

**Draft Minutes of the 62nd Meeting of the
AUDITING AND ASSURANCE STANDARDS BOARD**

Held on June 16–20, 2014 in New York, USA

	Voting Members	Technical Advisors
Present:	Arnold Schilder (Chairman)	Sue Almond (Mr. Murtagh)
	Dan Montgomery (Deputy Chair)	Wolf Böhm (Ms. Köhler)
	Jean Blascos	Jennifer Burns (Ms. Zietsman)
	Valdir Coscodai	Hiram Hasty (Mr. Landes)
	Karin French	Josephine Jackson (Mr. Grabowski)
	Cédric Gélard	Susan Jones (Mr. Blascos)
	Marek Grabowski	Len Jui (Mr. Tang) (June 17–20)
	Jonas Hällström	Sachiko Kai (Mr. Sekiguchi)
	Merran Kelsall	Maria Manasses (Ms. French)
	Annette Köhler	Richard Mifsud (Ms. Kelsall)
	Charles Landes (June 16–19)	Alexandra Popovic (Mr. Hällström)
	Brendan Murtagh	Jon Rowden (Mr. Winter)
	Marc Pickeur	Greg Shields (Mr. Wiersema)
	Tomokazu Sekiguchi	Isabelle Tracq-Sengeissen (Mr. Gélard)
	John Wiersema	Jacques Vandernoot (Mr. Pickeur)
	Bruce Winter	Denise Weber (Mr. Montgomery)
	Megan Zietsman	
Apologies:	Jianhua Tang	Alejandro Gonzalez (Mr. Coscodai)

Non-Voting Observers

Present:	Linda de Beer (IAASB Consultative Advisory Group (CAG) Chairman), Norio Igarashi (Japanese Financial Services Authority)
Apology:	Juan Maria Arteagoitia (European Commission (EC))

Public Interest Oversight Board (PIOB) Observers

Present:	Michael Holm, Susana Novoa
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IAASB Technical Staff

Present:	Jim Sylph (IFAC Executive Director) (June 16–19), James Gunn (Technical Director), Sara Ashton, Beverley Bahlmann, Kathleen Healy, Jasper van den Hout, Brett James, Diane Jules, Nancy Kamp-Roelands
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1. Welcome and Approval of Previous Minutes

Prof. Schilder welcomed all participants to the meeting. The minutes of the March 2014 IAASB physical meeting were approved as presented.

2. Auditor Reporting – Matters Relating to the Revision of ISA 700¹

Statement of Independence and Other Relevant Ethical Requirements

The IAASB reconfirmed its March 2014 decision to require an explicit statement in the auditor's report that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The IAASB also tentatively agreed to require a statement that (i) identifies the jurisdiction of origin of the independence and other relevant ethical requirements or, (ii) when the relevant ethical requirements are those of the International Ethics Standard Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), refers to the IESBA Code.

The Board agreed further revisions to the application material supporting this requirement to provide guidance about what is intended in relation to the jurisdiction of origin of relevant ethical requirements, including in group audit situations, noting the proposed requirement allows for tailoring by law, regulation or national auditing standards to reflect jurisdiction-specific circumstances.

Ms. de Beer noted the Board's decisions appeared consistent with the feedback from the CAG to provide transparency while being mindful of impracticalities of providing extensive detail in the auditor's report. She was of the view that it was a significant improvement from earlier proposals and would provide information that would be valuable to users. User groups at the CAG had indicated that they the length of the report was not so much of concern where useful information is added. The specific reference to the IESBA Code were applicable was also supported at the CAG.

The Board agreed to seek input on its conclusions from the IESBA at the IESBA's July 2014 meeting to finalize the proposed requirement and application material.

Disclosure of the Engagement Partner's Name

The IAASB supported the Drafting Team's recommendation in Agenda Item 2-A for a revised requirement addressing disclosure of the name of the engagement partner in the auditor's report for audits of complete sets of general purpose financial statements of listed entities. This revised requirement permits non-disclosure in rare circumstances when disclosure is reasonably expected to lead to a significant personal security threat, with application material explaining that non-disclosure is not intended to include threats of legal liability, or legal, regulatory or professional sanctions. The Board also agreed that, if the auditor intends not to include the name of the engagement partner in the auditor's report, the auditor should discuss this intention with those charged with governance (TCWG) to assess the likelihood or severity of a significant personal security threat. Ms. de Beer suggested the CAG was of the view that the "harm's way" exception should always be discussed with TCWG.

The Board also agreed revised application material to explain that the auditor may also be required by law, regulation or national auditing standards, or may decide, to include additional information beyond the engagement partner's name in the auditor's report to further identify the engagement partner (e.g., the

¹ Proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

engagement partner's professional license number that is relevant to the jurisdiction where the auditor practices).

Other Revisions to Proposed ISA 700 (Revised)

The Board also agreed further refinements to proposed ISA 700 (Revised), as included in Updated Agenda Item 2-B. Except for certain proposed requirements related to going concern and key audit matters, the Board agreed to close off its deliberations on proposed ISA 700 (Revised). It will further consider the illustrative reports included in the Appendices of proposed ISA 700 (Revised) at its September 2014 meeting.

Revisions to ISA 705²

The Board tentatively agreed recommendations of the Drafting Team set out in Agenda Item 2-A and the corresponding revisions to proposed ISA 705 (Revised) in Agenda Item 2-E. However, the Board asked the Drafting Team to further refine the standard to take into account the Board's discussions about whether the requirements to report on key audit matters, going concern and other information should apply when the auditor expresses an adverse opinion or disclaims an opinion on the financial statements. Specifically, the Board asked the Drafting Team to:

- Simplify the structure and geography of those requirements, by placing all requirements relating to modifications of the auditor's opinion in proposed ISA 705 (Revised) rather than in proposed ISA 700 (Revised) or other standards.
- Revisit whether it was appropriate to have requirements that explicitly prohibit reporting certain information in the auditor's report when the auditor expresses an adverse opinion or disclaims an opinion on the financial statements, in particular the auditor's responsibilities with respect to other information. In this regard:
 - The Board confirmed its preference for the inclusion of a material misstatement of other information in the auditor's report when the auditor expresses an adverse opinion, rather than the DT-700 recommendation to prohibit such reporting.
 - It was suggested that having the auditor's report describe a material misstatement of other information could in some circumstances be relevant to users even when the auditor disclaims an opinion on the financial statements and hence a prohibition on doing so would not be appropriate.

ISA 800 Series Issues and Recommendations

The Board considered the implications of the proposed enhancements resulting from its auditor reporting project on ISAs 800³, 805⁴ and 810⁵ (the ISA 800 Series) and the Drafting Team's recommendation as proposed in Agenda Item 2-F. The Board affirmed that all of the relevant ISAs apply to an ISA audit, and therefore the relevant ISAs of the 100–700 series are applicable when ISAs 800 and 805 are also

² Proposed ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

³ ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

⁴ ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statements*

⁵ ISA 810, *Engagements to Report on Summary Financial Statements*

relevant. Accordingly, the Board was of a view that, as a matter of principle, the proposed auditor reporting enhancements in proposed ISA 700 (Revised) should be extended to ISA 800 and 805. It was also agreed that, since ISA 810 relates to reporting on the consistency of summary financial statements to which a “full” auditor’s report has been issued, the current principles of ISA 810 would be applied to determine how the changes resulting from the auditor reporting project ought to be reflected in ISA 810.

The Board tentatively agreed to require a statement in an ISA 810 report that made reference to the need to read the auditor’s report on the audited financial statements. In cases when the auditor had communicated key audit matters in the auditor’s report on the audited financial statements, the Board encouraged the Drafting Team to consider requiring the auditor to explicitly make reference in the ISA 810 report to the existence of key audit matters in the auditor’s report on the audited financial statements (which may include, for example, reference to the subheadings used to highlight each key audit matter).

The Board tentatively agreed with the other recommendations set out in Agenda Item 2-F, except for the following:

- The Board asked the Drafting Team to reconsider whether disclosure of the name of the engagement partner should be required in ISAs 800 and 805 when reporting in connection with a listed entity, consistent with the Drafting Team’s recommendation to require such disclosure in ISA 810.
- The Board asked the Drafting Team to further consider the applicability of auditor reporting on other information in the case of ISA 810.

The Board will consider consequential amendments to ISAs 800, 805 and 810 for approval as an ED at its September 2014 meeting.

3. Auditor Reporting – Going Concern/Revisions to ISA 570⁶

Description of Management’s and Auditor’s Responsibilities with Respect to Going Concern

The Board generally supported requiring statements in the auditor’s report describing both management’s and the auditor’s responsibilities with respect to both the use of the going concern basis of accounting in the preparation of the financial statements and the identification of material uncertainties and the proposed illustrative wording that had been developed by the Drafting Team in this regard. The Board encouraged the Drafting Team to further consider how the requirements had been articulated in proposed ISA 700 (Revised), in order to ensure adequate alignment between the requirements and the proposed illustrative wording. The Drafting Team was encouraged to give further consideration to:

- Revisit the sentence in the auditor’s responsibilities section stating that the auditor cannot predict future events or conditions that may cause an entity to cease to continue as a going concern. In this regard, Ms. de Beer suggested it would be preferable for the language to be as balanced and factual as possible to respond to the CAG’s concerns about the inclusion of such a statement in the auditor’s report.
- Potentially reduce the length of the standardized wording to be included in the auditor’s report in relation to going concern or present it more clearly.
- Further consider how the illustrative wording and underlying requirements align with the work effort in proposed ISA 570 (Revised) and management’s responsibilities in accordance with International

⁶ Proposed ISA 570 (Revised), *Going Concern*

Financial Reporting Standards (IFRSs), while allowing for tailoring if other financial reporting frameworks apply.

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists

The majority of the Board generally supported the goals of DT-570's recommendation set out in Agenda Item 3-A to include a new requirement to address the auditor's work effort in relation to disclosures when events or conditions that may cast significant doubt on the entity's ability to continue as a going concern had been identified, but the auditor had concluded that no material uncertainty exists after considering the mitigating effects of management's plans. It was noted that promoting a behavioral change by auditors is in the public interest and would be particularly useful when in a "close call" situation – that is, when significant judgment was required for the auditor to conclude that no material uncertainty exists relating to going concern. In addition, such a requirement could enhance communications by auditors and management about what disclosures relevant to going concern were necessary, and could provide greater communication to users.

Some concern was expressed that this new requirement unduly shifted the focus away from disclosures relating to material uncertainties and could be seen as setting additional disclosure requirements beyond those in the accounting standards (in particular, in IFRSs), notwithstanding that the proposed requirement sought to explain that the auditor's work effort was in view of what was required by the applicable financial reporting framework and the existing "stand back" requirement in proposed ISA 700 (Revised).

Ms. de Beer was of the view that, given the CAG's disappointment that the IAASB was reverting to exception-based reporting on going concern, including a new requirement for auditors to review the overall disclosures relevant to going concern would be partially responsive to calls for greater auditor attention on going concern. In her view, this new requirement did not set an extra threshold for the auditor to provide disclosure beyond the accounting standards. Accounting frameworks such as IFRSs already have an overarching or stand-back "fair presentation" requirement and this is merely requiring the auditor to ensure that this was appropriately considered by the entity.

The Board asked the Drafting Team to:

- Further refine the proposed requirement and application material, in particular to consider whether additional guidance is needed in proposed ISA 570 (Revised) to first explain disclosures relevant to material uncertainties and then allow for the possibility that, in accordance with the evaluation of the financial statements required by proposed ISA 700 (Revised), the auditor may consider additional disclosures necessary even when no material uncertainty had been identified.
- Consider the interaction between the proposed new requirement and the possibility, as acknowledged in proposed ISA 701,⁷ that such "close call" circumstances may be determined to be a key audit matter.

It was also suggested that the IAASB may need to consider in its future work program whether further changes are needed to proposed ISA 570 (Revised) to strengthen the auditor's work effort in relation to identifying events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, and the adequacy of the auditor's response in situations where such events and conditions are identified.

⁷ Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

Other Revisions to Proposed ISA 570 (Revised)

The Board also agreed further refinements to proposed ISA 570 (Revised), as included in Agenda Item 3-B. The Board asked the Drafting Team to further consider the proposed requirement for the auditor to make reference to material uncertainties in both the Basis for Qualified (or Adverse) Opinion section of the auditor's report and a separate section describing the material uncertainty when disclosures about a material uncertainty were inadequate or omitted, as some members viewed this duplication as unnecessary. The IAASB will consider a revised draft of proposed ISA 570 (Revised) for approval at its September 2014 meeting.

Flowchart

The Board considered a decision flowchart relating to the auditor's work effort under proposed ISA 570 (Revised) included in Agenda Item 3-A, and whether it could be usefully included in the final standard. The Board expressed mixed views on the inclusion of a flowchart in proposed ISA 570 (Revised) and asked the Drafting Team to consider a number of suggestions for refinements and examples developed by NSS in informing its final decision of whether to retain the flowchart or similar material in the final standard or to include it elsewhere.

4. Auditor Reporting – Key Audit Matters/Proposed ISA 701

Applicability of Proposed ISA 701

In relation to the Drafting Team's recommendations set out in Agenda Item 4-A, the Board:

- Agreed to limit the requirement to communicate key audit matters to audits of complete sets of general purpose financial statements of listed entities, but allow for voluntary application for audits of complete sets of general purpose financial statements of other entities and in circumstances addressed by ISA 800 and ISA 805. In this regard, the Board agreed to include additional application material in proposed ISA 700 (Revised) explaining the possibility of communicating key audit matters for entities such as public interest entities, and to revise application material in ISA 210⁸ addressing voluntary application of proposed ISA 701.
- Agreed to continue to prohibit communication of key audit matters when the auditor disclaims an opinion on the financial statements, but decided to retain the position in the exposure draft (ED) to require communication of key audit matters when the auditor expresses an adverse opinion. The Board was generally of the view that, because the auditor is able to complete the audit in such circumstances, there may be additional matters that may be relevant to the intended users' understanding of the audit; however, such matters may not be "of most significance" as compared to the matter(s) related to the adverse opinion. The Board asked the Drafting Teams to further consider the appropriate placement of the material relating to disclaimers of opinion, in order to simplify and avoid duplication where possible.
- Agreed to retain the flexibility permitted by proposed ISA 700 (Revised) in relation to key audit matters when law or regulation prescribes the form and content of the auditor's report.
- Agreed to require wording to describe the auditor's responsibilities in relation to key audit matters when proposed ISA 701 applies. Such requirement is included in proposed ISA 700 (Revised).

⁸ ISA 210, *Agreeing the Terms of Audit Engagements*

Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report

The Board continued to support the concept of a new requirement in proposed ISA 701 to address the possibility that the auditor might decide not to communicate in the auditor's report a matter that had been determined to be a key audit matter. Ms. de Beer noted that, in the CAG's view, the circumstances in which the auditor might decide not to communicate a key audit matter should be very restrictive. The Board considered the Drafting Team's suggestions included in Agenda Items 4-A and paragraph 11 and related application material in Agenda Item 4-A, and agreed it is necessary to put proper parameters around a decision not to communicate a matter and to promote disclosure in most cases. In this regard, the IAASB agreed that such circumstances should be:

- Linked first to the possibility that law or regulation preclude public disclosure about the matter; and
- Extremely rare, taking into account the severity of adverse consequences of such communication. The Board asked the Drafting Team to further consider how this concept could be best articulated in the standard, including whether the requirement or application material should further elaborate on the concept of harm to the entity.

In relation to the application material supporting this requirement, the Board:

- Asked the Drafting Team to further clarify the auditor's consideration of relevant ethical requirements in potentially concluding not to communicate a matter determined to be a key audit matter.
- Agreed to delete examples of potential circumstances in which this requirement might apply, as concern was expressed that including examples could lead to a greater proliferation of non-communication about these matters.
- Agreed to relocate guidance addressing the auditor's required communication with TCWG in such circumstances, in particular to highlight that management or TCWG may choose to enhance disclosures about a key audit matter rather than the auditor providing original information in the auditor's report. Suggested it may be appropriate to make reference to the possibility that the auditor may communicate about the matter with regulatory or enforcement authorities rather than include it in the auditor's report, a point which had previously been supported by the CAG.

Other Revisions to Proposed ISA 701

In discussing the revised draft of proposed ISA 701 included as Agenda Item 4-B, the IAASB agreed to:

- Refine the factors to be taken into account in determining those matters that required significant auditor attention to clarify that such considerations are in the context of the audit that was performed.
- Include a new requirement aimed at prohibiting the auditor from using the communication of key audit matters as a substitute for the auditor expressing a qualified or an adverse opinion in accordance with proposed ISA 705 (Revised), similar to the approach taken to Emphasis of Matter (EOM) paragraphs in proposed ISA 706 (Revised).⁹

⁹ Proposed ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

- Shorten and simplify the introductory language when key audit matters are communicated and when the auditor has determined that there are no key audit matters to communicate, in an effort to minimize standardized language in the auditor's report.
- Clarify the documentation requirement and align it with the proposed requirement in the ED.

The IAASB also agreed a number of editorial and less substantive matters, and reordering of application material. These changes were reflected in the IAASB's discussion of Updated Agenda Item 4-B. The IAASB will consider a revised draft of proposed ISA 701 for approval at its September 2014 meeting.

Illustrative Examples

Similar to the Drafting Team's position set out in Agenda Item 4-A, the Board expressed mixed views about whether the IAASB should continue to provide illustrative examples of key audit matters and, if so, whether these should be included in the final standard or another vehicle such as a Staff publication. On balance, the IAASB agreed that a limited number of examples could be provided and included in non-authoritative Staff guidance to be issued concurrently with the final standards. Doing so would allow flexibility for the IAASB to refine the examples over time, if necessary, and also highlight other national developments and real-time examples, such as the UK. Ms. de Beer noted that there is an expectation that illustrative examples will be provided by the IAASB to assist auditors with the implementation of the new standard.

Amendments to Other ISAs

The Board agreed revisions to ISA 260 (Revised)¹⁰ as set out in Agenda Item 4-D, subject to any further changes needed to align with proposed ISA 701 and strengthen the link between the two standards.

The Board agreed with the Drafting Team's recommendation in Agenda Item 4-A to retain the possibility of auditors using EOM paragraphs even when key audit matters are communicated in the auditor's report. However, the Board asked the Drafting Team to further clarify the proposed guidance addressing the potential circumstance in which a matter that is determined to be a key audit matter may also be considered fundamental to users' understanding of the financial statements, with the following noted:

- As drafted, this guidance was potentially confusing in light of the view that when key audit matters are communicated, the use of EOM paragraphs to draw attention to other matters is likely to be rare.
- If a matter that was fundamental to users' understanding of the financial statements was determined to be a key audit matter, users would be provided with greater detail by its inclusion in the Key Audit Matters section (rather than what would have been required for an EOM paragraph in extant ISA 706) and differentiation would be less important. However, two Board members were of the view that the auditor should always be required to explain that the matter was fundamental to users' understanding.
- It may not be necessary to require the auditor to explicitly note in the auditor's report that an EOM paragraph was included because, in the auditor's judgment, it is fundamental to users' understanding of the financial statements, in particular when key audit matters are not required to be communicated in the auditor's report (i.e., for other than listed entities).

¹⁰ Proposed ISA 260 (Revised), *Communication with Those Charged with Governance*

Ms. de Beer noted that the retention of EOM paragraphs was supported at the March 2014 CAG meeting, with similar advice given as to the need to take appropriate steps, including clarifications within proposed ISA 701, to ensure that users will understand the relationship between EOM paragraphs and key audit matter. The CAG has also previously acknowledged that while the primary purpose of communicating key audit matter is to provide transparency about the audit that was performed, it would be useful if the auditor would take cognizance of information of interest to the user, in order for such communication to also assist intended users of the financial statements in understanding the entity and areas of significant management judgment in the audited financial statements.

The Board will consider revised drafts of ISAs 260 (Revised) and 706 (Revised) for approval at its September 2014 meeting.

5. Proposed Strategy for 2015–2019 and Work Program for 2015–2016

The Board generally agreed with the revised strategic objectives and factors guiding the identification of potential priorities and actions in future work programs as set out in Agenda Item 5-A. With regard to the third strategic objective, one Board member suggested that it be revised to reflect a more proactive approach towards collaboration and cooperation, rather than being reactive. Another member was of the view that reference to the corporate reporting supply chain in the objective could be viewed as not relevant to the public sector. One member noted that none of the respondents to the ED provided comments from the perspective of auditors of public sector entities and that the plans seemed oriented to audits of private sector entities.

With regard to the revisions to the revised priority projects proposed for the Work Program for 2015–2016, the Board agreed with the proposed projects, including the prioritization of ISA 600,¹¹ the reconsideration about the approach to be taken to work on professional skepticism, and commencing work in relation to ISRS 4400¹² (agreed-upon procedures) earlier. The Board also supported the continuing work of the Innovation, Needs, and Future Opportunities (INFO) Working Group (WG), including this group's monitoring of developments relating to assurance on integrated reporting and the effects of evolving data analytics on the audit. Ms. de Beer noted that the priority projects proposed for the Work Program (financial institutions, professional skepticism, INFO, etc.) are very much in line with the views held by the CAG.

However, the Steering Committee was encouraged to give further consideration to:

- The potential scope of a project to revise ISRS 4400. It was noted that representatives from small and medium practices (SMPs) and others have suggested the IAASB prioritize exploring “hybrid” engagements, using a combination of procedures derived from review, compilation and agreed-upon procedures engagements, as a means of meeting the needs of small- and medium-sized entities. Mixed views were expressed about whether this could be done as part of the plans to revise the existing standard or if more fundamental conceptual decisions would be first needed by the Board in light of the current nature of an agreed-upon procedure engagement (i.e., an engagement focused on procedures specified with appropriate third parties and a report on factual findings of those procedures, where no assurance is expressed) and the concepts of reasonable and limited assurance to find an appropriate way to address a new market need.

¹¹ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

¹² International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

- Whether the need for potential revision of, or further guidance in relation to, ISA 315¹³ in response to the findings of the ISA Implementation Monitoring program had been given appropriate prominence in the 2015–2016 Work Program. In this regard, it was suggested Staff-led information gathering could be useful during the period to enable the Board to determine the timing and an appropriate response.
- Whether the possibility of the need for additional guidance relating to auditing disclosures, in particular in relation to evidence to support disclosures, had been adequately factored into the 2015–2016 Work Program, as the IAASB is currently consulting on the matter.
- Whether, in light of the Board’s continued debates on auditor reporting on going concern, further attention is needed on the topic of going concern.
- Whether the topic of preliminary announcements should be addressed in the 2015–2016 Work Program. It was noted, however, that other topics that were proposed to be included in the Work Program had garnered significantly more support in the Board’s outreach activities. In response to the preliminary announcements as a potential topic, Ms. de Beer agreed that, even though there are some investor groups on the CAG that are keen for the project to receive more prominence, the general view at the CAG was certainly that the project currently included as high priority were the appropriate ones.

As part of its efforts to finalize its 2015–2016 Work Program, the Board also agreed to pursue the different models for increasing capacity for commencing work in more areas as set out in Agenda Item 5-A, subject to further consideration by the Steering Committee as to how the IAASB could maintain adequate involvement in the direction and outcomes of the planned initiatives with others.

Way Forward

The final IAASB Strategy for 2015–2019 and the IAASB’s Work Program for 2015–2016 will be presented for approval at the September 2014 IAASB meeting.

6. Quality Control

As part of the initial information gathering in relation to the planned project on quality control, the Board provided feedback on Agenda Item 6-A, a Staff-prepared paper exploring various issues identified by the ISA Implementation Monitoring project, outreach and the development of the *Framework for Audit Quality* (Framework). In general, the Board expressed caution about the project having a potentially broad scope, and highlighted the need for ample information gathering on the various issues that had been identified to assist the Board in considering an appropriate way forward.

In respect of the need to consider further enhancements to ISQC 1¹⁴ or ISA 220¹⁵ addressing engagement quality control reviews, the Board variously raised matters to be further considered by the Working Group established to support the project:

- The need to further understand the root causes of issues with respect to engagement quality control reviews (e.g., through discussions with firms and audit inspection bodies) to determine an

¹³ ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

¹⁴ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

¹⁵ ISA 220, *Quality Control for an Audit of Financial Statements*

appropriate response. In this context, it was suggested to look at the governance of the firms and the networks.

- The balance of emphasis within both ISQC 1 and ISA 220 between the roles and responsibilities of the engagement partner, engagement team and the engagement quality control reviewer, in particular if the Board was of the view that new requirements relating to engagement quality control reviews or reviewers were necessary. Some concern was expressed about the risk that the role of the engagement quality control reviewer could be overemphasized, and that it may be more appropriate to focus attention on the policies and procedures in ISQC 1 that govern the early operational phases of the audit, including the appointment of the engagement team and the engagement partner, etc. In this regard, it was suggested the concept of accountability for quality by both the engagement partner and engagement quality control reviewer could be further explored.

On an initial basis, the Board did not support the possibility of placing the requirements in ISQC 1 and ISA 220 relevant to engagement quality reviews into a separate standard. In considering the comparison of the Framework to the provisions within ISQC 1, the Board noted there was merit in the Working Group further exploring the possibility of incorporating relevant aspects of the Framework into ISQC 1, to the extent not already addressed. It was also suggested that further consideration be given to highlighting the potential need to link engagement partner compensation with audit quality, although it was acknowledged that developing measures on which to base such compensation would likely prove challenging.

On the topic of offshoring, the Board expressed concern that the manner in which the topic was initially explored in Agenda Item 6-A could be viewed as suggesting that the use of off-shoring was always detrimental to audit quality or was not adequately addressed in a firm's system of quality control. Based on experience with the use of offshoring, a number of Board members suggested that a more in-depth discussion would be useful to inform the Board's consideration as to whether and, if so, how the topic needed to be addressed in the quality control standards. This discussion could address, for example, the risks and measures taken to reduce risks, examples of areas in which off-shoring was commonly used (e.g., for more routine/less judgmental areas) and the possible positive and negative effects on audit quality.

On the topic of the applicability of ISQC 1, both in respect of proportionate application to audits conducted by smaller firms and its application to other assurance and related services, the Board was generally of the view that ISQC 1 is capable of being applied to different types of firms and different types of engagements, and with members variously noting that revising the standard on a "think small basis" or developing a separate standard for small firms could have a negative impact on quality. Ms. de Beer agreed, noting that while it is important that ISQC 1 is workable for SMPs, it would not be desirable to suggest that there were different requirements for SMPs. The Working Group was asked to further consider:

- Incremental changes to the structure within ISQC 1, such as introducing more conditional requirements and a risk-based approach, to highlight its application in different circumstances, rather than removing existing requirements.
- What further actions could be taken to further assist SMPs in applying ISQC 1, taking into account guidance that has been developed by NSS.

Way Forward

The Working Group will further explore these suggestions with Staff to inform further discussion with the IAASB and the development of a project proposal on the topic.

7. INFO WG – External Presentation on Data Analytics

At the request of the INFO WG and in response to calls from stakeholders about the importance of the Board remaining alert to the implications of the increasing use of technology, the Board received an informative presentation from KPMG about the expanded use of data and analytics in the audit of financial statements and the impact it may have on standard setting. Issues discussed included the possibility of more precise measures of financial and assertion level risk, enhancement of predictive capabilities and techniques, and questions arising related to the amalgamation of risk assessment and control and substantive testing.

The Board was particularly interested in the relevance to the ISAs and asked the INFO WG to explore further which ISAs might be impacted by data and analytics and, in the short term, to identify whether there were any barriers to using data analytics based on how the existing standards have been articulated. In addition, the Board noted the need for auditors to improve capabilities of setting expectations when performing data analysis procedures, and the related need for auditors to build competencies in the area of data and analytics.

Way Forward

The INFO WG will present an action plan of proposed activities for the IAASB's consideration at its September 2014 meeting.

8. Efficiencies Report Back

The Board received an update on the progress made to date on the items identified for enhancing the Board's efficiencies. The Board supported the matters set forth in Agenda Item 8-A, the Staff paper exploring on a possible "rapid response" process, noting the following for the Steering Committee and Staff's further consideration:

- Whether the scope of intended use is in exceptional circumstances or in a more routine way to address inspection and regulatory issues as those noted during post-implementation reviews of standards.
- Whether an alternative to the term "rapid response" would better reflect the intended uses of the process.
- Whether the criteria for determining whether an accelerated response is needed appropriately reflects emphasis on the public interest and consideration of the urgency of the issue, and whether it is sufficiently broad to encompass the issues that may give rise to the need for an accelerated response.
- Whether the proposed process for developing a rapid response should include a call for evidence to assist in informing the Board of stakeholders' views early in the process.
- The implications of setting an abbreviated exposure period, including balancing the need for urgent responses from stakeholders with adequate time for respondents to translate, as necessary, and consider the Board's proposals.

- Whether early interactions with stakeholders at the inception of a rapid response project would aid stakeholders in adjusting to the accelerated due process.

Ms. de Beer noted the CAG had previously been very keen on the notion of a rapid response process, but acknowledged that stakeholders who respond to the IAASB's EDs would themselves need to accelerate their internal processes to comment as necessary. In her view, this speaks to the need for such a process to be focused on amendments of a limited nature, and suggested that pilot testing may be useful to inform the Board as to how the process could be operationalized.

Way Forward

Staff will continue to progress measures related to the Board's efficiencies in consultation with the Steering Committee. In relation to the rapid response process, Staff will discuss the matter further with the Steering Committee, PIOB, and other standard-setting boards and report back to the IAASB at a future meeting.

9. PIOB Observer's Remarks

Mr. Holm thanked the Board for the warm welcome, and commended the Board and Staff their work efforts on the topics discussed at the meeting.

Mr. Holm noted that he was impressed by the work of the Board to move projects forward. He specifically highlighted that the Board had constructive and very professional discussions during the meeting, with balanced input from practitioners and non-practitioners, led ably by the Chairman. He noted that the Board's ongoing consideration of the topic of data analytics could be useful in relation to the planned future project addressing financial institutions. Prof. Schilder thanked Mr. Holm for his remarks, noting that the Board views the PIOB's intense observation of its meetings as an important part of their approval of due process in the development of the standards.

10. Next Meeting

The next meeting of the IAASB is scheduled for September 15–19, 2014 in New York, USA.

11. Closing

Prof. Schilder thanked the IAASB members, technical advisors, observers, and Staff for their contributions to the meeting. He then closed the meeting.