

**Minutes of the 71st Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
Held on September 21-25, 2015 in New York, USA**

Voting Members

Present: Arnold Schilder (Chairman)
Charles Landes (Deputy Chair)
Jean Blascos
Fiona Campbell
Valdir Coscodai
Robert Dohrer
Karin French
Marek Grabowski
Jonas Hällström
Merran Kelsall
Annette Köhler
Brendan Murtagh
Marc Pickeur
Ron Salole (September 21-23)
Rich Sharko
Sayaka Sumida
Ge Zhang
Megan Zietsman

Technical Advisors

Wolf Böhm (Ms. Köhler)
Dora Burzenski (Ms. Zietsman)
Chun Wee Chiew (Mr. Murtagh)
Ahava Goldman (Mr. Dohrer) (September 21-22 and 24-25)
Alejandro Gonzalez (Mr. Coscodai) (September 21-24)
Hiram Hasty (Mr. Landes)
Josephine Jackson (Mr. Grabowski)
Susan Jones (Mr. Blascos)
Sachiko Kai (Ms. Sumida)
Richard Mifsud (Ms. Kelsall)
Alexandra Popovic (Mr. Hällström)
Jamie Shannon (Mr. Sharko)
Eric Turner (Mr. Salole)
Inge Vanbeveren (Mr. Pickeur)
Denise Weber (Ms. Campbell)
Rick Wood (Ms. French)
Cindy Yang (Mr. Zhang)

Apology: -

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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: Karel Van Hulle

Present: **IAASB Technical Staff**

Kathleen Healy (Technical Director), Beverley Bahlmann, Brett James, Diane Jules, Nancy Kamp-Roelands, Vijyata Kirpalani, Jasper van den Hout, Bradley Williams (September 22-25), James Gunn (Managing Director, Professional Standards) (September 21-22 and 25)

International Auditing and Assurance Standards Board (IAASB) agenda materials referred to in these minutes can be accessed at <http://www.iaasb.org/meetings/new-york-usa-10>. These minutes are a summary of the decisions made at the September 2015 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 the participants to the meeting, including Mr. Chiew and Mr. Turner, who were both attending their first meeting as IAASB technical advisors. The minutes of the June 2015 IAASB meeting were approved as presented.

2. Auditor Reporting – ISA 800¹ and ISA 805²

The Board considered the remaining issues arising from the responses to the International Standard on Auditing (ISA) 800 and 805 exposure draft (ED) and the Drafting Team's recommendations, as well as revised drafts of proposed ISA 800 (Revised) and proposed ISA 805 (Revised) (herein referred to as "the standards").

Except for matters relating to the application of the enhanced auditor reporting requirements relating to going concern, the Board generally agreed with the Drafting Team's recommendations as set out in Agenda Items 2-A, 2-B and 2-C. In addition to various editorial and other less substantive amendments to Agenda Items 2-B and 2-C, additional changes were made to the standards as described in the sections below.

APPLICATION OF AUDITOR REPORTING RELATING TO GOING CONCERN

Description of Management's and Auditor's Responsibilities

The Board extensively deliberated the changes being proposed to the standards relating to the application of the enhanced auditor reporting requirements relating to going concern in audits to which ISA 800 (Revised) and ISA 805 (Revised) apply. ISA 700 (Revised)³ requires auditors to include in the auditor's report (when the financial statement(s) or element is prepared using an applicable financial reporting framework to which the going concern basis of accounting is relevant) a description of:

- Management's responsibility to assess the entity's ability to continue as a going concern, and whether the use of the going concern basis of accounting is appropriate; and
- The auditor's responsibility to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

The Board acknowledged that special purpose financial statements may or may not be prepared in

¹ ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

² ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

³ See ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 34(b) and 39(b)(iv).

accordance with a financial reporting framework for which the going concern basis of accounting is relevant.⁴ In light of this, the Board agreed it was necessary to include framework-neutral application material in both ISA 800 (Revised)⁵ and ISA 805 (Revised)⁶ to remind auditors that the respective descriptions about going concern in the auditor's report may need to be tailored (including, in some cases, not included) depending on the relevance of the going concern basis of accounting to the preparation of the financial statement(s) or element.

Reference in the ISA 805 Auditor's Report to a Material Uncertainty Relating to Going Concern in the Auditor's Report on the Complete Set of Financial Statements

The Board also agreed with the Drafting Team's recommendation to include application material in ISA 805 (Revised) to encourage auditors to refer in the ISA 805 auditor's report to a *Material Uncertainty Relating to Going Concern* section in the auditor's report on the complete set of financial statements, even when the going concern basis of accounting is not relevant under the financial reporting framework that applies to the presentation of the single financial statement or the specific element of a financial statement.⁷

Reference in the ISA 800 Auditor's Report to a Material Uncertainty Relating to Going Concern in the Auditor's Report on the Complete Set of General Purpose Financial Statements

The Board agreed to include application material in ISA 800 (Revised) to remind auditors that a *Material Uncertainty Relating to Going Concern* section in the auditor's report on the complete set of general purpose financial statements may be relevant to users of ISA 800 auditor's reports, even if the concept of material uncertainty is not expressly relevant to the engagement to which ISA 800 (Revised) applies.

CONSIDERATION OF THE IMPLICATIONS OF CERTAIN MATTERS INCLUDED IN THE AUDITOR'S REPORT ON THE ENTITY'S COMPLETE SET OF FINANCIAL STATEMENTS FOR THE ISA 805 ENGAGEMENT AND AUDITOR'S REPORT THEREON

The Board reaffirmed its view that proposed ISA 805 (Revised) should explicitly require auditors to consider the implications of matters in the auditor's report on the complete set of financial statements, for both the ISA 805 auditor's report and the audit of the single financial statement or the specific element of a financial statement. This represents an enhancement of the extant requirement, which only addresses the effect of those matters on the ISA 805 auditor's report. The IAASB was of the view that consideration of the implications of additional information in the auditor's report relating to key audit matters may assist auditors in an ISA 805 engagement where those matters are relevant, which could be beneficial to audit quality.

IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron noted that CAG Representatives and Observers did not raise objections to the consequential amendments to the standards.

CONFORMING AMENDMENTS TO ISA 700 (REVISED)

At its June 2015 meeting, the IAASB agreed with the Drafting Team's editorial changes to the proposed conforming amendments relating to the naming of the engagement partner. This matter was not

⁴ This is explicitly acknowledged in paragraph 2 of ISA 570 (Revised), *Going Concern*.

⁵ See paragraph A15 of ISA 800 (Revised).

⁶ See paragraph A19 of ISA 805 (Revised).

⁷ See paragraph A27 of ISA 805 (Revised).

redeliberated at the September 2015 meeting.

DUE PROCESS CONSIDERATIONS

The IAASB confirmed the Drafting Team's position that there were no issues raised by respondents to the ED, in addition to those summarized by the Drafting Team that should have been discussed. Ms. Köhler also confirmed that the Drafting Team raised with the IAASB all significant issues they have deliberated, and noted that the Drafting Team had the view that no further consultation (such as roundtables or further consultation with particular stakeholder groups) or field testing was needed. Ms. Healy advised the IAASB that it had adhered to its stated due process in finalizing the revised standards and related conforming amendments.

APPROVAL

After agreeing all necessary changes to the standards (including conforming amendments to ISA 700 (Revised)), the IAASB unanimously approved ISA 800 (Revised) and ISA 805 (Revised), with 17 affirmative votes out of the 17 Board members present.

CONSIDERATION OF THE NEED FOR RE-EXPOSURE

The IAASB agreed with the Drafting Team's view that there was not a need for re-exposure of the standards, as the changes made since the ED are in response to the comments received on exposure; and do not fundamentally change the principles of either standard from what was intended in the ED.

EFFECTIVE DATE AND WAY FORWARD

The Board agreed that the effective dates for the standards should be in line with the effective date of the new and revised Auditor Reporting standards, namely:

- (a) ISA 800 (Revised) is effective for audits of special purpose financial statements for periods ending on or after December 15, 2016; and
- (b) ISA 805 (Revised) is effective for audits of single financial statements or specific elements, accounts or items for periods ending on or after December 15, 2016. In the case of audits of single financial statements or specific elements, accounts or items of a financial statement prepared as at a specific date, ISA 805 (Revised) is effective for audits of such information prepared as at a date on or after December 15, 2016.

The final changes to the standards are tentatively planned for release in January 2016, pending approval from the PIOB that due process was followed in their development.

3. Integrated Reporting

Ms. Kelsall introduced the topic and provided an update on the Integrated Reporting Working Group's (IRWG's) activities to date, the outcome of its information-gathering activities, and the proposed way forward. Ms. Kelsall also noted that the IRWG paper discussed by the Board at its March 2015 meeting was published in July 2015 (see Agenda Item 3-B). Ms. Kelsall referred to the IRWG's analysis of the feedback that the International Integrated Reporting Council (IIRC) had received on its consultation papers on assurance on integrated reporting.⁸ Moving forward, Ms. Kelsall explained that the IRWG has three focus areas: (i) broadening the information-gathering activities from assurance engagements on integrated

⁸ In July 2015, the IIRC issued its *Assurance on <IR>: Overview of Feedback and Call to Action*.

reporting to assurance engagements on other emerging developments in external reporting; (ii) viewing assurance engagements in the broader context of credibility and trust; and (iii) exploring an analysis model for considering how assurance engagements could be conducted, including their nature and scope and the underlying rationale for them. Finally, she provided insight on the IRWG's initial thoughts on the topics to be included in an IAASB Discussion Paper (DP) planned for 2016.

Board members noted broad support for the way forward as discussed in Agenda Item 3-A. They raised additional matters for the IRWG to consider in its information-gathering activities in developing a DP, including that the IRWG should:

- Clarify for potential users of assurance engagements the different elements that add to credibility and trust and the objective of assurance engagements. It was noted that stakeholders often do not understand the technical terminology and may refer to assurance engagements, while in principle they are referring to the broader concept of credibility and trust. The IRWG was asked to be cautious about raising unrealistic expectations that may be created by referring to the auditor's expected work effort in accordance with ISA 720 (Revised)⁹ in relation to integrated reports, noting that describing ISA 720 (Revised)'s objectives and limitations will help to avoid stakeholders believing that ISA 720 (Revised) is a substitute for a separate assurance engagement.
- Remain flexible with respect to the options for the scope and nature of assurance engagements in this area as it is difficult to be certain, at this time, about what the current needs are for assurance on integrated reporting. It was recommended that the IRWG discuss the values and limitations of each of the options being considered. In addition to the IRWG considering the role that direct engagements may play, the IRWG was asked to consider whether the inclusion of examples in the DP of limited assurance engagements for each option would facilitate user understanding. At the same time, the IRWG was cautioned to keep as narrow a focus as possible on assurance engagements on integrated reporting and other emerging developments in external reporting.
- Further emphasize the preconditions for an assurance engagement, for example the availability of suitable criteria. It was noted that, for reporting in relation to some reporting frameworks, further guidance may be needed under those frameworks in relation to the application of their principles, such as those relating to materiality or completeness.
- Consider the particular incremental competence required by engagement teams executing such engagements.
- Monitor the activities of other standard setters in this area and to take into account the perspective of small- and medium-sized practices (SMPs) and firms' professional practice departments.
- Consider whether the IRWG should first develop a gap analysis to inform the development of the DP.
- Consider whether some other form of non-authoritative guidance should be developed before any potential work on an International Practice Note (IPN) or international standard is commenced. It was also noted that the IRWG should consider whether ISAE 3000 (Revised)¹⁰ can be used as a basis for assurance on integrated reporting, supported by an IPN, or whether a separate standard expanding on the principles in ISAE 3000 (Revised) would be needed.

⁹ ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

¹⁰ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

Prof. Schilder noted the importance of the IRWG monitoring ongoing developments, including the increased relevance of assurance engagements (such as in South Africa under the leadership of the former IAASB CAG chair, Ms. Linda de Beer), and continued interest in the IAASB's deliberations.

Ms. Kelsall confirmed that the IRWG is focusing on developing an approach that explores assurance engagement options that is framework and jurisdictional neutral. She also noted that the intention of the DP is to gather input from stakeholders on integrated reporting and other emerging developments in external reporting more broadly before committing the IAASB to any standard-setting activity.

IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron noted that CAG Representatives and Observers were supportive of the suggested way forward, although they cautioned that the IRWG should not to go too far ahead of reporting developments. Mr. Waldron referred to the discussion on whether professional accountants have the necessary competencies to do these types of assurance engagements and cited a recent survey performed by the CFA Institute addressing explicit questions on assurance engagements.

PIOB OBSERVER REMARKS

Prof. Van Hulle noted the risk of making the focus of the IRWG to external reporting too broad and, as such, losing the particular characteristics of integrated reporting. He also asked the IRWG to take into account stakeholders outside the traditional user groups of reporting, such as employees and consumer organizations.

WAY FORWARD

The IRWG will continue with its proposed activities as outlined in Agenda Item 3-A, taking into account the input provided by the Board.

4. Enhancing Audit Quality

Ms. Zietsman noted that the development of the draft Invitation to Comment (ITC) had been coordinated by the Audit Quality Enhancements Coordination Group (AQECG), comprising the chairs of the relevant working groups (i.e., the Quality Control Working Group (QCWG), Group Audits Working Group (GAWG), Professional Skepticism Working Group (PSWG) and the Financial Institutions Working Group (FIWG)), and the IAASB member serving as the liaison to the International Ethics Standards Board for Accountants (IESBA) and the International Federation of Accountants (IFAC) SMP Committee, as well as Ms. Kelsall as correspondent member. She noted that this group had been charged with coordinating the development of the ITC, including the forepart, and that the project-specific working groups had worked on the detailed sections of the ITC.

Ms. Zietsman explained the intent to publish the ITC in December 2015 for public consultation, with a 150-day comment period. During the comment period, extensive related outreach will be performed, which is currently in the process of being planned. She noted that in outreach performed to date, support had been received from a wide range of stakeholders for a combined document to consult on the various topics included in the ITC, and added that the PIOB had supported the idea of a single document for the relevant consultations.

WHY CHANGES TO THE ISAS MAY BE NEEDED

Prof. Schilder explained that various influences had necessitated the IAASB considering what could be done to enhance and strengthen the ISAs relating to the topics included in the ITC, including:

- Changes in the business environment.
- The changing business models of firms, including their structures, which have impacted the manner in which audits are carried out.
- The findings from the IAASB's ISA Implementation Monitoring project and other feedback from practice.
- Audit inspection findings.
- Input from other outreach and interactions with regulators and audit oversight bodies, national auditing standard setters (NSS), the Global Public Practice Committee (GPPC), the SMP Committee, users, investors and those charged with governance (TCWG).

Prof. Schilder added that various other factors are also influencing the need to further explore what the audit is and what the audit can do. These changes include the [new and revised auditor reporting standards](#), the work being done on Audit Quality, including the IAASB's [Framework for Audit Quality](#) (Audit Quality Framework) and the US Public Company Accounting Oversight Board's (PCAOB) recent [concept release](#) on audit quality indicators, and changes relating to audits in the European Union.

KEY PUBLIC INTEREST AREAS FOR THE IAASB TO ADDRESS

As a result of the influencing factors, Prof. Schilder noted that key public interest issues to address in the context of the board's priority projects include:

- Audit leadership in the public interest.
- Facilitating a proactive management approach to quality by firms (possibly resulting in new ISQC 1¹¹ and revisions to ISA 220).¹²
- Transparency and therefore observability of the audit.
- Fostering an independent, challenging, and skeptical mindset of the auditor.
- Ensuring the ISAs are fit-for-purpose in the evolving and increasingly complex business environment, and taking into account the evolution in the way audits are being conducted.
- Enhancing communication and interactions between those involved in the audit, for example between the group engagement team and the component auditors, with appropriate documentation of the communications and interactions.
- Addressing issues relating to the way that firms are using the quality control policies and procedures of networks, including the potential reliance placed thereon.
- Understanding how firms are addressing issues identified in their policies and procedures by internal and external monitoring activities.

¹¹ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Service Engagements*

¹² ISA 220, *Quality Control for an Audit of Financial Statements*

FOREPART OF THE ITC

Ms. Zietsman explained that the forepart of the ITC is intended to appeal to a wider audience that may not be familiar with the technical aspects of the ISAs. She noted that the forepart is intended to provide a broad view of the issues explored in more detail in the ITC, including crossover issues between projects and matters of significance for each project that are relevant to the intended audience. She added that the questions were developed at a high-level and were intended to encourage responses from those for whom the forepart was intended. Ms. Zietsman explained that the CAG Representatives and Observers, while supporting the AQEWG's intention of creating the forepart in a manner that would solicit feedback from investors, TCWG, and preparers, raised a number of suggestions as to how the forepart could be improved to be more effective in achieving this intention. CAG Representatives and Observers expressed their preference for the forepart to be an entirely separate publication that would summarize the key issues and questions in a brief, yet understandable manner, and without too much technical detail.

Ms. Zietsman noted that the working groups would continue to obtain input from the SMP Committee to ensure that SMP issues are appropriately highlighted, and that plans were being made to obtain input for public sector perspectives to include in the ITC. Ms. Zietsman noted that the topics of professional skepticism and audits of financial institutions would be discussed separately (see sections 5 and 7 of these minutes, respectively).

Board members continued to support the approach to the combined consultation, agreeing that the "forepart" should be designed for use by an audience that can be expected to be interested in the topics but who might not have detailed technical knowledge of the ISAs and ISQC 1. The IAASB also agreed with the CAG Representatives and Observers' view that the AQECG should reconsider the manner in which issues were presented in the forepart, as the matters were still, in their view, described in a very technical manner and therefore the Overview might not be effective in appealing to the intended audience. Ms. Zietsman also noted that in light of feedback from SMPs and small- and medium-sized entities (SMEs), the SMP Committee had also expressed concern about the length and technical nature of the document.

Board members also provided specific comments on the forepart and part II of the draft ITC, including noting that:

- The crossover issues were not clearly identified and described and that more clarity was therefore needed in order for respondents to better understand the issues and also why the ITC was combining issues for the various projects.
- There was duplication in some areas between the forepart and the detailed descriptions of the topics in Part II of the document.
- The ITC should be very clear that it is focused on seeking input on the priority projects included in the ITC and should not imply that it is a broader consultation on the IAASB's work plan.
- There should be fewer questions in the forepart, but those questions should be worded in an open-ended manner to invite broad responses from respondents, who would be likely to have different perspectives.
- The draft ITC should be easy to navigate, and should therefore have a table of contents and incorporate other "signposting" to facilitate easy navigation between the forepart and the rest of the ITC where further detail can be found.
- Further consideration should be given as to how the Audit Quality Framework impacts the different aspects that are included in the forepart. Mixed views were expressed as to the usefulness of the

relevant quotes from the Audit Quality Framework. Board members generally noted the usefulness of linking the discussion to the Audit Quality Framework, in particular because of the forepart's intended audience, but a few Board members found the references distracting. One board member noted that given the ITC is drawing comment on 'Enhancing Audit Quality', it is important to describe what the IAASB believes audit quality looks like.

- While acknowledging the need to challenge the description of the issues in the forepart and present them succinctly with less focus on all the technical details, but given their complexity, the description of the issues in Part II should not be overly truncated and the document should be "as long as it needs to be" to provide the necessary context for those responding at a more detailed level.
- The ITC should where possible, highlight relevant activities of others that relate to the various topics included in the ITC.
- Consideration should be given to making the forepart a separate document, in light of its intended audience and purpose and in view of the CAG's preference for it to be a separate and more targeted document.

The Board also recognized that the content included in the ITC relating to professional skepticism and financial institutions was subject to change based on the planned direction of those projects.

IAASB CAG Chairman's Remarks

Mr. Waldron agreed with Ms. Zietsman's summary of the comments received from CAG Representatives and Observers, and noted in particular that some expressed uncertainty that the forepart would achieve the objective for which it was intended, as it was too long, too technical and the articulation of certain matters was not sufficiently clear, in particular the crossover issues. The IAASB was encouraged to make the forepart more succinct and high-level so that the intended audience would be encouraged to engage (e.g., investors who would not need extensive technical details in order to formulate responses).

Ms. Zietsman also noted that there were a few CAG Representatives and Observers that questioned whether the combined approach was appropriate, as, in their view, the topics were different in nature. However, she noted that they understood why the IAASB was developing the combined ITC.

PIOB Observer Remarks

Prof. Van Hulle acknowledged the challenging nature of the forepart of the ITC, and encouraged the IAASB to reconsider the technical nature of the document and to make it as simple as possible such that it would be more likely to be appealing to the broadest possible range of stakeholders, including those who would not ordinarily respond to IAASB consultations.

GENERAL COMMENTS ON PART II OF THE ITC

The AQECG was encouraged to consider how the "possible actions" in relation to issues that had been identified for quality control and group audits were articulated, in particular whether it was appropriate in all cases to present "IAASB views." Some IAASB members were concerned that the ITC should not give the impression that the IAASB has already decided on a course of action nor prejudice the outcome of the consultation. While acknowledging the need to provide the IAASB's perspectives on possible actions to address the issues identified, these members were of the view that the ITC needs to strike the appropriate balance in providing the Board's perspective based on its detailed discussions to date while not suggesting that further or alternative views will not be considered. All working groups were also encouraged to eliminate unnecessary repetition, and also consider whether the possible actions outlined in the ITC would likely be

effective in addressing the issues identified. In addition, the IAASB asked that further consideration be given to whether the questions relating to quality control and group audits were appropriately drafted to solicit the necessary input in a broad-based manner.

IAASB CAG Chairman's Remarks

Mr. Waldron noted that some CAG Representatives and Observers had encouraged the IAASB to make sure that the issues and possible actions are described in sufficient detail so that stakeholders could consider the adequacy and appropriateness of the possible actions and develop an effective response.

QUALITY CONTROL

Ms. French introduced the topic, noting that both specific aspects relating to Quality Control, as well as the Quality Control section of the draft ITC, would be discussed. In respect of the specific matters noted below, the Board noted that it would be important for the ITC to sufficiently address these matters and seek stakeholder input in order to have sufficient information to proceed in its standard setting activities.

Quality Control Policies and Procedures at the Firm Level when Operating as Part of a Network of Firms

The Board generally agreed with the QCWG's view that the quality control requirements in ISQC 1 should remain the responsibility of the audit firm. However, a few Board members questioned why a network would not have an interest in maintaining consistency in the application of policies and procedures by firms within the network, particularly in the area of common quality control policies and procedures. In addition, Board members variously:

- Noted that if an audit firm chooses to rely on network-level quality control policies and procedures, or any other third party other than itself, in order to meet its responsibilities under ISQC 1, that the audit firm should have an appropriate basis for doing so, and agreed that including specific requirements in ISQC 1 would help clarify what that basis should be.
- Expressed concern that developing new requirements in this area may have unintended consequences on the extent of effort that would be required by the audit firm to be able to demonstrate the basis for such reliance. It was suggested that one approach might be to consider the "service organization" concept followed by corporate entities that choose to rely on others for certain aspects of their financial reporting obligations (including the related reporting by service auditors).

Ms. French noted these comments were consistent with the feedback from the CAG Representatives and Observers, who acknowledged the challenges likely to be faced by the IAASB in attempting to mandate policies and procedures at the network level and suggested that it would be more appropriate to focus rather on what is needed at the firm level as a basis for this reliance.

Transparency Reporting

The Board acknowledged the challenges raised in relation to transparency reports, but generally had the view that it was important to understand views of its stakeholders in relation to requirements and guidance for transparency reports. The Board therefore recommended that the ITC include a question regarding the use of transparency reports to solicit views on what actions on the topic by the IAASB may be appropriate or necessary. The Board also emphasized the importance of clarifying what is meant by the term "transparency reporting," by explaining in the ITC what transparency reporting is, and noting that any efforts by the Board would be in the context of reporting by a firm on the effectiveness of its system of quality

control. Ms. French noted that some CAG Representatives had also suggested focusing the discussion in this manner, and also highlighted that the International Organization of Securities Commissions (IOSCO) would soon issue a publication on transparency reporting. She added that the SMP Committee had also expressed concerns about the IAASB moving towards requiring transparency reporting, and encouraged the IAASB to highlight in the ITC that requiring transparency reporting would impose burdens on SMPs that would be disproportionate to the public benefit. The SMP Committee also noted that the public perception of differences between larger and smaller firms could be widened if the IAASB standards were to require some firms to publish transparency reports and others not.

IAASB CAG Chairman's Remarks

Mr. Waldron noted his personal view that transparency reporting is a topic that the IAASB should continue to pursue and highlighted the CAG Representatives and Observer's support for the inclusion of the topic and related questions in the ITC.

Engagement Quality Control Review

The IAASB acknowledged the need to consider how to give further prominence to, and emphasize the importance of engagement quality control reviews (EQCRs), including considering whether to strengthen requirements for engagement quality control reviewers and for the selection of those reviewers. The IAASB also supported considering whether to expand the scope of engagements subject to an EQCR beyond audits of financial statements of listed entities; and whether to develop a separate EQCR standard. Ms. French noted that the QCWG's suggestion was that a question about a separate standard should not be included in the ITC and the SMP Committee had supported that view. However, the IAASB was not supportive of that view and suggested that a question about a separate EQCR standard should be included in the ITC.

IAASB CAG Chairman's Remarks

Mr. Waldron noted that a number of CAG Representatives and Observers strongly supported including the possibility of developing a separate EQCR standard in the ITC, highlighting that this would heighten the relevance and the role of the EQCR.

Part II of the Draft ITC

In considering the quality control sections of the draft ITC, Ms. French noted specific comments received at the September 2015 CAG meeting as well as a letter received from the SMP Committee. Board members provided input on matters to be further considered by the QCWG for inclusion in the ITC, including:

- Strong support for further exploring changing the approach to quality control for firms to a quality management approach (QMA). However, the QCWG was also encouraged to make this proposed action more prominent, and provide more detail about what it could entail, so that stakeholders could understand the change.
- It was suggested that the ITC should also explore a more proactive approach to audit quality at the engagement level. In particular, it was suggested that the engagement partner should consider risks to engagement quality and ensure that appropriate mitigations are put in place to enable delivery of a quality audit.
- In relation to the definition and responsibilities of the engagement partner, as the person responsible for audit quality, one approach could be for the focus on the ISAs to be on determining whom is best

placed to serve in the role as engagement partner. One member suggesting it may be helpful to ask an explicit question in the ITC about whether the definition needed to be revisited in light of this view.

IAASB CAG Chairman's Remarks

Mr. Waldron added that CAG Representatives and Observers were supportive of exploring a QMA to a firm's quality control.

PIOB Observer Remarks

Prof. Van Hulle expressed his strong support for establishing requirements at the audit firm level when relying on others, such as a network entity, to meet its obligations under ISQC 1. He emphasized the importance of this in the public interest, as particularly in the case of networks, where public perception is that the system of quality control through the network is consistent, when in reality this is not always the case. On the topic of transparency reporting, Prof. Van Hulle commented that, while an evolving area, it was important for the IAASB to continue to consider where it can make positive contributions and therefore supported the inclusion of the topic and related questions in the ITC.

GROUP AUDITS

Ms. Zietsman provided an overview of the specific comments received from CAG Representatives and Observers, as well as the SMP Committee, relating to the detailed group audits section in part II of the draft ITC.

Board members provided input on matters to be further considered by the GAWG for inclusion in the ITC, including:

- Highlighting that all of the relevant ISAs apply in a group audit situation, and noting that ISA 600¹³ provides further guidance about how to apply the other ISAs in the circumstances of a group audit.
- Emphasizing, where relevant, the practical challenges that arise in applying the ISAs (including (ISA 600) to group audit situations.
- Highlighting those issues that have been identified relating to non-controlled investments (including those investments that are accounted for using the equity method), given the challenges in practice in this area.
- Exploring whether the current approach described in ISA 600 for auditing a group and which is suitable for "traditional" group structures is still appropriate, or whether requiring a more "top-down" approach to the planning and performance of a group audit would be more effective in addressing some of the more complex group structures encountered today, and which are not explicitly addressed in the current standard.
- Further clarifying what it might mean to "refer to the report of another auditor in the auditor's report" and the related implications.
- Better explaining the limits of what may be done in relation to materiality within a project focused on group audits, making it clear that many of the issues relating to materiality would likely need to be dealt with first in project focused on materiality more broadly and which would likely involve a more overall review of ISA 320.¹⁴

¹³ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

¹⁴ ISA 320, *Materiality in Planning and Performing an Audit*

- Further exploring the need for requirements and guidance for component auditors and providing more details about what this may entail.
- Further considering the implications of disclosures in a group audit, including the involvement of component auditors in auditing disclosures, and integrating the auditing of the disclosures into the audit of the relevant sections, and not as an isolated section at the end.

IAASB CAG Chairman's Remarks

Mr. Waldron agreed with Ms. Zietsman's summary of the matters highlighted by CAG Representatives and Observers relating to group audits, including that CAG Representatives and Observers were supportive of exploring guidance for component auditors and encouraged the IAASB to give additional consideration to law and regulation impacting the information needed in order to accept a new audit engagement. It was noted that CAG Representatives and Observers also supported a question in the ITC to explore the group engagement team's ability to use and make reference in the auditor's report to the report of another auditor, recognizing there may be concerns about whether this would ever be appropriate. In this regard, CAG Representatives and Observers encouraged the IAASB to provide appropriate background about in the ITC to allow respondents to submit informed responses.

PIOB Observer Remarks

Prof. Van Hulle questioned whether the working group had considered the impact of mandatory rotation in a group audit situation, suggesting that further guidance may be needed in that area.

WAY FORWARD

The AQECG, QCWG, GAWG and PSWG¹⁵ will continue to develop the ITC for the IAASB's consideration and finalization at the December 2015 meeting.

5. Professional Skepticism

Prof. Köhler presented conceptual issues relating to professional skepticism, drawing the IAASB's attention to a slide presentation, Agenda Item 5 and the relevant sections of the ITC. She reminded the Board that the PSWG comprises of representatives from the IAASB, the IESBA, and the International Accounting Education Standards Board (IAESB).

She also noted that the CAG received a presentation on the topic from Prof. Doug Prawitt, highlighting the following key points raised by the Representatives and Observers:

- Academic research indicate that auditor biases and heuristics¹⁶ impact how auditors exercise professional skepticism. Therefore, auditor awareness of those biases and heuristics can assist auditors better mitigate their effects.
- An accounting firm's incentive systems and reward mechanisms influences skeptical behavior among auditors. Accordingly, accounting firms should create a culture that rewards auditors who exercise skeptical behavior, or follow up on matters, even those matters that do not eventually result in an audit issue or finding.

¹⁵ Refer to the Financial Institutions discussion below where it was concluded that the FIWG would proceed with its work separately from the ITC.

¹⁶ A heuristic is a mental shortcut that allows people to solve problems and make judgments quickly and efficiently.

- A change in the tone at the top, including among TCWG, towards serving investors and users of the entity's financial statements, rather than management and the entity's customers, is necessary.
- There is an increased role for others (e.g., GPPC, IFAC member bodies, regulators, including prudential and securities regulators, and TCWG) to do more to encourage auditors to apply professional skepticism.

ACTIVITIES OF THE PSWG

Prof. Köhler explained that PSWG members agreed to function as ambassadors, on behalf of their respective boards, with the Chair of the PSWG serving as a facilitator for the group to discuss the topic of professional skepticism. She also noted the objective of the PSWG is to identify the conceptual issues related to professional skepticism across the suite of international standards, including where further alignment or gaps may exist, and make observations or recommendations for further action to be considered. In particular, she noted the PSWG's initial view that standard-setting activities alone would not be sufficient to address issues relating to professional skepticism, suggesting that a focus on how the concept of professional skepticism can be better applied and actions by others in the financial reporting supply chain are likely needed to encourage change in auditor behavior. She highlighted that the PSWG will explore a number of key questions related to the expectations about what it means to apply professional skepticism and the linkages to other fundamental concepts, such as professional judgment, objectivity and due care.

IAASB DISCUSSION

Prof. Schilder complimented the PSWG for its work to date, noting that targeted outreach may be needed to obtain meaningful feedback that is relevant to the application of professional skepticism.

Board members variously suggested the PSWG to further consider the following:

- Focus on driving change in auditor behavior (rather than the impact of heuristics and biases), keeping in mind the reason why auditors are required to exercise professional skepticism – i.e., to address the principal-agent relationship issues that exist in financial reporting; and to encourage auditors to appropriately challenge management.
- The relationship between “presumptive doubt” and a neutral stance, and whether the ISAs could do more to encourage auditors to consider “contradictory audit evidence,” as some view auditors as being biased towards obtaining “confirming” evidence.
- Whether it is necessary to revisit the PSWG's preliminary views with respect to appropriateness of the ISA definition of professional skepticism, as the ISAs do not define professional skepticism, but rather describes matters that are relevant to the attitude needed to exercise professional skepticism.
- Whether a variant or invariant concept of professional skepticism is appropriate, noting the ISAs take an invariant approach to the concept, although a variant concept is prevalent in academic research. Of those Board members that addressed the issue at the meeting, most supported an invariant concept.
- How familiarity threats,¹⁷ a concept that is addressed in the IESBA *Code of Ethics for Professional Accountants*, may impact the auditor's application of professional skepticism, as well as how those

¹⁷ The IESBA Code defines a “familiarity threat” as a threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work.

threats may be eliminated or reduced to an acceptable level (e.g., engagement team member rotation). It was also noted that the concept of a “reasonable and informed third party” test in the IESBA Code might be useful should the IAASB decide to establish a professional judgment framework (e.g., as criteria that could be used to determine the quality and effectiveness of the application of professional skepticism). Such an approach would require auditors to consider the perspective of users, including investors in deciding whether they have appropriately applied professional skepticism.

- Specifically within the ITC, more context could be provided to prominently highlight the crossover issues that exist between the topic of professional skepticism and the topics being addressed in the IAASB’s other priority projects, in particular the planned work on ISA 540.¹⁸ It was also suggested that the questions in the ITC in the professional skepticism section could be more “provocative”, so as to generate more specific input that is also relevant to the IAASB’s projects on group audits, quality control and financial institutions.

IAASB CAG CHAIRMAN’S REMARKS

Mr. Waldron agreed with Prof. Köhler’s summary of the CAG meeting discussion. He also suggested that consideration be given to value of an audit from the perspective of investors.

PIOB OBSERVER REMARKS

Prof. Van Hulle expressed support for the collaborative efforts of the IAASB, IESBA and IAESB in establishing the PSWG. He noted that the topic of professional skepticism is very important, in particular because auditors are often criticized for not being sufficiently skeptical. He complimented the progress made to date, but encouraged the PSWG to commence thinking about practical outcomes as soon as possible.

Prof. Van Hulle pointed out that there are similarities between the professional skepticism discussions and past discussions about independence. He agreed with the suggestions made to consider the impact of familiarity threats, and expressed support for the PSWG’s planned outreach activities. With respect to outreach activities, he suggested that the PSWG seek to further understand investors’ perspectives about auditors’ application of professional skepticism.

WAY FORWARD

As a next step, the PSWG will table an academic research synthesis for the IAASB’s consideration at its December 2015 meeting. Prof. Köhler also noted that the IESBA and IAESB plan to discuss issues relating to professional skepticism at their future board meetings, and that the respective Board discussions, as well as the input from the ITC, will be useful as the PSWG considers what actions may be appropriate.

6. Data Analytics

Mr. Dohrer gave an update on the Data Analytics Working Group’s (DAWG’s) activities since the June 2015 IAASB meeting as well as further insight into the topic of audit data analytics (ADA).

Along with two individuals representing the Rutgers University Continuous Auditing and Reporting (CAR) laboratory, Mr. Dohrer discussed a series of illustrations to demonstrate techniques that may be used in the future to benefit the effectiveness of audits of historical financial statements. The Board was also asked

¹⁸ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

to consider and provide further input into a number of challenges and questions that arise in considering the use of these techniques.

The Board confirmed that the DAWG had identified the right questions that need to be addressed. The Board also noted that, while technology is an enabler in an increasingly high volume electronic data driven environment, the ability to analyze the data, validate the integrity of the data being used in the analysis, and exercise professional judgement (including the extent of corroboration) remains key to the execution of a quality audit, as the engagement partner is required to be satisfied that sufficient appropriate audit evidence has been obtained. In addition, the Board:

- Suggested that it would be important to understand how ADA techniques are different from the audit evidence gathering techniques that exist today in order to understand the potential impact of ADAs on the ISAs. In addition, the Board noted the risk of over confidence in the technology utilized without an appropriate understanding of the auditing methodology and science behind it.
- Suggested the DAWG consider the implications for auditor skills and education to effectively execute these techniques and what should be included in the core competencies of auditors to sustain the confidence in the audit opinion when ADAs are used on audits.
- Highlighted that the DAWG will need to consider where the boundaries are in relation to what is capable of being addressed with these techniques in an audit and what is not. The Board suggested taking a holistic view of ADA in the context of obtaining sufficient appropriate evidence, as not all evidence is represented electronically, or captured in an easily accessible form. The Board also noted the relevance of professional judgments that are made on information that is not captured in data sets discussed in the illustrations provided, such as assumptions contained within complex calculations in spreadsheets.
- Noted in the area of risk assessment, while such techniques can be powerful to identify risks within the data set being analyzed, assessment of risks that may exist outside of the data set as well as an appropriate understanding of the flow of transactions will continue to be important elements of the risk assessment process. In addition, if the structure of the analytic is not sound and if the expectations of the anomalies in the data set that are being looked for are not identified correctly, there could be errors in the data analyzed that might not be captured.
- Noted it will be necessary to consider the implications of the ability to obtain audit evidence over a larger portion of the population by using ADAs, both with regard to judgments on further procedures to be performed as well as the confidence in the quality of evidence obtained.

IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron noted that CAG Representatives and Observers found the presentation on ADA informative and were supportive of the project, providing the DAWG with valuable input to progress its information gathering. In particular, the need to consider the implications of completeness and accuracy of the data being tested and potential misconceptions about the level of assurance that could be obtained using ADAs was stressed.

PIOB OBSERVER REMARKS

Prof. Van Hulle commented that auditors may need to consider the implications on auditor liability. In his view, if these techniques are available and can be effectively executed, there may be an expectation that auditors should be using these techniques if they would benefit audit quality.

WAY FORWARD

The DAWG will continue with its planned outreach activities, with a focus on understanding the use of ADAs in practice through outreach activities and whether there might be implications to the ISAs resulting from the increased use of ADAs.

7. Financial Institutions

Mr. Sharko and Mr. Pickeur introduced the topic and explained the outreach conducted with regulators, practitioners, and investors since the June 2015 IAASB meeting. They also explained the FIWG's proposed actions as outlined in the agenda material, as well as an alternative approach that was raised by CAG Representatives and Observers at their recent meeting. The alternative approach involved issuing a "project update" in the fourth quarter of 2015 or first quarter of 2016 to explain the IAASB's activities in the area as well as commencing a holistic revision of ISA 540 immediately, rather than pursuing targeted changes to ISA 540 in the short term to address the implications of IFRS 9.¹⁹

The IAASB agreed that it would be preferable to commence a more holistic revision of ISA 540 as a matter of priority and progress towards an exposure draft in 2016, rather than undertake a two-step approach or develop an International Auditing Practice Note (IAPN) specific to IFRS 9 for financial institutions now. In this regard, the IAASB noted that most, if not all, of the issues raised by the FIWG would be equally relevant to audits of accounting estimates more generally and for all entities to which IFRS 9 applies. The IAASB noted that concerns expressed about the IAASB's ability to issue, on a timely basis, targeted amendments of ISA 540 specific to the audit of loan loss provisions were valid.

The IAASB also noted that it will be necessary for the Board to raise awareness of the challenges that both preparers and auditors may face with respect to the implementation of IFRS 9 for financial institutions and explain how ISA 540 and other ISAs apply. Accordingly, the IAASB agreed to consider publication of a "project update" in the near term, which would enable the IAASB to alert auditors and other interest parties to the IAASB's work in this area and its consideration of the public interest issues, highlight how the extant ISAs and IAPNs address the audit issues in relation to an expected credit loss model for financial institutions, and signal the IAASB's plans with respect to the issues that are likely to be addressed in the revision of ISA 540.

The IAASB further noted that supplemental activities may be necessary to address specific considerations in the audit of financial institutions, beyond those that will be addressed in the revision of ISA 540. It was noted that this would be considered at a later date, after the revision of ISA 540 has progressed. Such activities may include an IAPN addressing the relationship between auditors and banking supervisors, or other specific guidance in relation to financial institutions or expected credit loss models.

IMPLICATIONS FOR THE ITC

The Board also discussed the implications of this changed approach to the ITC and agreed:

- To consider including the issues identified by the FIWG related to the use of experts in the ITC, as some of the issues are broader than accounting estimates only. For example, the level of understanding needed by the engagement partner to evaluate the adequacy of the work of an auditor's experts affects other active IAASB projects, with similar issues as to how component auditors or other auditors may be used on an engagement.

¹⁹ International Financial Reporting Standard (IFRS) 9, *Financial Instruments*

- To highlight the linkage to the topic of professional skepticism, including the possibility of revisiting the use of language that reinforces a “corroboration” mentality in ISA 540.
- That other issues identified in Agenda Item 7-C for possible inclusion in the ITC should not be in the ITC to avoid delaying the holistic revision of ISA 540.

GAP ANALYSIS

The IAASB discussed the FIWG’s gap analysis included as Agenda Item 7-B, the purpose of which was to identify which issues related to IFRS 9 are already addressed in the extant ISAs and identify where further attention may be needed.

Aside from the view that the issues raised would be equally relevant to audits of accounting estimates more generally and for all entities to which IFRS 9 applies, the IAASB, in general, agreed with the issues identified and the possible way forward. However, the Board asked the FIWG to:

- Consider whether the link between the degree of estimation uncertainty and whether an accounting estimate is a significant risk should be considered through the ISA 315 (Revised)²⁰ project, as that project will take a broader look at the concept of significant risk and how such risks are identified. It was also noted that assisting auditors in developing an appropriate response to a significant risk is likely more important than making every accounting estimate with a high estimation uncertainty a significant risk via a rebuttable presumption.
- Consider how ISA 540 could further encourage auditors to be skeptical and challenge management’s assumptions when assessing management’s models. The FIWG was encouraged to identify different procedures beyond those described in requirement 13 of ISA 540 to test management’s accounting estimate, including, for example, the auditor putting different assumptions through management’s model.
- Highlight the importance of an effective dialogue between the auditor and the banking supervisor, both in the project update, as well as potential revisions to ISA 540 or a separate IAPN on the topic.
- Focus on unintentional and intentional management bias when evaluating the reasonableness of management’s accounting estimate.
- Consider linkages with the changes to the ISAs made as part of the IAASB’s Disclosure project, as issues relating to data from information systems that have traditionally not been part of financial reporting process were addressed in this project.
- Highlight the role that ADAs can play in testing the integrity of data. For example, ADAs may be used to assess outliers in large populations, such as loan portfolios. The IAASB encouraged the FIWG and the DAWG to work together on this matter.
- Explain the importance of disclosures when acceptable ranges are multiple times materiality, even though the accounting estimate might be in the middle of the range.

EDUCATIONAL SESSION

As part of its efforts to increase its awareness about issues relevant to financial institutions, the IAASB received a presentation from an outside presenter on IFRS 9. The presentation focused on the expected

²⁰ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

credit loss model, including the measurement criteria for the loan loss provision, and its implications for financial institutions and other entities.

WAY FORWARD

The IAASB will consider a standard-setting project proposal to revise ISA 540 and the project update at its December 2015 meeting. The FIWG will continue to liaise with key stakeholders including banking and insurance supervisors and regulators, auditors, and accounting standard-setters.

8. Innovation Working Group

Mr. Landes introduced the topic and provided an update on the activities of the Innovation Working Group (IWG). He introduced the two key topics identified by the IWG as warranting further monitoring: (1) governance, risk management, internal control, internal audit and compliance, and (2) cybersecurity.

Mr. Böhm explained the Institut der Wirtschaftsprüfer's (IDW) project covering assurance over the effectiveness of an entity's systems and processes that address governance, risk, internal control, internal audit and compliance (GRC). He highlighted that the IDW is exploring the Committee of Sponsoring Organizations of the Treadway Commission's (COSO's) Enterprise Risk Management (ERM) Framework as a basis for its project to develop assurance standards, but drawing on other frameworks as well. He also explained why and how in Germany demand for assurance engagements on areas addressed in the IDW's GRC Project has evolved, and emphasized the importance of clear communication with relevant stakeholders on the scope of the such assurance engagements to prevent any expectation gap developing.

A representative of the American Institute of Certified Public Accountants (AICPA) explained the need for cybersecurity in a fast changing technology environment. Since cyber risks have a potential impact of huge magnitude and are becoming more visible, he noted the increased demand for information on how cybersecurity is organized and its effectiveness. He explained that cybersecurity is about designing programs to prevent a cyberattack, but also about how an entity responds once a cyberattack has occurred. He provided background on the AICPA project and cited other organizations doing work in this area.

Board members supported the IWG continuing to monitor these topics. With respect to GRC, the Board asked the IWG to give further consideration to:

- The nature and scope of assurance engagements on GRC, given its complexity due to issues such as forward-looking evaluations and the spectrum of different types of risks. It was also suggested that the IWG should consider the competence of professional accountants and where any restrictions in the scope of the engagement may occur.
- Monitoring the assurance implications of variations to the design of governance structures, which are dependent on the nature of the entity's circumstances and therefore difficult to capture in detailed criteria.
- Obtaining further insights of the needs of investors and audit committees in relation to assurance or other services on GRC.
- The implication of fraud risk in assurance engagements over GRC, in particular regarding the procedures responsive to risks of collaboration intended to circumvent controls.
- Monitoring other developments such as the current revision of COSO's ERM Framework and the UK Financial Reporting Council's Exposure Draft, *Providing Assurance over Client Assets to the Financial Conduct Authority*.

With regard to cybersecurity, the Board confirmed the increasing relevance of cybersecurity and the need for the IWG to continue to monitor developments in this area. The Board asked the IWG to give further consideration to:

- Determining the information that is needed on cyber risks and security and how this fits into the demand for a wider range of business information, for example via integrated reporting.
- The potential need to identify further aspects of possible assurance engagements, including what management assertions can be articulated that can also be subjected to assurance procedures, the use of direct engagements, how more information can be provided in the assurance report on findings from the assurance engagement, the criteria that would be relevant to such assurance engagements, and the skills and competencies that would be needed for performing these types of assurance engagements.
- Exploring ways to manage the expectation gap that may arise that assurance over an entity's cybersecurity process is a certification that the entity is immune from a cyberattack.

IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron added that CAG Representatives and Observers were supportive of the monitoring activities of the IWG and the overview of topics identified. He noted the CAG Representatives and Observers informed the IAASB on different developments relevant to these topics at their recent meeting. With regard to the presentation on GRC he noted that investors prefer information on risk mitigation in this area, but that the information provided in annual reports is still very generic.

PIOB OBSERVER REMARKS

Prof. Van Hulle noted that the IDW's GRC project is not only relevant to listed entities, but also to financial institutions. The European Union's Solvency II Directive, in place from January 1, 2016, requires insurers and reinsurers to perform Risk and Solvency Assessments to reduce the risk of insolvency. As a result of Basel II Pillar 2, banks are already required to perform an Internal Capital Adequacy Assessment Process. These are 'forward looking' assessments of risks which the business might be confronted with in the future to identify whether their risk profile matches with the capital requirements required by laws and regulations. In his view, this practice has proved to be quite useful and Prof. Van Hulle noted that it engages all stakeholders in the governance structure.

He also drew attention to the risk that executing GRC engagements may result in a 'tick the box' exercise that focuses on form over substance.

With regard to cybersecurity, he drew attention to the need for additional procedures or communications if the auditor identifies during its financial statement audit that the entity has no mechanisms to protect itself against cyberattacks.

WAY FORWARD

The IWG will continue its monitoring activities and provide its next annual update to the Board in September 2016. It will likely discuss these and potentially other topics with the NSS Liaison Group at its June 2015 meeting.

WAY FORWARD

The IWG will continue its monitoring activities and provide its next annual update to the Board in September 2016. It will likely discuss these and potentially other topics with the NSS Liaison Group at its June 2015 meeting.

9. PIOB Observer Remarks

Prof. Van Hulle congratulated the Board on the approval of ISA 800 (Revised) and ISA 805 (Revised). On the topic of the ITC, Prof. Van Hulle commented that it would be important that the forepart of the document be revised to take into account the feedback received during the meeting in order to reach the desired stakeholders. He further noted that it would be important for the ITC to ask the right questions, exploring the topics covered by the ITC to enable responses from groups that the Board does not typically hear from, as well as those groups with whom the Board is regularly engaged.

Prof. Van Hulle concluded noting that, in conjunction with the celebration of its tenth anniversary, the PIOB has issued a brochure, available on its website, which explains the governance of the standard-setting process, illustrating the robust nature of the process of developing international standards in the areas of audit and assurance, ethics and education for professional accountants.

10. Closing Remarks from IAASB CAG Chairman

Mr. Waldron thanked Prof. Schilder and the Board for the robust discussions during the week and its consideration of the matters raised by the CAG at its recent meeting. He also acknowledged the appreciation from CAG Representatives and Observers regarding the number of Board members and Technical Advisors that were able to attend the CAG's recent meeting, and also noted the attendance as observers at the IAASB meeting of certain CAG Representatives and Observers.

11. Next Meeting

The next IAASB meeting will be held in New York, United States, December 7–11, 2015.

12. Closing

Prof. Schilder acknowledged the discussions throughout the meeting had continued to highlight the interactions among the quality control, group audits, financial institutions and professional skepticism projects. Prof. Schilder provided a synopsis of the IAASB Steering Committee meeting that was held during the week, where the discussions covered the finalization of the process to developing an IPN, the way forward to respond to the Nordic Federation's Proposed Standard for Audits of Small Entities, the PCAOB's Staff Concept Release on Audit Quality Indicators and an update from the International Accounting Standards Board (IASB) Liaison Working Group and its plans to respond to the IASB's consultations on its future strategy.

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