

Invitation to Comment—What We Heard

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IAASB Meeting

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Agenda Item 6 (Updated)

Respondents (85 Total)

Stakeholder Group	Number
Investors and Analysts	7
Those Charged with Governance	1
Regulators and Oversight Authorities	10 (3 Monitoring Group members) (1 more expected)
National Auditing Standard Setters	9
Accounting Firms	10
Public Sector Organizations	4
Preparers	1
Member Bodies and Other Professional Organizations	32
Academics	4
Individuals	7

What We Heard – 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
 - Concerns about impact of changes, including on SMPs
- 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 – 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 – Professional Skepticism (cont.)

- Professional skepticism is relevant throughout the entire audit
- Support for a joint approach by IAASB, IESBA, and IAESB
 - Consistency between the standard-setting boards on the concept/definition of professional skepticism
 - Clarification needed between professional skepticism and fundamental principles within IESBA Code
- Strong link between professional skepticism and role of tone at the top/middle (ISQC 1), e.g., audit firm, engagement partner, EQCR, senior staff, including development of professional skills, communication skills, and mentoring during the audit
- Request for additional guidance on exercising professional skepticism in particular circumstances (e.g., when auditing highly judgmental areas)
- There is also a role for other stakeholders in addressing professional skepticism (e.g., audit committees, universities, regulators, audit firms)

What We Heard – Quality Control

- Governance and Leadership
 - Different interpretations by respondents of what is meant by “governance” – impacted responses
 - *Support*: Overarching principles i.e., “tone at the top”, “leading by example,” “culture that supports quality;” also mention of “tone at the middle”
 - *Varying views*: Requirements for firm structures (including responsibilities)
 - Link to fostering professional skepticism
 - Link to QMA approach

What We Heard – Quality Control (cont.)

- Engagement Quality Control (EQC) Reviewer
 - *Support:* Role of EQC Reviewer as key quality control measure; timing of review; documentation (but keep balance in terms of role of engagement partner)
 - *Varying views:*
 - Extend beyond listed entities, separate standard; extending nature and extent of EQC Review;
 - Disclosure in the audit report; interaction with those charged with governance (TCWG); support from experts
 - EQC Reviewer selection: Cooling-off is an IESBA issue; address hierarchical mismatches
 - Role in fostering professional skepticism
- Quality Management Approach (QMA)
 - *Support:* Could contribute to audit quality – preventative and proactive; addresses expectation of continuous improvement mindset
 - *Concerns:* Insufficient information, diluting strength of ISQC 1, burdensome (adding on more), consistency across firms without appropriate safeguards
 - Supports other aspects of ISQC 1 (leadership, monitoring, EQC Review)
 - Cascading down QMA, or elements of QMA, to engagement level (including group audits)

What We Heard – Quality Control (cont.)

- Transparency reporting
 - *Varying views* - support IAASB activities such as dialogue, research - flexibility and innovation needed; not a matter for IAASB; develop guidelines and principles
 - Not much discussion on audit quality indicators
 - Question on contribution to audit quality and whether in scope of ISQC 1 - Is this a priority?
- Monitoring and remediation
 - *Support*: Understanding causal factors, recognizing various forms of monitoring, responding to all inspections, evaluating effect of deficiencies within the firm, monitoring effectiveness of remedial actions
 - Link to QMA approach
- Competency, performance and rewards
 - *Support*: Principles addressing performance appraisals; address knowledge, time and experience
 - *Varying views*: Support for principles addressing engagement partner remuneration, but concerns measuring quality and could have unintended consequences; relationship to IES 8

What We Heard – Quality Control (cont.)

- Firm's role in supporting quality
 - *Support:* Reliance on network policies and procedures (some support for this at engagement level), addressing ADMs, results of inspections
 - *Varying views:* Requirements for network firms
 - Audit Delivery Models (ADMs) – No different from “modernized” engagement teams
- Engagement partner (EP) roles and responsibilities
 - *Support:* Addressing performance, direction, supervision and review
- Definition of engagement team

What We Heard – 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 or where other auditors are used, but must also be kept flexible
 - Entity structures will continue to evolve (e.g., shared service centers)
 - International standards need to do more to explain how to apply principles-based standards to different situations
 - Challenges around non-controlled components
 - Varying views on / different understanding of question relating to ability to make reference to the report of another auditor in some specific circumstances
 - What is in the public interest?

What We Heard – Group Audits (cont.)

- Interaction of ISA 220 and ISA 600
 - Focus on direction, supervision and review by the engagement partner
- General support for revisiting how to best emphasize the importance of focusing effort on the risks of material misstatement to the group financial statements
 - Support for challenging the current focus on scoping based on identification of components to (vertical) to include a horizontal perspective (financial statement line items and disclosures)
 - Internal control is important; support for revisiting and placing greater emphasis on management's controls
 - Support for enhanced focus on determination of component materiality and consideration of aggregation risk

What We Heard – Group Audits (cont.)

- Strong focus on two-way communication
 - Expectations for component auditors
- Networks
 - What needs to be done to rely on network policies and processes
 - Impact of mandatory rotation

Feedback from the ITC in Relation to Future Work Plans

- Priority attention needed on data analytics and updating the ISAs to take into account the IT and digital environment
 - Including issues related to obtaining sufficient appropriate audit evidence
- Materiality, including revisions to ISA 320 and potentially ISA 450
 - Also consider requiring disclosure of materiality in the auditor's report
- Need to address other “important” themes from the ISA Implementation Monitoring project
 - E.g., using the work of auditor's experts, risk of fraud in revenue recognition, analytical procedures and the potential need for changes to ISA 330 because of other projects
- Sustainability and environmental, social and governance (ESG) matters
 - Including enhancing disclosures about going concern matters that go beyond a 12-month period
- Further investment needed to address SMP issues
 - Concern that ISAs are losing relevance for SMPs; new guidance and tools needed
- Consideration of what more could be done to better explain what an audit is and address the expectations gap

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