

IAASB Meeting Highlights and Decisions

March 2018

Contact: Matt Waldron, IAASB Technical Director (MattWaldron@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 March 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 discussed a current draft of ISA 540 (Revised).¹ The Board focused on the need to improve the alignment of ISA 540 (Revised) with extant ISA 315 (Revised),² particularly regarding the spectrum of risk and noting that certain provisions of paragraph 10 (on risk assessment procedures and related activities) are intended to apply only to significant accounting estimates. Furthermore, the Board also requested the ISA 540 Task Force to consider ways to reduce the length of the ISA, which resulted in the removal of two appendices. It was also agreed that the term 'significant data' should not be used to imply that management must identify significant data. The Board also requested the ISA 540 Task Force to clarify the linkage between various work effort requirements and the documentation requirements of the ISA.

Aspects of draft ISA 540 (Revised) will be discussed at an IAASB teleconference on April 24, 2018 and a final draft of the proposed standard presented to the IAASB for approval at its June 2018 meeting.

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

The Board discussed the proposed changes to the requirements and application material in draft proposed ISA 315 (Revised). The Board continued to broadly support the direction of the proposals, but noted further clarity was needed in a number of areas, in particular relating to some aspects of the definitions and the requirements for the identification and assessment of the risks of material misstatement.

The Board requested that the ISA 315 Task Force reassess whether the identification of risks of material misstatement related to fraud could be made more prominent in the standard, in particular as it relates to the inherent risk factors and the proposal to broaden these risk factors to include matters

¹ ISA 540 (Revised), *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and related Disclosures*

² ISA 315 (Revised), *Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment*

related to both intentional and unintentional misstatements. There was general support for the new introductory paragraphs however, these were seen to be complex, introduced terms too early in the standard and in some cases were not consistent with the wording in the relevant other standards. The Board decided that further clarification and guidance was needed in relation to general IT controls, while also supporting the ISA 315 Task Force's suggested guidance in relation to IT and the use of data analytics (subject to further consideration about the term to be used to mean 'data analytics'). The Board also agreed that more needed to be done to address scalability.

Aspects of draft ISA 315 (Revised) will be discussed at an IAASB teleconference on May 22, 2018, and the ISA 315 Task Force will continue to progress the proposed changes to the proposed standard for approval as an exposure draft at the June 2018 IAASB meeting.

Agreed-Upon Procedures (AUP)

The Board was supportive of a draft of proposed ISRS 4400 (Revised).³ The Board agreed with the AUP Task Force's proposal to use the term 'findings' instead of the 'factual findings,' which is included in extant ISRS 4400, and requested the Task Force to further clarify the proposed changes. The IAASB agreed with a requirement for disclosure of non-independence in the AUP report and supported the AUP Task Force's collaboration with the International Ethics Standards Board on Accountants (IESBA) to develop criteria for determining whether the practitioner is independent. With respect to the flexibility of the standard, the IAASB agreed that the AUP standard should be sufficiently flexible to address the various circumstances when an AUP engagement is performed (e.g., AUP engagements in the public sector environment). Within this premise, the IAASB directed the AUP Task Force to consider whether it is appropriate to elevate some of the application material to requirements.

The AUP Task Force will proceed to amend the working draft and actively monitor developments relating to ISQC 1⁴ and the new revised IESBA Ethics Code, *International Code of Ethics for Professional Accountants, including International Independent Standards*, to ensure the draft is aligned.

Quality Control at the Firm Level

The Board discussed and supported the proposed exposure draft of ISQC 1 (Revised) including its structure and the objective. The Board discussed the length of the standard and the need for additional guidance, and encouraged the Quality Control Task Force to analyze the application material, develop additional guidance addressing the spectrum of firms, and explore positioning guidance outside of the standard (including the appendix). In addition to suggesting a new term for the quality risk assessment process, the Board suggested further refinement of the requirement and definitions in relation to the identification and assessment of quality risks. The Board recommended that the quality risk assessment process should be applied to monitoring and remediation, which would result in a restructure of the component. The Board agreed that ISQC 1 should strongly encourage firms to communicate, as appropriate, with external stakeholders about the firm's system of quality management (such as through transparency reports). In relation to monitoring and remediation, the Board suggested directly addressing quality objectives and quality risks in the framework for the identification of deficiencies and in the definition of deficiencies. The Board discussed how to address concerns raised by certain stakeholders who are seeking requirements specifically for networks, and

³ International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

⁴ 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*

encouraged the Quality Control Task Force to further explore these concerns and how best they can be addressed.

In June 2018, the Quality Control Task Force plans on presenting further proposals on networks and monitoring and remediation, with a final version of the proposed exposure draft presented to the Board for approval in September 2018.

Emerging External Reporting (EER)

The Board received an update on work completed by the EER Task Force to date. This included understanding the conceptual and contextual background of EER reporting frameworks, as well as discussions to start developing the non-authoritative guidance for applying ISAE 3000 (Revised)⁵ in respect of the materiality challenge.

The IAASB expressed support for the work completed so far, and provided helpful comments and feedback on the areas presented during the meeting. There was also support for the detailed planning for the project that has been undertaken, as well as for the recently established [EER Assurance Project Advisory Panel](#) (PAP). The project will be discussed further in June 2018.

Professional Skepticism

The IAASB discussed the Professional Skepticism Subgroup's (Subgroup) recommendations related to a requirement to seek contradictory evidence as part of the concept of professional skepticism. The Board supported the conclusion of the Subgroup to not add a requirement to seek inconsistent evidence, in all circumstances, within the ISAs. The IAASB also received an update on activities and matters of coordination relating to professional skepticism of the IESBA and the International Accounting Education Standards Board.

Strategy and Work Plan 2020–2023

The Board discussed the approach to the development of the Strategy for 2020–2023, supporting the proposals for a broader, more open stakeholder survey and a focus on outreach to solicit views from stakeholders who traditionally do not respond to the IAASB's consultations, such as investors, preparers and government representatives. The Board emphasized the need to include strategic matters such as audits of 'simpler' or less complex entities, coordination with the IESBA, and the impact of changing technology on the IAASB's standards. The Board agreed to discuss the draft stakeholder survey on a teleconference in the second quarter of 2018.

Next Meeting

The next IAASB [teleconferences](#) will be held on April 18th, 24th and May 22nd 2018 and the next [physical IAASB meeting](#) will be held in New York, USA on June 18–23, 2018.

⁵ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*