IAASB Meeting Highlights and Decisions

December 2019

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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 issuance 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 2019 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.

**Group Audits**

The Board was updated on the work of the ISA 600 Task Force since the September 2019 meeting, including the outreach performed, and discussed a full draft of the proposed revised standard (except the appendices). The draft of proposed ISA 600 (Revised) included updated requirements and application material on sections that were presented to the Board in September 2019 and new requirements and application material on, among other matters, materiality, communications with component auditors and documentation.

The ISA 600 Task Force will take the Board’s comments on the proposed revised standard into account and will present an updated version for approval for public exposure at its March 2020 meeting. The Task Force will discuss the conforming amendments and the appendices to proposed ISA 600 (Revised) in the January 23, 2020 Board teleconference.

**Strategy and Work Plan**

The IAASB’s Strategy for 2020–2023 (Strategy) and Work Plan 2020–2021 (Work Plan) were unanimously approved by the IAASB. The IAASB’s medium-term objectives focus on its agility to respond to the changing environment, in particular in relation to technology and the changing public interest (for example in the areas of fraud and going concern).

The Work Plan has been developed taking into account the IAASB’s existing resources and capacity, and illustrates the completion of some of the IAASB’s substantial audit quality and quality management projects currently underway. New projects to commence once capacity opens up will be determined by the IAASB’s Framework for Activities, which focuses on robust information gathering and research activities to properly identify and scope future work of the IAASB.

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1. **International Standard on Auditing (ISA) 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)**
Agreed-Upon Procedures Engagements

The Board approved ISRS 4400 (Revised)\(^2\) with 17 Board members voting for approval and one vote against. The revised ISRS will be effective for agreed-upon procedures engagements for which the terms of engagement are agreed on or after January 1, 2022. Once the PIOB’s confirmation that due process was followed is received, the Board will formally release the standard.

In finalizing ISRS 4400 (Revised), the Board carefully deliberated the effective date and continued to focus on issues relating to compliance with independence requirements.

Extended External Reporting (EER) Assurance

The Board approved the combined restructured and redrafted non-authoritative EER Guidance, *Special Considerations in Performing Assurance Engagements on Extended External Reporting*, for public consultation. The consultation period will be 120 days from the date of publication.

In finalizing the draft Guidance for public consultation, the Board agreed to emphasize that the guidance is non-authoritative and is not required to be read in its entirety, but is a useful reference source in applying particular requirements of the Standard. The Board also clarified the possible approaches to the use of framework criteria and entity-developed criteria and included additional guidance on fraud and on misstatements that might affect the practitioner’s assessment of the control environment.

Audits of Less Complex Entities

The Board discussed the feedback received to date related to audits of less complex entities, including from the *Discussion Paper* (DP), *Audits of Less Complex Entities (LCEs): Exploring Possible Options to Address the Challenges in Applying the ISAs*, and other related outreach. The key messages received from the feedback highlighted the strong support for the IAASB’s work in this area, as well as the need for a timely and global solution. The Board asked the LCE Working Group to continue to analyze the feedback from stakeholders to help determine the most appropriate way forward, and it was agreed that further information gathering activities would continue until June 2020, at which time it is anticipated that a decision about the way forward will be made.

As part of the proposal for work in this area, the IAASB had agreed that it was important to keep stakeholders informed of its progress in relation to its work on audits of LCEs. Accordingly, the Board agreed to publish a Feedback Statement in December 2019 detailing what the IAASB had heard from its consultation and related outreach.

Quality Management Projects

Quality Management at the Firm Level

The Board continued to discuss the key issues highlighted by respondents to the Exposure Draft (ED) of ISQM 1\(^3\) (ED-ISQM 1) including the scalability, complexity and prescriptiveness of the standard,

\(^2\) International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*

\(^3\) Proposed International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control (ISQC) 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*
appropriate tailoring of the system of quality management for their circumstances and the making sure the standard that can be applied in all circumstances.

The Board supported the changes to the structure of the standard, adjusting the quality objectives and responses in the components to be more streamlined and the revisions to the drafting and presentation of the standard to simplify and improve the readability of the standard. The Board also agreed with proposed revisions to the firm’s risk assessment process, including introducing factors to consider in identifying and assessing quality risks.

The Board supported the ISQM 1 Task Force’s proposals to embed a risk-based approach in the monitoring and remediation component, improve the selection of engagements for inspection such that it is more risk-based, and further clarify the framework for evaluating findings and identifying deficiencies.

Engagement Quality Reviews

The Board generally supported the ISQM 2\(^4\) Task Force’s revised proposals on the scope of engagements subject to an engagement quality (EQ) review and on a mandatory cooling-off period of two-years, or longer if required by relevant ethical requirements, to address objectivity for individuals moving into the role of EQ reviewer after serving as the engagement partner.

The Board also generally supported proposals on other matters, including the EQ reviewer’s evaluation of the exercise of professional skepticism by the engagement team, and considerations for an EQ review of a group audit engagement.

The ISQM 2 Task Force will consider the comments received in preparing a revised full draft of proposed ISQM 2 for discussion at the March 2020 IAASB meeting.

Quality Management at the Engagement Level

The Board generally supported the ISA 220\(^5\) Task Force’s proposals to clarify the engagement team definition, to make clear that the engagement team can ordinarily depend on the firm’s system of quality management, and to better deal with large, complex audit engagements. The Board also discussed professional skepticism, the stand-back provision and the documentation requirements.

The ISA 220 Task Force will consider the comments received in preparing a revised full draft of proposed ISA 2202 for discussion at the March 2020 IAASB meeting.

Next Meeting

Teleconferences have been planned for January 23 and February 11, 2020. The next physical IAASB meeting will be held in New York, United States of America on March 16–20, 2020.

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\(^4\) Proposed ISQM 2, *Engagement Quality Reviews*

\(^5\) Proposed International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*