



# IAASB Meeting Recap - March 2017

IAASB

International Auditing  
and Assurance  
Standards Board

# ISA 315 (Revised)

## *Information Technology*

- Largely supportive of direction
  - Provide more clarity through application material (i.e., no changes to requirements)
    - GITC – enhancement of application material definitely needed
    - In developing application material think about less complex IT systems first (e.g. off-the-shelf-packages)
  - Continue to monitor work of DAWG in light of responses to Request for Input re Data Analytics

## ISA 315 (Revised) (Cont.)

### *Control Relevant to the Audit*

- Important to clarify extent of work effort on controls relevant to the audit
  - Distinguish between control environment and control activities (through examples)
    - Explain what is meant by ‘control’ and ‘control activity’
    - Clarify how entity-level controls are evaluated
    - Clarify work effort to evaluate design and determine implementation of controls
    - Clarify why understanding controls and benefits of doing so

### *Separate and Combined Assessment of Inherent and Control Risk*

- Board decided to have separate identification and assessment of inherent and control risk
  - Not combined / simultaneous
  - Will help auditor understand individual drivers of inherent and control risk (to be able to plan work effort to address ROMM accordingly)
  - Helps understand when need work on controls

## ISA 315 (Revised) (Cont.)

### *Significant Risks*

- General support for maintaining concept of significant risk
- Mixed views on ‘working definition’
  - Changes to way it has been articulated
  - Original definition?
- Task force to continue to think how significant risk interacts with spectrum of risk
  - How to describe spectrum of risk in the standard
- Need to clarify difference between ‘significant risk’ and ‘risks of material misstatement’
- Low Likelihood / High Magnitude: mixed views on whether a significant risk
  - Regardless need to clarify that work effort will be responsive to nature and extent of risk

# ISA 315 (Revised) (Cont.)

## *Data Analytics*

- General agreement that application material needed to reflect practice (no requirements at this stage)
- Caution to keep changes more general so as to ‘future-proof’ (i.e., terms become outdated as technology advances)
- Continue to monitor work of DAWG and obtain input from that group as progress changes to ISA 315 (Revised)

## *Professional Skepticism*

- Supportive of general suggestions but need to consider how the changes will actually impact behavior
- Questions about how some specific examples presented may be effective in promoting professional skepticism
- Task Force to continue to work with PSWG as changes progressed

# ISQC 1 – Criteria for Selection of the EQC Reviewer

- General support for the direction
- Keep principles-based, not rules-based
- Acknowledgement there may be circumstances when there is a group of people who perform the EQC review
- Authority
  - Authority is established through the processes established by the firm’s system of quality control
  - Clarity is needed on how the firm’s culture supports appropriate authority
  - Consideration of chain of command
- Technical competence and practical experience
  - Clarity is needed on the distinction of these criteria
  - Should be linked to why the entity is “scoped in” for an EQC review (e.g., industry or another risk)

## ISQC 1 – Criteria for Selection of the EQC Reviewer

- “Combination” of factors could be practically difficult
  - Some jurisdictions where specific provisions apply regarding the licensing of individuals
- Other considerations
  - Clarity of EQC reviewer’s ability to consult with the engagement partner
  - Consider other non-audit engagements
- Objectivity
  - Further coordination is needed with the IESBA
    - Consider what is in IAASB remit versus IESBA remit
  - Undertake outreach with SMPs
  - Period of cooling-off: clarity on IESBA’s view of 3 years is needed, further consider PCAOB rule of 2 years
  - Caution that provisions could be more “strict” for EQC reviewer than the engagement partner

## ISQC 1 – Process for the Selection of the EQC Reviewer

- Overall support
- Consider terminology of “exceptional circumstances” in light of SMPs
- Further enhance “documentation” in paragraph A50

# Professional Skepticism

- Ongoing support for other task forces and working groups (Accounting Estimates, ISA 315, Quality Control, Group Audits)
- Joint publication on IAASB, IESBA & IAESB activities to address responses to ITC and other consultations
- Consideration of fundamental issues raised by respondents to the ITC
  - Mindset (neutral, questioning, challenging, presumptive doubt)
  - Levels of professional skepticism
  - Actively seeking contradictory or inconsistent evidence
- Potential response to IESBA proposals in relation to the treatment of relationship of PS and fundamental principles in the Code
- Consultation with members of the IESBA and the IAESB on the Professional Skepticism Joint Working Group

## Coordination with other Standard Setting Boards (SSB)

- CAG and PIOB see disconnect of the issues across the SSBs
- PIOB supportive of continual monitoring to help align SSB workplans
- What does “independence” of the Boards mean?
  - Outputs are not independent – shouldn’t be doing things that set wrong expectations, as this creates confusion and risks reputational damage to the SSB
  - Is a memorandum of understanding needed?
- Mutual respect and relationship building very important
  - Larger groups rather than smaller groups or individuals
- Understand what are the roles and responsibilities
  - Professional skepticism – who is this group accountable to?

## Coordination with other Standard Setting Boards (SSB)

- Formal processes needed
  - Process resolve differences – establish now rather than trying to deal with it when issues arise (too much tension)
    - Flexibility to accommodate differences, as appropriate, i.e., sometimes differences are fine
    - Confusion created when there are things released publically
    - Should “the public” be the arbitration process, i.e., present both views and let them decide?
  - CAG supports
  - What does “coordination” mean?
    - Need to coordinate both efforts and outputs
    - Extent? Some jurisdictions who adopt the ISAs do not adopt the IESBA Code
    - Involvement of all SSB in the process, so that coordination isn’t just driven by one SSB

## SMP / SME Audits – Changes to the Standards

- Make the standards more “usable”
  - “Tell the story” of the ISAs
  - Use more examples (what does it “look like”)
  - More diagrams?
  - Use “plain English” to draft
  - Keep standards principles based (outcomes based)
- More implementation guidance needed

### ***IAASB Actions***

- Pick up in current projects (e.g., ISQC 1, ISA 220, ISA 600)

## SMP / SME Audits – Information Technology

- Standards complex, not easy to navigate

### ***IAASB Actions***

- Consider making handbook electronic and interactive

## SMP / SME Audits – Other than Audit

- If an audit not required by law or regulation, is there another service to meet stakeholder needs
  - Communication about what else may be suitable
  - Is there something else that should be developed to meet stakeholder needs?

### ***IAASB Actions***

- IAASB currently undertaken a number of consultations on other services (e.g., EER; AUP)
  - Further discussion about ‘gaps’ (if any) identified on analysis of the responses
  - Further consultation and outreach

## SMP / SME Audits – Proportionality / Scalability

- Framework may help when drafting
  - What could the elements be?
  - Share with stakeholders

### ***IAASB Actions***

- Consider how a framework can be developed and used when drafting new and revised standards

## SMP / SME Audits – Way Forward

- Too early to make a decision on a separate standard for audits of SME's
  - No definition of SME / SMP
  - Is it about complexity vs non-complexity
  - Explore further

### ***IAASB Actions***

- Feedback on SMP / SME Audit Conference in Paris
  - Communication of outcomes important
- Consultation on matters where stakeholder views helpful to IAASB in moving forward

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