Invitation to Comment—What We Heard

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IAASB Meeting
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Agenda Item 6 (Updated)
Respondents (85 Total)

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<th>Stakeholder Group</th>
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<td>Investors and Analysts</td>
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<td>Those Charged with Governance</td>
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<td>Regulators and Oversight Authorities</td>
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<td>(3 Monitoring Group members) (1 more expected)</td>
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<td>National Auditing Standard Setters</td>
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<td>Preparers</td>
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<td>Member Bodies and Other Professional Organizations</td>
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<td>Academics</td>
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<td>Individuals</td>
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What We Heard – Overall Themes

• Strong calls 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 them to different and evolving circumstances
  – Support for the current standards (including ISQC 1) as a sound starting point for consideration of future enhancements, including strengthening certain important elements
  – More practical guidance is also needed – calls for more examples of “what good looks like”
    ▪ Not necessarily in the ISAs, but may be Staff guidance or other solutions
  – Concerns about impact of changes, including on SMPs

• Reinforce importance of understanding the business and operational drivers as foundational to performing quality audits

• Consider the impact of culture on the standards and on how they can and should be applied
What We Heard – Professional Skepticism

• It’s about the appropriate mindset of the auditor; cannot be fixed in isolation by changes to the definition or within standards

• Sufficient knowledge of the business enables the auditor to ask probing questions, more effectively challenge management and identify contradictory audit evidence – linkage to ISA 315 project

• It’s about behavior; how auditors be encouraged to act as critical challengers?
  – Can changes to certain standards more effectively direct auditors as to what is expected (e.g., the approach taken in ISA 240)?
  – How does the culture of the firm influence and encourage skeptical behavior?

• Impact of training and education is important; infusing a professionally skeptical attitude into the “DNA” of auditors
  – Raising awareness for auditors of their (and management’s) potential biases
What We Heard – Professional Skepticism (cont.)

• Professional skepticism is relevant throughout the entire audit
• Support for a joint approach by IAASB, IESBA, and IAESB
  – Consistency between the standard-setting boards on the concept/definition of professional skepticism
  – Clarification needed between professional skepticism and fundamental principles within IESBA Code
• Strong link between professional skepticism and role of tone at the top/middle (ISQC 1), e.g., audit firm, engagement partner, EQCR, senior staff, including development of professional skills, communication skills, and mentoring during the audit
• Request for additional guidance on exercising professional skepticism in particular circumstances (e.g., when auditing highly judgmental areas)
• There is also a role for other stakeholders in addressing professional skepticism (e.g., audit committees, universities, regulators, audit firms)
What We Heard – Quality Control

• Governance and Leadership
  – Different interpretations by respondents of what is meant by “governance” – impacted responses
  – Support: Overarching principles i.e., “tone at the top”, “leading by example,” “culture that supports quality;” also mention of “tone at the middle”
  – Varying views: Requirements for firm structures (including responsibilities)
  – Link to fostering professional skepticism
  – Link to QMA approach
What We Heard – Quality Control (cont.)

• Engagement Quality Control (EQC) Reviewer
  – **Support:** Role of EQC Reviewer as key quality control measure; timing of review; documentation (but keep balance in terms of role of engagement partner)
  – **Varying views:**
    - Extend beyond listed entities, separate standard; extending nature and extent of EQC Review;
    - Disclosure in the audit report; interaction with those charged with governance (TCWG); support from experts
  – ECQ Reviewer selection: Cooling-off is an IESBA issue; address hierarchical mismatches
  – Role in fostering professional skepticism

• Quality Management Approach (QMA)
  – **Support:** Could contribute to audit quality – preventative and proactive; addresses expectation of continuous improvement mindset
  – **Concerns:** Insufficient information, diluting strength of ISQC 1, burdensome (adding on more), consistency across firms without appropriate safeguards
  – Supports other aspects of ISQC 1 (leadership, monitoring, EQC Review)
  – Cascading down QMA, or elements of QMA, to engagement level (including group audits)
• Transparency reporting
  – *Varying views* - support IAASB activities such as dialogue, research - flexibility and innovation needed; not a matter for IAASB; develop guidelines and principles
  – Not much discussion on audit quality indicators
  – Question on contribution to audit quality and whether in scope of ISQC 1 - Is this a priority?

• Monitoring and remediation
  – *Support*: Understanding causal factors, recognizing various forms of monitoring, responding to all inspections, evaluating effect of deficiencies within the firm, monitoring effectiveness of remedial actions
  – Link to QMA approach

• Competency, performance and rewards
  – *Support*: Principles addressing performance appraisals; address knowledge, time and experience
  – *Varying views*: Support for principles addressing engagement partner remuneration, but concerns measuring quality and could have unintended consequences; relationship to IES 8
What We Heard – Quality Control (cont.)

- Firm’s role in supporting quality
  - *Support:* Reliance on network policies and procedures (some support for this at engagement level), addressing ADMs, results of inspections
  - *Varying views:* Requirements for network firms
    - Audit Delivery Models (ADMs) – No different from “modernized” engagement teams

- Engagement partner (EP) roles and responsibilities
  - *Support:* Addressing performance, direction, supervision and review

- Definition of engagement team
What We Heard – Group Audits

• Broad agreement that the right issues have been identified and that proposed actions are generally headed in the right direction
  – Agreement that not all issues can be resolved by IAASB (e.g., access issues in some jurisdictions)
• Agreement that the standard needs to be updated for various evolving circumstances of groups or where other auditors are used, but must also be kept flexible
  – Entity structures will continue to evolve (e.g., shared service centers)
  – International standards need to do more to explain how to apply principles-based standards to different situations
  – Challenges around non-controlled components
  – Varying views on / different understanding of question relating to ability to make reference to the report of another auditor in some specific circumstances
    ▪ What is in the public interest?
What We Heard – Group Audits (cont.)

- Interaction of ISA 220 and ISA 600
  - Focus on direction, supervision and review by the engagement partner

- General support for revisiting how to best emphasize the importance of focusing effort on the risks of material misstatement to the group financial statements
  - Support for challenging the current focus on scoping based on identification of components to (vertical) to include a horizontal perspective (financial statement line items and disclosures)
  - Internal control is important; support for revisiting and placing greater emphasis on management’s controls
  - Support for enhanced focus on determination of component materiality and consideration of aggregation risk
What We Heard – Group Audits (cont.)

• Strong focus on two-way communication
  – Expectations for component auditors

• Networks
  – What needs to be done to rely on network policies and processes
  – Impact of mandatory rotation
Feedback from the ITC in Relation to Future Work Plans

- Priority attention needed on data analytics and updating the ISAs to take into account the IT and digital environment
  - Including issues related to obtaining sufficient appropriate audit evidence
- Materiality, including revisions to ISA 320 and potentially ISA 450
  - Also consider requiring disclosure of materiality in the auditor’s report
- Need to address other “important” themes from the ISA Implementation Monitoring project
  - E.g., using the work of auditor’s experts, risk of fraud in revenue recognition, analytical procedures and the potential need for changes to ISA 330 because of other projects
- Sustainability and environmental, social and governance (ESG) matters
  - Including enhancing disclosures about going concern matters that go beyond a 12-month period
- Further investment needed to address SMP issues
  - Concern that ISAs are losing relevance for SMPs; new guidance and tools needed
- Consideration of what more could be done to better explain what an audit is and address the expectations gap