



Subject: Agenda for the 101st meeting of the AUASB
Venue: University of NSW, Level 6, 1 O'Connell Street, Sydney
Time: Wednesday 13 June 2018, 8.30am – 5.30pm

Note: Agenda papers marked

P	Distributed Previously
E	Enclosed
F	To Follow
T	To be Tabled at Meeting
V	Verbal Report

* NB: Agenda items 1, 2, 9 and 10 are closed sessions

Time	Agenda Item No.
8.30am	1. Preliminary Session* <ul style="list-style-type: none">(a) Welcome(b) AUASB Declarations of Interest(c) Approval of Minutes of Previous AUASB Meetings(d) Matters Arising from Previous Meetings(e) AUASB Speaking Register(f) Update from the AUASB Chair(g) NZAuASB Update
9:15am	2. IAASB National Standards-Setters Meeting Debrief and ways forward
9:45am	3. Review of June 2018 IAASB Papers <ul style="list-style-type: none">(a) ISA 315
10:30am	<i>Break</i>
10:45am	<ul style="list-style-type: none">(b) Emerging Forms of External Reporting(c) ISQC 1(d) ISA 220(e) Audit Evidence(f) ISA 540
1:00pm	<i>Lunch</i>



Time	Agenda Item No.
1:45pm	4. Audit Quality Update
2:15pm	5. AUASB Technical Work Program Update <ul style="list-style-type: none">(a) AUASB Technical Work Program Update(b) AUASB Glossary(c) Update of Use of Technology in the Audit project
3:15pm	6. Monitoring Group Consultation Forums
3:30pm	7. AUASB Forward Agenda
3:45pm	8. Other Business <ul style="list-style-type: none">(a) Final AASB-AUASB Board Charter(b) IAASB's Future Strategy Survey(c) Assurance engagements under 'Safe Harbour' provision of the <i>Corporations Act 2001</i>(d) AUASB May Update [For Noting](e) AUASB International Strategy [For Noting]
4:15pm	9. Review*
4:30pm	10. Joint AASB/AUASB Session*
5:30pm	11. Close



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **3(a) (i)**
Meeting Date: 13 June 2018
Subject: *ISA315_AUASB Technical Group's analysis*
Date Prepared: 6 June 2018

Purpose and structure of this paper and agenda item

1. This paper provides the matters the AUASB Technical Group (ATG) have identified in draft ISA 315, to bring to the attention to the AUASB.
2. This paper is set out as follows:
 - Section 1 – High level overview of the changes to draft ISA 315 since the March 2018 IAASB meeting
 - Section 2 – Matters identified by the AUASB on previous drafts of ISA 315 and the status of these.
 - Section 3 – Key features of draft ISA 315
 - Section 4 – Specific questions for the AUASB as identified by the ATG.
 - Section 5 – Next steps

Section 1 – High level overview of the changes to draft ISA 315 since March 2018 IAASB meeting

3. The Task Force have continued drafting and restructuring draft ISA 315 as a result of feedback from the IAASB and continued outreach, as well as adding new content on areas not complete at the March 2018 meeting as follows:
 - the application material relating to public sector
 - the scalability of the standard has continued to be considered.
 - the application material related to information technology considerations as well as general IT controls
 - further consideration of automated tools and techniques ie. data analytics
 - conforming amendments.

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Section 2 Matters identified by the AUASB on previous drafts of ISA 315

Matter	Status
<ul style="list-style-type: none"> New introductory paragraphs to provide context and the interaction with ISA 200 and ISA 330 have been added which are a good addition however could be shortened. 	<ul style="list-style-type: none"> Introductory paragraphs have been redrafted and introduce key concepts to help with the understanding of the standard. The key concepts includes: <ul style="list-style-type: none"> a separate assessment of inherent risk and control risk is now required; introduces a spectrum of inherent risk when assessing inherent risk, based on inherent risk factors. control risk assessment is impacted on whether test of control effectiveness is performed or not ie. maximum if not tested, less than maximum if it is. No issues noted.
<ul style="list-style-type: none"> Inherent risk factors (IRF) (which are used when assessing inherent risk) incorporates qualitative and quantitative factors. Impact is that IRF now includes the size of the class of transaction, account balance or disclosure relative to performance materiality. Concern that this may result in low risk large items being identified as a significant account. 	<ul style="list-style-type: none"> Still relevant. Explanatory material AOd – AOe provide guidance including that the quantitative significance of a class of transaction, account balance or disclosure in relation to performance materiality, is a IRF. Refer section 4.
<ul style="list-style-type: none"> IRFs - include management bias and not the more broad concept of fraud. 	<ul style="list-style-type: none"> IRF now include management bias and fraud. ATG agree with this.
<ul style="list-style-type: none"> Definitions - Significant class of transaction, account balance or disclosure is where there is a relevant assertion. Definition of relevant assertions is when there is a reasonable possibility of a material misstatement. Reasonable possibility defined as where the likelihood of a material misstatement is more than <u>remote</u>. More guidance required on more than remote as risk of increased work effort where not considered necessary. ie. may result in more significant accounts. 	<ul style="list-style-type: none"> Still relevant. Extract from IAASB March 2018 minutes: Board still had concerns that the definition of 'relevant assertions' needing clarifying to explain that the threshold of '<i>more than remote</i>' was not different to '<i>reasonably possible</i>' Refer section 4.
<ul style="list-style-type: none"> Consider whether definitions of class of transaction and account balances is required as there is a risk auditors will disaggregate items. 	<ul style="list-style-type: none"> Still relevant. Refer section 4.

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<ul style="list-style-type: none"> • New requirement which is a stand back provision (30A/B) in relation to classes of transactions, account balances and disclosures that are not significant, but are quantitatively or qualitatively material, and whether they do have relevant assertions, and should be a significant account. Concern this was not necessary given the existing requirement in ASA 330 paragraph 18. The Task Force have added this to ISA 315 to require auditors to consider the risk of the item, not just the size. 	<ul style="list-style-type: none"> • This requirement has been re-worded however still included. The requirement now is to identify classes of transactions, account balances and disclosures which are quantitatively or qualitatively material, and that have not been identified as significant, and re-assess if this is appropriate. • This is in effect a double check that the risk assessment has been performed properly. In response to concerns about the performance of risk assessment • Note that ISA 330 has a similar purpose however will only result in substantive procedures being performed on any material class of transaction, account balance, or disclosures which haven't been tested. • Refer section 4.
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Section 3 – Key features and ATG observations in relation to draft ISA 315

4. The following is an overview of the key features of draft ISA 315 to assist the AUASB in understanding the flow of the standard and key changes.
5. There has been extensive changes to definitions. No issues noted except for the matters previously identified.
6. Requirements
 - Paragraph 5 – Design and perform risk assessment procedures
 - Similar to extant.
 - Note requires the auditor to obtain sufficient appropriate audit evidence as the basis for the identification and assessment of risks of material misstatement (ROMM). This is a change from the extant and the objective of this is to explain the purpose of risk assessment procedures. Note to avoid confusion this paragraph also explicitly states risk assessment procedures do not by themselves provide sufficient appropriate audit evidence. No concerns with this.
 - Understanding the entity and its environment and the applicable financial reporting framework – no issues noted (paragraphs 11 – 11A)
 - Understanding of the entity's system of internal control (Paragraphs 12 – 21D)
 - Components of internal control similar to extant.
 - Clarifies that the auditor is required to understand the IT environment and to identify IT applications and other aspects of the IT environment that are relevant to the audit (paragraphs 18(d) and 21A) ie. links to general IT controls relevant to the audit.
 - Paragraph 20 more clearly identifies the types of controls relevant to the audit than in the extant.

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- Paragraphs 21C and 21D consolidates into one requirement if control deficiencies are identified and refers to ISA 265.
- Identifying and Assessing Risk of Material Misstatement (Paragraphs 25 - 31) splits identifying and assessing ROMM.
 - ◆ ROMM identified at the financial statement level and assertion level.
 - ◆ New requirement to separately identify inherent and control risk at the assertion level.
 - ◆ Control risk impacted by the testing of operating effectiveness of controls. Now explicitly requires the auditor to assess controls risk as maximum if not testing operating controls.
 - ◆ Identify significant risks based on the assessment of inherent risk and ROMM.
- Explanatory and other material
 - Extensive new and redrafted.
 - More on public sector entities considerations have been added after the Task Force have consulted with the INTOSAI¹ to ensure the public sector references in the extant are relevant and appropriate. Have added additional application material from ISSAI² Practice Note 1315.
 - More extensive guidance on controls relevant to the audit including IT and general IT controls (A100 and following), identifying and assessing risk if material misstatement (A126 – A127), identifying significant risks and the impact for the audit (A140 – A144), and assessing control risk (A150).
 - Two new appendices. Appendix 1 Considerations for Understanding the Entity and its Business Model, and appendix 2 Consideration for Understanding General IT Controls. A good addition to assist auditors understanding.
- Scalability
 - Changed the term from “smaller entities” in the extant ISA 315, to “smaller and less complex entities” acknowledging that complexity is a key to scalability. Note that the Task Force considered “smaller or less complex” however determined “and” to be appropriate, as smaller is not defined, and therefore the definition is considered flexible to result in identification of the right entities. Refer to section 4.
 - There is extensive additional guidance throughout the application material for smaller and less complex entities.
- Data Analytics / automated tools and techniques
 - The Task Force have been working with the Data Analytics Working Group. There isn’t a specific section on DAs, however there are additional references on how technology may be used in the risk assessment process throughout the application material.

¹ The International Organisation of Supreme Audit Institutions – Financial Audit and Accounting Sub-Group

² The International Standards of Supreme Audit Institutions

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- Appendix 3, Table 4 in Agenda item 3(a) (ii) IAASB Agenda item 3 - ISA 315 (Revised) – Issues and Recommendations, details the paragraphs where references are made to automated tools and techniques.

Section 4- Questions for the AUASB to consider

7. Whilst supportive of draft ISA 315 there are a number of matters which impact scalability. There is a concern that draft ISA 315 will result in more significant accounts and more significant risks which will impact the work effort.
 - a) Do you agree with the inclusion of quantitative factors as an IRF?
 - b) With respect to the determination of a Significant Risk, do you agree that in instances where there is a very high magnitude, even though there is a low likelihood that the related risk could still represent a “Significant Risk”?
 - c) Do you agree with the definition of relevant assertion including the use of the term “less than remote”?
 - d) Do you agree definitions of “class of transaction and account balances” would be helpful as they are key terms within the standard and may help avoid the risk auditors will disaggregate items to avoid significant risks?
 - e) Do you agree with the term smaller and less complex, or do you think smaller OR less complex would be appropriate. Concern “and” is restrictive and would result in medium / larger however less complex entities wouldn’t follow this guidance.
 - f) Do you agree that ISA 315 should have a stand back provision? Or is ISA 330 (18) sufficient?
 - g) Any other matters the AUASB have identified to feedback to the IAASB?

Section 5- Next steps

8. Assuming that draft ISA 315 is approved for issue as an ED at the June IAASB meeting, the Task Force are proposing:
 - a. an exposure period ending 31 October 2018 ie. approx. 100 days
 - b. an effective date of audits of periods commencing on or after December 15 2020.

Question for the AUASB: Do you agree with exposure period and / or effective date?

9. As agreed at the AUASB meeting on 17 and 18 April 2018, the AUASB will issue an ED consecutive with the IAASB. The following is an estimate of the timetable based on the assumption of requiring to submit to the IAASB by 31 October 2018.

<i>Date (approximate)</i>	<i>Action</i>
23 June	IAASB approves ISA 315 ED and conforming amendments
16 July	IAASB releases ISA 315 ED
30 July	AUASB technical group circulates Australian ED to AUASB

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3 August	Teleconference: AUASB approves EDs for issue for 75 day period. (closing approx. 12 October)
1 – 12 October	Outreach
Week beginning 22 October	AUASB teleconference – review of comments received and AUASB submission to the IAASB.
31 October	AUASB submission to IAASB

Question for the AUASB: Do you agree with proposed timetable?

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ISA 315 (Revised)¹—Issues and Recommendations

Objective of the IAASB Discussion

The objective of this agenda item is to present the final proposed changes to ISA 315 (Revised), with conforming amendments, for approval, as set out in **Agenda Item 3-A (Introductory Paragraphs and Requirements)**, **3-B (Application and Other Explanatory Material, and Appendices)** and **3-C (Conforming Amendments)**.

I. Structure of this Paper and Format of the IAASB Discussion

1. This paper sets out the ISA 315 Task Force's (the 'Task Force') views about proposed changes to ISA 315 (Revised) Exposure Draft (ED).
2. This Agenda Item is set out as follows:
 - (a) **Section II**—Describes the overarching considerations related to the revisions to the standard as a whole.
 - (b) **Section III**—Describes the substantial changes that have been made since March 2018, and the Task Force's considerations about various matters raised for further discussion. The proposed changes to ISA 315 (Revised) have been presented in:
 - **Agenda Item 3-A**: proposed changes to the requirements, revised for comments from the March 2018 and May 2018 IAASB discussions (marked to extant ISA 315 (Revised)).²
 - **Agenda Item 3-B**: proposed changes to the application and other explanatory material, revised for comments from the March 2018 IAASB discussions (marked to extant ISA 315 (Revised)).
 - **Agenda Item 3-D**: proposed changes to requirements at June 2018 marked to March 2018 (for reference only)
 - **Agenda Item 3-E**: proposed changes to application material at June 2018 marked to March 2018 (for reference only)
 - (c) **Section IV**—Describes the Task Force views about the conforming amendments arising from proposed changes to ISA 315 (Revised) (**Agenda Item 3-C**: sets out the proposed conforming and consequential amendments, revised for comments from the May 2018 Board discussions).

At the Board meeting, after covering the general matters set out in section II of this paper (and related questions), the Task Force Chair will walk through the requirements by section, together with related application material. The Conforming Amendments will be discussed after completion of the requirements and application material.

¹ International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

² Supplemental Agenda Items, Proposed ED marked to March 2018, will also be provided.

How the Proposed Changes to ISA 315 (Revised) Address Key Matters of Public Interest and Enhance Audit Quality

3. The following sets out the key public interest matters that, in the view of the Task Force, have been proposed to address the key public interest matters highlighted in the project proposal:

Key Public Interest Matter ³	Description of Changes made to address identified issues	Relevant paragraph in this Agenda Item explaining changes, with relevant reference to requirements and application material
<p>Enhancing the auditor's approach to risk assessment in recognition of an evolving environment:</p> <ul style="list-style-type: none"> Well informed risk assessment critical to audit quality Understanding what can go wrong and focusing the auditor's work effort on those areas Recognizing evolving environment, including the entity's and auditor's use of technology (for example specifically addressing using data analytics for risk assessment procedures) Clarifying when controls are relevant to the audit Risk assessments need to be more rigorous and more comprehensive Performing risk assessment procedures specific to the entity to support appropriate overall responses, and further audit procedures to address the assessed risks of material misstatement 	Enhanced requirements and application material related to the auditor's understanding of the entity and its environment and its applicable financial reporting framework	Paragraphs 41-42 Data analytics paragraphs 19-21; Appendix 3, Table 4
	Enhanced requirements and application material related to the auditor's understanding of the system of internal control, including when controls are relevant to the audit and the related work effort to obtain the understanding	Paragraphs 43-47
	Clarification of the auditor's requirements relating to identifying and assessing the risks of material misstatement, including clarification of the concept of significant risk	Paragraph 48-65 and definition of internal control

³ As noted in the Project Proposal for the revisions of ISA 315 (Revised)

Key Public Interest Matter ³	Description of Changes made to address identified issues	Relevant paragraph in this Agenda Item explaining changes, with relevant reference to requirements and application material
<ul style="list-style-type: none"> Clarifying significant risks so that they are more consistently identified Clarifying the relationship between risk assessment and estimation uncertainty, complexity and judgment, and management bias. 		
Emphasis on considerations for auditing smaller and less complex entities	The Task Force has continued to focus its efforts on scalability of the standard.	Paragraphs 10-13; Appendix 3, Table 1
Developing considerations relevant to public sector entities	Enhancing the considerations for auditors with a broader public remit	Paragraphs 16-18; Appendix 3 Table 3
Enhancing the application of professional skepticism	Enhancements to drive more skeptical behavior	Paragraphs 22-23; Appendix 3, Table 5
Identifying and proposing conforming and consequential amendments to other ISAs		Paragraphs 72-76
Determining whether non-authoritative guidance or other support tools are needed.		Paragraphs 4-5

- In its outreach efforts the Task Force continues to hear that more is needed in order to implement the changes effectively. In working through the changes to the standard, and taking into account the feedback from the Board, the ISA 315 Task Force continues to consider whether additional non-authoritative guidance should be developed (e.g., an International Auditing Practice Note, a Staff Questions and Answers (e.g., setting out the specific ‘scalability’ paragraphs within the standard), or a publication with the flowcharts described in paragraph 5). In addition to the nature and content of further guidance, the Task Force will also need to consider the timing of this as well as who will develop the material.
- In the March 2018 IAASB discussions, and in light of the need for more regarding implementation of the changes, the Board continued to emphasize the need for flowcharts or decision trees, as it was noted that the linear order of the requirements and application material could still be confusing, and that the iterative and interactive nature of the various aspects of the standard may not be readily understandable. The Task Force has therefore developed several flowcharts, which can be found in Appendix 4,⁴ as follows:

⁴ Appendix 4 to be posted as a supplement to the Agenda Paper after the main posting.

- (a) Flowchart A – illustrates the flow of the overall standard.
 - (b) Flowchart B – illustrates how the auditor’s understanding of the entity’s system of internal control is obtained.
6. As it has progressed the changes throughout the process to develop the proposed changes to ISA 315 (Revised), the Task Force has continued its outreach with groups representing a wide range of stakeholders, including with the Forum of Firms, the International Federation of Accountants Small and medium practices Committee, national standard-setters and the International Forum of Independent Audit Regulators Standards Coordination Working Group (IFIAR SCWG). Appendix 1 sets out upcoming planned outreach before the Board discussions in June 2018. The Task Force’s member’ activities also included outreach and coordination with other IAASB Task Forces or Working Groups, including the ISA 540 Task Force⁵ and Data Analytics Working Group. Further discussion regarding the coordination with the ISA 540 Task Force can be found in paragraph 75.
7. The revisions as set out in Agenda Items 3-A and 3-B reflect significant input from a firm information technology (IT) specialist.⁶ In addition, the proposals have been reviewed by others who are also specialists in IT matters, and accordingly the changes proposed in respect of IT reflect the broader views of those involved with providing input to this project.

II. General Matters Relating to the Proposed Changes in ISA 315 (Revised)

8. In considering the changes relating to the overall presentation of the standard, changes have been made to restructure various aspects (which are explained further in this paper), as well as making sure that there is consistency in the way that the various aspects are presented. In addition, the Task Force has considered whether any of the application material is superfluous, and has agreed that two further paragraphs be moved to the Appendices,⁷ because although helpful for the auditor’s understanding of the relevant matters, it is not seen to be essential material for the implementation of the requirements. In working through the requirements and application material the Task Force has also made editorials for clarity or understandability as necessary.
9. The following describes public interest matters that are applicable to the standard more pervasively.

Scalability of ISA 315 (Revised)

10. The Task Force continues to recognize the need for balance in the standard, by providing sufficient guidance for entities of all sizes to be able to effectively apply the ISA while keeping in mind the purpose of the application and explanatory material in the international standards.
11. As noted in the Appendix of Agenda Item 1 from the May 2018 Board Teleconference, the Task Force continued to consider how to illustrate the scalability of the requirements by providing guidance within the standard for this purpose, to enable the standard to be applied to a wide variety of entities with different circumstances and complexities.

⁵ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

⁶ The firm IT specialist has a broad range of IT and auditing expertise, and is well versed in content of the ISAs, COSO 2013 and COBIT

⁷ Extant paragraphs A63 (re IT benefits) and A89b (re business risks arising from IT)

12. Based on the focused efforts of the Task Force, further changes to the application and other explanatory material have been proposed as follows:
- (a) The Task Force has agreed that the term ‘small- and medium-sized entities’ is not the only driver of scalability, and has agreed that complexity is also key to scalability. Accordingly, the Task Force has agreed to describe matters of scalability as relating to “*smaller and less complex*” entities. The Task Force debated whether the term should be smaller and less complex, or smaller or less complex, because there could be medium to large sized entities that were less complex and would therefore find the guidance helpful. On balance though, the Task Force agreed that using the term ‘smaller’ would be relative in different jurisdictions (i.e., judgment would be required about how to apply this) and consistent with the description of “smaller entity” in ISA 200.⁸ Of importance was adding an explicit reference to complexity, and therefore by using the term ‘smaller and less complex’ this captured the intended types of entities.
 - (b) Further proposed editorial changes have been considered within the examples and illustrations throughout to convey different complexities and sizes.
 - (c) The placement of matters related to scalability (i.e., for those entities that are smaller and less complex) have been advanced to the start of some sections so that auditors in a smaller and less complex environment are able to better consider the material that follows in context.
13. Appendix 3, Table 1, sets out the paragraphs that in the Task Force’s view demonstrates scalability.

Matter for IAASB Consideration

1. The IAASB is asked whether the changes made relating to scalability, as explained in paragraphs 10 to 13 above, will adequately illustrate how the standard is scalable in a wide variety of circumstances. Are there other changes that should be made?
2. What are the Board’s views about matters relating to further implementation support for the proposed changes (as set out in paragraphs 4–5), and what is the nature of such implementation guidance?

Fraud

14. Some Board members and the Public Interest Oversight Board representative emphasized the need to further consider how the auditor’s considerations about fraud were presented in ISA 315 (Revised), but the Task Force was also cautioned to not cause confusion with the fraud requirements in ISA 240.
15. In addition to adding an explicit reference to fraud in the definition of ‘inherent risk factors,’ (see paragraph 4cb of ISA 315 (Revised)) the Task Force has considered the extent of current references to fraud or ISA 240⁹ in proposed ISA 315 (Revised). Appendix 3, Table 2, sets out the specific references to fraud or ISA 240 in ISA 315 (Revised). Notwithstanding an explicit reference to ‘fraud’ as an inherent risk factor, the Task Force believes that the magnitude of these references appropriately underscore the importance of the consideration of fraud when identifying and assessing risks of material misstatement in accordance with ISA 315 (Revised). Accordingly, with the exception of changes to paragraphs A1b, A21, A49h, A89a and A100f in ISA 315 (Revised), the Task Force does not propose further changes to emphasize

⁸ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A66

⁹ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

fraud in ISA 315 (Revised), in particular in light of the robust requirements and guidance set out in ISA 240.

Matter for IAASB Consideration

3. The IAASB is asked, based on the explanation in paragraphs 14 to 15 above, whether further changes in respect of the auditor's consideration of fraud in ISA 315 (revised) is needed?

Considerations Specific to Public Sector Entities

16. The Task Force has agreed that the separate paragraphs relating to “considerations specific to public sector entities” should be retained due to the broader remit of some public sector audits and the unique nature of some aspects of these entities, with further consideration given to whether any additional considerations should be added.
17. The Chair of the Task Force and Staff held a teleconference with representatives from the International Organisation of Supreme Audit Institutions (INTOSAI) Financial Audit and Accounting Sub-Group (FAAS) in May 2018 to discuss whether extant references to public sector perspectives in the application and other explanatory material of ISA 315 (Revised) remain relevant and appropriate. In addition, matters included in ISSAI¹⁰ Practice Note 1315 – this practice note provides supplementary guidance to auditors of public sector entities on the application of ISA 315 (Revised) – were also discussed for further consideration of including these matters in the ISA. The Task Force has therefore proposed additions or amendments to public sector specific paragraphs of the standard. The content of these paragraphs has also been reviewed by a representative of the INTOSAI FAAS.
18. Appendix 3, Table 3, sets out the supplementary explanatory material provided in respect of public sector audits.

Data Analytics

19. At the March 2018 IAASB meeting, the Board expressed mixed views on whether an explicit reference to ‘data analytics’ in the standard is appropriate. In further considering this, the Task Force retains the view that the term ‘data analytics’ is potentially too narrow, has different meanings to different people and may not therefore encompass all the various forms of emerging technologies that may be used in performing audit procedures and that are broader than analytics (such as robotics and drones). The Task Force refers to these types of technologies, collectively with data analytics, as automated tools and techniques. The Task Force also highlighted that the focus in the proposed standard should be on gathering sufficient appropriate audit evidence, and not on being prescriptive or limiting in terms of how that evidence is necessarily obtained. The Task Force still recognizes that references to how audit evidence is obtained, i.e., using automated tools and techniques, is essential to understanding how to apply the requirements. The Task Force also notes that the use of these automated tools and techniques have broader implications for other ISAs, especially (but not limited to) ISA 500, ISA 520 and ISA 530. Accordingly the Task Force continues to have the view that the terms for such tools and techniques should not be definitively described by the work on this project alone.
20. Notwithstanding the Task Force's views described in the preceding paragraph, the Task Force also recognizes the view, as also expressed by the Public Interest Oversight Board observer, that the

¹⁰ The International Standards of Supreme Audit Institutions

term ‘data analytics’ is being widely used today and is generally understood to apply in a broader sense than the term may strictly otherwise suggest. The Task Force has therefore acknowledged in the proposed changes that ‘data analytics’ is a possible term that may describe the types of procedures being performed using automated tools and techniques.¹¹ In addition, the Task Force has reconsidered the proposals made in March 2018 to more fully describe the types of automated tools and techniques used, rather than attempting to label such procedures (which may be seen as a ‘definition’ and may have unintended consequences).¹²

21. Appendix 3, Table 4, sets out the paragraphs where references are made to automated tools and techniques (including data analytics).

Professional Skepticism

22. The Task Force has reconsidered how the standard has been revised to drive more skeptical behavior. The Task Force is of the view that no further enhancements are necessary, and that the standard reflects sufficient encouragement for the exercise of professional skepticism when identifying and assessing the risks of material misstatement.
23. Appendix 3, Table 5, sets out the relevant paragraphs relating to the auditor’s professional skepticism.

Matter for IAASB Consideration

4. Does the IAASB believe, based on the explanation set out in paragraphs 16 to 23 above, that changes made in respect of the public sector considerations, data analytics and professional skepticism are adequately addressed in the proposed changes?

III. Specific Matters Relating to the Proposed Changes in ISA 315 (Revised)

24. This section describes significant changes made to the requirements, and application and other explanatory material, since the March 2018 Board Agenda Papers.

Introductory Paragraphs (Requirements: paragraphs 1A–1G of ISA 315 (Revised))

25. At the March 2018 IAASB meeting, the Task Force proposed and presented to the Board the inclusion of introductory paragraphs to ISA 315 (Revised). The Board supported the inclusion of introductory paragraphs; however, concerns were expressed that these paragraphs were too complex and repetitive, and moreover, the paragraphs did not address key public interest matters such as the auditor’s consideration of fraud and the use of data analytics (an example of emerging developments in the use of technology in the performance of audit procedures, which we now refer to more generally as automated techniques and tools (see paragraph 19 above)). In addition, inconsistencies with the language in extant ISAs and the most recent draft of ISA 540 (Revised) were noted.¹³
26. The Task Force agreed that it was important to introduce key concepts in these introductory paragraphs, including describing the spectrum of inherent risk, to help with the understanding of the standard. To

¹¹ See ISA 315 (Revised), paragraph A16a

¹² See ISA 315 (Revised), paragraph A16a for an example

¹³ The Task Force continues to coordinate with the ISA 540 Task Force to align the language as much as possible. As further changes are made to ISA 540 (Revised), the ISA 315 Task Force will further consider whether changes need to be made to ISA 315 (revised), or whether further conforming amendments will be needed.

address concerns by the Board, the Task Force has revised these paragraphs, keeping in mind that it is important to capture the key principles in a clearer and more succinct manner, whilst still using language that is consistent with other ISAs. Because of the nature of the introductory paragraphs, and in keeping them focused on ‘key concepts’ in ISA 315 (Revised), the Task Force did not believe that automated tools and techniques (data analytics) should be included, as these would apply to the ISAs more broadly.

Definitions

27. The Board indicated general support for the new and revised definitions during the March 2018 meeting and the May 2018 Board call, with the exception of those described below and where changes have been made.
28. Although Board members had commented on some of the other definitions, such as controls, relevant assertions and the significant account “threshold” (reasonable possibility and more than remote), the Task Force has further considered whether changes should be made, but agreed that on balance no further changes were needed to the definitions.

Application Controls (Definition: paragraph 4(a) of ISA 315 (Revised))

29. In response to Board comments during the May 2018 Board call, the definition has been updated to include the role of application controls to support the entity’s ability to maintain the completeness and accuracy of information in the entity’s information system.

Assertions (Definition: paragraph 4(aa) of ISA 315 (Revised); Application Material – paragraph A0d–A0g of ISA 315 (Revised))

30. Concern was expressed at the March 2018 IAASB meeting that the definition of ‘assertions’ still didn’t distinguish management’s assertions from management representations in accordance with ISA 580.¹⁴
31. Further revisions to the definition of ‘assertion’ have been proposed to make clear that the assertions for the purposes of the ISAs are inherent in management’s representation that the financial statements have been prepared in accordance with the applicable financial reporting framework, and are not necessarily made explicitly.

Inherent Risk Factors (IRFs) (Definition: paragraph 4(cb) of ISA 315 (Revised); Application Material – paragraph A0d–A0g of ISA 315 (Revised))

32. At the March 2018 IAASB meeting, Board members had mixed views about the inclusion of ‘susceptibility to management bias’ (instead of susceptibility to fraud) as one of the IRFs. Some Board members supported the broadening of the concept to include unintentional aspects, while others still had the view that fraud should be more explicitly recognized in the inherent risk factors. It was also noted by some Board members that fraud does not necessarily or exclusively result from management bias.
33. On further reflection and with further coordination with the ISA 540 Task Force as discussed on the April 2018 Board call, the Task Force agreed that the inherent risk factor described as “*susceptibility to management bias*” is not the only factor that gives rise to fraud. Further, the Task Force agreed that “management bias” should remain in the description of the factor because although intentional bias gives

¹⁴ ISA 580, *Written Representations*

rise to fraud risk, unintentional bias can give rise to risk of error. As a result, the Task Force decided to revise the description of the inherent risk factor as: “*susceptibility to misstatement due to management bias or fraud*.” The Task Force added the words ‘*susceptibility to misstatement*’ because, in its view, it is important to signal that this only includes factors that affect inherent risk. It does so by mirroring language in the definition of ‘inherent risk,’ which refers to the *susceptibility to misstatement* of an assertion before consideration of controls. In contrast, if the inherent risk factor were to be articulated as ‘*the susceptibility to management bias or fraud*,’ it may also be taken to include factors that affect the control risk component of risks of material misstatement due to fraud.

34. The Task Force has also continued to coordinate with the ISA 540 Task Force as to the articulation of the inherent risk factors (with particular emphasis on the IRF relating to the susceptibility to misstatement due to management bias or fraud), and changes have been made to the descriptions of the inherent risk factors in the application material taking into account the way that these are described in proposed ISA 540 (Revised), while acknowledging that the descriptions of these factors in proposed ISA 540 (Revised) are provided in the context of accounting estimates only.
35. For discussion in March 2018, the Task Force had also proposed changes to the definition and description of IRFs to incorporate quantitative characteristics of events or conditions that may increase susceptibility to inherent risk, to respond to Board comments from the December 2017 IAASB discussions. The Board had mixed views about whether the broadening of IRFs to include quantitative aspects was appropriate or may introduce confusion. On further consideration, the Task Force agreed that it was important to keep the quantitative aspects as they are relevant to the auditor’s consideration of the susceptibility to misstatement of assertions about classes of transactions, account balances and disclosures. Further enhancements have also been made to the explanatory material as appropriate.

Significant Risks (Definition: paragraph 4(e) of ISA 315 (Revised); Application Material – paragraph A0h of ISA 315 (Revised))

36. The definition of significant risk is discussed with the requirements and application material in paragraphs 50–62.

Requirements—Risk Assessment Procedures and Related Activities (Requirements: paragraphs 5–10 of ISA 315 (Revised); Application Material – paragraphs A1–A23a of ISA 315 (Revised))

37. The Board continued to support the expansion to paragraph 5 being made to the description of the purpose of the risk assessment procedures, but asked the Task Force to further consider the use of ‘sufficient and appropriate evidence’ when describing the outcome of the procedures. While some Board members believed that the introduction of this concept would help clarify why risk assessment procedures are performed, others were not supportive of introducing the concept of evidence, as well as others who did not think that ‘sufficient and appropriate’ was needed.
38. The Task Force further deliberated the inclusion of ‘sufficient appropriate audit evidence’ in paragraph 5, and generally continue to have the view that this term is important to clarify that the purpose of obtaining the required understanding is to obtain sufficient appropriate audit evidence as the basis for the identification and assessment of risks. The inclusion of this criterion is consistent with ISA 500, which makes it clear that risk assessment procedures enable the auditor to obtain audit evidence. This has been highlighted in the application material. The Task Force believes that it is important for the auditor to have regard to both the quantity (sufficiency) and the quality (appropriateness) of the audit evidence obtained through risk assessment procedures in considering

whether that evidence provides a suitable basis for identifying and assessing risks of material misstatement. However, the Task Force did agree that this could be further clarified by highlighting that the sufficient appropriate audit evidence provides ‘the basis’ for the identification and assessment of risks of material misstatement. The Task Force also agreed that the evidence is ‘obtained’ and not ‘provided.’ Clarifications have also been made to the application material in relation to the enhancements made to the requirement.

39. During the March 2018 Board discussions, concern was raised about whether the enhancement to the requirement regarding previous audit evidence,¹⁵ to evaluate whether it not only remains relevant but also remains reliable as audit evidence for the current audit. The concern was that the enhancement may not be correct, as previous audit evidence would only be relevant if it was also reliable. The Task Force reconsidered this and concluded that relevance and reliability are independent, but inter-related concepts. Accordingly no further change has been made.
40. Other changes have been made to address Board comments, in particular in the application material, including:
 - (a) *Sources of information* for the risk assessment procedures: to include external sources such as publicly available information. (See paragraph A4c)
 - (b) *Analytical procedures*: introduction of application material to emphasize scalability (see further discussion in paragraphs 10–13)(see ISA 315 (Revised) paragraphs A16-A16a)
 - (c) *Observation and inspection*: adding the observation of the behaviours and actions of management or those charged with governance (See paragraph A18)
 - (d) Clarifications relating to *information obtained from the client acceptance and continuance process and other engagements relating to the entity*. (see paragraph A18b)
 - (e) *Engagement team discussion*: further clarifications have been made about the circumstances where the audit is conducted by a sole practitioner. In addition, the guidance in such circumstances has been ordered in the related application material to address first the simplest circumstances, which may therefore provide context for the more detailed discussions where there is a larger engagement team. In addition, the ISA 240 requirement for the engagement team discussion to place particular emphasis on how and where the entity’s financial statements may be susceptible to material misstatement due to fraud has been highlighted. (See paragraph A21)
 - (f) *Professional skepticism*: in light of the Board discussions relating to professional skepticism and how it should be articulated in the ISAs in March 2018, the Task Force concluded that the references in proposed draft ISA 315 (Revised) to ‘inconsistent and contradictory’ information or evidence should be to ‘contradictory’ and has reflected this throughout the revised draft.

The Required Understanding of the Entity and Its Environment, Including the Applicable Financial Reporting Framework (Requirements: paragraphs 11–11A of ISA 315 (Revised); Application Material – paragraphs A24a–A49h of ISA 315 (Revised))

41. At the March 2018 Board meeting, the Board was generally supportive of the changes proposed to the requirements, but some members questioned whether the reason for obtaining the required

¹⁵ ISA 315 (Revised), paragraph 9

understanding was appropriately articulated in the requirement. The Task Force has accordingly made clarifications to the lead-in to paragraph 11 of ISA 315 (Revised). It was also suggested that consideration be given to describing how to undertake the required understanding rather than listing the matters to be understood, but the Task Force was of the view that the 'how' was better left to implementation activities because of the wide variety of circumstances there may be.

42. The Task Force has proposed changes in the application material to address Board comments, including:
- (a) Clarifying the focus for the auditor when obtaining an understanding of the relevant aspects of the entity and its environment, and the applicable financial reporting framework. The Task Force has also enhanced the application material in relation to applying professional judgment when considering the nature and extent of understanding required. (See paragraph A24a)
 - (b) Adding an example of the use of automated tools and techniques where the outcome of procedures to understand the information system may be to obtain information about the entity's organizational structure or with whom the entity does business (See paragraph A24b)
 - (c) Restructuring and clarification relating to what is required to be understood in relation to the entity's business model, and related business risks. (See paragraphs A31c–g and A38a)).
 - (d) Making a clearer link between the relevant measures used to assess the entity's financial performance and fraud, (paragraph A44a) and added guidance on inherent risk factors that address susceptibility to misstatement due to management bias or fraud (paragraph A49h of ISA 315 (Revised))

The Required Understanding of the Entity's Internal Control (Requirements: paragraphs 12–21D of ISA 315 (Revised); Application Material – paragraphs A50–A109g of ISA 315 (Revised))

43. As the project has progressed, the Task Force has continued to restructure and refine the section on the auditor's understanding of the system of internal control. In particular, the Task Force has focused on the flow of the section, including consistency in addressing different aspects of the system, and eliminating repetition while striking a balance with the need for 'introductory or explanatory material' that helps the auditor to understand what is being referred to and therefore how to apply the requirements of the ISA. The Task Force has also developed and enhanced the application material to support the effective application of the requirements, by enhancing the nature and sufficiency of guidance addressing the application of new concepts, in particular around IT considerations.¹⁶ Further, the Task Force has continued to address, as appropriate, Board comments that have been raised as this section has been amended and enhanced.
44. In the March 2018 IAASB discussions, although the Board continued to support the direction of the changes being made, the Board noted various specific concerns and issues related to the changes that had been proposed to the required understanding of the system of internal control. This included that further consideration should be given to consolidating the requirement for addressing control deficiencies identified in the various components of internal control, what the auditor has to do to understand that the information system has been 'placed in operation,' and further clarifying the guidance relating to various IT aspects, in particular general IT controls relevant to the audit.

¹⁶ The Task Force has continued to engage with a firm's IT specialist on the changes, but has also obtained input from other IT specialists more broadly on the proposed changes.

45. In response to Board comments, the Task Force has further restructured and refined this section, and:

- Consolidated the requirement relating to control deficiencies within the system of internal control,¹⁷ which had previously been presented as separate requirements in the control environment, the entity's risk assessment process and the process to monitor the entity's system of internal control components. In considering the new combined requirement, the Task Force is of the view that control deficiencies could also arise in the information and communication and control activities components, and has therefore crafted the requirement to be broader than just the first three components of the system of internal control, as previously presented. The related application material has also been consolidated, and changes made to reflect the auditor's considerations relating to the new combined requirement more appropriately.
- Clarified the requirement for the evaluation of the design of the entity's information system and determining whether it has been 'placed into operation' by changing the phrase 'placed into operation' to 'implemented', as no difference in meaning was intended.
- Clarified the requirement for evaluating the design and implementation of controls relevant to the audit by separating the requirements for those that directly address the risks of material misstatement at the assertion level from those that support the operation of other controls (see ISA 315 (Revised) paragraph 21B). In the related application material, it has been clarified that the auditor's procedures in relation to evaluating the design and implementation of a control assist in determining the nature and extent of further audit procedures designed to address the risks identified, whether related to testing the operating effectiveness of the control or to substantive procedures.
- Clarified what needs to be understood relating to the IT environment, to be able to appropriately identify the risks arising from the use of IT and the general IT controls that are relevant to the audit (see ISA 315 (Revised) paragraphs 18(d), 21 and 21A). In effect, the auditor is required to understand the IT environment and to identify IT applications and other aspects of the IT environment that are relevant to the audit. This provides the context for identifying the risks arising from the use of IT and the general IT controls relevant to the audit that address those risks. A summary of the clarified approach to understanding IT and determining its relevance to the audit was included in **Appendix 2 of Agenda Item 1** of the IAASB conference call held on May 22, 2018 (reference to this agenda item: [Ref](#)). Further application material has been added to support the auditor's considerations in relation to understanding the entity's IT environment, as part of understanding the information system component and significant enhancements were made to the application material addressing controls relevant to the audit, to support the revised requirements in paragraphs 21 and 21A. In addition, Appendix 4 in ISA 315 (Revised) has been added that includes considerations for understanding general IT controls.
- Clarified that understanding how the entity demonstrates those charged with governance are separate from management, is required when those charged with governance are actually separate from management, which is often not the case in smaller and less complex entities. (Paragraphs 14(b); A77a)

¹⁷ ISA 315 (Revised) paragraphs 21C–21D

- Clarified the interaction between paragraph 13, which requires the auditor to identify controls relevant to the audit, evaluate the design of those controls, and determine whether they have been implemented, and paragraph 19A, which sets out what the auditor is required to do to understand the ‘control activities’ component, which is in effect limited to applying the requirement in paragraph 13 to controls within that component. Paragraph 19A, although not strictly a requirement (i.e., there is no ‘shall’), is essential application material that in the view of the Task Force helps make the link between paragraph 13 (which contains the ‘shall’) and identifying controls relevant to the audit.¹⁸ The requirements relating to the evaluation of the design of the controls, and the determination of whether they have been implemented, can be found in paragraph 21B.
- Made further enhancements and changes in the application and other explanatory material as follows:
 - Further clarified how to obtain the understanding in entities that are smaller and less complex, highlighting that professional judgment is needed when applying the requirements of the ISA in circumstances that are simpler and less complex (see paragraph A50). In addition, the various aspects of the system of internal control have been restructured to order the guidance on each requirement so that it first addresses how application of the requirement may be accomplished when the entity is smaller and less complex (in particular when there is direct management involvement in relevant aspects of the system of internal control, and when understanding IT environments that are simpler and less complex) (see further discussion in paragraphs 10–13).
 - Added guidance about when management is dominated by a single individual and the possible effects on the control environment (ISA 315 (Revised) paragraph A81a)
 - Made a stronger link between controls and fraud (see ISA 315 (Revised), paragraph A100f).
 - Clarified that the entity’s process to monitor the system of internal control may consist of ongoing activities, separate evaluations conducted periodically, or a combination of the two (See ISA 315 (Revised) paragraph A89e).
 - Clarified how the components, such as the entity’s process to monitor the system of internal control, may include controls that address risks of material misstatement at the assertion level (i.e., direct controls) and the impact thereof.(See ISA 315 (Revised) paragraph A89i)
 - Clarified the circumstances under which there may be requirement that the operating effectiveness of controls would be tested (i.e., when risks for which substantive procedures alone do not provide sufficient appropriate audit evidence exist) and added a section of guidance on other circumstances when the auditor may plan to test the operating effectiveness of controls. (See ISA 315 (Revised) paragraph A100j-A100l)
 - Enhanced the guidance relating to ‘controls relevant to the audit,’ in particular in relation to the fact that such controls are primarily direct controls in the control activities component and; the factors that influence the auditor’s judgment to determine a control is relevant to the audit; (See ISA 315 (Revised) paragraphs A100 and A100m)

¹⁸ There are other instances within the ISAs that are similar in nature, see ISA 200, paragraph 12 and ISA 610, paragraph 26.

- Highlighted the iterative nature of obtaining the understanding, in particular how obtaining an understanding of the entity and its environment, may also impact the auditor's understanding of the components of the system of internal control, such as the information system. (See ISA 315 (Revised) paragraph A90e)
46. In making revisions to the application material, the Task Force has deliberated whether there could be audits where there are no 'controls relevant to the audit' (i.e., in terms of the requirements of ISA 315 (Revised) and its definitions). The Task Force notes that because controls over journal entries are required to be 'controls relevant to the audit,'¹⁹ there will always be at least one 'control relevant to the audit' because even in the simplest information systems journal entries are used to capture an entity's financial information in its information system. The application material to ISA 315 (revised) paragraph 20 has been updated accordingly (see ISA 315 (Revised) paragraph A100a).
47. The Task Force considered whether changes were required arising from the recently revised *International Code of Ethics for Professional Accountants (Including International Independence Standards)*, as issued by the International Ethics Standards Board for Accountants, in particular in relation to the description of ethics in the control environment. The Task Force continues to believe that it is appropriate to base the requirements and guidance in the control environment component on the principles and guidance provided in COSO 2013.²⁰ The Task Force therefore agreed that no changes should be made because in addition to losing consistency with COSO if such changes were to be made. The Task Force also notes that references to ethics in ISA 315 (Revised) are in the context of the ethics and values of management and those charged with governance, and these parties may not be professional accountants in all circumstances, or, if professional accountants, they may not be subject to the requirements of the IESBA Code.

Identifying and Assessing the Risks of Material Misstatement (Requirements: paragraphs 25–31 of ISA 315 (Revised); Application Material – paragraphs A121a–A151 of ISA 315 (Revised))

48. The Task Force has continued to explore how best to present the requirements related to the identification and assessment of the risks of material misstatement, in particular in light of the new concepts introduced related to significant classes of transactions, account balances and disclosures, and their relevant assertions. In addition, the Task Force has focused on how the spectrum of inherent could be better described within the standard to help auditors make more consistent and effective assessments of such risks (including whether they are significant risks), thereby providing an enhanced basis for the design and performance of overall responses to risks at the financial statement level and further audit procedures (as required by ISA 330).²¹
49. In March 2018, the Board cautioned that the revised structure of paragraphs 25 and 26 of ISA 315 (Revised) was complex and confusing, and requested that the Task Force give further consideration to how the risk identification and assessment process could be made clearer. In particular, the Board did not support the proposed 'two-step' process, i.e., identifying potential risks of material misstatement then confirming this identification, in particular because this was unnecessarily complex and could lead to confusion and unnecessary documentation. The Board also highlighted that further clarification was needed in relation to risks at the financial statement level, in particular how they

¹⁹ ISA 315 (Revised), paragraph 20(c)

²⁰ The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Internal Control – Integrated Framework (2013)*

²¹ ISA 330, *The Auditor's Responses to Assessed Risks*

related to risks of material misstatement at the assertion level, and whether they could be significant risks.

Identifying and Assessing the Risks of Material Misstatement

50. The Task Force has further deliberated how to present the requirements for identifying and assessing the risks of material misstatement in paragraphs 25 and 26 of ISA 315 (Revised). The Task Force agreed to simplify the requirements, and has the view that keeping the identification and assessment of risks separate will enhance the understandability of these requirements.
51. The Task Force also debated the order in which these requirements should be presented, in particular in light of the new concepts of significant classes of transactions, account balances and disclosures, and their relevant assertions. However, the Task Force also acknowledged that the order in which these requirements are applied should not be prescribed narrowly. In addition the process is iterative and is likely to be applied differently in an initial audit engagement versus a recurring engagement. What matters most is that each of the relevant requirements is applied but firms may have different methodologies for addressing the requirements for the identification and assessment of the risks of material misstatement.
52. The Task Force has accordingly simplified the requirements in paragraphs 25 through 26 of ISA 315 (Revised):
 - (a) Paragraph 25 comprises the requirement for the identification of risks of material misstatement that exist at both the financial statement level (explained further below) and at the assertion level. It has also been highlighted that in identifying the risks of material misstatement at the assertion level the IRFs are taken into account, to make clear that the IRFs are important in this process but also to make the link back to paragraph 11, where the IRF's are first considered as the auditor obtains the understanding of the entity and its environment. The application material further explains this link.
 - (b) Clarified that the assessments of inherent risk and control risk are only required at the assertion level.
 - (c) Paragraph 25A relates to the assessment of risks at the financial statement level – see explanation below.
 - (d) A new heading has been inserted to make clear that paragraphs 25B and 26 relate to the *assessment of inherent risk*.
 - (e) Paragraph 25B addresses the determination of significant classes of transactions, account balances and disclosures, and their relevant assertions and is placed here to be the link between the identification of the risks of material misstatement at the assertion level and the assessment of these risks t, recognizing that this is an iterative process. It is the view of the Task Force, taking into account the interaction of the definitions of these concepts, that *possible* significant classes of transactions, account balances and disclosures, and their relevant assertions, would have been inherently identified through the auditor's process to *identify* risks of material misstatement at the assertion level. This requirement would effectively confirm that process (without requiring a preliminary determination, and then confirming it at a later stage). As the identification and assessment of the risks of material misstatement is a very iterative process, the Task Force is of the view that this is the most appropriate way to present this requirement and to acknowledge these new concepts in the most appropriate place in the standard.
 - (f) Paragraph 26 addresses the inherent risk assessment for the risks of material misstatement at the assertion level, taking into account the likelihood and magnitude of misstatement, as well as the

effect that risks of misstatement at the financial statement level may have on individual risks at the assertion level.

Further changes have also been proposed to the application material further clarifying how the various steps interact, in particular in relation to the assessment of inherent risk on the spectrum of inherent risk.

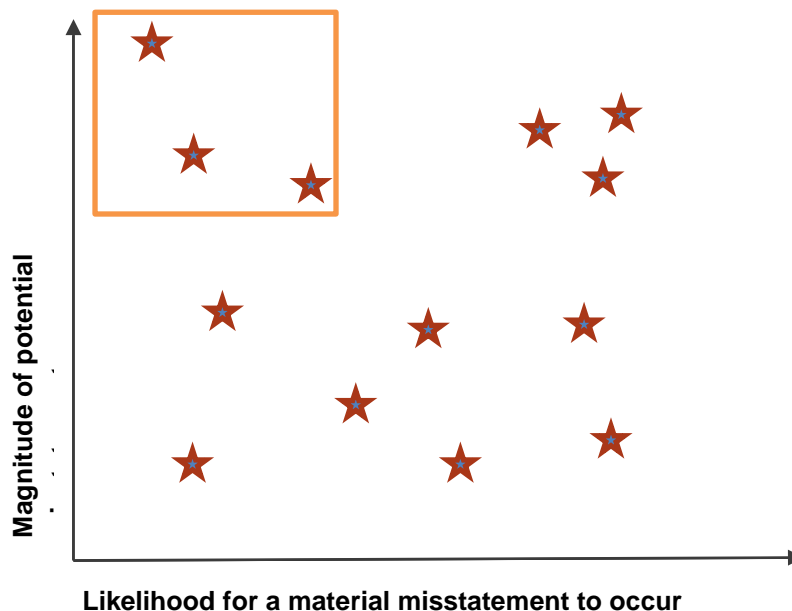
Identified and Assessed Risks of Material Misstatement at the Financial Statement Level

53. The Task Force has extensively deliberated the nature of risks at the financial statement, reflecting carefully on how they are described in ISA 200, in order to adequately describe them in ISA 315 (revised), and help the auditor to design and implement overall responses to address such risks.
54. In the view of the Task Force, every risk of material misstatement identified will either relate specifically to an individual assertion, or to a number of assertions (which could be in one or more classes of transactions, account balances or disclosures). When the risk relates to a number of assertions (i.e., is more pervasive) and can't be attributed specifically to an assertion(s), then the risk exists at the financial statement level.
55. In further considering risks of material misstatement at the financial statement level, the Task Force is also of the view that these risks will often arise from the higher-level components of the system of internal control, in particular the control environment, which will likely have a more pervasive effect on a number of, or all, classes of transactions, account balances and disclosures in the financial statements. Accordingly, the auditor's understanding of these components and the results of the evaluations required in paragraphs 14 to 17D of ISA 315 (Revised), as well as the effect of any identified deficiencies in accordance with paragraphs 21C and 21D, should be considered when identifying and assessing the risks of material misstatement at the financial statement level.
56. Taking into account the Task Force's conclusions on these matters, the relevant requirements in paragraph 25(a) (the requirement for the identification of financial statement level risks) and 25A (the requirement for assessing the risks at the financial statement level) have been revised. In doing so, the Task Force has emphasized the need:
 - (a) For the risk to relate more pervasively to many assertions to be considered a financial statement level risk; and
 - (b) To determine how, and the degree to which, these risks affect the assessment of risks of material misstatement at the assertion level (with a corresponding change made in relation to the assessment of inherent risks at the assertion level (see paragraph 26(b))).
57. The related application material in paragraphs A126a–A126g of ISA 315 (Revised) has also been updated accordingly, including providing:
 - (a) Further descriptions of what pervasive risks could be, such as those resulting from weaknesses in the control environment or pervasive risks arising from the risk of fraud.
 - (b) Examples of specific matters giving rise to risks that may affect a number of assertions, such as poorly implemented revenue application systems.

Significant Risks

58. The Task Force continues to consider how best to present the requirements and guidance in relation to significant risks, in light of Board agreement that the concept should be retained and the other changes that are being made. In particular, the Task Force has focused on the definition of significant risks to drive a more consistent application.

59. However, some Board members noted, in reference to the changes proposed in March 2018, that the description of a significant risk, with particular reference to the wording '*relative to other risks of material misstatement*', may suggest that because it is a relative concept on every audit there would be at least one significant risk, which is not consistent with extant, and not something that the Task Force is seeking to change. In addition, it was also noted that by defining significant risks at the 'highest end' of the spectrum of risk also might suggest that there is only one significant risk (i.e., that risk that is at the very top end).
60. On further consideration, the Task Force is of the view that it is important to describe significant risks in terms of where they are on the spectrum of inherent risk, and considered various ways of describing this. Although there is not one distinct description that all of the Task Force members preferred, on balance the Task Force has agreed to change the way to describe where they lie on the spectrum as "close to the upper end" of the spectrum of inherent risk. Other positional terms that the Task Force discussed included "approaching", "nearing", or "towards" the upper end. Additional application material has been added that is intended to further explain how significant risks are determined.
61. In determining whether an identified risk is a significant risk, the definition as currently revised (i.e., as presented to the Board in March 2018) allows the auditor to take into account the likelihood OR the magnitude of the identified risks of material misstatement. Some Board members have queried whether the auditor should instead make the determination as to whether a significant risk exists based on the likelihood AND magnitude of the potential misstatement. In previous discussions with the Board (at more than one Board meeting), it was agreed that in instances where there is a very high magnitude, even if there is a low likelihood, that the related risk could still represent a significant risk. It has been noted that it would not be in the public interest if a risk with a possibly very high magnitude of misstatement was not considered in the auditor's determination of significant risks, however the standard should not necessarily prescribe that such risks would in all cases be significant risks. (see illustration below – these identified risks relate to those in the orange box).



62. Accordingly the Task Force does not propose to change the “or” to an “and.”

Assessing Control Risk

63. Although no significant issues were raised by the Board at the March 2018 IAASB meeting, the Task Force further considered whether amendments were needed in light of the other changes being proposed related to identifying and assessing the risks of material misstatement. The Task Force agreed that no further significant changes were needed, but have proposed some clarifications.
64. In addition, the Task Force has enhanced the application material to:
- (a) Emphasize that the auditor’s primary consideration in assessing control risk is whether the auditor is required to, or intends to, test the operating effectiveness of controls (see ISA 315 (Revised) paragraph A150a).
 - (b) To further explain the interaction of control risk and inherent risk.(see ISA 315 (Revised) paragraph A150a)
 - (c) To address situations where there is more than one control that addresses a risk of material misstatement at the assertion level.(see ISA 315 (Revised) paragraph A150b)
 - (d) To clarify how the effectiveness of general IT controls is considered in assessing control risk (see ISA 315 (Revised) paragraph 150d).

Risks for Which Substantive Procedures Alone Do Not Provide Sufficient Appropriate Audit Evidence

65. The Task Force has clarified, in the requirement, that risks for substantive procedures alone that do not provide sufficient appropriate audit evidence are part of the determination of the risks of material misstatement *at the assertion level*, and has provided additional examples to illustrate such a situation.

Stand-Back Requirement

66. In March 2018, the Task Force presented a new requirement for a stand-back in paragraph 30B in ISA 315 (Revised) related to whether all the significant classes of transactions, account balances and disclosures, and their relevant assertions, had been identified. The Board noted various concerns related to the new ‘stand-back’ requirement, and asked the Task Force to simplify this requirement and make it more understandable. In particular, the introduction of qualitative and quantitative materiality into the stand-back was noted as confusing.
67. The following explains the interaction of the stand-back in paragraph 30B of ISA 315 (Revised) and paragraph 18 of ISA 330 and the Task Force view of the classes of transactions, account balances and disclosure to which paragraph 18 applies:
- The proposed stand-back in ISA 315 (Revised) is specifically focused on those classes of transactions, account balances and disclosures for which no risk of material misstatement has been identified (i.e., those classes of transactions, account balances and disclosures that have not been determined to be significant classes of transactions, account balances or disclosures).
 - For those classes of transactions, account balances of disclosures, the stand-back requires the auditor to identify those that are quantitatively or qualitatively material and confirm that there are no risks of material misstatement related to these (i.e., if risks of material misstatement are identified,

the class of transaction, account balance, or disclosure would become significant and the auditor would revise the risk assessment accordingly).

- The stand-back therefore has a purpose of assisting the auditor in achieving a more thorough risk assessment prior to designing and performing responses in accordance with ISA 330. The outcome of the stand-back will also be such that the auditor will identify any classes of transactions, account balances or disclosures that are quantitatively or qualitatively material but are not significant.
 - The requirement in ISA 330, paragraph 18 has a similar purpose and is directed at an 'imperfect' risk assessment (i.e., regardless of the auditor's risk assessment, the auditor is required to design and perform substantive procedures for any class of transactions, account balance or disclosure that is quantitatively or qualitatively material). The Task Force debated which classes of transactions, account balances and disclosures are subject to paragraph 18 and agreed the following:
 - *Significant classes of transactions, account balances and disclosures are to be treated as quantitatively or qualitatively material.* Paragraph 6 of ISA 330 requires the auditor to design further audit procedures for significant classes of transactions, account balances and disclosures. Therefore, when the auditor has designed and performed substantive procedures in accordance with paragraph 6, the auditor has covered the requirement in paragraph 18. However, if there are any significant classes of transactions, account balances or disclosures for which the auditor only designed and performed tests of controls, then the auditor is required to design substantive procedures in accordance with paragraph 18.
 - *Classes of transactions, account balances and disclosures that are quantitatively or qualitatively material as identified in accordance with paragraph 30B of ISA 315.* For these, the auditor would not have designed or performed substantive procedure in accordance with paragraph 6 but is required to do so in accordance with paragraph 18 of ISA 330. Application material has been added to explain how the auditor may design such procedures in light of the fact that no risks of material misstatement were identified for these classes of transactions, account balances or disclosures.
68. Because both paragraph 30B of ISA 315 and paragraph 18 of ISA 330 are directed at dealing with "imperfect" risk assessment, the Task Force discussed whether the stand-back in ISA 315 (Revised) is needed. The Task Force discussed whether the requirement in ISA 330 would be sufficient for the auditor to identify those classes of transactions, account balances or disclosures that were material but were not determined to be significant classes of transactions, account balances or disclosures (i.e. a risk of material misstatement had not been identified).
69. On balance, the Task Force agreed that it would be appropriate to retain the requirement for a stand-back so that auditors are required to reconsider as part of their risk assessment that all significant classes of transactions, account balances and disclosures have been appropriately captured. Despite the stand-back, it is still possible that risks of material misstatement will not be identified by the auditor, in which case paragraph 18 of ISA 330 continues to protect against imperfect risk assessment by requiring that work be performed on classes of transactions, account balances or disclosures that are of importance to users (i.e., material). The Task Force recommends, however, that stakeholder views be obtained on whether the stand-back is needed or whether the enhanced application material to paragraph 18 of ISA 330 may be sufficient. (i.e., by asking a specific question in the explanatory memorandum).

70. The Task Force has also revised the relevant application material, through using relevant examples, to help explain how the stand-back could be operationalized. The Task Force confirmed its view that including both quantitative and qualitative aspects related to materiality is appropriate, but also noted that further guidance about matters that could be qualitatively material would help auditors understand how to apply the stand-back. Proposed guidance has been included in the updated application material.

Documentation

71. There are no significant changes in relation to documentation, however the Task Force has confirmed that the relevant references to ISA 230²² have been included.

Matters for IAASB Consideration

5. The IAASB is asked:
- (a) For its views on the proposed changes to ISA 315 (Revised) (requirements as set out in **Agenda Item 3-A** and application material as set out in **Agenda Item 3-B**, including the Appendices).
 - (b) Whether it agrees that a requirement for the stand-back, described in paragraphs 66–71, should be included in the Exposure Draft, with a specific question included in the Explanatory Memorandum, as described in paragraph 69, to obtain respondents views.

IV. Conforming Amendments

72. The Task Force presented its view on the approach to presenting the conforming amendments for discussion on the May 2018 Board Teleconference. This included proposed conforming amendments to ISA 200, ISA 240 and ISA 330, and a description of proposed changes throughout the other ISAs. The Board had mixed views about the latter, in particular questioning the ability to approve the ED and its proposed conforming amendments without seeing the specific changes that will be made. The Board also did not support changes to certain terms, such as ‘deficiency in internal control’, because the terms were viewed to be well understood both in practice and by management and those charged with governance. Accordingly, Agenda Item 1-C sets out:

- (a) Proposed changes to ISA 200, ISA 240 and ISA 330, amended as appropriate for Board comments. (It should be noted that paragraphs A29-A31 in ISA 330 have been subject to amendments as a result of the updates to ISA 315 (Revised) related to IT. These amendments were noted to be forthcoming in the issues paper for the May 2018 Board call).
- (b) A table setting out the specific paragraph references, together with a description of the changes that will be made, in the other ISAs not presented.

In the view of the Task Force, this will allow respondents to the ED to be fully informed about the changes that will arise in other ISAs from the proposed changes in ISA 315 (Revised).

73. Although the Board did not support making wholesale changes to the term ‘deficiency in internal control’ as proposed for the May 2018 Board teleconference, the Task Force is still of the view that because the definition of this term explains that the deficiency relates to a control or combination of controls, the term “control deficiency” is an appropriate term. Further, “control deficiency” may be a more appropriate

²² ISA 230, *Documentation*

term depending on the context in which such deficiencies are described in the ISAs. Accordingly, the Task Force has proposed to take a pragmatic approach by retaining the definitions of ‘deficiency in internal control’ and ‘significant deficiency in internal control’ in ISA 265,²³ other ISAs with the exception of ISA 315 (Revised), and the Handbook Glossary, but amending the glossary to acknowledge that the terms “control deficiency” (or “significant control deficiency”) are also used in some ISAs with the same meaning. The Task Force is proposing to use the terms “control deficiency” and “significant control deficiency” exclusively in proposed ISA 315 (Revised).

74. A similar approach will be taken to changing ‘internal control’ to the ‘system of internal control’ throughout the ISAs (with the exception of ISA 315 (Revised)), unless the matter is referring to something specific in ISA 315 (Revised) (e.g., a component of internal control) or is related to the process to identify and assess the risks of material misstatement. Accordingly, **Agenda Item 3-C** sets out a proposed change to indicate that in some ISAs the term internal control is used instead.
75. With regard to the conforming amendments to ISA 540 (Revised), the Board broadly agreed to the proposed approach, presented for discussion on the May 2018 IAASB Teleconference, of presenting and approving conforming amendments to the final ISA 540 (Revised) in July 2018 as a supplement to ED ISA 315 (Revised). However, this would be subject to the Board understanding the nature and scope of those conforming amendments during the IAASB meeting week when the approval of final ISA 540 (Revised) and ED ISA 315 (Revised) are discussed and voted on. To facilitate this approach, the Board will be presented with an analysis of the nature and scope of the conforming amendments prior to a final vote on ISA 540 (Revised).
76. In addition to the changes noted above, the Task Force has made further changes to the conforming amendments to address Board comments and concerns raised on the May 2018 IAASB teleconference, including:
 - Further changes for consistency with the proposed changes in ISA 315 (revised);
 - Changes to ISA 330 relating to conforming amendments to the application material to paragraph 10 regarding tests of indirect controls, arising from the revised and enhanced requirements and application material in ISA 315 (Revised) relating to IT. Specifically, the application material has been revised to reflect the introduction of the concept of general IT controls relevant to the audit in ISA 315 (Revised) and to explain that the auditor may have identified such controls as part of the requirements of ISA 315 (Revised) and also planned to test them. The revisions also clarify the considerations of the auditor when such general IT controls are found to be ineffective. Although these revisions regarding additional procedures to be performed in these circumstances may appear more than consequential amendments, the Task Force is of the view that this additional guidance is needed such that the auditor is able to appropriately determine the effect of the deficient general IT controls on the auditor’s control risk assessment (i.e., whether audit evidence can be obtained that the controls relevant to the audit that are supported by the deficient general IT control are nevertheless effective).

The Task Force has not made changes in respect of various comments related to ‘controls relevant to the audit’ as this is now a specific explicit requirement in paragraph 20 of ISA 315 (Revised), with a related requirement for evaluating the design of such controls and determining whether they have been

²³ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

implemented. The intentions of the Task Force were very specific in ISA 315 (Revised) to clarify what certain terms meant and have carried these specific meanings over to ISA 330.

Matter for IAASB Consideration

6. The IAASB is asked for its views on the proposed Conforming Amendments as set out in **Agenda Item 3-C**.

Other Matters

Implications of the Proposed Changes to ISA 315 (Revised) on the IAASB's Other Standards

77. Some of the standards in the IAASB's suite of standards that are not ISAs²⁴ (such as ISAE 3000)²⁵ include some of the risk assessment concepts embedded in ISA 315 (Revised) that have now been amended or enhanced. In the view of the Task Force these changes are particularly important in the context of an audit, and it is in the public interest to make those changes in the ISAs now. However, at this time it is not essential that these changes are replicated in the IAASB's other standards. Furthermore, there are other changes arising from the IAASB's current projects that will also likely impact the IAASB's other standards (such as those arising from the quality control projects), and the Task Force is of the view that it would make more sense to consider whether to make changes to these standards once (i.e., once revised standards for all of the relevant projects have been finalized) in a more comprehensive project. Accordingly, no further changes have been proposed to the IAASB's other standards.

Exposure Period

78. The Task Force believes it is in the public interest to minimize the time between the effective dates of ISA 540 (Revised) (to be determined at the June 2018 IAASB meeting) and the revisions to ISA 315 (Revised). In order to progress the final changes to ISA 315 (Revised) for approval in June 2019 (as targeted), with an proposed effective date for audits of periods commencing on or after December 15, 2020, the Task Force will need to provide the feedback, and initial thoughts on direction forward, arising from the responses to the ED to Board at the December 2018 IAASB meeting. To meet this timeline, the responses will need to have a deadline of October 31, 2018, with an assumed mid-July publication of the ED. This proposed timeline would allow an exposure period of more than 100 days, and although less than the 120-day period required by the IAASB's due process,²⁶ there are precedents where it is in the public interest to shorten this period, for example ISA 540 (Revised)). Accordingly the Task Force proposes a deadline for the end of October for comments.

Effective Date

79. As noted above, and in light of the interaction of the changes to ISA 315 (Revised) with the changes being finalized with regard to ISA 540 (Revised), the Task Force is of the view that in order to minimize

²⁴ International Standard on Assurance Engagements, International Standards on Review Engagements, and International Standards on Related Services

²⁵ International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

²⁶ The IAASB's due process requires that an ED ordinarily has a 120-day comment period.

the period between when ISA 540 (Revised) becomes effective (to be determined at the June 2018 IAASB meeting), and when the revisions to ISA 315 (Revised) become effective, an appropriate effective date would be for audits of periods beginning at least 18 months after approval²⁷ (i.e., audits of periods beginning on or after December 15, 2020). Because ISA 315 (Revised) is a performance standard that directly affects the planning phase of an audit, the effective date has been set using the convention of “periods beginning” as opposed to “periods ending”. Further, because of the significance of the revisions proposed and because the implementation efforts for the ISA may be substantial, the Task Force is of the view that a transition period of at least 18 months is warranted. A question of respondents will be asked in the Explanatory Memorandum related to the expected implementation efforts and the appropriateness of the transition period.

Due Process Matters

80. In the Task Force’s view, the significant matters identified as a result of its deliberations from the beginning of this project, have all been presented in the issues papers presented to the Board for discussion. In the view of the Task Force there are no significant matters that have not been brought to the attention of the IAASB.
81. The Task Force does not believe that a consultation paper, field testing or a roundtable is needed at this stage of the project, as substantial outreach with a wide range of stakeholders has been undertaken (see Paragraph 6).

Matters for IAASB Consideration

7. The IAASB is asked for its views on the above matters, in particular in relation to the exposure period and planned effective date.
8. Paragraph 10–13 describes the Task Force’s views about scalability in the standard, and the development of further non-authoritative guidance. Does the IAASB believe that further non-authoritative guidance is necessary, and in what form (i.e., for example, Staff Questions and Answers)?

Matters for the Explanatory Memorandum

82. The Task Force has considered some matters it believes are useful to address in the Explanatory Memorandum accompanying the ED.²⁸ These include:
 - Setting out the public interest matters and how they have been addressed in this project (along the lines as set out in paragraph 3).
 - Why the changes have been made and what the auditor will be doing differently, including the possible impacts of the proposed changes.
 - Explain the new concepts introduced (e.g., inherent risk factors, significant classes of transactions, account balances and disclosures, relevant assertions, relevant IT applications), how they interact and the benefits of applying these new concepts.

²⁷ Approval by the IAASB – it is assumed that firms will be able to commence plans to implement the revised standard before approval of the due process by the PIOB.

²⁸ The IAASB’s due process requires an ED to be accompanied by an Explanatory Memorandum that highlights the objectives of, and significant proposals contained in the proposed pronouncement.

- Explaining the changes to the procedures to identify and assess the risks of material misstatement, including the ‘spectrum of inherent risk’ and how the risks are assessed on this spectrum, as well as describing the changes to enhance the auditor’s understanding of risks at the financial statement level and significant risks (including the inclusion of risks with low likelihood or high magnitude as possible significant risks). This will also include an explanation of the changes to the definition of significant risk, and the expected impact of that change.
- Explain the new stand-back requirement, and how it interacts with ISA 330, paragraph 18, and the consequential amendments that have been proposed. A specific question will be asked regarding this.
- Explain how aspects of the standard relating to IT have been updated, in particular in relation to the IT environment, the IT applications relevant to the audit and general IT controls relevant to the audit, and the impact thereof,
- Explain how the standard has been modernized in relation to the auditor’s use of automated tool and techniques (including data analytics).
- Describe any difference to the US Public Company Accounting Oversight Board (PCAOB’s) risk assessment standard, including an explanation for the differences, as appropriate.
- Describe the changes made to the requirements for understanding the system of internal control for clarity and better understanding (including why that understanding has been obtained and what it is used for), including:
 - Explaining the changes made to each of the components of the system of internal control, and clarifying how to obtain an understanding of each of the components
 - Explaining what the effect is of the procedures that are performed to obtain an understanding of internal control on the risk identification and assessment process.
 - Clarifying what ‘controls relevant to the audit’ are, and providing further guidance about what is required to evaluate the design of the control and determine whether it has been implemented. .
- Explain the conforming amendments that have been proposed.
- Explain enhancements that have been made with regard to professional skepticism.
- Explain the changes made to address scalability of the standard, including the incorporation of considerations for audits of small and medium entities into the application material, the use of examples and illustrations to demonstrate scalability, and the restructuring to have some aspects relating to smaller and less complex entities upfront where appropriate.
- Explain the enhanced considerations for audits of public sector entities.
- Further explain the interaction with the ISA 540 Task Force as that group has finalized its standard.

Matters for IAASB Consideration

9. The IAASB is asked whether there are any other matters, not noted in paragraph 82 above, that should be addressed in the Explanatory Memorandum.

Appendix 1

Task Force Members and Activities Including Outreach and Coordination with Other IAASB Task Forces

1. The following sets out the activities of the Task Force, including outreach with others and coordination with other IAASB Task Forces and Working Groups relating to the ISA 315 (Revised) project, since March 2018. The Task Force consists of the following members:
 - Fiona Campbell – Chair (supported by Denise Weber)
 - Megan Zietsman
 - Marek Grabowski (supported by Josephine Jackson)
 - Susan Jones
 - Katharine Bagshaw
 - Charles (Chuck) Landes – correspondent member (supported by Hiram Hasty)

Further information about the project can be found [here](#).

Task Force Activities since the March 2018 IAASB Discussion

2. The ISA 315 Task Force has met twice in person and held 1 teleconference since the last IAASB discussion in March 2018.

The Task Force also presented certain aspects of the ED to the Board through a teleconference on May 22, 2018.

Outreach

3. The Chair of the ISA 315 Task Force and Staff discussed changes relating to public sector considerations on a teleconference with representatives from the public sector. The Task Force Chair has also engaged through teleconference with representatives from the International Association of Insurance Supervisors and presented the key proposed changes to ISA 315 (Revised).
4. Additional targeted outreach activities will be conducted by the Task Force Chair and Staff during early June 2018. Teleconferences have been scheduled with representatives from:
 - Consultative Advisory Group – voluntary call
 - Global Public Policy Committee
 - International Forum of Independent Audit Regulators' Standards Coordination Working Group
 - International Organization of Securities Commissions

Coordination with Other IAASB Task Forces and Working Groups

5. The Chair of the Task Force and Staff continue to coordinate with the Chairs of the ISA 540 Task Force and Staff to discuss matters that crossover both projects. In addition, Mr. Grabowski is a member of the ISA 315 Task Force and the Co-chair of the ISA 540 Task Force.

Extracts from Draft Minutes²⁹

ISA 315 (Revised) – March 2018

Ms. Campbell provided an overview of proposed changes to the requirements and application material of ISA 315 (Revised) as presented in **Agenda Items 3-A, 3-B and 3-C**.

Noting that some aspects of the revisions to ISA 315 (Revised) still require clarification and that some terms, such as automated techniques and tools, need to be consistently articulated, the IAASB broadly supported the direction of the proposed changes, in particular as the proposed changes continued to address the matters included in the project proposal. The Board also generally noted support for the changes that had been made in relation to information technology (IT). Notwithstanding this support, the Board cautioned about the complexity that had been introduced by some of the revisions, and therefore continued to encourage the ISA 315 Task Force to develop explanatory material to practically demonstrate the application of the standard, for example through implementation guidance or flow charts. In addition, the Board asked for further consideration by the ISA 315 Task Force on specific broader matters, including:

- Scalability of the standard. The Board expressed its appreciation of the table included in the issues paper (agenda item 3), setting out those paragraphs where scalability could be applied. However, the ISA 315 Task Force was requested to further consider how the scalability paragraphs could be more distinct and gain more prominence, for example, by including the paragraphs in an appendix to the standard. Board members also asked the ISA 315 Task Force to further consider the paragraphs describing scalability that have been added to the introductory paragraphs, as these may be misinterpreted.
- The content and length of the introductory paragraphs. Although the Board generally supported the inclusion of the introductory paragraphs to highlight key risk assessment concepts; it was noted that these paragraphs could be simplified as they were too repetitive and complex in some places. In addition, some concerns were expressed, including that:
 - Some terms or concepts are introduced too early and in some cases not consistent with the wording in the relevant other standards. Suggestions included to rather utilize references back to other standards, or alternatively, to include these concepts in an appendix;
 - The paragraphs do not adequately describe the purpose behind obtaining an understanding of the entity's system of internal control and its relationship to tailoring further audit procedures.
 - The description of the spectrum of risk did not adequately describe the concept so that it would be understandable by all auditors, particularly how it relates to testing the operating effectiveness of the controls. One Board member queried whether a definition for the 'spectrum of risk' was required.
 - The paragraphs do not:
 - Provide a link to ISA 240³⁰ to recognize how the risks of fraud are dealt with in ISA 315 (Revised);
 - Do not recognize automated techniques or tools, including data analytics; and

²⁹ The draft minutes are still subject to IAASB review and therefore may still change.

³⁰ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

- The description of a significant risk in paragraph 1D, with particular reference to the wording '*relative to other risks of material misstatement*', which may suggest that because it is a relative concept on every audit there would be at least one significant risk, which is not consistent with extant.
- How to articulate the use of 'automated techniques and tools' in the standard. The Board expressed mixed views on whether an explicit reference to 'data analytics' is appropriate.

DEFINITIONS

In relation to the proposed changes to the definitions, the Board continued to support the further changes that have been proposed, as well as the inclusion and planned modernization of the new definitions of application controls in information technology and general IT controls, but still noted the following concerns in relation to:

- The definition of 'assertions', further consideration was needed to distinguish this definition from management representations in accordance with ISA 580.³¹
- The definition of 'inherent risk factors' (IRFs), the Board encouraged further consideration about:
 - Broadening of the definition to include quantitative aspects as this may detract from the qualitative aspects that this concept was focusing on. However, other Board members agreed with broadening this to include quantitative aspects.
 - The susceptibility to management bias as an inherent risk factor, as it may be more of an overarching inherent risk factor. Other Board members supported the introduction of unintentional aspects of management bias.
 - How the IRFs interact with the risk of fraud. Currently, the 'susceptibility to management bias' only covers part of the fraud triangle and therefore the link to the fraud risk factors of ISA 240 appears incomplete. However, the ISA 315 Task Force was cautioned not to confuse further explanations in ISA 315 (Revised) with the auditor's considerations about fraud already required in ISA 240.
- The definition for 'relevant assertions,' noting that further clarification was needed to explain the threshold of '*more than remote*' was not different from '*reasonably possible*.'
- The definition of 'significant risk,' with some Board members still expressing concern whether terms such as 'relative to other risks' and 'highest end of the spectrum' would be applied consistently by auditors and may be inconsistently interpreted. In addition, some Board members questioned the use of the word '*or*' with reference to the phrase '*the likelihood of a misstatement occurring or the magnitude of potential misstatement*,' however, Ms. Campbell explained the rationale and referred to previous Board discussions in support thereof to help make clear that significant risks could exist if there was a low likelihood of occurrence but a high magnitude of the event did occur. The Board generally agreed that the use of the word '*or*' in this context remains appropriate.

³¹ ISA 580, *Written Representations*

RISK ASSESSMENT PROCEDURES

Although supportive of the further changes that have been proposed, the Board asked that further consideration be given to:

- The use of the term ‘sufficient appropriate audit evidence’ in paragraph 5 of ISA 315 (Revised). Although some Board members believed that the introduction of this concept would help with why risk assessment procedures are performed (i.e., what the outcome should be when performing risk assessment procedures), and with the boundaries about how much audit evidence is needed (and therefore also assist with the documentation requirements). Other Board members believed that the use of ‘sufficient and appropriate’ is superfluous and may not change auditor behavior;
- Aligning the relevant parties in paragraphs 7 to 10 between the requirements and the application material.
- How analytical procedures are described in the application material, as this currently provides examples but may be better described as characteristics of effective analytical procedures as risk assessment procedures.
- Whether the engagement team discussion should focus on the risks inherent in the applicable financial reporting framework for the entity, rather than the entity’s application thereof.
- The nature of audit evidence obtained through the use of automated techniques and tools as part of risk assessment procedures.

UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

The Board was generally supportive about the further changes that have been proposed, but asked that further consideration be given to:

- Better describing the reason or expected outcomes when obtaining an understanding the entity and its environment. Some Board members were also concerned that the requirement may be interpreted too narrowly as it only focuses on what may impact the expected classes of transactions, account balances and disclosures in the financial statements, and there may be other aspects that should be included to effectively identify all risks.
- Describing how to undertake the risk analysis rather than listing the matters to be understood to identify the risks.

OBTAINING AN UNDERSTANDING OF THE SYSTEM OF INTERNAL CONTROL

There was support for the proposals relating to the further changes made for the auditor’s understanding of the entity’s system of internal control, however, the Board asked that the descriptions provided be written in a simpler way and that aspects of scalability still be considered. The Board also asked that further consideration be given to:

- Whether the scope of the required understanding, being ‘*relevant to financial reporting*,’ is not too broad.
- Clarifying why the auditor is required to obtain an understanding of the system of internal control.
- Consolidating the auditor’s response when identifying deficiencies in the various components of internal control into a single requirement.

- Better describing, and developing guidance to practically demonstrate (for example through a flowchart) how the requirements ‘fit together,’ in particular in relation to information technology.
- Related to whether a control has been placed into operation in paragraph 18A, clarifying the work effort to determine whether the control has been ‘*placed into operation*’ in paragraph 18A.
- Distinguishing the concepts of direct and indirect controls through the application material and clarifying what the impact of the difference is.
- Clarifying under which circumstances general information technology controls are expected to be relevant.

IDENTIFICATION AND ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

The Board cautioned that the revised structure was complex and some noted that reordering the required steps may be appropriate. The ISA 315 Task Force was also encouraged to enhance the related application material to clarify the process, highlighting that a flowchart may be very helpful for implementing the new and revised requirements in this area. In addition, the ISA 315 Task Force was asked to further consider:

- Financial statement level risks, in particular:
 - The auditor’s response to financial statement level risks and how these risks interact with risks at the assertion level; and
 - Whether a financial statement risk could be classified as a significant risk, and if so, the consequences for the auditor.
- The stand-back requirement in paragraph 30B:
 - Concern was expressed with the use of the terms ‘significant’ and ‘material’ in the same requirement; and
 - how this the link with ISA 330³² paragraph 18 could be better explained.

DOCUMENTATION

One Board member noted that the documentation requirements stayed largely consistent compared to extant, and questioned whether it sufficiently recognizes the enhancements to the standard.

APPENDICES

The Board expressed their support for the appendices as included in Agenda Item 3-B.

IAASB CAG CHAIR REMARKS

Mr. Dalkin noted continuing support for the direction of the changes being developed. Mr. Dalkin specifically noted support for the coordination efforts to align ISA 315 (Revised) with ISA 540, and the inclusion of an explicit link to ISA 240 to recognize that the risk of fraud is integral to the auditor’s risk assessment in accordance with ISA 315 (Revised). He also noted the CAG’s concerns about the description of significant risk being at the ‘highest end’ of the spectrum of risk, which may suggest that there is only one significant risk.

³² ISA 330, *The Auditor’s Responses to Assessed Risks*

PIOB REMARKS

Ms. Stothers continued to support the direction of the changes, specifically acknowledging the separation of the assessment of inherent risk and control risk. She further encouraged the ISA 315 Task Force to continue its efforts to clarify and explain, in the standard, that the consideration of the risk of fraud is fundamental to the auditor's identification and assessment of risk of material misstatement. And accordingly, irrespective whether the risk of fraud is included as an inherent risk factor or not, from a public interest perspective, a clear link to ISA 240 may be required. Ms. Stothers also encouraged the Task Force to continue to consider how the use of data analytics or automation is presented in the standard, including how this is described, and how professional skepticism could be further emphasized within the standard.

WAY FORWARD

The ISA 315 Task Force will undertake specific outreach with public sector representatives in order to make amendments in relation to public sector considerations as appropriate. The Task Force will present specific matters at a Board teleconference in May 2018 and an Exposure Draft of the proposed changes to ISA 315 (Revised) for IAASB approval at the June 2018 IAASB meeting.

Appendix 3

This Appendix sets out the relevant references as explained in paragraphs 15–27.

Scalability – refer paragraphs 10–13

Agenda Item 3-B: Paragraph reference and summary of content (Application material)	
A3	Explaining that the risk assessment procedures to obtain the overall understanding may be less extensive in the audits of smaller and less complex entities
A16 & A16a	Explaining how analytical procedures as a risk assessment tool are scalable: <ul style="list-style-type: none"> - The auditor may perform a simple comparison of information from an interim or month end period with balances from prior periods. - Alternatively, the auditor may perform a more advanced procedure by extracting data from the entity's information system, and further analyze this data by using visualization techniques.
A20a	Providing guidance where an engagement team discussion may not be possible, for example, where an engagement is carried out by a single partner.
A22	Clarifying that during the engagement team discussion, the consideration of disclosure requirements are considered even where the financial reporting framework may only require simplified disclosures.
A24a	Describing the depth of the auditor's required understanding of the entity and its environment – this will vary according to the nature, size and complexity of the entity.
A31	Explaining that the auditor's understanding of the entity's organizational structure and ownership is dependent on the particular circumstances, such as complexity.
A44	Emphasizing that the procedures to measure the performance of an entity may vary depending on the size and complexity of the entity, as well as the involvement of management and those charged with governance in the management of the entity.
A49d	Explaining that disclosures in financial statements of smaller and less complex entities may be simpler and less detailed, but this does not relieve auditor of obtaining understanding of the applicable financial reporting framework
A49k	Highlighting an increased susceptibility to risks of material misstatement due to fraud in owner–managed entities.

A50a	Explaining that the nature, timing and extent of the auditor's risk assessment procedures will vary and depend on matters such as the size and complexity of the entity.
A52	Clarifying that the way in which internal control is designed, implemented and maintained, varies with an entity's size and complexity.
A77 a–b	<ul style="list-style-type: none"> Highlighting that the control environment relating to smaller and less complex entities is likely to vary from larger or more complex entities. And therefore, some considerations about the entity's control environment may not be applicable or less relevant. Clarifying that audit evidence for elements of the control environment in smaller and less complex entities may not be available in documentary form. <p>In both instances, examples are also provided.</p>
A80a	Explaining that the auditor's consideration of the entity's use of IT, as it relates to the control environment, is commensurate with the nature and size of the entity and its business operations, including the complexity or maturity of the entity's technology platform or architecture.
A81a	Clarifying that domination of management by a single individual in a smaller and less complex entity does not generally indicate a failure by management to display and communicate an appropriate attitude regarding the entity's system of internal control and the financial reporting process.
A89	Explaining that some smaller and less complex entities, and particularly owner-managed entities, may not have established a formal risk assessment process, or the risk assessment process may not be documented or performed on regular basis.
A89c	Highlighting that for some smaller and less complex entities, and particularly owner-managed entities, an appropriate risk assessment may be performed through the direct involvement of management or the owner-manager.
A89f	Clarifying that in smaller and less complex entities, and particularly owner-managed entities, management's monitoring of control is often accomplished by the owner-manager's direct involvement in operations and there may not be any other monitoring activities.
A89g	Providing guidance to the auditor where an entity may not have a distinct process for monitoring the system of internal control.
A90c	Explaining that the auditor's understanding of the entity's information system relevant to financial reporting may require less effort in an audit of smaller or less complex entities, and may be more dependent on inquiry than on review of documentation.

A92f	Clarifying that the auditor's understanding of the entity's IT environment may be simpler for a smaller and less complex entity that uses commercial software and the entity does not have access to the source code to make any program changes.
A97a	Clarifying that the communication of financial reporting roles and responsibilities within smaller and less complex entities may be less structured and less formal.
A99a	Explaining the nature or type of controls in smaller and less complex entities.
A99e	Explaining that smaller entities may be limited in the extent to which segregation of duties is practicable, and the consequences thereof.
A100a	Explaining that controls relevant to the audit are expected to include, at a minimum, controls over journal entries, and that in audits of smaller and less complex entities with a non-complex information system, there may not be any other controls relevant to the audit (if no significant risks and no intention to test the operating effectiveness of controls)
A106b	Providing guidance where an entity uses commercial software and management does not have access to the source code to make any program changes. And consequently, there may be circumstances where no IT applications are relevant to the audit or when understanding program change controls are not required (because the program can't be changed).
A106i	Explaining that when there are no IT applications relevant to the audit, other aspects of the entity's IT environment are also not relevant.
A127f	Acknowledging that, in relation to audits of smaller and non-complex entities, a greater proportion of assessed inherent risks are likely to be at the lower end of the spectrum of inherent risk.
A150a	A reminder that the control risk assessment remains at the maximum level when the auditor does not intend to test the operating effectiveness of controls that address the assessed inherent risks.
A152-A153	Emphasizing that the form and extent of audit documentation may be simple in form and relatively brief for audits of smaller and less complex entities, and may be incorporated in the documentation of the overall strategy and audit plan..

Fraud – refer paragraphs 14–15

ISA 315 (Revised) Requirements	
Introductory paragraph 1-F	Explaining that risks to be identified and assessed by the auditor in accordance with ISA 315 (Revised) include both those due to error and fraud. Due to the significance of fraud, further reference to ISA 240 is required.
Para. 3:	Stating the objective of the standard, i.e. the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.
Para. 4(d)	Risk assessment procedures – The audit procedures designed and performed to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.
ISA 315 (Revised) Application Material	
Para. A0d & A0e	Explanatory material on the ‘susceptibility to misstatement due to management bias or fraud’ inherent risk factor.
Para. A1a	Confirming that the risks of material misstatement are identified and assessed due to both error and fraud. However, due to the significance of fraud, further reference to ISA 240 is required.
Para. A1b	Explaining that the understanding of the auditor, as required by ISA 315 (Revised), establishes a frame of reference within which the auditor plans the audit and exercises professional judgment throughout the audit, including during the auditor’s consideration of fraud in accordance with ISA 240.
Para. A7	Clarifying that inquiries, as part of risk assessment procedures, may provide information about matters such as fraud or suspected fraud affecting the entity.
Para. A11	Reminding the auditor of ISA 240 para. 19: If internal audit function provides information regarding fraud, the auditor takes this into account in the auditor’s identification of risk of material misstatement due to fraud.
Para. A15	Explaining that analytical procedures may help identify unusual or unexpected relationships that may assist the auditor in identifying risks of material misstatement due to fraud.
Para. A21	Emphasizing that: <ul style="list-style-type: none"> The engagement team discussion allows the engagement team to exchange information about how the financial statements might be susceptible to material misstatement due to fraud and error.

	<ul style="list-style-type: none"> ISA 240 requires that the discussion place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud.
A31c	Explaining that the understanding of the business model may assist the auditor in identifying incentives or pressures on management that may result in intentional or unintentional bias.
Para. A44a	Explaining that an understanding of the entity's performance measures may assist the auditor in identifying performance targets that increase the susceptibility to misstatement due to management bias or fraud.
Para. A49g & A49h	<ul style="list-style-type: none"> Emphasizing that when the auditor obtains an understanding of the entity, the auditor may identify events or conditions that are indicative of risks of material misstatement due to fraud. If so, the auditor is required to consider whether one or more fraud risk factors are present in accordance with ISA 240 para. 24.
Para. A49k	Highlighting an increased susceptibility to risks of material misstatement due to fraud in owner–managed entities.
Para. A82	Clarifying that although the control environment may help reduce the risk of fraud, it is not an absolute deterrent to fraud.
Para. A89a	Explaining that an understanding of the entity's risk assessment process may include how management or those charged with governance consider the potential for fraud.
A99e	Explaining that domination of management by a single individual (and when segregation of duties doesn't exist) is an opportunity for management override of controls.
A100f	Reminding the auditor of the importance to obtain an understanding of the controls management has implemented to prevent and detect fraud, as well as referring to the fraud risk factors included in ISA 240.
Para. A144	Emphasizing that ISA 240 provides requirements and guidance in relation to the identification and assessment of risks of material misstatement due to fraud.
Appendix 2	An example of events and conditions relating to the 'susceptibility to misstatement due to management bias or fraud' – Fraudulent financial reporting.
Appendix 3	Explaining that the segregation of duties is intended to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of the person's duties.

Public Sector – refer paragraphs 16–18

Agenda Item 3-A	
1J	Highlighting that the objectives of a financial audit in the public sector are often broader than an audit for a non-public entity. For example, the audit mandate for public sector entities may arise from legislation, regulation, ministerial directives, etc.
Agenda Item 3-B	
A8a	Explaining that when the auditor makes inquiries of management (or others within the entity) to identify risks of material misstatement, public sector auditors may obtain information from additional sources.
A13	Emphasizing that auditors of public sector entities often have additional responsibilities with regard to internal control and compliance with applicable laws and regulations.
A18a	Highlighting that risk assessment procedures by public sector auditors may include observation and inspection of documents prepared by management for the legislature.
A23a	Explaining that for public sector audits, the engagement team discussion may consider broader objectives and related risks arising from the audit mandate or obligations of the entity.
A31a	Providing guidance on the concept of ‘the entity’s organizational structure and ownership’ from a public sector perspective.
A36a	Explaining the concept of ‘the entity’s business model’ from a public sector perspective.
A43	Clarifying the meaning of “management objectives” from a public sector perspective.
A43e	Explaining that for public sector entities, law, regulation or other authority may affect the entity’s operations.
A49a	Describing specific measures that may be used to assess an entity’s financial performance from a public sector perspective.
A53a	Highlighting that public sector auditors often have additional responsibilities with respect to internal control, and therefore, considerations about the system of internal control may be broader and more detailed.

A121e	Clarifying the application and scope of assertions, as described in paragraphs A121c (a)-(b), from a public sector perspective.
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Data Analytics – refer paragraphs 19–21

Agenda Item 3–B: Paragraph reference and summary of content (Application material)	
A2	Emphasizing that technology may be used on large volumes of data, which may result in evidence that informs the identification and assessment of risks of material misstatement.
A4b	Clarifying that the auditor may use automated tools and techniques to perform risk assessment procedures, including for analysis, recalculations, re-performance or reconciliations.
A16a	Describing that: <ul style="list-style-type: none"> • Risk assessment analytical procedures may be automated, for example by using visualization techniques to analyze data to identify more specific areas of possible misstatement. • The application of automated analytical procedures to data may be referred to as data analytics.
A24b	Highlighting that the auditor may be able to enhance the understanding of the entity and its environment by using automated tools and techniques, and providing an example.
A96b	Explaining the option to use automated techniques to assist in confirming that the information system has been implemented.
A100i	Describing that automated tools may be used to understand the nature and extent of controls over journal entries.
A127b	Clarifying that automated techniques may be used to confirm whether all significant classes of transactions and account balances have been identified by, for example, analyzing types of transactions and their volume.

Professional Skepticism – refer paragraphs 22–23

Agenda Item X	
A4c	Explaining that sources of information, other than management, may provide potentially contradictory information from that provided by management, which may assist the auditor in exercising effective professional skepticism in identifying and assessing the risks of material misstatement.
A21	Describes the benefits of the engagement team discussion, and in particular, assisting engagement team members in further considering inconsistent

	information based on each member's own understanding of the nature and circumstances of the entity.
A22a	Explaining that when performing risk assessment procedures, the engagement team has the opportunity to exercise professional skepticism through identifying and discussing inconsistent or contradictory information obtained in performing those procedures, as well as considering whether there are indicators of possible management bias (both intentional and unintentional).
A24a	Clarifying that the ability of the engagement team to effectively exercise professional skepticism throughout the audit is enhanced through obtaining a thorough understanding of the entity and its environment and the applicable financial reporting framework.
A89r	Emphasizing that the auditor's communications with the internal audit function may provide opportunities for the auditor to obtain information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. Contradictory information enables the auditor to exercise professional skepticism.
A121a	Reminding the auditor that in identifying and assessing the risks of material misstatement, the auditor exercises professional skepticism in accordance with ISA 200. ³³

³³ ISA 200 paragraph 15

3-A

ISA 315 (Revised),¹ Identifying and Assessing the Risks of Material Misstatement ~~through Understanding the Entity and Its Environment~~

Requirements – Proposed Changes

Scope of this ISA

This International Standard on Auditing (ISA) deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements ~~through understanding the entity and its environment, including the entity's internal control.~~

Key Concepts in this ISA

- 1A. ISA 200 deals with the overall objectives of the auditor, including to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. Audit risk is a function of the risks of material misstatement and detection risk. ISA 200 explains that the risks of material misstatement may exist at two levels: the overall financial statement level; and the assertion level for classes of transactions, account balances and disclosures.
- 1B. Risks at the financial statement level relate pervasively to the financial statements as a whole and potentially affect many assertions. Risks of material misstatement at the assertion level consist of two components, inherent and control risk:
 - Inherent risk is defined as the susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
 - Control risk is defined as the risk that a misstatement that could occur in an assertion about a class of transactions, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's system of internal control.
- 1C. A separate assessment of inherent risk and control risk for risks of material misstatement at the assertion level is required by this ISA. Inherent risk is influenced by factors that, alone or in combination with others, increase, to varying degrees, the susceptibility of an assertion about a class of transactions, account balance or disclosure to a misstatement that could be material, before taking account of controls. For purposes of the ISAs, these factors are referred to as 'inherent risk factors.' As explained in ISA 200, inherent risk is higher for some assertions and related classes of transactions, account balances and disclosures than for others. Accordingly, the assessment of inherent risk depends on the degree to which the inherent risk factors affect the likelihood or magnitude of misstatement, and varies on a scale that is referred to in this ISA as the 'spectrum of inherent risk'. Depending on the extent to which the assertion is subject to, or affected by, such factors, the inherent risk varies for different risks of material misstatement at the assertion level, on a continuous scale. For example, ISA 200 explains that inherent risk is higher for some assertions about particular classes of transactions, account balances and disclosures than for others.

¹ International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

- 1D. The auditor's assessment of control risk takes into account the auditor's expectations about the operating effectiveness of controls in designing further audit procedures. If the auditor does not plan to test the operating effectiveness of controls, the auditor assesses control risk at the maximum. When the auditor is required, or intends, to test operating effectiveness as part of the auditor's further audit procedures, the auditor assesses control risk at less than the maximum.
- 1E. The auditor identifies and assesses the risks of material misstatement at the financial statement level and the assertion level in accordance with this ISA, in order to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level, and determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence.
- 1F. Risks of material misstatement identified and assessed by the auditor include both those due to error and those due to fraud. Although both are addressed by this ISA, the significance of fraud is such that further requirements and guidance are included in ISA 240 in relation to risk assessment procedures and related activities to obtain information that is used to identify and assess the risks of material misstatement due to fraud.
- 1G. 'Considerations specific to audits of smaller entities' are incorporated in the application material and other explanatory material of this ISA. This ISA further acknowledges that these considerations may also extend to less complex entities. Accordingly, in this context, this ISA refers to the term 'smaller and less complex entities.'

Effective Date

2. This ISA is effective for audits of financial statements for periods ~~ending~~beginning on or after December 15, ~~2013~~2020.

Objective

3. The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, ~~through understanding the entity and its environment, including the entity's internal control,~~ thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.

Definitions

4. For purposes of the ISAs, the following terms have the meanings attributed below:
- (a) Application controls – Manual or automated controls of a preventative or detective nature that support the initiation, recording, processing and reporting of transactions or other information in the entity's information system, the objectives of which are to maintain the completeness and accuracy of such transactions and other information. Manual or automated application controls may rely on information, or other controls that maintain the integrity of information, or may rely on the operation of other controls. [NEW definition for ISA 315 – Elevated and updated from GLOSSARY]
- (aa) Assertions – Representations by management, explicit or otherwise, that are embodied with respect to the recognition, measurement, presentation and disclosure of information in the financial statements. ~~Such representations,~~ which are inherent in management representing that the financial statements are in accordance with the applicable financial reporting

framework. Assertions are as used by the auditor to consider the different types of potential misstatements that may occur when identifying, assessing and in responding to the risks of material misstatement. (Ref. Para: A0a–A0aa).

- (b) Business risk – A risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies.
- (c) *Internal control: See 4(f) below – now “System of Internal Control”*
- (ca) Controls – Policies or procedures that are embedded within the components of the system of internal control to achieve the control objectives of management or those charged with governance. In this context:
 - Policies are statements of what should, or should not, be done within the entity to effect control. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions.
 - Procedures are actions to implement policies. (Ref: Para. A0b–A0c)
- (caa) General information technology (IT) controls – Controls in the IT environment that support the effective functioning of application controls or the integrity of information by helping to maintain the continued operation, as designed, of the entity's information system. General IT controls include controls over the entity's IT processes. [NEW definition for ISA 315 – Elevated and updated from GLOSSARY]
- (cb) Inherent Risk Factors – Characteristics of events or conditions that affect susceptibility to misstatement of an assertion about a class of transactions, account balance or disclosure, before consideration of controls. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or fraud. (Ref: Para A0d-A0e)
- (cbb) IT environment –The IT applications and supporting IT infrastructure, as well as the IT processes and personnel involved in those processes, that it an entity uses to support business operations and achieve business strategies. For the purposes of this ISA:
 - An IT application is a set of programs that is used in the initiation, processing, recording and reporting of transactions or information. IT applications may include data warehouses and report-writers.
 - The IT infrastructure is comprised of the network, operating systems, and databases and their related hardware and software.
 - The IT processes are the entity's processes to manage access to the IT environment, manage program changes or changes to the IT environment and manage IT operations, which includes monitoring the IT environment. (Ref: Para: A0f-A0g) [NEW definition for ISA 315 – Elevated and updated from GLOSSARY]
- (cc) Relevant assertions – An assertion is relevant to a class of transactions, account balance or disclosure when the nature or circumstances of that item are such that there is a reasonable possibility of occurrence of a misstatement with respect to that assertion that is material, individually or in combination with other misstatements. There is such possibility when the

likelihood of a material misstatement is more than remote. The determination of whether an assertion is a relevant assertion is made before consideration of controls.

- (d) Risk assessment procedures – The audit procedures designed and performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.
- (da) Significant class of transactions, account balance or disclosure – A class of transactions, account balance or disclosure for which there is one or more relevant assertions.
- (e) Significant risk – ~~An identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration.~~ An identified risk of material misstatement:
- For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which one or a combination of the inherent risk factors affect the likelihood of a misstatement occurring or the magnitude of potential misstatement should that misstatement occur; or
 - That is to be treated as a significant risk in accordance with the requirements of other ISAs.² (Ref: Para. A0h)
- (f) System of Internal Control (Previously (c) Internal Control) – The ~~process~~ system designed, implemented and maintained by those charged with governance, management and other personnel, to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. ~~The term "controls" refers to any aspects of one or more of the components of internal control.~~ For the purposes of the ISAs, the system of internal control consists of five inter-related components: (Ref: Para. A0i)
- 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.

Requirements

Risk Assessment Procedures and Related Activities

5. The auditor shall design and perform risk assessment procedures to obtain an understanding of:
- The entity and its environment in accordance with paragraph 11(a);
 - The applicable financial reporting framework in accordance with paragraph 11(b); and
 - The entity's system of internal control in accordance with paragraphs 12–21D

² ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 27 and ISA 550, *Related Parties*, paragraph 18

to ~~provide~~ obtain a sufficient appropriate audit evidence as the basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion. (Ref: Para. A1–A35)

6. The risk assessment procedures shall include the following: (Ref: Para A4a–A5)
 - (a) Inquiries of management, of appropriate individuals within the internal audit function (if the function exists), and of others within the entity who in the auditor's judgment may have information that is likely to assist in identifying risks of material misstatement due to fraud or error. (Ref: Para. A6–A13)
 - (b) Analytical procedures. (Ref: Para. A14–A1716b)
 - (c) Observation and inspection. (Ref: Para A18–A18a)
7. The auditor, in identifying and assessing the risks of material misstatement, shall take into account consider whether information obtained from the auditor's client acceptance or continuance process of the client relationship or the audit engagement is relevant to identifying risks of material misstatement. (Ref: Para. A18b)
8. If the engagement partner has performed other engagements for the entity, the engagement partner shall consider whether information obtained is relevant to identifying and assessing risks of material misstatement. (Ref: Para. A18c)
9. Where the auditor intends to use information obtained from the auditor's previous experience with the entity and from audit procedures performed in previous audits, the auditor shall evaluate whether such information remains relevant and reliable as audit evidence determine whether changes have occurred since the previous audit that may affect its relevance to for the current audit. (Ref: Para. A19–A20)
10. The engagement partner and other key engagement team members shall discuss the application of the applicable financial reporting framework in the context of the nature and circumstances of the entity and its environment, and the susceptibility of the entity's financial statements to material misstatement, and the application of the applicable financial reporting framework to the entity's facts and circumstances. The engagement partner shall determine which matters are to be communicated to engagement team members not involved in the discussion. (Ref: Para. A20a–A23a)

The Required Understanding of the Entity and Its Environment, Including the Entity's Internal Control and the Applicable Financial Reporting Framework (Ref: Para. A24a–A24b)

The Entity and Its Environment

11. The auditor shall perform risk assessment procedures to obtain an understanding of the following entity and its environment and the applicable financial reporting framework. In doing so, and to provide an appropriate basis for understanding the classes of transactions, account balances and disclosures to be expected in the entity's financial statements, the auditor shall obtain an understanding of the following matters:

- (a) ~~Relevant industry, regulatory, and other external factors including the applicable financial reporting framework. (Ref: Para. A25–A30).~~ The entity and its environment, including:
- (i) The entity's organizational structure, ownership and governance, and its business model, including the extent to which the business model integrates the use of IT; (Ref: Para A31–A43)
 - (ii) Relevant industry, regulatory and other external factors; and (Ref: Para. A43a–A43f)
 - (iii) The relevant measures used, internally and externally, to assess the entity's financial performance. (Ref: Para. A44–A49a)
- (b) ~~The nature of the entity, including:~~
- (i) ~~its operations;~~
 - (ii) ~~its ownership and governance structures;~~
 - (iii) ~~the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and~~
 - (iv) ~~the way that the entity is structured and how it is financed,~~
- ~~to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements (Ref: Para. A31–A35).~~
- (b) The applicable financial reporting framework, including: (Ref: Para.A49b–A49e)
- (i) How it applies in the context of the nature and circumstances of the entity and its environment, including how events or conditions are subject to, or affected by, the inherent risk factors; and (Ref: Para.A49f–A49k)
 - (ii) The entity's accounting policies and any changes thereto, including the reasons for any changes to the entity's accounting policies.
- (c) ~~The entity's selection and application of accounting policies, including the reasons for changes thereto. (moved to paragraph 11(b)(ii) above)) The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry (Ref: Para.A36). (moved to paragraph 11A below)~~
- (d) ~~The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement (Ref: Para A37–A43).~~
- (e) ~~The measurement and review of the entity's financial performance (Ref: Para. A44–A49).~~
- 11A. (Previously part of 11(c)) The auditor shall evaluate whether the entity's accounting policies, and any changes thereto, are appropriate for its business in the context of the nature and circumstances of the entity and its environment, and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.

The Understanding of The Entity's System of Internal Control

12. The auditor shall perform risk assessment procedures to obtain an understanding of the entity's system of internal control relevant to financial reporting, including the entity's use of IT, by understanding each of the components of internal control relevant to the audit. For this purpose, the

auditor shall address the requirements set out in paragraphs 14 to 19A of this ISA. (Ref: Para. A50–A67e)

~~[Rest of paragraph 12 moved to paragraph 20] Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit. (Ref Para. A50–A73)~~

~~Nature and Extent of the Understanding of Relevant Controls~~

13. The auditor shall identify controls relevant to the audit, and shall evaluate the design of the controls and determine whether the controls have been implemented in accordance with the requirements set out in paragraphs 20 to 21B. (moved to paragraph 21B) ~~When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel. (Ref. Para. A74–A7673a)~~

Components of the Entity's System of Internal Control

Control Environment

14. The auditor shall obtain an understanding of the control environment relevant to financial reporting, including understanding how the entity: As part of obtaining this understanding, the auditor shall evaluate whether: (Ref: Para. A77–A80a)
- (a) Demonstrate a commitment to integrity and ethical values;
 - (b) When those charged with governance are separate from management, demonstrates that those charged with governance are independent of management and exercise oversight of the entity's system of internal control;
 - (c) Establishes, with the oversight of those charged with governance, structures, reporting lines, and appropriate authorities and responsibilities, in pursuit of its objectives;
 - (d) Demonstrates a commitment to attract, develop, and retain competent individuals in alignment with its objectives; and
 - (e) Holds individuals accountable for their responsibilities in the pursuit of the objectives of the system of internal control.
- 14A. [Previously paragraphs 14(a)-(b)] Based on the auditor's understanding of the control environment, the auditor shall evaluate whether: (Ref: Para. A80b–A82)
- (a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and
 - (b) The strengths in those areas of the entity's control environment elements addressed in paragraphs 14(a) to (e) collectively provide an appropriate foundation for the other components of the system of internal control, or whether those other components are undermined by control deficiencies in the control environment component.

The Entity's Risk Assessment Process

15. ~~The auditor shall obtain an understanding of whether the entity has a process for:~~ The auditor shall make inquiries about the nature of the entity's risk assessment process, including its formality. The auditor shall obtain an understanding of: (Ref: Para. A88–A9489b)
- (a) Whether, and if so, how, the entity's process:
 - (i) ~~(a)Identifying~~ Identifies business risks relevant to financial reporting objectives;
 - (ii) ~~(b)Estimating~~ Assesses the significance of those risks, including ~~(c)assessing~~ the likelihood of their occurrence; and
 - (iii) ~~Deciding about actions to a~~ Addresses those risks.
 - (b) The results of the entity's process.
16. ~~If the entity has established such a process (referred to hereafter as the "entity's risk assessment process"), the auditor shall obtain an understanding of it, and the results thereof. If the auditor identifies risks of material misstatement that management failed to identify, the auditor shall evaluate whether there was an underlying any such risks are of a kind that the auditor expects would have been identified by the entity's risk assessment process. If there is such a risk so, the auditor shall obtain an understanding of why the entity's risk assessment process failed to identify it such risks of material misstatement, and evaluate whether the process is appropriate to its circumstances or determine if there is a significant deficiency in internal control with regard to the entity's risk assessment process consider the implications for the auditor's evaluation required by paragraph 17.~~
17. ~~If the entity has not established such a process or has an ad hoc process, the auditor shall discuss with management whether business risks relevant to financial reporting objectives have been identified and how they have been addressed. The auditor shall evaluate whether the absence of a documented risk assessment process is appropriate in the circumstances, or determine whether it represents a significant deficiency in internal control. (Ref: Para. A89) Based on the auditor's understanding of the entity's risk assessment process in accordance with paragraph 15, the auditor shall: (Ref: Para. A89c–A89d)~~
- (a) Evaluate whether the nature of the entity's risk assessment process, including its formality, is appropriate to the entity's circumstances considering the nature and size of the entity; and
 - (b) If not, determine whether the lack of an appropriate risk assessment process represents one or more control deficiencies.

~~(Section moved up) Monitoring of The entity's process to monitor the system of internal controls (Ref: Para. A89e–A89h)~~

- 17A. ~~(Previously paragraph 22)The auditor shall obtain an understanding of the major activities that the entity uses to monitor internal control relevant to financial reporting, including those related to those control activities relevant to the audit, and how the entity initiates remedial actions to deficiencies in its controls.(Ref: Para. A110–A112) The auditor shall make inquiries about the nature of the entity's process to monitor the system of internal control, including its formality. The auditor shall obtain an understanding of how the entity's process: (Ref: Para. A89i–A89k)~~
- (a) Monitors the effectiveness of controls; and

(b) Addresses the identification and remediation of control deficiencies, including those related to the entity's risk assessment process.

- 17B. *(Previously paragraph 24)* The auditor shall obtain an understanding of the sources of the information used in the entity's process to monitor the system of internal control ~~monitoring activities~~, and the basis upon which management considers the information to be sufficiently reliable for the purpose. (Ref: Para. A44089l–A89m)
- 17C. *(Previously paragraph 23)* If the entity has an internal audit function,³ the auditor shall obtain an understanding of the nature of the internal audit function's responsibilities, its organizational status, and the activities performed, or to be performed. (Ref: Para. A40289n–A40989r)

The Information System, ~~including the related business processes, relevant to financial reporting,~~ and Communication

18. The auditor shall obtain an understanding of the information system relevant to financial reporting, ~~including the related business processes, relevant to financial reporting, including the following areas (Ref: Para. A90–A92 and A95–A96) through understanding:~~ (Ref: Para. A90–A90c)
- (a) ~~The classes of transactions in the entity's operations that are significant to the financial statements;~~ How information relating to significant classes of transactions, account balances and disclosures flows through the entity's information system, whether manually or using IT, and whether obtained from within or outside of the general ledger and subsidiary ledgers. This understanding shall include how: (Ref: Para. A90d–A92)
- (i) ~~(b) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements; Transactions are initiated, and how information about them is recorded, processed, corrected as necessary, and incorporated in the general ledger and reported in the financial statements; and~~
- (ii) Information about events and conditions, other than transactions, is captured, processed and disclosed in the financial statements.
- (b) ~~(c) The related accounting records, supporting information and specific accounts in the financial statements and other supporting records relating to the flows of information in paragraph 18(a); that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be either manual or electronic form;~~
- ~~(d) How the information system captures events and conditions, other than transactions, that are significant to the financial statements.~~
- (c) ~~(e) The financial reporting process used to prepare the entity's financial statements from the records described in paragraph 18(b), including as it relates to significant accounting estimates~~

³ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph 14(a), defines the term "internal audit function" for purposes of the ISA.

and disclosures and to accounting estimates relating to significant classes of transactions, account balances and disclosures; and

(d) The entity's IT environment relevant to (a) through (c) above. (Ref: Para. A92(a)–A92(g))

~~(f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments. (Ref: Para. A93–A94) [MOVED TO Paragraph 20]~~

~~This understanding of the information system relevant to financial reporting shall include relevant aspects of that system relating to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers.~~

18A. In obtaining the understanding required by paragraph 18, the auditor shall evaluate the design of the information system relevant to financial reporting, including those aspects in paragraph 18(a)–(d), and determine whether it has been implemented (i.e., placed into operation) by the entity. (Ref: Para. A96a–A96d)

19. The auditor shall obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters ~~relating~~ relevant to financial reporting, including: (Ref: Para. A97–A97a~~98~~)

- (a) Communications between management and those charged with governance; and
- (b) External communications, such as those with regulatory authorities.

~~Control Activities relevant to the audit~~

19A. The auditor's understanding of the control activities component is obtained by identifying the controls relevant to the audit in that component in accordance with the requirements of paragraphs 20 through 21A, and evaluating their design and determining whether they have been implemented in accordance with paragraph 21B. Ref: Para. A99–A99(e))

Controls relevant to the audit

20. ~~The auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks. An audit does not require an understanding of all control activities related to each significant class of transactions, account balance, and disclosure in the financial statements or to every assertion relevant to them. (Ref: Para. A99–A106) identify controls relevant to the audit, being those: (Ref: Para. A100)~~

- (a) That address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence; Ref: Para. A100b)
- (b) That address risks that are identified as a significant risk; (Ref: Para. A100c–A100g)
- (c) Over journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments; (Ref: Para. A100h–A100i)
- (d) Controls for which the auditor plans to test the operating effectiveness in determining the nature, timing and extent of substantive testing; or (Ref: Para. A100j–A100l)

- (e) That, in the auditor's professional judgment, are appropriate to evaluate their design and determine whether they have been implemented to enable the auditor to: (Ref: Para. A100m)
 - (i) Identify and assess the risks of material misstatement at the assertion level; or
 - (ii) Design further audit procedures responsive to assessed risks.

~~(Previously in paragraph 12) Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate are relevant to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgment as to whether a control, individually or in combination with others controls, is identified as being relevant to the audit.~~

21. ~~In understanding the entity's control activities, the auditor shall obtain an understanding of how the entity has responded to risks arising from IT. (Ref: Para. A107–A109). Based on the understanding obtained in accordance with paragraph 18(d), the auditor shall identify the IT applications and the other aspects of the entity's IT environment that are relevant to the audit. In doing so, the auditor shall take into account whether the IT applications include or address: (Ref: Para. A106a–A106i)~~

- (a) Automated controls that management is relying on and that the auditor has determined to be relevant to the audit;
- (b) Maintenance of the integrity of information stored and processed in the information system that relates to significant classes of transactions, account balances or disclosures;
- (c) System-generated reports on which the auditor intends to rely on without directly testing the inputs and outputs of such reports; or
- (d) Risks for which substantive procedures alone do not provide sufficient appropriate audit evidence.

- 21A. For the IT applications and other aspects of the IT environment that are relevant to the audit, the auditor shall identify: (Ref: Para. A106j–A108c).

- (a) The risks arising from the use of IT; and
- (b) The general IT controls relevant to the audit.

- 21B. ~~(previously paragraph 13) When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel. For each control identified as relevant to the audit in accordance with paragraphs 20 and 21A, the auditor shall: (Ref: Para. A109a–A109g)~~

- (a) Evaluate the design of the control, which shall include: :
 - (i) For controls that address risks of material misstatement at the assertion level, relating the control directly to risk(s) of material misstatement at the assertion level that the control addresses; and
 - (ii) For controls that support the operation of other controls, relating the control directly to the control(s) it supports.
- (b) Determine whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.

[Previous paragraphs 22, 23 and 24 are MOVED TO paragraphs 17A, 17B and 17C]

Control Deficiencies Within the System of Internal Control

21C. The auditor shall, in accordance with ISA 265,⁴ determine on the basis of the work performed in accordance with this ISA:

- (a) Whether one or more control deficiencies within the system of internal control have been identified; and
- (b) If so, whether the control deficiencies, individually or in combination, constitute significant control deficiencies.

21D. The auditor shall consider the implications for the audit of one or more control deficiencies in the system of internal control, including for:

- The assessment of control risk for risks of material misstatement at the assertion level in accordance with paragraph 30A; and
- Designing and implementing overall responses to address the assessed risks of material misstatement as required by ISA 330.⁵

Identifying and Assessing the Risks of Material Misstatement

25. The auditor shall identify ~~and assess~~ the risks of material misstatement and determine whether they exist at: (Ref: Para. A121a–A121k)

- (a) The financial statement level, by evaluating whether the identified risks relate more pervasively to the financial statements as a whole and potentially affect many assertions; ~~and or~~ (Ref: Para. A121f)
- (b) The assertion level for classes of transactions, account balances, and disclosures, taking into account the inherent risk factors. (Ref. Para A121g)
~~to provide a basis for designing and performing further audit procedures.~~

25A. The auditor shall assess the identified risks of material misstatement at the financial statement level by: (Ref: Para. 126a–A126f)

- (a) Determining how, and the degree to which, such risks affect the assessment of risks of material misstatement at the assertion level, and
- (b) Evaluating the nature and extent of their pervasive effect on the financial statements to provide the basis for designing and implementing overall responses to the identified risk of material misstatement at the financial statement level in accordance with ISA 330.⁶ (Ref: Para A126b)

~~26. For this purpose the auditor shall:~~

- (a) ~~Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes~~

⁴ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraphs 7–8

⁵ ISA 330, paragraph 5

⁶ ISA 330, paragraph 5

~~of transactions, account balances, and disclosures (including the quantitative or qualitative aspects of such disclosures) in the financial statements; (Ref: Para. A132–A136)~~

- ~~(b) Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;~~
- ~~(c) Relate the identified risks to what could go wrong at the assertion level, taking account of relevant controls that the auditor intends to test, and (Ref: Para. A137–A139)~~
- ~~(d) Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement could result in a material misstatement. (Ref: Para. A140)~~

Inherent Risk

25B. The auditor shall determine significant classes of transactions, account balances and disclosures, and their relevant assertions, based on the identified risks of material misstatement. (Ref. Para's. A127-A127c)

26. For each identified risk of material misstatement at the assertion level, the auditor shall assess inherent risk by assessing the likelihood and magnitude of material misstatement. In doing so, the auditor shall take into account how, and the degree to which: (Ref. Para's: 127d-127j)

- (a) Identified events and conditions relating to significant classes of transactions, account balances and disclosures are subject to, or affected by, the inherent risk factors. (Ref: Para. 127d-127h)
- (b) The risks of material misstatement at the financial statement level affect the assessment of inherent risk for risks of material misstatement at the assertion level. (Ref. Para.127i)

Risks that Require Special Audit Consideration

27. As part of the risk assessment as described in paragraph 25, the auditor shall determine whether any of the risks identified are, in the auditor's judgment, a significant risk. In exercising this judgment, the auditor shall exclude the effects of identified controls related to the risk. The auditor shall determine, based on the auditor's assessment of inherent risk, whether any of the assessed risks of material misstatement are significant risks. (Ref: Para. A140–A144a)

28. In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following:

- ~~(a) Whether the risk is a risk of fraud;~~
- ~~(b) Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention;~~
- ~~(c) The complexity of transactions;~~
- ~~(d) Whether the risk involves significant transactions with related parties;~~
- ~~(e) The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and~~
- ~~(f) Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual. (Ref: Para. A141–A145)~~

29. ~~[MOVED to paragraph 20 and 21B] If the auditor has determined that a significant risk exists, the auditor shall obtain an understanding identify the entity's controls, including control activities, relevant to that risk, evaluate the design of those controls and determine that they have been implemented.~~

Risks for Which Substantive Procedures Alone Do Not Provide Sufficient Appropriate Audit Evidence

30. ~~The auditor shall determine, for any of the risks of material misstatement at the assertion level, whether in respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures alone. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. [MOVED to paragraph 20 and 21B] In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them. (Ref: Para. A449148–A451150)~~

Control Risk

- 30A. For each identified risk of material misstatement at the assertion level, the auditor shall assess control risk as follows: (Ref: Para. A150a–A150d)
- (a) When the auditor does not plan to test the operating effectiveness of controls in designing further audit procedures to be performed to respond to a risk of material misstatement at the assertion level, the auditor shall assess control risk at the maximum.
 - (b) When the auditor plans to test the operating effectiveness of controls in designing further audit procedures to be performed to respond to a risk of material misstatement at the assertion level, the auditor shall assess control risk at less than maximum. In doing so, the auditor shall take into account whether the design, implementation and expected operating effectiveness of such controls support the auditor's intended reliance thereon.

Classes of Transactions, Account Balances and Disclosures that are Not Significant, but which are Material

- 30B. The auditor shall: (Ref: Para. A150e–A150g)
- (a) Identify the classes of transactions, account balances and disclosures that are quantitatively or qualitatively material, and that have not been identified as significant classes of transactions, account balances or disclosures in accordance with paragraph 25B; and
 - (b) Evaluate whether the auditor's conclusion that there are no relevant assertions (i.e., no related risks of material misstatement) for these classes of transactions, account balances and disclosures remains appropriate.

Revision of Risk Assessment

31. The auditor's assessments of the risks of material misstatement at the financial statement level and assertion level may change during the course of the audit as additional audit evidence is obtained. In circumstances where the auditor obtains audit evidence from performing further audit procedures, or if new information is obtained, either of which is inconsistent with the audit evidence on which the auditor originally based the identification and assessments of the risks of material misstatement, the

auditor shall revise the assessment and modify the planned overall responses or further planned audit procedures accordingly. (Ref: Para. A452151)

Documentation

32 The auditor shall include in the audit documentation:⁷ (Ref: Para. A152–A155)

- (a) The discussion among the engagement team, where required ~~by~~ in accordance with paragraph 10, and the significant decisions reached;
- (b) Key ~~elements~~ aspects of the auditor's understanding obtained regarding ~~each of the aspects~~ of the entity and its environment specified in paragraph 11 and of each of the components of the system of internal control specified in paragraphs ~~14–24~~ 14, 15, 17A through 19A; the sources of information from which the auditor's understanding was obtained; and the risk assessment procedures performed;
- (c) The controls identified to be relevant to the audit in accordance with the requirements in paragraphs 20 and 21A.
- (d) ~~(e)~~ The identified and assessed risks of material misstatement at the financial statement level and at the assertion level as required by paragraph 25, and including the related significant judgments; ~~and~~
- ~~(d) The risks identified, and related controls about which the auditor has obtained an understanding, as a result of the requirements in paragraphs 27–30 24A–24B. (Ref: Para. A170–A173).~~

⁷ ISA 230, *Audit Documentation*, paragraphs 8–11, and A6–A7



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **5(c)**

Meeting Date: 13 June 2018

Subject: The Use of Technology in the Audit including Data Analytics

Date Prepared: 28 May 2018

☒ Action Required

☐ For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is to:
 - (a) **Verbally** update the AUASB on the progress made since *The Use of Technology in the Audit* was discussed at the March 2018 AUASB meeting;
 - (b) **Present and request feedback on** a revised strategic project plan for *The Use of Technology in the Audit*; and
 - (c) **Request** AUASB practitioner members to nominate experts within their organisation to assist with the next stage of the project.

Background

1. At the March 2018 AUASB meeting the AUASB gave their feedback on the (draft) Strategic Project Plan *The Use of Technology in the Audit*. The direction from the Board at this meeting was to further investigate how the use of technology on external audit engagements can be mapped to the current suite of standards, as well as understanding any challenges that the requirements of the standards create when using technology focused procedures.
2. Under the direction of the Chair, the AUASB Technical Group developed a three staged approach to this project that can be found in the attached revised Strategic Project Plan (**Agenda Item 5(c)(i)**). The AUASB Technical Group has neared completion of Stage 1 and requires AUASB Members to nominate experts within their organisation to assist with the next stage of the project.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Matters to Consider

1. The AUASB Technical Group has produced a revised Strategic Project Plan for the AUASB to review. There have been a number of changes since the plan presented in March 2018.
2. A verbal update will be provided by the AUASB Technical Group. The update will provide AUASB Members with an overview of the Stage 1 document; communications with international counterparts (including the NSS meeting) and the actions needed by both AUASB Members and the AUASB Technical Group to progress Stage 2.

Material Presented

Agenda Item 5(c)	AUASB Board Meeting Summary Paper
Agenda Item 5(c)(i)	Strategic Project Plan – The Use of Technology in the Audit including Data Analytics

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Nominations of experts	Practitioner members to nominate, and provide details of, experts to assist with stage 2.	AUASB	13 June 2018	In-progress

MONITORING GROUP SUMMARY OF FEEDBACK

STRENGTHENING THE GOVERNANCE AND OVERSIGHT OF THE INTERNATIONAL AUDIT-RELATED STANDARD-SETTING BOARDS IN THE PUBLIC INTEREST

May 2018



Introduction

This document provides a summary of the feedback received by the Monitoring Group in response to its consultation setting out options for the reform of the governance and oversight of the international audit related standard setting bodies in the public interest. Following an extensive preparatory period, the Monitoring Group agreed to consult publicly on a series of reform options intended to:

- **further strengthen the public interest in standard setting;**
- **address stakeholder perceptions that standard setting is not demonstrably independent of the profession; and**
- **improve the timeliness of standard setting and the relevance of standards.**

This document does not contain any further proposals developed by the Monitoring Group. Instead, having considered in detail the responses received, the Monitoring Group proposes to develop a White Paper of final proposals for reform, which will be exposed for comment once it has carried out further stakeholder outreach.

With its origins rooted in the 2003 International Federation of Accountants (IFAC) Reforms, the Monitoring Group supports the development of high-quality international standards for auditing and assurance and accountant ethics and education.¹ It is ultimately responsible for the overall governance arrangements in this field, and provides for ultimate accountability to public authorities responsible for furthering the public interest in audit quality and standard setting.² More specifically, and to that end, it monitors how the Public Interest Oversight Board (PIOB) carries out its public interest role with particular regard to the PIOB's oversight of the standard setting process.

The Charter envisaged a review by the Monitoring Group of the effectiveness of the 2003 Reforms five years after the establishment of the PIOB in March 2005. The consultation issued by the Monitoring Group in November 2017 is the latest review of the arrangements in place.

The Monitoring Group's initial consultation on options to reform the governance and oversight of the audit-related standard setting bodies in the public interest has now concluded. During the consultation period, the Monitoring Group also carried out stakeholder outreach and held three global roundtable meetings in London, Washington DC and Singapore, attended by more than 250 people in total, and participated in a further roundtable hosted by the South African Institute of Chartered Accountants (SAICA) in Johannesburg.

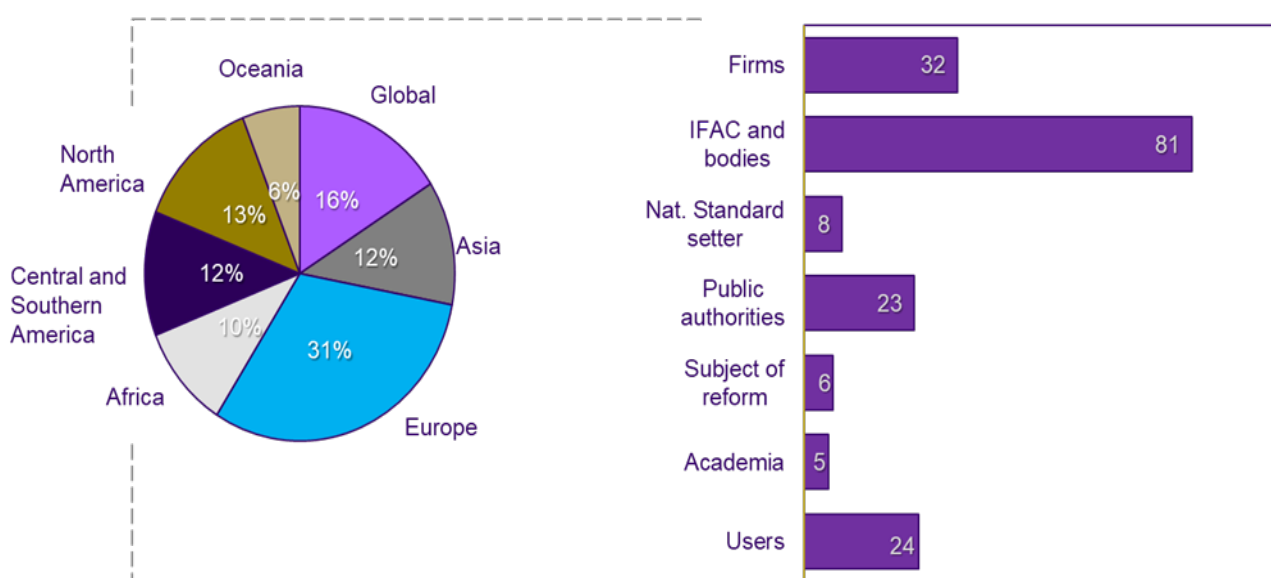
The Monitoring Group is grateful to the 179 respondents who took the time to provide feedback. The Monitoring Group has made all of the responses available on its website³ along with transcripts of the three round table meetings and provided a weblink to a recording of the Johannesburg event. These responses, and the discussions that took place at the outreach sessions are being used by the Monitoring Group to develop a detailed set of proposals which will be subject to a further round of public consultation and outreach. The Monitoring Group will also be carrying out further outreach to seek additional stakeholder input and provide opportunities for stakeholders to ask further questions.

¹ See the Monitoring Group Charter, at https://www.iosco.org/about/monitoring_group/pdf/monitoring_group_charter.pdf.

² See the March 2013 Monitoring Group Statement on Governance, at https://www.iosco.org/about/monitoring_group/pdf/Monitoring-Group-Statement-on-Governance-and-Feedback-Statement.pdf?v=1.

³ http://www.iosco.org/about/?subSection=monitoring_group&subSection1=reforms-to-the-global-audit-standard-setting-process

Number of responses per stakeholder group



The Monitoring Group has carried out a review of the responses received and classified them into seven main groups: (i) auditors and audit firms; (ii) standard setting bodies and the PIOB which are the subject of the consultation (this group excludes IFAC itself); (iii) IFAC and its (member) bodies (national professional accountancy organisations); (iv) public authorities including regulators; (v) national standards setters; (vi) users of the financial statements (which includes investors and asset managers); and (vii) academics. IFAC and its member bodies accounted for some 81 of the responses received.

The review carried out reflects the Monitoring Group's summary of the responses based on a **qualitative and quantitative analysis**. This document has been prepared to set out that assessment in a neutral way, and it does not propose or advance any policy positions. An important measure that has been borne in mind throughout the review of responses is to consider them in the context of who are the ultimate beneficiaries of high quality audit in the public interest – in that respect the Monitoring Group places an emphasis on the feedback provided by investors and other users of the financial statements.

In view of the sheer number of responses, and the feedback requesting the Monitoring Group take as much time as necessary to set out a comprehensive package of reforms covering all three layers of the standard setting governance model, including the main arguments for and against each of the options in the earlier consultation, we will undertake further work before developing the White Paper. Our intention is now to develop that White Paper for consultation by the end of the year. This timeline responds to stakeholders' concerns that the development of the next set of proposals should not be rushed in a way that would undermine confidence in the existing standards or would harm efforts to ensure the global adoption of International Standards on Auditing and the Code of Ethics.

Based on the review of responses that we carried out, users of the financial statements (including investors), public authorities (including audit regulators) and audit firms are all supportive of the need for reform in the areas identified in the consultation, and endorsed measures to better represent the public interest in standard setting and make more of the standard setting process demonstrably multi-stakeholder. These stakeholders were also supportive of the options to make the standard setting board or boards more strategic in focus,

and also smaller in size. Investors and public authorities also endorse measures to better represent the public interest in standard setting and make the standard setting process demonstrably and fully independent of the accounting and audit professions. IFAC member bodies also agreed with the high-level objectives of the review but did not support many of the substantive options proposed.

In summary, there was **widespread support from all stakeholder groups** for the options in the following areas:

- The need for strong accountability and transparency;
- Recognition of the quality of the current auditing standards, and the importance of maintaining the principles-based approach, although respondents individually identified some areas where the current standards could be improved;
- The move to a multi stakeholder representation on the standard setting boards (many stakeholders also support the application of the multi-stakeholder model to the PIOB);
- The need to broaden the funding base, making it sustainable in the longer term and addressing the perception that obtaining funding primarily from the profession/ audit firms through voluntary contributions could allow them to exert undue influence over standard setting;
- Ethical standards for auditors and professional accountants should be set by a single board;
- The work of the board or boards to be supported by an expanded technical staff;
- The importance of there being a Public Interest Framework embedded throughout the standard setting process;
- The PIOB not having the ability to veto standards related to the technical merits of an approach, but nevertheless providing challenge in representing of the public interest; and
- IFAC retaining Educational Standards and the Compliance Programme (CAP).

There was also **support from many stakeholder groups** for the following options:

- The need for standard setting to be timelier, including a recognition that the pace of change is increasing (e.g. as a result of greater use of data analytics and technology);
- The need for there to be no trade-off between timeliness and quality, and for the board/ boards and supporting technical staff to have appropriate technical capability;
- The board(s) should operate strategically, but that they should have appropriate technical skills and expertise to properly assess and challenge the development of standards;
- Changes proposed to the Nominations Process;
- Remunerating board members (although some respondents raised concerns about the overall impact on the cost of standard setting);
- Close co-ordination between the setting of auditing and ethical standards, if they are not both set by a single board;
- Standards approved based on a qualified majority; and
- Exploring the role and membership of the Consultative Advisory Group (CAG), as the current role is not clearly understood by stakeholders, and the membership seen as lacking diversity;

In the following areas, there was **a diversity of views, ranging from support to some significant opposition from respondents** to the consultation in relation to:

- Whether the Monitoring Group had fully articulated the case for change to the current standard setting model, and explained how it would manage the risks associated with changing the existing arrangements (although support for options included in the consultation does indicate support for change);
- The number of standard setting boards for audit and assurance and ethical standards;
- Further alignment with, or combining the auditing and accounting standard setting processes to the extent that this is possible, given the different remits and processes;
- Providing a sustainable funding model by way of a 'contractual levy';
- Composition of the boards, in terms of the balance of stakeholders included, and how to make them 'representative';
- Whether there is a need for a more 'proportionate' set of standards for smaller entities;
- Whether more reliance on professional technical staff may make the standards setting process less transparent and accountable; and
- Whether reform should be carried out in a staged basis and include review of the future role and composition of the Monitoring Group.

We noted a number of comments which did not arise directly from the consultation questions made by either individual, or a small number of stakeholders, which the Monitoring Group considers important to address in the next set of proposals. These include matters such as:

- Learning lessons from the governance of International Accounting Standards;
- Clearly articulating what high quality audit is intended to deliver;
- Considering the merits of establishing a Technical Advisory Forum to support the work of the board or boards;
- Considering how the reformed structure supports the board or boards to provide strategic thought leadership, and responds to the future needs of audit;
- Setting out who the main beneficiaries are of high quality standards; and
- The ability for a future board or boards to better learn lessons from standards that have been set.

Following the consultation and recognising the importance of ongoing stakeholder engagement as it develops its proposals for a final consultation the Monitoring Group wishes to provide opportunities for engagement, through further roundtables and through webinars which allow for online participation. In that engagement, the Monitoring Group will be driven by the need to serve the public interest in the best possible way – principles on how to achieve this will be set out in the White Paper.

We encourage all stakeholders to engage with us, both those who participated so actively in the first consultation, and any new stakeholders who also wish to join the dialogue. Details of opportunities to participate in further engagement will be posted on the Monitoring Group's website.

A summary of the feedback provided in response to each consultation question in the attached [Appendix](#).

Stakeholder Concerns

To develop the initial consultation, the Monitoring Group interviewed a wide range of different stakeholder groups, they provided a clear acknowledgment of the achievements in standard setting resulting from the 2003 IFAC Reforms. However, there was also support for further reform, including from global audit firms. This view was not shared by smaller audit firms and many national professional accounting organisations.

The specific areas of concern flagged throughout those initial discussions have been reiterated in the responses to the consultation which are available on the Monitoring Group's website¹, and cover: serving the public interest; independence from the profession; and the quality (particularly, timeliness) of standards. The following examples were identified in responses to the consultation as being in support of the objectives raised by the Monitoring Group:

Serving the Public Interest

- Investor and regulatory stakeholders acknowledge what the current standard setting model has achieved. However, stakeholders have raised whether there are ways to improve upon how the public interest is served, and how this has been considered in the development of standards to date. Some investors stated that in representing the public interest there should be better representation of investors, asset managers and analysts, in the standard setting process, both on the CAGs and the board.
- Examples raised by respondents to the consultation include a need for further progress to deliver standards which ensure the application of robust professional scepticism. These respondents considered that an insufficiently stringent focus on going concern, and weaker reporting as a result resulted in a failure to fully balance, in an audit of financial statements, the relative importance of needs of the auditor and the needs of the user.
- Regulators and audit firms have raised, as a specific example in some of the outreach, limited progress in revising International Standard on Auditing (ISA) 600 (Group Audits) which is an example of where the public interest could have been served better, and which the IAASB has yet to revise, despite five years of feedback from regulators.
- Some respondents from the regulatory community raised concerns that an oversight regime that is focused solely on due process rather than also taking account of high-level principles and outcomes, will not fully serve the public interest.

Independence from the Profession

- Significant concerns remain about the real and perceived dominance of the profession in the standard setting process. Investors responded to the consultation by stating their concerns about excessive influence over the current standard setting process by the profession, and that addressing this will strengthen public confidence in audit. Investors also welcomed reforms that address this and removes standard-setting activities from the profession and introduce a multi-stakeholder and independent governance structure.
- The concern about independence is underscored by the fact that the audit profession funds standard setting, and current and former practitioners represent a physical majority on the current boards. Their experience makes it easier for those who have come from the audit profession to more actively participate and thereby dominate board discussions. This is a particular concern raised by investors.

- A former standard setter noted the tendency for the boards to sometimes focus on less important projects demanded by certain jurisdictions and parts of the profession, rather than focusing on those projects which are of greatest public interest, which have not proceeded as quickly as they should have.

Timeliness of Standard Setting

- The development of standards is identified as not occurring on a sufficiently timely basis under the current model – this has been raised as a commonly shared concern among respondents in this regard.
- The fact that these task forces or working groups may only meet for two days each quarter impedes the speed with which the board is able to respond. Respondents pointed to delays in the IAASB finalising revisions to some of the most important standards and raised concerns about the failure of standard setting to keep pace with the increased use of technology in auditing, and therefore, failing to support greater innovation in audit practice. An example provided in support of this was the delayed finalisation of ISA 540 (revised), whilst proceeding with a project on agreed upon procedures.
- Similarly, respondents also raised the long duration of the projects undertaken by IESBA, in some cases caused by the need to re-expose revisions to the Code of Ethics, which delayed the provision of new material to the user community – examples mentioned included long association and professional scepticism. They suggested that a lack of effective consultation/ coordination between IESBA and IAASB has resulted in delays in addressing issues which are important in the context of both ethical and auditing and assurance standards.
- The PIOB's response to the consultation proposed that standard setting boards should adopt the principles of *better regulation* and prepare impact assessment for new and revised standards as a way of demonstrating better the relevance and timeliness of standard setting.

Clarifications

The responses to the consultation raised questions where stakeholders considered the consultation paper as insufficiently clear, and as a result may have been unable to provide full feedback in respect of some of the questions raised. We have, therefore, sought to provide clarity in respect of those queries in the following bullet points:

- The Monitoring Group supports the continued development of *principles-based global standards*, which are high quality and can be used to deliver audits of all types of entities. The consultation was not seeking to propose different standards for the audit of, for instance, public companies or small and medium-sized enterprises. The Monitoring Group acknowledges the need for any reformed standard setting board or boards to be able to represent the views of small and medium-sized entities and their auditors such that standards can continue to be developed in a way that will ensure that a single set of global standards are available for use;
- The Monitoring Group developed the consultation to respond to global issues relating to audit and ethical standard setting. It was not developed to address issues raised by individual regions or jurisdictions;
- The Monitoring Group will consult on core attributes of a public interest framework with stakeholders before further proposals for reform are developed to support ongoing dialogue;
- The Monitoring Group's consultation on final proposals will be informed by and will include an impact assessment and transition plan developed taking into account feedback already provided through the consultation. In doing so, the Monitoring Group notes that it is important to strike a balance between providing clarity over how a reformed governance model will work, and empowering the members of different levels of the governance model to be able to determine how to best deliver their agreed remit, in accordance with the principles set out in the public interest framework; and
- The Monitoring Group acknowledges the importance of continuing to support that the existing standards setting boards can continue their work through the transition period, so that ongoing standard setting projects are not further delayed.

Appendix

Summary of Feedback to Questions Raised

As noted in the introduction to the Summary of Feedback, the Monitoring Group has sought to produce this appendix as a neutral representation of the responses received to the consultation in summary form. In doing so we have sought to reflect both our qualitative and quantitative analysis.

Question 1: Do you agree with the key areas of concern identified with the current standard-setting model? Are there additional concerns that the Monitoring Group should consider?

Summary of Feedback: Overall, all respondents in all stakeholder groups agreed in the importance of standards being set in the public interest. Many IFAC member bodies told us that the existing structure already provided for standards to be responsive to the public interest and that there was no need to reform it. This was not the case among all respondents – many noted that reform was long overdue, but that any reforms needed to be properly supported by appropriate evidence so as not to undermine a process which is widely regarded as having delivered high quality global standards in which investors and other users have confidence.

Most investor respondents strongly endorsed the concerns raised about the perceived lack of independence of the current standard setting process. They consider that it is not appropriate to maintain a model which is so heavily dependent on the profession for financial and logistical support and relies on audit firms and professional bodies to provide, propose and remunerate the majority of board members, which global audit firms also agreed with. Several also stressed the importance of ensuring that any changes to the standard setting process should include an element of future proofing, to ensure that standard setting is fit for the future.

Many respondents agreed with the concerns identified by the Monitoring Group as being appropriate issues to discuss. Others thought that the consultation did not include evidence to support the reform options set out in the paper. Respondents also encouraged the Monitoring Group to use reform to ensure better multi stakeholder representation at the level of the standard setting board or boards, which in turn might require a less intrusive model of oversight.

Question 2: Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?

Summary of Feedback: In general, there was support for the overarching and supporting principles as articulated in the consultation, although global audit firms noted the need for these to be aligned with the Public Interest Framework being developed. Some IFAC and regulatory stakeholders proposed the inclusion of further principles including:

- In addition to the need for standards set in the public interest to be **principles-based**, they should aim to be clearer, concise and more readily **understandable**;
- The need for standard setting to sit within a structure that is **stable** and supported by **sustainable funding**;
- The need for the standard setting board or boards to have appropriate **technical skills** to allow the development of high quality standards; and
- The need for standards to be set by bodies that have appropriate **legitimacy**, so as not to undermine the development and application of a single set of high quality, globally adopted standards.

Investors who responded to the consultation stated that further principles should include:

- Allowing for **better co-ordination and integration** between accounting and auditing standards; and
- Ensuring that standards are readily **enforceable**.

Question 3: Do you have other suggestions for inclusion in a framework for assessing whether a standard has been developed to represent the public interest? If so what are they?

Summary of Feedback: Most respondents stated that this question was difficult to answer until the Monitoring Group makes available the public interest framework. Some regulator and audit firm respondents, particularly the global firms also emphasised the importance of the framework in ensuring that the standards that are developed are principles-based. Investors strongly advocated the view that to represent the public interest effectively, standards should explicitly consider the needs of users, including the importance of them better supporting investor protection by requiring high quality audit work, and facilitating regulatory enforcement action where audit work falls short of what is required. The Monitoring Group recognises the need for further consultation in this area, and looks forward to receiving more developed views.

Question 4: Do you support establishing a single independent board, to develop and adopt auditing and assurance standards and ethical standards for auditors, or do you support the retention of separate boards for auditing and assurance and ethics? Please explain your reasoning.

Summary of Feedback: Responses to this question were amongst the most strongly contested. Most investors, and larger audit firms supported a single board. Other stakeholders highlighted the opportunity for better co-ordination in developing or revising standards of both types, and also the fact that it would better focus on the need to develop more rigorous requirements to address risks posed to auditor independence (which is the Monitoring Group's own remit) by embedding ethical requirements and the need for integrity more explicitly into auditing standards.

Additionally, some respondents commented that a two-board approach will be more expensive to maintain, affecting the sustainability of standard setting over the medium term. See also the summary of feedback to **Question 6**, which is linked closely to the responses to this question.

Others told us they preferred retaining a two-board model to set auditing and assurance and ethical standards for auditors, this included some national standard setters and regulators. Respondents stated that the disadvantages of a single board included managing the breadth of the board's work, the difficulty in getting board members with the skills and experience to cover such a diverse remit, and the fact that the focus on auditing standards would 'crowd out' a proper focus on ethical matters. Those who favoured two boards to set auditing and assurance and ethical standards suggested the advantages of a single board could be achieved through the development of a mechanism to ensure that appropriate and effective co-ordination exists.

A small number of respondents supported the option for a single board, as long as it only developed standards for public interest entity engagements. However, global audit firms stated the importance of maintaining a single set of global standards in their responses.

Question 5: Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance programme should remain a responsibility of IFAC? If not, why not?

Summary of Feedback: There was widespread support from respondents in most stakeholder groups, except for some regulators, that IFAC should continue to be responsible

for the development of International Educational Standards (by supporting the ongoing work of the IAESB), and many noted that this aligned well with the work of IFAC's member bodies. A number of IFAC member body respondents stated that the role and focus of the IAESB should change, and rather than seeking to develop and issue further standards, the IAESB should focus on developing supporting application material, to assist better in the embedding of the standards developed by the existing Board.

There was also support for IFAC retaining its compliance role in respect of the global profession, although respondents highlighted the need for this to be subject to a clear agreement between IFAC and the Monitoring Group as to respective responsibilities.

Question 6: Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.

Summary of Feedback: Rather than focusing on whether or not responsibility for setting ethical standards for professional accountants in business should remain with IFAC, the majority of respondents felt that the same body should remain responsible for setting ethical standards for professional accountants in business *and* auditors, a view that was held irrespective of whether final reforms result in a one or two board approach to standard setting. This view was also emphasised by some national standard setters. The option to separate out ethical standards for professional accountants and auditors did receive support from some regulatory stakeholders and some investors and audit firms, with some suggesting that this could be an issue where there could be better coordination with the IASB as it develops the standards that are used by preparers.

IFAC member bodies supported an ongoing role for IFAC, as it offers a perspective drawn from the profession globally, which ensures that the standards developed are widely used, and informed by diverse global feedback. However, we received strong feedback from investors and regulators that they did not support an ongoing role for IFAC in ethical (and auditing and assurance) standard setting. Those respondents considered allowing the profession to continue to set standards would have an adverse impact on public confidence.

Question 7: Do you believe the Monitoring Group should consider any further options for reform in relation to the organisation of the standard-setting boards? If so please set these out in your response along with your rationale.

Summary of Feedback: A significant number of respondents stated that the Monitoring Group must keep in mind the overall aim of developing a single set of high quality, scalable and responsive global standards that can be applied to all types of audit engagement in the broadest range of different jurisdictions. Respondents also stated that the proceedings of task force meetings should be public, like the current boards are, in order to make the standard setting process more transparent and publicly accountable.

A number of respondents suggested that in addition to retaining the CAG to support standard setting, any reformed board or boards should also be supported by a technical advisory group as a way of drawing on a wider range of stakeholder views (some respondents said that a technical advisory group would allow for the CAG to be dissolved). Some stakeholders also suggested that if the two standard setting boards are retained, then consideration should be given to a co-ordination board or committee to ensure better alignment between the two boards. Additionally, a number of investors and other users of audited financial statements again stressed the importance of having better coordination between auditing and accounting standards

Question 8: Do you agree that the focus of the board should be more strategic in nature? And do you agree that the members of the board should be remunerated?

Summary of Feedback: Many users of financial statements who responded to the consultation supported the view that the board or boards should be more strategic in nature, and that technical staff should undertake detailed drafting rather than board members. However, respondents from all stakeholder groups also emphasised the importance that the Board as a whole needs to have sufficient technical skill to critically review draft standards and ensure that they are fit for purpose, and also to oversee the work of, and challenge the views of the technical staff.

A number of respondents, mainly regulators and large audit firms also stated that a more strategic focus by standard setting boards would help to ensure that they focus more explicitly on the importance of setting principles-based standards which lend themselves better to the application of professional judgment and also support innovation by auditors to better serve the needs of users and other stakeholders. This focus should create greater capacity at the level of the board or boards to respond to standard setting needs. However, the same group of respondents clearly stated the importance that the board or boards as a whole should have the technical skills and competence to be able to challenge staff and to guide projects to ensure that they deliver the agreed outcomes.

On the issue of remuneration, there was support for the remuneration of board members, as it was felt that this would broaden the pool of candidates who may be willing to apply, particularly those from a non-practitioner background. Being remunerated for standard setting work would also ensure that board members are not beholden to another organisation, entity or firm to meet their costs, which would help to address the perceived lack of independence in the current mechanism. Remuneration should be commensurate to the time commitment required for a public interest role, and a number of respondents stated that for part time board members this should be comparable to the levels of remuneration awarded to non-executive directors.

Question 9: Do you agree that the board should adopt standards on the basis of a majority?

Summary of Feedback: There was very little support for standards to be set on the basis of a simple majority. Most respondents pointed out the need for standards to be set in a way that demonstrates to users that they have widespread support and credibility from a diversity of stakeholder groups and geographic regions. Respondents were of the view that a qualified majority ensures the development of high quality standards and prevents the adoption of standards in which there may be a significant flaw. Given this need for credibility, a significant majority of respondents endorsed a qualified majority approach of either two-thirds or three-quarters of board members required to approve a standard, and which should prevent a standard failing to gain approval because of the opposition of a single stakeholder group. Many also noted that in practice, being able to approve a standard on the basis of unanimity demonstrates to stakeholders that they can have confidence that the standards have wide buy in and support, which in turn supports the global adoption of a single set of standards.

In a small number of responses, the respondent stated that it was important that where a board member did not support a standard, they should set out as a matter of public record why they felt unable to support that standard.

Question 10: Do you agree with changing the composition of the board to no fewer than twelve (or a larger number of) members; allowing both full time (one quarter?) and part-time (three quarters?) members? Or do you propose an alternative model? Are there other stakeholder groups that should also be included in the board membership, and are there any

other factors that the Monitoring Group should take account of to ensure that the board has appropriate diversity and is representative of stakeholders?

Summary of Feedback: The responses to this question provided a diverse range of views, from those who strongly supported a smaller board (of 8-12 members) to support effective decision making and to adhere to best practice in good governance (mainly investors and users of financial statements), to those who favoured the retention of the existing larger boards (of 15-18 members) as they felt that they allowed for more diverse stakeholder and geographic representation.

Most respondents stated that the composition should not be driven by an arbitrary number of members from different stakeholder groups but should focus on including the right mix of members to support the multi stakeholder concept which was widely endorsed. A number of IFAC member bodies, national standard setters and smaller audit firms emphasised the importance of ensuring that small and medium-sized entities and practitioners (SME/SMP) are represented within the board structure, to ensure that the standards are scalable and suitable for all types of audit and assurance engagements.

There were a range of different views about whether standard setting board members should be full time or part time – those favouring a full-time role said that it would help to ensure the independence of those board members by reducing potential conflicts of interest. Those supporting part time roles did so as they believed that full time positions would only be attractive to practitioners and members of professional bodies – this was strongly supported by the investor community. Some respondents raised a concern that a mix of full time and part time members would create a two-tier board membership.

Question 11: What skills or attributes should the Monitoring Group require of board members?

Summary of Feedback: There was broad stakeholder endorsement of the skills and attributes referred to in the consultation. In addition, many IFAC member bodies supported maintaining the skills requirement of the existing boards, and also emphasised the importance of board members having appropriate technical skills to allow them to contribute fully to the standard setting process. IFAC member body respondents also reiterated the importance of the multi stakeholder model and the board or board membership including appropriate representative diversity. A number specifically referred to the need for this to include with the board or boards understanding of the SME/ SMP perspective.

Many respondents, from all stakeholder groups, emphasised the importance of board members having a good understanding of the public interest, and raised questions about whether the ‘three constituencies’ of auditors, regulators and users proposed by the Monitoring Group would narrow the group of stakeholders who could be represented in standard setting, which would have an adverse impact on the work of the board or boards. The importance of board members having softer skills including stakeholder engagement, policy and strategy development was seen by several respondents as being just as important as technical auditing skills. Some respondents stated that they would like the Monitoring Group to develop a skills matrix as discussed in the consultation and include that along with the final consultation when it is issued for consultation with the white paper.

Question 12: Do you agree to retain the concept of a CAG with the current role and focus, or should its remit and membership be changed, and if so, how?

Summary of Feedback: Most of the respondents supported the retention of the CAG as a way of providing advice and an opportunity for consultation. However, a significant number of respondents, and in particular, investors raised the need for the CAG membership to be

widened to include more stakeholders from the user community and to allow for a better geographical balance in representation. Respondents proposed that the CAG should be supplemented by additional consultative or advisory fora. Some referred to the example of the IASB's Advisory Forum as being a good example to emulate, or suggested that a technical advisory group be established to support the technical work of the board or boards generally, and also in respect of particular standards or subjects which would benefit from targeted stakeholder input.

Question 13: Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?

Summary of Feedback: There was general agreement that task forces should continue to be used to support the development of standard setting, as part of a wider programme of stakeholder involvement. Respondents generally agreed that standard setting activity should be carried out in accordance with the public interest framework.

Many respondents from all types of stakeholder groups stated that the public interest is fundamental to standard setting and should apply to all of the work carried out by standard setting boards in a reformed model, be it at the level of a board or its task forces and working groups. A number commented that they felt that the current process lacks transparency, and as a result, it offers opportunities for certain stakeholder groups to exert undue influence.

Question 14: Do you agree with the changes proposed to the nomination process?

Summary of Feedback: There was broad support from respondents of all stakeholder groups that there should be an independent nomination process for appointments to a standard setting board or boards. Some IFAC member bodies referred to the Interim Nominating Committee for the appointment of the next IAASB Chair (with an independent chair and equal numbers of nominees from IFAC and the PIOB), as being a good model to follow (this included the response received from IFAC itself. Although IFAC did not agree that the PIOB should have a role in both nominations and oversight), considering it to be poor governance to have such a dual role.

Regulators and investors proposed either a nominating committee comprised entirely of independent members, or one in which IFAC would nominate a minority of the (ordinary) committee members to ensure its independence. Audit firms responding to the consultation were supportive of the PIOB acting as the Nominating Committee subject to it being a multi stakeholder board itself and demonstrating that it was able to represent all stakeholder groups. Respondents recognised that altering the PIOB's role in this respect would require additional resources to support any expanded remit.

Question 15: Do you agree with the role and responsibilities of the PIOB as set out in this consultation? Should the PIOB be able to veto the adoption of a standard, or challenge the technical judgements made by the board in developing or revising standards? Are there further responsibilities that should be assigned to the PIOB to ensure that standards are set in the public interest?

Summary of Feedback: There was widespread support for the Monitoring Group's options in the consultation to strengthen the role and responsibilities of the PIOB. However, respondents told us that the oversight role of the PIOB should focus on whether a standard has been developed and approved in the public interest, rather than the PIOB challenging the technical judgments reached by the board or boards. Respondents did not support the PIOB having a veto over a standard because of a disagreement over the technical judgments made by a board. Where the PIOB has concerns over a standard, it should be able to require further due

process to allow the board or boards to address deficiencies. A small number of respondents were more supportive of the PIOB having a power of veto, where it is in the public interest.

Many regulators who responded to the consultation believe that the options it contained will strengthen the role of the PIOB, and they emphasised the importance of having clear and open communication between those tasked with setting standards and the PIOB, with both parties' subject to clear public transparency and accountability. There were also a significant number of comment letters which referred to a desire for closer alignment between the PIOB and the IFRS Trustees, with the PIOB transitioning, over time, into a body more akin to the IFRS Trustees with a similar remit and functions.

Question 16: Do you agree with the option to remove IFAC representation from the PIOB?

Summary of Feedback: IFAC member bodies were strongly of the view that IFAC should continue to have representation on the PIOB. This view was not shared by other groups of respondents, and investors and many regulatory bodies did not believe that the profession should be represented on the PIOB.

Many audit firms who responded to the consultation were split on whether the multi-stakeholder model should apply to the PIOB as well as to the standard setting board or boards and raised the importance of the PIOB representation including those with recent and relevant experience of ethical and audit issues, which they considered necessary to support the PIOB's discussions, and consideration of the public interest.

Question 17: Do you have suggestions regarding the composition of the PIOB to ensure that it is representative of non-practitioner stakeholders, and what skills and attributes should members of the PIOB be required to have?

Summary of Feedback: Many respondents from all stakeholder groups advocated the application of the multi-stakeholder model in determining the composition of the PIOB, as well as to the standard setting board or boards, and that the PIOB should include at least one member with current audit and ethical technical experience to ensure that all stakeholder groups are represented, and that the PIOB has access to relevant experience to support its deliberations. This point was strongly supported by audit firms and by IFAC member bodies. There was little support for the option that the PIOB make use of IFIAR as a source of audit related advice and insight, although there was support for audit regulators to be represented on the PIOB.

Investor and regulator respondents, whilst being broadly supportive of the multi-stakeholder model as a concept, emphasised the need for practitioners to be subject to an appropriate cooling off period before they took up an oversight post on the PIOB. They also emphasised the need for members of the PIOB to be sufficiently independent and challenging to command the confidence of the regulatory community.

A number of respondents commented that the relatively small size of the PIOB made it desirable for the PIOB to also have access to a consultative or advisory forum to support its work, and that the PIOB should also be required to carry out periodic assessments of its effectiveness, which should be a matter of public record. Respondents also commented that members of the PIOB should have skills sufficient to allow them to act in a way that contributes to the development of standards which ultimately supports the delivery of high quality audit in the public interest.

Question 18: Do you believe that PIOB members should continue to be appointed through individual Monitoring Group members or should PIOB members be identified through an open

call for nominations from within Monitoring Group member organizations, or do you have other suggestions regarding the nomination/appointment process?

Summary of Feedback: This question received a range of responses – some respondents, mainly investors and regulators, supported maintaining the status quo, whereby members of the PIOB are nominated from Monitoring Group member organisations. This was considered important to maintain the confidence of the regulatory authorities which comprise the PIOB.

However, a larger number of respondents including some regulators, IFAC member bodies and audit firms supported the view that membership of the PIOB should be subject to an open call for nominations, with the Monitoring Group acting as the PIOB Nominating Committee. Many audit firms also stated that in managing an open call for candidates, the Monitoring Group should ensure the application of the multi-stakeholder model to the PIOB membership. Regulators were supportive of this option, but that tended to be contingent on having a multi stakeholder model in which practitioner representation on the PIOB should be subject to an appropriate cooling off period, with examples given by respondents of either a three or five-year requirement.

As mentioned earlier in this Feedback Summary, a number of respondents again reiterated their view that the PIOB should, over time, develop into a body that emulates the role and remit of the IFRS Foundation.

Question 19: Should PIOB oversight focus only on the independent standard-setting board for auditing and assurance standards and ethical standards for auditors, or should it continue to oversee the work of other standard-setting boards (e.g. issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?

Summary of Feedback: Most respondents to the consultation argued that there should continue to be PIOB oversight where standards are set in the public interest (for instance, should IFAC continue to have an ongoing role in setting ethical standards for professional accountants in business). However, in developing their responses, some IFAC member bodies proposed that the IAESB should be reformed as a technical committee of IFAC focusing on applications guidance, wider education and best practice rather than as a standard setting board and, as a result, should not be subject to continued PIOB oversight.

Investors also agreed that the core focus of the oversight function should be on the development of auditing and assurance and ethical standards, and that this remit would better support the deployment of the PIOB's resources on those areas of greatest public interest rather than, as now, one that covers everything regardless of its public interest impact.

Question 20: Do you agree that the Monitoring Group should retain its current oversight role for the whole standard-setting and oversight process including monitoring the implementation and effectiveness of reforms, appointing PIOB members and monitoring its work, promoting high-quality standards and supporting public accountability?

Summary of Feedback: A number of respondents, mainly IFAC member bodies, questioned the need for the retention of both the PIOB and the Monitoring Group. Regulators, audit firms and investors were supportive of the Monitoring Group retaining its current role but encouraged it to increase its focus on ensuring that audit-related standard setting is accountable to public authorities in the same way the Monitoring Board ensures public accountability for the IASB and IFRS Trustees. A number of respondents also stressed that the Monitoring Group should also have a greater focus on publicly demonstrating how it holds the PIOB to account for the delivery of its strategy.

A number of stakeholders suggested that the Monitoring Group should seek greater alignment between the audit and accounting standard setting mechanisms to see if synergies could deliver benefits in terms of economies of scale, for instance in the recruitment, development and deployment of technical staff.

Question 21: Do you agree with the option to support the work of the standard-setting board with an expanded professional technical staff? Are there specific skills that a new standard-setting board should look to acquire?

Summary of Feedback: There was widespread support for standard setting work to be supported by an expanded technical staff. There were, however, a range of views about how staff levels could be expanded, the implications for the cost of standard setting, and whether secondments could be used as a way of bringing in additional staff to support intense periods of activity and also to ensure that staff remain up to date with a regularly changing landscape. Investors and some regulators, however, raised concerns about the impact this might have on independence and did not support the use of secondments from the profession.

Some respondents noted that experienced technical staff are highly valued and in comparatively short supply, and even if the Monitoring Group agreed to an expansion and was able to provide funding to support this, it did not mean that extra people with the right skills could be recruited to carry out these roles.

A clear message from the majority of respondents was that the Monitoring Group should avoid a trade-off between timeliness and quality in standard setting. As a result, an expanded staffing model would not only need the technical skills to undertake detailed drafting but would also need to have the skills to carry out stakeholder engagement and communication, develop strategy for the consideration of the standard setting board or boards, and also effectively manage the available resources to deliver agreed objectives.

Question 22: Do you agree the permanent staff should be directly employed by the board?

Summary of Feedback: There was broad support having permanent staff directly employed by the board/ boards from all stakeholder groups – particularly from investors and other users, although a number of IFAC member bodies were of the view that the status quo should be maintained, and that technical staff should continue to be employed by IFAC.

Many respondents to the consultation supported the option for standard setting to be supported by an enhanced technical staff, but also drawing upon secondees to ensure that the technical work is supported by a flexible staff with up to date skills subject to them being covered by appropriate independence requirements.

Question 23: Are there other areas in which the board could make process improvements – if so what are they?

Summary of Feedback: Many of the suggestions made in response to this question focused on the need for a reformed structure to make much greater use of technology to support standard setting work, and that a reformed board or board should seek to copy the IASB model and have an annual series of process or urgent updates to standards as a way of responding more effectively to the needs of the market. This was also seen as being a way of addressing the cost implications of a remunerated board, through greater use of virtual working.

Question 24: Do you agree with the Monitoring Group that appropriate checks and balances can be put in place to mitigate any risk to the independence of the board as a result of it being funded in part by audit firms or the accountancy profession (e.g. independent approval of the

budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)?

Summary of Feedback: Investors and regulators provided the strongest feedback on the importance of the standard setting mechanism not being as reliant on the profession for funding as is now the case. They made suggestions to diversify funding by collecting money from the regulatory community currently represented on the Monitoring Group, and some respondents suggested that stock exchanges could fund standard setting as they represent investors who are among the main beneficiaries of high quality standard setting. Without a diversified funding base, respondents questioned whether the Monitoring Group would be able to address the perceived lack of independence as a result of reliance on audit firms and the profession more widely for funding.

A number of IFAC member bodies maintained that as IFAC funding was not just drawn from auditors, it could continue to fund standard setting, and pointed to the lack of progress made to diversify the comparatively limited funding requirements of the PIOB away from reliance on IFAC.

There was recognition that using the PIOB to collect funding and to approve a budget for standard setting could act as a suitable check to prevent there being an accusation that there is a link between membership on a board and the ability to influence standard setting (in the same way that the IFRS Foundation collects funding to meet the costs of the IASB), and the amount that a particular party contributes to support that activity. For the most part, many respondents stated that they expected the Monitoring Group to set out in greater detail its funding proposals over the medium term before stakeholders could give a view on them. This will be the subject of further consultation through outreach.

Question 25: Do you support the application of a “contractual” levy on the profession to fund the board and the PIOB? Over what period should that levy be set? Should the Monitoring Group consider any additional funding mechanisms, beyond those opted for in the paper, and if so what are they?

Summary of Feedback: Many respondents from all stakeholder groups questioned whether the option to move from discretionary funding from the profession, to a model which relies on non-discretionary funding through a ‘contractual levy’ would effectively address the perception that standard setting is reliant on the profession for funding. Investors were the most supportive of a mechanism that sought to put funding from audit firms on a non-discretionary basis. There was much more support from regulators, audit firms and national standard setters for the Monitoring Group to articulate a funding mechanism that relies instead on diversified sources.

A number of investor and audit firm respondents stated that the cost of standard setting should be borne by those who benefit from high quality standards, and that it undermined standard setting to continue to rely to such an extent on audit firms and the wider profession. They suggested that in the case of investors, funds could be collected through a levy on stock exchanges, as a proxy for trying to directly collect funds from investor groups. By contrast a number of IFAC member bodies continued to support the profession funding the development of standards through IFAC as is currently the case.

Question 26: In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe.

Summary of Feedback: Many of the consultation respondents used this question to set out their view that the Monitoring Group should not proceed with reforms on a ‘stage by stage’,

basis and that stakeholders should be presented with proposals for holistic reform of all levels of the governance model, along with a transition plan setting out how such reforms would be delivered in practice, and how the Monitoring Group proposes to manage the risks associated with any transition.

Several respondents also stressed the importance of building in sufficient time for further stakeholder engagement and outreach before the Monitoring Group develops final proposals, in part to address concerns that a number of the Monitoring Group's options were derived from a regulatory perspective, and legislative requirements set by the European Union, and ensure that reforms are genuinely supportive of global standard setting.

Responses from investors and regulators identified the need for standards to be able to support enforcement activity, and that the Monitoring Group should ensure this is clearly reflected in any further consultation or policy statement.

Question 27: Do you have any further comments or suggestions to make that the Monitoring Group should consider?

Summary of Feedback: Stakeholders provided a range of additional comments, though many responded stating the importance of seeing in detail a holistic set of proposals from the Monitoring Group, for the reform of all layers of the governance model, how a reformed model would be funded, and what the transitional arrangements would be to avoid any disruption to business as usual, as a number of large and important projects are currently underway. International Association of Supreme Audit Institutions (INTOSAI) member bodies raised the importance to their stakeholders, that standard setting takes account of the need of public sector users of global standards. Investors also raised comments on: bringing together the governance structure for accounting and auditing, and the need for audit standard setting to respond better to technology driven change.

The Monitoring Group proposes to set these out in detail in a further, and final, consultation paper which will be informed by the responses to this consultation.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **6**

Meeting Date: 13 June 2018

Subject: Monitoring Group Consultation Forums

Date Prepared: 4 June 2018

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

1. Inform AUASB Members about:
 - (a) Plans for the upcoming Monitoring Group (MG) Consultation Forums being held in Sydney and Melbourne later in June 2018; and
 - (b) The MG's summary of feedback of responses received to its earlier consultation "Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest".

Monitoring Group (MG) Consultation Forums

1. Following the Monitoring Group's (MG) Global Consultation on "Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest" which attracted 179 public submissions, the MG is reaching out to global stakeholders before developing a proposal for reforming the international standards-setting arrangements. As part of this process, the MG is visiting Australia this to engage with Australian stakeholders in a series of roundtables to be held in Melbourne and Sydney. These roundtables are an opportunity to influence reforms to the governance and oversight of international audit-related standard setting.
2. As highlighted at the April 2018 AUASB meeting, the AUASB Technical Group, in conjunction with the APESB, CA ANZ and CPA Australia, has coordinated these MG Consultation Forums. The sessions will be led by representatives of the MG and attendance is by invitation only, with representatives from all stakeholder groups (standard-setters, academics, professional bodies, investor groups, regulators) represented across the sessions. The number of participants is limited to 20 per session to encourage discussion and analysis.
3. AUASB representatives at the MG Consultation Forums will be Roger Simnett, Robert Buchanan, Robin Low and Carolyn Ralph.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Monitoring Group (MG) Summary of Feedback

4. The MG has now published a Summary of Feedback of responses received to its consultation paper which carries out an analysis of responses and considers the responses both in aggregate and by stakeholder groups. The Summary of Feedback and its associated Appendix which summarises the results to each question in the original consultation paper are included at **Agenda Item 6(i) and 6(ii)**.
5. Previously in April 2018 IFAC engaged an independent law firm in the US to perform an independent analysis of the public responses to the MG consultation paper. A link to this report (“Reactions To The Monitoring Group Consultation Paper Regarding International Audit-Related Standard Setting: A Summary Of Public Comments”) was previously provided to AUASB members via email and can be found at <http://www.ifac.org/system/files/publications/files/A-Summary-of-Public-Comments-on-the-Monitoring-Group-Proposal-Gibson-Dunn.pdf>.

Next steps

6. Now that the Summary of Feedback has been issued the Monitoring Group will undertake further outreach with global stakeholders, which along with the responses received to date, will support the development of a comprehensive White Paper of reform proposals by the end of the year. The White Paper will incorporate a public interest framework, proposals on funding, an impact assessment and transition plan.

AUASB Technical Group Recommendations / AUASB Actions

1. Provide comments on the MG Summary of Feedback to AUASB members attending the MG Consultation Forums being held in Sydney and Melbourne later in June 2018.

Material Presented

Agenda Item 6	AUASB Board Meeting Summary Paper
Agenda Item 6(i)	Monitoring Group Summary of Feedback
Agenda Item 6(ii)	Monitoring Group Summary of Feedback - Appendix



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 7(i)

Meeting Date: 13 June 2018
Subject: AUASB Draft Forward Agenda
Date Prepared: 6 June 2018

The below table sets out the expected timing of when the AUASB's projects and other matters will be discussed at AUASB meetings for all planned dates until the end of 2019. As projects progress and circumstances change, further amendments to the below table will be required. Items highlighted are expected to require a larger allocation of agenda time and/or relate to critical decisions for the AUASB.

	2018		2019					To be allocated
Meeting month	Sep	Dec	Mar	Apr	Jun	Sep	Dec	
# of days	1	2	1	2	1	1	2	
AUASB Pronouncements								
AUASB Glossary	✓**							
ASA 540	✓*	✓**						
GS 019 <i>Fundraising</i>	✓	✓		✓				
GS 016 <i>Bank Confirmations</i>	✓	✓		✓				
GS 010 <i>Questions at AGMs</i>								✓
ASAE 3450								✓
Guidance on review engagements								✓
International Projects								
ISA 315	✓*	✓	✓		✓#	✓**		
ISQC 1		✓#	✓*		✓	✓	✓	
ISA 600	✓	✓	✓		✓	✓	✓#	
Audit Evidence			✓		✓	✓		
ISQC 2	✓		✓#	✓*		✓	✓	
ISA 220	✓		✓#	✓*		✓	✓	
AUP	✓	✓	✓	✓#				
Emerging forms of External Reporting	✓	✓	✓					
IAASB Strategy	✓	✓^			✓	✓^		
IESBA Coordination (new code)	✓					✓	✓	
SME/SMPs	✓		✓^					
Data Analytics	✓	✓						
Professional Scepticism	✓	✓	✓		✓	✓	✓	
Auditor Reporting PIR		✓	✓		✓	✓	✓	
Monitoring Group	✓	✓	✓		✓	✓	✓	
NSS Collaboration	✓	✓	✓		✓	✓	✓	
Report on IAASB Meetings	✓	✓	✓	✓		✓	✓	
AUASB Strategic Projects								
Audit Quality	✓	✓	✓	✓	✓	✓	✓	
Use of Technology in the audit	✓	✓	✓	✓	✓	✓	✓	
Auditor Reporting Implementation	✓	✓	✓	✓	✓	✓	✓	
Frameworks								✓
SMEs/SMPs	✓	✓	✓	✓	✓	✓		
Forward agenda continued on next page								

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

	2018		2019					To be allocated
Meeting month	Sep	Dec	Mar	Apr	Jun	Sep	Dec	
# of days	1	2	1	2	1	1	2	
AUASB Strategic Projects (continued)								
EER	✓	✓	✓	✓	✓	✓	✓	
Public Sector	✓	✓	✓	✓	✓	✓	✓	
Managed Investment Schemes								✓
Other AUASB Priorities								
Superannuation Funds								✓
Research Strategy	✓	✓						
NZ Standard on SPI	✓	✓						
Climate Change Disclosures	✓							
Safe harbour provisions	✓							
AASB Chair Update				✓				
AUASB Technical work plan update	✓	✓		✓		✓	✓	
Guest Presentations				✓			✓	
Joint AUASB/AASB session								✓
Joint AUASB/NZAuASB session								✓
Corporate Reporting								
Report on IAASB Meetings		✓		✓		✓	✓	
FRC Reporting		✓		✓		✓	✓	
AASB-AUASB Annual Report	✓	✓				✓	✓	
AASB-AUASB Corporate Plan	✓					✓		

Notes:

* Anticipated finalisation of Australian Exposure Draft

** Anticipated finalisation of Australian Pronouncement

Consideration of IAASB fatal flaw (standard or exposure draft)

^ Consideration of IAASB Consultation Paper

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APPENDIX 1 – SUPPORTING INFORMATION

IAASB Forward Agenda International Standard key dates

Standard	Meeting	Outcome
ISA 540	Jun 2018	Anticipated finalisation of Standard
ISA 315	Jun 2018	Anticipated finalisation of Exposure Draft
	Jun 2019	Anticipated finalisation of Standard
ISQC 1	Sep 2018	Anticipated finalisation of Exposure Draft
	Mar 2020	Anticipated finalisation of Standard
ISQC 2	Dec 2018	Anticipated finalisation of Exposure Draft
	Mar 2020	Anticipated finalisation of Standard
ISA 220	Dec 2018	Anticipated finalisation of Exposure Draft
	Mar 2020	Anticipated finalisation of Standard
SMP	Mar 2019	Anticipated finalisation of Consultation Document

AUASB/IAASB Meeting timing

AUASB Meeting	IAASB Meeting
13 Jun 18	18 Jun 18
12 Sep 18	17 Sep 18
4-5 Dec 18	10 Dec 18
6 Mar 19	11 Mar 19
16-17 Apr 19	
12 Jun 19	17 Jun 19
11 Sep 19	16 Sep 19
3-4 Dec 19	9 Dec 19

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AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **7**
Meeting Date: 13 June 2018
Subject: AUASB Forward Agenda
Date Prepared: 6 June 2018

☒ Action Required

☐ For Information Purposes Only

Agenda Item Objectives

1. To obtain AUASB Member feedback on:
 - (a) the proposed format of the Draft AUASB Forward Agenda; and
 - (b) the AUASB Technical Group's proposed allocation of topics to future meetings.

Matters to Consider

2. The AUASB Technical Group has prepared the Draft AUASB Forward Agenda for the AUASB to review (refer **Agenda Item 7(i)**).
3. The objective of this document is to provide AUASB Members with:
 - (a) An indication of which topics will be included on the agenda for upcoming meetings; and
 - (b) Greater input into the AUASB Technical Group's work program.
4. The format of the document aligns to the Forward Agenda produced by the IAASB, however, a number of AUASB specific items such as AUASB Strategic Projects and Corporate Reporting have also been included. Standing agenda items (such as the review of the previous meeting minutes and the update from the NZAuASB Chair) have not been included on the forward agenda.
5. The AUASB Technical Group will present an updated AUASB Forward Agenda as an agenda item at each meeting, with feedback sought to ensure that the priorities of the AUASB and the AUASB Technical Group are aligned.

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AUASB Technical Group Recommendations

6. Feedback to be provided to the AUASB Technical Group on format of the Draft AUASB Forward Agenda and the proposed allocation of topics to future meetings.

Material Presented

Agenda Item 7	AUASB Board Meeting Summary Paper
Agenda Item 7(i)	Draft AUASB Forward Agenda



Australian Government
Australian Accounting Standards Board



Australian Government
Auditing and Assurance Standards Board

Agenda Item 8(a)(i)
AUASB Meeting 13 June 2018

AASB and AUASB Board Charter

July 2017

Amended March 2018
Amended May 2018



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1. Purpose

- 1.1 This Charter outlines the main corporate governance principles that apply to the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB) (together, the Boards).
- 1.2 The Charter will be reviewed annually by the AASB and the AUASB to ensure it remains consistent with the Boards' objectives, responsibilities and relevant standards of corporate governance.

2. Objectives

- 2.1 The Boards operate within a framework set out in Part 12 of the *Australian Securities and Investments Commission Act 2001* (ASIC Act). The ASIC Act sets out core objectives for accounting and auditing and assurance standard setting in Australia.
- 2.2 Under section 224 of the ASIC Act, the main objects of Part 12 are that:
 - (a) accounting standards should require the provision of financial information that:
 - (i) allows users to make and evaluate decisions about allocating scarce resources;
 - (ii) assists directors to discharge their obligations in relation to financial reporting;
 - (iii) is relevant to assessing performance, financial position, financing and investment;
 - (iv) is relevant and reliable;
 - (v) facilitates comparability;
 - (vi) is readily understandable;
 - (b) auditing and assurance standards should require the provision of information that:
 - (i) provide Australian auditors with relevant and comprehensive guidance in forming an opinion about, and reporting on, whether financial reports comply with the requirements of the *Corporations Act 2001* (Corporations Act);
 - (ii) require the preparation of auditors' reports that are reliable and readily understandable by the users of the financial reports to which they relate; and
 - (c) the Australian financial reporting system should:
 - (i) facilitate the Australian economy by reducing the cost of capital and enabling Australian entities to compete effectively overseas;
 - (ii) facilitate the Australian economy by having accounting and auditing and assurance standards that are clearly stated and easy to understand;



- (iii) maintain investor confidence in the Australian economy, including its capital markets.

3. Board Functions

3.1 Under section 227 of the ASIC Act, the AASB's functions are to:

- (a) develop a conceptual framework, not having the force of an accounting standard, for the purpose of evaluating proposed accounting standards and international standards;
- (b) make accounting standards under section 334 of the Corporations Act for the purposes of the corporations legislation;
- (c) formulate accounting standards for other purposes;
- (d) participate in and contribute to the development of a single set of accounting standards for world-wide use; and
- (e) advance and promote the main objects of Part 12 of the ASIC Act.

3.2 In carrying out its functions the AASB must:

- (a) have regard to the interests of Australian corporations which raise or propose to raise capital in major international financial centres;
- (b) have regard to the suitability of a proposed standard for different types of entities;
- (c) ensure that there are appropriate accounting standards for each type of entity that must comply with accounting standards but may apply different accounting requirements to different types of entities;
- (d) in the case of domestic standards – carry out a cost/benefit analysis of the impact of a proposed accounting standard before making or formulating the standard; and
- (e) in the case of international standards – carry out a cost/benefit analysis of the impact of a proposed international accounting standard before providing comments on a draft of the standard or proposing the standard for adoption as an international standard.

3.3 Under section 227B of the ASIC Act, the AUASB's functions are to:

- (a) make auditing standards under section 336 of the Corporations Act for the purposes of the corporations legislation;
- (b) formulate auditing and assurance standards for other purposes;
- (c) formulate guidance on auditing and assurance matters;
- (d) participate in and contribute to the development of a single set of auditing standards for world-wide use; and



(e) advance and promote the main objects of Part 12 of the ASIC Act.

- 3.4 Final pronouncements have legal status if required for the purposes of the Corporations Act. Other applications of accounting and auditing and assurance standards are dependent upon relevant industry regulators. The Boards do not have enforcement powers, but will consult with regulators in relation to implementation issues where appropriate.
- 3.5 The Boards perform a technical function and contribute to Board strategy. The Boards do not have supervisory powers in respect of the functions and administration of the Offices of the AASB and the AUASB, which are the responsibility of the respective Chairs (see Role of Chair below).

4. Accountability and Reporting

- 4.1 The Financial Reporting Council (FRC) has a broad oversight role in relation to the accounting and auditing and assurance standards setting processes in Australia, and is responsible for giving the Minister (i.e. the Treasurer) reports and advice about those processes.
- 4.2 The FRC determines the AASB's and the AUASB's broad strategic direction and provides advice or feedback on the Boards' priorities, business plans, procedures, budgets and staffing arrangements.
- 4.3 The Boards are responsible for setting strategy in line with the FRC's broad directions. The National Director is responsible for preparing a corporate plan to implement the strategy and reports periodically to the Boards, FRC and Commonwealth on how strategy is being implemented and achieved.
- 4.4 The AASB and the AUASB maintain ongoing communication with the FRC, principally through the Board Chairs who are members of the FRC. The Chairs report on the respective activities of the Boards to meetings of the FRC and also liaise regularly with the FRC Chair and Secretariat outside of FRC meetings.
- 4.5 The FRC conducts an annual performance review of Board members against achievement of stated objectives, strategies and key performance indicators. The FRC provides feedback to Chairs regarding their performance and Chairs provide feedback to members.
- 4.6 The Boards must comply with any direction given by the Minister (on the advice of the FRC) about the role of international accounting or auditing and assurance standards in the Australian accounting or auditing and assurance standard setting system.
- 4.7 To ensure the independence of the standard-setting bodies, the FRC does not have the power to:
- (a) direct the AASB or the AUASB in relation to the development, or making, of a particular accounting or auditing or assurance standard; or



- (b) veto a standard made, formulated or recommended by the AASB or the AUASB.

5. Membership

Composition

- 5.1 The Boards shall comprise a maximum of 12 members each, including the Chairs. The number of members of each Board may change from time to time but must ensure the sufficient representation of the various stakeholder groups affected by their standards, including preparers, practitioners and users.

Role of Chair

- 5.2 The Chairs are responsible for managing the Offices of their respective Boards. In particular, the Chair of each Board:
- (a) is responsible for approving the Board's priorities, business plans, procedures, and the Office's budgets and staffing arrangements;
 - (b) may employ such staff as the Chair thinks necessary to assist the Office in the performance of its functions and the exercise of its powers;
 - (c) must determine, in writing, a Code of Conduct applicable to the Chair and staff employed by the Chair;
 - (d) may engage consultants to perform services for the Office in connection with the performance of the Office's functions; and
 - (e) may seek legal advice in accordance with the Legal Service Directions 2017, where clarification is required as to the Board's mandate or regarding the potential legislative impacts of standards.

The Chairs have agreed to run the Offices for their respective Boards as one office supporting both Boards wherever possible, and have delegated administrative responsibilities to the National Director to the maximum extent possible.

- 5.3 The Chairs of the Boards consult with the FRC prior to taking action that is inconsistent with advice the FRC has given. Where FRC advice is not followed, the Chair must make a written record of the reasons for not following the advice and give a copy of the advice and reasons to the FRC and the Minister. A copy of the advice and reasons must also be included in the annual report prepared by the Chair under section 46 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).
- 5.4 The Chairs are not subject to direction by the Boards in relation to the Chairs' performance of functions, or exercise of powers, under the PGPA Act or the Public Service Act 1999 (PSA Act) in relation to the Offices of the Boards.



Remuneration

- 5.5 Board members are paid remuneration and allowances in accordance with the AASB and AUASB Policy on Board Member Remuneration, which is developed in compliance with guidance issued by the Commonwealth Remuneration Tribunal.

Appointment

- 5.6 The Chair of each Board is appointed by the Minister and the other members are appointed by the FRC.
- 5.7 The Chairs will identify a Deputy Chair for consideration by the respective Board. Appointment as Deputy Chair requires approval by a majority of Board members.
- 5.8 To be eligible for appointment, a person must have appropriate knowledge of, or experience in, business, accounting, auditing or assurance, law or government. Appointments to the respective Boards are aimed at achieving balance between members with private sector and public sector expertise, and will generally include representatives from industry, academia and professional practice.
- 5.9 The Minister determines the term of appointment for the Chairs, and the FRC determines the term of appointment for other Board members. The term of appointment must not exceed 5 years and members are eligible for reappointment. Terms of appointment are scheduled to avoid significant numbers of new members starting together.

Acting appointments

- 5.10 The Minister may appoint a person to act as Chair of either Board during a vacancy in the office of Chair of that Board, or during any period when the Chair is absent from duty or from Australia, or is for any reason unable to perform the duties of the office.
- 5.11 The AASB and the AUASB may appoint one of their members to act as Deputy Chair, where the Deputy Chair of that Board is unavailable, under the same conditions as that applied by the Minister in respect of the Chairs.

Leave of Absence

- 5.12 The Minister has the power to grant a Board member with a leave of absence. The Chair may request that the Minister consider a request to grant a leave of absence. The request should be in writing and identify the circumstances in support of the request.
- 5.13 The FRC may appoint a person to act as a member of either Board (other than the Chair) when a member is not available, or has been granted a leave of absence by the Minister. Any appointment will be made under the same conditions as that applied by the Minister in respect of the Chairs. The FRC has resolved such appointments may be made when a member is unable to attend two consecutive meetings.



5.14 Where a Board Member has missed two consecutive meetings without a leave of absence, the Chair of that Board may notify the Chair of the FRC and request that the FRC appoint a person to act as a Board member. The decision to appoint a person to act as a Board member is the responsibility of the FRC.

5.15 Board Members of the AASB and AUASB are personal appointments and the use of alternate Members is not permitted.

Resignation

5.16 The Chair of either Board may resign their appointment by giving written resignation to the Minister. Other members may resign by giving written resignation to the Chair of the FRC.

Termination

5.17 The Minister may terminate the appointment of the Chair of either Board for misbehaviour, physical or mental incapacity, or breach of the terms and conditions of their appointment.

5.18 The Minister must terminate the appointment of the Chair of either Board if the Chair becomes bankrupt, applies to take the benefit of any law for the relief of bankrupt or insolvent debtors, compounds with their creditors, makes an assignment of their remuneration or property for the benefit of their creditors, or breaches their confidentiality obligations under section 237 the ASIC Act.

5.19 The termination of other Board members is dealt with by the FRC, using the same criteria as that applied by the Minister in respect of the Chairs.

6. Meeting Procedures

6.1 The AASB and the AUASB have adopted the following operating procedures to ensure the efficient and effective fulfilment of their functions, as permitted by the ASIC Act.

6.2 The Boards must take into account any advice or feedback provided by the FRC about their procedures.

Meetings

6.3 Meetings will be held as frequently as necessary in order for the Boards to discharge their responsibilities. A schedule of meetings is arranged annually and publicly communicated. Additional meetings may be arranged upon the agreement of the majority of members of the relevant Board.

6.4 Members may attend a meeting in person or by teleconference, videoconference or other similar means.

6.5 A quorum at any meeting shall be a majority of members of the relevant Board.



- 6.6 Meetings will be chaired by the relevant Chair or, where the Chair is absent, by the Deputy Chair. Where both the Chair and Deputy Chair are absent, the members present shall elect one of their number to chair the meeting.
- 6.7 All discussions at Board meetings pertaining to technical accounting or auditing or assurance matters are open to the public.
- 6.8 Minutes will be prepared for all Board meetings to record attendance and all key decisions of the Boards. The minutes are circulated to members after the meeting and subject to approval at the next Board meeting. Minutes are then made publically available on the relevant Board's website.
- 6.9 The agenda and supporting staff technical papers of AASB or AUASB meetings are provided to members on a timely basis and the meeting agenda and non-confidential agenda papers are placed on the relevant Board's website.
- 6.10 The Chair of the respective Board may declare part of the meeting to be "confidential" or "in camera". Minutes will reflect that part of the meeting was held "in camera" however no details of that part of the meeting will be made public, subject to paragraph 6.12.
- 6.11 Separate minutes of the "in camera" section of the meeting must be made and retained for the required record retention period.
- 6.12 Where a matter that relates to technical accounting, auditing or assurance issues is discussed "in camera", the Chair will as soon as practicable after the opening of the meeting to the public, summarise the discussion and outline any decisions made during the "in camera" session. This summary, including any decisions made will be recorded in the public Minutes.

Observers

- 6.13 Representatives of various organisations with an interest in the setting of accounting and / or auditing and assurance standards may be invited (or have standing invitations) to attend AASB or AUASB meetings as official observers. Such individuals may, at the Chair's discretion, also be invited to address the Board on specific matters. Attendance of official observers is recorded in the minutes.
- 6.14 The general public are also able to attend all public sessions of the meetings. Attendance of general public observers is recorded, but not referred to in the minutes. Attendance can be by facilitated by electronic means.

- 6.15 No observers at Board meetings have voting rights.

Voting

- 6.16 When voting on pronouncements as described in paragraphs 6.15 and 6.16 below, each member, including the Chair, has one vote which can be exercised only by the appointed member.



- 6.17 Members shall vote according to their own beliefs, experience and judgment, and in the public interest – not according to the views of any firm, organisation or constituency with which they are associated.
- 6.15 ***For the AASB only*** - The affirmative vote of at least two-thirds of all AASB members (not just members present) is required to issue a Standard, Interpretation, or other mandatory pronouncements. Further details regarding pronouncements of the AASB can be found in the **[AASB Due Process and Working Procedures Document]**.
- 6.16 ***For the AUASB only*** - The affirmative vote of at least two-thirds of all AUASB members (not just members present) is required to issue an Exposure Draft, Standard or Guidance Statement. Further details regarding pronouncements of the AUASB can be found in the **[AUASB Due Process and Working Procedures Document]**.
- 6.17 All other decisions relating to the issuing of other Board pronouncements require a simple majority of those in attendance at the meeting, or of the members when voting out of session. The Boards may delegate decisions that require a simple majority vote to the Chairs.
- 6.18 A member not attending a meeting cannot vote on a matter voted on at that meeting.
- 6.19 Voting for the approval of pronouncements may be through out of session voting, by providing ballot papers to all Board members. Members must be advised of the results of such out of session voting no later than the next Board meeting.
- 6.20 All votes taken in meetings shall be documented in the minutes. The minutes shall constitute proper evidence of the decisions of the relevant Board.

7 Advisory Committees

- 7.1 The Boards have power to establish and disestablish committees, advisory panels and consultative groups as they deem necessary in carrying out their responsibilities. The Boards cannot delegate decision-making authority and, therefore, may create such groups with a mandate only to provide advice.
- 7.2 Staff provide support to advisory committees. The convening Board shall adopt terms of reference setting out matters relevant to the authority, functions, duration, membership, operations and responsibilities of advisory committees, and other matters that the Board may consider appropriate. Relevant advice from advisory committees shall be summarised and provided to its convening Board.
- 7.3 The performance of standing advisory committees shall be reviewed annually by the Boards.

8 Conduct of Members

Conflicts of interest



- 8.1 All direct or indirect pecuniary interests that conflict or could conflict with the proper performance of a Board member's functions must be disclosed in writing to the Chair of the relevant Board (or the Minister, if the member is the Chair).
- 8.2 A Board member who has a direct or indirect pecuniary interest in a matter that is being considered, or is about to be considered, by the AASB or the AUASB must disclose the nature and extent of the interest at a meeting of the relevant Board.
- 8.3 The disclosure must be made as soon as possible after the relevant facts have come to the member's knowledge, and must be recorded in the minutes of the meeting. Where possible, such conflicts should be discussed in advance with the Chair.
- 8.4 Unless the Chair (or the Minister, if the member is the Chair) otherwise determines, the member:
 - (a) must not be present during any deliberation by the Board on the matter; and
 - (b) must not take part in any decision of the Board on the matter.

Other general obligations of Board members

- 8.5 Board members are subject to the general duties of officials set out in Part 2-2, Division 3 of the PGPA Act. Accordingly, Board members:
 - (a) must exercise their powers, perform their functions and discharge their duties with the degree of care and diligence that a reasonable person would exercise if they occupied the same position as the Board member;
 - (b) must exercise their powers, perform their functions and discharge their duties honestly, in good faith and for a proper purpose;
 - (c) must not improperly use their position to gain an advantage for themselves or someone else, or cause detriment to the Board, Commonwealth or another person;
 - (d) must not improperly use information obtained in their capacity as a Board member to gain an advantage for themselves or someone else, or cause detriment to the Board, Commonwealth or another person; and
 - (e) must disclose at each meeting, and any time when the issues arise, details of any material personal interests that relate to the affairs of the relevant Board.
- 8.6 Board members must comply with the [AASB and AUASB Code of Conduct](#).

Confidentiality

- 8.7 The Boards must take all reasonable measures to protect from unauthorised use or disclosure information given to them in confidence, and matters and information that are considered and discussed by the Boards in confidence (other than matters and information considered and discussed during open sessions in public meetings).



- 8.8 It is expected that from time to time, members may seek counsel from individuals within their organisations on technical issues that are to be considered at Board meetings. Whilst permitted, this does not diminish a member's obligations not to disclose matters and information that are regarded by the relevant Board as being of a confidential nature.

Representing the Board

- 8.9 Only the Chairs are authorised to speak publicly on behalf of their respective Board. However, the Chairs may authorise another member or staff to speak publicly on behalf of the Board.
- 8.10 Where a member speaks publicly and their status as a Board member is promoted, but the member has not been authorised by the Chair to express views of the Board (for example, at external functions), the member must make clear that views expressed are their own personal views.

9 Due Process

- 9.1 The Boards adopt a rigorous due process to maintain appropriate transparency when developing or adopting standards and other pronouncements, and encourage constituents to participate actively in the standard-setting process. Extensive formal and informal consultation is conducted by the Boards and due process procedures have been put in place to ensure compliance with all Commonwealth regulatory requirements.
- 9.2 The due process and consultation activities adopted by the AASB and the AUASB, respectively, are documented in the **[AASB Due Process and Working Procedures Document]** and the **[AUASB Due Process and Working Procedures Document]**.



Appendix 1 – Legislation References

The following table outlines the legislative basis relating to each paragraph within the Board Charter (where applicable). The references below refer to [Part 12 of the Australian Securities and Investments Commission Act 2001](#) unless otherwise stated.

Paragraph	Legislation Reference	Paragraph	Legislation Reference
1.1	n/a	6.2	s236AA & s236EA
1.2	s236A(4) & s236E(4)	6.3	s236A(4) & s236E(4)
2.1	Part 12	6.4	s236A(4) & s236E(4)
2.2	s224	6.5	s236A(4) & s236E(4)
3.1	s227(1)	6.6	s236A(1) & s236E(1)
3.2	s227(2), s229(2) & s231	6.7	s236A(2) & s236E(2)
3.3	s227B(1)	6.8	s236A(4) & s236E(4)
3.4	s334 & s336 Corporations Act ¹	6.9	s236A(4) & s236E(4)
3.5	s236D & s236DB	6.10	s236A(4) & s236E(4)
4.1	s225(1)	6.11	s236A(4) & s236E(4)
4.2	s225(2)	6.12	s236A(4) & s236E(4)
4.3	s232 & s234C	6.13	s236A(4) & s236E(4)
4.4	n/a	6.14	Part 2-2, Division 3 PGPA Act ²
4.5	s225 & s235C	6.15	s236A(4) & s236E(4)
4.6	s233 & s234D	6.16	s236A(4) & s236E(4)
4.7	s225(5)-(8)	6.17	s236A(4) & s236E(4)
5.1	n/a	6.18	s236A(4) & s236E(4)
5.2	s235D, s235E, s235F, s236DB, s236DC & s236DD	6.19	s236A(4) & s236E(4)
5.3	s235D(3) & s236DB(3)	7.1	s227(3) & s227B(2)
5.4	s235H & s236DF	7.2	s236A(4) & s236E(4)
5.5	s236BA & s236FA	7.3	s236A(4) & s236E(4)
5.6	s236B(1)-(2) & s236F(1)-(2)	8.1	s236DA(1) & s236J(1)
5.7	s236B(2), s236A(4), s236F(3), & s236E(4)	8.2	s236DA(2) & s236J(2)
5.8	s236B(3) & s236F(4)	8.3	s236DA(3)-(4) & s236J(3)-(4)
5.9	s236B(5) & s236F(6)-(7)	8.4	s236DA(5) & s236J(5)
5.10	s236D(1) & s236H(1)	8.5	Part 2-2, Division 3 PGPA Act
5.11	s236D(2) & s236H(2)	8.6	s236A(4) & s236E(4)
5.12	s236D(3) & s236H(3)	8.7	s237
5.13	s236BA(5) & s236FA(5)	8.8	s237
5.13	s236C(1) & s236G(1)	8.9	s236A(4) & s236E(4)
5.14	s236C(3) & s236G(3)	8.10	s236A(4) & s236E(4)
5.15	s236C(4) & s236G(4)	9.1	s236A(4) & s236E(4)
5.16	s236C(6)-(7) & s236G(6)-(7)	9.2	n/a
6.1	s236A(4) & s236E(4)		

¹ Corporations Act 2001.

² Public Governance, Performance and Accountability Act 2013.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **8(a)**
Meeting Date: 13 June 2018
Subject: AASB-AUASB Board Charter Update
Date Prepared: 4 June 2018
Prepared by Damian Paull, AASB-AUASB National Director

☐ **Action Required**

☒ **For Information Purposes Only**

Agenda Item Objectives

1. Update AUASB members of minor changes made to the AASB-AUASB Board Charter.

Background

2. At the AASB-AUASB joint strategy day in May 2017 the AASB and AUASB resolved to agree on a charter that outlines the main corporate governance principles that apply to both Boards.
3. The current AASB-AUASB Board Charter was last shared with the board members at the September 2017 AUASB meeting.
4. As part of the governance of the Charter, it is reviewed from time to time to ensure it remains consistent with the Boards' objectives, responsibilities and relevant standards of corporate governance.
5. In recent Board meetings for the AASB, two matters have been raised that potentially required a review of the Board charter- please see below.

Matters to Consider

6. Board Charter Review – Leave of Absence for Members
 - (a) The Board Charter is not clear where, in certain circumstances, the Chairs have capacity to grant leave to Board members in circumstances where the leave is an extended absence.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

- (b) We have received advice from our lawyers (Gadens), who have reviewed the ASIC Act, the role of the FRC and the appointment processes for the AASB/AUASB Members and Chairs.
 - (c) With respect to the granting of a leave of absence – the ASIC Act refers to the granting of leave to a full time member of the AASB/AUASB rather than absence for a member who is covered by the remuneration tribunal....It seems an anomaly however the advice is clear that it is the Minister who must grant a member an extended leave.
 - (d) The draft paragraphs in the Board Charter (highlighted in yellow) are consistent with the legal advice provided.
7. Meeting Procedures – in camera
- (a) The other amendments to the charter relate to the public/”in camera” sessions of the board and what are the expectations where in-camera sessions stray into account/auditing technical discussions that should be in the public domain.
 - (b) A simple process has been included in the Charter that would require the Chair as soon as practicable after opening the meeting again, to summarise the relevant discussion and any decisions made so that the summary may be minuted in the public minutes and so be on record and meet the requirement for technical discussions/decisions to be public.
8. Observers
- (a) The Board Charter (paragraph 6.7) notes that all discussions at Board meetings pertaining to technical accounting or auditing or assurance matters are open to the public.
 - (b) The Board Charter has been updated to reflect that public observers may attend the public meetings using electronic means.

AUASB Technical Group Recommendations

N/A

Material Presented

Agenda Item

AUASB Board Meeting Summary Paper

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Review the Board Charter, in particular the highlighted sections and approve.	BMSP approval	AUASB	13 June 2018	Pending

Envisioning the Future—Survey on the IAASB’s Future Strategy

[WORD VERSION–ENGLISH]

Purpose of the Survey and Why It Is Important?

The International Auditing and Assurance Standards Board (IAASB) is committed to the goal of developing a set of international standards which are generally accepted worldwide. There are now [128](#) jurisdictions using or committed to using IAASB’s Clarified ISAs.

The IAASB is approaching the development of its future strategy and work plans with an open mind [1].¹ The IAASB’s strategy consultation process for the period 2020–2023 [2] starts with this stakeholder survey. This survey is intended to help identify key issues for consideration in developing its future strategy, in the context of the IAASB’s broad strategic focus, and the changing environment. The overriding objective is serving the public interest. The input from this survey, as well as direct engagement with a range of stakeholders through targeted outreach efforts, will inform the development of the IAASB’s Consultation Paper on its future Strategy and Work Plans. This Consultation Paper is expected to be released at the end of 2018. It will contain a more robust description of the matters addressed by the survey, and will solicit comments in the form of written responses from stakeholders. Your responses to this survey will assist the IAASB in identifying strategic themes to be addressed as it develops this Consultation Paper later in 2018,

Monitoring Group Review on the IAASB’s Structure, Governance and Oversight

The IAASB is closely following the consultation currently underway by the Monitoring Group (MG) on the IAASB’s structure, governance and oversight.² Changes are expected that will impact the 2020–2023 strategy period, including the IAASB’s operations and its capacity to undertake projects. Notwithstanding that this review is currently underway, the IAASB still believes it is important to continue with the strategy development process in light of the importance of the smooth continuation of the IAASB’s activities until and during any changes resulting from the MG consultation. As the MG works to finalize the outcome of its consultation, the IAASB believes it is important to embrace the change that is coming by considering actions to pilot some of the proposals in the MG’s Consultation Paper. Such piloting may include for example, operating as a more strategically focused Board, considering changes to the technical Staff team and the way in which they support specific projects and seeking enhanced coordination between the IAASB and the International Ethics Standards Board for Accountants (IESBA).

What the IAASB is asking in this Survey

We are requesting input from all interested stakeholders and request that survey respondents complete and submit Sections III and IV by **July 24, 2018**.

- **Section I**—Describes the current Strategy and IAASB projects and initiatives, including background to the projects underway and the expected timing of completion. This will assist respondents in understanding which projects continue into 2020 (thereby providing context about how the IAASB will begin its 2020—2023 strategy period).

¹ Explanations for the numbers in [] can be found in **Appendix 1**

² In November 2017, the Monitoring Group published its consultation paper, [Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Board in the Public Interest](#)

- **Section II**—Broadly describes the IAASB's views about what may affect the IAASB in 2020–2023— including the implications for its people, processes, technology and activities.
- **Section III**—Information about respondents, including the capacity in which they are completing the survey.
- **Section IV**—Specific questions for respondents.

Responses will be made available on the IAASB's website after the close of the survey.

SECTION I—BACKGROUND AND CONTEXT FOR THE IAASB’s 2020—2023 STRATEGY

What does the IAASB Do, and What Are Its Standards?

The objective of the IAASB is to serve the public interest by setting, independently and under its own authority, high-quality auditing, assurance, and other related standards. The IAASB also seeks to facilitate the convergence of international and national standards. These objectives contribute to enhancing quality and consistency of practice throughout the world, and strengthening public confidence in the global auditing and assurance profession. The IAASB sets its international standards under the oversight of the Public Interest Oversight Board, and with the advice of its Consultative Advisory Group, which provides public interest input into the development of the standards.

The IAASB’s Standards and Other Pronouncements

The international standards developed by the IAASB cover a broad range of engagements, including:

- **Audits and reviews** of historical financial information [3].
- **Other Assurance** engagements (other than audits or reviews of historical financial information), including engagements related to Emerging Forms of External Reporting (EER) [4].
- **Related Services** engagements [5].

The IAASB also establishes **Quality Control** standards [6] to be applied by firms for all services falling under the IAASB’s engagement standards. In addition, the IAASB may issue **guidance** in the form of non-authoritative material [7].

What Has Influenced the IAASB’s Activities over the Last Ten Years?

In March 2009, the IAASB completed its Clarity Project that involved a comprehensive review of all the ISAs to improve their clarity and thereby facilitate their consistent application. Approximately half of the clarified ISAs included substantive changes aimed at improving practice in a variety of respects. During this process, the IAASB’s way of drafting standards was reformed, and standards continue to be revised or developed using these clarity formats and drafting protocols.

After 2009, the IAASB shifted its focus to enhancing the relevance and quality of assurance and related services, and revised a number of its assurance, review and other services standards [8]. At the same time, key stakeholders called on the IAASB to focus on supporting global financial stability. In response, and because the auditor’s report is a key deliverable addressing the output of the audit process for users of the financial statements, the IAASB’s top priority in 2012–2014 was a project to revise the auditor’s report.

In order to understand the effectiveness of the changes made in the clarity project, including the need for further changes, the IAASB undertook a post-implementation review of the clarified ISAs that was completed in 2013. The [Findings from the Post-Implementation Review](#) have largely informed the projects undertaken since 2015, including influencing their relative prioritization.

The environment has also changed significantly in the last ten years, which has necessitated the IAASB to respond [9]:

- *Stakeholder needs are continually evolving*, including:
 - An increasing call for transparency about the audit (with a significant project to revise the auditor's report,³ completed in late 2014).
 - An increasing focus on non-financial and forward-looking information, and other types of environmental reporting, with the IAASB establishing its Innovation, Needs, and Future Opportunities (INFO) Working Group (now called the Innovation Working Group) [10] in 2014 to monitor evolving developments potentially affecting the IAASB's standards [11].
- *International audit oversight bodies* are evolving, becoming more structured and interconnected, and continue to enhance consistency of the reviews of audits that are performed jurisdictionally, with global findings being made public on an annual basis.
- There are *different, competing, and ever increasing calls from important stakeholder groups* for more to be done to address their specific challenges, some of which also vary from one stakeholder to another. While certain stakeholders are calling for more robust requirements, practitioners providing services to small- and medium-entities (SME's) are calling for more help to support the effective and efficient implementation of the standards, including simpler standards. In particular, there has been an increasing call for a focus on the scalability of the IAASB's auditing standards when auditing smaller or less complex entities [12].
- *There has been an increasing focus on audit quality*, including questions about what 'audit quality' means. Recognizing that audit quality is important to global financial stability and is relevant to all stakeholders in the financial reporting supply chain, the IAASB developed its [*Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality*](#).
- *Financial reporting frameworks are also continually changing* to address changes in the environment, with increasing emphasis being placed on robust disclosures. For example, International Financial Reporting Standard (IFRS) 9, *Financial Instruments*, resulted in a call, in particular from banking and insurance regulators, for changes in the auditing standards to address issues arising from its impending adoption, especially for financial institutions. This resulted in prioritizing a project to revise ISA 540⁴ relating to the audit of accounting estimates and fair values.
- *Technology is evolving at an increasingly rapid pace*, affecting the way that entities and audit firms operate, and how audits and other engagements are being undertaken.
- *Audits of public sector authorities or entities are increasingly being undertaken using the ISAs* [13]. There have been increasing calls for more help with the implementation of the standards in this sector.
- *The IAASB's coordination efforts with IESBA and the International Accounting Education Standards Board (IAESB) have also become increasingly important* as changes made in the IESBA and IAESB standards sometimes directly impact the IAASB's standards, as well as increasing stakeholder expectations that the standards are not inconsistent with each other.

³ The new and revised Auditor Reporting Standards comprise ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*; New ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*; ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*; ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*; ISA 570 (Revised), *Going Concern*; ISA 260 (Revised), *Communication with Those Charged with Governance*; and conforming amendments to other ISAs.

⁴ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

In summary, to respond to the changing environment and in fulfilling its overall objective, the IAASB's areas of broad strategic focus over the past 10 years have been:

- (a) The **development or revision** of standards;
- (b) **Monitoring the adoption** of those standards; and
- (c) Responding to concerns about the **implementation** of the standards by activities designed to improve the consistency and effectiveness of their application.

The IAASB's Strategy for 2015–2019

The IAASB's current strategy runs from [2015–2019](#), and was developed in the context of various influences on the Board's activities as described in the Background section. The strategy sets out the Board's medium-term vision for its activities during this period by describing three identified strategic objectives. These three strategic objectives provide further context for the IAASB's mandate and outputs, and illustrate how the IAASB has, and continues to, focus its activities. A mid-period [review](#) of the continuing relevance of the three strategic objectives was undertaken in 2016, and our stakeholders confirmed that the three strategic objectives remained relevant for the rest of the strategy period.

The strategic objectives for 2015–2019 identified were to:

- (i) Ensure that ISAs Continue to Form the Basis for High-Quality, Valuable and Relevant Audits Conducted Worldwide by Responding on a Timely Basis to Issues Noted in Practice and Emerging Developments
- (ii) Ensure the IAASB's Standards Evolve as Necessary to Adequately Address the Emerging Needs of Stakeholders for Services Other than Audits of Financial Statements
- (iii) Strengthen Outreach and Collaboration with Key Stakeholders in the Reporting Supply Chain on Public Interest Issues Relevant to Audit, Assurance and Related Services

In this context, in the period 2015–2019, the IAASB has worked towards:

- Enhancing the quality and robustness of the audit to support financial stability, recognizing that the work of the auditor plays a key role in the credibility of audited financial statements for stakeholders.
- Developing international standards and other guidance to address services other than audits of financial statements. The IAASB heeded calls from users, practitioners and others for new and evolving services that were seen to be most relevant in the current environment.

In support of its efforts, the IAASB has increased its focus on broad-based outreach [14], and on enhancing relationships with international and national regulatory bodies, auditor oversight and inspection authorities, investors, national standard-setters, organizations representing small- and medium-practices (SMPs) and practitioners. Through this outreach the IAASB has continued its emphasis on encouraging and facilitating adoption and effective implementation of the ISAs and other IAASB standards.

The specific projects currently underway are described below, including the expected timing for completion of these projects.

The IAASB's Activities in the Period 2015–2019

The IAASB's two-year work plans set out the specific initiatives and projects, as well as their relative priorities, in context of the broader strategy. Public consultations on the [Work Plan for 2015–2016](#) and the [Work Plan for 2017–2018](#) were undertaken to help the IAASB understand stakeholders' expectations about the specific projects and priorities of the IAASB. The IAASB's approved work plans for 2015–2016 and 2017–2018 have been developed in light of input received.

The projects currently underway in 2018 will mostly continue into 2019 (and some beyond). Accordingly, work in 2019 will focus on completing those projects already underway.

2015–2016

In 2015–2016, the IAASB completed its projects to revise ISA 720,⁵ make revisions to the ISAs addressing the auditing of financial statement disclosures, and amend the ISA 800 series.⁶ The IAASB also undertook efforts to promote awareness and understanding, and support effective implementation, of the new and revised Auditor Reporting standards. The IAASB also commenced work on a number of significant new projects, largely driven by the findings from the IAASB's ISA Implementation Monitoring Project and ongoing outreach and engagement with stakeholders, including regulators.

In light of the findings from the IAASB's post-implementation review of the clarified ISAs, and from global outreach to further understand the challenges and issues with implementing the clarified ISAs, the IAASB undertook a global consultation on a number of interrelated topics, to obtain further insight to the challenges and issues that had been identified. The IAASB's Invitation to Comment, [Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Audits](#), set out issues related to quality control (at the firm and engagement level), professional skepticism and group audits, as well as possible actions to address the identified issues. The input from this consultation has helped inform the standard-setting activities of the projects to revise ISQC 1,⁷ ISA 220,⁸ and ISA 600.⁹

In addition, significant new changes to the International Financial Reporting Standards,¹⁰ and consequential calls from audit, banking and insurance regulators, propelled a project to consider changes to ISA 540 related to auditing fair values and accounting estimates.

Therefore, the significant new projects that commenced during the 2015–2016 period included:

- Revisions to ISA 540 to drive more robust procedures in relation to accounting estimates and related disclosures.

⁵ ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

⁶ The ISA 800 series includes ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* and ISA 810, *Engagements to Report on Summary Financial Statement*

⁷ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

⁸ ISA 220, *Quality Control for an Audit of Financial Statements*

⁹ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

¹⁰ In particular International Financial Reporting Standard (IFRS) 9, *Fair Value*

- Revisions to ISQC 1¹¹ to strengthen and improve a firm's management of quality for all engagements performed under the IAASB's International Standards, by more explicitly incorporating a quality management approach.
- Revisions to ISA 220 to strengthen aspects of quality management for individual audit engagements.
- Revisions to ISA 600 to strengthen the auditor's approach to planning and performance of a group audit, and clarify the interaction of ISA 600 with other ISAs.
- Revisions to ISA 315 (Revised)¹² to establish more robust requirements and appropriately detailed guidance to drive auditors to perform appropriate risk assessment procedures in a manner commensurate with the size and nature of the entity.
- Exploring recommendations on how to more effectively respond to issues related to professional skepticism throughout the IAASB's standards.

In addition, the IAASB formed working groups to explore:

- Emerging developments in the need for assurance for integrated reporting and other emerging forms of external reporting.
- Emerging developments in the effective and appropriate use of technology, including data analytics, and how changes relating to data analytics could be made in the ISAs currently being revised.
- Current use and practice relating to agreed-upon procedures engagements [15], including whether there was a need to revise ISRS 4400.¹³

The IAASB also commenced more formalized coordination efforts with the IESBA, in particular to take account of changes the IESBA was making related to non-compliance with laws and regulations, and the direct impact thereof on the ISAs, in particular ISA 250.¹⁴

2017–2018

The IAASB's focus on its priority projects that commenced in 2015–2016 extended to the Work Plan for 2017–2018. Other work on initiatives that had started in the 2015–2016 period also continued, with a project to revise ISRS 4400 commencing. During this period stakeholders have continually emphasized the importance of the IAASB completing its work on the key ISAs where work was underway, and the IAASB has focused its resources and efforts on the projects that had already commenced at the start of the 2017.

In addition to progressing the projects started in 2015–2016, other areas, existing and emerging, also necessitated the IAASB's attention, and work also started on:

¹¹ In progressing changes to ISQC 1, the IAASB agreed to bifurcate the requirements and guidance relating to Engagement Quality Control Reviews (new proposed standard ISQC 2, *Engagement Quality Control Reviews*).

¹² ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

¹³ International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

¹⁴ ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

- The development of non-authoritative guidance to enable more consistent and appropriate application of ISAE 3000 (Revised)¹⁵ to emerging forms of external reporting (EER) [16].
- Initial activities to explore what more can be done in relation to audits of smaller or less complex entities. As the IAASB has progressed changes to the key ISAs being revised, scalability has been a strategic focus in each of the projects, but the IAASB is considering what, further can be done.

The IAASB has also increased and formalized its coordination efforts with the IESBA, through establishing a coordination framework that sets out operating principles, criteria and other key considerations for coordination, conducting annual joint meetings of the Boards, as well as working closely on matters of mutual interest.

The IAASB's Forward Agenda (see Appendix 2) sets out the IAASB's most current expectations for the progression and completion of the projects currently underway in 2018. As projects complete in 2018 and 2019, and capacity opens up, time and efforts will first be focused on projects commenced but not significantly progressed (such as the project to revise ISA 600), and then on further explorations relating to a possible project on Audit Evidence (this includes consideration of the revision of certain relevant ISAs, but also includes aspects of matters relating to professional skepticism and data analytics). Towards the end of 2018, the Board will likely commence activities relating to the post-implementation review of the Auditor Reporting standards, as well as ongoing exploration of matters related to audits of SME's.

Furthermore, the IAASB's Work Plan for 2017–2018 has indicated further consideration of International Auditing Practice Notes. The need for, and development of, such International Auditing Practice Notes is still to be considered by the IAASB and would require additional staff resources and further Board time.

2019

As can be seen by the IAASB's Forward Agenda, there is no capacity for new *unplanned* projects or initiatives in 2019. The Board has noted the input from its stakeholders to focus first on completing outstanding projects before turning attention to new ones. Therefore, the Board's efforts will be focused on completing the significant projects commenced and progressed in 2015–2018. Accordingly, the Board will not be consulting on a one year work plan for 2019.

More detailed descriptions about the IAASB's projects and initiatives, including progress to date, can be found on the IAASB's [project pages](#) on the website.

¹⁵ International Standards on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

SECTION II—What May Affect the IAASB in 2020–2023—including the Implications for Its People, Processes, Technology and Activities

The following sets out the matters that the IAASB has identified as impacting its people, processes, technology and activities in 2020–2023. The IAASB is particularly interested in respondent's views about matters that have not been identified relating to the specific points noted, or if a matter has not been identified at all.

Continuing Challenges

In the current Strategy period, it has become clear that there are changes in the environment that are presenting some overarching challenges to the IAASB in undertaking its work. These challenges will likely continue into the next strategy period and include:

- Changes driven by the outcome of the MG review—including transitioning to a new model that could be substantively different and involve different needs for, and qualifications of, Board members and Staff, making changes to the standard-setting process that are workable, practical and result in the desired changes (including enhancing the speed of the IAASB's standard-setting activities), and embracing use of technologies to enhance the standard-setting process.
- Determining the prioritization of different and competing calls for IAASB action—this includes the projects that are selected, as well as how the IAASB addresses the issues that have been raised, so that the IAASB is seen to be continuing to act in the public interest in the activities it undertakes.
- Deciding how to heed the call for more efforts to support effective global implementation of the IAASB's standards—the IAASB has not traditionally developed detailed implementation guidance but there are ongoing and increasing calls for such guidance from many different stakeholders. In addition, there may be other options to support effective implementation such as publications including 'interpretations' of specific requirements or a 'rapid response' mechanism to address a single issue that has been identified (i.e., a targeted standard-setting response to address a specific requirement or small number of requirements and related application material, not a broader project involving more comprehensive revisions).
- Finding ways to address issues in a more timely manner—standard-setting that results in quality standards, with appropriate consultation, takes time. The pace of change in the environment has caused the IAASB to start considering how it can be more agile in its response to these issues, for example developing non-authoritative guidance or other Staff documents to address more immediate issues.
- Continuing to coordinate on a timely basis with IESBA on matters of mutual interest—including addressing the impact on the international auditing and assurance standards of recent, and ongoing, changes being made to IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards)* (Code of Ethics).
- Keeping the standards 'fit-for-purpose' with the current pace of change in relation to:
 - Technology and its consequential effect on the environment—this includes how technology is causing audit firms to challenge traditional approaches to auditing and to transform the manner in which audits are being performed, for example:
 - More advanced data analytics are being used to perform audit procedures, especially as IT systems continue to evolve at a rapid pace. Data analytics tools and techniques are

being used to perform such procedures differently, and in some cases, more robustly, than traditional audit methods; thereby changing the way that audit evidence is being obtained. This may in turn impact certain extant standards.

- As audited entities continue to evolve and advance in their use of new and evolving technologies such as cryptocurrency, artificial intelligence (AI) and blockchain, the auditor's 'traditional' approaches to performing audit procedures will likely need to evolve, which in turn may impact the standards.
- Engagement teams are being structured differently and there is increased use of audit delivery centers to focus on specific aspects or functions. Increasingly technology is leveraged to provide for more virtual collaboration between engagement teams, thereby introducing new quality management challenges at both the firm and engagement level.
- Changes in financial reporting—Financial reporting standards are becoming increasingly complex to address changes in the environment, in particular in light of the increased use of fair value and other current value measurements that involve making significant accounting estimates. There is also an increasing focus on forward-looking information, as well as on non-GAAP measures and non-financial information by investors and other users of financial statements.

Other Strategic Factors and Trends Influencing the IAASB's Activities

In addition to completing the projects still underway at the start of 2020, and impacts of the ongoing challenges described above, other strategic factors and trends likely to influence the activities of the IAASB in 2020–2023 include:

- Whether the quality of audits will improve once the key ISAs recently revised, or currently being revised, are implemented—including whether the revisions will achieve their desired objectives.
- Whether the standards currently being revised or developed are scalable—that includes whether the revised and new standards have been effectively implemented by firms of differing nature and size.
- Continuing evolving stakeholder needs—the need for broader assurance may impact the focus of the IAASB's activities on its suite of standards:
 - There is a continuing shift of focus towards reporting on non-financial (e.g., environmental) or forward-looking information, and other emerging forms of external reporting.
 - The audit market will continue to change. For example, changing audit thresholds in certain jurisdictions may impact the types of services being performed (i.e., increasing numbers of entities may no longer be required to have an audit performed, and these entities may look for other types of engagements delivering assurance or related services).
- The ongoing evolution of the expectations and needs of regulators in relation to regulated entities—including the impact on the standards, for example: public interest entities may require different kinds of standards and guidance versus what is needed by non-public interest entities for effective implementation; financial institutions may require more specific guidance about how the standards should be effectively implemented.

At the same time, there may be opportunities that the IAASB could take to change what it does, or the way it does it, for example:

- Consideration could be given to a strategic review of the extant standards with a focus on whether they are fit-for-purpose in the evolving environment (including as it relates to technology), and if not, what changes could be made.
- In light of changing technology, consideration could be given to whether:
 - An interactive handbook may help support the scalability of the standards.
 - Using advance collaboration tools may facilitate international task force meetings rather than task force participants meeting in person.

In addition, further consideration may be needed about how the Board operates in order to address concerns about the capacity of the Board to set standards and undertake its activities, including how the Board and the Staff are resourced.

SECTION III: ABOUT THE RESPONDENT

1. From which perspective are you providing this feedback:

- (a) A personal view.
- (b) The view of an organization.

[If (a) is selected]

Name

Organization (if applicable):

OR

[If (b) is selected]

Name of Organization:

Name or Person submitting Survey on behalf of the organization:

Select one of the following options that describe your organization (number; letter if applicable; numeral if applicable):

- 1) Academia
- 2) Accounting Firm
 - (a) Global network [17] (or firm within such a network)
 - (i) Is this response on behalf of the global network
[yes/no]
 - (ii) [if no] Is this response on behalf of a regional or national firm
[yes/no]
 - (b) Other individual firm
 - (i) National or regional firm
 - (ii) Sole practitioner
- 3) IFAC Member Body or Other Professional Organization
 - (a) IFAC Member Body, Affiliate or Regional Organization
 - (b) Other professional organization
- 4) Investor or Analyst
- 5) National Standard Setter
 - (a) National auditing standards same as, or based on, the IAASB's current International Standards on Auditing
[Yes/No]
[if no] Please specify which standards are used.
 - (b) Other national standards same as, or based on, IAASB's other standards (i.e., assurance, related services and reviews)
[Yes/No]
[if no] Please specify which standards are used.
- 6) Preparer of Financial Statements
 - (a) Listed entity
 - (i) Small- or medium-sized entity [12]
[Yes/No]
 - (b) Non-listed entity
 - (i) Small- or medium-sized entity [12]
[Yes/No]

- 7) Public Sector
 - (a) Preparer
 - (b) Auditor
 - (c) Public sector audit organization
 - (i) Do you apply International Standards of Supreme Audit Institutions (ISSAIs) for financial audits
[Yes/No]
- 8) Regulator or Audit Oversight Body
- 9) Those Charged with Governance
 - (a) Private sector
 - (i) Listed entity
 - (ii) Non-listed entity
 - (b) Public sector
- 10) Other – Please specify

Fill in capacity below

--

2. Are you any of the following? *[this option will only appear if the respondent is an individual]*

- IAASB Consultative Advisory Group Representative
- IAASB Observer
- IAASB Member
- Former IAASB Member
- Former Consultative Advisory Group Representative
- Member, Technical Advisor or Observer of Other Public Interest Activity Committee, IFAC Board or Other IFAC Committee

3. Geographical Region

Please select the geographical region where you are based:

- Africa-Middle East
- Asia
- Oceania
- Europe
- South America
- North America
- Global Organization *[this will not come up as an option if the respondent's view is a personal view or a response from a global network]*

SECTION IV—QUESTIONS FOR RESPONDENTS ABOUT THE IAASB'S STRATEGY FOR 2020-2023

As the current projects are completed, it is important for the IAASB to focus on where and how its resources should be deployed to continue to meet its public interest mandate. In doing so, the IAASB is of the view that gathering information to understand the future direction to be embodied in its 2020–2023 Strategy should be embarked on with an open mind, while still taking into account the needs of the IAASB's stakeholders within its mandate. Accordingly, the IAASB is seeking views on the following matters to help identify key issues for consideration in developing its future strategy. The IAASB particularly welcomes input that is insightful or that will be influential in shaping the direction of its future strategy, or which may help identify emerging developments or trends that are likely to be important in the public interest in the future..

GLOBAL ISSUES, TRENDS OR DEVELOPMENTS

1. In your view, what will the strategic environment affecting the needs of the IAASB's stakeholders look like in 2020 onward (for example, will the audit market change significantly; will other services dominate stakeholders needs – including what the needs may be for different types of evolving services; how evolving technologies, such as cryptocurrency, artificial intelligence or blockchain, will impact the environment in which the IAASB's stakeholders operate, etc.), and what may be the implications for the IAASB's International Standards.

2. **Section II** describes the additional challenges and opportunities that the IAASB has identified relating to its people, processes, technology and activities, including possible changes that may arise from the MG consultation. In your view, as the IAASB develops its Strategy for 2020–2023, what are the:
 - (a) Key challenges and other factors that may impact the IAASB's focus in relation to its people, processes, technology and activities; and
 - (b) Main opportunities for changing the way it undertakes its activities.

Your response may include views about the matters identified by the IAASB as set out in Section II, but any views about matters that have not been mentioned are particularly welcome.

3. Are there specific initiatives within the stakeholder group to which you belong, or of which you are aware, that you believe the IAASB should actively monitor in light of their potential to inform the IAASB's future agenda? If so, what are they, and why do you think they are relevant to the IAASB?

THE FOCUS OF THE IAASB's ACTIVITIES IN 2020–2023

One of the significant challenges facing the IAASB, as noted in **Section II**, is dealing with different and competing calls for IAASB action, including the prioritization of projects that are selected, such that the IAASB is seen to be continuing to act in the public interest.

4. **Section II** illustrates that the IAASB has, and will continue to, focus a significant part of its efforts in 2015–2019 on revising and developing standards addressing the audit of historical financial information and quality control. With respect to new standard-setting projects for the period 2020–2023, in light of where you believe IAASB actions are needed and to continue to serve the public interest, in your view what proportion of effort should the IAASB allocate to each of the following? (Allocation should total 100%)

Quality control

indicate %

Audits and reviews of
historical financial
information

indicate %

Other assurance –
EER engagements [4]

indicate %

Other assurance (and
related services) -
other than EER
engagements [18]

indicate %

Crossover Topics:

Professional
skepticism

indicate %

Matters relating to
audits of smaller and
less complex entities

indicate %

TOTAL =

100%

Please indicate the rationale for your response and any related comments you may have.

--

5. **Section II** has noted another significant challenge for the IAASB is deciding how to heed the call for more efforts to support effective global implementation of the IAASB's standards, for example through the development of implementation guidance. However, the IAASB also recognizes the need to strike a balance between activities related to implementation and the development of new, or revising extant, standards to further enhance practice. Accordingly, the IAASB is also seeking views on the appropriate balance between setting new or revising standards, and implementation activities (e.g., through developing material that assists implementation of the standards, or development of guidance such as Practice Notes or staff publications, as well as post-implementation reviews).

How, in your view, should the IAASB focus the majority of its efforts?

- (i) Developing new or revised standards; or
- (ii) Undertaking implementation activities; or
- (iii) Apply efforts to both, and if so, in what proportion

(Please provide relative %; each category to total 100%)

Quality control	-	Indicate:	
		(i) develop new or revised standards;	%
		(ii) undertake implementation activities; or	%
		(iii) apply efforts to both, and if so, in what proportion	%
Audits and reviews of historical financial information	-	Indicate:	
		(i) develop new or revised standards;	%
		(ii) undertake implementation activities; or	%
		(iii) apply efforts to both, and if so, in what proportion	%
Other assurance – EER engagements [4]	-	Indicate	
		(i) develop new or revised standards;	%
		(ii) undertake implementation activities; or	%
		(iii) apply efforts to both, and if so, in what proportion	%
Other assurance (other than EER engagements) and related services[18]	-	Indicate	
		(i) develop new or revised standards;	%
		(ii) undertake implementation activities; or	%
		(iii) apply efforts to both, and if so, in what proportion	%

Please indicate the rationale for your responses and any related comments you may have.

6. In relation to the development of new, or the revision of extant, standards as noted in Question 5, and keeping in mind the potential impact of the evolving environment and the challenges and opportunities for the IAASB in 2020–2023, should the IAASB, in your view:
- (a) Focus first on a strategic review of extant standards (for example, consider how the standards could be better structured or presented in light of evolving technologies) before prioritizing projects on new topics. Please provide an explanation for your view.
 - (b) Prioritize projects on new topics (as determined by the consultation on the IAASB's future strategy and priorities). Please provide an explanation for your view.
 - (c) During implementation of the current standards under revision (i.e., those standards that currently have a committed project plan in place), consider a moratorium on developing new or other revised standards? If so, how long should such a moratorium last? Please provide an explanation for your view.
 - (d) Undertake other actions related to the development of new, or revision of extant, standards, and/or implementation support. Please describe what these actions should be and provide an explanation for your view.

SPECIFIC AREAS OF POTENTIAL FOCUS

7. If there was a specific topic(s) that, in your view, should be the IAASB's priority(ies) when developing new, or revising existing, standards or related guidance for the period 2020—2023, what would it be, and why?

Where applicable, kindly indicate whether in your view the topic(s) (you have indicated) has particular relevance mainly for engagements for listed entities, small- and medium-sized entities (SMEs), or for entities of all sizes. Views in relation to matters of relevance to developing nations and the public sector are also encouraged.

OTHER

8. Are there any other topics of interest or matters of relevance that you feel the IAASB should consider when conducting its strategic review, including those related to its the way that the IAASB undertakes its activities (e.g., changes to address matters highlighted in the MG review)?

Thank you for completing our survey—your response is very important to us.

Appendix 1

- [1] For example, it may be the appropriate time to consider whether another reform of the IAASB's standards and activities, including the way that the activities are undertaken, is needed.
- [2] The period of the strategy has changed to 4 years to align with the end of the strategy period for the International Ethics Standards Board for Accountants.
- [3] The **auditing standards** address an audit of an entity's financial statements by an independent auditor. The applicable IAASB standards are the International Standards on Auditing (ISAs).
Review standards address the review of an entity's financial statements by a professional accountant in public practice, and the review of interim financial information by the independent auditor of the entity. The applicable IAASB standards are the International Standards on Review Engagements (ISREs).
- [4] **Other assurance engagements** include engagements that are not audits or reviews of historical financial information where assurance is provided. This includes reasonable or limited assurance engagements on a greenhouse gas statement, assurance engagements to report on controls at a service organization, and assurance engagements to report on the compilation of pro forma financial information included in a prospectus. The applicable IAASB standards are the International Standards on Assurance Engagements (ISAEs).
EER engagements refers to engagements related to emerging forms of external reporting by entities that increasingly provide non-financial information that goes beyond the traditional (financial statement) focus on the entity's financial position, financial; performance and impact on its financial resources.
- [5] **Related services engagements** include compilation engagements, engagements to apply agreed-upon procedures to information, and other related services engagements as specified by the IAASB. The applicable IAASB standards are the International Standards on Related Services (ISRSs).
- [6] The applicable IAASB standards are the International Standards on Quality Control (ISQCs).
- [7] This material includes Practice Notes such as the IAASB's International Auditing Practice Notes (IAPNs), and Staff publications.
- [8] *Revisions: ISRE 2400 (Revised), Engagements to Review Historical Financial Statements; ISRS 4410 (Revised), Compilation Engagements; ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*
New: ISAE 3410, Assurance Engagements on Greenhouse Gas Statements; ISAE 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus
- [9] Section I describes the IAASB's specific projects and initiatives undertaken since 2015 and that are currently underway.
- [10] This working group was established with the mandate to identify the need for development, or revision, of an International Standard or other guidance for auditors and practitioners.
- [11] In undertaking its activities, the Innovation Working Group identified two emerging areas that the IAASB agreed necessitated separate work streams, and for which separate Working Groups / Task Forces have been established: (1) the Emerging Forms of External Reporting (EER) Task Force

(formerly the Integrated Reporting Working Group) and (2) the Data Analytics Working Group. The related activities and projects of these groups are further described in Section I.

- [12] The concept of 'smaller or less complex entities' varies country by country, but ordinarily exhibits one or more of the following characteristics:
- Concentration of ownership and management in a small number of individuals.
 - One or more of the following:
 - Straightforward or uncomplicated transactions.
 - Simple record keeping;
 - Few lines of business and few products within business lines;
 - Few formal internal controls;
 - Few levels of management with responsibility for a broad range of controls; or
 - Few personnel, many having a wide range of duties.
- [13] Public sector auditing standards, the International Standards of Supreme Audit Institutions (ISSAI's), incorporate the extant ISAs, with a Practice Note developed by the International Organization of Supreme Audit Institutions (INTOSAI) for each ISSAI to provide guidance on the application of the ISAs in a public sector environment.
- [14] Since the start of 2015, IAASB members, and others related to the IAASB's work, have undertaken more than 450 outreach events and presentations about the IAASB's work.
- [15] A project to revise ISRS 4400 was planned for the 2012–2014 Work Plan, but was postponed due to the reallocation of resources to focus on the Auditor Reporting project.
- [16] The exploratory work by the Integrated Reporting Working Group indicated that the assurance needs were broader than only integrated reporting, but rather spanned a range of emerging types of external reporting. Accordingly, the Integrated Reporting Working Group was renamed the EER Working Group to denote its broader remit.
- [17] Some audit firms operate internationally through a network of firms. Network firms often share common methodologies and quality control and monitoring policies and procedures. Some networks also share guidance in relation to values, ethics, and attitudes, and have programs to enhance the knowledge and experience of partners and staff.
- [18] Related services pronouncements include:
ISRS 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information* (currently being revised); ISRS 4410 (Revised), *Compilation Engagements*

Appendix 2

IAASB Planned Forward Agenda

This table sets out when the IAASB’s ongoing projects, and other committed initiatives, are expected to be discussed at IAASB meetings through the end of 2020 (projections up to date as of [May] 2018). Each project or initiative is shown based on the amount of time expected to be allocated for the necessary discussion at each Board meeting (i.e., significant time (8-12 hours), moderate time (3-7 hours), shorter time (1-2 hours)). As projects and initiatives progress and circumstances change, further amendments to this table will likely need to be made.										
2018			2019				2020			
June	Sep	Dec	March	June	Sep	Dec	March	June	Sep	Dec
ISA 540**										
ISA 315*		ISA 315	ISA 315	ISA 315**						
	ISQC 1*			ISQC 1	ISQC 1	ISQC 1	ISQC 1**			
	ISA 600	ISA 600	ISA 600	ISA 600	ISA 600	ISA 600*		ISA 600	ISA 600	ISA 600
AE			AE	AE	AE		AE	AE	AE	AE*
	ISQC 2	ISQC 2*			ISQC 2	ISQC 2	ISQC 2**			
ISA 220	ISA 220	ISA 220*			ISA 220	ISA 220	ISA 220**			
	AUP	AUP	AUP*				AUP	AUP**		
EER	EER	EER	EER	Note 1						
	Strategy	Strategy (C)		Strategy	Strategy (F)					
	IESBA Joint				IESBA Joint				IESBA Joint	
	SME		SME (C)		Note 2					
	IESBA Coord	IESBA Coord	IESBA Coord	Note 3						
	DA	DA	Note 4							
	PS	PS	PS	PS	PS	PS	PS	PS	PS	PS
		AR Impl	AR Impl	AR Impl	AR Impl	AR Impl				
		INN			INN				INN	
		IASB				IASB				IASB
							Possible new projects / initiatives (Note 5)			
Estimated Total Number of Hours at Board Meeting (Average Meeting is 30–33 hours)										
41	37	32	35	36	40	40	39	25	26	25

	8-12 hours Board time
	3-7 hours Board time
	1-2 hours Board time

* Anticipated Finalization of Exposure Draft

** Anticipated Finalization of New or Revised Standard

(C) Consultation Document

(F) Finalization of Strategy

PS – Professional Skepticism. Aspects of professional skepticism will be considered as part of the IAASB's planned future project on Audit Evidence (see below) and will also continue to be considered within each of the individual projects currently underway.

DA – Data Analytics. The Data Analytics Task Force will continue to work with the Task Forces of other projects currently underway to consider changes relating to the use of automated tools and techniques in audits. Broader issues relating to the use of automated tools and techniques in an audit will be considered as part of the work being explored in relation to the planned project on Audit Evidence (see below).

AE – Audit Evidence (planned project) (will include aspects of Data Analytics and professional skepticism)

SME – Discussion of matters related to audits of small- and medium-sized entities / less complex entities (may become a more substantial project in 2019 depending on Board discussions and stakeholder views)

INN – Innovation

IESBA Coord – matters relating to recent revisions to the IESBA's Code of Ethics (changes to the IAASB's International standards still to be determined)

IESBA Joint – Joint meeting with IESBA Board

IASB – Update from the International Accounting Standards Board

Note 1—The continuation of EER is dependent on resources and Board agreement on further activities related to EER

Note 2—Further timing for Board discussions and activities related to 'SME' matters is dependent on the outcome of the 'SME' consultation

Note 3—The outcome from the review of the IESBA's revised *Code of Ethics* for changes on the IAASB's standards is yet to be determined and may result in further Board discussions; in addition there will be continuing coordination as the IESBA and IAASB continue their standard-setting activities

Note 4—Data analytics will be further addressed by the project on Audit Evidence

Note 5—New project(s) / initiative(s) will be determined subject to the IAASB's commitments and priorities at that time.

Furthermore, the IAASB's Work Plan for 2017–2018 has indicated further consideration of International Auditing Practice Notes. The need for, and development of, such International Auditing Practice Notes is still to be considered by the IAASB and would require further Staff, Task Force and Board time.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **8(b)**
Meeting Date: 13 June 2018
Subject: IAASB's Future Strategy Survey
Date Prepared: 31 May 2018

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

1. Inform the AUASB about the IAASB Future Strategy Survey and the AUASB Technical Group's plan to respond to the survey.

Background

1. As flagged at the April 2018 AUASB meeting, the IAASB undertakes a survey of its stakeholders periodically to feed into its future strategy every five years.
2. A copy of the survey is attached. The survey needs to be completed online and will be completed on behalf of the AUASB by the AUASB Technical Group in mid July 2018 (responses are due by July 24).
3. A request for feedback on the survey questions from AUASB members will be sent via email out of session in the first week of July 2018.

Matters to Consider

Part A – General

1. Questions for respondents are contained from Pages 16 – 20 of the attached IAASB survey at Agenda Item 8(b)(i).

Part B – NZAuASB

1. A separate response to the IAASB Future Strategy Survey will be completed by the NZAuASB.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

AUASB Technical Group Recommendations

1. The AUASB review the survey following the June AUASB meeting and provide written or verbal feedback to the

Material Presented

Agenda Item 8(b)	AUASB Board Meeting Summary Paper
Agenda Item 8(b)(i)	Envisioning the Future—Survey on the IAASB’s Future Strategy



AUASB May Update

May 2018

Introduction

The AUASB newsletter is a snapshot of developments at the AUASB and in international assurance standard setting.

Events

AASB-AUASB Perth Forums

The AUASB and the AASB are hosting forums in Perth for accounting firms, CEOs, CFOs and directors. The objectives of the forums is to discuss current and upcoming standard setting projects and initiatives, and to hear Perth based stakeholder's views on any implementation issues relevant to financial reporting and audit quality.

- **AASB-AUASB Perth Accounting Firms Forum**
2.30-5.00 pm, Tuesday 22 May
[Register](#)
- **AASB-AUASB Perth Directors, CEOs & CFOs Forum**
9.00-11.30 am, Wednesday 23 May
[Register](#)

AASB Briefing Sessions: Replacing the reporting entity concept and removing the option for SPF Statements

To be held around Australia this month, these briefing sessions open the AASB's consultation on how to introduce in Australia the recently issued IASB's revised Conceptual Framework and its effect on financial reporting requirements.

- Monday 14 – Tuesday 22 May
- [Further information and registration](#)

June 2018 AUASB Board meeting

The next AUASB board meeting will be held in Sydney on Wednesday 13 June. Key items:

- consideration of the impending issuance by the IAASB of ISA 540 as a final standard and further consideration of ISA 315 as a possible exposure draft, as well as other major projects on the IAASB agenda
- a joint session held with the AASB to identify further opportunities for the two boards and their technical teams to collaborate on different projects.

Latest news

AUASB Meeting Highlights and podcasts

AUASB Meeting Highlights and podcasts are available on [the website](#).

AUASB reissues ASA 102

The AUASB reissued [ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements](#) in March 2018.

AUASB article: Improving transparency of the auditor's work performed on 'Other Information'

Published as part of the CA ANZ's *Perspective* series, this [AUASB article](#) discusses feedback received on issues experienced by practitioners and other observations.

AUASB member appointed to the IAASB EER Project Advisory Panel

The International Auditing and Assurance Standards Board (IAASB) Emerging Forms of External Reporting (EER) Task Force announced the appointment of AUASB member Jo Cain to the recently established EER Assurance Project Advisory Panel.

[Read more](#)

International update

IAASB's National Standards Setters Forum

This week the AUASB joins 19 national standard setters from 17 territories at the IAASB's National Standards Setters (NSS) Forum in Vienna, Austria to:

- discuss a range of global auditing and assurance developments
- hear from the IAASB about their current projects
- provide feedback on the IAASB current strategy and work plan
- co-chair (with the NZAuASB) a session reviewing how the NSS collaborate to positively influence the IAASB's agenda and improve knowledge sharing across the NSS network.

Further details on matters discussed and outcomes will be provided at the June 2018 AUASB meeting.

Analysis of public responses to the Monitoring Group's consultation on international standard setting governance

IFAC has published the report *Reactions To The Monitoring Group Consultation Paper Regarding International Audit-Related Standard Setting: A Summary Of Public Comments* which summarises the public comments submitted in response to the recent Monitoring Group [Consultation Paper](#).

IOSCO's Consultation Report on Audit Quality

IOSCO has published its *Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality* which intends to assist audit committees of issuers of listed securities in promoting and supporting audit quality. Comments due: 24 July 2018.

[Read more](#)

Independent review: UK FRC's role and powers

The UK FRC has welcomed the UK Government's announcement of an independent review of its role and powers.

[Read more](#)

IAASB seeks next Chair

The IAASB is seeking its next Chair for a renewable three-year term commencing 1 January 2019. Applications due 20 May 2018.

[Read more](#)

IFAC 2018 Global SMP Survey

IFAC has launched its 2018 Global SMP Survey which is designed to further understand the specific challenges and opportunities faced by SMPs and SMEs across the globe. The survey is open until 21 May 2018.

[Read more](#)

In case you missed it

IFAC announces next CEO

IFAC announced the appointment of former CPA Canada President and CEO Kevin Dancey as its next CEO. He will succeed current IFAC CEO Faye Choudhury, whose term expires at the end of the year. [Read more](#)

Auditing and Assurance Standards Board

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AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **8(e)**

Meeting Date: 13 June 2018

Subject: Final AUASB International Strategy

Date Prepared: 31 May 2018

Prepared by: Matthew Zappulla

☐ **Action Required**

☒ **For Information Purposes Only**

Agenda Item Objectives

1. To provide a final version of the AUASB International Strategy to AUASB members.

I. Background

2. The 'AUASB International Strategy' captures the outputs from Board members on this topic and highlights other activities the AUASB and its Technical Group staff intend to undertake to ensure the AUASB's influence and engagement on International auditing and assurance matters supports its mandate and domestic agenda.
3. Following deliberations and feedback from the Board at the March and April 2018 AUASB Meetings the AUASB International Strategy has now been finalised and will be made available on the AUASB website.

II. The AUASB's International Mandate and Current Strategy

4. The AUASB has an obligation to be actively engaged in International auditing and assurance matters by virtue of the following legislative and oversight requirements:
 - (a) Under section 227B(1)(d) of the ASIC Act, the AUASB's functions include a requirement to "participate in and contribute to the development of a single set of auditing standards for world-wide use".
 - (b) The Financial Reporting Council requires the AUASB to use auditing standards issued by the IAASB as a base from which to develop local Auditing and Assurance standards.
5. Consequently the AUASB has adopted as part of its current vision, mission and strategy the following elements that specifically address our International mandate:
 - (a) Contribute to the development of a single set of auditing and assurance standards and guidance for world-wide use (Mission);



- (b) Develop, issue and maintain high quality Australian auditing and assurance standards that meet the needs of report users, using IAASB Standards where they exist, modified as necessary (Strategic Objective 1); and
 - (c) Actively influence international auditing and assurance standards and guidance by demonstrating thought leadership and enhancing key international relationships (Strategic Objective 3).
- 6. Other elements of the AUASB vision, mission and strategy also contain activities relevant to the AUASB's International mandate, such as engaging with other international stakeholders to influence initiatives to develop assurance standards and guidance that meet user needs for external reporting beyond financial reporting (Strategic Objective 5).
- 7. In addition, the protocol for cooperation agreed between the NZ External Reporting Board (XRB) and the FRC, AASB and AUASB Chairs requires the AUASB, inter alia, to use its best endeavours to achieve the following outcomes:
 - (a) Minimise the differences between auditing and assurance standards issued in Australia and New Zealand;
 - (b) To the maximum extent possible, the AUASB and NZAuASB present similar positions at international forums; and
 - (c) Maximise the contribution to, and thus the influence of the AUASB and the NZAuASB upon the IAASB.

Material Presented

Appendix 1

AUASB International Strategy (June 2018)



Appendix A

AUASB International Strategy (June 2018)

Objective

The objective of the AUASB International Strategy is to actively influence international auditing and assurance standards by demonstrating thought leadership and enhancing key international relationships.

Link to AUASB Mandate and Strategy

1. The AUASB has an obligation to be actively engaged in International auditing and assurance matters by virtue of the following legislative and oversight requirements:
 - (a) Under section 227B(1)(d) of the ASIC Act, the AUASB's functions include a requirement to "participate in and contribute to the development of a single set of auditing standards for world-wide use".
 - (b) The Financial Reporting Council requires the AUASB to use auditing standards issued by the IAASB as a base from which to develop local Auditing and Assurance standards.
2. Consequently the AUASB has adopted as part of its current vision, mission and strategy the following elements that specifically address our International mandate:
 - (a) Contribute to the development of a single set of auditing and assurance standards and guidance for world-wide use (Mission);
 - (b) Develop, issue and maintain high quality Australian auditing and assurance standards that meet the needs of report users, using IAASB Standards, where they exist, modified as necessary (Strategic Objective 1); and
 - (c) Actively influence international auditing and assurance standards and guidance by demonstrating thought leadership and enhancing key international relationships (Strategic Objective 3).

Methodology and Guiding Principles

3. To achieve its International requirements and strategic objectives the AUASB will:
 - (a) Influence international standards and guidance to achieve public interest outcomes and also serve as the most effective base possible for Australian auditing and assurance standards. In doing so, minimise the risks to Australian reporters, practitioners, users and other stakeholders, whilst optimising the value of these international standards and guidance to achieving the AUASB's strategic priorities; and
 - (b) Operationalise the internationally focused aspects of AUASB's functions and strategic objectives and outline the methods the AUASB apply to influence the International standard setting agenda in accordance with our mandate.
4. The AUASB International Strategy consists of both regular international functions undertaken by AUASB members and Technical Group staff. This ensures adequate analysis and input into regular IAASB activities and other operational or strategic tasks that support our engagement on international standard-setting issues.
5. The AUASB International Strategy is built upon a number of guiding principles which underpin the responsibilities AUASB Members and Technical Group Staff have when considering and implementing our International influencing activities. These principles are:

1	All Board Members should come to the Board meetings sufficiently prepared to ensure that they have identified their major concerns with International issues on the agenda, and to be in a position to discuss their concerns.
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2	Feedback and issues raised by AUASB Board Members on International matters are communicated with the right International representatives and the outcomes from any International engagement are communicated back to the AUASB.
3	The AUASB identify and promote opportunities to work together and share resources with the NZAuASB, and jointly consider best ways to influence internationally. when developing and finalizing our responses to International Auditing and Assurance issues.
4	The AUASB identify and promote opportunities to work with other National Standard Setters, both bilaterally and through the IAASB National Standard Setters Forums, to influence the outcomes of global projects in accordance with in accordance with public interest outcomes
5	The AUASB identify, cultivate and promote the appointment of high caliber Australian representatives on relevant International auditing and assurance Committees/Working Groups, and once appointed we support them in their roles. and align our activities wherever possible to increase our global influence.
6	In connection with our AUASB Research Strategy, the AUASB identifies supports the development of evidence supporting the AUASB's responses to International Auditing and Assurance issues, and the informing of international issues.

Regular AUASB International Functions

6. As part of its technical work program the AUASB will perform the following tasks in relation to the IAASB's regular activities:
- (a) The AUASB Chair and AUASB Technical Director to coordinate a process to ensure the AUASB provide regular feedback on the IAASB's strategy and work plan as requested.
 - (b) The AUASB Chair and AUASB Technical Director will monitor the development and release of IAASB board meeting agendas and other relevant communications and ensure these are adequately addressed in AUASB meetings.
 - (c) For each major IAASB project an AUASB Board member (Subject matter expert) and AUASB Technical Group member with the appropriate knowledge, expertise and capacity will be identified.
 - (d) The designated AUASB Technical Group member for each project will initially review, make available and provide comments on the relevant IAASB papers as soon as practically possible to the relevant AUASB member. Collectively the AUASB Board member and AUASB Technical Group member then determine which board papers should be included in the AUASB Board Meeting mail out based on the status of the project. The aim should be to provide sufficient information to AUASB members so that they are suitably prepared to discuss the key issues associated with each global project at that point in its development.
 - (e) As a minimum, for each major IAASB project an **'IAASB Project Summary Template'** will be updated prior to and presented in the board papers at each AUASB meeting that precedes an IAASB meeting. The template provides a summary of the top 2 - 3 issues on the topic in the IAASB papers, a recommendation of the activities to best influence the direction of the IAASB project as a result of the AUASB's analysis (e.g. who to speak to, what is the desired outcome, etc), as well as a summary of the next steps or other actions required.
 - (f) This process is to help inform and direct discussion. It is still a requirement that all Board Members come to the Board meetings sufficiently prepared to ensure that they have identified their major concerns with International issues on the agenda, and be in a position to discuss their concerns.



- (g) A summary of the AUASB's feedback on these major IAASB projects will be prepared by the AUASB Technical Director after each AUASB meeting and supplied to the AUASB Chair and other AUASB representatives attending each IAASB meeting as observers, as well as the Australasian IAASB members.
- (h) Following each IAASB meeting, feedback will be provided to AUASB members by the AUASB Chair and other AUASB representatives who attended as observers, as well as the notes/highlights from the IAASB meeting being included in the AUASB board papers.
- (i) The Australasian IAASB members have a standing invitation to attend AUASB meeting as official guests/observers and provide feedback comments on IAASB matters to the AUASB. Specifically the AUASB Chair will ensure that the Australasian IAASB members attend at least one AUASB meeting to provide an update on IAASB developments each year. Similar presentations from IFAC representatives will also be sought and encouraged where relevant.
- (j) Any significant IAASB matters which arise outside of the normal IAASB meeting process will be communicated to AUASB members on an as required basis by the AUASB Chair or AUASB Technical Director.

Other AUASB International Strategic Projects

Global regulatory matters

- Monitor the outcome of responses to the Monitoring Group Consultation Paper on Global auditing and assurance standard setting
- Regularly engage with ASIC on global regulatory matters (e.g. IFIAR, IOSCO) impacting on the auditing and assurance profession

IFAC/IAASB engagement

- In collaboration with the FRC, develop a strategy to have more Australian representation on the IAASB by having another Australian identified and appointed as a new IAASB member
- Identify opportunities to have more Australian representatives who are advocates for the AUASB appointed to IFAC Committees and Working Groups
- Develop and foster direct relationships with IAASB members who are Taskforce leaders on specific topics Australia has a key interest in (e.g. EER, AUP)
- Identify opportunities for AUASB members or staff to contribute to IAASB Taskforces
- Assist IAASB staff in organising global and regional IAASB National Standard Setters Forums
- Share relevant Thought Leadership associated with AUASB Strategic Projects with the IAASB
- Identify opportunities to contribute to global and regional audit and assurance events and conferences (e.g. World Congress of Accountants in Sydney in November 2018)
- Consider opportunities for staff secondments or joint project work with the IAASB

Engagement with other National Standard Setters

- In conjunction with the NZAuASB development a network of Regional Standard Setters
- Identify opportunities to conduct bilateral and multilateral projects with other NSS's (e.g. Auditor Reporting with NZ and Canada; EER with various territories)
- Share relevant Thought Leadership associated with AUASB Strategic Projects with other NSS's
- Consider opportunities for staff secondments or joint project work with other NSS's

Other

- Build relationships and influence with other significant International stakeholder groups relevant to the Auditing and Assurance profession (e.g. IIRC, WBCSD, Climate Change TF)
- Support Quality Academic Research by Australian Universities which enhances Australia's reputation as a leader in Auditing and Assurance
- Have AUASB members and staff attend and present on Strategic Projects at relevant International conferences