

Conforming Amendments to the IAASB's Other Standards¹ and IAPN 1000²

Objective of Discussion

1. To discuss:
 - (a) The approach to the conforming and consequential amendments to the IAASB's Other Standards ("Other Standards") arising from:
 - (i) The three quality management (QM) projects, and
 - (ii) Proposed ISA 315 (Revised)³ and other projects completed by the IAASB since 2012.
 - (b) Updates to IAPN 1000 arising from ISA 540 (Revised)⁴ and proposed ISA 315 (Revised).

Conforming Amendments to the IAASB's Other Standards

2. This paper was presented to the Steering Committee in February 2019. The Steering Committee supported Staff's proposed approach.
3. Appendix 1 sets out Staff's views about how the QM projects impact the Other Standards. Appendix 2 sets out Staff's initial views about how the recent ISA projects (including those to be completed in the short-term) impact the Other Standards. The following sets out Staff's views about how to deal with these changes.

Changes to the Other Standards Arising from the QM Projects

4. Staff is of the view that certain conforming and consequential amendments are needed to the Other Standards as they are essential to those standards being able to be appropriately implemented once proposed ISQM 1⁵ and ISQM 2⁶ become effective.
5. Staff is further of the view that the Other Standards should be updated to bring in the key aspects of the revisions to proposed ISA 220 (Revised)⁷ because doing so would support a consistent approach to quality management across all types of engagements, and it may be more effective for firms that perform a variety of engagements to have consistency in the approach to quality management at the engagement level.

¹ The IAASB's Other Standards comprise the International Standards on Review Engagements (ISREs), the International Standards on Assurance Engagements (ISAEs) and the International Standards on Related Services (ISRSs)

² International Auditing Practice Note (IAPN) 1000, *Special Considerations in Auditing Financial Instruments*

³ Proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

⁴ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

⁵ Proposed International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control 1) (Revised), *Quality Control for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

⁶ Proposed ISQM 2, *Engagement Quality Reviews*

⁷ Proposed International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*

6. If the IAASB agrees that a project should commence, the following table sets out Staff's proposed timeline for a project to develop and consult on conforming and consequential changes arising from the revised and new QM standards. Explanations for the timeline are set out below the table.

	QM standards (targeted dates)⁸	Conforming and consequential amendments to the Other Standards – Proposed Dates
Board discussion	Completed in December 2018	September 2019, December 2019
Approval of exposure draft	December 2018	December 2019
Issuance of exposure draft	February 2019	Early January 2020
Closure of commentary period	June 2019 (150 days)	Early April 2020 (90 days)
Board discussion	September 2019, December 2019, March 2020	June 2020, September 2020
Approval of final standards	March 2020	September 2020
Approval by PIOB	June 2020	December 2020
Effective date	December 2021 (assuming an 18 month implementation period)	December 2021

7. Staff are of the view that the conforming and consequential amendments to the Other Standards would need to have the same effective date as the QM standards, and the timeline above has been prepared on that basis. Staff note that given the above timeframe, the implementation period for the conforming and consequential amendments to the Other Standards would be less than the three QM projects. Staff also note that the commentary period of 90 days is less than the ordinary 120 day commentary period.⁹
8. If the IAASB agrees with commencing a new project relating to the conforming and consequential amendments to the Other Standards, Staff will work towards developing a project proposal for the Board's approval in March 2019. Staff also will consider the appropriate composition of the Working Group, recognizing the need to have representation across the three QM projects, and members that have appropriate familiarity with the Other Standards.

Changes to the Other Standards Arising from ISA Projects Other Than the QM Projects

9. Staff do not propose that the Other Standards be updated at this time for changes arising from the other ISA projects completed since 2012, as well as proposed ISA 315 (Revised) once completed, because:

⁸ Should any of the dates for the finalization of the QM standards change, this could also possibly change the targeted dates for the project on the conforming amendments to the Other Standards.

⁹ And would still be in line with due process.

- (a) Although the Other Standards may refer to the recently revised and recently completed new ISAs, conforming changes are not essential as these standards are independent of the ISAs. No significant issues have yet been raised by stakeholders about this to date.
- (b) Although the project on proposed ISA 315 (Revised) includes updates to enhance the auditor's considerations relating to IT in the risk assessment process, this is only one aspect of an engagement covered by the Other Standards. Furthermore, technology will be addressed as part of the planned Audit Evidence project, and other work may also be done on evolving technologies in the future strategy period. Accordingly, it may make sense to consider other aspects relating to technology before opening up the Other Standards in the near term for changes arising from ISA 315 (Revised).
- (c) The IAASB is planning to undertake a post implementation review of the new and revised auditor reporting standards commencing in 2019. The feedback from this post implementation review may further inform the IAASB regarding the need to update the Other Standards.

As capacity opens up in 2020–2021 and thereafter, further consideration will be given to whether a project on the conforming and consequential amendments in the Other Standards for changes other than from the QM projects should be commenced in accordance with the IAASB's Strategy for 2020–2023.

Conforming Changes to IAPN 1000

- 10. At the time ISA 540 (Revised)¹⁰ was approved, no conforming amendments were proposed to IAPN 1000. Staff have since performed a high-level analysis to determine whether any conforming amendments are needed to remove inconsistencies between IAPN 1000 and ISA 540 (Revised). Based on this analysis, Staff have noted various changes that will be necessary to IAPN 1000, including removal of material now incorporated into ISA 540 (Revised) and further changes that may arise from proposed ISA 315 (Revised).
- 11. Staff's initial view is that the changes should be proposed once the revision of ISA 315 (Revised) is complete and the following process is recommended (the normal due process is not applicable for changes to an IAPN):
 - (a) Staff will develop the proposed conforming amendments in conjunction with the Chair of the ISA 540 Implementation Working Group and Chair of the ISA 315 Task Force (if necessary, the Chairs may decide that the respective Working Group / Task Force should discuss some or all of the changes).
 - (b) Once complete, the proposed changes would be sent electronically to the IAASB for comments of a fatal flaw nature.
 - (c) Include the finalized changes in the following edition of the IAASB's Handbook, noting a link to a document which provides a marked changes version for stakeholders.

Matter for IAASB Consideration

- 1. IAASB members are asked whether they support the proposed approach described above.

¹⁰ ISA 540 (Revised), *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

Appendix 1**The Effect of the QM Projects on the IAASB's Other Standards**

1. Staff have performed a preliminary analysis of the possible conforming and consequential amendments that will be needed to the IAASB's Other Standards arising from proposed ISQM 1, ISQM 2, and ISA 220 (Revised). These have been categorized as follows:

Type of amendment	Examples
Conforming amendments for linkages to ISQC 1 ¹¹	<p>(a) The Other Standards are premised on the basis that the firm is subject to ISQC 1 or requirements that are at least as demanding, and include application material that further explains the elements of ISQC 1. Given the new components in proposed ISQM 1, the description of the elements will need to be changed.</p> <p>(b) The Other Standards explain that the engagement team is entitled to rely on the firm's system of quality control, and provide examples of matters within the system of quality control that may be relied upon, some of which have changed. Furthermore, it is noted that proposed ISA 220 (Revised) no longer indicates that the engagement team is entitled to rely on the firm's system of quality control. Instead, it explains the relationship between quality management at the firm level and engagement level and matters that the engagement partner may take into account in determining whether, and if so, the degree to which, the engagement partner may depend on the firm's policies or procedures.</p> <p>(c) The Other Standards include various references to the firm's quality control policies and procedures in general. In addition to updating the terminology to "policies or procedures", some of the specific policies and procedures described have changed in proposed ISQM 1.</p> <p>(d) Most of the Other Standards require the engagement partner to be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and engagements have been followed, and that conclusions reached are appropriate. In proposed ISA 220 (Revised), this has been refocused to being "satisfied that the firm's policies or procedures...have been followed."</p> <p>(e) Some of the standards discuss the results of the firm's monitoring process and deficiencies in the system of quality control and the effect on the engagement. These descriptions will need to be</p>

¹¹ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements and Related Services Engagements*

Type of amendment	Examples
	<p>updated for new terminology in proposed ISQM 1. However, consideration may need to be given as to whether all information from the firm's monitoring and remediation should be considered (including root causes, remedial actions and leadership's evaluation of the whole system). It is also noted that substantial revisions have been made to the same provisions in proposed ISA 220 (Revised).</p> <p>(f) ISAE 3000 (Revised)¹² includes specific material addressing the assembly and retention of engagement documentation.</p> <p>(g) ISAE 3000 (Revised) and some of the Other Standards include statements in the illustrative assurance reports that indicate that the firm has applied ISQC 1, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p>
Consequential amendments for linkages to ISQC 1	<p>(a) ISAE 3000 (Revised) and ISAE 3410¹³ include material addressing the responsibilities of the engagement partner and engagement quality control (EQC) reviewer in relation to an EQC review. These may need to be significantly revised given the revisions to ISQC 1 and ISA 220 for EQC reviews. Furthermore, there are no provisions in any of the Other Standards (e.g., ISRE 2400 (Revised)¹⁴) for EQC reviews, which may need to be considered so that the Other Standards consistently address this topic and create the appropriate linkages with proposed ISQM 2.</p> <p>(b) ISAE 3000 (Revised) and ISRS 4410 (Revised)¹⁵ require the engagement partner to take responsibility for appropriate procedures being performed regarding the acceptance and continuance of client relationships and engagements. However, under proposed ISQM 1, the firm is responsible for the decisions regarding the acceptance and continuance of client relationships and engagements. Accordingly, these requirements should be aligned with related changes to proposed ISA 220 (Revised).</p> <p>(c) ISRE 2400 (Revised) prohibits the practitioner from accepting the engagement if certain conditions exist, such as:</p>

¹² International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*

¹³ ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

¹⁴ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

¹⁵ International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*

Type of amendment	Examples
	<ul style="list-style-type: none"> (i) The practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied. (ii) Information needed to perform the engagement is likely to be unavailable or unreliable. (iii) The practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review. (iv) The practitioner is not satisfied the persons who are to perform the engagement collectively have the appropriate competence and capabilities. <p>Given the various revisions to the acceptance and continuance of engagements in proposed ISQM 1, such requirements may be superfluous. It is acknowledged that the acceptance and continuance of such engagements pose specific issues and there will be a continuing need for these paragraphs in ISRE 2400 (Revised) and ISAE 3000 (Revised).</p>
Possible amendments given the revisions to ISA 220, i.e., whether similar revisions are needed in the Other Standards	<p>The Other Standards also address the engagement partner's responsibilities for engagement quality. The engagement partner's responsibilities should be reconsidered to remove inconsistencies with proposed ISA 220 (Revised), unless the inconsistencies relate to the specific nature of the engagement. Amendments may be needed to address matters such as:</p> <ul style="list-style-type: none"> (a) The engagement partner's responsibility for managing and achieving quality through the engagement partner's sufficient and appropriate involvement in the engagement. (b) Designing and implementing responses beyond those set forth in the firm's policies or procedures, given the nature and circumstances of the engagement. (c) The engagement partner's responsibility if resources are insufficient or inappropriate.
Other amendments arising from the use of similar terminology	<ul style="list-style-type: none"> (a) Proposed ISQM 1 has been enhanced to clarify the meaning of "competency" and many of the Other Standards address the competencies of the engagement team, including the engagement partner. (b) The definition of engagement team has been amended in proposed ISQM 1 and proposed ISA 220 (Revised).

2. Furthermore, Staff have identified that the Other Standards do not consistently address certain requirements that interrelate with ISQC 1, in particular:
 - (a) Not all of the Other Standards establish requirements for the engagement team to communicate information to the firm, in particular information that would have caused the firm to decline an engagement had that information been available earlier.
 - (b) ISRS 4410 (Revised) does not include any requirements for the engagement partner to be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and engagements have been followed, and that conclusions reached are appropriate.

Therefore, consideration may need to be given to whether the Other Standards address the responsibilities of the engagement partner for quality management at the engagement level in a consistent manner.

Appendix 2

The Effect of Other Projects Related to the ISAs on the IAASB's Other Standards

1. The IAASB's projects on ISAE 3000 (Revised), ISAE 3410, ISRE 2400 (Revised) and ISRS 4410 (Revised) were completed in 2012. Since 2012, the IAASB completed the following ISA-related projects:
 - (a) ISA 610 (Revised 2013).¹⁶
 - (b) The new and revised auditor reporting standards.¹⁷
 - (c) ISA 720 (Revised).¹⁸
 - (d) Disclosures (this affected multiple standards).
 - (e) Amendments to ISA 800 (Revised),¹⁹ ISA 805²⁰ and ISA 810²¹ to deal with the revisions to the auditor reporting standards.
 - (f) Non-compliance with laws and regulations (NOCLAR) (ISA 250 (Revised)²²).
 - (g) ISA 540 (Revised).

The IAASB also plans to complete its project on proposed ISA 315 (Revised) in 2019.

2. With the exception of the project on NOCLAR, no conforming or consequential amendments were made to the Other Standards arising from any of these projects. The Other Standards operate independently of the ISAs and therefore changes are not needed for these standards to be able to be appropriately implemented. However, some of the enhancements and changes that have been made in the revisions of the ISAs listed in paragraph 1 above could potentially be considered in relation to some of the Other Standards, including for consistency of terms used, for example:
 - (a) Various updates may be appropriate for ISRE 2400 (Revised) and ISAE 3000 (Revised) to more explicitly refer to disclosures in the financial statements or the subject matter. Such updates may also address matters such as determining whether uncorrected misstatements in disclosures are material and how to assess the materiality of qualitative disclosures.
 - (b) ISAE 3000 (Revised) includes requirements that deal with other information, and is based on an approach similar to how other information was addressed in ISA 720. Given the revisions to ISA 720 (Revised), it may be appropriate to update the approach in ISAE 3000 (Revised).

¹⁶ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

¹⁷ The new and revised Auditor Reporting Standards comprise ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*; New ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*; ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*; ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*; ISA 570 (Revised), *Going Concern*; ISA 260 (Revised), *Communication with Those Charged with Governance*; and conforming amendments to other ISAs.

¹⁸ ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

¹⁹ ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

²⁰ ISA 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

²¹ ISA 810 (Revised), *Engagements to Report on Summary Financial Statements*

²² ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

- (c) Each of the Other Standards include reporting requirements. Given the changes to the content and structure of auditor's reports under ISA 700 (Revised), it may be appropriate to update the content and structure of the reports for other types of engagements. Staff note that **Agenda Item 2** of the IAASB's June 2013 meeting stated:

No changes have been proposed to attempt to align the illustrative reports in [the IAASB's other] standards with the presentation in proposed ISA 700 (Revised). Should the IAASB believe it would be appropriate to do so, it would need to be undertaken as a separate project when changes to the auditor reporting ISAs are finalized.

- (d) ISAE 3000 (Revised) includes requirements that address the practitioner's understanding of the underlying subject matter and other engagement circumstances (including the design and implementation of controls relevant to the engagement), and identifying and assessing the risks of material misstatement in the subject matter information. ISRE 2400 (Revised) includes requirements for the practitioner to obtain an understanding of the entity and its environment, and the applicable financial reporting framework, and sets out a list of matters that the understanding should include. Updates to these standards may be appropriate to reflect the revisions to proposed ISA 315 (Revised), including enhancements to address the auditor's considerations about IT as part of the risk identification and assessment process.