RECAP Session

IAASB Meeting, New York

September 22, 2017

IAASB International Auditing and Assurance Standards Board

ISA 315 (Revised)

ISA 315 (Revised)

- Overall support for general direction with strong support for separation of assessment of inherent and control risk

- Specific areas for further consideration

- Definitions:
  - Mixed views on changing definition of assertions; some believed it made the definition clearer; while others expressed concern about changing the definition as it was well understood; in particular the removal of the reference to 'management representations'

  - Support for developing a definition for relevant assertions, but further consideration needed as to threshold used to determine a relevant assertion (i.e., concern that 'more than a remote likelihood' may expand the scope of the audit → may impact scalability which is an important objective of project)

  - Further consideration needed about 'relevant class of transaction, account balance or disclosure' – is 'relevant' the right way to describe

  - Further consideration of new concepts being introduced, including the terminology used in relation to the way some of these terms are used across the ISAs (e.g., relevant / significant)

  - Task Force encouraged to further consider that all the changes being made result in the necessary risks being identified and assessed
    - Maintain flexibility as firms have different methodologies
    - Flowchart to make clear how new definitions operate in process for identifying and assessing risk of material misstatement

ISA 315 (Revised) (Cont.)

- Definitions (Cont.)
  - Supportive of definition of qualitative inherent risk factors (QIRF's)
    - Reconsider whether QIRF's complete, including whether the susceptibility of fraud should be added back (or how fraud is a relevant consideration in ISA 315 (Revised))
    - Ensure its made clear that QIRF's relate to inherent risks
    - How the QIRF's align with what has been exposed in ISA 540
      - Joint meeting with ISA 540 Task Force to discuss alignment on this and other matters impacting both projects

- Understanding the entity and its environment – generally supportive of changes proposed
  - Explain what is required to be understood in relation to business model
  - Linking business risks
  - Further consideration of understanding 'measures used' to assess financial performance, in particular externally
  - Further consideration about how professional skepticism can be encouraged

ISA 315 (Revised)

- Internal control
  - Broadly supportive of calling a <u>system</u> of internal control
  - Definition of internal control / controls
    - Mixed views about 'policies and procedures' – is it broader than these (e.g., governance)
    - Caution about using different words to other internationally recognized frameworks
  - Components of internal control
    - Further clarification about work effort related to understanding controls within each component
    - Focus in proposed revisions is on controls - have lost 'flow of transactions" in the information system component
    - Clarification about what control activities are (definition needed?)
    - Further consideration of what 'relevant to the audit' means – will help focus auditors on what needs to be done in particular on smaller, less complex audits where controls not to be relied on

- Identification and assessment of risks of material misstatement
  - Supportive of separation of assessment of inherent risk and control risk
    - Further consideration about how this works practically
  - Further clarification on the proposed revisions relating to the assessment of control risk

ISQC 2 –

Engagement Quality Control Reviews

General Feedback

- Purpose of the EQC review is appropriate – i.e. focus on significant judgments:
  - However, clarify what is meant by significant judgments
  - Consider explaining what the EQC review is not
- Balance between ISQC 1 and ISQC 2 is appropriate
- Address frequency of firm's evaluation of EQC review policies or procedures
- Clarify how the standard applies to the public sector and sole practitioners
- Explore how to further emphasize that the EQC review is one of many responses
- Compare proposals with PCAOB AS1220
- Consider the effective date

Scope of the Engagements Subject to EQC Review

- Proposals not sufficiently robust – consider also including:
  - Entities in the process of listing
  - Entities with significant public interest (noted that need to also strengthen for public sector)
  - Engagements "or classes of engagements"
- Criteria in application material may scope in some engagements that are not "high risk" e.g., entities in development stage with uncertainty related to going concern
- Clarify that policies or procedures may be developed differently for other engagement types
- Clarify how EQC review applies to components in case of a group audit

Objective and Definition

- Reconsider objective of the firm
  - Objective of the firm is broader, i.e., to ensure quality of engagements
- Objectives should be less process focused
- Definition of the EQC reviewer
  - Support for not having reference to the "team" in the definition
  - Varying views on how team supporting reviewer should be addressed:
    - Some members supportive of application material, including a team in the case of group audits
    - Others of the view that the requirements should address team, including eligibility of the team
  - "Suitably qualified" applies to other persons in the firm as well (not just external persons)
  - Explain that "external person" may also be someone in the network
- Consider changing "engagement quality control review" to "engagement quality review"

Eligibility of the EQC Reviewer

- Some concerns regarding eligibility criteria
  - Appears imbalanced with the eligibility of the engagement partner
  - Combination of criteria is important – application material is not enough
- Reconsider the order of the criteria – seems very "time" focused
- Various comments on criteria:
  - Separate authority from competence and experience
  - Consider linking competence and experience to what would be required to fulfill the role of engagement partner
  - Consistency of sufficient and appropriate across criteria
- Add examples of safeguards when authority of the EQC reviewer is impaired
- Clarify hierarchical structure and culture – address chain of command
- More explicit reference needed to external inspection results of the EQC reviewer
- Explain more about how applies to non-audit engagements
- Revisit "consultation" with EQC reviewer and what is appropriate

Appointment of the EQC Reviewer

- General support for the proposal

- More guidance needed for sole practitioners on the appointment of the EQC reviewer

- Improve guidance on what the firm needs to do when using an external person – enquiry alone insufficient

Performance of the EQC Review

- Better linkage of requirements
- Interactions with the engagement team also important
- Refocus requirement on significant judgments – seems to have been broadened in 13(c)
  - Application material also loses focus on what are significant judgments and what the EQC reviewer actually looks at
  - Need to clarify difference between significant judgments and significant matters and consider what needs to be in the standard (e.g., discussions with engagement partner)
  - "Completeness check" also needed, i.e., that there are no significant judgments that the engagement team has missed
- Address challenge of the professional skepticism of the engagement team and the engagement team's process for making the significant judgments
  - Part of process of challenging significant judgment is evaluating compliance with the standard

Documentation of the EQC Review

- More focus needed on what to document and less on the firm's policies or procedures

- Clarify that the EQC reviewer is responsible for the documentation of the EQC review

- Scope of engagements subject to EQC review:
  - Document the reasons for the selection of engagements

- Consider the appropriateness of the documentation requirement for issues that have been resolved during the performance of the EQC review

- Documentation of the EQC reviewer should be robust enough to support inspection

- Differentiate between documentation and assembly

Quality Control (Firm Level) – ISQC 1

Documentation (ISQC 1)

- General support for the proposals, various proposed refinements

- Another benefit of documentation: history behind the system

- Further clarify scalability

- Consider use of term "sufficiency" in the proposed requirements
  - Instead application material to explain what is sufficient and appropriate

- Emphasize that documentation is ongoing

- Documentation of "process" not supported, also concerned with inclusion in application material

- Suggested requirement to document the response and how it addresses the quality risks
  - Also link to networks

- Results of external inspections should form part of documentation

- Refine application material that references to expectations of external oversight authorities

Documentation (ISQC 1)

- Clarify link between documentation of "results of monitoring activities" and whether the firm is expected to perform an evaluation of the operation of the system (i.e., in addition to the design of the system)

  – Documentation needs to provide the basis for the firm's reasonable assurance

Group Audits – ISA 600

Group Audit

- Support for the Project Update
- Points for Task Force consideration:
  - Revisit "balance" of matters addressed within the draft update
    - More clearly focused on group audit issues, and not overly focused on situations where the EP is not located where the majority of the audit work is performed
  - Reconsider references to other projects, including ISA 220, for accuracy and consistency with the project proposal
  - Reference to taking into account developments on the PCAOB's project
  - Be transparent about resource constraints, priorities
  - Add "next steps" or project timeline to the publication

Agreed-Upon Procedures

Agreed-Upon Procedures

- The Board reviewed the feedback received on the Discussion Paper, *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's Standards.*

- The Board unanimously approved the project proposal. It will be modified to include suggested clarifications for submission to the Steering Committee.

- Matters discussed included
  - Highlights on the importance of the project to SMPs and regulators
  - Availability of staff resources and Board capacity
    - Pilot use of NSS resources to move project further

- The Task Force will include further deliberations on the following:
  - Judgment – Recognize where it is used, normally in engagement acceptance and planning and not in reporting factual findings
  - Independence – Liaison with IESBA needed as well as emphasis on objectivity
  - Restriction of report – the requirement will deal with the inclusion of the alert
  - Documentation – area that could be elaborated on → important for regulators

www.iaasb.org

IAPN.   ISA.   ISAE.   ISQC.   ISRE.   ISRS.