Australian Government

Auditing and Assurance Standards Board

Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	**2.1**
Meeting Date:	16 April 2019
Subject:	Report on IAASB March 2019 Meeting
Date Prepared:	2 April 2019

This paper provides an overview of the International Auditing and Assurance Standards Board (IAASB) meeting held in Toronto, Canada on 11 – 15 March 2019 for the AUASB.

Summary of IAASB Deliberations

ISA 600, Group Audits

The IAASB discussed an approach to scaling group audits - described as a "top-down, risk-based" approach. In this approach, the group auditor starts by assessing the risks of material misstatement in the group financial statements. This approach was considered as an alternative to the extant approach, in which the group auditor scopes the group audit starting with identifying the components.

- There was support to further develop the new approach to scoping a group audit
  - Practical concerns
    - Importance of two way communication between group engagement team and component auditor
    - Keep identification of components/ not to "throw the baby out with the bath water"
    - In a group audit it is important to know the "pieces" and sources of information that flow into the group financial statement
  - Use different term, 'top down approach' is confusing
    - Suggestion: risk based scoping approach led by the group engagement team
- There was support for considering whether changes are needed to certain definitions
  - First focus on scoping a group audit and then look at definitions
- Many other suggestions were received, for example
  - Include more on internal controls and automated tools and techniques
  - Access to information: what can auditor do when there is limited access

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Implications for the AUASB

Continue to monitor developments leading up to June 2019 IAASB Meeting.

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ISA 315, Identifying and Assessing the Risks of Material Misstatement

The IAASB discussed different approaches to addressing concerns about length, complexity and scalability of the exposure draft as expressed in the comment letters received, as presented in Agenda Item 4-A.

- Although supportive of many individual proposals, the Board challenged whether the Task Force had gone far enough in the approach for the requirements to address the length, complexity, proportionality and scalability of the standard.

- In relation to the 2 alternative approaches to the requirements presented for the understanding of the system of internal control section of the standard:

  - The Board generally gravitated towards Option 2 (Column 4) as presented in Agenda Item 4-A. However, although more Board members preferred this option, concern was expressed that it may not be sufficient to address the length or complexity of the standard.

  - There were some views that neither option is a suitable solution.

  - With specific reference to option 1, concerns were expressed regarding the flow, I.e. evaluation prior to understanding.

- In discussing possible solutions to address complexity and the length of the standard, mixed views were expressed, for example:

  - There were suggestions that some stakeholders may have an expectation that certain requirements should be conditional, for example, the requirement to perform D&I procedures where a fully substantive approach is taken.

    - However, the Task Force and Board agreed that this would weaken the extant standard, also recognizing that the Board supported calls to retain at least all extant requirements.

  - Some Board members noted that ED–315 is inherently a complex standard, and therefore, if it requires 'long' requirements or application material to appropriately articulate the desired outcome and to achieve consistent application, so be it.

- Based on the comments from the Board, the Task Force performed an analysis of the proposed requirements, with the objective to identify the

  - What the auditor is required to do?

  - Definitions describing the meaning for certain words

  - Why is the auditor required to the what?

  - How should the requirement be applied?

- The Task Force brought back to the Board a revision of the requirements (related to the system of internal control) consisting only of the 'WHAT,' and the inclusion of the definitions of each component in the definitions' section.

  - There was overwhelming support for this approach, although many Board members noted that they would like to visualize or see the full picture (I.e. the whole standard) before being able to conclude.

  - One Board member was concerned that this may weaken the requirements.

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- The placement of the 'how' and 'why' requires further consideration by the Task Force, although there was some support from the Board to include in application material.

- There was agreement that scalability is unlikely to be resolved within the requirements itself, but rather through the application material or other forms of non-authoritative material.

- Individual aspects

  - The Board did not support the emphasis on identifying control deficiencies and communicating them in accordance with ISA 265 as a purpose for the understanding the system of internal control

  - Support for separate assessment of inherent risk and control risk

  - In aligning the threshold of reasonable possibility with the definition of risk of material misstatements, the Board broadly supported option 2, i.e. add application material in ISA 200 to explain that the risks of material misstatement that are identified are those that are reasonably possible to occur.

  - Broad support for

    - The change of the definition of significant risk ('likelihood or magnitude' to 'likelihood and magnitude')

    - Retention of stand-back and ISA 330 para. 18, which is a safety net such that the auditor performs substantive procedures over all material account balances in the financial statements

    - Introduction of the spectrum of inherent risk

    - Updates to the purpose of the risk assessment procedures to obtain audit evidence that provides an appropriate basis for the identifying and assessment of ROMMs., although still some concern about including the term 'audit evidence' in this context

    - Proposals to analyse, streamline and update application material

__Implications for the AUASB__

Most feedback provided by AUASB in its submission has been addressed by the ISA 315 Task Force was supported by the IAASB.

Continue to monitor developments leading up to June 2019 IAASB Meeting. Expect considerable amendments to be made by the ISA 315 Task Force before the next meeting, particularly as strong linkages with potential direction of LCE Discussion Paper responses (refer below)

Standard will not be approved until September 2019, and possibly delayed until December.

Audits of Less Complex Entities

The IAASB considered the draft Discussion Paper that is proposed to be issued to solicit input into a project to consider the challenges facing auditors of less complex entities.

- The Board was supportive of direction of Discussion Paper, noting importance of the topic

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- The Board liked the simple, clear way the Discussion Paper had been presented, noting appropriate for target audience
- There were various suggestions for improvements, but in particular in relation to:
  - Issues and challenges – the board noted that it was important to understand the root causes to be able to determine an appropriate way forward
  - Possible actions – the Board supported setting out the possible actions by the IAASB and by others, but questioned how various aspects that had been presented,
  - The Board asked that further consideration be given to how technology as a possible action is presented within the paper.
  - Noted balance was important to not give the impression that decisions had already been made
  - Encouraged that further consideration be given to how it could be made clear that this was information gathering as evidence needed to provide a basis for future activities
- Way forward – will bring changes to Board call on 10 April, with final document targeted to be published before the end of April.
- There will be a conference focused on the issues facing small and medium practices in Paris 16-17 May 2019.

Implications for the AUASB

As Roger is the LCE Working Group Chair all developments are being closely monitored and AUASB members input being sought where required.

Outreach on LCE paper to be included in the plan for Quality Management Standards in May 2019 (Refer Agenda Item 5). Roger and Matthew attending NSS Meeting and LCE/SMP Conference in Mid-May.

Detailed AUASB review and development of AUASB response to LCE Discussion Paper to be included on June 2019 AUASB Agenda.

Extended External Reporting

The board:

- Discussed the results of the initial discussions of the EER task force and project advisory panel on the challenges allocated to Phase 2 of the project
- Received IAASB input through breakout groups that did deep dives into several of those challenges, including on the content of the guidance and how the changes should be addressed in the guidance
- The task force will make improvements to the drafting of the phase 2 guidance, taking that input into account for the Board's further discussion in June 2019.

Implications for the AUASB

Jo/Marina to continue to monitor developments on Phase 2 of the EER Project through the EER Guidance Project Advisory Panel.

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Audit Evidence

The IAASB is researching the need for a project on Audit Evidence. The Board received presentations on:

- Artificial intelligence
- Data Analytics
- The American Institute of CPA's Auditing Standards Board project on Audit Evidence

The Board also conducted break out groups on the topic of audit evidence, the results of which will inform whether and how the IAASB will proceed with the project.

Feedback from IAASB was mixed, with some strongly of the view that a broader approach to the evaluation of all the existing IAASB standards addressing audit evidence requirements is required.

> *Implications for the AUASB*
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> *Additional consideration required by IAASB Audit Evidence Working Group. No action for the AUASB at this time.*

Conforming Amendments

The Board held a discussion about conforming amendments to be made to its standards and practice note as a result of the new IESBA Code, and new auditing standards.

> *Implications for the AUASB*
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> *Formal plan for IAASB approach to conforming amendments to be presented to IAASB June 2019 Meeting. AUASB Technical Group to consider and propose local plan at either the September 2019 AUASB meeting.*

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