



## Attachment to AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 4.1.1  
**Meeting Date:** 10 & 11 September 2019  
**Subject:** Report on IAASB June 2019 Meeting  
**Date Prepared:** 27 August 2019

*This paper provides an overview of the International Auditing and Assurance Standards Board (IAASB) meeting held in New York, USA on 17 – 21 June 2019 for the AUASB.*

### **ISA 315 - Identifying and Assessing the Risks of Material Misstatement**

Since the March 2019 IAASB meeting, the ISA 315 Task Force progressed changes to the standard by focusing its efforts on implementing the new drafting approach, as agreed to with the Board in the March 2019 meeting, to address the overarching concerns in relation to

- Length and complexity; and
- Scalability and proportionality of ED-315

Using the new drafting approach:

- The ‘what’ remained the in the requirements, while keeping it at a principles level
- Definitional material (or criteria) was relocated to definitions
- The ‘why’ or ‘how’ was relocated to the AM, unless such criteria provided a necessary threshold for the execution of the requirement – in which the Task Force proposed that it remains as a requirement. In addition, the Task Force considered additional “why’s” where it was thought this would be helpful.

After considering a full version of the standard, the Board broadly supported the overall direction of the changes, in particular regarding the efforts to:

- Enhance the flow of the requirements;
- Make the standard more understandable; and
- Enhance the application material, noting that the introduction of the “why” was very helpful, as well as separately signposting the examples, the scalability and automated tools and technique paragraphs.
- Enhance and revise the appendices.

Despite the support, many Board members expressed concern with the interaction of some of the new definitions and the requirements, adding that there may also be challenges in navigating efficiently through the standard when considering a number of related pieces. There were also questions about the “authority” of the definitions.

Although it was recognized that technology may be a solution to improve navigation, the Board agreed that this was not necessarily a solution for now.

During the week the Task Force reconsidered the approach, and after further deliberation, brought back to the Board a new presentation to ‘reconnect’ some of the definitions to the requirements (mainly related to the understanding of the components of the system of internal control). The new presentation was also intended

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to make clearer what is required to obtain an understanding of each component of the system of internal control.

This was done through connection in a 2-column table showing what is required to be understood, and then to evaluate, to be able to have the required understanding. Subject to some suggestions where further clarifications are needed to enhance the flow of the requirements presented in the 2-column format, the Board generally supported this revised approach. The Task Force will continue develop this for discussions on the final standard in September on the final proposed standard.

The Task Force also brought revised definitions relating to inherent risk factors (as well as the related requirements) and significant risk to address concerns raised by the Board during the week. Broadly the way that fraud is dealt with in the definition of the inherent risk factors continues to have divided views, but the Board has agreed to revise wording that refers to the fraud risk factors that acknowledges the two different types of fraud but also highlights the behavioural aspects related to fraud.

There were also some other issues and concerns raised by the Board that the Task Force will need to consider further. The Task Force plans to continue to develop the final proposed standard, and related implementation guidance, for the targeted approval of September 2019.

#### **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.*

*Standard will be targeted for approval at the September 2019 IAASB meeting. 'Fatal flaw' review of the final draft of ISA 315 provided to the IAASB will be reviewed at the September 2019 AUASB meeting.*

### **ISA 600 - Group Audits**

The board had a good discussion on the issues identified by the task force and some "indicative drafting" presented by the task force. The indicative drafting was intended to demonstrate how the special considerations related to group audits might be presented in a proposed standard. There was general support for public interest issues identified.

There was also general support for the risk-based approach to group audits presented by the task force. While agreeing that the group auditor is responsible for the direction, supervision, and review of the group engagement, and the opinion, it was recognized that often component auditors are in the best position to perform some of the work, including the identification of the risks of material misstatement, and that this should be recognized in the standard. The board also discussed the extent to which the group auditor can use the work performed in connection with statutory audits performed by component auditors.

The board also discussed:

- The Scope of the standard. It needs to be clear when an audit is a group audit and thus the requirements of the standard apply.
- Significant components, and whether the concept should be retained, either as a requirement for the auditor to perform procedures on all significant components, similar to the requirement in ISA 330.18, which requires substantive procedures on all material accounts.
- The importance of having a scalable standard.

The Task Force will:

- Consider the comments received from the Board and will present further drafting related to the risk-based approach and the special considerations related to ISA 220 at the September 2019 meeting:

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- Continue outreach and coordination with IESBA and other IAASB Task Forces, and the Consultative Advisory Group

### **Implications for the AUASB**

*Continue to monitor developments leading up to September and December 2019 IAASB Meeting.*

*Expected timeline for approval of the Group Audits ED has been revised from December 2019 to March 2020.*

## **Agreed Upon Procedures**

The Board discussed the feedback received from the responses to its Exposure Draft of ISRS 4400 (Revised), *Agreed-Upon Procedures Engagements*. The responses were overwhelmingly supportive of ED-4400 with a significant majority of respondents agreeing that ED-4400 has been appropriately clarified and modernized to respond to the needs of stakeholders and address the public interest.

The task force presented its preliminary views on the issues raised in the responses. The Board supported many of these views.

### ***Professional Judgment***

The Board confirmed the position in the ED that professional judgment is relevant in an AUP engagement. It also supported the view in some responses that professional judgment is not applied when performing the agreed-upon procedure (AUP). However, the practitioner's training, knowledge and experience are applied throughout the engagement.

### ***Independence – Precondition***

The Board generally agreed with not including a precondition for the practitioner to be independent and not requiring the practitioner to determine independence.

### ***Independence – Disclosure***

The Board discussed the balance between enhancing transparency and promoting consistent disclosure in the AUP report. In considering the responses from stakeholders, the Board generally agreed that, if the practitioner is not required to be independent, the AUP report would include a statement along the lines that the practitioner is not required to be independent and accordingly, makes no assertion of independence.

However, the Board tentatively concluded that further statements on whether the practitioner is, or is not, independent may be confusing to readers given the lack of generally accepted criteria for determining independence in the IESBA Code.

The Board indicated that the task force should further consider whether disclosures about the practitioner's objectivity would enhance the AUP report. The enhanced transparency on objectivity may help mitigate the "expectations gap" in this area.

### ***Effective Date***

The Board discussed the merits between basing the effective date on when the engagement agreement date and basing the effective date on the AUP report date. Views on this issue are split. The Task Force will further consider this point.

### ***Other matters***

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The Board broadly supported the proposals in relation to references to findings, engagement acceptance and continuance, using a practitioner's expert, written representations and the AUP report.

### **Way Forward**

The Task Force will take the Board's views into account as it works towards having the final standard for the Board to approve at the December 2019 meeting.

#### **Implications for the AUASB**

*Continue to monitor developments leading up to December 2019 IAASB Meeting.*

*Full 'fatal flaw review' of ISRS 4400 to be performed at December 2019 AUASB meeting.*

*Subsequent to approval by the IAASB then the AUASB will need to expose ASRS 4400.*

### **Extended External Reporting**

In relation to the discussion on EER, the Board:

- Received an update on the EER Task Force's work on the remaining five Key Challenges
- Provided input, through breakout groups that did deep dives into several of those challenges, including on the content of the guidance and on how the challenges 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 September 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 and update AUASB members at AUASB meetings.*

### **Audit Evidence**

In relation to audit evidence, the Board discussed the analysis undertaken by the Audit Evidence Working Group of the issues across the ISAs related to audit evidence. The analysis also covered aspects of the ISAs where the use of technology may need to be considered, and explored possible actions to address the issues.

The Board agreed to initiate a two-track process to address the issues related to audit evidence and technology more broadly:

- The first track would involve developing guidance on the effect of technology when applying certain aspects of the ISAs. The Board's view is that this guidance needs to be developed expeditiously, given the prevalent use of technology and the feedback we have received from stakeholders about the need for guidance.
- The second track would encompass further research activities to understand the issues related to audit evidence in more depth, so that this can provide information to the Board in determining the need for revisions to ISA 500, and possibly other related standards.

The next steps for the Audit Evidence Working Group are to develop a project plan for the audit evidence research activities for further discussion by the IAASB at the September meeting. The Technology Working

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Group will also develop a project plan outlining the topics to be addressed by the technology-related guidance, and the format and due process of the guidance, which will also be presented to the IAASB.

**Implications for the AUASB**

*Additional consideration required by IAASB Audit Evidence Working Group. No action for the AUASB at this time, other than continuing to be updated by the AUASB Technical Group prior to the September 2019 IAASB meeting.*

**Other matters discussed by the IAASB**

1) The **Professional Scepticism work group** also met during the June Board meeting. The working group:

- discussed its input to the revisions to ISAs on group audits, EER and audit evidence
- is developing a third Communiqué on how the IAASB has responded to public interest issues related to professional skepticism
- is following IESBA's current project on the role and mindset of professional accountants and input has been provided to the IESBA Task Force

The working group's next focus will be on the revisions to ISAs on group audits, EER and audit evidence.

2) The Board received an update from Mary Tokar (IASB Member) on **IASB activities**, including:

- How the IASB sets their agenda, as well as resources and consultations with stakeholders, in light of the upcoming discussions about the 2020 IAASB Strategy.
- The impact of technology on standard setting, including how standards are set
- An update on relevant topics on the IASB's current agenda, including discussions about various aspects of auditability related to these.

3) The Board received a presentation on the process put in place to inventory, capture and manage **coordination needs with IESBA**, how the IAASB staff prioritise topics requiring coordination and allow for periodic review (e.g., by the Board's liaison members, the Steering and Planning Committees).

4) The Board discussed global trends and key themes related to **auditor reporting**, and also provided input on the plans for the auditor reporting post-implementation review as proposed by the Auditor Reporting Implementation Working Group.

**Implications for the AUASB**

*None. For noting only.*

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