



IAASB Meeting Recap

IAASB Meeting December 2016

IAASB

**International Auditing
and Assurance
Standards Board**

ISA 315 (Revised)

- The Board expressed support for many of the Task Force's recommendations, including efforts to consider the ability of ISA 315 (Revised) to be applied to a wide range of circumstances.
- In certain areas the Board asked the Task Force to consider additional points and provide clarity on what was being proposed.

ISA 315 (Revised)

- The Board asked the Task Force to:
 - Provide clarity as to how some of the proposals would be operationalized
 - Continue to consider, as the project progresses, whether the option to perform a separate or combined assessment of inherent and control risk is retained
 - Consider outreach with PCAOB related to some of the proposals
- Mixed views regarding adding the susceptibility to fraud as a fifth qualitative inherent risk factor

ISA 315 (Revised)

- Spectrum of risk – no defined categories in the standard (other than what exists today)
- Significant risk:
 - Consider whether there might be confusion with ‘significant classes of transactions, account balances and disclosures’
 - Likelihood and magnitude – not just significant risks
 - Difficult for management to control – application material

Quality Control – Quality Management

- Supportive of overall direction
 - Change management very important
 - What will it achieve and how will it changes behaviors? What is the impact on the firms?
 - Diagrams important, but need refinement
 - Improve linkage with the Audit Quality Framework
 - Including involvement of others related to audit quality (regulators, users)
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Quality Control – Quality Management

- Refinement and clarity of terminology
 - Should we align more to the COSO Integrated Framework?
 - How will it apply in a network of firms?
 - Impact of quality management process (QMP) on small firms
 - i.e. effort to do QMP and documentation
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Quality Control – Quality Management

• Components

- Organization, culture and strategy that foster quality
 - Should be a separate component, not part of governance and leadership
- Information, communication and documentation
 - Not a foundational component, but is necessary to have an effective QMP
- Quality management process (QMP)
 - Need to bring out more at what level it applies i.e. a service level, and whether applies to all
 - Re-evaluating the QMP – possibly part of monitoring and remediation, also consider building it in so becomes “integral” to the process, rather than a requirement for a periodic review

Quality Control – Quality Management

- Components (continued)

- Quality risk assessment

- Firm needs to define risk tolerance
- Avoid confusion with assessment of risks of material misstatement in ISAs
- Include understanding engagements as could create risk for categories of engagements

- Applying the QMP

- Do all of the elements apply to all services?
- Also link to the foundational components
- Need to also include identification and assessment of quality risks
- “At a minimum” could create unintended consequences
- Different “levels” needed – principles that go down to specific requirements, that are outcome-based
- Map extant requirements to ensure these are retained

Quality Control – Engagement Quality Control (EQC) Reviews

- Overall support for the direction of the proposals
 - Objective and definition
 - “*Significant consequences for a large number or a wide range of stakeholders*”
 - “*Inappropriate report*” – could be cases where report is appropriate, but audit quality is not achieved
 - “On or before the date of the report” should be reinstated
 - Definition – EQC review may be required by law / reg. etc. – not always a firm response to risk
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Quality Control – EQC Reviews (cont.)

- Scope of engagements subject to EQC review
 - Consider what risks are being addressed
 - “*Risk characteristics similar to listed entities*” – ambiguity on what this means - rather focus on public interest characteristics
 - Other factors e.g. history of errors, quality history of EP, deficiencies in internal control, independence
 - Specific comments on some factors, e.g. nature of entity, “tenure” of team
 - More prominence of application material addressing other responses to quality risks (in addition to EQC review, or instead of if EQC review not required)
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Quality Control – EQC Reviews (cont.)

• Execution of EQC review

- “Stages” – doesn’t apply in all circumstances, “planning” and “strategy” not the same, alternatives suggested
- Also consider information raised by 3rd parties e.g. audit committee, regulators
- EQC reviewer may need to apply judgment in determining what documentation to look at (clarity needed)
- The addition of “new” significant judgments could create a checklist mentality
- Documentation of the EQC review – more to address evidence of the performance of the review
- EQC reviewer should look at the financial statements (or equivalent)
- More prominence of responsibility of EQC reviewer vs. engagement partner (para. A43)

ISA 220

- General agreement on the direction of the proposed enhancements of the Crossover WG
- Objectives/Definitions
 - More clarity on the objective
 - Important to coordinate with IESBA on potential changes to definitions, specifically in looking at network firms and engagement partner
- Leadership Responsibilities for Quality on Audits
 - Clarify that EP is responsible and accountable for audit quality
 - Need to think more about situations where signing partner is different from the engagement partner
 - When delegating responsibility, need to address how EPs would demonstrate that they have still retained overall accountability to meet the EP's obligations

ISA 220 (cont.)

- Communication
 - Support for inclusion of a new requirement, but clarify purpose of the communications
 - Caution that this aspect should not to be over-engineered
- Acceptance and Continuance of Client Relationships and Audit Engagements
 - Support for a more proactive acceptance requirement

ISA 220 (cont.)

• Quality Risk Assessment

- Further explore what is meant by performing a quality risk assessment but consider nature and interaction of risk assessments (including under ISQC 1 as proposed and ISA 315 (Revised))
 - Clearly distinguish audit quality risk assessment from identifying and assessing risks of material misstatement
- Useful for informing discussions with those charged with governance / management

ISA 220 (cont.)

- Determination of Engagement Resources, Including Assignment of Engagement Teams
 - Support for proposed approach
 - WG to look at whether the language regarding “competence” is consistent with the International Education Standards
- Engagement Performance—Direction, Supervision, and Performance, and Review
 - Support for the proposals in this area, however, WG will think about how to address professional skepticism

Professional Skepticism

Way Forward

- The Joint Professional Skepticism Working Group will continue to work on the joint stakeholder communication publication
 - Next teleconference scheduled for January 17th, 2017
 - For March 2017 IAASB meeting, plan to present a draft outline of the publication for feedback from the Board
 - Anticipated publish date of the document – June 2017
- Look to have the coordination function to be more institutionalized

Professional Skepticism

Way Forward

- IAASB Subgroup will begin analyzing the implications and potential unintended consequences of the proposed changes to the concept of PS by respondents to the ITC
 - A shift from a questioning mindset to a more challenging mindset or potentially to presumptive doubt
 - A requirement to seek out contradictory evidence
 - Introducing a concept of levels of professional skepticism rather than the current invariant approach



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