

DATE: 6 April 2018

TO: External Reporting Board
New Zealand Auditing and Assurance Standards Board (NZAuASB)
Australian Auditing and Assurance Standards Board (AUASB)
Chartered Accountants Australia and New Zealand (CA ANZ)

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SUBJECT: Report on IAASB March 2018 Meeting

Introduction

1. This report provides an overview of the International Auditing and Assurance Standards Board (IAASB) meeting held in Amsterdam on 12-16 March 2018.
2. It was a very full agenda that included some difficult standards, nevertheless the Board made good progress on key projects. We certainly found it a very productive meeting. Some high-level observations about the meeting are:
 - the Board's clear commitment to bring scalability into the standards;
 - the Board's specific consideration of the readability of the standards, and efforts to do justice to the subject matter, by keeping it as long as needed but as short as possible;
 - the detailed discussion on specific words to ensure the key concepts are well addressed.
3. The full meeting papers can be accessed [here](#).

ISA 540

4. The Board considered the current draft of ISA 540 (Revised). The consensus is that the standard is now more understandable and readable, with a much better flow – it is clear it has come a long way.
5. Key comments on the proposed changes following the December meeting were as follows:
 - The need to align the standard closely with extant ISA 315 (Revised).
 - The term significant data needs to be explained better, and should not be used to imply that management should identify significant data. The auditor uses the concept when assessing risk.
 - Support for streamlining the application material. However, some concern that the example of land infrastructure assets had been deleted, as it is an important example for the public sector.

- There was a call for examples on derived data to assist with clarifying the term.
- Outreach to firms indicated that more guidance is needed on the work the auditor is required to do when a management's expert has been used.
- There was a robust discussion on control risk, and how much to add into ISA 540(Revised) as opposed to leaving ISA 315(Revised) to deal with it. The term 'level of precision of controls' also needs to be better explained.
- There was a lengthy discussion on how management bias has been incorporated in the requirements in ISA 540(Revised), given the proposal to include it as an inherent risk factor in ISA 315 (Revised).
- Some members queried the use of the phrase 'to the degree relevant' to demonstrate scalability in obtaining an understanding of the system of internal control, and that it could create an open-ended requirement. It was suggested it would be more helpful to make it clear what is required for all estimates, and for the auditor to determine whether it is applicable or relevant. There was some concern raised about the need to understand controls over all estimates.
- Some members queried the removal of 'sufficient appropriate' to describe the audit evidence the auditor needs to seek from relevant sources, as well as how to determine whether a source is relevant.
- Scalability is still questioned, as well as the examples used in the Appendix 4. It was noted that a less complex example is needed, as well as to demonstrate the documentation requirements.
- There was a robust discussion about the length of the standard, and whether to include detailed examples and the appendices. Particularly, the purpose and need for Appendix 1 was raised again. There was some concern about whether the appendices have the same standing as the application material. It was agreed that the standard needs to demonstrate scalability, and that examples are important, but that it may be more appropriate to publish detailed examples in a separate publication outside the standard. The Task Force agreed to add relevant and simplified material within the standard and to remove Appendix 1 and Appendix 4.
- There is further work to do to ensure the standard does not imply an auditor can decide not to perform risk assessment procedures, including those required by other standards. Also, further alignment is needed with reference to significant accounting estimates in extant ISA 315.
- It should be clarified that the auditor's range should include amounts supported by sufficient and appropriate evidence, but that it does not mean the auditor should seek contradictory evidence in all cases.
- There was a good discussion about the proposed effective date. Some members expressed concern about the proposed effective date for periods ending on or after 15 December 2019. They consider it a very tight timeframe and that it would be difficult for firms to implement the standard by that date. Firm outreach conducted supports this concern. There is also the challenge of translation for non-English jurisdictions. The possibility of re-

exposure also needs to be figured in, as well as training of practitioners and regulators. The interplay with ISA 315 (Revised) is also of concern, as ISA 315 (Revised) will not be finalised.

The PIOB member expressed concern about how it would not serve the public interest if this standard is delayed. A Task Force member noted that perhaps if it is of such importance that there may be a need to call on firms to accelerate application of this standard. The Chair noted it may be better to change the effective date to one year later, but for the IAASB to strongly encourage/facilitate early adoption. The Task Force was asked to reflect further on the matter.

6. Areas that the Task Force will continue to work on are: scalability, examples demonstrating the spectrum of risk, length of the standard and professional scepticism.
7. The next version of the draft standard will be discussed at an IAASB teleconference on 24 April 2018, with a view to approve the standard in June. The decision whether to re-expose the standard will be discussed once the standard has been approved. A paper on re-exposure criteria and history of re-exposure will be brought the June meeting, as well as IASB re-exposure criteria.

ISA 315 (Revised)

8. This was the second read of the full standard.
9. The Board continues to support the general direction of the proposed changes, but the overall feedback was that the flow of the standard remains complex, and that further clarity is needed. Suggestions included a flowchart to provide additional guidance on the flow of the standard.
10. We share this view as we struggled to read through the application material, especially towards the back of the standard. In our view there is a need to simplify and condense, and to consider the logical flow of the requirements compared to the application material. Our reference group also expressed this view.
11. There also remains continuing concerns about how to operationalise some of the concepts, and how to address scalability.

Introductory paragraphs

12. There was broad support for the introductory paragraphs but the Task Force was asked to make it shorter, simpler and with less reference to other standards. Specifically, the paragraph describing the spectrum of risk was difficult to read and understand and could benefit from some refinement.

Definitions

13. The Board welcomed the addition of definitions for application controls and general IT controls, and the intention to modernise them. It was noted that the definition of controls does not address automated controls.

14. There were mixed views about broadening the definition of inherent factors to include quantitative factors as well, and including susceptibility to management bias as an inherent risk factor to replace fraud considerations. The concern is that susceptibility to management bias covers only part of fraud considerations and that there is a need to make a fuller link to ISA 240.
15. Greater clarity is needed that the definition of assertions is not about management representations.
16. The new definition of a reasonable possibility being 'more than remote' needs to be clarified.
17. There was concern about articulating the definition of significant risk as the risk at the highest end of the spectrum relative to other risks, and whether this means there is always a significant risk.

Risk assessment procedures

18. The Board requested the Task Force to clarify guidance on the use of automated tools/techniques as part of the risk assessment procedures.

Understanding the entity's system of internal control

19. The Task Force received lots of feedback on this section. There was overall support for the structure and changes made regarding IT, but general confusion about the application material, which was difficult to follow. It was noted that a flowchart would help with the understanding.
20. Some further clarification is needed in the application material about the concept of 'direct' and 'indirect' controls, and when general computer IT controls are relevant. There should also be a clearer linkage between the understanding of other components and controls relevant to the audit. The Task Force was also asked to consolidate the identification of deficiencies in the various components of internal control into a single requirement.

Identifying and assessing the risk of material misstatement

21. The Task Force was asked to clarify this process, which was found to be confusing. A flowchart may also be helpful here.
22. There was also some confusion about the interaction of the financial statement level risks with risks at the assertion level, and the consequences of identifying a significant risk at the financial statement level.
23. There was overall support for the stand back requirement but also a need to simplify it. For example, the use of material and significant in the same requirement may be confusing, and the link to ISA 330 needs to be better explained.

Data analytics

24. There was some debate about the consistent use of an applicable term to use to describe the use of data analytics. More may be needed to clarify that 'automated techniques' specifically include data analytics but flexibility is needed for current and future tools and techniques.

25. The Board is supportive of further coordination with the Data Analytics Working Group (DAWG) to clarify guidance as needed.

Appendices

26. There was overall support for the Appendices.
27. The targeted approval date of the ED is June 2018. We think it may be difficult to achieve based on the work still required, and having ISA 540 for approval on the agenda as well in June. The Task Force Chair is confident that the ED will be ready for approval in June.

Audits of Small and Medium Entities

28. The Board discussed a paper in an executive session from an informal working group that highlighted and convinced the Board of the urgency to further analyse and consider issues in the context of the audits of simpler and non-complex entities.
29. The Board had a robust discussion on the issues and the need to keep an open mind in determining options to address the challenges. Accordingly, the Board supported the establishment of a Working Group to explore issues and develop a consultation paper. The Board agreed that the project should also look at the scope of entities across all sectors and all entities.

Agreed -Upon Procedures

30. The Board considered a draft of proposed ISRS 4400 (Revised)¹ and generally agreed with the Task Force's proposals. The key views expressed included support for:
 - the use of the term findings instead of factual findings
 - disclosure of non-independence in the AUP report, and continuing to work with the IESBA about what the independence criteria are for non-assurance engagements
 - sufficient flexibility to address various circumstances when an AUP engagement is performed (for example, AUP engagements performed in the public sector)
 - use of professional judgement by the practitioner in the standard
 - the example reports provided, including the use of two separate reports when reporting on recommendations
 - not requiring written representations, but to recognise the practitioner may obtain representations, with some guidance what those should be.
31. The Board will perform a first read of the standard in September, and is hoping to approve the ED in March 2019.

Quality Control (Firm level) ISQC1

32. This was the second reading of the draft standard. There was overall support for the standard, including its structure and objective. However, there was some

¹ International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed Upon Procedures Regarding Financial Information*

concern about the length of the standard which makes it cumbersome and difficult to apply, particularly for SMPs. The Board asked the Task Force to consider further streamlining the application material, recognising that it is a complex topic, and that length may be necessary. The Board also asked the Task Force to relocate the Appendix outside the standard, which although it has useful content, makes the standard overly long and complex.

33. The Board further requested the Task Force to develop further guidance to address different sizes and complexity of firms, and to explore the appropriate location for the guidance. There were some mixed views about the appropriate authority of guidance located elsewhere.
34. The Board suggested a new term for the quality risk assessment process (referred to as QRAP). There were mixed views as to whether it should be 'risk assessment process' or 'quality risk management process'. In addition, the Board recommended that the quality risk assessment process should also be applied to the monitoring and remediation component, to make it consistent with the other components.
35. Further key feedback included:

Scalability, objective and components

- Support for how professional judgement has been addressed, but more emphasis needed on professional scepticism
- Clarify the scope of the services to which the standard relates
- Support for the components, but mixed views about how they had been referenced.

Definitions and Other terms

- Consider whether all definitions are needed
- Agree with the use of 'responses' to risks instead of 'controls' or 'policies and procedures'.
- Reconsider places where sufficient and appropriate are used together
- Redefine network services, and clarify the nature of the relationships
- Various proposed refinements to definitions.

Structure

- Overall support for keeping the governance and leadership component first
- Further refine and streamline the references between the components
- Improve linkages with ISA 220 and more direct requirements for what needs to be done at the engagement level
- Add a requirement that the firm may need to have additional quality objectives, quality risks or responses

Quality risk assessment process

- Support for the concept of the risk threshold for identifying and assessing risks, but to clarify how it is described
- Develop application material to emphasise the scalability of this section

- Clarify that risk identification and assessment is a 2-step process, but may be done simultaneously in some cases
- Build more proactivity into considering quality objectives, quality risks and responses because of changes in circumstances.

Other components

- Governance and leadership - support for the use of 'financial and operational' priorities rather than 'commercial considerations'
 - Information and communication- clarify that communication (transparency reporting) is strongly encouraged but not required
 - Relevant ethical requirements- more specific responses needed
 - Monitoring and remediation – clarify when firm leadership is required to do the evaluation of the system (at least annually or more frequently)
 - Networks – better clarify requirements as it does not capture those directives that sometimes come from the network to the network firms. Further outreach to do to discover the issues.
36. The Board will consider the next draft at the September meeting with the intention of approving the ED for issue at that meeting.

EER Assurance Project

37. The Board received an update on the Task Force's work to date on understanding the contextual background of reporting frameworks, the first of the ten key challenges, materiality, and outreach and project planning.
38. Members expressed broad support for the Task Force's early work and the planned direction of the project. The Task Force will continue to address the ten key challenges and develop guidance. The plan is to present the issues relating to materiality, assertions and criteria at the June Board meeting.
39. The IAASB is planning to have 6 roundtables later this year on the exposure draft of the new guidance. The Oceania one is to be in Sydney on 2 November just before the World Congress, and will be hosted by CA ANZ. We are planning an additional roundtable in Auckland for the last week in October.

Professional scepticism

40. Lyn provided an update to the Board on the Professional Scepticism Subgroup's proposed way forward, work done to date on feedback from the ITC, and the conclusions and recommendations related to a requirement to seek contradictory evidence as part of the concept of professional scepticism.
41. The recommendation from the subgroup was to henceforth use the term "inconsistent evidence" rather than "contradictory evidence" in IAASB pronouncements, and to not add a requirement to seek inconsistent evidence in all circumstances. This generated a healthy debate, with mixed views. A major concern was the timing and the implications of the recommendation, for example, in the context of ISA 540. However, the Board agreed this is the start of the discussion and that the ideas should be considered further.
42. The Board supports the group's proposed way forward:

- Provide advice on key projects
- Distribute regular communication on professional skepticism
- Provide input into the IAASB's Strategy for 2020–2023, including the Consultation Paper and the stakeholder survey
- Foster good relationships with IESBA and IAESB.

Strategy 2020-2023

43. The Board discussed the possible approach to developing the IAASB's strategy for 2020-2023, including the planned activities for 2018. The discussion included the online approach to the stakeholder survey, and the types of issues and questions to consider. The Board considers that broader thinking is needed for the strategy and supports reaching out and soliciting views from a wider group of stakeholders such as investors, preparers and government representatives. The survey will include targeted questions for specific stakeholder groups, with some being more strategic, and some more technical. The IAASB supports that 2019 be a continuation of the 2017-2018 work plan.

Next meeting

44. The next physical meeting will be held 18-22 June 2018 in New York. The next IAASB teleconferences will be held on 18 and 24 April, and 22 May.