; infusing a professionally skeptical attitude into the “DNA” of auditors
 - Raising awareness for auditors of their (and management's) potential biases

What We Heard from Outreach – Quality Control

- Support for emphasizing importance of “tone at the top” and leadership responsibilities and accountability
 - Driven down through the firm – importance of “tone at the middle” also highlighted
- Support for updating ISQC 1 to incorporate and emphasize the importance of and need for monitoring / remediation / root cause analysis / expectation of “continuous improvement” mindset
- Ongoing support for the importance of EQCR – a key quality control measure
 - But keep balance and perspective relative to engagement partner who is ultimately responsible for quality
- Support for looking at emphasizing and strengthening role of engagement partner (will also help in group audits)
 - Including in situations where the engagement partner is not located where the majority of the work is performed

What We Heard from Outreach – Quality Control (cont.)

- Mixed views on whether the IAASB should establish requirements for transparency reporting; however, calls from some to continue exploring the topic, including possible use of audit quality indicators
- General support for incorporating a QMA in revising ISQC 1
 - However, not enough understanding yet as to what this may entail and some reservations about extent of change that may be required

What We Heard from Outreach – Group Audits

- Broad agreement that the right issues have been identified and that proposed actions are generally headed in the right direction
 - Agreement that not all issues can be resolved by IAASB (e.g., access issues in some jurisdictions)
- Agreement that the standard needs to be updated for various evolving circumstances of groups, but must also be kept flexible
 - Entity structures will continue to evolve; international standards need to do more to explain how to apply principles-based standards to different situations
 - Challenges around non-controlled components; mixed views on ability to make reference to the report of another auditor in some of these circumstances

What We Heard from Outreach – Group Audits (cont.)

- General support for revisiting how to best emphasize the importance of focusing effort on the risks of material misstatement to the group f/s
 - Support for challenging the current focus on scoping based on identification of components to (vertical) to include a horizontal perspective (f/s line items)
 - Internal control is important; support for revisiting and placing greater emphasis on management's
 - Support for enhanced focus on determination of component materiality and consideration of aggregation risk

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