IAASB Meeting Recap - March 2017
ISA 315 (Revised)

**Information Technology**

- Largely supportive of direction
  - Provide more clarity through application material (i.e., no changes to requirements)
    - GITC – enhancement of application material definitely needed
    - In developing application material think about less complex IT systems first (e.g. off-the-shelf-packages)
  - Continue to monitor work of DAWG in light of responses to Request for Input re Data Analytics
Control Relevant to the Audit

• Important to clarify extent of work effort on controls relevant to the audit
  – Distinguish between control environment and control activities (through examples)
    • Explain what is meant by ‘control’ and ‘control activity’
    • Clarify how entity-level controls are evaluated
    • Clarify work effort to evaluate design and determine implementation of controls
    • Clarify why understanding controls and benefits of doing so

Separate and Combined Assessment of Inherent and Control Risk

• Board decided to have separate identification and assessment of inherent and control risk
  – Not combined / simultaneous
  – Will help auditor understand individual drivers of inherent and control risk (to be able to plan work effort to address ROMM accordingly)
  – Helps understand when need work on controls
Significant Risks

- General support for maintaining concept of significant risk
- Mixed views on ‘working definition’
  - Changes to way it has been articulated
  - Original definition?
- Task force to continue to think how significant risk interacts with spectrum of risk
  - How to describe spectrum of risk in the standard
- Need to clarify difference between ‘significant risk’ and ‘risks of material misstatement’
- Low Likelihood / High Magnitude: mixed views on whether a significant risk
  - Regardless need to clarify that work effort will be responsive to nature and extent of risk
Data Analytics

• General agreement that application material needed to reflect practice (no requirements at this stage)
• Caution to keep changes more general so as to ‘future-proof’ (i.e., terms become outdated as technology advances)
• Continue to monitor work of DAWG and obtain input from that group as progress changes to ISA 315 (Revised)

Professional Skepticism

• Supportive of general suggestions but need to consider how the changes will actually impact behavior
• Questions about how some specific examples presented may be effective in promoting professional skepticism
• Task Force to continue to work with PSWG as changes progressed
ISQC 1 – Criteria for Selection of the EQC Reviewer

• General support for the direction
• Keep principles-based, not rules-based
• Acknowledgement there may be circumstances when there is a group of people who perform the EQC review

• Authority
  – Authority is established through the processes established by the firm’s system of quality control
  – Clarity is needed on how the firm’s culture supports appropriate authority
  – Consideration of chain of command

• Technical competence and practical experience
  – Clarity is needed on the distinction of these criteria
  – Should be linked to why the entity is “scoped in” for an EQC review (e.g., industry or another risk)
ISQC 1 – Criteria for Selection of the EQC Reviewer

• “Combination” of factors could be practically difficult
  – Some jurisdictions where specific provisions apply regarding the licensing of individuals

• Other considerations
  – Clarity of EQC reviewer’s ability to consult with the engagement partner
  – Consider other non-audit engagements

• Objectivity
  – Further coordination is needed with the IESBA
    • Consider what is in IAASB remit versus IESBA remit
  – Undertake outreach with SMPs
  – Period of cooling-off: clarity on IESBA’s view of 3 years is needed, further consider PCAOB rule of 2 years
  – Caution that provisions could be more “strict” for EQC reviewer than the engagement partner
ISQC 1 – Process for the Selection of the EQC Reviewer

• Overall support
• Consider terminology of “exceptional circumstances” in light of SMPs
• Further enhance “documentation” in paragraph A50
Professional Skepticism

- Ongoing support for other task forces and working groups (Accounting Estimates, ISA 315, Quality Control, Group Audits)
- Joint publication on IAASB, IESBA & IAESB activities to address responses to ITC and other consultations
- Consideration of fundamental issues raised by respondents to the ITC
  - Mindset (neutral, questioning, challenging, presumptive doubt)
  - Levels of professional skepticism
  - Actively seeking contradictory or inconsistent evidence
- Potential response to IESBA proposals in relation to the treatment of relationship of PS and fundamental principles in the Code
- Consultation with members of the IESBA and the IAESB on the Professional Skepticism Joint Working Group
Coordination with other Standard Setting Boards (SSB)

• CAG and PIOB see disconnect of the issues across the SSBs
• PIOB supportive of continual monitoring to help align SSB workplans
• What does “independence” of the Boards mean?
  – Outputs are not independent – shouldn’t be doing things that set wrong expectations, as this creates confusion and risks reputational damage to the SSB
  – Is a memorandum of understanding needed?
• Mutual respect and relationship building very important
  – Larger groups rather than smaller groups or individuals
• Understand what are the roles and responsibilities
  – Professional skepticism – who is this group accountable to?
Coordination with other Standard Setting Boards (SSB)

• Formal processes needed
  – Process resolve differences – establish now rather than trying to deal with it when issues arise (too much tension)
    • Flexibility to accommodate differences, as appropriate, i.e., sometimes differences are fine
    • Confusion created when there are things released publically
    • Should “the public” be the arbitration process, i.e., present both views and let them decide?
  – CAG supports
  – What does “coordination” mean?
    • Need to coordinate both efforts and outputs
    • Extent? Some jurisdictions who adopt the ISAs do not adopt the IESBA Code
    • Involvement of all SSB in the process, so that coordination isn’t just driven by one SSB
SMP / SME Audits – Changes to the Standards

• Make the standards more “usable”
  – “Tell the story” of the ISAs
  – Use more examples (what does it “look like”)
  – More diagrams?
  – Use “plain English” to draft
  – Keep standards principles based (outcomes based)

• More implementation guidance needed

IAASB Actions

• Pick up in current projects (e.g., ISQC 1, ISA 220, ISA 600)
SMP / SME Audits – Information Technology

• Standards complex, not easy to navigate

**IAASB Actions**

• Consider making handbook electronic and interactive
SMP / SME Audits – Other than Audit

• If an audit not required by law or regulation, is there another service to meet stakeholder needs
  – Communication about what else may be suitable
  – Is there something else that should be developed to meet stakeholder needs?

IAASB Actions

• IAASB currently undertaken a number of consultations on other services (e.g., EER; AUP)
  – Further discussion about ‘gaps’ (if any) identified on analysis of the responses
  – Further consultation and outreach
SMP / SME Audits – Proportionality / Scalability

• Framework may help when drafting
  – What could the elements be?
  – Share with stakeholders

IAASB Actions

• Consider how a framework can be developed and used when drafting new and revised standards
• Too early to make a decision on a separate standard for audits of SME’s
  – No definition of SME / SMP
  – Is it about complexity vs non-complexity
  – Explore further

**IAASB Actions**

• Feedback on SMP / SME Audit Conference in Paris
  – Communication of outcomes important

• Consultation on matters where stakeholder views helpful to IAASB in moving forward