

**Minutes of the 79th Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
Held on September 19–23, 2016 in Hong Kong, China**

Voting Members

Present: Arnold Schilder (Chairman)
Charles Landes (Deputy Chair)
Abhijit Bandyopadhyay
Jean Blascos
Fiona Campbell
Robert Dohrer
Karin French
Marek Grabowski
Merran Kelsall
Annette Köhler
Brendan Murtagh
Marc Pickeur
Ron Salole
Rich Sharko
Sayaka Sumida
Imran Vanker
Ge Zhang
Megan Zietsman

Technical Advisors

Sara Ashton (Ms. French)
Nicolette Bester (Mr. Vanker)
Wolf Böhm (Prof. Köhler)
Dora Burzenski (Ms. Zietsman)
Ahava Goldman (Mr. Dohrer)
Hiram Hasty (Mr. Landes)
Rene Herman (Ms. Kelsall)
Josephine Jackson (Mr. Grabowski)
Susan Jones (Mr. Blascos)
Sachiko Kai (Ms. Sumida)
Jamie Shannon (Mr. Sharko)
Eric Turner (Mr. Salole)
Inge Vanbeveren (Mr. Pickeur)
Sanjay Vasudeva (Mr. Bandyopadhyay)
Denise Weber (Ms. Campbell)

Apologies: -

Chun Wee Chiew (Mr. Murtagh)
Cindy Yang (Mr. Zhang)

Non-Voting Observers

Present: Matthew Waldron (IAASB Consultative Advisory Group (CAG) Chairman), Norio Igarashi (Japanese Financial Services Authority)

Apology: Juan Maria Arteagoitia (European Commission)

Public Interest Oversight Board (PIOB) Observer

Present: Chandu Bhave (September 20–23)

IAASB Technical Staff

Present: Kathleen Healy (Technical Director) (September 19-21), Beverley Bahlmann, Brett James, Vijyata Kirpalani, Natalie Klonaridis, Schuyler Simms, Jasper van den Hout, Bradley Williams, James Gunn (Managing Director, Professional Standards)

International Auditing and Assurance Standards Board (IAASB) agenda materials referred to in these minutes can be accessed at <http://www.iaasb.org/meetings/hong-kong-0>. These minutes are a summary of the decisions made at the September 2016 IAASB meeting, in light of the issues and recommendations in the agenda material put forth by the Task Forces, Working Groups, Drafting Teams and Staff supporting the individual projects. These recommendations are made taking into account feedback from respondents to the IAASB's public consultations, in particular Exposure Drafts (EDs) of the IAASB's proposals, consideration of previous discussions of the Board and its CAG, and feedback from stakeholders through outreach activities.

1. Welcome and Approval of Previous Minutes

Prof. Schilder welcomed all participants to the meeting. He thanked the Hong Kong Institute of CPAs (HKICPA) for hosting the IAASB in Hong Kong for the meeting.

Ms. Kelsall introduced Rene Herman, her newly appointed technical advisor. Prof Schilder welcomed Mr. Vasudeva, the newly appointed technical advisor to Mr. Bandyopadhyay.

Prof. Schilder noted that this was the final meeting of the IAASB Technical Director, Kathy Healy, and welcomed Csilla Molnar, joining the IAASB Staff in November, to the meeting.

Prof Schilder noted the issuance of two IAASB publications since the last meeting, *Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics* and *Supporting Credibility and Trust in Emerging Forms of Reporting: Ten Key Challenges for Assurance Engagements*.

The minutes of the June 21–24, 2016 IAASB meeting, with one amendment to what was presented, and July 26, 2016 IAASB teleconference, as presented, were approved.

2. Comments from the IAASB Consultative Advisory Group

Comments from the IAASB CAG meeting held in New York on September 12–13, 2016 were reported to the Board in the discussion of the relevant agenda items noted below.

3. ISA 540¹

Mr. Sharko and Mr. Pickeur introduced the topic by highlighting the feedback received from the CAG Representatives and the anticipated timeline for 2016.

DEFINITIONS

In general, the Board was supportive of the changes made by the ISA 540 Task Force (ISA 540 Task Force) to the existing definitions, including the new application material, and the decision to explain the “method,” “model,” “data,” and “assumptions” through application material to paragraph 8 of ISA 540. However, suggestions were made to improve or further clarify the wording in the definitions and the application

¹ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

material thereto. Among other matters, the ISA 540 Task Force was asked to consider whether a definition of “lower risk” would better delineate the treatment of lower risk accounting estimates from other types of estimates, and whether an alternative definition for ‘accounting estimate’ would capture non-monetary estimates.

RISK ASSESSMENT

The Board generally noted support for the risk assessment requirements but requested the ISA 540 Task Force to consider the following matters:

- Paragraph 8A, which describes the five components of internal control, could be seen as duplicative as it repeats the factors that are included in ISA 315 (Revised).² However, the Board also noted that a reference back to ISA 315 (Revised) would be useful, as well as application material to the paragraph. It was also questioned whether all five factors would be relevant for accounting estimates and the Task Force was asked to focus on which components of internal control require specific attention for accounting estimates. Concern was also expressed about the ISA 540 Task Force seeking to anticipate where the ISA 315 (Revised) project might land with its deliberations and that the exposure draft of ISA 540 might need to be based on extant ISA 315 (Revised) with additional considerations developed specifically for ISA 540.
- The reference to ‘the review and approval of the accounting estimates, by those charged with governance’ in paragraph 8A(a), could be interpreted as a control activity. The ISA 540 Task Force was asked to explain the involvement of those charged with governance in the application material.
- It was questioned how the auditor would obtain an understanding of how management has addressed estimation uncertainty as required by paragraph 8(c)(iv).
- With respect to the retrospective review, it was questioned whether changing the review from ‘prior period’ accounting estimates to ‘previous’ accounting estimates is clear, as it could lead to differing interpretations. It was also noted that the retrospective review has an inherent risk that hindsight will be involved. It was therefore suggested that the application material could clarify that for certain accounting estimates, such as an Expected Credit Loss provision, the practitioner should not over rely on the retrospective review.
- Paragraph 9A could be clarified with a direct reference to the use of an auditor’s expert and ISA 620.³
- The Board was supportive of increasing the scalability in ISA 540 by excluding simple accounting estimates from the work effort requirements proposed, but the criterion used (“lower risk”) in paragraph 10A was seen as potentially confusing, particularly as it was not clear what quantum of risks comprised the “lower” risks. It was also noted that the requirement could focus the auditor’s attention on the threshold and quantifying the risk instead of focusing on the characteristics of the assessed risks of material misstatement.

The Board concluded that the reference to both inherent and control risk in paragraph 10 should be included in the application material instead of the requirement because the assessment of whether an accounting estimate gives rise to a significant risk is based on inherent risk alone. As this assessment is included in the sentence before, referring to both inherent and control risk in the subsequent sentence could lead to

² ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

³ ISA 620, *Using the Work of an Auditor’s Expert*

incorrect interpretations. It was also noted that addressing both inherent risk and control risk in a requirement pre-empts the project to revise ISA 315 (Revised), which covers the relationship between inherent and control risk, and the discussion about whether significant risk should be based on inherent risk alone. However, some Board members were of the view that including a reference to control risk was important given the importance of controls in developing some accounting estimates.

WORK EFFORT

The Board discussed the work effort as included in **Agenda Item 2-B** and noted the following matters:

- The Board was of the view that referring back to ISA 330⁴ for accounting estimates that are assessed as having a 'lower risk' may fail to provide adequate direction and guidance for auditors who encounter such estimates, because ISA 330 does not include specific guidance on how the auditor should address accounting estimates. Others noted that the reference to ISA 330 could be seen as circular because ISA 540 builds on ISA 330. Some Board members were of the view that scalability should be included in ISA 315 (Revised) or ISA 330, while others were of the view that ISA 540 should include scalable requirements with respect to all accounting estimates. The Board suggested that further application material would be useful to explain the ISA 540 Task Force's intentions and to highlight that the scalability of the work effort is driven by the characteristics of the accounting estimate.
- The introduction to paragraph 13 could be seen as contradictory because the first sentence requires the auditor to perform procedures as listed in the requirement, while the second sentence provides the auditor with the option to perform other procedures when these are more responsive to the assessed risk.
- The work effort requirement as presented in paragraph 13 of **Agenda Item 2-B**, was seen by some Board members as not supporting a principles-based approach. Board members had mixed views about the table setting out the procedures, noting that that it is not clear what the tick marks indicate, that the detailed procedures could create a checklist mentality and that it may set a precedent for future International Standards.
- The Board was of the view that the stand-back requirement should be mandatory for all accounting estimates, but that the stand-back requirement should be more extensive for more difficult accounting estimates.
- With respect to accounting estimates that give rise to a significant risk, it was noted that the Task Force's approach had reduced the need for different procedures for significant risks.

The ISA 540 Task Force presented a revised work effort as included in **Supplement to Agenda Item 2**. The Board commented as follows:

- The Board was generally supportive of the direction taken by the ISA 540 Task Force noting that the structure was improved and more intuitive. It was noted that further work should be done to integrate the risk factors in paragraph 10 into the work effort requirements.

⁴ ISA 330, *The Auditor's Responses to Assessed Risks*

- Several Board members were of the view that the last sentence of paragraph 13⁵ should be moved to the first sentence as it highlights the overarching principles of the work effort. By moving it to the first sentence the remainder of paragraph 13 could elaborate on the auditor's work effort over the risk factors of complexity, estimation uncertainty and professional judgment.
- It was questioned whether the reference to 'other than low' in paragraph 13, 13A, 13B and 13C would put too much focus on the threshold instead of the characteristics of the assessed risks, and whether the "other than low" should relate to the risk of material misstatement or to the risk factors of complexity, judgment, and estimation uncertainty.
- With respect to paragraph 13D, the Task Force was asked to consider changing the requirement to make clear that the auditor does not need to search for procedures that are more responsive than those specified in the requirements.

OTHER MATTERS

The Board discussed the other matters set out in Section V of **Agenda Item 2-A** and noted the following:

- With respect to the new requirement to communicate matters that arose from the auditor's work on accounting estimates to those charged with governance, the Board noted that it could be clarified by explaining which matters should be communicated. The related application material that highlights that the auditor may also communicate matters with regulators or prudential supervisor was also supported.
- The Board was of the view that no conforming amendments to ISA 701⁶ or other auditor reporting standards should be made until the IAASB has completed the post-implementation review on the new auditor reporting standards.
- The Board made several suggestions to enhance the documentation requirement, including that:
 - Some may interpret paragraphs 23(a) as requiring the auditor to engage an auditor's expert for every accounting estimate with high estimation uncertainty, high judgment or high complexity. It was suggested that the requirement could focus on documenting whether or not the auditor has the right level of skills and expertise.
 - Some Board members noted that the standard as drafted does not include requirements that explicitly refer to professional skepticism and, therefore, the documentation requirement on the use of professional judgment (paragraph 23(c)) does not clearly link back to another procedure. The importance of coordination with the Professional Skepticism Working Group (PSWG) was also highlighted in this regard.
 - With respect to paragraph 23(d), it was noted that it was unclear if this requirement would apply when the auditor performed some, but not all, of the procedures listed in paragraph 13. Furthermore, it was unclear whether the requirement would apply when the risk of material misstatement is other than low because of a risk factor other than complexity, judgment and estimation uncertainty and the auditor therefore did not perform any of the procedures in paragraph 13.

⁵ The nature, timing and extent of procedures to be performed shall be responsive to the assessed risks of material misstatement, recognizing that the higher the risk, the more persuasive the audit evidence needed.

⁶ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

- It was noted that the standard could benefit from some more insurance industry specific examples in the application material.

IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron highlighted that the CAG Representatives are very supportive of this project and the direction it is going. He also noted that the CAG Representatives understand that it will be difficult to complete this project on time given the amount and difficulty of the work, and the interplay with other IAASB projects. With respect to the table setting out the procedures, he noted that the CAG Representatives were generally of the view that it was too prescriptive and questioned whether such a table would set a precedent for other standards.

WAY FORWARD

Mr. Sharko and Mr. Pickeur explained the next steps that the Task Force will take, still targeting approval of an Exposure Draft at the IAASB's December 2016 meeting. They highlighted areas where the Task Force has not finalized its deliberations, including on some of the recommendations from the PSWG and the conforming amendments to ISA 500⁷ for external data sources. The Board highlighted that the following areas should also be considered:

- The response when an accounting estimate has estimation uncertainty that is multiple times performance materiality. The Board noted that further application material in this area would be useful given the increased occurrence of such accounting estimates because of changes in accounting standards and the business environment.
- The use of the word 'reasonable' in the objective of the standard. It was questioned whether 'reasonable' is a sufficiently high threshold.
- Further guidance on auditing models, including highlighting when the auditor is required to obtain a detailed understanding of the model and when the auditor can audit around the model.
- Whether the ISA 540 Task Force could invite an experienced practitioner with an information technology (IT) background to read through ISA 540 to confirm that the wording is aligned with the terminology used by IT specialists.

4. ISA 315 (Revised)

PROJECT PROPOSAL

Ms. Campbell provided the Board with an overview of **Agenda Item 3-A**, the draft ISA 315 (Revised) project proposal (the draft project proposal). Ms. Campbell noted that, as part of the due process, the draft project proposal had been circulated to other committees of the International Federation of Accountants (IFAC) as well as the other standard setting boards (i.e., the International Ethics Standards Board for Accountants (IESBA), the International Accounting Education Standards Board (IAESB) and the International Public Sector Accounting Standards Board), and that no further comments for changes to the draft project proposal were received.

Ms. Campbell noted that CAG Representatives had provided comments on the draft project proposal at its meeting the previous week, noting support for the project and that further consideration should be given to:

⁷ ISA 500, *Audit Evidence*

- The auditor's consideration of technology in gaining the required understanding of the entity's information system;
- Simplification, where possible, of the language used in ISA 315 (Revised) and the development of visual aids to make use of the standard more effective;
- Including ISA 260 (Revised)⁸ in the scope of the project;
- Requiring the auditor to obtain an understanding of the entity's business model when obtaining an understanding of the entity; and
- In relation to audits of public sector entities, whether related guidance could direct auditors to assessing fiscal sustainability as part of the risk assessment process.

Ms. Campbell also highlighted that the Small and Medium Practices (SMP) Committee noted support for the draft project proposal and acknowledged the interactions between the ISA 315 (Revised) Working Group and the SMP Committee to date, emphasizing the importance of the interactions as the project progresses.

The IAASB was supportive of the draft project proposal and in addition to various editorial suggestions, suggested the ISA 315 (Revised) Working Group add the following to the project proposal:

- Additional specificity regarding the interactions between ISA 315 (Revised) and ISA 330, specifically paragraph 18 of ISA 330, but without suggesting that this project will include a full revision of ISA 330;
- Enhanced linkage to the data analytics project, including that further consideration of the impact of data analytics to the project to revise ISA 315 (Revised) will be given based on the feedback received from the Data Analytics Working Group's Request for Input: [Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics](#);
- More closely aligning the auditor's risk assessment with the objective of the auditor in ISA 200⁹ (i.e., reducing audit risk to an acceptably low level); and
- The effect of long association of an auditor with an entity on the auditor's risk assessment.

Prof. Schilder noted that, notwithstanding the expectations to complete this project quickly, the timeline set out a reasonable time to work through the revision of the standard in a robust way. The IAASB agreed with the timeline as set out in the draft project proposal.

IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron noted that the CAG Representatives were supportive of the project proposal to revise ISA 315 (Revised) and that Ms. Campbell had summarized their input on the project proposal accurately.

APPROVAL OF THE PROJECT PROPOSAL

After agreeing how the IAASB's comments would be addressed, the IAASB unanimously approved the project proposal to revise ISA 315 (Revised) with 18 affirmative votes out of the 18 IAASB members present.

⁸ ISA 260 (Revised), *Communication with Those Charged with Governance*

⁹ ISA 200, *Overall Objectives of The Independent Auditor and The Conduct of An Audit In Accordance with International Standards on Auditing*, paragraph 13(l)

ISSUES AND RECOMMENDATIONS

Ms. Campbell explained that three issues had been prioritized for discussion with the IAASB to be able to respond to concerns relating to ISA 540 as work on developing changes to that standard progresses. Ms. Campbell provided an overview of **Agenda Item 3-B**, focusing the IAASB's attention on the matters where specific input was being requested related to the components of internal control relevant to the audit, significant risks and the proposal related to a spectrum of risk.

Ms. Campbell summarized the feedback received at the CAG meeting, noting that the CAG Representatives:

- Agreed that obtaining an understanding of internal control informs the auditor's assessment of inherent risk, in addition to the auditor's assessment of control risk, and also supported efforts to clarify the purpose of the auditor obtaining an understanding of internal control;
- Cautioned that the lines between inherent risk and control risk should not be blurred, as these are concepts have been in place for a long time and are well understood;
- Commented that, in audits of small- and medium-sized entities (SMEs), the assessments of inherent risk and control risk are often performed on a combined basis due to the challenges of distinguishing between inherent risk and control risk in an SME audit, and that further guidance would be helpful;
- Noted that the effect of a dominant owner-manager should be recognized in ISA 315 (Revised), with further consideration of the potential impact on inherent risk and control risk;
- Noted the auditor is required to understand internal control sufficient to assess risks of material misstatement and plan the audit. Understanding of internal control is an area of judgment for the auditor and the requirement to understand internal control should be scalable in itself, as a less complex entity will have less to understand about internal control when compared with a more complex entity;
- Queried whether the basis for the components of internal control in ISA 315 (Revised) would be based on the five components in COSO's¹⁰ Internal Control-Integrated Framework (2013) (COSO Framework);
- Agreed with the ISA 315 (Revised) Working Group's recommendation to retain the concept of significant risk, regardless of whether the standard continues to refer to the highest risks of material misstatement as "significant risks" or whether it is referred to utilizing some other term;
- Agreed with the ISA 315 (Revised) Working Group's observation that the definition of significant risk is circular and therefore that the definition should be revisited;
- Were supportive of the ISA 315 (Revised) Task Force exploring the explicit introduction of the concept of a spectrum of risk in ISA 315 (Revised). However, CAG Representatives cautioned against introducing more complexity into the standard, as a spectrum of risk has the potential to do that (especially if a certain number of categories of risk were introduced).

Ms. Campbell also noted that that the SMP Committee had also provided feedback on the matters set out in **Agenda Item 3-B**.

¹⁰ Committee of Sponsoring Organizations of the Treadway Commission

Components of Internal Control Relevant to the Audit

The Board expressed support for the ISA 315 (Revised) Task Force continuing to explore how the requirements to understand internal control can be made more scalable, including providing clarity about the purpose for the auditor obtaining an understanding of internal control.

The Board agreed that the existing audit risk model is still appropriate and should be retained. The Board had mixed views on whether an additional purpose of obtaining an understanding of internal control informs the auditor's assessment of inherent risk, as well as the auditor's assessment of control risk. Board members noted that stating that obtaining an understanding of controls informed inherent risk would create confusion without really assisting auditors with the identification of risks of material misstatement. More specifically, Board members variously noted that:

- The purpose of obtaining an understanding of internal control is already well set out in paragraph 20 of ISA 315 (Revised), and suggested making it clearer that the auditor may be able to learn more about the inherent risk from what and how the entity has attempted to control those inherent risks;
- The significant challenges that need to be addressed within this area are (a) the implicit reliance on controls (i.e., reliance on controls by the auditor without appropriate evaluation of those controls), more specifically higher-level controls, by some SMPs and auditors of SMEs; and (b) the fact that auditors that have determined to take a primarily substantive approach to the audit do not see the value of obtaining an understanding of internal control, and therefore view the requirement in ISA 315 (Revised) to obtain an understanding of internal control as unnecessary and as a compliance exercise.
- It is important for there to be a clear link between the overarching requirement to understand internal control in paragraph 12 of ISA 315 (Revised), and the requirements related to understanding each of the individual components of internal control (paragraphs 14–24 of ISA 315 (Revised)).
- The five components of internal control are interlinked and therefore were generally not supportive of suggesting that some of the components are always relevant to an audit, while other components may not always be relevant to the audit.
- The components of internal control should be kept 'wrapped' together, to make it clear in ISA 315 (Revised) that in an audit of an SME, the auditor could obtain an understanding of internal control relatively quickly whereas in a larger entity the auditor would need to do more to obtain the appropriate understanding.

Significant Risks

In the discussions related to significant risks, the Board generally agreed that the:

- Concept of significant risk in ISA 315 (Revised) should be retained (i.e., continue to be a subset of the population of inherent risks).
- Definition of significant risk is circular and that the ISA 315 (Revised) Task Force should explore revising the definition with a focus on the nature of the risk.
- The proposed factors for the auditor to consider in the identification of inherent risk of complexity, ambiguity, change and uncertainty were appropriate, with one Board member adding that the ISA 315 (Revised) Task Force should also consider whether the source of data and management bias be added to those factors. With respect to assessing inherent risk in the context of their likelihood

and magnitude, one Board member expressed that magnitude should be the primary factor considered by the auditor and that likelihood be a secondary factor.

With regard to the use of 'two filters' in the identification of significant risks, the Board was supportive of the ISA 315 (Revised) Task Force continuing to explore this line of thinking, however the Board noted the need to more clearly understand how the proposal would work in practice. The Board specifically noted that clarity is needed about how the use of the proposed filters would interact with the proposed factors for evaluating the relative severity of an identified risk of material misstatement. In addition, the ISA 315 (Revised) Task Force should be clearer about whether it is proposing that identification of significant risk should also take control risk into consideration.

Spectrum of Risks

The Board was supportive of the ISA 315 (Revised) Task Force continuing to explore the explicit inclusion in ISA 315 (Revised) of a spectrum of risk (with the spectrum ranging from significant risks to risks assessed as being at an acceptably low level), cautioning the ISA 315 (Revised) Task Force of the possible consequence that this may introduce unnecessary additional complexity. One Board member questioned whether the explicit reference to a spectrum of risk would achieve anything in ISA 315 (Revised) as the response for the work effort is required under ISA 330. In response, the view was expressed that having a more explicit acknowledgment of the spectrum of risk in ISA 315 (Revised) would practically assist auditors in tailoring responses under ISA 330. In addition, it was noted that this may also address the observation that too much of the auditor's resources are focused on responding to significant risks at the expense of those 'other' risks of material misstatement that are not identified as significant risk but still require the auditor's attention.

WAY FORWARD

The ISA 315 (Revised) Task Force will continue to progress the changes to ISA 315 (Revised), taking into account the CAG Representatives and Board member's feedback. The ISA 315 (Revised) Task Force will bring further matters for discussion to the December 2016 meeting on issues identified in the project proposal that have not yet been presented to the IAASB.

5. COSO Framework Presentation

Mr. Landes provided the Board with an overview of the COSO organization, including explaining the composition of the committee. He provided an overview of the COSO Framework, which was first issued in 1992. Mr. Landes noted that the updates to the COSO Framework were primarily to reflect changes in business and operating environments, expand some of the objectives (e.g., for example reference now made to external reporting and not financial reporting) and to introduce various principles within each of the elements of internal control to assist with application of the COSO Framework.

Board members variously queried:

- Why the COSO Framework did not address strategic level objectives, in comparison to the approach in similar frameworks in the United Kingdom. Mr. Landes responded that COSO has a separate Enterprise Risk Management framework that considers the strategic risks to the organization, noting that this framework is currently undergoing revision.
- Whether ISA 315 (Revised) should take into account the revisions in the COSO Framework. Mr. Landes responded that the ISAs are framework neutral, but that there are linkages to the components of internal control in ISA 315 (Revised) to the components of internal control in the COSO Framework,

noting that the ISA 315 (Revised) Task Force would need to consider this aspect as part of that project.

6. Enhancements

Ms. Zietsman introduced the topic by summarizing the feedback received to the Invitation to Comment (ITC), *Enhancing Audit Quality: A Focus on Professional Skepticism, Quality Control and Group Audits*, and explained how the Enhancing Audit Quality Coordination Group (Enhancements Group) had developed the possible actions for the way forward set out in **Agenda Item 5-A**.

In response to the feedback on the responses to the ITC, Board members variously highlighted:

- The diversity in views, noting that it is important to fully consider all the options for possible actions before committing to a course of action.
- That it was important to fully understand the problem being addressed, with further consideration of whether standard-setting was the most appropriate action.
- The importance of continued coordination with IESBA.

Ms. Zietsman noted that CAG Representatives welcomed the exploration of possible ways to address the input that had been received, including the consideration of more innovative approaches to dealing with the diverse needs of the IAASB's stakeholder groups, in particular relating to the quality control standards. However, she noted that CAG Representatives cautioned that the changes to the quality control standards needed to be considered fully before changes were made so that any unintended consequences could be identified and understood. Ms. Zietsman added that CAG Representatives also underscored the importance of auditor behavior in the firm's system of quality control. She noted that CAG Representatives had mixed views on whether three separate standards for quality control at the firm level was the right way forward, but they were supportive of the IAASB continuing to focus on and further explore how scalability could be achieved in the standards. In addition, CAG Representatives highlighted the need for periodic outreach to various stakeholders as the various standards were revised in order to obtain feedback on the proposed way forward.

Ms. Zietsman noted that the SMP Committee also welcomed the Board's consideration of possible actions to address scalability and the challenges of SMPs in applying ISQC 1 in its current form. She further noted that there were also mixed views from the SMP Committee about a three-standard approach, and that the SMP Committee called for further time for in-depth and detailed analysis of the consequences of these possible actions. In addition, the SMP Committee urged the IAASB to first more fully develop the Quality Management Approach (QMA) and how it would achieve scalability, and then determine how to structure the quality control standards.

While being broadly supportive of the direction in relation to quality control and group audits set out in **Agenda Item 5-A**, Board members had mixed views about some of the possible actions. In particular, Board members expressed various concerns about making a decision at this stage to split ISQC 1 into three standards, including the following:

- The concept of the QMA has not yet been fully developed by the working group and discussed by the Board and others, and accordingly the ability to apply a revised ISQC 1 to different types of sizes of firms has not yet been fully explored.
- The difficulty of defining the 'boundaries' between the different standards (i.e., deciding on the types of engagements that might be covered by each different quality control standard).

- The three-standard approach may result in the perception that firms operating under the different standards have different levels of quality, thereby creating the perception of lesser levels of quality for firms that were not applying 'ISQC 2' or 'ISQC 3.'
- Of the difficulty that a multi-standard approach may cause global networks, where network policies and procedures will likely have to cover firms needing to apply all three standards, albeit it to different degrees.

Although not dismissing the suggestion to further explore splitting ISQC 1 into separate standards, the IAASB agreed that the focus should rather first be on more the further development of the thinking around the QMA approach and on how this would be incorporated into the requirements and application material of the standard to encourage robust quality management for firms. The decision about how best to structure the output, i.e., how to present the requirements and guidance should be left to a later stage once there is more clarity on the approach and the related proposed revisions are sufficiently progressed.

In relation to strengthening and enhancing the requirements and guidance when other auditors are used in an audit, the Board were generally supportive of further exploration as to whether a new standard would be an appropriate approach, but similar to the discussion about ISQC 1, cautioned that the possible changes would first need to be developed before deciding on the location within the standards. A Board member highlighted that the definition of engagement team was already broad, and that further consideration should be given to what 'other auditors' are, as well as the interaction of 'other auditors' with 'component auditors' addressed under ISA 600.¹¹ In the course of its work on quality control at the engagement level, the Board also encouraged focus on the impact on the roles and responsibilities of the engagement partner, in particular in relation to the direction, supervision and review, in the varying, evolving circumstances where other auditors are used.

The Board agreed with continuing to progress changes to ISA 600, taking into account relevant changes to ISA 220. The way forward on professional skepticism was discussed separately (see section 11 of these minutes).

PIOB OBSERVER REMARKS

Mr. Bhavé commended the Board for issuing the ITC to obtain input on the topics of professional skepticism, quality control and group audits to properly inform decisions about an appropriate way forward. He also acknowledged the open discussions and debate on the various matters related to the ITC.

Mr. Bhavé expressed support for the continued joint approach taken by the three independent SSBs to address the application of professional skepticism. He noted that further consideration needed to be given to the link between audit quality and audit partner remuneration, including the transparency of this information from firms. He noted that more generally further debates on specific aspects of a firm's quality control would be better informed by having more transparent information, and it was therefore important for the IAASB to further consider what could be included in the standards relating to transparency. He also added that consideration needed to be given to audit firm's commercial dependence on specific clients and the ability to maintain independence from these clients. He further stated that the PIOB is concerned that there is not enough discussion on the governance structure of the firms and the issue of non-assurance fees. He encouraged the Boards (IAASB and IESBA) to discuss the impact of these issues on the ability of the auditor to display sufficient Professional Skepticism and the ultimate effect on the quality of audit.

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

WAY FORWARD

The Enhancements Group will develop a project proposal for quality control and group audits to revise ISQC 1, ISA 220 and ISA 600 (and any other standards as necessary) for approval by the IAASB at its December 2016 meeting. The individual working groups¹² for quality control and group audits will also continue to progress the revisions to the standards in light of the responses received to the ITC.

7. Quality Control

Ms. French introduced the topic of engagement quality control (EQC) reviews and provided an overview of the CAG Representatives views in respect of the issues presented in **Agenda Item 5-B**. Ms. French noted that CAG Representatives were supportive of strengthening the requirements for engagements that should be subject to an EQC review, although had mixed views about how this should be operationalized. Furthermore, CAG Representatives agreed that an objective should be established, however had diverse views regarding the depth of the EQC review and whether it should remain focused on significant judgments. CAG Representatives also emphasized the importance of the timeliness of the EQC review, and the selection of an EQC reviewer with the appropriate competencies, authority and independence, noting the importance of the firm's tone and culture towards the EQC review. There were also mixed views by CAG Representatives regarding providing transparency about the EQC review in the auditor's report.

Ms. French provided feedback from the SMP Committee, noting the caution for the IAASB in extending the requirement for an EQC review beyond listed entities to include all public interest entities and supporting the determination of an objective for the EQC review. In addition, Ms. French noted that the SMP Committee also noted that further consideration be given to aspects of the eligibility of the EQC reviewer. The Board provided the Quality Control Working Group (QCWG) with further direction, as set out in the sections below, to address respondent's feedback to the ITC.

EXTENDING THE REQUIREMENT FOR AN EQC REVIEW BEYOND AUDITS OF LISTED ENTITIES

The Board agreed that the requirement for an EQC review needs to be strengthened, with broad support for the firm to determine which engagements should be subject to an EQC review on the basis of a risk-based approach supported by robust criteria (i.e., in addition to listed entities or those required by law or regulation to be subject to an EQC review). The Board provided the following additional suggestions and matters for consideration:

- Any changes should address the fundamental reason why the EQC review requirement should be extended, i.e., to address the impact of a possible audit failure, specifically the public interest impact.
- Further consideration should be given to how the QMA will also help signal engagements where an EQC review should be performed.
- The EQC review requirements should be addressed in a manner that does not undermine other responses implemented by the firm to address quality risks. Recognition of other forms of reviews that are not strictly EQC reviews may also be appropriate to facilitate more focused reviews on engagements, or areas of those engagements, where risk exists.

¹² Three working groups will work on the quality control standards ISQC 1 and ISA 220, one working group will focus on revising ISQC 1 using a quality management approach, another related working group will focus on the discrete changes for ISQC 1, and the reconstituted Enhancements Working Group (now the "Crossover Working Group") will focus on the revision of ISA 220. The Group Audits Working Group will focus on the revisions of ISA 600.

- The criteria should not be prescriptive and ought to focus on the public interest aspects (including entities that obtain funds from the public or government). The Board provided some suggestions of possible criteria.
- Appropriate emphasis to circumstances where jurisdictions prescribe entities that should be subject to an EQC review, which could encourage jurisdictions to make such a determination.

OBJECTIVE OF THE EQC REVIEW

The Board agreed that the EQC review is a firm level control performed at the engagement level, given the purpose of the EQC review in responding to risks at the firm level and the determination being made by the firm of which engagements are subject to EQC reviews. Furthermore, the Board was of the view that the responsibility for audit quality at the engagement level rests with the engagement partner, and setting the objective as an engagement level control could dilute this responsibility. In establishing the objective, the Board requested that the QCWG further consider:

- Clearly articulating the level at which the control is established in order to make clear where accountability is, while also explaining the nature, timing and extent of the EQC review operates at the engagement level.
- As it relates to the depth of the review, retaining the focus on significant judgments made by the engagement team, although providing clarity about what this means. Ms. Healy recommended that paragraphs A8 to A11 of ISA 230¹³ could also be helpful in considering the meaning of “significant judgments.”
- Emphasizing that the EQC review is an activity that should take place throughout the engagement, and not merely be performed at the end of the engagement.
- How to link quality management at the engagement level and the EQC review (i.e., the quality management at the engagement level would facilitate improved information for the engagement partner to engage throughout the audit with the EQC reviewer).

SELECTION OF THE EQC REVIEWER

The Board supported the recommendations of the QCWG as they relate to improving the robustness of the selection of the EQC reviewer, although cautioned that these should not be overly prescriptive resulting in firms having limited suitable resources who are able, or willing, to fulfill the role. The Board was of the view that the selection of the EQC reviewer should be at firm level, rather than the engagement level, given that the EQC review is a firm level control. The Board provided the following additional matters for consideration:

- Emphasizing that the EQC reviewer should have the appropriate authority and status within the firm to enable them to confidently challenge the significant judgments.
- Addressing the appropriateness of the EQC reviewer’s practical experience, for example, circumstances when the EQC review is delegated to a technical resource with limited practical experience.
- Reinforcing that the function of the EQC reviewer is not to override the judgments of the engagement team, but rather for the EQC reviewer to challenge those judgments and for the engagement team to evaluate how best to address the issues raised by the EQC reviewer.

¹³ ISA 230, *Audit Documentation*

- Addressing the capacity of the EQC reviewer to perform the review, i.e., their time available.
- Carefully addressing the appropriate skills of the EQC reviewer.

The Board was supportive of further liaison with the IESBA on the issue relating to the 'cooling-off' period between serving as the engagement partner and the EQC reviewer, although mixed views were expressed regarding whether a prescriptive period should be established. Those in support of a fixed period suggested 3 years or 5 years and indicated that it would prevent inconsistent application by firms, whereas those not supportive of a fixed period were of the view that there is no proper basis for establishing a fixed period.

TRANSPARENCY AND INTERACTIONS WITH THOSE CHARGED WITH GOVERNANCE (TCWG)

The Board agreed that transparency in the auditor's report about the engagement being subject to an EQC review would not be an appropriate requirement, in particular due to the possible misconceptions it could create about the quality of engagements not subject to EQC reviews. However, the Board had the view that it is important to provide transparency more generally about when an EQC review is performed, to enhance stakeholders' trust and confidence in the audit, in particular given that firms would be making the determination of which engagements should be subject to EQC review (other than for listed entities or as required by law or regulation). Ms. Healy noted that firms' transparency reporting will still be considered by the Board.

The Board was also supportive of the QCWG's conclusion that it would not be appropriate to address the EQC reviewer's interactions with TCWG. The Board further debated the appropriateness of providing transparency to TWCG about the EQC review, recognizing that this information may only be perceived as useful in certain jurisdictions, and encouraged the QCWG to explore how to address the interactions between TCWG and the auditor in the interest of understanding the process of EQC reviews.

IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron noted that the EQC review is a topic that is important to CAG Representatives and generated mixed views and significant interest for some. He highlighted the importance of taking into consideration how the EQC reviewer is assigned, as well as the network's role in EQC reviews, where applicable. Mr. Waldron specifically noted the CAG's comments about the importance of the timing of when the EQC review is undertaken.

WAY FORWARD

The QCWG will consider the Board's comments in further developing changes to EQC reviews, and will present their further recommendations to the Board at its December 2016 meeting on the matters discussed at the September 2016 meeting, as well as the nature, timing and extent of the EQC review.

8. Group Audits

Ms. Zietsman introduced the session, explaining that the Group Audits Working Group (GAWG) was looking for direction from the Board to help direct the GAWG's focus on the scoping of a group audit, as set out in **Agenda Item 5-C**.

Ms. Zietsman noted that CAG Representatives:

- Supported enhancing the approach to a group audit.

- Underscored the importance of further considering the identification and assessment of the risks of material misstatement at the group level, and using this consideration to help determine the work effort needed at the components, and evaluate the results of work performed. In addition, it was added that specific guidance was likely needed for public sector audits.
- Highlighted the linkage of component materiality to the identification and assessment of the risks of material misstatement (i.e., intrinsically linked to 'aggregation risk'), and the need for more guidance on component materiality.

Board members generally supported further exploration of further strengthening the way that the risks of material misstatement are identified and assessed at the group financial statement level and responded to at the group and component level, variously highlighting the following:

- The need to maintain an approach that would be capable of being applied in a wide variety of circumstances.
- The need to make the approach to a group audit more understandable, in particular for SMPs.

WAY FORWARD

Ms. Zietsman noted that the GAWG would continue to work through the comments to the ITC and provide input to the project proposal on group audits for IAASB approval in December 2016.

9. Agreed Upon Procedures

Mr. Salole presented a revised draft of the Agreed-Upon Procedures Working Group's (AUPWG) Discussion Paper (DP) to the IAASB. He explained the changes made to the DP since the June 2016 Board meeting and highlighted how the AUPWG had addressed the Board's previous comments. The Board was of the view that the DP improved significantly, specifically highlighting the improved readability and clarity, but asked the AUPWG to consider the following in finalizing the DP:

- Enhancing the section on the use of professional judgment in an AUP engagement by explaining the interaction between paragraph 12 of **Agenda Item 6-A**, which acknowledges that professional judgment can't be suspended in an AUP engagement, and paragraph 15 which states that, when performing procedures in an AUP engagement, the need for exercising professional should be avoided. Some Board members noted that this could be seen as contradictory and suggested adding additional narrative to explain that the nature of the procedures result in objective (factual) findings, as opposed to subjective findings.
- Clarifying certain questions and adding new questions with respect to the use of professional judgment in an AUP engagement, the options for restricting the report of factual findings and recommendations made in conjunction with AUP engagements. In addition, the AUPWG was cautioned about limiting any questions about professional skepticism, as the input would still be helpful to the PSWG, but that an appropriate context around the question should be provided.
- Enhancing the linkages between different topics in the DP. For example the linkages that exist between the restriction of the report of factual findings and the:
 - Independence of the professional accountant;
 - Terminology in describing procedures and reporting factual findings in an AUP report; and
 - Recommendations made in conjunction with AUP engagements.

- Further explaining the public interest aspects of why a project on this topic would be priority, given the constraints on capacity and resources for the IAASB.
- Introducing credibility and trust by referring to the IAASB's paper *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements*, as that paper refers to AUP engagements.
- Reconsidering the examples in Appendix A, as these were subject matters on which AUP engagements can be performed rather than examples of AUP engagements.
- Clarifying whether it is permissible for financial statement auditors to perform AUP engagements.
- With respect to an AUP engagement on non-financial information, clarifying that extant ISRS 4400¹⁴ already implicitly allows AUPs on non-financial information, but the question is whether this should be explicitly allowed.
- Highlighting that, when the auditor engages an expert in an AUP engagement, the expert's reporting should not go beyond reporting factual findings.
- Enhancing the three approaches introduced to restrict the report of factual findings by:
 - Including the caveat "subject to law or regulation of the relevant jurisdiction" in the first approach as this approach may be hard to apply in some jurisdictions; and
 - Explaining that the second approach is the approach that exists under extant ISRS 4400
 - Considering the need for an alert explaining that the report may not be useful to other users and the potential option to restrict distribution or use, or both, as applicable in the jurisdiction (in line with ISA 800¹⁵).

Concern was expressed about the ability of the Board to progress a project on this topic once the responses to the DP had been received, with some Board members expressing the need to revise this standard as a priority, in particular in light of its importance to the SMP community. Prof. Schilder explained that the next steps on this topic would be considered by the Board after analyzing the responses on the DP. He added that this topic would form part of the Board's considerations about its work in the 2017–2018 period, as the Board finalizes its work plan for that period in December 2016.

PIOB OBSERVER REMARKS

Mr. Bhave suggested that the impact of providing AUP services to audit clients on the independence of the auditor, if any, may be noted in the paper.

¹⁴ International Standards On Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

¹⁵ ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

WAY FORWARD

The Board agreed that the DP should be published with a 120-day comment period. The Board agreed that the Steering committee would review the final changes and approved the document to be published. It is expected that the DP will be published at the end of November 2016.

10. Auditor Reporting Implementation

Mr. Montgomery updated the Board on the activities of the Auditor Reporting Implementation Working Group (ARIWG), including the outreach undertaken with respect to the new and revised Auditor Reporting Standards (the Standards),¹⁶ and the ARIWG's publications to support the implementation of the Standards. Mr. Montgomery also provided some insight into global developments on this topic, including the global uptake of the Standards and what the ARIWG has heard from experiences in adopting those standards.

In addition, Mr. Montgomery presented an initial outline of the planned post-implementation review. The Board was supportive of the ARIWG being responsible for the post-implementation review. Furthermore, the Board agreed with the two-phase approach proposed by the ARIWG and provided the following additional suggestions:

- Considering the timing of the formal post-implementation review, ensuring that many jurisdictions have had the Standards in effect for two years before conducting the review. The Board cautioned that a post-implementation review that is conducted too early may render inaccurate or incomplete feedback.
- Increasing the emphasis on going concern in the formal post-implementation review, i.e., the effectiveness of the amendments to ISA 570 (Revised), as well as the interaction between key audit matters (KAM) and circumstances where there are "close-calls."
- Including an analysis of whether the information communicated by the auditor is achieving the expectations of the users and the intended purpose of the Standards within the scope of the review. The ARIWG was also asked to consider how to assess the feedback from the informal review and how to package it into something useful.
- Evaluating the impact of the new auditor's reports on the cost of the audit.
- Evaluating the correlation between the communication of KAM and the disclosures in the financial statements.
- Enhancing the objective of the post-implementation review to determine how to assist practitioners in understanding what is being done to implement the Standards.
- Monitoring the ongoing academic research in this area.
- Monitoring how the media are responding to the new auditors' reports.
- Considering the public sector uptake of the Standards.

¹⁶ 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*; ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, and conforming amendments to other ISAs.

In summarizing the discussion regarding the post-implementation review, Mr. Montgomery noted the importance of understanding the impact of enhanced auditor reporting on auditor liability, as well as the liability of preparers or those charged with governance.

The Board was further supportive of the ARIWG's proposal to publish a Frequently Asked Questions document. A Board member recommended that additional thought be given on how to articulate the responses in a more practical, less-technical manner. The Board also suggested the following additional matters be considered:

- Addressing circumstances where there are multiple signing dates in conjunction with multiple documents that are considered an annual report.
- Addressing circumstances where the engagement partner as contemplated by the ISAs does not sign the auditor's report.
- Providing clarity on how much innovation is allowed by auditors in the presentation and content of the auditor's report.
- Providing clarity on circumstances when it may be appropriate for the auditor to determine that no KAM exist.

IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron supported the approach for the post-implementation review, in particular the initial informal phase, noting that the outcome from the informal phase would help facilitate what needs to be considered when undertaking the formal post-implementation review.

WAY FORWARD

The Board was requested to send through any further suggestions on the Frequently Asked Questions document for the ARIWG to consider. The ARIWG expects to finalize the Frequently Asked Questions in the fourth quarter of 2016 ahead of the effective date of the Standards. The ARIWG will continue with its outreach and implementation monitoring as indicated in **Agenda Item 7-A**.

11. Professional Skepticism

Prof. Köhler introduced the topic by summarizing the key areas of feedback from the responses to the ITC, discussed in detail in **Agenda Item 8-A**, highlighting:

- Overall strong support for the joint coordination by the IAASB, (IESBA, and the IAESB);
- The analysis of impediments to the exercise of professional skepticism in **Agenda Item 8-B**;
- Mixed views over whether the definition of professional skepticism within ISA 200 needs to be changed or whether the IAASB could instead be more clear how it expects professional skepticism to be demonstrated; and
- A strong link between professional skepticism and other current projects of the IAASB.

Mr. Richard Fleck (IESBA Deputy Chair and PSWG member) summarized the feedback received by IESBA stakeholders on the topic of professional skepticism, noting that the feedback has come from responses to the ITC as well as from other sources, such as the March 2016 joint IAASB/IESBA CAG meeting (e.g., the interactions of the concept of professional skepticism and moral courage).

Prof. Köhler summarized the status of the IAESB discussions on the topic of professional skepticism which have been informed by responses to its Consultation Paper (CP),¹⁷ responses to the IAASB's ITC, and the work of its Professional Skepticism Task Force (IAESB Task Force). Based on this feedback, the IAESB Task Force is in the process of considering whether a potential separate behavioral competence category should be added to the education standards. The IAESB CAG and IAESB will consider this information at their meetings in September 2016 and November 2016, respectively.

CAG Representatives commented at the September 2016 joint IAASB/IESBA CAG meeting as follows:

- Support for exploring issues related to evidence and documentation, but some concern about timing and the resources needed to do so, as well as whether further consideration of the impact on ISA 200 may also be needed;
- General support for seeking to describe the linkage between professional skepticism and the fundamental principles and independence in the IESBA *Code of Ethics for Professional Accountants* (IESBA Code);
- Mixed views as to whether professional skepticism should apply to all professional accountants (PAs). The IAASB was urged to consider the consequences of making this change and not dilute what it means for audits and assurance engagements. CAG Representatives agreed that further dialogue, especially with professional accountants in business, should be sought on the topic;
- Mixed views about moving towards an attitude of presumptive doubt due to concerns over the need to guide auditors about when enough evidence has been obtained;
- Support for a holistic approach to revising the concept of professional skepticism within the ISAs and strengthening auditor compliance with the fundamental principles of the IESBA Code (e.g., consider starting with the definition of professional skepticism in ISA 200). CAG Representatives cautioned against making piecemeal changes; and
- General acknowledgment of the role for others, including specific mention of how education may play a role in enhancing auditor behavior.

PRELIMINARY RECOMMENDATIONS OF THE PSWG

Prof. Köhler presented the preliminary recommendations of the PSWG on the actions that could be taken by the three standard-setting boards (SSBs), individually and in coordination, to enhance the application of professional skepticism.

INFORMATION-GATHERING RELATED TO A NEW PROJECT

The Board was generally supportive to commence information gathering related to a potential new project on Audit Evidence.¹⁸ Board members also recognized the link to audit documentation in ISA 230, but noted that the exercise of professional skepticism would not be improved by simply requiring professional skepticism to be documented. There was also caution from some members against 'sprinkling' the term

¹⁷ December 2015 Consultation Paper, *Meeting Future Expectations of Professional Competence: A Consultation on the IAESB's Future Strategy and Priorities*

¹⁸ The scope of a project on audit evidence is still to be determined by the IAASB. Further consideration as to when activities on this will commence will form part of the discussions on the IAASB's Work Plan for 2017–2018 at the December 2016 IAASB meeting.

professional skepticism throughout the auditing standards and it was noted that any enhancements should focus on providing practical guidance to practitioners on how to demonstrate the exercise of professional skepticism. One Board member suggested that perhaps the 'right' starting point would be to evaluate whether the current definition of professional skepticism within ISA 200 could be enhanced. The PSWG was also encouraged to continue coordinating with the other current projects of the Board, in particular ISA 540, but also the ISA 315 (Revised), Quality Control, and Group Audits, on strengthening professional skepticism within those standards.

Board members also expressed support for other activities outside of standard-setting that could promote the application of professional skepticism, for example, a thought-piece or feedback statement that provides the public with insight as to how the three SSBs view the concept of professional skepticism, the planned actions each Board intends to take, and how these various actions are coordinated between the SSBs.

IESBA PROFESSIONAL SKEPTICISM PRELIMINARY WORDING

The IAASB discussed the preliminary wording prepared by IESBA representatives as presented in **Agenda Item 8-C** (the Strawman), and provided input on the implications and possible unintended consequences of extending the concept of professional skepticism beyond audit and assurance engagements. Feedback provided to the IESBA included the following observations:

- That the IESBA should understand and consider the potential unintended consequences of extending the concept to all PAs prior to standard-setting.
- Professional skepticism is enhanced when you apply the fundamental principles, not the other way around.
- Professional skepticism is defined specifically in the context of audit and assurance engagements and therefore is intended to be applied to only those engagements. There is concern that by potentially attempting to extend the definition to all PAs, and therefore to all types of engagements, it could result in an unintended consequence that the term could be 'watered down' when applied by auditors.
- Professional skepticism is linked to the concept of audit evidence, an unintended consequence of extending this concept to all PAs could potentially cause an expectation that the auditor should behave just as any other professional accountant, or that professional accountants should apply professional skepticism like auditors and assurance practitioners, and this would not be in the public interest.
- Although the IAASB cannot monopolize the term professional skepticism, the IESBA is urged to continue to have more discussions on this topic before taking action.

Mr. Koftvedgaard (IESBA CAG Chair) commented that although there wasn't a detailed discussion at the IESBA CAG on the specific wording within the Strawman, one CAG Representative stated that the document outlined the major issues. He also added that a few CAG Representatives, representing the preparer or those charged with governance stakeholder groups, expressed support for a broader scope of the concept of professional skepticism to all PAs, but had also cautioned the IESBA in doing so.

FUNDAMENTAL CHANGES TO THE CONCEPT/DEFINITION OF PROFESSIONAL SKEPTICISM IN THE ISAS

Some Board members challenged whether a potential fundamental change to the concept of professional skepticism is in fact a 'longer-term' issue as described in the agenda papers and questioned whether the

work done on this issue can be started in the near-term. Prof Köhler agreed with this view and clarified that although the PSWG believes that the issue will require longer-term consideration, the PSWG intends to begin information-gathering and analysis in the short-term. The Board supported performing additional analyses of the implications of potential fundamental changes to the definition of professional skepticism such as: incorporating a concept of different “levels” of professional skepticism, shifting towards a more doubting attitude or presumptive doubt, and a potential requirement to seek out contradictory evidence. The Board believed that additional analyses of implications and unintended consequences, in order to determine whether these actions might enhance the exercise of professional skepticism by practitioners, would be critical.

WAY FORWARD

To progress this topic, the PSWG will:

- Continue to support the current IAASB projects on ISA 540, ISA 315 (Revised), Quality Control and Group Audits;
- Commence information gathering and analysis on issues in relation to fundamental changes to the concept or definition of professional skepticism;
- Commence information-gathering on a project related to Audit Evidence; and
- Explore the concept of a thought-piece, feedback statement or other brief publication to give prominence to the work of the PSWG.

12. Closing Remarks from IAASB CAG Chairman

Mr. Waldron thanked Prof. Schilder and the Board for the discussions during the week and its consideration of the matters raised by CAG Representatives at the recent CAG meeting. Mr. Waldron added that the CAG Representatives view their role as being able to provide views and direction early on in a project and encouraged the IAASB to continue seeking CAG Representatives’ views at an early stage of the various projects.

13. PIOB Observer Remarks

Mr. Bhave congratulated the Board on the depth of discussions on the various topics on the Board’s agenda. He, however, cautioned the Board that in moving forward there would be a difficult balance between progressing the planned projects in the targeted timeline, against developing revisions that are of appropriate quality.

14. Next Meeting

The next IAASB Teleconference will be held on November 1, 2016. The next IAASB physical meeting will be December 5–9, 2016, to be held in New York, United States.

15. Closing

Prof. Schilder acknowledged the interactions among the Board’s various projects, acknowledging the importance of continuing coordination.

Prof. Schilder highlighted that the Steering Committee had discussed:

- An updated version of the ISA 315 (Revised) project proposal and agreed that the updates were responsive to the comments from the Board. The Steering Committee agreed that the project proposal was now finalized.
- The forward timetable of projects, noting in particular a change to the timeline in **Agenda Item 5-A** related to the quality control project, changing the first read of the exposure draft to June 2017 (previously March 2017).
- The development of a paper outlining what is meant by the terms 'scalability' and 'proportionality' as they relate to the IAASB's standards.
- The upcoming SMP working conference in January 2017, noting that preparations are well underway.
- The process for responding to International Accounting Standards Board consultations, including consideration of teleconferences or other means to communicate IAASB views.

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