

# IAASB Update

Presented by:

Prof. Roger Simnett, IAASB Member

Rich Sharko, IAASB Member

Chun Wee Chiew, IAASB Member

Beverley Bahlmann, IAASB Deputy Director

Bangkok, Thailand

January 29, 2020

## IAASB: 40+ Years of Audit Standard Setting

- **IFAC International Auditing Practices Committee:** 1978 initiative from national institutes to develop global auditing and assurance standards
- **Now-IAASB; Objective to set international standards in the public interest:**
  - 18 international members including full time Chairman
  - Maximum of 50% audit practitioners and other 50% with various backgrounds
  - Voting by qualified majority (12 of 18 members)
  - Intense due process (research; project proposal, exposure of proposals; development of final standard)
  - Open Board and CAG meetings
  - Oversight by the Public Interest Oversight Board (PIOB)
- **Regular dialogues** with Consultative Advisory Group (CAG), IFIAR, IOSCO, Basel Committee, IAIS, IASB, PCAOB, GPPC, Forum of Firms, SMPC, etc.
- Office in **New York** with 11 technical staff and IFAC support staff
- Intense **global outreach**
- ISAs in use in more than **130 jurisdictions** and by all **31 international networks**



## Clarified ISAs—Global Adoption

### Jurisdictions Using Clarified ISAs Already, or Committed to Using Them in the Near Future (130)

**Europe (44):** Albania, Armenia, Austria, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France (Experts Comptables), FYR Macedonia, Georgia, Germany, Greece, Hungary, Iceland, Ireland, Italy, Kosovo, Latvia, Lithuania, Luxembourg, Malta, Moldova, Montenegro, Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom

**Americas (20):** Argentina, Bahamas, Barbados, Brazil, Canada, Cayman Islands, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Guyana, Jamaica, Mexico, Nicaragua, Panama, Puerto Rico (private companies), Trinidad and Tobago, Uruguay, USA (private companies)

**Asia and Oceania (24):** Azerbaijan, Australia, Bangladesh, Bhutan, China, Hong Kong, India, Indonesia, Japan, Kazakhstan, Kyrgyz Republic, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Papua New Guinea, Philippines, Singapore, South Korea, Sri Lanka, Thailand, Uzbekistan (listed entities), Vietnam

**Africa/Middle East (41):** Bahrain, Benin, Botswana, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Jordan, Kenya, Kuwait, Lebanon, Lesotho, Malawi, Mali, Mauritius, Morocco, Namibia, Niger, Nigeria, Palestine, Republic of the Congo, Rwanda, Senegal, Sierra Leone, South Africa, Swaziland, Tanzania, Togo, Tunisia, Uganda, United Arab Emirates (Abu Dhabi and Dubai), Zambia, Zimbabwe

# Environmental Factors Impacting the Audit Environment



Influencing the IAASB's Work—The International Audit Environment

# Ministers seek to reassure staff as Carillion collapse sparks anger

Public contracts underwritten • No relief in private sector deals • Heated MPs'...

GILL FLEMING, JIM PICKARD AND MARTIN ARNOLD

The government scrambled yesterday to contain the fallout from the collapse of Carillion, one of its biggest contractors, reassuring employees working on hospital, school and military contracts they would continue to be paid.

But there was no such relief for workers on Carillion's purely private sector contracts. David Lidington, the Cabinet Office secretary handling the company's liquidation, said private companies employing Carillion would have only 48 hours of government support.

The move would "give time for private sector counterparties to Carillion, to decide whether they want to accept termination of those contracts, or themselves to pay for the ongoing costs".

The government told Carillion's staff working on public sector contracts they would continue to be paid under the terms of a deal agreed with the government's Insolvency Service.

Carillion, which managed hundreds of vital public services, collapsed into liquidation early yesterday in one of the most dramatic corporate failures of recent years. A last-ditch rescue attempt failed to raise £500m needed to keep the company operating as it staggered under the weight of £900m in debt and a £367m pension deficit.

Mr Lidington faced angry questions from MPs in the Commons about the impact of the collapse. Carillion's recent relaxation of bonus conditions for executives and why ministers had continued to award the company contracts despite three recent profit warnings.

He insisted that there had been no "bailout" for the company, which employs 19,000 workers in the UK. He said its shareholders and lenders would bear the "brunt of the losses".

However, the government is underwriting the cost of Carillion's public sector contracts to ensure the continuation of "vital" services, even if the company's assets do not cover those costs. The



Most public services were unaffected but work on some sites halted

process is being managed by PwC, the accountancy firm. Most public services appeared largely unaffected as 90 per cent of Carillion's services are subcontracted to smaller suppliers. But work on some of Carillion's construction sites came to a halt as

subcontractors were told to go home lunchtime. They included workers at 47m student housing development Manchester as well as the £355m Rye Liverpool hospital.

There were concerns that Carillion owed hundreds of subcontractors, smaller businesses millions of pounds raising fears that they could go bust.

Banks are also facing heavy losses their £28m exposure in the form of loans and assets credit facilities. The big hits will be taken by Royal Bank of Scotland, Lloyds Banking Group, Barclays and Santander UK.

Around 5,000 of the 27,500 members of Carillion's 15 UK pension schemes have been transferred to the industry

**The key contracts**

- Contracts on three big government projects put Carillion in trouble
- £145m Aberdeen bypass
- £30m Millard Metropolitan hospital, Birmingham
- £35m Royal Liverpool University hospital



## Auditing The Auditors

Recent audit failures are bringing new scrutiny to the dominance and business practices of the Big Four accounting firms.

JULY 17, 2018 | Author: CRAIG MELLOW



KPMG audits show 'unacceptable deterioration': UK regulator

UK's Financial Reporting Council has said that KPMG, one of the 'Big Four' accounting firms, has

# IRBA issues notice of transparency reporting for audit firms

## The Audit Environment – A Profession Under Pressure

- General international view is of a profession under pressure
- Possible exception being the US: why? SOX? Education? Competition?
- Professional firms audit revenue percentage now around 15-20%;
- Greater pressure, especially in UK, to create “audit-only firms” and “joint audits” to deal with independence and competition issues;
- Recruitment, margin erosion and regulatory review overload challenges increasing.





## The Audit Environment – Increased Regulator Involvement



- Monitoring Group restructure of international standard-setting;



- High-profile activity in UK
  - 4 Commissions/  
parliamentary enquiries;



- Australia following closely the UK debate - impact of Haynes/Banking Royal Commission;



- Regulators are now more litigious
  - name & shame and “why not litigate? approach”

## The Audit Environment – A Profession Under Pressure

Audit quality and reporting quality debate should be **multidimensional**.

- Debate in press driven to date by “**inspection results**”. *One element*
- Audit firms becoming **more proactive** in debate
- Auditing and audit quality an issue **across all sectors**

### Trust deficit

- Do we have the right products and right processes?



## The Broader Environment—The Importance of Information Credibility

**Credibility of EER is important because....**



- Information is a **cornerstone of markets**
- Information benefits the **decision making of report users**
- Without credibility, corporate reports are potentially perceived as marketing documents and a part of greenwashing practice

## Other Credibility Enhancing Mechanisms

### Combined Assurance

South Africa market - King III Report recommends combined assurance





## Other Environmental Influences on the IAASB's Work

- International Financial Reporting Standards
  - Constantly changing standards (new standards such as Revenue Recognition, Leases, Insurance)
  - Complexity of accounting is increasing
    - Environment becoming more complex
- Brydon Review Findings (UK)
  - Fraud and related auditor's responsibilities misunderstood
  - Reporting on prevention and detection of fraud by directors
  - 'True and fair' versus 'presents fairly...'
    - Greater transparency over different estimations
    - Medium term 'statement of resilience' in addition to short term going concern
    - Directors view on company's legal, social, financial and environmental responsibilities to the public interest
  - Redefinition of audit and its purpose
  - Independent audit profession
    - Confusion between term assurance, audit and statutory audit
  - No views on joint audits



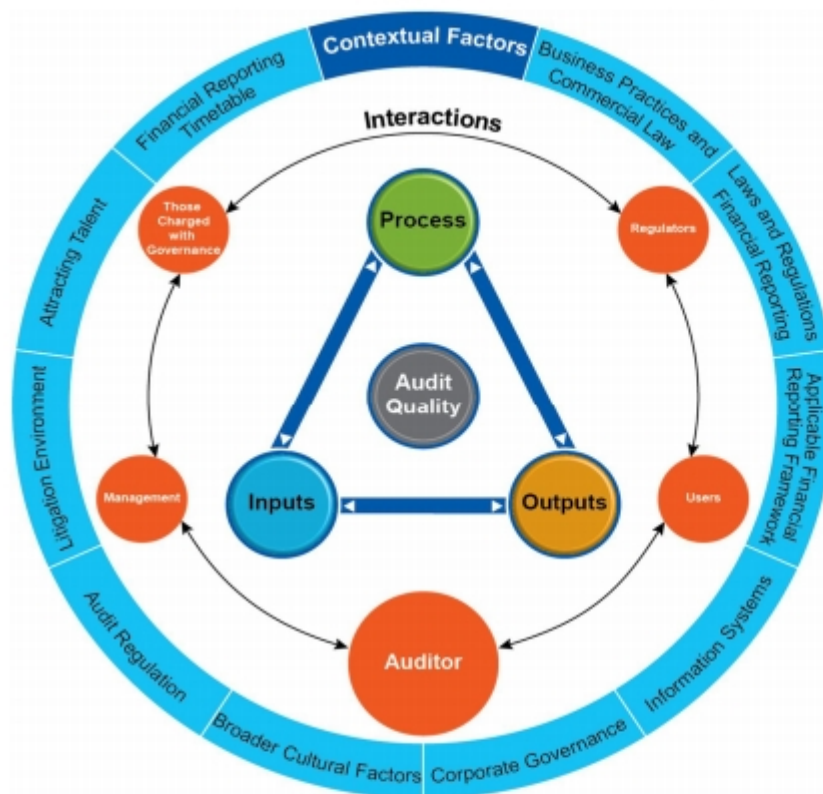
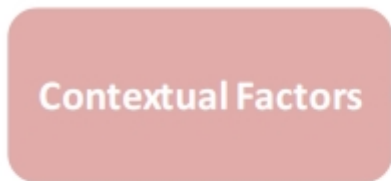
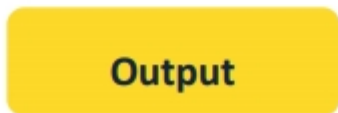
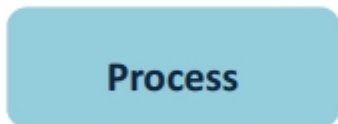
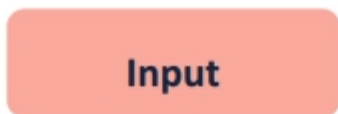


# Supporting the International Auditing Standards – A Framework for Audit Quality



# IAASB's Framework for Audit Quality

## Key Elements



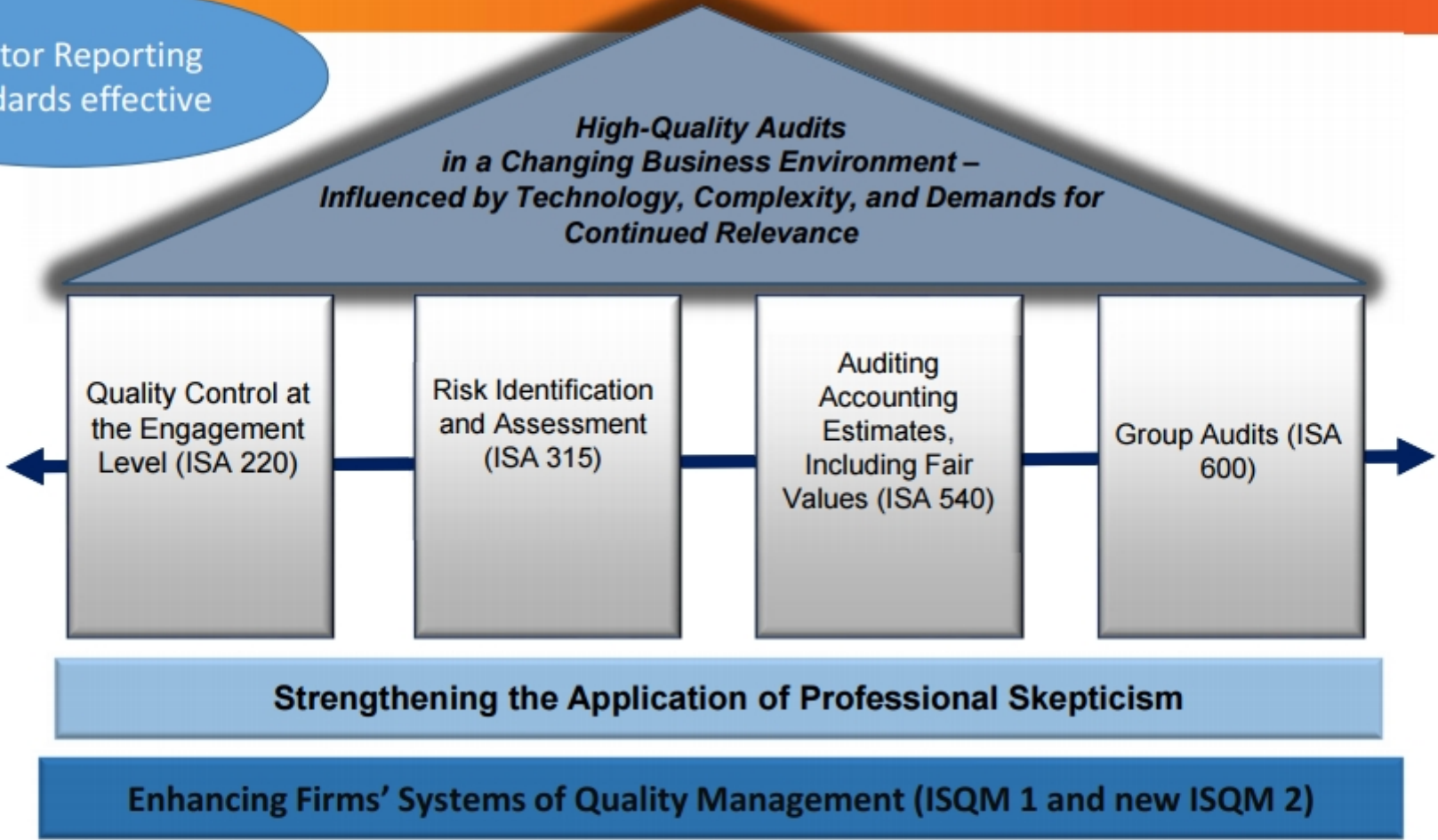
# Questions





## The IAASB's Work in 2015–2019 to Support Audit Quality

Auditor Reporting Standards effective



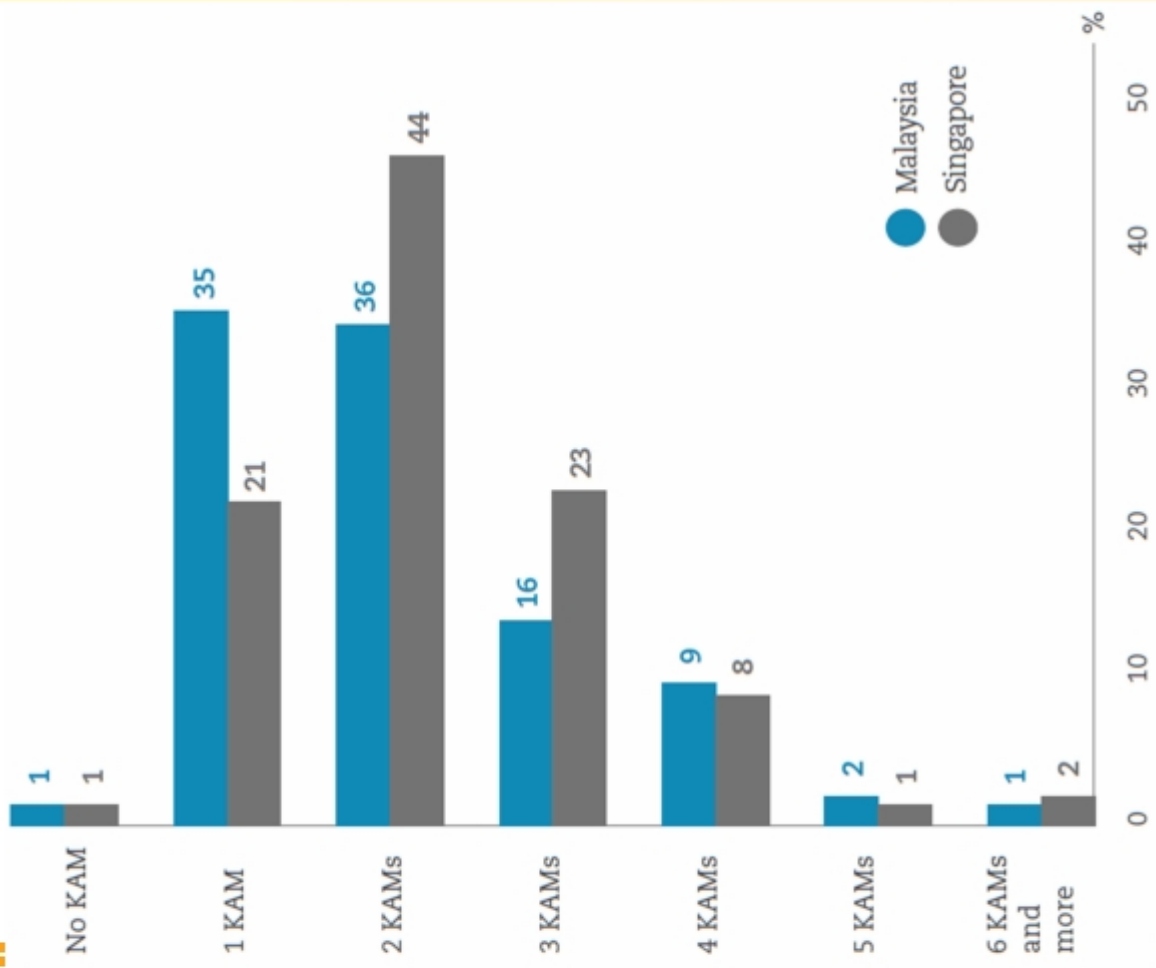


2012-2014  
**New auditor's  
report**









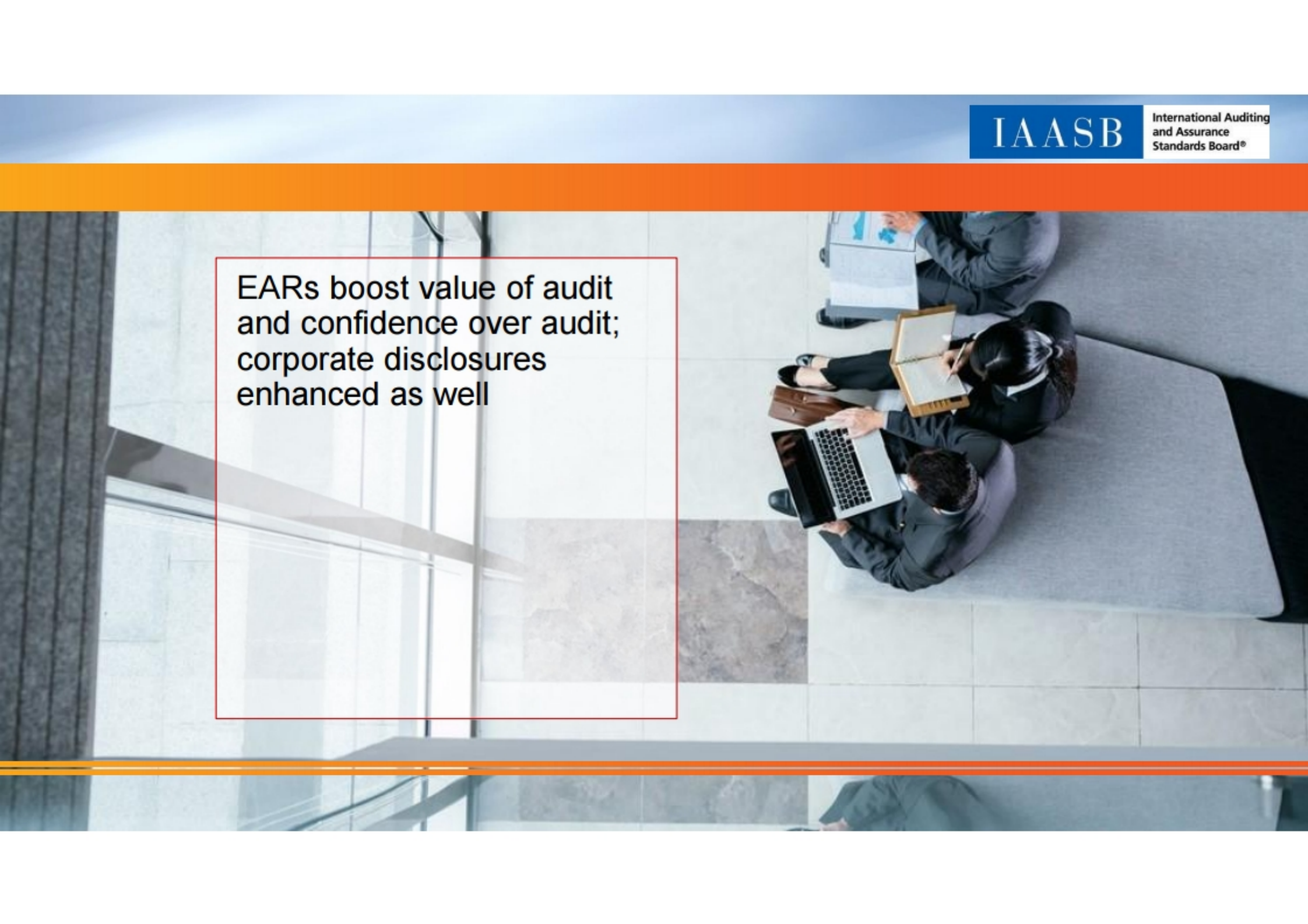
S'pore

**2.3**

M'sia

**2.1**

UK  
**4.2** 1<sup>st</sup> year  
**3.9** 2<sup>nd</sup> year

An overhead photograph of three business professionals in a meeting. One person is using a laptop, another is writing in a notebook, and a third is holding a document. They are seated around a light-colored table in a modern office setting with large windows in the background.

EARs boost value of audit  
and confidence over audit;  
corporate disclosures  
enhanced as well



# 89%

of investors will read EAR before  
the financial statements

*“KAMs made it easier for me to identify key investment risks.”*

*“KAMs help me understand the hidden risks and... how and what measures management had taken to address the issues.”*



Which best represents  
your views?



Investors

65%

EAR is **an improvement**  
over the old auditor's report

EAR is **less preferred**  
than the old auditor's report

5%

**I do not have a preference**  
between EAR and old auditor's report

30%



Audit Committees

76%

5%

19%

Which best represents  
your views?

EAR is **an improvement**  
over the old auditor's report

EAR is **less preferred**  
than the old auditor's report

**I do not have a preference**  
between EAR and old auditor's report



Investors

65%

5%

30%





Audit Committees

57%

64%

56%

Did EAR result in you having  
moderately to significantly...

deeper insights into  
**financial reporting risks?**

deeper insights into  
**how auditors conduct audits?**

more confidence in the  
**quality of audits** in Singapore?



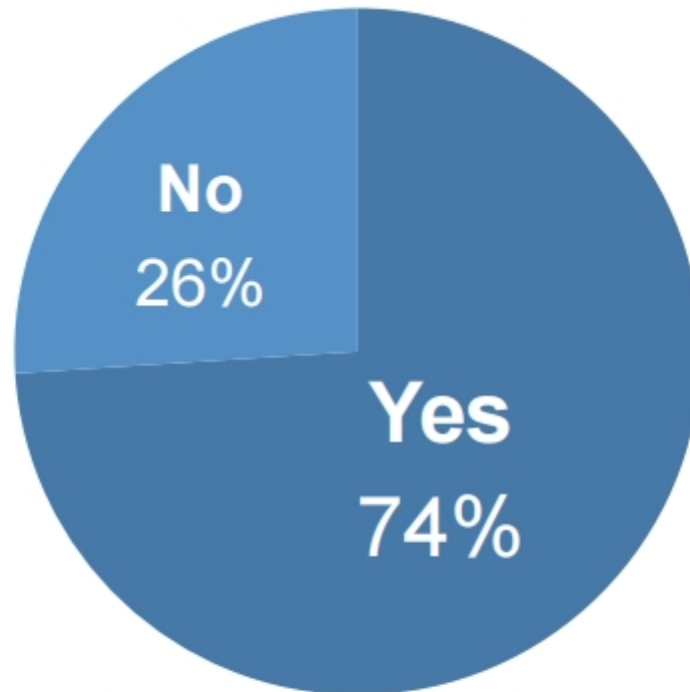
Investors

64%

60%

57%

KAMs led to **more robust discussions** with  
management and auditors



# 40%

of financial statements include  
**more (and in greater  
depth) disclosures** on  
areas covered by KAMs



FY2016

FY2015

Management has performed cost studies, taking into account the costs to date and costs to complete each project.

Management has reviewed the status of such projects and is satisfied that the estimates to complete are realistic and reasonable.

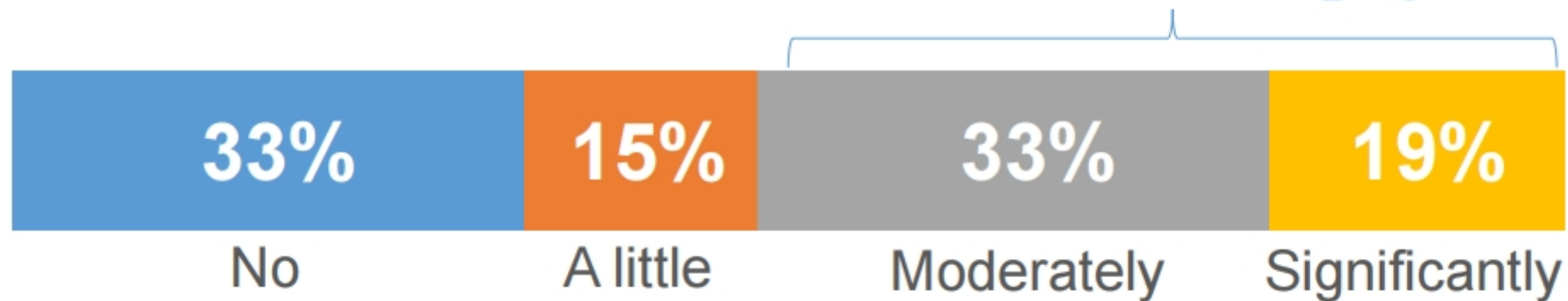
The key judgements and accounting estimates relate to (1) the estimation of total estimated cost to completion which impacts the total budgeted cost and the % of completion; and (2) the appropriate allocation of land and development cost between the commercial and residential components.

The cost to completion have been estimated by management after considering the remaining work to be done and the estimated total cost based on contracts awarded or experience from comparable past projects.

The allocation of land cost to residential and commercial components within the same development is based on relative estimated sales value of the finished commercial and residential components. Development costs have been allocated between the two components based on specific cost as determined by quantity surveyor or by floor area.

Did the EAR process result in board/management making improvements to disclosures in financial statements (FS)?

Survey of Audit Committees: **52%**



# ACs voluntarily reported their views too

IAASB

International Auditing  
and Assurance  
Standards Board®

Letter by **ACRA, MAS and SGX** on 24 Jan 2017  
Encourage audit committees (ACs) to **disclose their views on issues**

33%

of 180 annual reports have voluntary  
reporting by audit committees

53%

provided further  
insights beyond KAMs

47%

were similar to KAMs



# An example of complementary reporting by AC

IAASB

International Auditing  
and Assurance  
Standards Board®

## Audit committee's report

The audit committee considered and evaluated the appropriateness of the Group's revenue recognition policies. The audit committee, with the assistance from internal auditors, oversaw the implementation of the billing system which was put into effect in the first quarter of 2015.

The audit committee reviewed the revenue performance each quarter and compared the performance with that for the corresponding period of the preceding year and quarter.

Management has given reasonable and satisfactory explanations on the variances observed.

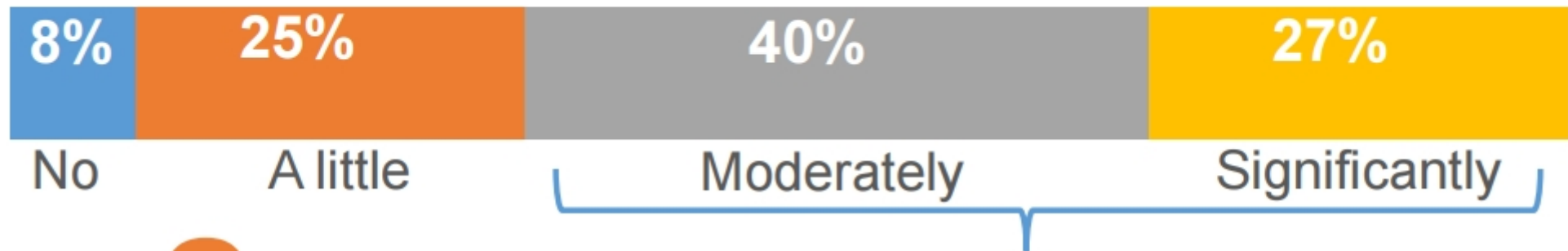
## Auditor's Report

We performed the following audit procedures amongst others:

- Obtained an understanding of the Information Technology (IT) and manual controls surrounding revenue systems and processes such as capturing and recording revenue transactions, authorisation of rate changes and the input of such information into the billing systems;
- Tested a sample of customer bills and checked these to cash received from customers;
- Tested end-to-end reconciliation from billing systems to accounting system including verifying material revenue adjustments passed into the accounting system;
- Tested the allocation of revenue to separately identifiable components of multiple element arrangements, particularly in relation to transactions that include the delivery of handset combined with a service element in the contracts, as well as the timing of the revenue recognised;
- Evaluated appropriateness of revenue recognition policies

To allow holistic representation of issues

Is it important to you that audit committee (AC) **report its views on KAMs?**



Investors


67%

***“I think it’s very important for AC to put in their commentary on the KAM, because it’s a way to show how they (have) discharged their duties.”***

***“I looked at an AC report for a UK-listed company and quite liked it. It shows you what they have done, which are extensive...”***





A photograph of a meeting room with large windows. In the foreground, two men are shown in profile, facing each other. The man on the left is wearing glasses and has his hand near his chin. The man on the right is also in profile. In the background, several other people are seated at a long table, some looking at laptops. The scene is brightly lit, suggesting a modern office environment.

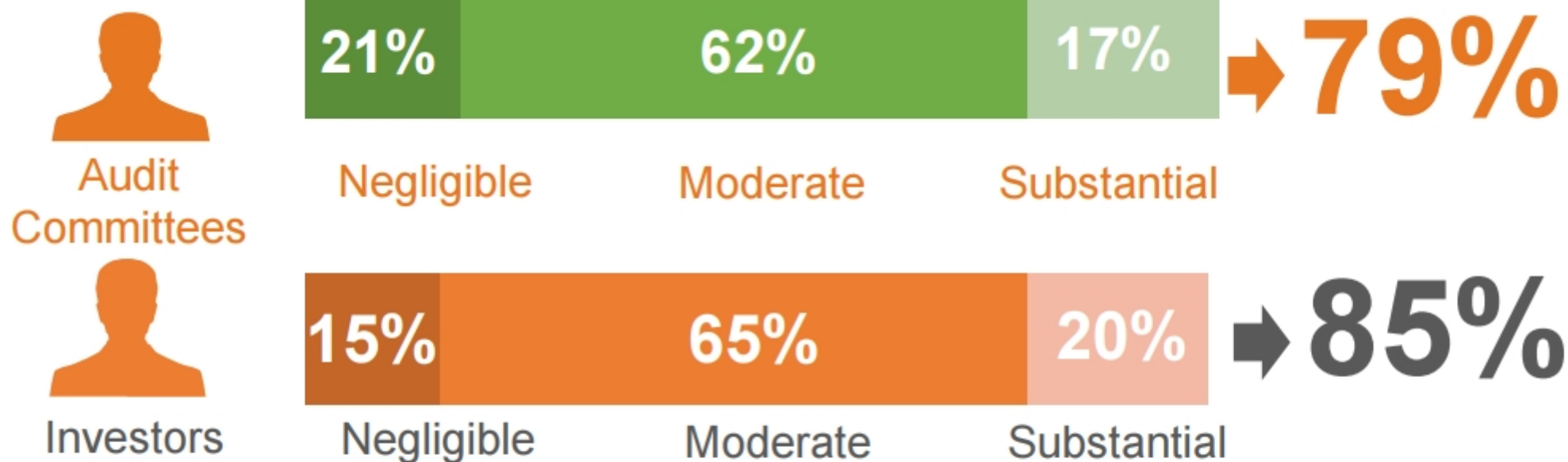
Auditors spent more time  
engaging the audit  
committees and  
management

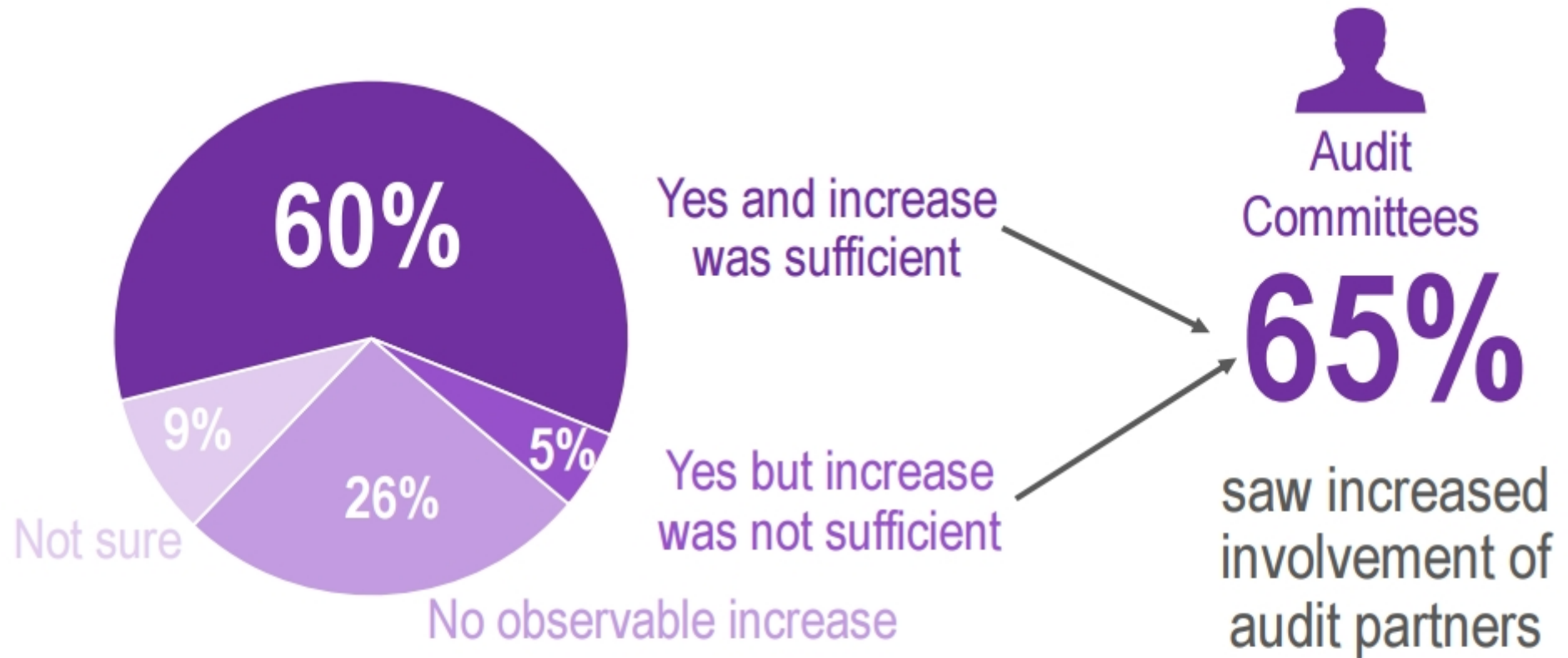
# Auditor's incremental efforts were acknowledged

IAASB

International Auditing and Assurance Standards Board®

The extent of auditors' incremental efforts in reporting KAMs?



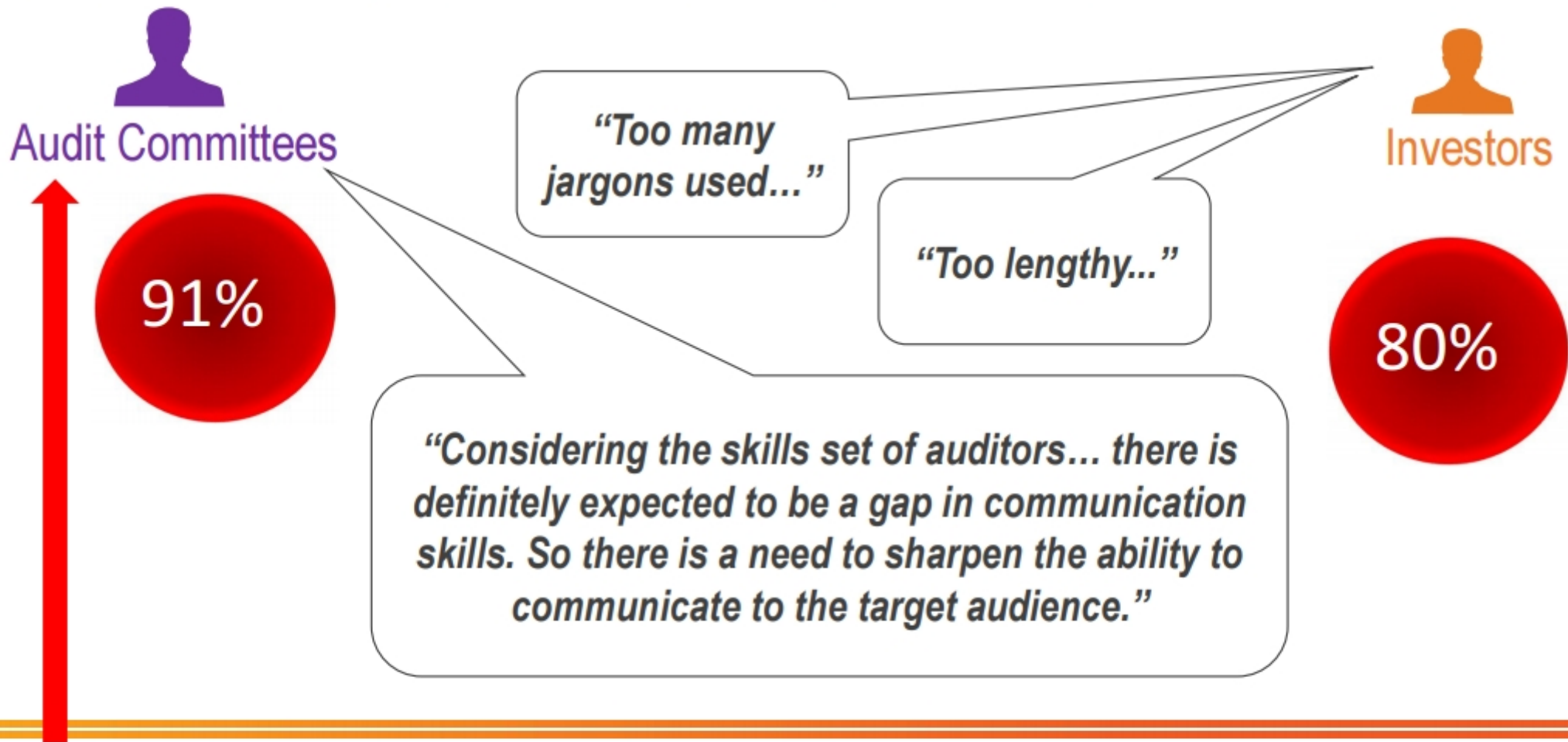




Can the EAR be further improved?

MIND THE GAP

# Are KAMs drafted in a way that is easily understood by investors?



“ How simplified can you be? This is not selling a commodity for example a bottled drink. It is [the auditor’s] professional opinion; I think we have to respect that. ”

“ I think [this is] because we assume and we are involved [in] the discussion. So, to us it is very clear, but actually, if you take a look at it from the other party’s [perspective], it may not be as clear because they don’t have all the information.’ ”

Focus group participants, audit committee



Are KAMs sufficiently tailored to help investors understand the challenges

IAASB

International Auditing  
and Assurance  
Standards Board®



faced by the auditor?

Audit Committees

92%



Investors

62%

**BOLDER  
INSIGHTS**

“ [Effectiveness of KAMs is] very dependent on how the auditors use the language... [if] the language is too [boilerplate], then it goes back to the same thing. Because previous reports were very much a binary pass/fail. So, if the language is again compromised, then... it's not really going to highlight the key audit matters.’ ”

Focus group participant, audit committee

## Generic

We have identified sales cut-off to be significant because of the higher level of risk that revenue is recognised before the transfer of risks and rewards of ownership of goods to the customers, particularly when the sales transactions are close to the year end.

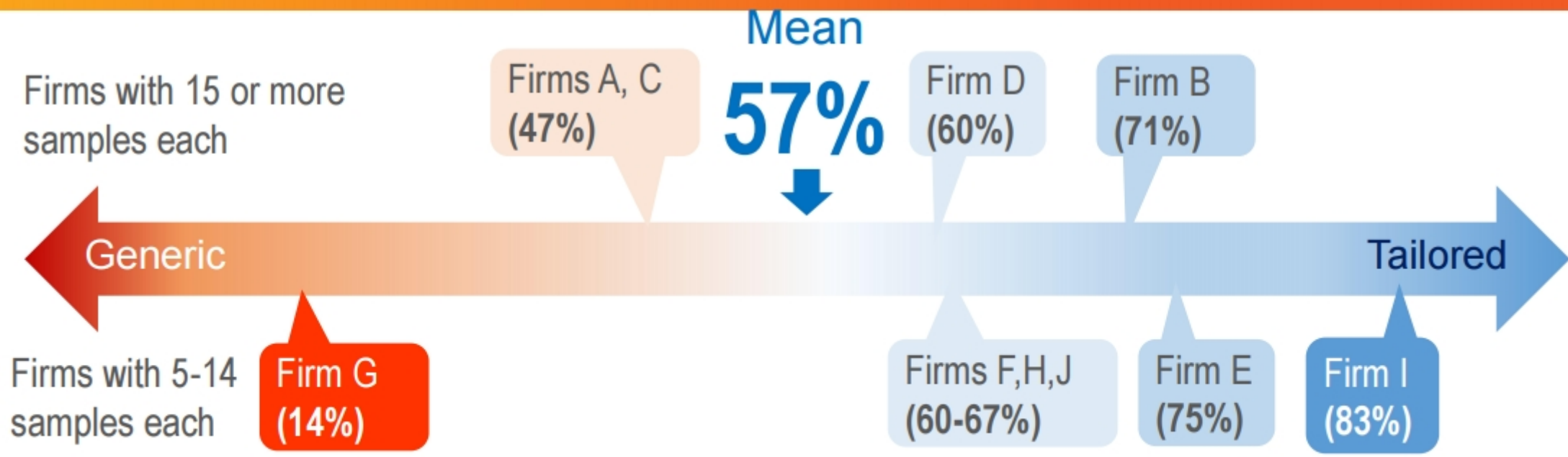
## Tailored

The Group's revenue recognition policy is to recognise the revenue upon the transfer of significant risks and rewards of ownership of the goods to the customer, which generally coincides with delivery and acceptance of the goods sold. This policy also applies to the sale of consignment goods.

The timing of the transfer of the risks and rewards of the goods to the buyers (including products sold by consignees to end customers) is defined by the specific delivery terms agreed upon with the customers. As the **Group arranged shipment under various shipping terms across its operating markets, any lapse or delay in the monitoring of the shipment status will affect the timing of revenue recognition**, resulting in misstatement of revenue recorded in the financial statements. In addition, part of the **remuneration of directors and key management personnel of the Group was based on the performance-related profit-sharing bonus scheme**. Accordingly, as there is a risk that revenue could be overstated resulting from pressure to achieve performance targets, we have identified this matter as a key audit matter.

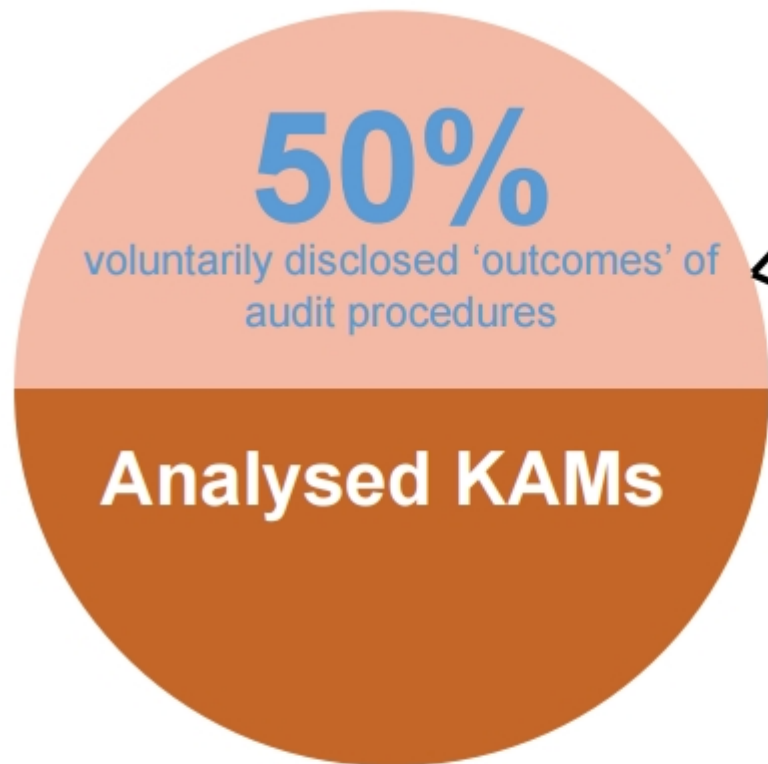


# Extent to which KAMs were tailored varied..



**The extent to which KAMs were tailored varied within the same firm**

<sup>1</sup> Firms are arranged alphabetically by the size of samples. Firm A had the most samples analysed (47) while Firm J had the least (5).



**96%** 'Basic conclusion'

*("We found the estimates to be reasonable and the disclosures to be appropriate")*

**4%** 'Bolder insights'

*("We found the discount rate to be at lower end of range"...)*

*"We found ....growth rate exceeded the historical performance. We have recomputed using reduced growth estimates and agree with management that no impairment is required."*

# Should auditors voluntarily disclose conclusions or findings on each KAM?

IAASB

International Auditing and Assurance Standards Board®



Audit Committees

62%



Investors

82%

*“(Disclosing outcomes to the KAMs is) tremendously useful, because (otherwise) it’s almost like reading a book, but skipping the final chapter”*



# Should auditors voluntarily disclose materiality used in the audit?

IAASB

International Auditing  
and Assurance  
Standards Board®



Audit Committees

55%



Investors

84%

*“The KAMs including materiality does help me narrow the risk of missing large misstatement. Where relevant and meaningful, I have raised it at the Annual General Meeting”*

# vs. critical judgements and estimates disclosures in F/S

4.8


Average no. of areas  
with critical  
judgements and  
estimates disclosed in  
financial statements by  
management

Difference  
should be  
reasonable and  
justified

2.3

Average no. of  
KAMs in EAR



A close-up photograph of a person's hand resting on a blue line on a red running track. The hand is positioned on the left side of the frame, with fingers slightly spread. The track surface is a reddish-brown color, and the blue line is a distinct, textured strip. A white line is visible at the bottom of the frame. The entire image is framed by a thin red border.

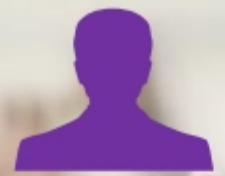
What lies ahead for EAR?





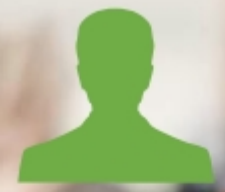
© ACCA





Audit Committees

71%



Investors

81%



“

If you are expecting the KAMs to cure everything, I think you're being sadly mistaken... At the end of the day... we have to [be] mindful that it's just one of the cogs in the wheel.

”

Focus group participant, audit committee



**Provide insights in AC reporting**

**Enhance disclosures in FS**

**Encourage S/H to discuss KAMs  
@AGM**

**Be proactive in discussing KAMs  
with auditors**

**Auditors**

**Make KAMs fit-for-purpose**

**Investors**

**Read KAMs**

**Challenge KAMs**

2012-2014

**New auditor's  
report**



A more holistic view of financial reporting and assuring the needs of users is required; a view that recognizes, assesses, and explores the entire financial reporting supply chain — that is, all of the people and processes involved in the preparation, approval, audit, analysis, and use of financial reports.



Fayez Choudhury  
Making Financial Reporting Better: Strengthening the Financial  
Reporting Supply Chain (2014)

# Questions





# ISA 540 (Revised)

Complete: Now  
effective



## Public Interest Issues Addressed

### Evolving audit risks due to a more complex business environment

- Financial reporting frameworks require more complex accounting estimates with high estimation uncertainty
- Complex accounting estimates becoming more prevalent and a fundamental part of financial statements for some entities

### Addressing audit quality and fostering improved exercise of professional skepticism

- Findings by audit inspectors raised significant concerns about audit quality for accounting estimates, and a need to address this by fostering a more independent and challenging skeptical mindset in auditors

### Realizing public interest benefits through improved communication and transparency

- Two-way dialogue between the auditor and those charged with governance about complex accounting estimates and those with high estimation uncertainty or subjectivity
- Communication with regulators or prudential supervisors

## Key Enhancements

- With respect to **external information sources**, conforming and consequential amendments to ISA 500
- New and enhanced **application material**
- Expanded **documentation** requirement
- Emphasized requirement when **communicating with those charged with governance**
- Enhanced requirements addressing **disclosures**
- Explicitly recognized **spectrum of inherent risk**
- Enhanced the **“stand-back”** requirement
- Introduced concept of **inherent risk factors**
- Enhanced **risk assessment** procedures
- Required **separate assessment of inherent risk and control risk**
- Emphasized the importance of the auditor’s decisions about **controls**
- Introduced **objectives-based work effort** requirements





## Key Enhancements: Inherent Risk Factors

Inherent risk factors are characteristics of conditions and events that may affect the susceptibility of an assertion to misstatement, before consideration of controls

ISA 540 (Revised) focuses on the inherent risk factors of

- **Estimation Uncertainty**
- **Complexity**
- **Subjectivity**

There may be other inherent risk factors that the auditor is required to take into account, for example

- Change
- Susceptibility to misstatement due to management bias or fraud

## Key Enhancements: Inherent Risk Factors (Continued)

**Complexity** - is the complexity inherent in the process of making an accounting estimate, such as when multiple data sets or assumptions are required or when complex models are used



**Subjectivity** - arises from inherent limitations in the knowledge or data reasonably available about valuation attributes

**Estimation Uncertainty** - is the susceptibility to an inherent lack of precision in the measurement of an accounting estimate. Estimation uncertainty influences the other inherent risk factors.

## Key Enhancements: Work Effort

Introduced **objectives-based work effort** requirements which are directed to:

- Methods (including specifically when complex modelling is involved)
- Assumptions
- Data

Kept extant ISA 540's testing strategies

Enhanced approach for developing an auditor's range

Strengthened the requirement when management has not appropriately understood or addressed estimation uncertainty

Clarified that the auditor is also required to comply with the relevant requirements in ISA 500



## Key Enhancements: Focus on Disclosures

Changed the objective of the standard to obtain sufficient appropriate evidence about whether both "accounting estimates and related disclosures" .... are "reasonable" in the **context of the applicable financial reporting framework** (was previously whether disclosures are "adequate")

Enhanced requirements to obtain audit evidence about whether the related disclosures are "reasonable"

Enhanced the overall evaluation requirement to determine whether the related disclosures are "reasonable" in the context of the applicable financial reporting framework, or are misstated

## Other Enhancements

Enhanced the “**stand back**” requirement

- Added an evaluation of the audit evidence obtained regarding the accounting estimates, whether corroborative or contradictory

New and enhanced  
**application material**

Expanded **documentation**  
requirement

Emphasized requirement when  
**communicating with those charged  
with governance**

Conforming Amendments

## Professional Skepticism

### How does ISA 540 (Revised) enhance the auditor's exercise of professional skepticism?

A requirement to design and **perform further audit procedures in a manner that is not biased** towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory

Requirement to “**stand back**” and evaluate the audit evidence obtained regarding the accounting estimates, including both corroborative and contradictory audit evidence

Use of **stronger language** (“challenge”, “question” and “reconsider”) in application material to reinforce the importance of exercising professional skepticism

Focus on **management bias** in risk assessment (other inherent risk factors include misstatement due to management bias or fraud) and work effort



## Scalability

### How is ISA 540 (Revised) scalable?

The standard emphasizes that the **nature, timing and extent of risk assessment and further audit procedures will vary** based on the assessment of the risks of material misstatement

The standard includes **specific paragraphs in the application material that demonstrate how ISA 540 (Revised) is scalable** in the risk assessment and the responses to the assessed risks of material misstatement

The standard emphasizes that **the auditor's further audit procedures need to be responsive to the reasons for the assessment of the risks of material misstatement** at the assertion level and that the auditor's further audit procedures shall take into account that the higher the assessed risk of material misstatement, the more persuasive the audit evidence needs to be

Click to edit Master title style

- **ISA 540 (Revised) implementation webpage:**  
<http://www.iaasb.org/projects/isa-540-revised-implementation>
- **Available now**
  - Basis for Conclusions
  - 'At a Glance' publication
  - Flowcharts
  - Webcasts
  - Answers to FAQs
  - Illustrative examples, including on how the requirements are scalable



# Questions





# ISA 315 (Revised 2019)

## *Identifying and Assessing the Risks of Material Misstatement*

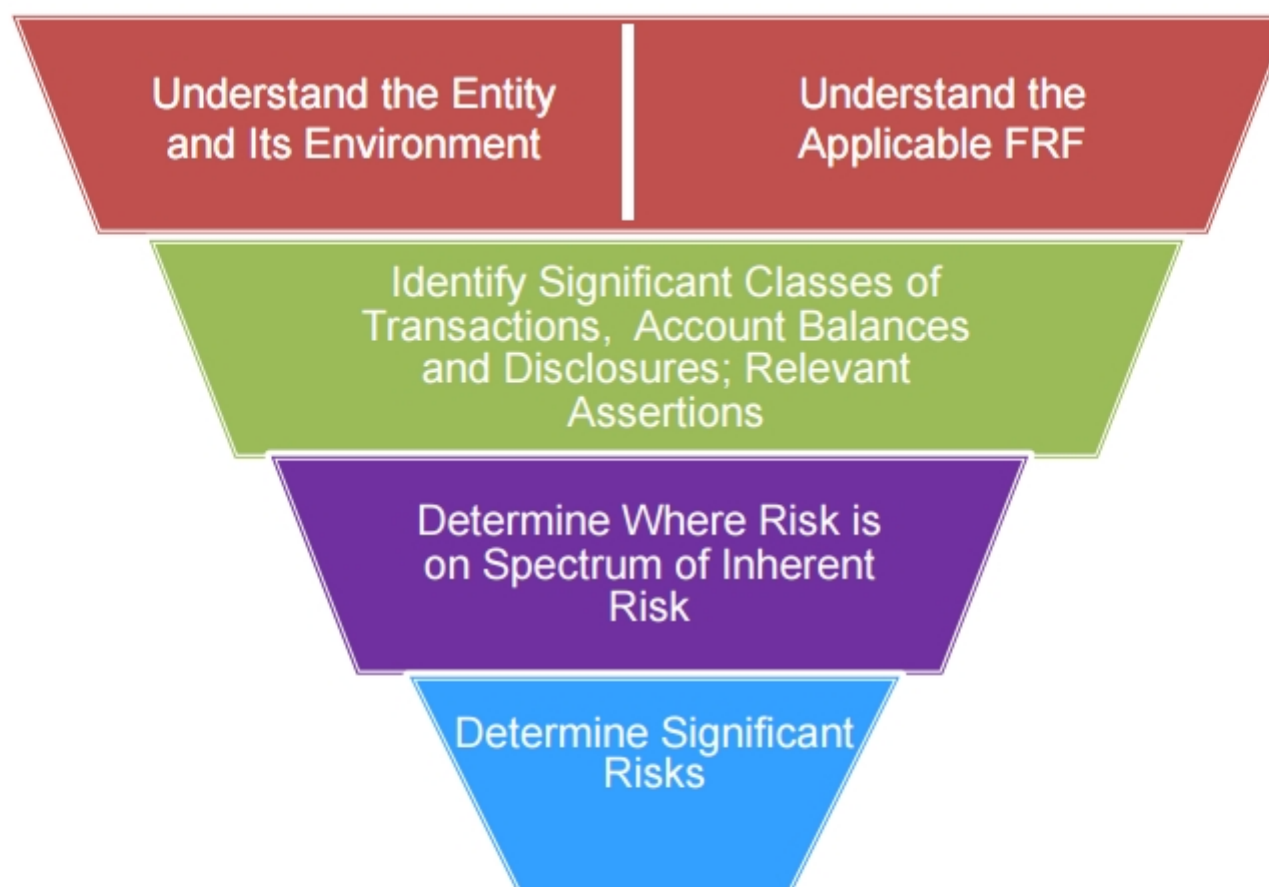


## ISA 315 (Revised 2019) — Key Changes and Enhancements



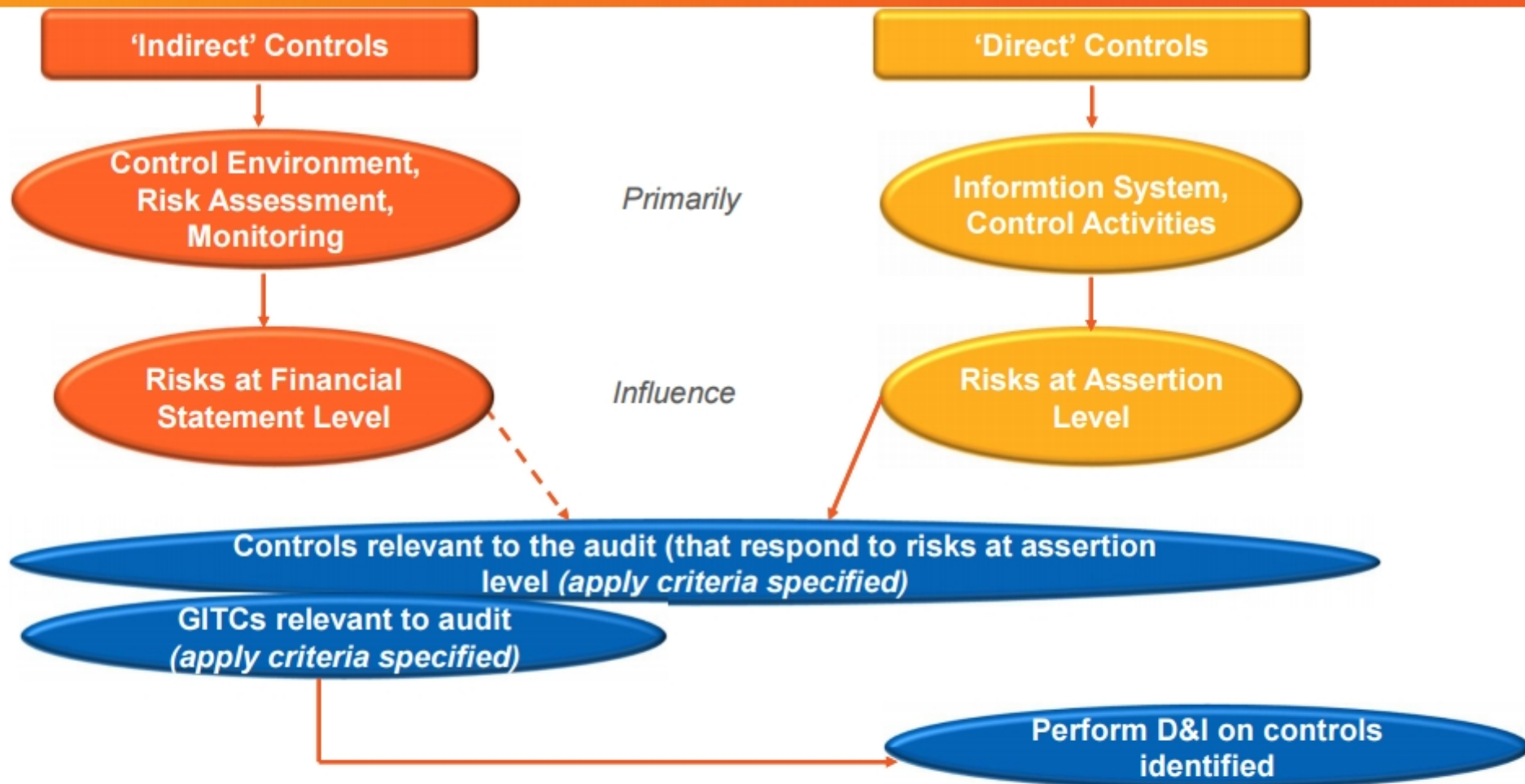
- Complete - final standard **published December 2019**
- **Effective for periods commencing on or after Dec 15, 2021**
- Significant focus on:
  - ***Understandability*** of the requirements
  - ***Complexity***
  - ***Scalability***
- Balance between prescriptiveness and clarifying nature and extent of work effort
- **New presentation style:**
  - Focus on “what do I do” in the requirements
  - Enhanced explanation of “why” procedures are required
  - Tables to help with clarity; boxes to distinguish examples

## ISA 315 (Revised 2019)–Risk Assessment Process





# Understanding the Entity's System of Internal Control



## Key Changes and Enhancements

- Focus on **iterative nature of the standard**
- Separate assessment of inherent and control risk to focus on underlying risks
- Focus on technology
- Clarification of aspects of understanding the system of internal control
  - Distinguished work effort between “direct” and “indirect” components
  - **Made clear which controls need to be understood in the control activities component**
    - Still can be up to auditor’s professional judgment but more guidance added as to what this may be
- New concepts introduced to assist with identifying and assessing risks of material misstatement (**enhanced risk assessment – requirements and application material**):
  - **Spectrum of inherent risk**
  - **Inherent risk factors (including fraud risk factors as they relate to inherent risk)**
  - Significant classes of transactions, account balances and disclosures & relevant assertions
  - **Clarified concept of “significant risk” to encourage more consistency**  
(i.e., likelihood OR magnitude)



## Implementation Activities

- Currently underway
- First Time Implementation Guide
- Fact Sheets
  - General fact sheet published with standard
- Questions & Answers
- Webinars
- Focused Education Sessions



# Quality Management Projects



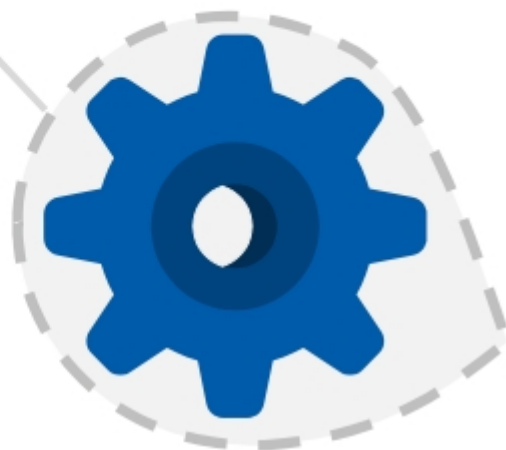


## Quality Management - Issues Identified that Needed to be Addressed

- Firm **governance and leadership's responsibilities** and accountability for quality
- Firms' **monitoring process**
- The **engagement partner's responsibilities**, including clarity regarding appropriate direction, supervision and review
- **Undue reliance** on networks
- Increasing **demand for communication** with external stakeholders, including through transparency reports
- The application of the standards by small and medium practices (SMPs), i.e., **scalability**
- **Engagement quality control reviews** (engagements subject to review; eligibility of the reviewer; and performance and timing of the review)
- Other issues (e.g. two-way communication within the firm; matters related to human resources; and increasing use of alternative delivery models)

## Quality Management: Three Standards

ISQM 1: The firm's system  
of quality management



ISA 220 (Revised):  
Quality management  
at the engagement  
level



ISQM 2: Engagement  
quality reviews *(part of  
the firm's system of quality  
management)*



## Proposed ISQM 1

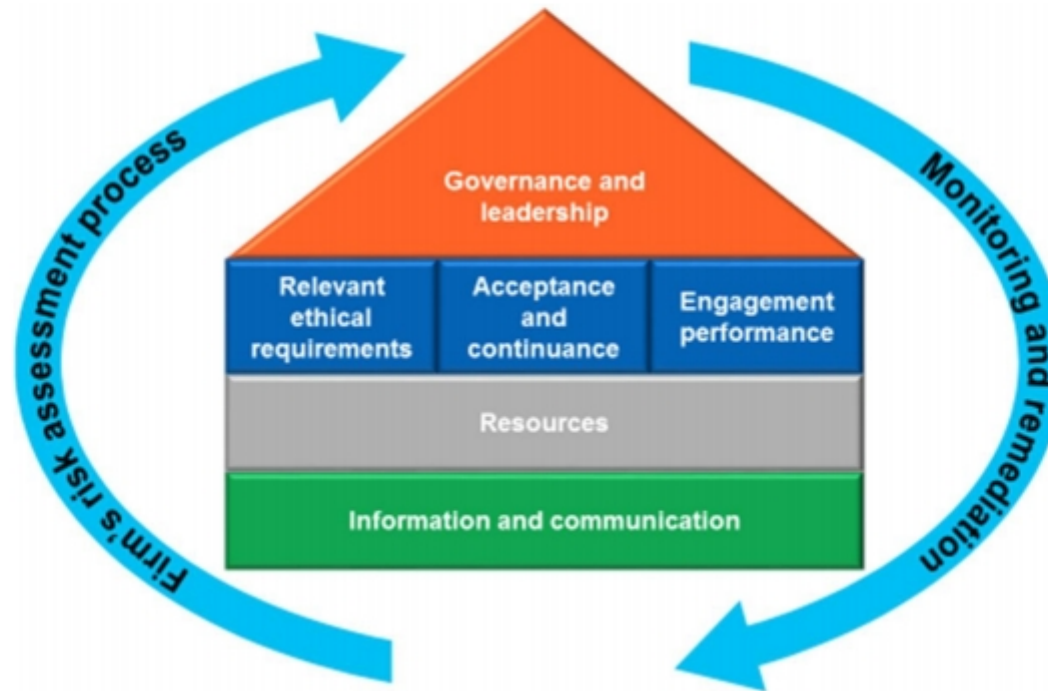
Exposure Draft  
February 2019  
Comments due: July 1, 2019

*International Standard on Quality Management*

**Proposed International Standard  
on Quality Management 1  
(Previously International  
Standard on Quality Control 1)**

*Quality Management for Firms  
that Perform Audits or Reviews  
of Financial Statements, or  
Other Assurance or Related  
Services Engagements*

## ED-ISQM 1: The Components



A system of quality management is a continual and iterative process and is responsive to changes in the nature and circumstances of the firm and its engagements. It also does not operate in a linear manner. (Para 8 of ED-ISQM 1)



## The Most Significant Change

### The new risk-based approach

Scalable to the nature and circumstances of the firm and the engagements it performs



Proactive

**A more robust system of quality management tailored for the firm**

## Proposed ISQM 1: The Firm's Risk Assessment Process

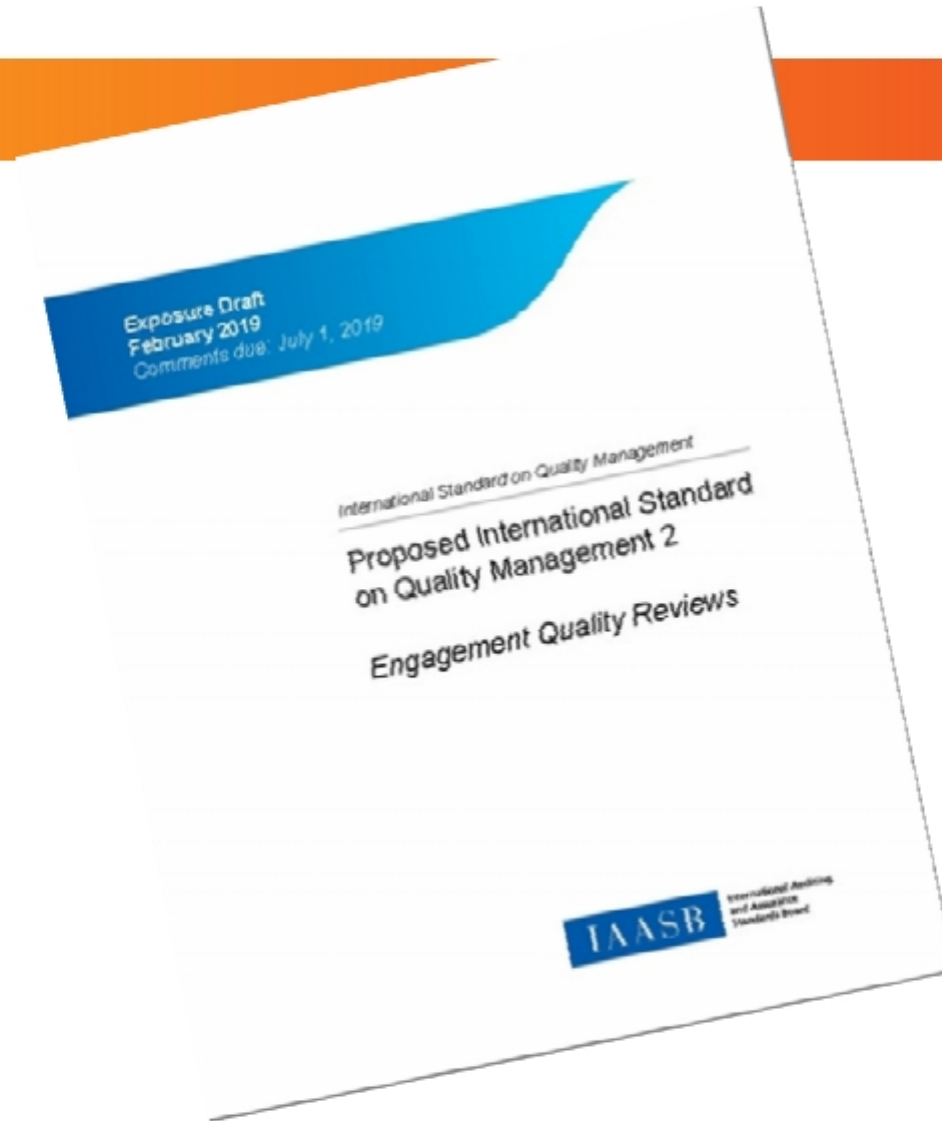


- Quality objectives required by ED-ISQM 1 (comprehensive)
  - Additional quality objectives beyond those required by ED-ISQM 1, when those objectives are necessary to achieve the objective of the standard
- 
- The firm identifies the quality risks that:
    - Have a reasonable possibility of occurring
    - If they were to occur, may individually or in combination with other quality risks, have a significant effect on the achievement of a quality objective(s)
- 
- The firm assesses the identified quality risks
- 
- Responses required by ED-ISQM 1
  - Additional responses designed and implemented by the firm (always required as responses in ED-ISQM 1 are not sufficient to address all quality risks)

## ED-ISQM 1: General Feedback from Respondents

- Support for a quality management approach, but concerns with how it is incorporated in ED-ISQM 1
  - Concerns that implementing standard will be resource intensive, with limited benefit for SMPs
- Concerns about scalability, prescriptiveness, length and complexity of the standard
  - Strong call for additional support materials and guidance, particularly guidance supporting first time implementation, SMPs, monitoring and remediation, root cause analysis and documentation
- Firm's risk assessment process – identified as particularly challenging to implement
  - Concerns about complexity of the process and quality risk threshold
  - Suggestions that approach needs to encourage more proactivity

## Proposed ISQM 2





## Relationship Between ISQM 1 and ISQM 2



### ISQM 1:

Requirements for the selection of engagements for engagement quality review

**Engagement quality review required?**

Yes

No

### ISQM 2:

- Appointment and eligibility of engagement quality reviewer
- Performance of engagement quality review
- Documentation of engagement quality review

ISQM 2 does not apply

## Key Proposals in the ED

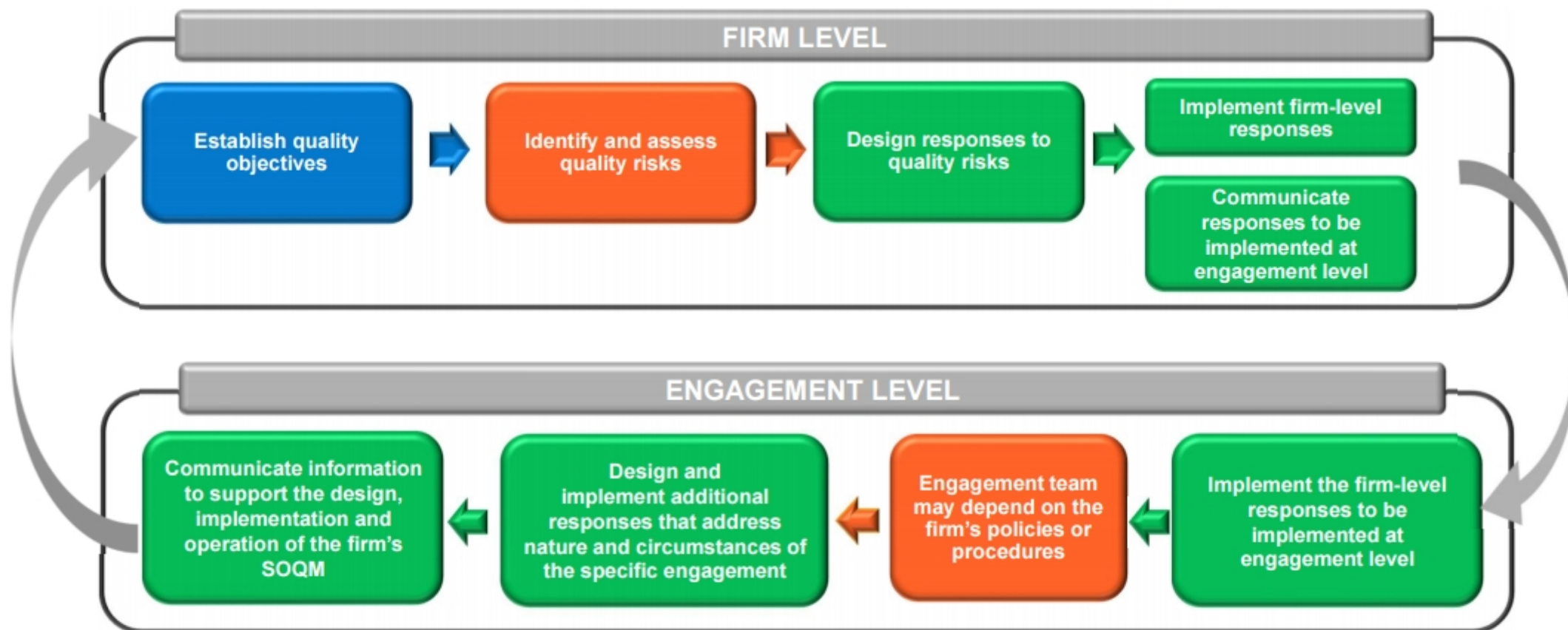
- Clarified requirements for identifying engagements requiring an EQ review (ED-ISQM 1)
- Enhanced eligibility requirements for EQ reviewers
- More robust requirements for performance of EQ reviews
  - Enhanced focus on significant matters and significant judgments
  - Evaluation of the exercise of professional skepticism by the engagement team
  - Other enhancements
- Enhanced documentation requirements

## Proposed ISA 220 (Revised)



## Linkage Between ED-ISQM 1 and ED-220

### Relationship Between Quality Management at the Firm Level and Engagement Level

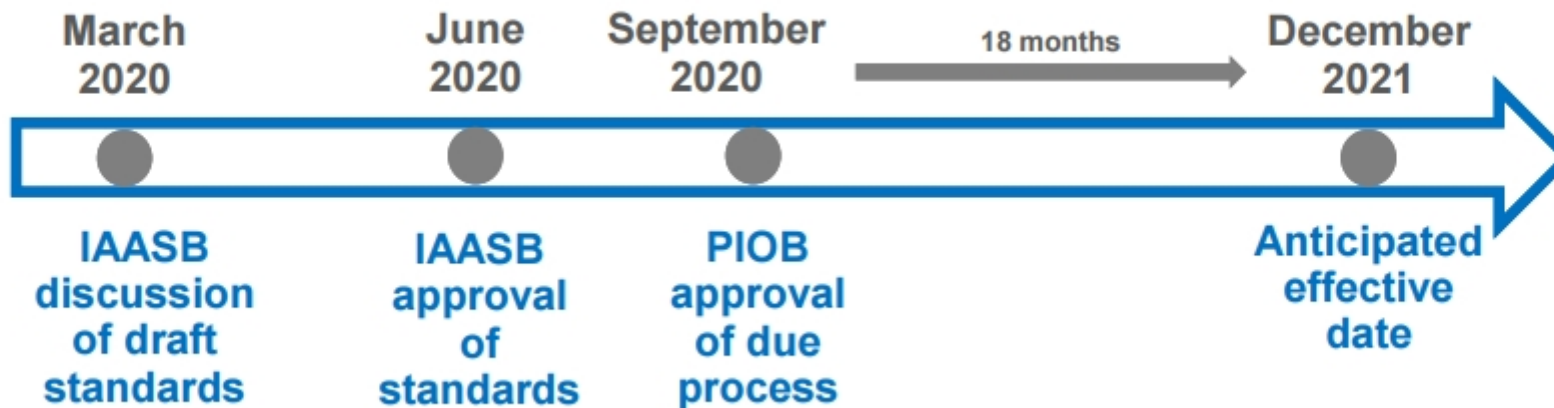




## ED-220: Key Proposals

- Key focus on the engagement partner's involvement in the audit as the basis for managing and achieving quality
- Stronger emphasis on public interest, professional judgment and professional skepticism
- Revised definitions of engagement partner and engagement team
- New focus on leadership responsibilities for managing and achieving quality
- Enhancements to address human, technological and intellectual resources
  - Sufficiency and appropriateness of resources for engagement
  - Take appropriate action if resources are insufficient or inappropriate
- Engagement performance
  - Emphasis on importance of tailoring nature, timing and extent of direction, supervision and review to the nature and circumstances of the engagement
  - Additional specificity as to what the engagement partner should review
- New stand-back requirement for the engagement partner (linked to taking overall responsibility)

## Expected Timelines



**Assumptions:** Approval in June 2020; 18 months to effective date (if agreed to)

## How to Comment

[www.iaasb.org/quality-management](http://www.iaasb.org/quality-management)

### Other useful resources:

- Draft Examples: How the Nature and Circumstances of the Firm and the Engagements It Performs Affect the Implementation of Proposed ISQM 1
- Draft Frequently Asked Questions Regarding Proposed ISQM 1
- [Quality Management Webcast Series](#)
- [Proposed Quality Management Standards](#) video
- [Quality Management Standards and Small- and Medium-sized Practices](#) video

# Other Projects and Initiatives





## Audit Evidence

- Audit Evidence Working Group (AEWG) formed 1<sup>st</sup> quarter 2019 – to explore issues related to audit evidence (including ISA 500, and other ISAs)
- June 2019 IAASB initial discussions
  - Further information gathering and research activities needed, including outreach
  - Establish an '*Audit Evidence Workstream Plan*'
- Workstream plan finalized September 2019
  - Scope broader than technology, i.e., include professional skepticism and sources of information
  - Targeted outreach: including regulators, firms, public sector and IFAC member bodies
  - Outreach activities – commencing last quarter of 2019
  - Overall objective – develop informed recommendations to Board (1<sup>st</sup> half of 2020), may include standard-setting or other activities

## Technology

- Technology Working Group (TWG) replaced Data Analytics Working Group (DAWG)
- IAASB June 2019 Board discussions:
  - Highlighted pressing need for guidance – implications of applying extant ISAs when using automated tools and techniques
  - ‘*Technology Workstream Plan*’ (TWP) to set out planned activities
- Workstream plan finalized September 2019
  - Outlines process to identify opportunities for a more immediate response – development of non-authoritative guidance
  - Listing of issues by priority
  - Timeline (up to Dec 2020)
  - Approval process for non-authoritative guidance still to be agreed
  - Coordination with other Task Forces/Working Groups (e.g. ISA 315 - FAQ to support final standard)

# Questions

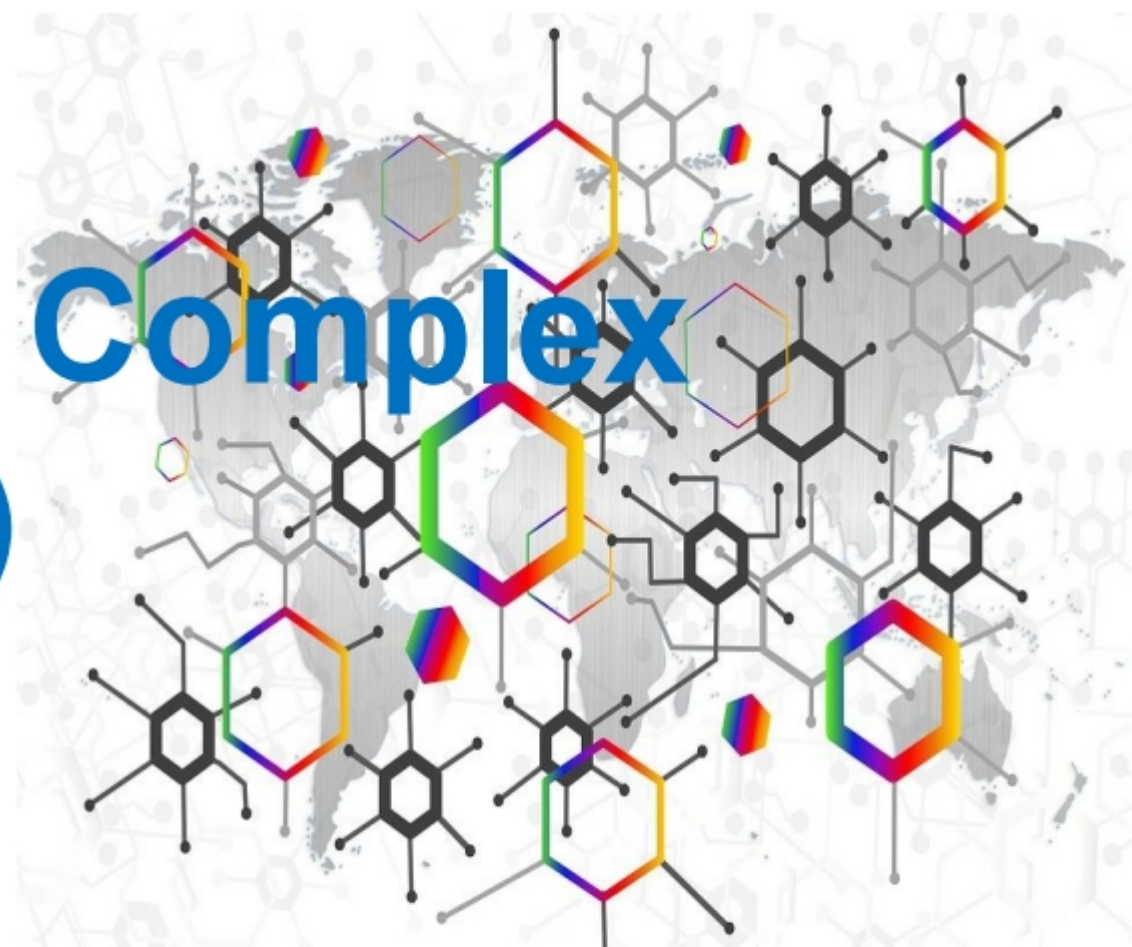




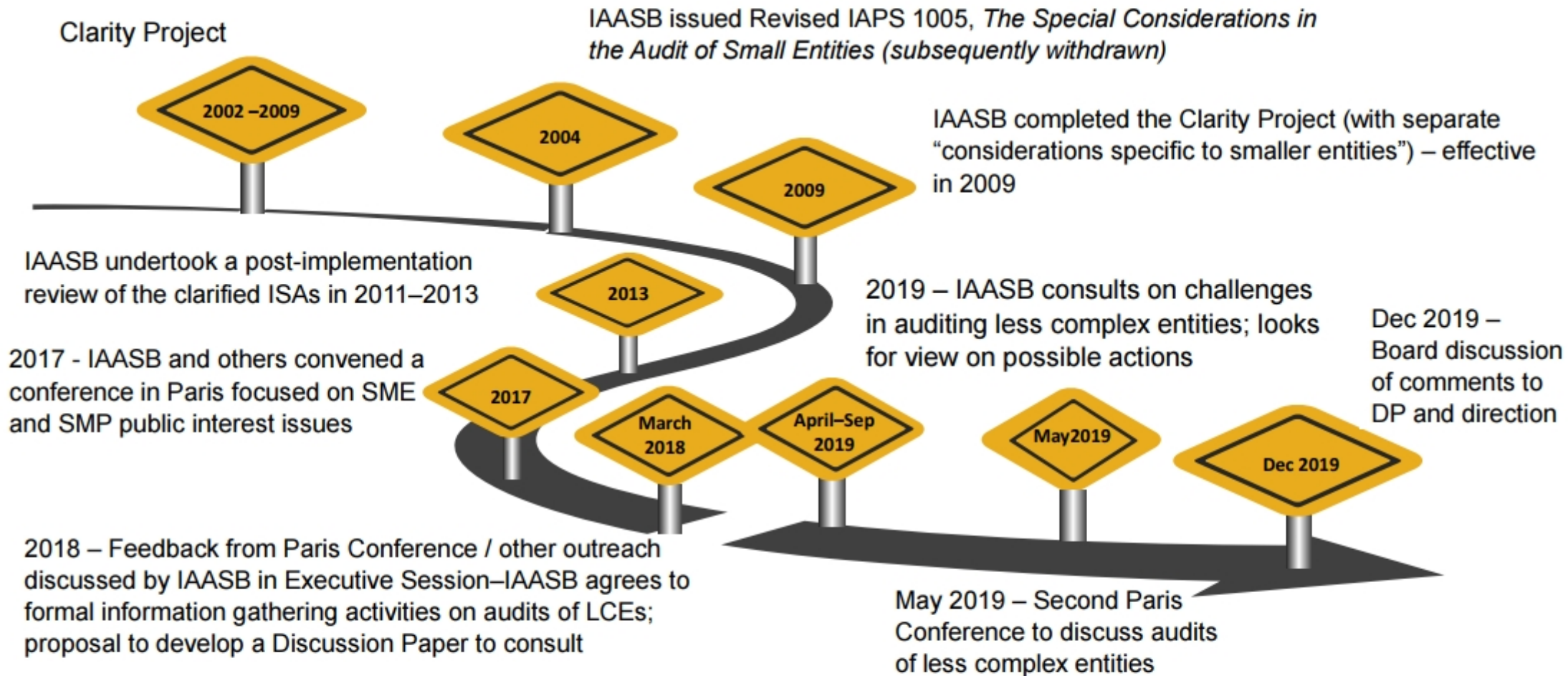
# Adequately Addressing Needs of Stakeholders



# Audits of Less Complex Entities (LCEs)



## The IAASB's Journey



## Audits of LCEs: An Overview

- Key topic for IAASB – increasing focus in this area
- Why? Ongoing concerns about scalability and proportionality, and complexity, of the ISAs
  - Need for a global solution; many jurisdictional developments which are not in the public interest
  - Need to keep standards fit-for-purpose for all our stakeholders while maintaining balance of robustness of standards
  - Board has recognized that more is needed than recent efforts
- LCE versus small- and medium-sized entity
  - Focus is on LCEs – still need to explore description
- Developed a Discussion Paper to advance the IAASB's thinking on an appropriate way forward
  - Challenges related to applying the ISAs in audits of LCEs
  - Possible actions – sets out various actions for stakeholder views
- Targeted outreach, including roundtables





## Discussion Paper

**Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs**

**Published on April 29, 2019  
Comments closed September 12, 2019**

**The IAASB has not yet decided on a future course of action and remains open minded.**

DISCUSSION PAPER  
COMMENTS DUE: SEPTEMBER 12, 2019



**Audits of Less Complex Entities:  
Exploring Possible Options to Address  
the Challenges in Applying the ISAs**



## Audits of LCEs: Discussion Paper and Beyond

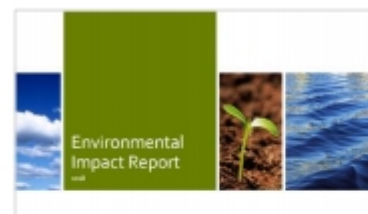
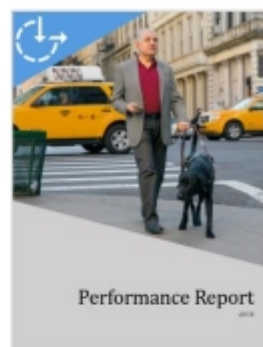
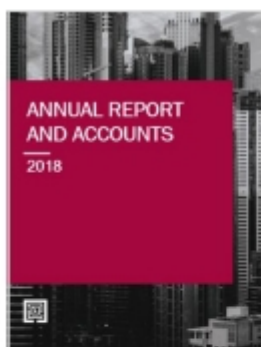
- LCE Paris Conference May 2019 – more than 75 people from 28 jurisdictions
- Discussion Paper Comment period closed on September 12, 2019
  - 93 responses received
  - IFAC and other surveys – more than 1700 responses (in particular from a stakeholder group IAASB traditionally doesn't hear from)
- Initial feedback discussed at Dec 2019 meeting
  - Feedback Statement published mid-Dec 2019
- Key deliverable: Recommendations on appropriate further actions
  - Board decision in first half of 2020
  - Standard-setting or other activities?
- Dedicated workstream in Work Plan for 2020–2021
  - LCE Working Group continues to develop recommendations for the IAASB's consideration

## Audits of LCEs: High-Level Feedback from Discussion Paper and Surveys

- Significant support for IAASB's efforts
    - Strong message: global solution needed
    - Highlighted urgent need for issues to be addressed
  - More work needed on describing what a “less complex entity” is
    - Agreement should be based on qualitative characteristics
    - Strong views that listed entities (and possibly other entities of public interest) scoped out
  - Ideal solution would be to revise all the ISAs – but recognition that this would be longer term project
    - Consideration should be given to something in the shorter term (e.g., a standard for auditing LCEs) – ie an ‘interim’ solution
  - Still mixed views on a separate standard for auditing less complex entities versus revising the ISAs
    - But recognition this may be needed in the interim
  - Support for guidance but predominantly in addition to other options (not as a separate solution)
-

## Extended External Reporting

- ‘EER’ encompasses all forms of reporting which go beyond simple financial statement reporting.



- EER is

more diverse

more qualitative

less mature

than traditional financial reporting, causing assurance practitioners to see it as being more challenging to assure.

## Enhancing Credibility and Trust

External professional services (including assurance) is one of four factors which enhance the credibility of EER reports and engender user trust.





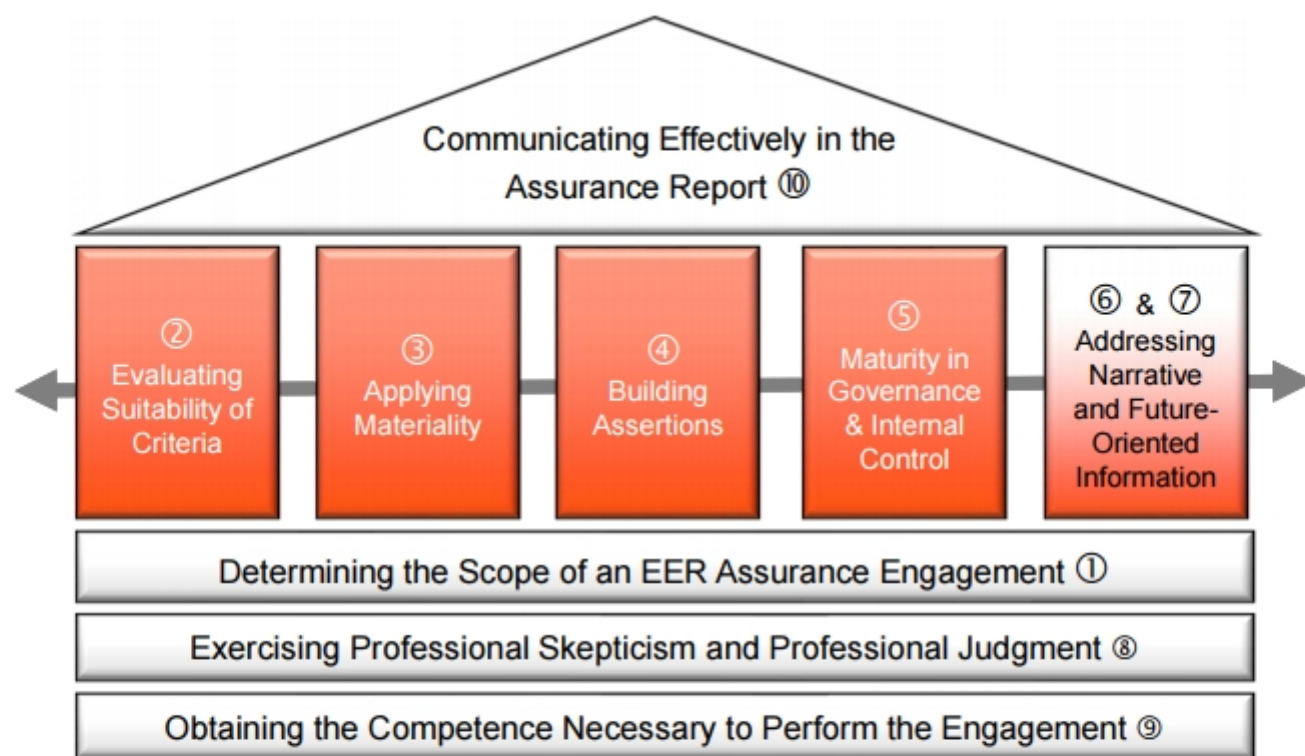
## IAASB's Response

- Feedback to a 2016 discussion paper suggested it was too early to develop further assurance standards
- IAASB is therefore developing non-authoritative guidance to address Ten Key Challenges for assurance engagements
- Key objective is to enable more consistent and appropriate application of ISAE 3000<sup>1</sup> to EER, such that users of EER can have greater trust in the resulting assurance reports
- Developing the guidance has required work to understand the approach to reporting, including the frameworks and concepts used
  - Liaising with members of the Corporate Reporting Dialogue
- Aim of the project is to make the guidance applicable to all types of reporting being issued today

<sup>1</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

## Challenges for Assurance

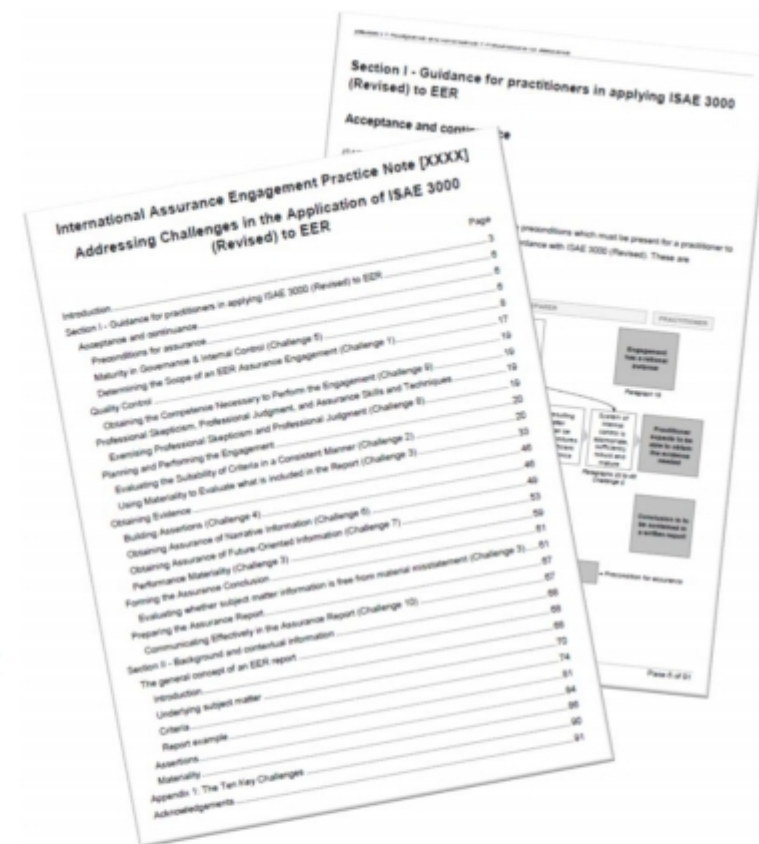
The EER Assurance House (under construction)



## Development of Draft Guidance



- Practical application material for assurance practitioners
  - Frameworks for working through complex judgments
  - Examples to show how assurance engagements can be done for different types of reporting
- Background contextual information
- Global series of discussion events in 2019 to gain wider input and feedback
- Plan to publish an exposure draft of guidance for public comment in February 2020



# Questions





## IAASB Strategy—Facing the Challenges Ahead

- Fundamental questions about continued relevance and quality of our standards
  - Growing expectations from standards; evolving environment (changing reporting requirements); increasing complexity and ever increasing rate of change in technology
- Competing calls from different stakeholders (Regulators → SMP's/SMEs)
- IAASB – IESBA coordination: commitment to coordinating, but independent work programs
- Real tradeoffs in terms of priorities, when considered against existing capacity
- Open questions on IAASB governance raised by the Monitoring Group (MG) consultation



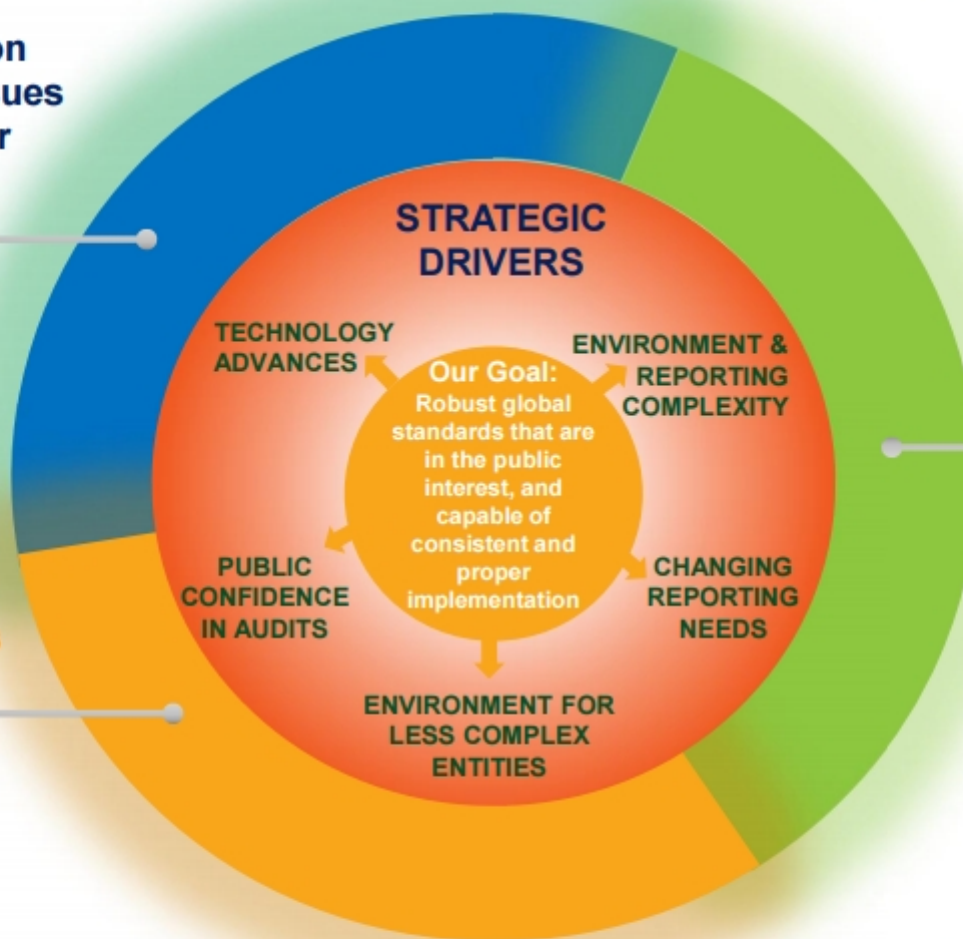
**The IAASB strategy will provide a clearer vision for navigating these challenges, a lens for prioritization, and a mechanism to provide public accountability for our goals.**

# Emphasizing the Public Interest and an Integrated Approach to our Objectives

Increasing the emphasis on emerging and ongoing issues to provide a foundation for high-quality engagements

Innovate our ways of working / broaden capabilities and capacity

Maintain and deepen our relationships with stakeholders



## Strategy and Workplan: IAASB's Current Work Plan





**International Auditing  
and Assurance  
Standards Board®**

[www.iaasb.org](http://www.iaasb.org)

IAPN.

ISA.

ISAE.

ISQC.

ISRE.

ISRS.

For copyright, trademark, and permissions information, please go to [permissions](#) or contact [permissions@ifac.org](mailto:permissions@ifac.org).