IAASB Meeting Highlights and Decisions

June 2016

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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 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 June 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.

Responding to Non-Compliance with Laws and Regulations (NOCLAR)

The IAASB discussed the NOCLAR Task Force's recommendations in response to the comments raised by the IAASB at the March 2016 meeting and April 2016 teleconference, including:

- The definition of non-compliance, in particular the inclusion of a reference to "personal misconduct unrelated to the business activities of the entity" within the definition and the examples of personal misconduct in the application material;

- How International Standard on Auditing (ISA) 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*, articulates the auditor's responsibilities to report NOCLAR to an appropriate authority outside the entity;

- The documentation requirements and how these should reference the documentation requirements of the International Ethics Standards Board for Accountants' (IESBA) NOCLAR pronouncement; and

- Whether revisions to ISA 600, *Special Considerations–Audit of Group Financial Statements (Including the Work of Component Auditors),* should be made to highlight the requirements under the IESBA NOCLAR pronouncement regarding the communication of NOCLAR within groups.

The IAASB decided that highlighting the communication of NOCLAR within groups in ISA 250 would suffice for the time being, but would be given further consideration as part of the project to revise ISA 600.

The Board approved the revisions to ISA 250 and related conforming amendments to other IAASB International Standards. ISA 250 and the related conforming amendments will be published once the Public Interest Oversight Board has considered whether due process has been followed in the development of the revisions. The standard will be effective for audits of financial statements for periods beginning on or after December 15, 2017.

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

The IAASB's discussion on ISA 540 focused on the definitions in the ISA, the identification and assessment of risks, and how the scalability of the standard could be better explained. The IAASB made suggestions for the definitions, noting that some of the material proposed by the ISA 540 Task Force may be better located as application material to help simplify the definitions. In relation to the risk assessment section, the IAASB made several suggestions to make the section clearer and improve the readability. The IAASB encouraged the ISA 540 Task Force to more explicitly address how and when the ISA can be scaled to deal with accounting estimates that are less complex and have low estimation uncertainty. The IAASB also provided input on the ISA 540 Task Force's initial thinking on the work effort in ISA 540.

The ISA 540 Task Force will continue to progress issues and suggested revisions to ISA 540, with further discussion planned for the July 2016 IAASB teleconference, and a first draft of the Exposure Draft of ISA 540 (Revised) to be presented at the September 2016 IAASB meeting. The Chairs of the ISA 540 Task Force, Professional Skepticism Working Group and ISA 315 (Revised) Working Group will continue to liaise on matters of mutual interest.

Professional Skepticism

The IAASB considered recommendations from the IAASB representatives of the Professional Skepticism (PS) Working Group that aim to assist the ISA 540 Task Force in emphasizing the application of professional skepticism in revisions to ISA 540. To support these recommendations, the PS Working Group had developed a matrix that describes how professional skepticism applies within each phase of the audit.

The IAASB agreed that it will be important to continue coordination between the ISA 540, ISA 315 (Revised), Quality Control and Data Analytics projects in respect of professional skepticism, also taking into consideration the responses received on the Invitation to Comment (ITC). The IAASB emphasized the importance of analyzing the feedback from the ITC at the IAASB meeting in September 2016, and asked the PS Working Group to further consider whether certain topics may need to be further addressed in the IAASB's International Standards or by other means, including:

- Bias (both of the auditor and management);
- Obtaining sufficient appropriate audit evidence; and
- The potential need to shift auditors towards having a more of a challenging mindset.

The IAASB reiterated the importance of a coordinated approach among all of the standard-setting boards, including the IESBA and the International Accounting Education Standards Board (IAESB), in response to stakeholder calls to do so. To achieve this, the IAASB encouraged the PS Working Group to develop a thought piece or concept paper that addresses the issues raised by stakeholders in response to the ITC, how the IAASB is responding to these issues and how the concept of professional skepticism will be further addressed by the IAESB and IESBA.

ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

The ISA 315 (Revised) Working Group presented the IAASB with significant issues and other matters for consideration in considering potential areas for revision to ISA 315 (Revised). The IAASB agreed with the major issues identified, and highlighted some additional matters that should be addressed. The IAASB also provided input on the proposed project objectives and agreed with the

focus and direction of the project. The IAASB directed the ISA 315 (Revised) Working Group to present a project proposal for the IAASB's consideration at its September 2016 meeting to commence standard-setting activities. The Working Group was also asked to present issues and recommendations on priority topics at the September 2016 IAASB meeting, including in respect of those matters that require coordination with the ISA 540 Task Force.

Data Analytics

The IAASB provided input on the Data Analytics (DA) Working Group's proposed publication, *The IAASB's Work to Explore the Growing Use of Technology in the Audit, including Data Analytics.* While making suggestions for a more proactive approach in some areas, the IAASB supported the Working Group moving forward with finalizing the publication, agreeing that it would meet the objectives of:

- Raising awareness with stakeholders;
- Delivering a message that the extant ISAs do not prohibit the use of data analytics in a financial statement audit; and
- Communicating the way forward for the IAASB's Data Analytics project.

The IAASB was supportive of the DA Working Group's active involvement in the IAASB's current standard-setting projects and assessing the potential impact on the ISAs arising from data analytics. The IAASB encouraged the DA Working Group to continue with its outreach activities, exploring whether involvement of a project advisory group or roundtable events might be effective in further information gathering and facilitating a two-way dialogue with stakeholders.

Invitation to Comment

The IAASB heard about the high-level themes from the ITC response letters relating to Professional Skepticism, Quality Control and Group Audits. There were strong calls from the respondents 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 the standards to different and evolving circumstances. There was also a call for more practical guidance, including examples illustrating how the standards can and should be applied in different circumstances. It was noted that the IAASB needs to reinforce the importance of auditors understanding the business and operational drivers, as this is foundational to performing quality audits. It was also noted that the impact of culture on the standards should be further considered. The individual working groups, and the Enhancements Coordination Working Group, will continue to analyze the responses and will present a more thorough analysis of the responses at the September 2016 IAASB meeting.

Integrated Reporting

The IAASB had robust discussions on the Integrated Reporting (IR) Working Group's draft Discussion Paper, *Supporting Credibility and Trust in Emerging Forms of External Reporting.* The IAASB was generally supportive of the Discussion Paper; however, various suggestions were made to reduce the length of the paper and improve the clarity of its purpose, to make it more appealing to read for non-technical stakeholders. There was also support for a stand-alone "At a Glance" document to summarize the key messages for various stakeholders.

The IR Working Group will further revised the Discussion Paper, and will publish it together with background material needed for proper interpretation and an "At a Glance" document during the third quarter of this year. The Discussion Paper will be open for comment for 120 days.

Agreed-Upon Procedures

The Agreed-Upon Procedures (AUP) Working Group presented a first draft of its Discussion Paper, *Exploring the Growing Demand for Agreed-Upon Procedures Engagements and Other Services and the Implications for the IAASB's Standards*. The IAASB discussed issues highlighted within the paper, including the use of professional judgment in an AUP engagement, the use of ambiguous terminology in the report of factual findings, the restriction of use and distribution of the report of factual findings, how practitioners should address recommendations in conjunction with an AUP engagement and the role of independence in an AUP engagement. The IAASB provided the AUP Working Group with input to enhance the Discussion Paper and suggested that the paper pose a question to explore whether the IAASB should develop guidance on multi-scope engagements. The AUP Working Group will present a revised draft of the Discussion Paper at the September 2016 IAASB meeting.

IAASB Work Plan for 2017–2018

The IAASB provided input to the proposed survey to inform the development of its *Work Plan for 2017–2018* and to confirm that the strategic objectives for the 2015–2019 strategy remain relevant. The brief survey asks for feedback whether the topics on the current agenda that will continue into the next work plan should continue to be prioritized, and highlights other topics that stakeholders have variously suggested may warrant further consideration by the IAABS. The IAASB expects to issue the survey shortly, and will provide feedback to the IAASB to assist the Board in finalizing the *Work Plan for 2017–2018* at its December 2016 meeting. The IAASB is also considering how best to coordinate work on the current topics, in light of the interconnected issues within many of these topics. The IAASB is of the view that it must consider the most effective and efficient way of progressing the topics without duplicating efforts, while at the same time doing what is needed to achieve the set priorities.

Next Meeting

The next physical IAASB meeting will be held in Hong Kong, on September 19–23, 2016. The IAASB will also hold a teleconference on July 26, 2016 to discuss matters related to the ISA 540 project.