

ISAs – Clarity and Best Practices

The Institute of Chartered Accountants of the Caribbean (ICAC)
33rd Annual Caribbean Conference of Accountants

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Trinidad and Tobago, West Indies
June 25–27, 2015

The Clarified ISAs

- Incorporates more robust requirements
- Principles-based standards with an increased focus on professional judgment and professional skepticism
- Proportional application to audits of all sizes, and special considerations for audits of smaller entities (SMEs)

The Clarified ISAs

Clear requirements on

- Risk assessment (e.g., estimates; related parties)
- Materiality and its use in evaluating misstatements
- Audit evidence (e.g., confirmations; representations)
- Using the work of others (e.g., group audits; experts)
- Auditor reporting and communications (including with those charged with governance)



Global Adoption of Clarified ISAs

Jurisdictions Using Clarified ISAs Already, or Committed to Using Them in the Near Future (106)

Europe (41): Albania, Armenia, Austria, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France (Experts Comptables), FYR Macedonia, Georgia, Greece, Hungary, Iceland, Ireland, Italy, Kosovo, Latvia, Lithuania, Luxembourg, Malta, Moldova, Montenegro, Netherlands, Norway, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom

Americas (18): Argentina, Bahamas, Barbados, Brazil, Canada, Cayman Islands, Chile, Colombia, Costa Rica, El Salvador, Guyana, Jamaica, Mexico, Panama, Puerto Rico (private companies), Trinidad and Tobago, Uruguay, USA (private companies)

Asia and Oceania (21): Australia, Bangladesh, China, Hong Kong, India, Indonesia, Japan, Kazakhstan, Kyrgyz Republic, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Singapore, South Korea, Sri Lanka, Thailand, Uzbekistan (listed entities), Vietnam

Africa/Middle East (26): Benin, Botswana, Ghana, Jordan, Kenya, Kuwait, Lebanon, Lesotho, Malawi, Mali, Mauritius, Namibia, Nigeria, Palestine, Rwanda, Senegal, Sierra Leone, South Africa, Swaziland, Tanzania, Togo, Tunisia, Uganda, United Arab Emirates (Abu Dhabi and Dubai), Zambia, Zimbabwe

Times Are Changing for the IAASB

- **Key Projects Finalized:** Clarified ISAs, Auditor Reporting, Revisions of Other Assurance and Related Services standards
- **Special Support Efforts for Implementation** of new and revised Auditor Reporting standards
- **New Strategy and Work Plan** with a number of new and challenging projects

Recent Releases/Approvals

- New and revised Auditor Reporting standards; effective for audits of financial statements for periods ending on or after December 15, 2016.
- ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*; effective for audits of financial statements for periods ending on or after December 15, 2016.

Recent Releases/Approvals

- Addressing Disclosures in the Audit of Financial Statements – Revised ISAs and Related Conforming Amendments
 - Subject to confirmation by the PIOB
 - To be released in July 2015);
 - To be effective for audits of financial statements for periods ending on or after December 15, 2016.

New and Revised Auditor Reporting Standards

Key Features

Auditor's Report

Audit Opinion – Required to be presented first

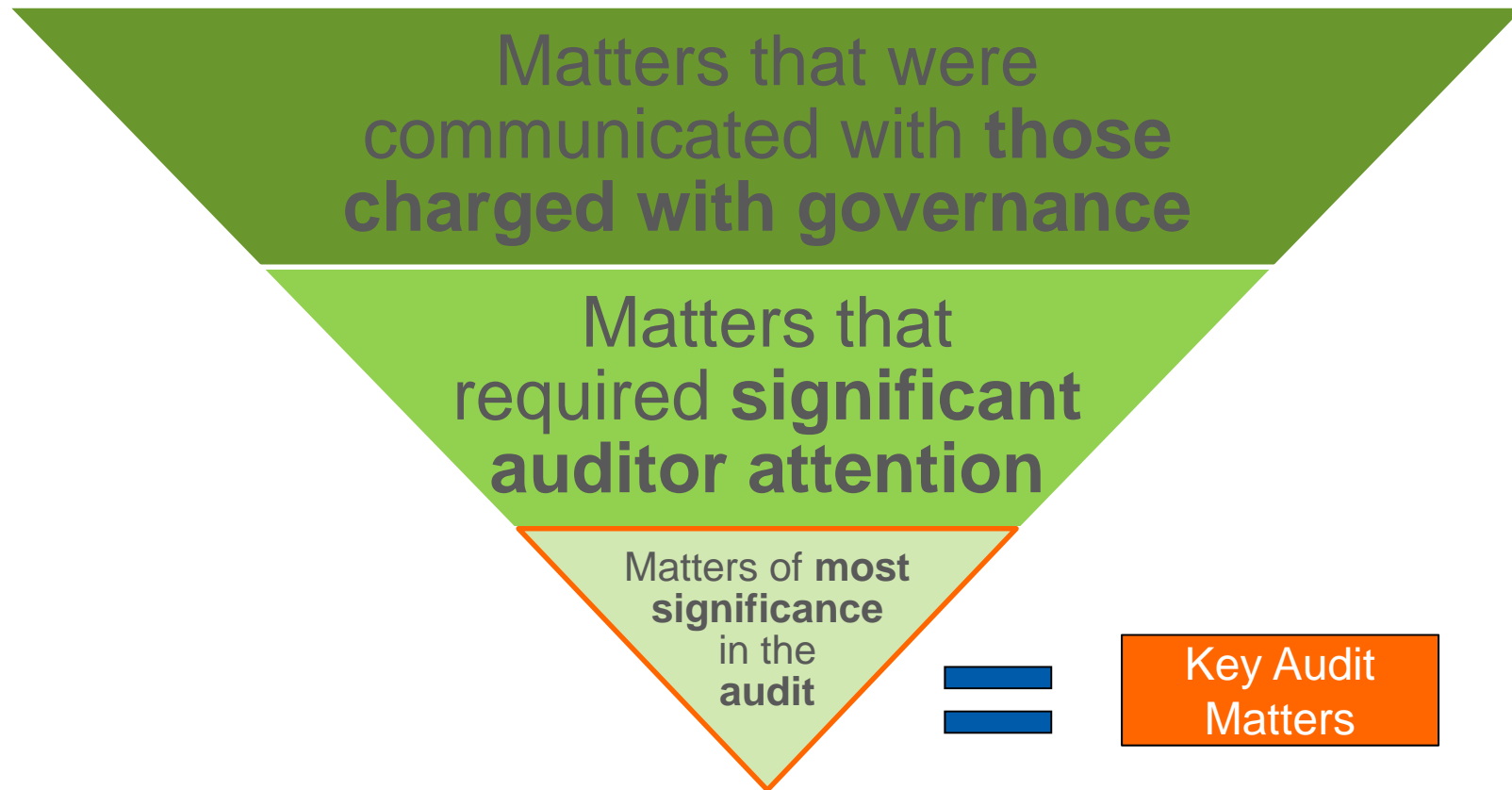
Key Audit Matters – Required new section for listed entities

Going Concern – Additional focus

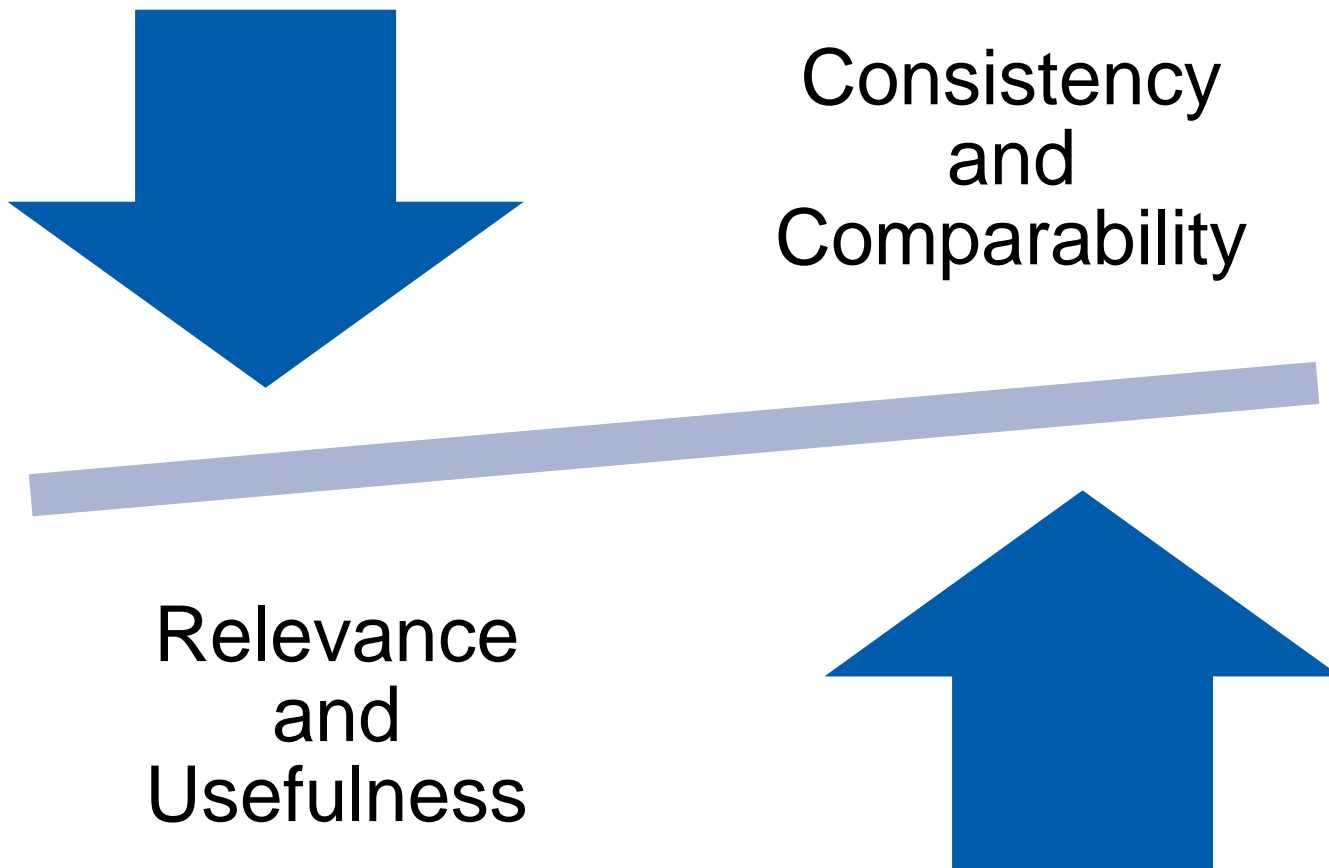
Other Information – New section

Auditor responsibilities for the audit; Explicit statement - independence and ethical requirements; Engagement partner name (listed entities)

Decision-Making Framework for Determining KAM



KAM – Delivering Entity-Specific Information to Users



Enhanced Auditor Reporting on GC

- Changes to ISAs and the auditor's report to focus more on GC
 - Explicit **description** of the respective responsibilities of management and the auditor in all auditor's reports
 - Separate GC section required **when material uncertainty exists**, with a heading "Material Uncertainty Related to Going Concern"
 - New requirement to challenge adequacy of **disclosures for GC "close calls"**

Why Change the Auditor's Report Now?

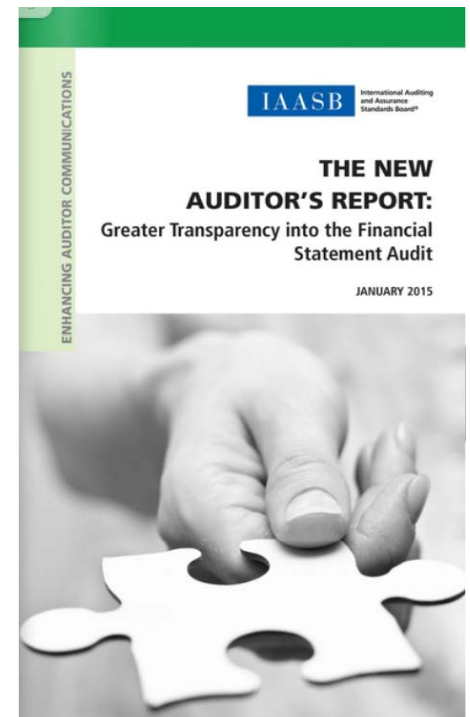
- Foundation for the future of global auditor reporting and **improved auditor communications**
- Essential to the continued **relevance** of the audit profession globally
 - Audit opinion is valued, but could be more **informative**
 - Users want more relevant and **decision-useful information** about the entity and the financial statement audit

Expected Benefits of the New Auditor's Report

- Enhanced **communicative value to users**
- More **robust interactions** and communication among users, auditors and those charged with governance (TCWG)
- Increased attention by management and TCWG to the **disclosures** referred to in the KAM section of the auditor's report
- Increased professional **skepticism** in areas where KAM are identified
- Increased audit **quality** or users' perception of audit quality

Implementation Support

- IAASB-supported efforts to
- Promote awareness of the standards
- Inform and educate users
- Learn about experiences of those responsible for adoption and implementation



Implementation Support

- www.iaasb.org/auditor-reporting
 - Auditor Reporting Fact Sheet and “At a Glance”
 - Basis for Conclusions
 - Publications on GC and KAM
 - Illustrative KAM examples
 - Webcasts, podcasts and other potential publications

IAASB's Strategic Objectives 2015–2019

- 1) 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

IAASB's Strategic Objectives 2015–2019

- 2) Ensure the IAASB's standards evolve as necessary to adequately address the **emerging needs of stakeholders for services other than audits of financial statements**

IAASB's Strategic Objectives 2015–2019

- 3) Strengthen **outreach and collaboration** with key stakeholders in the reporting supply chain on **public interest issues** relevant to audit, assurance and related services

Public Interest Themes

- The public interest is at the forefront of the IAASB's activities in light of its mandate.
- How to achieve the best public interest outcome?
 - Consultative Advisory Group and Public Interest Oversight Board play vital roles, as does the IAASB's rigorous due process

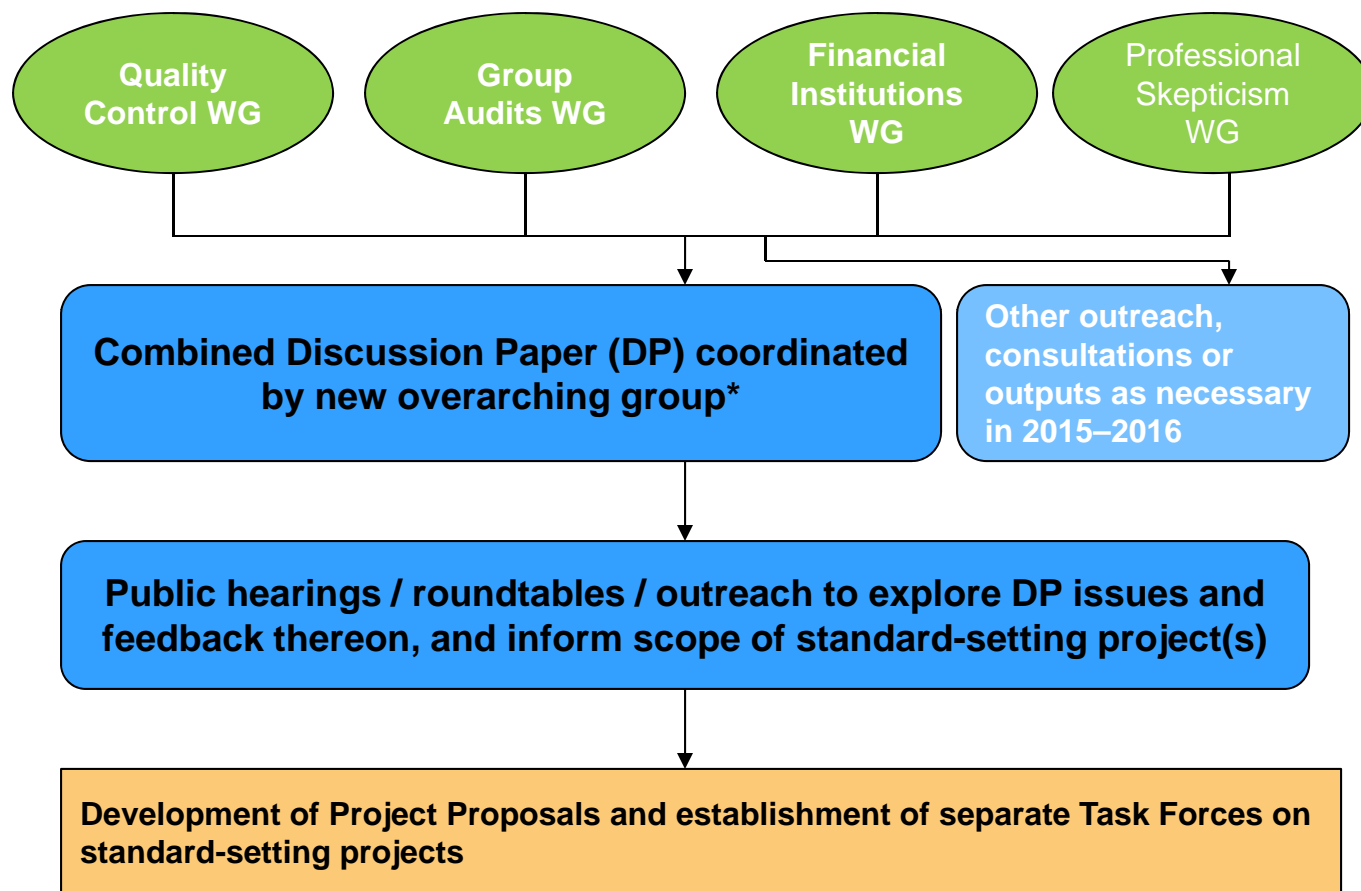
Work Plan for 2015–2016 – *Enhancing Audit Quality*

- Information gathering activities already underway on three priority topics
 - Quality control (ISA 220 and ISQC 1)
 - Group audits (ISA 600)
 - Special audit considerations relevant to financial institutions (including ISA 540 in particular)
- Professional skepticism

Work Plan for 2015–2016 – *Enhancing Audit Quality*

- March 2015 IAASB discussions highlighted interactions between the three priority projects
 - Common themes (e.g., sufficient appropriate audit evidence; professional skepticism)
 - Crossover issues (e.g., direction, supervision and review of audits; audit delivery models)

Planned Approach and Timing (cont.)



Timing

*Research and targeted outreach on issues to facilitate Board and CAG discussions – **March–Sept 2015***

*Development of combined DP and discussions with Board and CAG (including on individual projects) – **July–Dec 2015***

*Issuance of DP – **Dec 2015**; Comment period of 150 days ending **May 2016**; outreach events held while DP is out for comment and possibly after*

*Comment analysis and discussion – **May 2016–Sept 2016***

*Approval of project proposals – **Sept 2016***

*Development of Exposure Drafts – **Sept 2016–mid-2017***

* "Audit Quality Enhancements Coordination Group," which includes Chairs of the 4 WGs and other Board members

Preparing for the Future

- Work on other topics to commence in 2015
 - Revision of the standard addressing agreed-upon procedures (ISRS 4400)
 - Information-gathering in relation to ISA 315
 - Process for post-implementation reviews for other standards
- Innovation Working Group (WG)
 - Monitoring of identified and emerging developments in audit, assurance and related services in order to provide recommendations to the IAASB on topics to be pursued
 - Recommendation to focus on Integrated Reporting and Data Analytics/Effect of Technology on the Audit led to the creation of two new separate WGs

Feedback

- Urge you to provide feedback
- Looking for feedback on key questions
 - What is it that we have to address?
 - What kind of development process?
 - What forms of interactions with stakeholder groups?
 - What kind of outputs?



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