

IAASB Meeting Highlights and Decisions

December 2016

Contact: Beverley Bahlmann, IAASB Acting Technical Director (BeverleyBahlmann@iaasb.org)

This summary of decisions of the International Auditing and Assurance Standards Board (IAASB) has been prepared for information purposes only. Except for approval of documents for public exposure and issue of final Standards, decisions reported are tentative, reflect only the current status of discussions on projects, and may change after further deliberation by the IAASB.

A [podcast](#) recording giving a short audio summary of the main outcomes of the December 2016 IAASB meeting is also available on the IAASB website, as are the agenda materials that were considered by the IAASB.

For more detailed information about IAASB projects, please refer to the project summaries under [Current Projects](#).

Accounting Estimates

The IAASB discussed the ISA 540 Task Force's (ISA 540 TF) proposals relating to the revision of ISA 540¹. The IAASB supported the ISA 540 TF's proposal to focus the work effort on the objectives to be achieved by the auditor. The IAASB also discussed other aspects of the project, including a proposed consequential amendment to ISA 500² related to external information sources and a possible requirement on when testing the operating effectiveness of controls would be required when auditing accounting estimates. While recognizing that the subject matter is complex, the ISA 540 TF was asked to simplify and clarify the material to the extent possible. An exposure draft of proposed revised ISA 540 is intended to be presented to the IAASB for approval in March 2017.

The IAASB's Work Plan for 2017–2018 and Continuing Relevance of Its Strategic Objectives

Following consideration of the responses to the [Survey Consultation—The IAASB's Work Plan for 2017–2018 and Continuing Relevance of Its Strategic Objectives](#), the IAASB unanimously approved its Work Plan for 2017–2018, signaling a commitment to enhancing audit quality by prioritizing and completing the significant projects commenced in the 2015–2016 period. When feasible in the 2017–2018 period, the IAASB plans to start new projects on agreed-upon procedures and audit evidence (incorporating professional skepticism, data analytics, audit evidence and other ISAs as relevant). The IAASB will continue its efforts on outreach with stakeholders, recognizing the importance of continuing to discuss the changes being made as the projects progress, in particular where the nature of the changes being made may result in fundamental changes to those standards. The IAASB is committed to providing transparency about the timing of the projects, and will communicate if and when targeted dates for completion change. The approved Work Plan for 2017–2018 will be published later in March 2017 after approval by the Public Interest Oversight Board of due process

¹ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

² ISA 500, *Audit Evidence*

followed in its development. The IAASB also confirmed the continuing relevance of its strategic objectives through a mid-period review, and will publish a supplement to its Strategy for 2015–2019.

Project Proposals: Quality Control and Group Audits

The IAASB approved, subsequent to certain revisions, the project proposal to address the revision of ISQC 1,³ ISA 220⁴ and ISA 600.⁵ The project proposal combines the topics of group audits and quality control due to the interaction and extent of crossover of the issues affecting these topics, while the timing of the projects takes into account the degree of interactions between the various projects of the IAASB. The project proposal specifically takes into consideration the proportionality and scalability of the standards, given the particular challenges of small- and medium sized practices (SMPs) and audits of small- and medium sized entities (SMEs).

Quality Control (Firm Level)

The IAASB discussed the Quality Control Working Group's (QCWG) recommendations on the possible approach to revising ISQC 1 to incorporate quality management, including the components of quality management, the implications for the structure of ISQC 1, how the ISA could be made more scalable, and other matters.

The IAASB was supportive of the overall direction proposed by the QCWG, however the IAASB emphasized the importance of managing the expected changes in behaviors resulting from this project. The IAASB encouraged the Quality Control Task Force to improve the linkage between the proposals and the IAASB's Audit Quality Framework,⁶ and to consider the impact of the proposals on networks of firms and SMPs.

Quality Control – Engagement Quality Control Review (EQCR)

The IAASB agreed on clarifying the objective of an EQCR to explain what it should achieve. The Board also discussed the definition of an EQCR. The IAASB agreed to expand EQCRs to include entities other than listed entities with engagements for which an EQCR is required by law or regulation, and entities for which the firm has determined an EQCR is an appropriate response to an identified quality risk.

Quality Control (Engagement Level)

There was general agreement on the direction of the proposed enhancements put forward by the Crossover Working Group (Crossover WG) from the IAASB. The IAASB's discussion focused on: the engagement partner's (EP) responsibility and accountability, including when delegating responsibilities; the implications of when the signing partner is different to the EP; and the communication between the engagement team and others involved in the audit.

The Crossover WG will continue to refine the aspects of quality control at the engagement level discussed at this meeting as well as continue its consideration of topics not presented at this meeting for subsequent discussion by the IAASB at future meetings.

³ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements and Related Services Engagements*

⁴ ISA 220, *Quality Control for an Audit of Financial Statements*

⁵ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁶ *A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality*

Professional Skepticism

The IAASB received an update on the activities of the Professional Skepticism Working Group (PSWG) and generally expressed support for the two paths forward for the PSWG:

- Commence information gathering and perform analysis on issues in relation to fundamental changes to the concept or definition of professional skepticism identified by respondents to the ITC; and
- Develop a joint stakeholder communication publication that will give prominence to the work of the three standard-setting boards of the PSWG.

The IAASB also received an update on the short-term proposals to enhance professional skepticism within the Code of Ethics for Professional Accountants to be considered by the International Ethics Standards Board for Accountants during its December 12–15, 2016 meeting. The IAASB agreed that a more institutionalized process for coordination among the standard-setting boards is preferred going forward.

Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment

The IAASB considered recommendations from the ISA 315 (Revised) Task Force related to identification and assessment of inherent risks (including a spectrum of inherent risks and significant risks), understanding of internal control (including initial views on how the existing requirements are able to be applied to a wide range of circumstances) and other matters. The IAASB supported many of the recommendations from the ISA 315 (Revised) Task Force. In expressing its support, the Board requested that further clarity be provided on how certain recommendations would be operationalized. The IAASB also discussed the option to perform a separate or combined assessment of inherent risk and control risk is retained, whether similar requirements exist in the Public Company's Accounting Oversight Board's standards to what the ISA 315 (Revised) Task Force is recommending, and the merits of introducing "susceptibility to fraud" as a fifth qualitative inherent risk factor and related to spectrum of inherent risks. The IAASB also concluded that it would not be appropriate to have defined categories in the standard, other than what exists today (i.e., significant risks and risks that are at an acceptably low level).

Innovation

The IAASB received its annual update from the Innovation Working Group, which included a summary of outreach into matters affecting the profession where interest from national auditing standard setters and other stakeholders is growing. The IAASB received an update about developments relating to assurance in respect of cybersecurity, the possible impact of blockchain technology on audits of the future, and the auditor's role with respect to non-GAAP measures (also known as alternative performance measures).

International Accounting Standards Board (IASB) Annual Update

The IAASB also received a presentation from Mary Tokar, IASB member, focused on recent IASB activities and upcoming consultations.

Next Meeting

The next physical IAASB meeting will be held in Lima, Peru on March 13 – 17, 2017. The IAASB will also hold teleconferences on January 31, 2017 and February 14, 2017.