

# IAASB Meeting Highlights and Decisions

June 2018

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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 2018 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 Board approved ISA 540 (Revised)<sup>1</sup> as a final standard. The revised ISA will be effective for audits of financial reporting periods beginning on or after December 15, 2019. Early adoption is permitted and encouraged, and the final IAASB-approved text has been posted on the IAASB's website. Once the Public Interest Oversight Board's (PIOB) confirmation that due process was followed is received, the Board will formally release the standard.

ISA 540 (Revised) deals with a critically important area of the financial statements – accounting estimates and related disclosures. Accounting estimates are a continually evolving area of accounting, and therefore a key focus area for the IAASB's efforts to improve audit quality.

In finalizing ISA 540 (Revised), the Board focused on the scalability of the ISA to very simple accounting estimates as well as the most complex accounting estimates. The Board also clarified the relationship between ISA 540 (Revised) and other ISAs, and using the work of a management's expert as audit evidence in testing how management made the accounting estimate.

The Board recognized that support of the implementation of ISA 540 (Revised) is important and therefore supported the formation of an implementation working group. The Board will monitor implementation challenges as they arise and also committed to a post-implementation review.

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

After making amendments in response to the Board's comments received during the meeting, the Board approved the ISA 315 (Revised)<sup>2</sup> Exposure Draft (ED) for public exposure. The ED will be issued in mid-July for comment by November 2, 2018. In finalizing the ED, the Board continued to express concern about the complexity and scalability of the standard, in particular that the linear approach to the standard (including the flowcharts) did not illustrate the iterative nature of the standard.

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<sup>1</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>2</sup> ISA 315 (Revised), *Identifying and Assessing the Risk of Material Misstatement*

On balance, however, the Board agreed that stakeholder views were needed to determine whether the proposals could be effectively implemented. The Board also discussed how scalability was presented, in particular how the term ‘smaller and less complex’ was used to highlight these aspects.

The Board also asked for further clarification of the required evaluation of the design of the ‘information system relevant to financial reporting,’ to better distinguish this requirement from the understanding of the control activities component. The Board further supported the Task Force’s recommendation to include a specific question in the Explanatory Memorandum on the stand-back requirement (in conjunction with the requirement of ISA 330<sup>3</sup> paragraph 18), because of mixed views relating to whether this requirement was needed.

The conforming amendments to ISA 540 (Revised) are planned to be approved in an IAASB teleconference on July 17, 2018.

## **Emerging External Reporting (EER) Assurance**

The Board was presented with an issues paper summarizing the work of the Task Force relating to three of the Ten Key Challenges in undertaking assurance engagements over EER. The Board discussed the ‘generalized construct’ of an EER report and its relationship to assurance concepts, before considering issues relating to the challenges of Applying Materiality, Evaluating the Suitability of Criteria, and Building Assertions.

The Board expressed broad support for the approach being taken by the Task Force to date and commented on the issues presented. The Board also agreed with the Task Force’s suggestion to publish the non-authoritative guidance in the form of an International Assurance Engagements Practice Note (IAEPN). The remaining challenges allocated to Phase 1 of the project will be presented for discussion in September 2018, along with a first draft of the guidance relating to these challenges.

## **Quality Control at the Firm Level**

The Board discussed the timing of the approval of the proposed exposure draft of ISQC 1 (Revised)<sup>4</sup> and, given the extent of changes to this standard and the need to spend time deliberating some very important issues, agreed that the approval of the exposure draft should be deferred to December 2018. The Board also discussed the overall structure of the standard and emphasized the importance of governance and leadership and the need for this component to appear first in the standard. The Board provided various suggestions to improve the requirements addressing the firm’s risk assessment process and briefly discussed the introduction of the standard, monitoring and remediation and the proposed new appendix explaining the components. The Board supported the direction of the new appendix and recommended that it further elaborate on the relationship of all components, including resources and acceptance and continuance. The Board also encouraged less focus on the inspection of completed engagements in monitoring and remediation.

The Task Force plans on presenting a full draft of proposed ISQC 1 (Revised) at the IAASB’s September 2018 meeting.

## **Quality Control at the Engagement Level**

The Board discussed a first read of the draft Exposure Draft of ISA 220 (Revised)<sup>5</sup> and was broadly supportive of the direction of the proposed changes. The Board requested the ISA 220 Task Force to

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<sup>3</sup> ISA 330, *The Auditor’s Responses to Assessed Risks*

<sup>4</sup> Proposed *International Standards on Quality Control (ISQC) 1 (Revised), Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

<sup>5</sup> International Standard on Auditing (ISA) 220 (Revised), *Quality Control for an Audit of Financial Statements*

align the language in the standard with ISQC 1 (Revised). The Board also discussed the circumstance when there is an individual other than the engagement partner who signs the auditor's report, either instead of, or in addition to, the engagement partner. The Board concluded that additional research needs to be carried out related to this issue prior to any standard-setting activities commencing.

## **Audit Evidence**

The Board received an update on the progress of Audit Evidence project undertaken by the American Institute of Certified Public Accountants (AICPA) to update AU-C section 500 (Audit Evidence) in view of changes in the audit environment due to technological advances in the way an audit is performed. The board further discussed the involvement of the IAASB in this project and noted that a future IAASB project on ISA 500<sup>6</sup> would be beneficial for stakeholders.

## **Next Meeting**

The next IAASB [teleconferences](#) will be held on July 17 and August 7, 2018 and the next [physical IAASB meeting](#) will be held in New York, USA on September 17–21, 2018.

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<sup>6</sup> ISA 500, *Audit Evidence*