



RECAP Session

IAASB Meeting, New York

December 15, 2017

IAASB

**International Auditing
and Assurance
Standards Board**

ISA 540 (Revised)

ISA 540

- Discussion on key points: scalability, the term “reasonable,” professional skepticism, and the approach to application material
- On draft ISA 540 (Revised), many messages of support for the Task Force’s changes, and some suggestions for improvements and tightening, particularly around:
 - Alignment with ISA 315, ISA 330
 - Description of spectrum of ROMM/inherent risk
 - Changes to the definition ISA 500
 - The auditor’s procedures when management has not appropriately understood and addressed EU
 - Written suggestions also received from many members
- Revised requirements were presented on Thursday, which received much support, and the Task Force will deal with the comments received
 - Not expecting significant changes to the requirements going forward, but some changes are also possible as the Task Force progresses the application material

ISA 540

- After December Board meeting, the Task Force will focus on the redrafting and restructuring of the application material
 - Support for the approach to the application material: detailed analysis and review of comments received on application material will serve as the basis for further revisions to the application material
 - Some comments received indicated that written comments would follow after further reflection
 - Written comments on the application material (whether about deletions, detailed comments, or otherwise) are invited until December 22nd
 - Further outreach to keep key stakeholders informed about our revisions

ISA 540

- Next steps: first read in March 2018
 - Draft will be made available for Board and CAG by February 20th
 - Likely use board teleconference in Q1
 - Key stakeholder outreach before and after the March IAASB meeting, based on the draft presented at the March 2018 IAASB meeting

ISA 315 (Revised)

ISA 315 (Revised)

- Broad support for general direction of the proposed changes
 - Clarity in some areas but further consideration of complexity of the standard
- More consideration about scalability
 - Support for building out examples in application material to illustrate scalability
 - Eliminate “considerations for audits of smaller entities”
 - Further thinking whether a ‘practice aid’ will help practitioners understand the areas of scalability within the standard
- Need more guidance about flow of standard because it is complex – flowchart / illustration
- Further consideration about use of “sufficient and appropriate”

ISA 315 (Revised)

- Spectrum of risk
 - Support for incorporating in standard but further consideration about how can be explained earlier in the standard
 - Clarify spectrum of inherent risk and relationship to spectrum of risk of material misstatement
- Qualitative inherent risk factors
 - Board continues to support the qualitative inherent risk factors but further consideration needed about interaction of the “susceptibility to fraud” QIRF with ISA 240 and the “fraud risk factors”
 - Further consideration about quantitative aspects in areas where qualitative inherent risk factors (QIRF) used
- Definitions – support for proposed changes and supporting application material but further consideration of:
 - Controls –how to build in “informal’ aspects but rearticulate in terms other than “expectations”
 - Relevant assertions – still some concern about use of term “reasonable possibility” as may not clarify the threshold (some believe could be higher than what is intended)

ISA 315 (Revised)

- Understanding the entity and applicable financial reporting framework
 - More consideration needed about description of ‘business model’
 - Support for new Appendix
- Understanding the entity’s system of internal control
 - Reformulate requirement for understanding the risk assessment process based on expectation that a process, even if very informal, exists in all entities
 - Further consideration about how to clarify what controls are ‘relevant to the audit’, including placement of requirements
 - Clarity around when the auditor needs to evaluate the design and determine the effectiveness of controls (D&I)
- Assessment of inherent risk, including significant risk
 - Clarify interaction of likelihood and magnitude with the QIRFs
- Task Force to continue progressing proposed changes for a second read of exposure draft in March 2018

Quality Control (Engagement Level) – ISA 220

Proposed ISA 220 (Revised)

- Overall/General Feedback

- Support for the direction of the proposed changes.
- Consider the use of “sufficient and appropriate” throughout (in particular within Leadership, Engagement Resources, and Standback sections).
- Consider how the actions in ISA 220 contribute to audit quality
- Consider how the concept of policies or procedures in ISA 220 links to the concept of “response” at the firm level in ISQC 1.

- Introduction/Objective

- Support for the proposals that clarify that the engagement partner (EP) is **responsible and accountable** for audit quality.
- Re-consider **to whom the requirements of the ISA should be directed** (i.e., the auditor, the EP, or the engagement team (ET)).

Proposed ISA 220 (Revised)

- Introduction/Objective (cont.)
 - More **clarity** on the concept of “**manage and achieve**” quality
 - Consider if the objective of the standard implies a **compliance activity**?
- Definitions
 - Consider whether the **definitions of network and engagement team** remain appropriate, including IESBA considerations.
 - Consider whether situations where the **signing partner** is different from the engagement partner should be addressed **within this standard or elsewhere**.
- Leadership Responsibilities for Managing and Achieving Quality on Audits
 - Provide clarification on what “managing and achieving quality” means and consider **elevating related select application material**.

Proposed ISA 220 (Revised)

- Relevant Ethical Requirements

- Re-consider wording in 9A—**clarify what the EP is expected to do** (how far they are expected to go, what are they expected to obtain) in order to be satisfied that the firms policies or procedures have been followed.
- Consider whether the tone of the requirements drive compliance activities

- Acceptance and Continuance of Client Relationships and Audit Engagements

- Consider including the concepts of **commercial considerations (e.g., fees), long association, auditor rotation** and how they relate to A&C decisions
- Consider whether additional actions when the EP isn't comfortable with A&C is needed

Proposed ISA 220 (Revised)

- Engagement Resources
 - Consider how best to emphasize the importance of the resources/ET members having the **time available** to perform the engagement, as well as the appropriate nature of the resources.
- Engagement Performance—Direction, Supervision, and Performance, and Reviews
 - Consider incorporating aspects of **ISA 300**, *Planning An Audit of Financial Statements* into the requirements.
 - Clarify what **activities can be delegated**
- Standback
 - Considering **ordering of requirements** and whether a conforming amendment to **ISA 700** (Revised), *Forming an Opinion and Reporting on Financial Statements*, is needed.

Quality Control (Firm Level) – ISQC 1

ISQC 1: General Comments

- Overall support for the proposed direction
- Scalability
 - General consensus that standard is scalable, however explore new ways to emphasize scalability
 - More emphasis throughout the standard on nature and circumstances of the engagement (in addition to firm)
 - Explore development of accompanying guidance that is issued with the ED that addresses how standard applies to spectrum of firms
- Refine the illustration of the system to improve reflection of relationships of components
- Consider appropriate use of “sufficient and appropriate”
- Areas of standard where firm should establish policies or procedures (may be in application material)

ISQC 1: Deficiencies, Major Deficiencies (MD), Introduction, Objective, Definitions

- Clarify concepts of deficiency and major deficiency (MD), as well as shortcoming
 - Take into consideration the concepts in the assurance framework
- Develop framework to evaluate results of monitoring and other information to determine whether there are deficiencies or MD
- Clarify implications of what happens when a MD exists
- Communicating deficiencies and MD:
 - Consider what is communicated to firm leadership
 - Communication to others, e.g., transparency report, regulators
- Reduce introductory paragraphs, move to appendix and build out more
- Better clarify objective of the system versus objective of the firm (i.e., the standard)
- Definitions – various proposed enhancements

ISQC 1: Components

- Components
 - On balance, support for the 8 components
 - Clarify interrelationship of the components
 - Consider reorganizing governance and leadership (G&L) and appropriate prominence of components (agreed QMP still applies to G&L)
 - Clarify why QMP is a separate component or what it is (perhaps new name?)
 - Clarify that components form part of overall system (i.e., they are not standalone processes)
 - Compare to components in ISA 315 (Revised)
- Structure of each component
 - Component objectives – rephrase as objective statements
 - On balance, support for structure of each component (including “repeating” requirements)

ISQC 1: Components

- Required responses comes across that this is all that is needed
- Quality Management Process
 - Reconsider threshold for quality risks – not practical and may result in too many risks being identified
 - Differentiate between the identification of the risks and the assessment of their severity
- Governance and Leadership
 - Public interest – explicit reference in setup of standard and link to what it means
 - Clarify who are relevant stakeholders
 - Improve emphasis on business strategy, or financial and operational priorities
- Information and communication
 - Differentiate “communicate” from “obtain or generate”
 - More emphasis on two-way communication

ISQC 1: Components

- Relevant ethical requirements
 - On balance, support for appointing individual responsible for *independence*, although consider placement in G&L instead
 - Balance emphasis on various aspects of relevant ethical requirements
- Acceptance and continuance
 - Address circumstances when the firm does not have a “choice” in acceptance and continuance
- Resources
 - Refine financial resources and technology resources
 - Enhance so that there is a forward-looking focus
- Engagement performance
 - Keep engagement quality control review in this component, but improve the link to the component objective

ISQC 1: Components

- Monitoring and Remediation
 - Reasonable assurance
 - Clarify how objective of the standard to obtain reasonable assurance relates to monitoring and remediation
 - Monitoring needs to be continual and respond to findings timely but consider whether there should be an annual stand back of the monitoring results and whether the firm has reasonable assurance
 - Clarify expectations in relation to “monitoring of monitoring” that is practical
 - Improve emphasis on undertaking root cause analysis on engagements that went well

ISQC 1: Networks and Third Party Service Providers

- Use another term instead of “network services”
- Consider “services model” and “expert model” under the ISAs
- Include requirements for third party service providers – perhaps in the resources component
- Address security issues in relation to use of third party service providers



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