



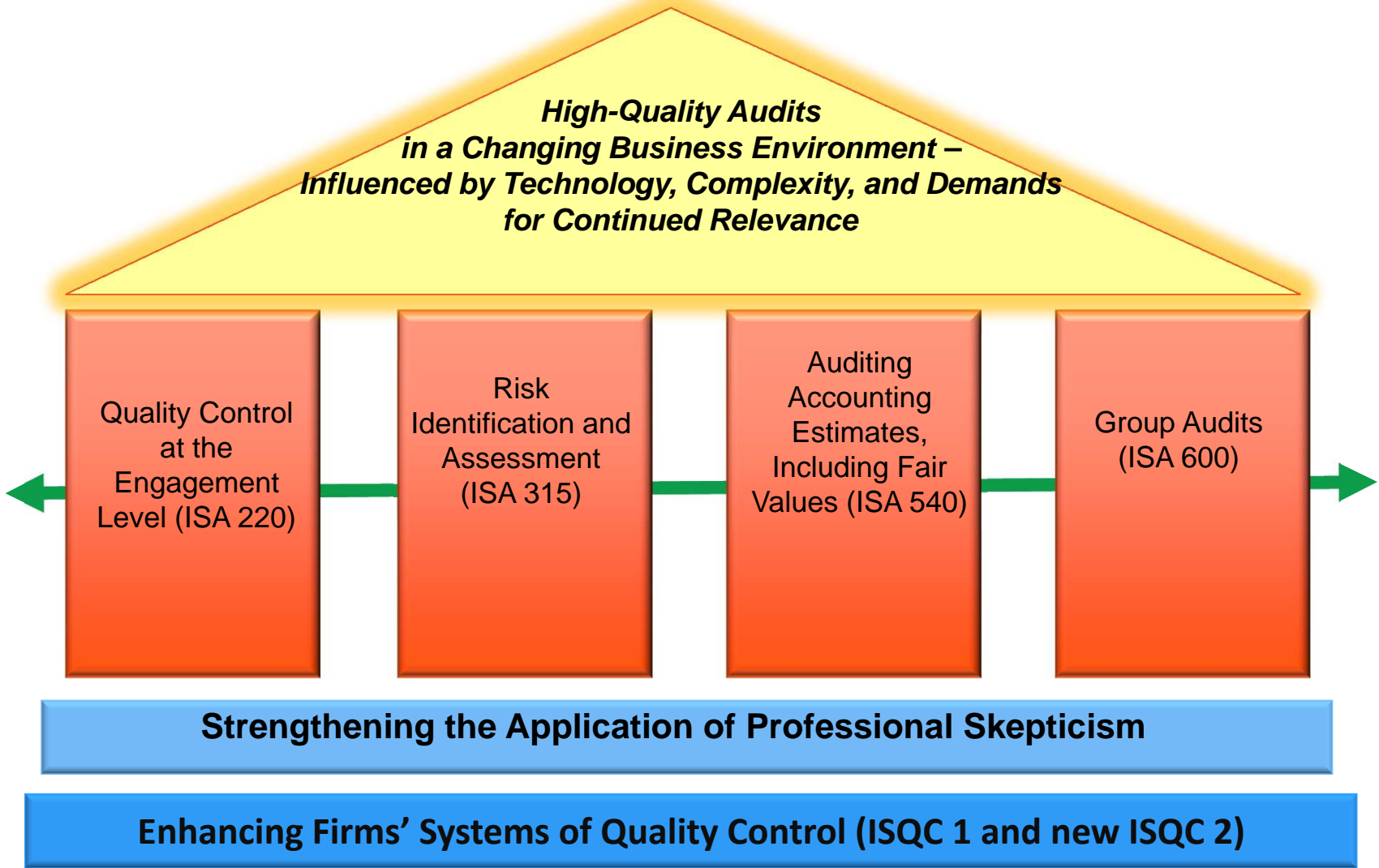
IAASB Update
PCAOB SAG
Washington D.C., USA
November 29, 2017

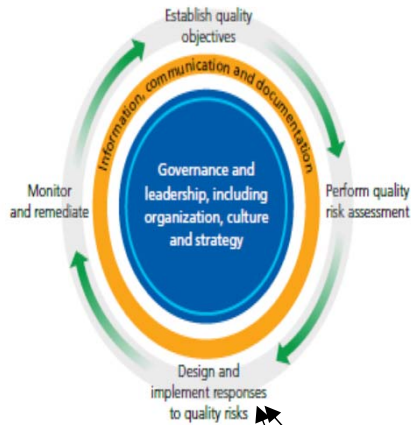
The views expressed by each of the presenters are their own personal views and do not reflect those of the PCAOB, members of the Board, or the PCAOB staff.

Prof. Arnold Schilder, IAASB Chairman
Megan Zietsman, IAASB Deputy Chair



“The Global House of Audit – Under Renovation”

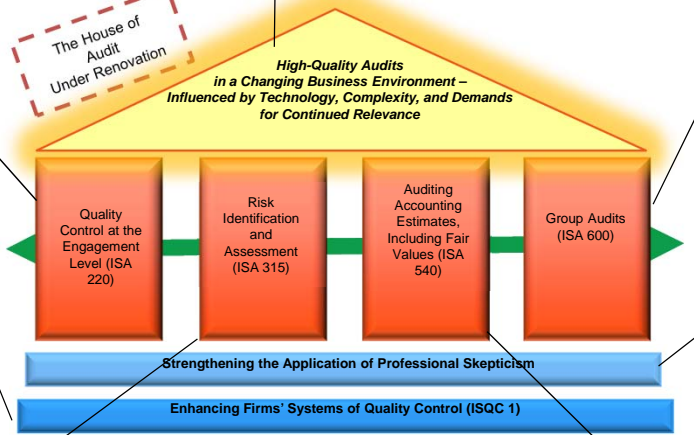




- Request for Input issued – Analysis of Responses
- Continuing consideration in other ongoing projects

- Group Audits Project Update published
- Strong linkage with other standards, particularly ISA 220, ISQC 1 and ISA 315 (Revised)

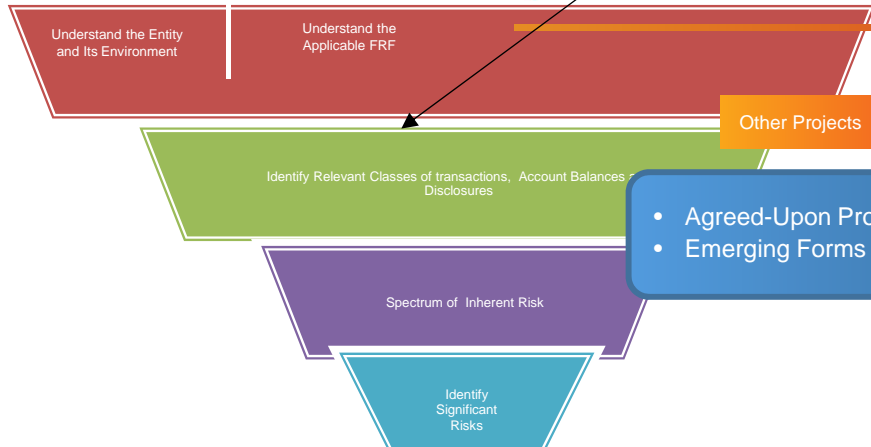
Addressing Fundamental Elements of the Audit



Professional Skepticism – Key Observations (4 of 7)

1. Increased attention to business acumen is central to the exercise of professional skepticism.
2. Environmental factors can influence the ability to exercise professional skepticism.
3. Awareness of personal traits and biases is essential.
4. Building in professional skepticism from the outset is key.

Identifying and Assessing the Risk of Material Misstatements



- Agreed-Upon Procedures
- Emerging Forms of External Reporting

- Exposure Draft published
- Analysis of Responses

Professional Skepticism – Key Observations

IAASB/IESBA/IAESB: **Professional Skepticism Stakeholder Publication** *Toward Enhanced Professional Skepticism* (August 2017)

Key observations to-date of the joint Professional Skepticism Working Group (PSWG)

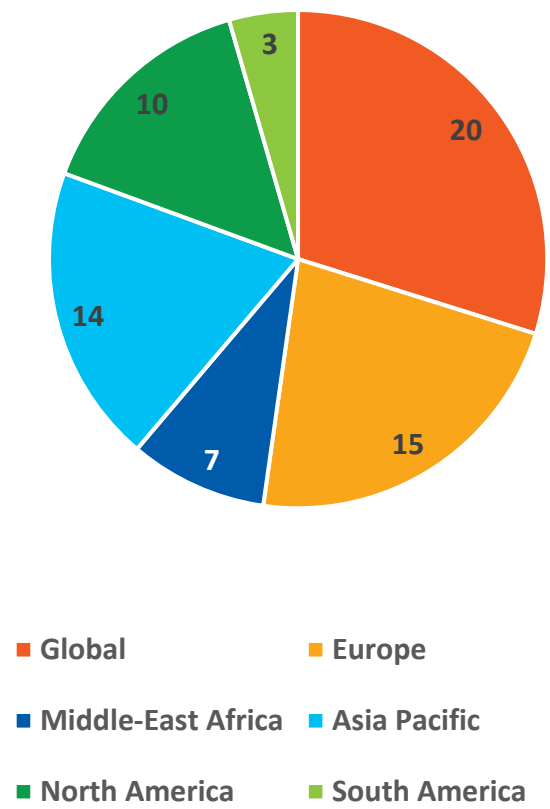
1. Increased attention to business acumen is central to the exercise of professional skepticism.
- 2 Environmental factors can influence the ability to exercise professional skepticism.
3. Awareness of personal traits and biases is essential.
4. Building in professional skepticism from the outset is key.

ISA 540 – Auditing Accounting Estimates

ISA 540 (Revised) – Responses to ED

Total	69
Regulators and Oversight Authorities	9
National Auditing Standard Setters	9
Accounting Firms	10
Member Bodies and Other Professional Organizations	27
Public Sector Organizations	8
Preparers of Financial Statements	1
Those Charged with Governance	1
Academics	1
Investors	1
Individuals and Others	2

Geographic Areas



Overview of Responses

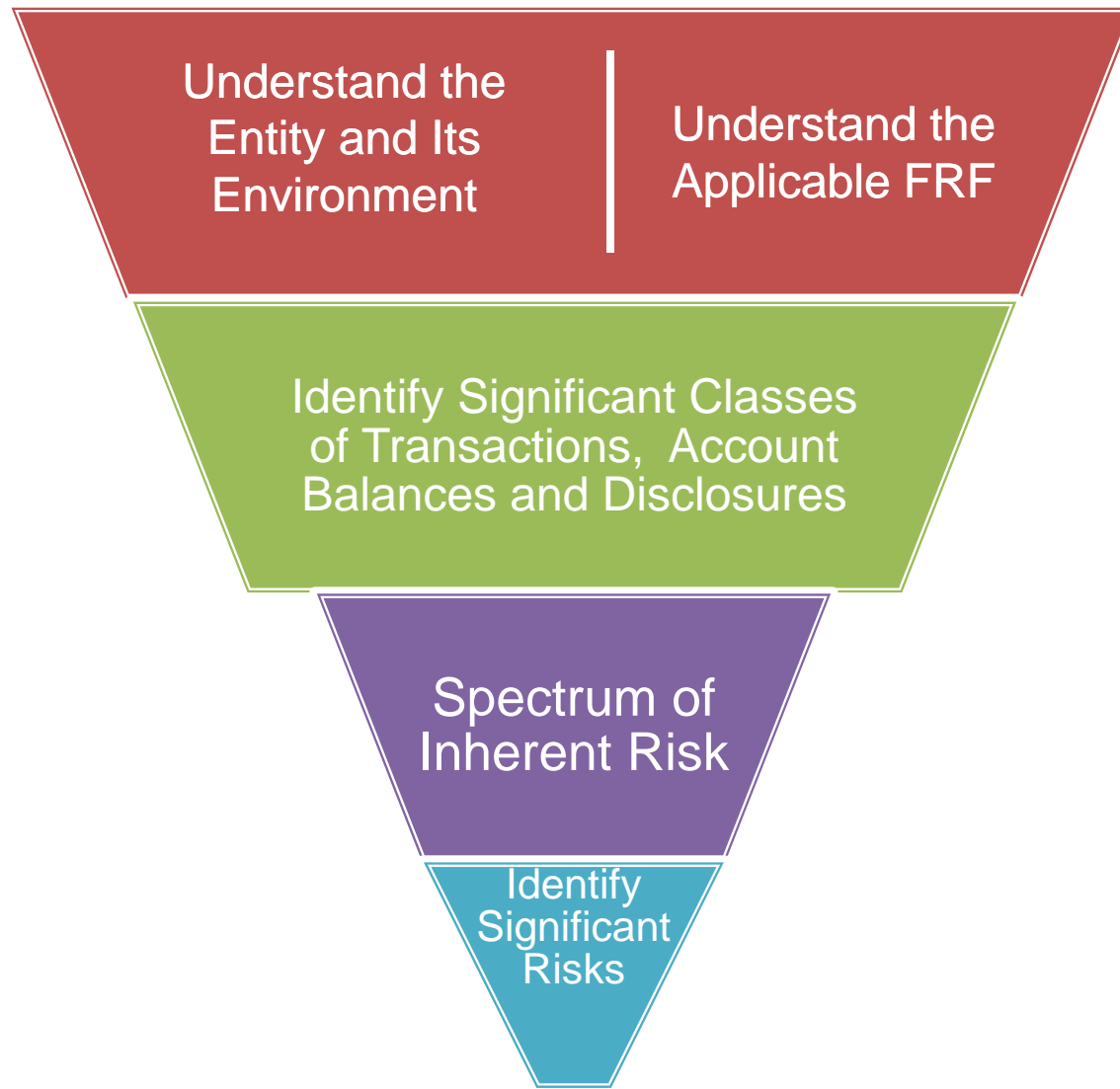
- Support for the IAASB's objectives in revising ISA 540
- Concerns about complexity, impracticality of proposals
- Questions about implications for “simple” estimates and scalability overall despite threshold low/not low inherent risk
- Support for the three ‘risk factors’ (estimation uncertainty, judgment, complexity) but should be incorporated in assessment of inherent risk
- Calls for better incorporation of existing approaches to auditing estimates (events after balance sheet date, developing an independent estimate, testing management’s process)
- Calls for consideration of PCAOB proposals, including emphasis on avoiding unnecessary differences.

ISA 540 - Next Steps

- IAASB Extra October 2017 meeting (to be continued in December 2017 and March 2018)
 - Significant comments about clarity, readability, operability of the standard
 - Considering removing threshold of low/not low inherent risk and using other tools to enhance/demonstrate scalability
 - Restructured work effort requirements:
 - Use one or more testing strategies (in brief: test management's process, develop an auditor's point estimate or range, events after balance sheet date); consider use of language from PCAOB Proposed AS 2501, e.g., paras .05, .06 and .07
 - Requirements for each strategy organized by data, assumptions, and method (as appropriate for each testing strategy)
 - Retaining risk factors (complexity, judgment, estimation uncertainty) but replacing 'judgment' by 'subjectivity' which aligns with PCAOB Proposed AS 2110.60A-d.

ISA 315 (Revised) – Identifying and Assessing the Risks of Material Misstatement

ISA 315 (Revised) - Identifying Inherent Risks, Including Significant Risks



ISA 315 (Revised) (Cont.)

- **Obtaining an Understanding of Internal Control**
 - Clarifying definitions of internal control and controls
 - Clarifying the necessary understanding of the five components of internal control (control environment; the entity's risk assessment process; the entity's process to monitor the system of internal control; the information system and communication; control activities)
 - Clarifying work effort for evaluating design and determining implementation of relevant controls for each component
- **Identifying and assessing risks of material misstatement**
 - Separate assessments of inherent and control risk
 - Identify relevant assertion(s) and significant classes of transactions / account balances / disclosures
- **Other Matters**
 - IT considerations (including general IT controls); Data analytics; Documentation

ISQC 1 – Quality Control at Firm Level

Quality Management Approach



Quality management approach

Modernized, fresh approach to firms' management of quality:

- Risk-based and scalable
- Effective
- Proactive and preventative
- Tailored for the firm's circumstances

Proposed ISQC 2 – Engagement Quality Control Review

Strengthening and Clarifying the EQC Review

- New separate standard addressing EQC reviews
- Enhanced requirements and application material in relation to:
 - Scope of engagements subject to an EQC review
 - Eligibility of an individual to be appointed as an EQC reviewer, including objectivity, authority, technical competence and experience
 - Appointment of the EQC reviewer
 - Performance of the EQC review, including clarification of appropriate timing of the review and strengthening the nature and extent of the review
 - Documentation related to, and of, the EQC review
- IAASB-IESBA Joint Working Group – purpose is to explore objectivity of the EQC reviewer
 - Includes cooling-off period for engagement partner

ISQC 1 (Revised)
Requirement on the
selection of
engagements for EQC
review



ISQC 2 (New)
All other requirements
in relation to EQC
reviews, including
responsibilities of the
firm and the EQC
reviewer

ISA 220 – Quality Control at the Engagement Level

Progressing Changes to ISA 220 - Embed Quality Management Principles

- Highlight interactions of ISA 220 with ISQCs, and other ISAs
- Strengthen the engagement partner's responsibility for leadership and overall responsibility for managing and achieving quality, including for being sufficiently and appropriately involved in the engagement
- Enhance the requirements and related application material in relation to
 - 'Assignment of engagement teams' to capture the broader resources required or deployed to perform an audit (e.g., including technology resources, methodologies and related implementation tools and guidance)
 - Direction and supervision of engagement team members and review of work performed
- Include a new requirement for a 'stand-back' at the end of the audit to determine that quality has been managed and achieved

ISA 600 – Group Audits

ISA 600 – Group Audits

- Group Audits Task Force continues to progress issues in light of changes being made in other projects
- Proactive liaison with other Task Forces (e.g., Quality Control TF, ISA 220 TF, ISA 315 (Revised) TF) on crossover issues
- Consideration of specific group audits issues (e.g., component materiality, consolidation, communication with the component auditors, etc.)
- Project Update published October 2017 about issues being considered in the revision of ISA 600 and explaining the linkages with other projects



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