



**Meeting:** IAASB Consultative Advisory Group  
**Meeting Location:** New York  
**Meeting Date:** September 15–16, 2015

## Agenda Item

# A

**Approved Minutes of the Public Session of the Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD  
CONSULTATIVE ADVISORY GROUP (CAG)**

**Held on March 9–10, 2015**

**New York, U.S.A.**

### PRESENT

#### Members

Linda de Beer	Chairman
Vânia Borgerth	Associação Brasileira de Instituições Financeiras de Desenvolvimento
Kristian Koktvedgaard*	BUSINESSEUROPE
Matthew Waldron	CFA Institute (CFA)
Mohini Singh	CFA
Juan-Maria Arteagotia	European Commission (EC)
Marie Lang	European Federation of Accountants and Auditors for SMEs (EFAA)
Jean-Luc Michel	European Financial Executives Institutes (EFEI)
Noémi Robert	Fédération des Experts Comptables Européens (FEE)
Myles Thompson	FEE
Patricia Miller	Institute of Internal Auditors (IIA)
Sanders Shaffer	International Association of Insurance Supervisors (IAIS)
Michael Stewart**	International Accounting Standards Board (IASB)
William Hines	International Actuarial Association (IAA)

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\* During the meeting, Mr. Koktvedgaard participated in the capacity of both an IAASB CAG member and the International Ethics Standards Board for Accountants (IESBA) CAG Chair.

\*\* Views expressed by the IASB Representatives represent his views and do not necessarily reflect the view of the IASB.

George White (March 10)	International Bar Association (IBA)
Seiya Fukushima	International Organization of Securities Commissions (IOSCO)
Nigel James	IOSCO
Jim Dalkin	International Organization of Supreme Audit Institutions (INTOSAI)
Jaseem Ahmed	Islamic Financial Services Board (IFSB)
Kazuhiro Yoshii	Japan Securities Dealers Association (JSDA)
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Lucy Elliott	Organisation for Economic Cooperation and Development (OECD)
Irina Lopez	World Bank (WB)

**Observers**

Harrison Greene	Basel Committee on Banking Supervision (Basel Committee)
Martin Baumann*** (March 9)	U.S. Public Company Accounting Oversight Board (PCAOB)
Dawn McGeachy-Colby	IFAC Small and Medium Practices (SMP) Committee
Simon Bradbury	International Monetary Fund (IMF)

**IAASB**

Prof. Arnold Schilder	IAASB Chairman
Chuck Landes	IAASB Deputy Chair
Karin French (Agenda Item C)	IAASB Working Group (WG) Chair
Megan Zietsman (Agenda Item B)	IAASB WG Chair
Marek Grabowski (Agenda Item H)	IAASB Task Force (TF) Chair
Merran Kelsall **** (Agenda Item E)	IAASB Innovation WG Member / Integrated Reporting Liaison
Kathleen Healy	IAASB Technical Director
Diane Jules	IAASB Senior Technical Manager
Nancy Kamp-Roelands (Agenda Items E and I)	IAASB Deputy Director

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\*\*\* Views expressed by PCAOB Representatives represent their views and do not necessarily reflect the view of the PCAOB Board or other Board members or staff.

\*\*\*\* Via teleconference

Beverley Bahlmann IAASB Senior Technical Manager  
(Agenda Items B, H and K.2)

Sara Ashton (Agenda Item B and C) IAASB Senior Technical Manager

**Public Interest Oversight Board** Jules Muis

## **APOLOGIES**

### **Members**

Conchita Manabat Asian Financial Executives Institutes (AFEI)

Fang Han AFEI

Dr. Obaid Saif Hamad Ali Al Zaabi Gulf States Regulatory Authorities (GSRA)

Anne Molyneux International Corporate Governance Network (ICGN)

Abdelilah Belatik IFSB

Mauro Bini International Valuation Standards Council (IVSC)

John Kuyers Information Systems Audit and Control Association (ISACA)

Marie Hollein North American Financial Executives Institutes (NAFEI)

Gamini Wijesinghe Sri Lanka Accounting and Auditing Standards Monitoring Board  
(SLAASMB)

Xiaoma Lu World Federation of Exchanges (WFE)

### **Observers**

Norio Igarashi Japanese Financial Services Agency (JFSA)

### **IAASB**

James Gunn Managing Director of Professional Standards

**March 9, 2015<sup>1</sup>**

**Welcome and Approval of Minutes of Previous Meeting (Items A and A.1)**

To *APPROVE* the minutes of the March 2014 CAG public session and the November 2014 CAG teleconference.

OPENING REMARKS

Ms. de Beer welcomed the Representatives and Observers, including new Representatives Mr. Mauro Bini (IVSC – replacing Mr. Bollmann), Ms. Dawn McGeachy-Colby (SMP Committee – replacing Mr. Bluhm), Ms. Patricia Miller (IIA – replacing Mr. Darinzo), Ms. Noémi Robert (FEE – replacing Ms. Blomme), Mr. Sanders Shaffer (IAIS – replacing Mr. Finnell), Ms. Mohini Singh (CFA – replacing Mr. Waldron) and Mr. Kazuhiro Yoshii ((JSDA – replacing Mr. Uchino). She noted that Mr. Bini's term started in March 2015, but he was unfortunately unable to attend this meeting. She also welcomed Mr. Harrison Greene, observing on behalf of the Basel Committee while they are in the process of finding a replacement for Mr. Grund.

Ms. de Beer also welcomed Mr. Jules Muis from the PIOB as well as the IAASB Chair and Deputy Chair, the IAASB TF and WG Chairs, and Staff as well as the observers.

Ms. de Beer noted that Mr. Bollmann and Ms. Hollein will rotate off as Representatives of their respective CAG Member Organizations. She acknowledged their contributions, and noted that she is working with their respective organizations in appointing suitable replacements.

MINUTES OF THE PREVIOUS MEETING

The minutes of the September 2014 meeting and the November 2014 CAG teleconference were approved as presented.

**Group Audits, Including ISA 600<sup>2</sup> (Item B)**

To *OBTAIN* Representatives' and Observers' views on the WG's issues identified.

BACKGROUND TO THE PROJECT AND PROPOSED TIMELINE

Ms. Zietsman introduced the topic, noting that the newly formed WG had the view that the initiative was more broadly relevant to the topic of group audits, rather than only ISA 600, as addressing issues pertaining to group audits may not just be limited to ISA 600. To illustrate this point, Ms. Zietsman provided the example of issues relating to shared service centers, which may be covered by other ISAs such as ISA 402.<sup>3</sup>

As this was the first time this new initiative was being discussed with the CAG, Ms. Zietsman provided a brief history of the development of extant ISA 600, noting that there had been three Exposure Drafts (EDs).

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<sup>1</sup> The minutes present the discussions in the order that they were taken. This may not be the same as that indicated on the agenda.

<sup>2</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>3</sup> ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

She explained the most significant decisions, many of them still relevant to current issues that have been identified.

Ms. Zietsman noted that information gathering from various stakeholders, including audit inspection groups and regulators, as well as representatives from the Global Public Policy Committee (GPPC) (representing the six largest accounting networks), had already been undertaken, and that continued information gathering was planned to better understand the root causes of many of the issues. This would also help the Group Audits WG to understand if the issues and concerns are as a result of problems or gaps in the ISAs, or rather issues of execution or implementation.

Ms. Zietsman explained the proposed timeline towards issuing a Discussion Paper (DP), with the purpose of further informing the Board in its scoping of a standard-setting project.

The Representatives and Observers commented as follows:

- Mr. Dalkin noted that issues are encountered in respect of governmental entities in determining a component, and that there are unique aspects with respect to consolidations in the public sector. Further, he noted that there was confusion about the extent of the required involvement of the group auditor in the work of the component auditor, in particular around the review of the component auditor's workpapers. Mr. Dalkin suggested that consideration of application guidance specific to governmental entities would be useful.
- Mr. Ahmed noted that, from the perspective of financial institutions, the group structure could often be very complex and questioned if the WG had yet received any input from the regulators of financial institutions. Mr. Ahmed added that there needed to be confidence in the information provided by the component auditor, including concluding if a component is a going concern or not. Ms. Healy highlighted the interactions between the Group Audits, Quality Control and Financial Institutions projects. Prof. Schilder noted that the first discussion of the IAASB's Financial Institutions project would take place at its 2015 March Board meeting. He further noted that a previous meeting with representatives from the Basel Committee had included discussion on the topic of going concern. Prof. Schilder noted that dialogue with the regulators is becoming more important, and is very helpful in identifying and understanding their issues. He noted that the communications were now also taking place at the WG level, in addition to senior leadership meetings. Prof. Schilder further noted the recently issued International Forum of Independent Audit Regulators (IFIAR) survey that highlighted, in particular, the issue of a lack of consistency in group audits.
- Mr. Hines noted that it would be appropriate to reach out to the insurance regulators given group audits are becoming a bigger issue in that industry. Ms. Zietsman agreed that this would be helpful.
- Mr. Stewart suggested that the WG determine whether there is relevant academic research on the topic to be considered as part of its information gathering process. Mr. Baumann identified two academic research studies by Messrs. Glover and Kinney for consideration.
- Mr. Baumann noted the agenda material provided an excellent overview of the issues related to group audits. He suggested the IAASB may need to revise the definitions or descriptions of the terms "group auditor" and "component auditor" in light of developments in business structures and audits, and the communications between them, using Chinese reverse mergers as an example. In such

circumstances, the component auditor may be involved in the decisions at the group audit level. He noted that there is a notion of independence between the group auditor and the component auditor that doesn't exist in practice and often component auditors are involved in the group audit and vice versa. Mr. Baumann also noted the issues when most of the work was performed by the component auditor with very little work being performed by the group auditor. He suggested the WG revisit the requirements around the responsibilities of the group auditor and component auditor individually and in the context of their participation in the larger group audit. Mr. Hansen agreed, noting blurred lines of communication between the group auditor and the component auditor in practice, especially in situations where the respective teams cross reporting frameworks. He further highlighted instances of the component auditor being unwilling to share their workpapers with the group auditor and his belief that there should be an auditing standard to address such responsibilities. Finally, he identified issues with communications between predecessor and successor auditors, and the respective information sharing responsibilities. Mr. Thompson expressed the view that the overarching issue is that the group auditor has ultimate responsibility for the audit and needs to determine that they have sufficient appropriate evidence to sign the group opinion. He noted that he believed that the points raised in the agenda item encompassed the key issues.

- Mr. Koktvedgaard noted a perceived inconsistency in the auditing standards that needed to be resolved. He gave the example that when a component issues standalone financial statements, an external user would rely on the auditor's report issued. However, if these financial statements also formed part of a group audit, the group engagement team was not allowed to solely rely on this auditor's report. He also raised the question of how the IAASB would envisage the audit profession in 5-10 years. Currently many companies are multi-national entities, yet auditors are usually located in a specific jurisdiction. He noted an increasing need to have specialists available for many audits and the need to factor that into the audit process. Finally, he noted the ethical issues surrounding group audits, such as tax havens, and questioned how these would be factored into the project.
- Mr. Ahmed questioned the reference to cultural and language differences. He further suggested consideration relating to the consistency of application of the ISAs in two separate and distinct ways – namely, understanding whether different users will understand the same issue in the same way and understanding the consistency of the implementation of the ISAs in a broader sense than just ISA 600. In respect of cultural issues, Ms. Zietsman noted the different way in which business is performed across jurisdictions, or the different interpretations of language, highlighting that different people will have different perspectives on matters.
- Ms. Robert noted the issue of access to work papers, highlighting the European Union Audit Directive and the resulting difficulty for component auditors to be able to share information with the group auditors, especially when the auditors are not within the same network. She also highlighted a potential unintended impact for small- and medium-sized practices that may be impacted by changes to ISA 600. Ms. Zietsman noted that the challenge with respect to access to workpapers is to understand what the laws and regulations are and if these are matters that can be addressed in an auditing standard, noting that issues with access are often risk management related.
- Mr. Baumann also suggested that research into the area of the allocation and aggregation of component materiality would be beneficial, suggesting there is a need for more guidance in ISA 600

in this regard. Mr. Uchino noted the concern of investors with respect to materiality. In this regard, he highlighted the progress in UK audit reports and noted that materiality would be a very important part of the group audits project. Mr. Koktvedgaard noted that there may be a more fundamental issue with determining materiality, however, these issues were more pronounced in a group audit situation. He questioned whether there was a consistent understanding of materiality. Mr. Baumann clarified that his comments on materiality were in the context of a group audit, and expressed the view that a focus of the project should be on the determination of group and component materiality as part of the group audit. Ms. de Beer suggested that the broader topic of materiality could be added to the list of projects for future IAASB consideration. Prof. Schilder noted work on the broader topic could be considered for inclusion in the Work Plan for 2017–2018, which was also raised in the context of the Disclosures project.

- Particularly in relation to materiality, Mr. Waldron questioned what the communication to investors would be on this project as it progresses. He noted the importance of communicating proposed changes in order to support of audit quality and investor confidence. Ms. Singh agreed, noting any work on materiality needed to include a dialogue with investors.
- Mr. Baumann noted that the timeline looked appropriate if it was ultimately achievable.

Ms. Zietsman noted the challenges in group audit situations of achieving consistency in practice, specifically that there are many and varied group structures, each of which had its own challenges and is unique in its own way. She thanked the members for their comments noting that the WG would consider the issues raised by the CAG in moving towards the DP and would work closely with the WGs for the other projects to appropriately identify and consider issues that cross projects.

#### LETTERBOX AUDITS

Ms. Zietsman introduced the topic of letterbox audits by explaining that the term was being used to describe audits where the majority of the work, if not all, was performed at a location different from that of the group engagement team. She went onto explain that there were many different structures of such audits, from the simplest structure where there is just a brass nameplate in one location and all the operations are in another location to very complex structures that involved multiple levels of intermediate holding companies. She noted that the term “letterbox” has caused some confusion and as such the WG was looking to replace that term.

Ms. Zietsman further explained that the audit evidence obtained in these situations was often nothing more than an opinion from the component auditor, noting that audit oversight bodies had noted inspection findings in relation to the a lack of sufficient appropriate audit evidence obtained in letterbox audit situations. She noted the WG and IAASB’s preliminary view that issues identified in the area of letterbox audits were not significantly different from those identified on other types of group audits. Based on discussions with audit

regulators and with the GPPC,<sup>4</sup> Ms. Zietsman noted that those regulators were of the opinion that firms did not have appropriate methodologies to address letterbox audits and that the firms indicated that they believed that the ISAs did not address the topic of letterbox audits and as such their methodologies attempted to fill a gap in the ISAs.

Ms. Zietsman noted that ISA 600 builds on the rest of the ISAs and in particular ISA 220,<sup>5</sup> which requires auditors to satisfy themselves that the appropriate level of evidence has been obtained. She noted the potential positive impact that more clearly communicating this fact might have as a more immediate action on this particular piece of the project. She outlined the WG's recommendation that this could be done by way of a non-authoritative Staff document that identifies the issues pertaining to letterbox audits, includes guiding principles from the ISAs and indicates that this topic will also form part of the broader Group Audit project.

The Representatives and Observers commented as follows:

- Ms. de Beer noted her view that there was always a public interest aspect to the IAASB's work and that, if something could be done to fill the gap for a while, it may be useful to issue some form of communication that would make auditors aware of the interaction of the ISAs in this area.
- Mr. Stewart noted that the Staff document was potentially a good approach to finding a mechanism to remind users of the current requirements in the ISAs. He also noted the proposed format and content of the document appeared logical. Mr. Stewart questioned if a Staff document would be open for public comment similar to the Agenda Decisions issued by the International Financial Reporting Standards (IFRSs) Interpretations Committee (the Interpretations Committee). He noted that the Interpretations Committee found the consultation process useful to identify any flaws in the logic of the interpretation of existing requirements in its Agenda Decision. He noted that, while the Interpretations Committee's Agenda Decision did not form part of the authoritative literature, it was expected that such Agenda Decisions were taken into account when accounting policies were being determined. He also commented that support from the large international audit networks and regulators would help to make this approach effective. Ms. Zietsman noted that firms had already been changing their methodologies to acknowledge concerns from regulators and inspection bodies and discussions with representatives from the GPPC suggested the planned clarification would be useful. She also noted the IAASB does not consult on its staff publications due to their nature, but that the WG would take time to discuss a draft of the document with the IAASB as well as representatives from organizations such as the GPPC, IFIAR and the International Organization of Securities Commissions (IOSCO). Ms. Healy reiterated that a Staff document was non-authoritative and should not go beyond the requirements in the ISAs. She explained the process whereby the IAASB would review the document to ensure it did not go beyond the requirements that are currently in the ISAs and for fatal flaws. She commented that the intention of the proposed publication was to outline that audit quality was a matter that needed to be highlighted in letterbox audit situations,

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<sup>4</sup> This term was clarified by Mr. Schilder at the request of Mr. Fukushima, noting that the GPPC represents that 6 largest firms that form part of the Forum of Firms (FoF) and that the FoF comprised of 27 international network firms.

<sup>5</sup> ISA 220, *Quality Control for an Audit of Financial Statements*



highlighting that dialogue with representatives of the GPPC has expressed mixed views as to whether the publication should include I examples of letterbox audit situations, noting concerns that it was important not to create a bright line of what constitutes a letterbox audit but rather address the matter of audit quality more broadly.

- Ms. de Beer commented that she would be supportive of a more targeted consultation on the document with IFIAR and others rather than wider public consultation. She expressed the view that even if publications such as the Interpretations Committee Agenda Decisions do not have authority, users tend to take them seriously and would like be more mindful of the application of the ISAs in group audit situations if such a publication was issued. She further noted that there was clearly much to understand in this project.
- Mr. Ahmed noted it was very important at the outset to identify a formal communication strategy that assures the regulators that this topic is being addressed, however, he noted that it is important to ensure that the issues and innovative forms of group structures are understood. He suggested considering if academic literature provides information on proximity and audit quality and if and how they might be linked. He noted his support for taking a “step by step” approach commencing with the issuance of a Staff document.
- Mr. Michel commented that it was important to secure the quality of the audit and for the market to have confidence that an audit would be performed to the same level of quality irrespective of the location in which it is performed or whether by a group auditor or component auditor. He noted that a framework had been developed and therefore has to be enforced in order to deliver a quality audit, stressing the importance of communicating awareness of the application of the ISAs and that letterbox audits were a good opportunity to do this.
- Mr. Hansen noted that he believed it was an important project and agreed that the term “letterbox audit” should be changed to make it evident what the issues was that the IAASB was trying to solve. He commented that the root of the problem may be a lack of professional skepticism being applied in group audit situations and that it was a question of taking responsibility. He commented that he would have liked to see something more authoritative at this stage.
- Mr. Muis commented that the engagement letters were important in these situations and read an excerpt of the “general conditions” by a professional institute that is required to be attached to any engagement letter. He noted that these “general conditions” implied major scope limitations and defined an audit as “a best effort commitment” as opposed to “a (duly-qualified) results commitment”. He noted that with large corporations, it only took one of the jurisdictions to implode to create issues. He therefore suggested the IAASB carefully study local institutional carve-out issues related to group audits in light of their potential impact, in particular, for examples in relation to the financial services industry or in jurisdictions where audit issues exist relating to intermediate holding companies.
- Mr. James commented on the variation of the guidance that had been developed by firms to fill the perceived gap in the standards. He further noted that the letterbox situation is just a more extreme example of many of the issues found in group audits and that he thought that the WG should not overly focus on this part of the project at the expense of the broader project.

Prof. Schilder noted that these were all important issues and that it was important to obtain many views on the topic. He noted he understood the point of not proceeding with letterbox audits at the expense of the broader Group Audit project, however he cited the pressure from audit regulators to address this aspect on a more timely basis.

Ms. Zietsman thanked the CAG for their input.

### Quality Control (Item C)

To *OBTAIN* Representatives' and Observers' views on the WG's issues identified.

#### BACKGROUND AND WAY FORWARD

Ms. French updated the CAG on the discussions undertaken to date on the topic of Quality Control. She noted that the topic had first been presented as a Staff paper to the IAASB at its June 2014 meeting and that subsequent to that meeting a Quality Control WG was formed. The WG then presented its views to the IAASB at its December 2015 meeting.

Ms. French noted that the IAASB had previously expressed the view that the project needed a definitive objective, and had mixed views on whether the issues identified with respect to quality control should be addressed on a piecemeal basis or whether they should form part of a more holistic revision of ISQC 1.<sup>6</sup>

Ms. French further noted that the IAASB recommended that the WG ensure that it fully understood the issues and the root causes of those issues before commencing the project. In respect of quality control issues pertaining to small and medium practices (SMPs), she noted that the IAASB indicated that promoting awareness of the existing guidance may not be sufficient and suggested the WG consider if any new practical guidance that could be developed to assist the SMPs. Ms. French further noted that overall views had been expressed that, due to environmental factors, ISQC 1 needs to be updated, to address the views that it is not a risk-based standard and it is not scalable.

Ms. French described the approach that the WG would be proposing to the IAASB, noting that it was a two-step approach that identifies the issues which can be addressed on a short-term basis and those issues that can only be addressed in the long-term. As part of the first step, the WG has developed a survey targeted at the SMPs to understand with more specificity what issues they are encountering in the application of and compliance with ISQC 1. The survey had already been published and responses had been requested by March 27, 2015. The WG also proposed that a DP be issued in the near term, seeking input from all stakeholders on the issues with quality control.

The Representatives and Observers commented as follows:

- Ms. de Beer noted that it was good to have an aggressive timeline and commented that slippage could be dealt with if necessary. She noted the importance of raising awareness of the issues and that issuing a DP would indeed achieve this.

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<sup>6</sup> 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*

- Mr. James noted that concerns with respect to quality control are not necessarily based on the size of an entity but on the types of engagements being performed and there may be merit to considering the issues from the perspectives of listed entities and then separately for other entities. Mr. James further highlighted that Agenda Item C-1 described the long term as being a period significantly in excess of two years, expressing concern that this was not timely. Ms. de Beer further commented on the timeline, noting that the IAASB strategy discussion had identified a number of items that were of importance and questioned if the WG had thought about the most efficient way to do this and if a series of “quick fixes” or a more holistic approach would be the most appropriate way to address the issues. She noted that this was likely something that needed specific debate. Mr. Fukushima also questioned the meaning and use of the phrase “a risk-based approach” in relation to ISQC 1, noting that ISQC1 concerns the infrastructure of a firm and not the risk that comes from the performance of an engagement. He questioned why the WG was proposing a two-step approach and noted that this could be interpreted as postponing addressing fundamental problems with ISQC 1 for a significant amount of time. He further noted that the IAASB is in the first year of its two year work plan and it would be beneficial to take opportunity of this. Ms. French noted that the WG did not intend to wait until the short-term actions had been completed before addressing those issues that could only be addressed in the longer term and that the two-step approach had been developed in response to the mixed views expressed by the Board. She further noted that the views expressed that ISQC 1 is not “risk-based” was in respect of being able to tailor systems of quality control to the type of engagement that the firm undertook and not the risks identified from the engagement itself. Ms. Healy further clarified this point adding that a system of quality control for a firm that just performed only review or compilation engagements may look very different from one that undertakes audits of listed entities.
- Mr. Dalkin noted that there had been significant debate on whether the issues with quality control were as a result of a lack of proper execution of ISQC 1 and questioned if the WG had any sense of whether it was in fact an execution issue or if there were gaps in the requirements that needed to be addressed. Ms. French also noted that the WG was still in the process of determining whether the issues identified related to execution rather than the standards themselves. She provided the example of engagement quality control reviews, noting that the standards appeared to address the issues that were being raised. She further stated that this was part of the feedback the WG was trying to draw out through the issuance of a DP. Ms. de Beer commented, in light of the example provided by Ms. French, that perhaps the solution to some of the issues identified was making the requirements in the standard clearer and that the issues identified were likely a combination of execution and standard-setting issues. She further noted the difficult balance between the perception of audit quality and a standard that is scalable for SMPs. Ms. French also acknowledged that practical guidance may be needed in addition to any changes to the standards.
- Ms. Lang noted her general support for the approach proposed by the WG and in particular the SMP survey. She expressed the hope that this survey would provide more insight and evidence on the issues of scalability. Ms. Elliot questioned whether the results of the SMP survey would be incorporated into the DP.
- Ms. Elliott also noted that the comment period for the DP would be over the summer months and suggested the WG should consider extending the comment period.

- Mr. Arteagoitia commented that the project was a very interesting initiative, and noted his involvement with the European Audit Inspections Group on the topic. He noted that he saw ISQC 1 as a very important standard and that this was a significant opportunity for the IAASB to align with the Public Company Accounting Oversight Body (PCAOB). He noted that ISQC 1 should provide for at least the same level of controls as those required by the U.S. auditing standards. He further noted that ISQC 1 should be updated in such a way as to make it easy to apply in practice.
- Mr. Muis questioned whether proposed updates to ISQC 1 would result in the standard being a results-based standard or a “best efforts” based standard. For example, he questioned whether application of a revised ISQC 1 would result in a controls statement by firms stating that adequate controls are in place, (i.e., assuring absence of systemic quality control issues) or would it be open ended in what would be expected from the firms. Mr. Schilder noted mixed feelings around the concept of a results based standard versus a best efforts based standard and whether it is an either or decision or it could be a combination of both.

#### DISCUSSION OF QUALITY CONTROL ISSUES

Ms. French walked the CAG through Agenda Item C-1, which highlighted the topics identified by the WG, the views of the Board as of December 2014, the views of some regulators, the WG’s interpretation of the issues and the proposed action on a short-term and long-term basis.

The Representatives and Observers commented as follows:

- Mr. Waldron noted that quality control was a very high priority topic, especially in light of the recent inspection findings and suggested that to the extent that headway could be made in this area it would be very much appreciated. He further questioned where the issue of audit fee pressure would be considered in the analysis. Ms. French confirmed that pressures in respect of fees were considered in Agenda Item C-1 in the section discussing governance.
- Mr. Baumann commented that excellent points were considered in the summary. He noted the IAASB’s preference expressed to date for engagement quality control to remain part of the quality control standards and not to become a separate ISA in and of itself. He encouraged the IAASB to rethink its position and create a separate ISA solely to address engagement quality control reviews, stating his belief that the engagement quality control is integral to the completion of the audit and that the engagement quality control reviewer should have reviewed the key judgments made by the audit team before the auditor’s report is signed. Mr. Landes explained that that the topic of engagement quality control reviews is addressed in both ISQC 1 and ISA 220, where specific requirements are ascribed to the engagement quality control reviewer. Mr. Baumann clarified that he was referring to the possibility of moving the material in ISA 220 related to engagement quality control reviews to a new ISA with strengthened requirements. Mr. Hansen agreed with this suggesting, noting his view that a lot of focus should be put on the topic. He suggested other points for consideration in respect of engagement quality control reviews, including client and firm input into the selection of the reviewer, the amount of contact the engagement quality control reviewer should have with the client, if any, and the ability of the client to remove the engagement quality control reviewer from the engagement. Ms. de Beer noted her agreement with the transparency and identification of the engagement quality control reviewer, suggesting it may be something for the WG to consider.

- Mr. James noted his agreement of that engagement quality control reviews were integral to each engagement and that this topic should be a focus of the project, including the criteria for selection of engagement quality control reviewers and the importance of the engagement quality control reviewer's involvement throughout the audit. He further noted his view that the role of the engagement quality control reviewer in the engagement could be strengthened without detracting from the role of the engagement partner. He also reiterated his personal view that the IAASB may need to consider separate approaches to systems of quality control for firms that perform audits of listed entities vs. firms that perform other engagements.
- Mr. Greene suggested that the WG consider communications between the engagement quality control reviewer and the audit committee, including the nature and the results of the engagement quality control review and any resulting actions taken.
- Ms. Miller noted the challenge of addressing the topic of governance, noting that it maybe that appropriate policies are written by the firms, but that those policies are not actually being put into practice. She further commented on the possibility of a requirement in ISQC 1 for an analysis of audit failures to understand where or how the failure occurred and if it was an issue that pertained to the firm as a whole. Ms. de Beer noted her agreement that firms may have policies and procedures in place but how those policies and procedures were actually operationalized could be very different to how they were written. She further highlighted a previous presentation to the CAG on the topic of governance. Ms. French noted that the analysis of audit failures was also considered in the agenda item as part of the remediation topic
- Ms. Lang noted her view that all the topics included in Agenda Item C-1 were appropriate and equally important and it would be preferable if the IAASB could move ahead with all of the topics.
- Mr. Thompson noted his agreement with Ms. Lang on the importance of the topics and further suggested that the new audit directives in Europe should also be considered particularly in relation to governance and engagement quality control reviews.
- Mr. Koltvedgaard questioned whether the IAASB could deliver in a shorter timeframe by taking a different approach. He raised the question of how the issues should be considered, for example, if it was appropriate to begin by focusing on the appropriate level of audit quality for the assignment and work backwards to determine what is needed to produce that level of quality, or should the issue be considered on a "think small first" basis. He suggested that it was important to focus on whether it was necessary to have the same level of quality for all engagements and that once this was determined, the focus should be on how to operationalize this. He questioned whether this would be different for different sized practices.

Ms. de Beer suggested the CAG's comments indicated a need to revisit the approach to be taken, namely to think as to what would be the most efficient way to address the various topics. She suggested the Board may need to take a more holistic approach (vs. a short-term focus) in order to avoid a duplication of effort. Mr. Schilder noted that the points raised were certainly something to be discussed at the IAASB's March 2015 meeting, and that it was extremely helpful to receive the feedback from the CAG. Ms. French thanked the CAG for the feedback noting that the WG would consider the comments as part of its further deliberations.

## Auditor Reporting – Overview (Item D)

To *REPORT BACK* on the auditor reporting standards, including the proposed amendments to ISA 800<sup>7</sup> and 805<sup>8</sup> and to:

- *RECEIVE* an update from Representatives and Observers on their efforts and activities to assist in the effective implementation of the new and revised Auditor Reporting standards;
- *DISCUSS* matters relating to the effective date of the standards; and
- *PROVIDE* an update on the proposed way forward for ISA 810.<sup>9</sup>

(ISA 800 and ISA 805 ED approved in December 2014 and open for comment through April 22, 2015)

Prof. Schilder introduced the topic noting that, since the last CAG meeting, the IAASB was very pleased to have unanimously approved and released the new and revised Auditor Reporting standards. He applauded the efforts of national auditing standard setters (NSS) (e.g., Australia, the Netherlands and the United Kingdom (UK)), investor organizations and others who have embraced and in some cases early adopted the changes to the auditor's report. He cited a recently released UK Financial Reporting Council (FRC) Survey, titled *Extended Auditor's Reports: A review of experience in the first year*, which "...confirmed that auditors appeared not only to have met the new requirements but in many cases had made, sometimes quite radical, further changes to auditor's reports going beyond the changes required by the FRC. A particular conclusion of the Survey was that each of the audit firms had adopted different approaches to the extended auditor's report and had, therefore, been innovative in different ways. The FRC considers the extent of innovation and the diversity of approaches adopted to be very encouraging."

Prof. Schilder acknowledged that, despite the very positive feedback received, that there were some countries (e.g., Japan and USA) where auditor reporting enhancements were met with some skepticism, and that there were some, including the PIOB, who were of the view that there was still more work to be done, particularly in the area of auditor reporting on going concern. He noted the initiatives such as the Investment Management Association (IMA) and their "best auditor's report award", and encouraged the Representatives and Observers to do their part to promote awareness and support the effective implementation of the new and revised Auditor Reporting standards.

Mr. Muis noted that the PIOB has wholehearted embraced the IAASB's new and revised Auditor Reporting, standards, in particular ISA 701<sup>10</sup>, describing them as "a game changer." He also noted that the PIOB expressed regrets about the IAASB's move away from the inclusion of certain statements with respect to going concern that formed part of the IAASB's discussions two years ago. Mr. Muis expressed support for the IAASB's plans for future work on auditor reporting on going concern and congratulated the IAASB on its efforts and "paradigm shift" ideas on the topic so far.

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<sup>7</sup> ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

<sup>8</sup> ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

<sup>9</sup> ISA 810, *Engagements to Report on Summary Financial Statements*<sup>10</sup>      ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>10</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

## REPORT BACK

Ms. Healy noted that clarifications and refinements that were made to the drafts of the auditor reporting standards that were last seen by the CAG to reflect the input that they provided at their September 2014 meeting. Ms. Healy drew the Representatives' and Observers' attention to Agenda Item D.1, highlighting areas where significant changes were made to the standards, in particular in ISA 701, in response to the CAG's feedback.

The Representatives and Observers had no specific comments.

## EFFECTIVE DATE

Ms. Healy noted that the new and revised Auditor Reporting standards were effective for periods ending on or after December 15, 2016. She explained that the IAASB has always permitted early adoption of its standards but, in the case of auditor reporting, a question had been raised about whether the IAASB viewed the new and revised Auditor Reporting standards as a package, or whether a firm could early apply part but not all of the enhancements, for example, to early apply ISA 701 related to key audit matters (KAM).

Ms. Healy noted that the IAASB would not be discussing this topic at its March 2015 meeting, but first sought to obtain advice from the CAG, NSS, and others, including IFIAR and accounting firms, to inform its discussions.

The Representatives and Observers commented as follows:

- Mr. Stewart questioned the rationale for discussing whether permitting early application was appropriate in light of the fact that (i) the extant reporting ISAs already permit auditors to provide additional information in their auditor's reports, and (ii) the IAASB permits early application of its standards. He noted that, if the IAASB permitted early application of its new ISAs to encourage firms to apply improvements that were made to the ISAs before the planned effective date, it would seem logical that early application of ISA 701 should be permitted. Mr. Stewart suggested that the IAASB take steps to ensure that the use of any new terminology that was introduced as part of the new and revised Auditor Reporting standards be used in a manner that is not inconsistent with its intended meaning.
- Mr. Waldron noted that the investor community is currently seeing the IAASB and the FRC in a favorable light as a result of their new auditor reporting standards. He added that investors would welcome having more information (such as what is included in the Rolls Royce auditor's report) in auditor's reports early, and would not be confused by having this information on "piecemeal" basis. He also noted that auditors could also benefit from sharing their experiences about delivering more information (such as KAM) earlier in auditor's reports in advance of the effective date, and that the encouragement from the IAASB could help capitalize on this positive momentum in the market place.
- Although Mr. Dalkin expressed support for earlier adoption of the new and revised Auditor Reporting standards, he cautioned against the unintended consequences of permitting auditors to "pick and choose" certain auditor reporting enhancements, but not others. Mr. Green agreed, adding that, in order to retain consistency and comparability in auditor reporting particularly within the same industry, it was important for the IAASB to encourage early adoption of the entire suite of auditor reporting standards. He cautioned that it may be confusing for users if auditor's reports of similar entities were

to include varying degrees of information without an indication of which set of auditor reporting standards were applied.

- Ms. de Beer asked for clarification about whether views were being sought about having auditor reporting enhancements introduced into the market place on a piecemeal basis (i.e., early application of some aspects, but not all of ISA 700 (Revised),<sup>11</sup> or early application of ISA 701 or KAM only). Ms. Healy explained that it would not be appropriate for auditors to early apply parts but not all of ISA 700 (Revised). She clarified that the questions that were being raised related specifically to early application of ISA 701 because NSS in certain jurisdictions were anxious to have requirements in place for auditor to provide more information by way of KAM in their auditor's reports, but were not yet ready to early adopt the other auditor reporting enhancements (e.g., the statement about independence).
- Mr. Thompson noted that in his view early adoption of ISA 701 was in fact already happening. By way of example, he noted that the current and planned auditor reporting developments in certain jurisdictions such as the Netherlands, Singapore and the UK, can be characterized as early adoption. Messrs. Ahmed and Koktvedgaard agreed. Mr. Ahmed noted the Basel Free Capital Framework is an example of early adoption of certain components of a standard in practice. Mr. Koktvedgaard added that in his view the principle of saying more in auditor's reports is already embodied in the ISAs under extant concept of Emphasis of Matter paragraphs. He suggested that the IAASB encourage every step in the direction of auditors of providing more informative and relevant auditor's reports.
- Ms. de Beer noted that it was very important for the IAASB issue a communication to provide guidance in light of the questions that are being raised with respect to early adoption of its new and revised Auditor Reporting standards. She added that, in South Africa, questions have also been raised about early adoption by an accounting firm versus at the NSS level. Ms. Healy acknowledged this, noting that the IAASB has learned that the desire to early adopt of ISA 701 is an issue both at the jurisdiction level among NSS, and at the accounting firm level.

Prof. Schilder summarized that the Representatives and Observers seemed to be generally supportive of permitting early application of ISA 701 in advance of the stated effective date, recognizing the public interest benefit of auditors providing investors with KAM in their auditor's reports as soon as practicable. He noted the CAG also supported the potential for an IAASB communication about the possibility of early adoption, in part to mitigate concerns over "piecemeal" adoption of some but not all the auditor reporting enhancements. Ms. de Beer agreed.

#### ISA 810

Ms. Healy explained Staff's recommendation set out in Agenda Item D.3 to make limited amendments to extant ISA 810 to address the potential information gap relating to auditor reporting on a material uncertainty

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<sup>11</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*



in relation to going concern or a material misstatement of other information that will arise when the new and revised Auditor Reporting standards become effective.

The Representatives and Observers commented as follows:

- Mr. Fukushima noted that IOSCO is of the view that the IAASB should focus its resources on improving standards for audits of general purpose financial statements. He then questioned whether there were strong needs for making changes (either of a conforming amendments nature to align to the new and revised Auditor Reporting standards, or more fundamental changes) to ISA 810, and whether there is a sufficient level of urgency to justify doing so on an accelerated basis. Ms. de Beer noted that, at a previous CAG meeting, there was a view that it would be appropriate to align extant ISA 810 to the enhancement in the new and revised Auditor Reporting standards.
- Mr. Thompson agreed with Ms. de Beer, noting that because there have been radical changes to the auditor's report for audits of listed entities, he would expect that there would also be changes to extant ISA 810 to, at a minimum, to refer readers to the auditor's report on the full set of audited financial statements that include the enhanced auditor reporting information, including KAM and material uncertainties on going concern. Mr. Thompson added that there was a public interest benefit to referring investors and other users to the auditor's report on the full set of audited financial statements, because in some cases it was the only auditor's report that they read.
- Mr. Baumann expressed a contrary view, disagreeing not only with the recommendations in Agenda Item D-3, but also with the existence of ISA 810 more broadly. He suggested that auditors should not be reporting on summary financial statements because of a lack of a specified financial reporting framework for the preparation of such summarized financial statements. Prof. Schilder acknowledged the point and noted that it had also been raised in IAASB deliberations, but that the IAASB concluded that a movement towards such a change would be a fundamental revision to extant ISA 810. Ms. de Beer noted that Mr. Baumann had expressed this view during previous CAG meetings, noting that IFRSs do not specify a criteria for developing summary financial statements. To Mr. Baumann, Ms. de Beer asked whether the establishment of such a criteria by the IASB would change his views. Mr. Baumann clarified that he was not suggesting that the IASB undertake such a project, but rather that he simply did not think that it was in the public interest for auditors to be associated with information that was prepared based on criteria developed by management.
- Expressing some support for the points raised by Mr. Baumann, Mr. Hansen suggested the possibility of reaching a middle-ground by possibly requiring additional disclaimers in the auditor's report on summary financial statements. Mr. Baumann noted that he saw some merit in having a debate about such an approach. Ms. Healy explained that ISA 810 requires auditors to determine whether the criteria for developing summary financial statements is acceptable before undertaking the engagement. She also noted that national law or regulation often provides the basis for the preparing summary financial statements. Ms. de Beer agreed.
- Mr. Stewart noted that, in his personal view, based on the CAG discussions, this area would be best dealt with by securities regulators, and that the IASB would likely have a challenge in developing such a standard because its framework is intended to focus on what is necessary for developing financial statements that provide a "true and fair view", or "fair presentation."

- Mr. Greene asked about the auditor’s responsibilities with respect to other information in the context of an ISA 810 engagement. Ms. Healy explained that it is possible for an entity’s financial reporting package to include summary financial statements, as well as summary other information. ISA 810 requires auditors engaged to report on summary financial statements to consider the summary other information to ensure that there is not a material inconsistency with the summary financial statements. Ms. Healy explained further that if a set of summary financial statements is issued together with the audited financial statements, those summary financial statements are scoped into the other information that needs to be considered by auditor of the complete set of financial statements in accordance with ISA 720 (Revised).<sup>12</sup>

#### PROMOTING AWARENESS AND IMPLEMENTATION ACTIVITIES

Ms. Healy pointed the Representatives and Observers to Agenda Item D, which included a summary of the IAASB’s activities aimed at the promotion and effective implementation of the new and revised Auditor Reporting standards. She noted that, because the new auditor’s report is expected to result in such a significant change in practice, there is a role for all stakeholders, including the CAG, to play in promoting awareness and implementation. Drawing attention to [The New Auditor’s Report](#) webpage, Ms. Healy pointed the Representatives and Observers to the materials in the Auditor Reporting Toolkit section, and encouraged their use in promotion efforts and initiatives.

The Representatives and Observers commented as follows:

- Ms. de Beer asked whether there was a mechanism in place that the Representatives and Observers could use to communicate what more the IAASB or Staff should be doing to promote the awareness and effective implementation of the new and revised Auditor Reporting standards, in particular among investors. Ms. Healy encouraged CAG members to contact Ms. Jules, the lead staff responsible for supporting the Auditor Reporting Implementation Working Group, to share news about events that are planned in their respective jurisdictions or to refer specific questions that have been raised. She also noted that Representatives and Observers will also have an opportunity to share their ideas in further CAG meetings as well.
- Mr. Waldron congratulated the IAASB on its promotion efforts to date, noting that the communications about the new auditor’s report have established a useful dialogue with investors about the IAASB’s initiatives and future projects. Mr. Waldron noted that, although the materials developed so far are quite useful, it is important that the IAASB continue to think about how to draw investors and non-auditors to the information that they are likely to find most interesting and relevant (e.g., using social media (e.g., Twitter), Internet Blogs, and articles or other material that showcases the IAASB’s work in a manner to which they can relate). Ms. Singh agreed, and added that the CFA has an established initiative aimed at “Putting Investors First” during the month of May, and offered to develop a Podcast to reach out to the 140+ societies who are expected to participate in those events, in order to draw their attention to the New Auditor’s Reporting webpage that, in her view, features material this is

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<sup>12</sup> Proposed ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

putting investors first. She also expressed interest in having an IAASB member attend one of those events and present to CFA members.

- In light of the fact that the effective date for the new and revised Auditor Reporting standards is about a year away, Mr. Waldron suggested that the IAASB develop a marketing strategy and calendar aimed at keeping the discussions about the new auditor's report up-to-date and interesting. Ms. de Beer and Mr. Koktvedgaard agreed. Ms. de Beer suggested that the IAASB seek counsel from Ms. Singh and Mr. Waldron as to how best to do so. Mr. Koktvedgaard suggested that the materials aimed at reaching investors and audit committee members should be very short and concise – limited to two pages if possible. Ms. de Beer agreed and noted that Auditor Reporting Fact Sheet is a useful start for developing such a document.
- Mr. Stewart acknowledged that the Auditor Reporting Implementation Working Group publication, *Auditor Reporting on Going Concern*, refers to the work of the IASB and Interpretations Committee with respect to going concern. Mr. Stewart noted that the IASB will soon be releasing its agenda consultation aimed at seeking views about its future projects and priorities. He encouraged Representatives and Observers who were of the view that the IASB should undertake a project in relation to going concern to respond to the public consultation.

#### **Innovation and Integrated Reporting WGs (Item E)**

To <i>REPORT BACK</i> on the Innovation WG and <i>RECEIVE</i> an update on the Integrated Reporting WG's activities and the suggested way forward (Awareness Paper planned for release in April 2015)
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Ms. Kamp-Roelands drew the Representatives' and Observers' attention to the Report Back, noting that it also addressed the comments received on integrated reporting at the September 2014 CAG meeting. The Representatives and Observers did not raise any specific comments.

#### INTEGRATED REPORTING WG (WG) ACTIVITIES AND STAKEHOLDER INTERACTION

Ms. Kamp-Roelands provided some background on developments leading to the establishment of the WG since the September 2014 CAG meeting and summarized the discussions at the December 2014 IAASB meeting. She also provided feedback as to the WG's planned interaction with stakeholders as well as the proposed activities to be undertaken by the WG.

The Representatives and Observers commented as follows:

- Ms. de Beer noted that the importance of stakeholders may differ in this instance as assurance on integrated reporting was firstly to the benefit of investors and to a lesser degree the directors, who take legal responsibility for the Integrated Report. To this end, she suggested that it was critical for the WG to obtain a deeper understanding of what investors want with respect to integrated reporting and "comfort" or assurance thereon. She stressed the importance of the WG focusing more proactively on obtaining insights into investors' assurance needs versus what assurance practitioners are able to provide. Mr. Waldron agreed that it will be important for the IAASB to have a better understanding of the extent to which investors rely on integrated reports in their investment decision-making. Ms. Borgerth expressed support for the activities of the WG and suggested that they also interact with the Corporate Reporting Dialogue (CRD) and other investor networks. Ms. Robert noted

that FEE had jointly held a roundtable with the IIRC, and that it is clear that there is a great interest from investors broadly, but it remains to be seen what their needs are in relation to assurance. Ms. Kamp-Roelands noted that Mr. Gunn, Managing Director of Professional Standards, routinely participates in discussions with the CRD. She also noted that the WG considered the recent initiative of the World Business Council for Sustainable Development, who initiated a separate work stream on assurance on integrated reporting. Finally, Ms. Kamp-Roelands also noted that the WG had been surveying the landscape and updating the IAASB, and will continue to do so going forward.

- Drawing from her experience in South Africa, Ms. de Beer pointed out that there were other parties, such as audit committees and directors, seeking comfort or assurance on integrated reports. She suggested that the WG seek to better understand the needs of these parties as well.
- Ms. Miller added that it was important for the IAASB to include the IIA as a stakeholder, noting that the IIA recently published work in the area of integrated reporting. She also noted that internal auditors are also involved in providing a form of internal assurance on parts of integrated reports. Ms. de Beer agreed, and noted that internal auditors are one of the important internal assurance providers groups insofar as combined assurance on integrated reports is concerned.
- Ms. de Beer suggested that the IAASB further consider existing and ongoing academic research in this area as part of its information-gathering activities, and that the IAASB proactively engage the academic community on very specific research questions in relation to assurance on integrated reporting. She said that much research has been done on integrated reporting, however, not many studies focus on the assurance aspect thereof. To this end, commissioned research would be helpful. Ms. Kamp-Roelands highlighted that the IAASB would discuss two summaries of recently completed academic research on integrated reporting at its upcoming March 2015 meeting and that a new call for research would be issued soon, with integrated reporting highlighted as a key topic. Mr. Schilder explained that this research had been carried out in coordination with the International Association for Accounting Education and Research (IAAER) and provided further background on that initiative. Ms. Borgerth suggested that the WG consider the feedback from the recent roundtables organized by the International Integrated Reporting Council (IIRC) and the national accountancy bodies as well as other organizations. Ms. Robert also asked for clarification as to how responses from the IIRC's two public discussion papers had been taken into account to date by the IAASB WG. Ms. Kamp-Roelands noted that comment letters in response to the IIRC's discussions papers are publicly available. She highlighted that the WG will receive an overview of this feedback from IIRC staff as its upcoming WG meeting and a public feedback statement is expected later in March 2015, with close coordination expected going forward.
- Mr. James asked whether the WG considered the work of organizations other than the IIRC who contribute to the topic of integrated reporting and whether outreach had taken place with them, such as the Global Reporting Initiative (GRI) or the Sustainability Accounting Standards Board (SASB). In response, Ms. Borgerth noted that the IIRC is a multi-organizational platform in which all these organizations participate and that, by working with IIRC, the WG was in effect also working with those organizations. Mr. James acknowledged the point, but suggested that there was merit to the IAASB independently liaising with those organizations because, in his view, they seem to have competing agendas. Mr. Hansen agreed, but urged that the IAASB be cautious as it considers information

promulgated by those organizations, in particular with respect to whether they have the authority to issue “standards”. By way of an example, Mr. Hansen noted that in the USA, there was an instance where an SEC Commissioner challenged the authority of standards issued by SASB.

- Mr. Hansen noted that information from Audit Analytics, which surveyed the use of environmental, social and governance reporting, could be useful to the Integrated Reporting Working Group. Specifically, he noted this information has highlighted that assurance reports are being issued by non-practitioners, including engineers.

#### ANTICIPATED KEY MILESTONES

Ms. Kamp-Roelands provided some background to the anticipated milestones and their timeline.

The Representatives and Observers commented as follows:

- Ms. de Beer noted that the planned timing for the release of the IAASB’s September 2014 Discussion Paper may be too ambitious. She noted that the IAASB needs to adequately inform itself on issues relevant to assurance on integrated reporting, inter alia, through academic research. While the <IR> Framework has more recently come into use, there is already a longer history on integrated reports being published and assured. Consideration of the levels of assurance given (or the lack thereof) on those reports would in itself be useful information for the WG.
- Mr. Koktvedgaard expressed a concern about the WG’s approach being too heavily focused on a specific reporting framework and the possibility of developing a topic-specific standard on assurance on integrated reporting. In his view, the IAASB should work to ensure that its assurance engagement standard (i.e. ISAE 3000 (Revised))<sup>13</sup> is sufficiently flexible to address both financial and non-financial information, and different levels of assurance, in order to accommodate what is being requested in the marketplace as it evolves rather than having separate topic-specific standards. As an example, Mr. Koktvedgaard noted the evolution of corporate social responsibility reporting now including more non-financial information and as part of integrated reports. He also questioned whether ISAE 3410<sup>14</sup> is being used in practice. Mr. Dalkin agreed, noting that the broader topic of sustainability presents challenges in terms of practitioners obtaining assurance. He added that the current suite of standards is very much focused on the audit of the financial statements. He suggested that the WG first investigate the demand for assurance and thereafter analyze the extant standards to identify any gaps in how they may be applied in those instances, in particular in relation to assurance on non-financial information. Mr. Koktvedgaard suggested it may be more appropriate for the IAASB to develop guidance to help practitioners navigate through the standards. Ms. de Beer suggested that the development of a document that is similar in nature to the Audit Quality Framework aimed at describing the stakeholders involved in integrated reporting and their specific roles in enhancing its quality and credibility may be a useful first step. Ms. Kamp-Roelands indicated that the suggestions

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<sup>13</sup> International Standard on Assurance Engagement (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

<sup>14</sup> ISAE 3410, *Assurance Engagements relating to Green House Gas Statements*

about the need to identify gaps that exist in extant ISAE 3000 are important, noting some of the already known issues like providing assurance on narrative and forward looking information.

- Mr. Fukushima noted that, in his view, the IIRC's Integrated Reporting framework does not represent suitable criteria and, as such, it would be premature for the IAASB to move forward in developing an assurance standard.
- Mr. Yoshii noted that Japanese investors believe it is too early to explore assurance on integrated reporting. He observed that many companies within his jurisdiction (Japan) view integrated reporting as a way of enhancing the information value of their annual reports on a voluntary basis, which is welcomed by Japanese investors. He suggested that the subject matter of assurance be addressed when there is more consistency in how integrated reports are presented. It may therefore be too early to focus on developing standards for performing assurance engagements. Ms. de Beer cautioned against the development of assurance engagements standards too far ahead of reporting developments and in the absence of a clear understanding of investors' expectations.
- Ms. Kamp-Roelands thanked the Representatives and Observers for their comments. She explained that the WG intends to continue its efforts aimed at furthering the debate on understanding the needs for assurance in the area of integrated reporting. She added that the feedback statement of the IIRC will provide relevant information for the planned September 2014 Discussion Paper. She also acknowledged that there are different measurement frameworks currently being used in addition to the IIRC Framework, making reference to the developments in South Africa and the Netherlands where integrated reports are currently being issued.

#### WG AWARENESS PAPER

Ms. Kamp-Roelands provided some background about the Awareness Paper, noting it was aimed at assurance practitioners with the objectives of:

- Providing insight into the International <IR> Framework, and the need for assurance in the wider context of enhancing the credibility of integrated reports.
- Highlighting the different elements of an assurance engagement in the context of assurance on integrated reporting with relevant aspects of ISAE 3000 (Revised) as the basis.
- Where applicable, publicly raising awareness of the results of the WG's information-gathering activities to date.

The Representatives and Observers commented as follows:

- Ms. de Beer noted that the objective of the paper was not clear. In her view, raising awareness on integrated reporting extends beyond raising awareness about assurance-related matters and that the WG should be focusing on the latter. She noted that it was not clear in the paper to what end the WG is exploring assurance-related matters (e.g. assurance on the process of preparing an integrated report or on the elements within, the role of internal assurance providers, the notion of combined assurance, etc.). Ms. de Beer also noted that the paper seems to presume that external assurance on the full integrated report will be needed and does not sufficiently acknowledge the role of others in relation to integrated reports and comfort thereon. Ms. Lang and Mr. Waldron agreed that the

objective of the paper was unclear, and encouraged the WG to reconsider the focus and audience as well as the length. Ms. Kamp-Roelands noted that one aim of the paper was to explain to assurance providers the flexibility that is possible in terms of obtaining assurance on integrated reports in accordance with the IAASB's extant standards (in particular, ISAE 3000 (Revised)). Ms. Kelsall added that the WG also was of the view that releasing the Awareness Paper now was a helpful way to demonstrate that the IAASB is active and working in the area of integrated reporting.

- Ms. Lang also suggested the WG should not release the Awareness Paper until the IIRC publishes its Feedback Statement on its IIRC Discussion Paper and related roundtables and such information can be incorporated therein.
- Mr. Muis, noted that the PIOB has been encouraging the IAASB to consider the topic of integrated reporting. He was interested in understanding whether discussions had taken place as to whether the profession is sufficiently competent to act in the integrated reporting space, and, whether the profession is strong enough to deal with the highly challenging issues that go with integrated reporting, such as the tradeoffs between socially relevant issues and the bottom line; and short-term and long-term thinking. Ms. Kamp-Roelands noted that, in addition to the IAASB's considerations in relation to assurance, broader discussions have taken place within IFAC with respect to integrated reporting, including discussions on what needs to be done to enhance the competence of professional accountants.
- Ms. Kelsall noted that it is very early days for assurance on integrated reports and reiterated that the WG's focus is on information-gathering activities. She also noted that there is an interest in hearing more from all stakeholders, in particular from investors and directors. She explained that the WG is open-minded about the deliverables as well as its scoping of the project and has not concluded on whether the outcome of the project should be an assurance standard, guidance material or other outputs.
- Acknowledging the concerns by the CAG as to how the IAASB moves forward, Prof. Schilder noted that the IAASB had been monitoring developments in integrated reporting for some time and the establishment of the WG is intended to have the IAASB's planned work and information gathering in the area of integrated reporting more visible in the marketplace. He further noted that the IIRC's recent consultation, which includes reference to the IAASB's standards, raised a number of questions about assurance that makes it necessary for the IAASB to be seen as proactive.

Mmes. Kelsall and Kamp-Roelands thanked the Representatives and Observers for their input and noted

### **March 10, 2015**

#### **Disclosures (Item I)**

To *DISCUSS* feedback received from respondents to the exposure draft (ED), *Proposed Changes to the International Standards on Auditing (ISAs)–Addressing Disclosures in the Audit of Financial Statements* and the proposed way forward (Final changes to ISAs planned for approval in March 2015)

#### **OVERALL RESPONSES TO THE ED**

Mr. Grabowski introduced the session, providing a summary of the responses received to the IAASB's ED. He noted that the majority of respondents had supported moving forward with the changes to the ISAs at this time, with some of these respondents requesting more substantial changes (such as the introduction of requirements) in some areas, particularly in relation to the application of the concept of materiality to qualitative disclosures, as well as evaluating the effect of misstatements identified in disclosures. He also added that a number of respondents had not supported moving forward with the changes at this time, with these respondents citing various reasons including:

- The cost versus benefit of the proposed changes, which in some sectors such as the small- and medium-sized entities (SME) market was seen to be more beneficial to listed entities;
- That the changes, which were mainly to the application material, would not bring about the intended behavioral changes; or
- That the IAASB should wait the IASB to progress its work on materiality and disclosures before introducing changes to the ISAs.

Mr. Grabowski explained how the IAASB would move forward in addressing some of these concerns, noting that the IAASB had agreed at its December 2014 meeting to progress the proposed changes to the ISAs for approval at its March 2015 meeting. Recognizing that the IASB was progressing its work on materiality, he noted that IAASB would continue to monitor the progress of the IASB, as well as continue to work cooperatively with them on their initiative. At the appropriate time, the IAASB would consider the possibility of a more holistic review of ISA 320,<sup>15</sup> rather than only addressing disclosures. Prof. Schilder added that consideration of a project on materiality would be in the context of the existing priorities at the time, and would likely fall into the consultation to develop the 2017–2018 Work Plan. Mr. Grabowski also highlighted that the IASB had commenced work on a longer-term initiative on disclosures, and that any work by the IAASB on audit evidence for disclosures would be better informed by the IASB's work in this area. Mr. Stewart provided the Representatives and Observers with a brief summary of the work the IASB was doing on materiality and disclosures.

The Representatives and Observers commented on the IAASB's proposed way forward as follows:

- Mr. Stewart noted that the CAG WG for the Disclosures project had supported moving ahead with the changes to the ISAs. In the WG's view, these changes were not so significant so as to cause disruption in the future if further work on materiality and audit evidence for disclosures was undertaken. Mr. Hansen echoed his support for moving forward with the changes to the ISAs now, believing that they were in the public interest.
- Ms. McGeachy-Colby noted that the SMP Committee did not support moving forward with the changes to the ISAs now. While the SMP Committee was supportive of the project, its main concern was about the possibility of making changes to the ISAs now, and then again at a later stage following the IASB's work. She noted the SMP Committee's view that a piecemeal approach would be unlikely to effect the behavioral change that was intended by making the changes now. Ms. Lang agreed, and added that the number of entities globally represented by the respondents who had not supported

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<sup>15</sup> ISA 320, *Materiality in Planning and Performing an Audit*



moving forward with the changes was significant, and that the costs of implementing these changes needed to be considered against the expected benefits. She also expressed concern about the use of references to IFRSs in the changes, as not all jurisdictions using the ISAs will use IFRSs. Mr. Grabowski noted that the SMP Committee had participated in a call with the TF, which took those comments seriously. He explained that the IAASB had weighted the balance between the need for changes at the listed company level, in particular to remind auditors that qualitative disclosures were becoming more prevalent and therefore required auditor attention. Mr. Grabowski was of the view that the proposed changes to the ISAs were inherently capable of being proportionately applied, as SMEs may have less qualitative disclosures. He suggested there might be an opportunity to draw attention to this fact in the Staff publication or by other means to explain that such changes may not be as relevant to SMEs or SMPs. Recognizing the concern for SMPs was over the timing of the implementation of the changes that were being proposed (rather than the validity of the changes themselves), Prof. Schilder queried Mmes. Lang and McGeachy-Colby when the suitable timing for implementation of such changes would be. Ms. Lang responded that the IAASB already had intentions of considering possible work on materiality and audit evidence to correspond to the timing of the progress of the work by the IASB, and that this timing may work better so as to only introduce one set of changes.

- Mr. Koktvedgaard and Ms. Lang questioned whether an International Practice Note (IPN) would be more effective and useful as the changes were mostly in the application material. Ms. de Beer reminded the Representatives and Observers that this had been discussed when the project had been scoped, and that the CAG had previously supported changes to the ISAs supplemented with Staff guidance. Ms. Healy added that, as the purpose of application material is to support the effective implementation of the requirements, the intended effect of the changes may be lost if the guidance was not in the ISAs. Mr. Grabowski also reminded the Representatives and observers that the changes to the ISAs had been supported by the majority of the respondents to the ED. Prof. Schilder added that the intention of the Staff Publication was to collate all the relevant material relating to the audit of disclosures as part of a financial statement audit throughout the ISAs, including incorporating the new changes that were being made.

Mr. Grabowski also noted that the responses to the ED did not include any investor groups, but added that the TF had reached out to two such groups for their input on the proposed changes. These groups had supported moving ahead with the proposed changes to the ISAs at this time, as, in their view, all stakeholders had a role to play in their part in improving financial statement disclosures, and these changes would help drive auditor behavior, thereby impacting the overall change that was needed for improvement.

#### PROPOSED CHANGES TO THE ISAs – OVERALL AND GENERAL COMMENTS

Drawing attention to the agenda material, Mr. Grabowski explained the feedback on the proposed change to the definition of “financial statements”; the integration of the assertions for presentation and disclosure with those for transactions, events and account balances; and the Board’s decision to propose changes throughout the ISAs rather than in a new separate ISA. He also noted that respondents were of the view that there was an inconsistency in the use of the extension “including disclosures” or “including related notes” with “financial statements”; and the steps the TF had taken to respond to this concern. He highlighted

that revision relating to going concern disclosures had been made to ISA 570<sup>16</sup> as part of the Auditor Reporting project, and that any further considerations relating to ISA 570 would be considered with further work efforts on the topic of going concern. Similarly, he noted that the Group Audits WG would be asked to further reflect on the need for any proposed changes related to considerations of disclosures in group audits.

The Representatives and Observers did not raise any comments.

#### PROPOSED CHANGES TO THE ISAS – CHANGES ACROSS SEVERAL ISAS

Mr. Grabowski explained that changes that had been made to address concerns raised around:

- The use of the extension to the phrase “financial statements”, such as “financial statements including disclosures” and “financial statements including related disclosures.”
- The use of the term “non-quantitative”, which had been changed to “qualitative”.

The Representatives and Observers did not raise any comments.

#### PROPOSED CHANGES TO THE ISAS – PLANNING

Mr. Grabowski explained the changes that had been made to respond to significant comments from respondents to the ED related to planning the audit (including to ISAs 210,<sup>17</sup> 240,<sup>18</sup> 260 (Revised),<sup>19</sup> 300,<sup>20</sup> 315 (Revised)<sup>21</sup> and 330<sup>22</sup>). In particular, Mr. Grabowski drew the Representatives’ and Observers’ attention to the TF’s discussions about the notion of focusing the auditors on information obtained from outside the general and subsidiary ledgers. He noted that respondents had generally agreed with the inclusion of this source of audit evidence, as information in disclosures increasingly originated from outside the general and subsidiary ledgers, but some had expressed concerns about the way the phrase had been articulated. He noted that the TF had rearticulated the phrase, and had clarified the examples to help auditors understand the intent of the proposed change. He also noted the IAASB’s support in principle at its December 2014 meeting to clarify the requirement in paragraph 18 of ISA 315 (Revised) (about understanding the information system, including the related business processes, relevant to financial reporting) in this context. Notwithstanding this support, Mr. Grabowski noted that some IAASB members have express concern about possible unintended consequences of this revision, as the change could extend the work effort of the auditor in some areas that may not previously have been scoped in.

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<sup>16</sup> ISA 570 (Revised), *Going Concern*

<sup>17</sup> ISA 210, *Agreeing the Terms of Audit Engagements*

<sup>18</sup> ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>19</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

<sup>20</sup> ISA 300, *Planning an Audit of Financial Statements*

<sup>21</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

<sup>22</sup> ISA 330, *The Auditor’s Responses to Assessed Risks*

Mr. Grabowski further explained that respondents to the ED had also been concerned about applying the concept of materiality to disclosures, particularly non-quantitative disclosures. He noted that the IAASB had explored including a new requirement in ISA 320 at its December 2014 IAASB meeting, but decided that such a change would be more appropriate during a more holistic review of ISA 320. Nevertheless, the TF reconsidered changes to ISA 315 (Revised) and have proposed additional application material in ISA 320.

The Representatives and Observers commented as follows:

- Mr. Stewart noted that the CAG WG was of the view that the material added to the introduction in paragraph 18 to introduce the concept of information from outside the general and subsidiary ledgers does not scope in more than what is required for the financial statement audit. The WG was supportive of this change, as well as the changes in the application material in support of this requirement (paragraph A89a of ISA 315 (Revised)). Ms. Elliott and Mr. Waldron agreed. Mr. Waldron also preferred a change to strengthen the requirement rather than simply adding application material, as this was viewed as less effective to drive behavior.
- Messrs. Koktvedgaard and Thompson suggested it was unclear whether this change may scope in “other information” in the annual report. Mr. Thompson suggested referring to “disclosures required by the financial reporting framework” to further clarify. Ms. de Beer and Mr. White agreed. Mr. Grabowski explained that the understanding required to be obtained was in the context of a financial statement audit and would not extend the requirement to other information that was covered by ISA 720 (Revised).
- Mr. Dalkin suggested that paragraph A89a should include an example more commonly found in the financial statements, as others that were included could be viewed as obscure.
- Mr. Koktvedgaard questioned whether the proposed change to paragraph 18 should include the notion of materiality, as this was the information that would be relevant to the audit.
- Mr. Koktvedgaard asked for clarification about the intent of the change that had been made to paragraph A14 of ISA 330 about the auditor building in sufficient time for disclosures. Mr. Grabowski explained that this had been proposed in the ED to focus auditors on disclosures earlier in the audit. He noted that current practice indicated auditors tend to focus on disclosures towards the end of the audit, which could be problematic if the auditor then needed to perform work on controls around disclosures.
- Mr. Koktvedgaard questioned why changes were being proposed to ISA 320 now if this standard would possibly be subject to review in the near future, and whether those changes now would achieve their intended effect. Ms. McGeachy-Colby agreed, reiterating the SMP Committee’s view about the changes more broadly. She added that the behavioral change would be less likely without changes to materiality, and again suggested the IAASB should defer the changes currently being proposed until undertaking a more holistic project on ISA 320. Prof. Schilder cautioned that the timing of work on ISA 320 was uncertain and, due to the complexity of the subject matter, the next set of proposed changes may still be a number of years away.
- Mr. Ahmed queried whether the TF had considered banking-specific disclosures when considering the changes to materiality. Mr. Grabowski responded that more had been added about considering qualitative considerations in both ISA 315 (Revised) and ISA 320.

#### PROPOSED CHANGES TO THE ISAs – RESPONDING TO RISKS

Mr. Grabowski explained that respondents to the ED had questioned whether some of the application material relating in ISA 330 could be elevated, as these procedures would be expected on every audit. The IAASB had agreed in principle, but had asked the TF to further consider the wording.

Mr. Stewart noted that the WG had agreed with the proposed changes.

#### PROPOSED CHANGES TO THE ISAs – EVALUATING MISSTATEMENTS AND PRESENTATION OF THE FINANCIAL STATEMENTS

Mr. Grabowski explained the changes that had been made to address the respondents' comments on the changes proposed ISAs 450<sup>23</sup> and 700 (Revised), including as part of the IAASB's January 2015 teleconference. He drew the attention of the Representatives and Observers to the additional guidance that had been presented in ISA 450 to respond to calls from respondents to the ED.

The Representatives and Observers commented as follows:

- Mr. Hansen questioned whether “clearly trivial” is the correct threshold for evaluating misstatements. Mr. Grabowski acknowledged the concern, noting that it was based on the auditor's judgment as to what was discussed with those charged with governance. He added that, in practice, experience has shown that it is not too low a level.
- Mr. Hansen also asked whether the TF had addressed the concept of placement, in relation to certain information not being prominently placed. Mr. Grabowski drew Mr. Hansen's attention to paragraph A3b of ISA 700 (Revised). Mr. Hansen questioned the use of the word “obscure” and encouraged the TF to reconsider whether this was the most appropriate word. Mr. Grabowski suggested this could possibly be rearticulated to explain the concept of misleading by including too much irrelevant or immaterial information.
- Mr. Greene suggested further consideration be given to the aggregation of misstatements in disclosures that are not material. He also highlighted that there may be a link between misstatements that are not material and internal control weaknesses. Mr. Grabowski responded that guidance had been added to ISA 450 setting out the auditor's considerations when there were pervasive misstatements in the disclosures.
- Mr. Fukushima encouraged the IAASB to continue working collaboratively with the IASB, in particular relating to making information in disclosures more entity-specific.

Mr. Grabowski thanked the Representatives and Observers for their feedback.

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<sup>23</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*

## Efficiencies (Item I)

To REPORT BACK and OBTAIN Representatives' and Observers' views on revisions made to non-authoritative documents and accelerated response

### REPORT BACK

Ms. Kamp-Roelands drew the Representatives' and Observers' attention to the Report Back on their comments received at the September 2014 CAG meeting. The Representatives and Observers did not raise any specific comments.

### APPLYING THE DUE PROCESS IN AN ACCELERATED MANNER

Ms. Kamp-Roelands provided some background to the process for developing an accelerated response and explained the differences with the document presented at the CAG September 2014 meeting and how the CAG comments were addressed. She also explained that the updated policy was intended to be sufficiently flexible so as to accommodate the diverse projects and issues that may require acceleration. She added that the updated proposed policy describes the way the acceleration is achieved in more detail and that the proposed policy was discussed with the IESBA's senior staff and within the IESBA's Policy Committee. The Representatives and Observers commented as follows:

- Mr. Fukushima suggested that the listing of criteria in paragraph 2 of Agenda Item I.1 that describe the circumstances that require an accelerated response be further clarified. He suggested that the criteria also address the need for urgency in addressing the matter. Mr. Stewart and Ms. de Beer agreed. Mr. Fukushima also suggested that the policy be amended in paragraph 3(a) to require that project proposals describe the circumstance that gave rise for having a topic be progressed in an accelerated manner. Ms. de Beer agreed.
- Mr. James suggested that the criteria should be applied against some of the IAASB's newer projects to determine that they are fit for purpose, for example ISA 600, as some may be of the view that the issues relating to that project may be straightforward. Ms. de Beer agreed with Mr. James' suggestion to test the criteria, but noted her view that ISA 600 would not meet the criteria for an accelerated response given the complexity of the issues already identified going into the project.
- Mr. Koktvedgaard noted that the topic was not on the IESBA CAG agenda for its March 2015 meeting. He also suggested clarifying how the process has been accelerated, for example by using a graphical presentation. He expressed support for not shortening the exposure period, and agreed that flexibility would be needed as to how the existing mechanisms would be used (e.g., by holding CAG or Board meetings via teleconference). Mr. Hansen asked for confirmation that the intention is not to preclude any of the process mechanisms. Ms. de Beer clarified that the proposal was not to change the due process itself, and that all process mechanisms will continue to exist.
- Mr. James suggested the deletion of the text in the last sentence in paragraph 4 of Agenda Item I.1 that reads "...it is acknowledged that the participation of all CAG Representatives and all PIOB member's at every stage of the Due Process will not always be possible." He also noted that alternative procedures should be sought when there is a need to address something in an accelerated manner, e.g., early dialogue with the chairs of PIOB and CAG.

Ms. Kamp-Roelands acknowledged the points raised by the Representatives and Observers and provided feedback and further explanations where requested. She reiterated that the process mechanisms for the IAASB's due process will still be there as the IAASB's due process itself will not change, but that projects would be accelerated in other ways, e.g., using different means of communication (e.g., conference calls and emails) in between physical meetings, and finding ways to be more efficient in the initial information-gathering stage where applicable. Ms. Healy provided an example of how the accelerated response would be applied using the IAASB's potential process to amend ISA 250<sup>24</sup> as a result of the IESBA's project on non-compliance with law and regulation (NOCLAR). She explained how urgency (the need to having the amendments to ISA 250 made on a timely basis so as to align with the updated IESBA NOCLAR standard), and the straightforward nature of the changes contributed to the recommendation to have an accelerated response. She also noted that it is in the public interest that projects go through an accelerated process only in exceptional cases, and that it is useful to have the availability of such a process at hand.

#### PROCESS FOR DEVELOPING INTERNATIONAL PRACTICE NOTES (IPN)

Ms. Kamp-Roelands introduced the topic, and provided further insight into the major changes in the process for developing IPNs and the key characteristics of the process proposed. Ms. de Beer added that the paper addressing the process for developing IPNs was also tabled for the September 2014 CAG meeting, but was not discussed due to insufficient time. Feedback was sought from the CAG by email in November 2014 and the comments received were discussed with the IAASB at its December 2014 meeting and taken into account in the revised process proposed in Agenda Item I.2.<sup>25</sup>

The Representatives and Observers commented as follows:

- Ms. de Beer noted that paragraph 10 in Agenda Item I.2 would also need inclusion of the IAASB CAG chairman for matters that are raised to the CAG.
- Mr. Stewart shared his experience that when the IASB developed documents with similar levels of authority there was public exposure. He suggested that, at a minimum, the process be revised to allow for external reviews from certain individuals who are experts in their field, such as the accounting firms and others. He added that doing so would enrich the process so that it could benefit from different perspectives. Mr. Thompson agreed and noted that there are matters that require the IPN process to be flexible. He noted that some IPNs may require exposure while others do not and suggested to include this flexibility more explicitly in the description of the process.

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<sup>24</sup> ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

<sup>25</sup> The CAG supported the proposed process, but raised the following suggestions:

- (a) Even though the importance of allowing flexibility for public exposure of a draft IPN is recognized, one place where the process should not be shortened would be to have too short a public exposure process.
- (b) Flexibility should be set at the project proposal phase already.
- (c) Report back to the CAG, albeit in a different and simplified form because the outcome of the IAASB's deliberations on significant comments made by the CAG is needed.
- (d) The Board should bear in mind that its credibility will be affected irrespective of the authority of material, hence quality control over the particular project should be considered.

- Mr. James suggested that the CAG and PIOB would also need to have an opportunity to comment on the final version of an IPN. Ms. de Beer noted that paragraph 12 in Agenda Item I.2 would need also to include the final publication as a matter on which to consult the CAG, as well as in paragraph 14.
- Ms. de Beer was of the view that it was inappropriate for CAG Representatives and Observers to participate as a member of an IAASB WG as described in paragraph 7 of Agenda Item I.2. She explained her view that doing so would present a conflict of interest for the Representative or Observer and does not constitute proper governance. By way of example, she further explained that she participates as an observer to the IAASB's Steering Committee, but because the CAG is responsible for advising the IAASB on matters of strategic importance, she recuses herself from those meetings where the IAASB's Strategy is discussed.
- Mr. Waldron expressed a different view drawing from his experience as a member of the ISA 720 TF. Messrs. Dalkin, Koktvedgaard, and Waldron noted that they did not view a CAG member being involved in an IAASB Working Group established to develop an IPN or a standard as a threat to the CAG's independence as the Representative can bring in much subject matter expertise. Mr. Koktvedgaard explained that it is instead necessary to evaluate whether the persons serving on the IAASB's WG have the right skillset and whether the public interest is met based on their work. He also noted the importance of being transparent about any CAG Representative's involvement in IAASB's WGs when those projects are discussed with the CAG.
- Mr. James asked for further explanation about the role of the Steering Committee. Prof. Schilder and Ms. Healy explained the purpose and role of the IAASB's Steering Committee and how its work informs the strategic direction of the IAASB. Prof. Schilder and Ms. Healy also provided further clarification about the composition of IAASB's TFs and WGs, and explained that Representatives' or Observers' participation in those groups is typically to provide to the respective project a particular perspective based on those individuals' unique expertise.
- Mr. Koktvedgaard suggested that in developing IPNs the IAASB should seek to interact with the CAG using other forms of communication, e.g., teleconferences and emails in between the planned physical meetings to discuss relevant issues. Ms. de Beer agreed.

Ms. Kamp-Roelands thanked the Representatives and Observers for their valuable input and noted that both drafts were also sent to the IAASB to obtain their input by email. She explained that feedback from the CAG and the IAASB's email responses would be considered at the IAASB March 2015 meeting.

**Open Session – Former Financial Accounting Standards Board (FASB) Chairman Presentation (Item J)**

Open Session – To <i>RECEIVE</i> a presentation from former FASB Chairman
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Ms. Seidman thanked the CAG for inviting her to speak, and provided a brief summary of her background and experiences as former chairman of the FASB, and current role as the Executive Director of the Center for Excellence in Financial Reporting at the Lubin School of Business at Pace University. Ms. Seidman noted that she also currently serves as a Director of Moody's Corporation, and a Public Governor of the Financial Industry Regulatory Authority (FINRA).

Ms. Seidman noted that, in her current role, she provides opportunities for a wide range of stakeholders to discuss matters related to financial reporting and identify opportunities whereby the positive developments in financial reporting can be communicated and celebrated. Ms. Seidman also noted that she actively participates in initiatives that support and promote women in accounting and financial reporting roles.

Prefaced by a standard disclaimer that the views and remarks that she expresses are her own and should not be taken to be official positions of any of the organizations with which she is affiliated, Ms. Seidman directed the CAG to a slide that provide an overview of the key players involved in accounting and auditing standard setting in the US describing each of their specific roles. Ms. Seidman emphasized that FASB is an independent organization and that its board members are full-time employees with a five year tenure with the option of extending for one additional year. Ms. Seidman explained that FASB did not have standard setting authority in its own rights, but was designated the responsibility to develop and promulgate accounting and financial reporting standards by other players in the US financial reporting process, such as the Securities and Exchange Committee (SEC) for listed entities and the American Institute of Certified Public Accountants (AICPA) for non-listed entities. Ms. Seidman further explained that the SEC was granted regulatory authority by the US Congress.

Ms. Seidman noted that, as part of its standard setting process, the FASB interacts and seeks to coordinate with other standard setters including the PCAOB and the AICPA's Auditing Standards Board (ASB). She further explained that the SEC oversees the activities of the FASB, in addition to the oversight provided by the FASB's parent organization, the Financial Accounting Foundation (FAF). Ms. Seidman noted her view that the FASB's role is to educate, listen and respond to the feedback it receives from its constituents.

Ms. Seidman explained that, as an independent standard setting organization, the FASB's operations are open and transparent. She shared her reflections and provided examples of when the process did not work well – i.e., when in her view the FASB did not or was perceived as not listening and responding to the feedback of its constituents.

The Representatives and Observers commented as follows:

- Mr. James asked for further clarification about how the SEC provided input and oversight of the FASB's standard-setting process. Ms. Seidman explained that a situation may exist whereby the SEC may separately hear specific concerns from a particular industry on a specific matter that the FASB may not be aware of. In such a case, the SEC will relay this information to the FASB who will then respond appropriately to the affected parties.
- Ms. Singh asked for an example of an instance when the SEC stepped in and overruled a FASB decision on a standard. Ms. Seidman explained that this was very infrequent, and shared reflections from the FASB's issuance of guidance related to stock compensation for public companies.
- Ms. de Beer asked about how the FASB balanced the differing views of various stakeholders, including perspectives unique to SMEs. Ms. Seidman noted that, in her personal view, there are very few issues that affect only SMEs. She explained that if the SME community is experiencing difficulty, then it is likely that larger companies are also experiencing difficulty as well. Reflecting on her experience at FASB, Ms. Seidman explained that it critical to the standard-setting process that complexities are identified early on in the process. She also explained that it was important to engage all stakeholders in order to obtain their unique perspectives, and report back to them to explain how



their feedback was incorporated. Ms. Seidman emphasized the need to maintain the integrity of the standard-setting process with careful listening from all stakeholders. She was of the view that, despite different views, agreement could still be reached with careful dialogue.

- Mr. Hansen asked about the effectiveness of the FASB's process for post-implementation review of its standards. Ms. Seidman provided an overview of this process, noting that the reviews are performed by the FAF, and not by the FASB, so that this process is independent from the development of the standards. Ms. Seidman believed that post-implementation reviews are an important part of the standard setting process, particularly for larger standard-setting projects. She further noted that the ultimate goal of post-implementation reviews should be to look back to see whether any tweaks are necessary.
- Mr. Koktvedgaard asked whether there were learnings in her current role that she wished she had when she served as FASB Chairman. Ms. Seidman noted that she wished she had been more in tune to the FRC's Financial Reporting Disclosure lab work. She added that, outside of the US, there seems to be positive momentum around the topic of financial statement disclosures. Ms. Seidman explained that she would have liked to use this positive momentum to further the debate and gain momentum in the US on the topic. Mr. Koktvedgaard questioned whether this lesson could be applied to international auditing standard-setting. Ms. Seidman noted that there was always benefit to getting interested parties together to share best practices and lessons learned. Ms. de Beer agreed, adding that in her view, the IFIAR inspection reports are an example of this.
- Mr. Stewart asked for further explanation about the role that pre-implementation support can play as it relates to the implementation of a standard. Ms. Seidman responded by providing an example of FASB's efforts in this regard. Reflecting on the recently issued FASB revenue recognition standard, Ms. Seidman noted that FASB was at one point of the view that it was incredibly important to establish a transition support group for the new revenue recognition standard. Reflecting on her knowledge of the planned aims for such a support group, and through the lenses of her new role serving on corporate boards, Ms. Seidman suggested that the [Transitional Resource Group](#) seems to be generating a high volume of issues, which is causing the boards to consider delaying implementation of this important standard.
- Mr. Fukushima asked about how the FASB obtained investor views on its projects. Ms. Seidman noted that obtaining investors input on the record by way of a comment letter remains difficult. However, she noted that including members of the investor community into the FASB board and staff was a useful way of ensuring that the views of the investor were consistently considered. She noted that having investor expertise and types in-house also helped in the outreach to investors. Ms. Seidman explained that the FASB used other forms of outreach, travelling to meet with investors, such as going to major cities where the investors are located to obtain their views. She cautioned that obtaining investor input through less formal means (i.e. other than through submission of a formal comment letters) does open the process up to criticism. For example, some may challenge the views being put forward as that of investors. Another difficulty that arises relates to identifying who the investor is, and establishing a consensus view from investors about what the most important aspects of a project are from their perspective.

- Mr. Shaffer observed that financial statements are getting more voluminous and complex with additional disclosures and asked for Ms. Seidman's views on possible solutions. Ms. Seidman noted that, at least from a FASB standard setting perspective, some of the problem lies within the disclosure requirements themselves. She noted that historically the accounting standards are agreed to first by the board and then the attention is turned to the disclosure requirements, which is not an ideal process. Ms. Seidman also noted that there is a tendency for the requirements of the standards to be applied in a prescriptive manner, when this is not the intent of the standard setters. She emphasized the importance that materiality and relevance have to play in judging what disclosures should be made in a company's set of financial statements. Ms. Seidman expressed support for the SEC's position regarding disclosures and the need to question the practice of having defensive disclosures in financial statements. Ms. Seidman suggested that calling out positive changes that are observed in financial reporting disclosures is an extremely important part of the process in changing the views of stakeholders on disclosures. She was of the view that there will be little willingness to change current behavior unless a strong incentive for change exist.
- Mr. Muis asked for views on the joint project efforts of the IASB and FASB and whether the possibility exists for a single standard setter in the future. Ms. Seidman noted that the process had been challenging but that many positive changes occurred when the two boards worked together on joint projects. Ms. Seidman noted however that if the objective was to have one decision or one outcome, then there needs to be one decider – both the FASB and the IASB had their own separate constituents that they needed to answer to. Ms. Seidman noted that, with continuing coordination and collaboration, in her view, perhaps another time will come where the FASB and IASB will be able to come to greater agreement in standard setting.

Ms. De Beer thanked Ms. Seidman for her time and her comments.

### **Report Back (Item K)**

To *REPORT BACK* on the IAASB's Strategy and Work Plan and ISA 720 – Other Information

Ms. Healy drew the CAG's attention to the report backs included in Agenda Items K.1 and K.2, noting that the finalized documents incorporated the CAG input. She noted that *The IAASB's Strategy for 2015–2019* and *The IAASB's Work Plan for 2015-2016* were released in December 2014, and that ISA 720 (Revised) is subject to PIOB confirmation of due process followed and would be released sometime in April 2015.

Ms. de Beer reminded the CAG that report backs are an important mechanism for ensuring that the comments of the CAG are adequately considered by the various TFs and the IAASB. She also reminded the CAG that, in addition to this formal report back mechanism, CAG comments are also taken to the IAASB meeting by herself, the Chairman, Deputy Chair and Technical Director of the IAASB as well as the TF and WG Chairs, who all attend the CAG meetings to have a first-hand understanding of the CAG comments. The Representatives and Observers had no comments.

### **Open Session – PIOB Update Presentation (Item L)**

Open Session – To *RECEIVE* an update from the PIOB summarizing the feedback from their September 2014 Public Interest Seminar

Mr. Muis introduced the topic, sharing his reflections on the evolution of international standard setting. He then provided some background about the PIOB's intent in hosting the September 2014 Public Interest Workshop as well as their process in developing the questions discussed during the event. Mr. Muis highlighted the main ideas raised at the 2014 Workshop as noted in the PIOB paper titled, *Conclusions from the Public Interest Workshop* (Agenda Item L).

Mr. Muis then shared his personal perspectives on some of the topics addressed in Agenda Item L. On the topics of proactivity of the profession and how the audit profession is perceived, as well as the audit profession's ability to appropriately respond to the calls for enhanced communications, and narrowing the expectations gap, Mr. Muis noted that he had mixed feelings about whether this could really be appropriately dealt with. He expressed optimism in light of the release of the IAASB's new and revised auditor reporting standards. He referred to the new auditor's report as a "paradigm shift", and a "...milestone event ...that could possibly be the saving grace of the profession...."

Mr. Muis also discussed the ongoing initiatives and discussions among the PIOB, the leadership of the standard-setting boards and IFAC, which are aimed at clarifying their respective roles and responsibilities in an effort to enhance the integrity of the standard setting process taking into account feedback received and perceptions of a lack of independence.

Mr. Muis shared his personal view that it was important for all stakeholders, not just auditors, to work together towards identifying solutions to the very important issues raised in the Workshop.

Mr. Muis noted that the PIOB will discuss these topics further as well as its future strategy at its next meeting in Abu Dhabi.

The Representatives and Observers commented as follows:

- Ms. Elliott asked whether the PIOB would be interested in having the OECD take on some work in the area of education. She explained that the OECD has experience conducting research in the area of education – vocational in addition to traditional education. Mr. Muis agreed, noting that, in his view, education is the foundation for the audit profession. Ms. Lang echoed Ms. Elliott's views, adding that there is a need for a holistic approach with respect to education. She noted that education is the biggest challenge to the audit profession. She suggested that stakeholders, other than standard setters also have a role to play in education. She challenged the PIOB's planned follow up to focus on enhancing the skills of auditors in financial institutions, and suggested that the focus instead be on enhancing the skills of auditors more broadly.
- Ms. Lang also cautioned that, in determining a definition of the public interest, the PIOB should bear in mind that the concept of the public interest is broad, complex and still evolving. She also suggested that the PIOB challenge the long-held notion that investors are the proxy for the public interest. Acknowledging that investors are a very important stakeholder group, Ms. Lang explained her view that the definition of the public interest varies depending on the issue and its potential impact. Mr. Muis agreed, noting that some very important principles that need to be considered in defining public interest already exist in the 2012 IFAC Policy Position Paper, [A Definition of the Public Interest](#). He acknowledged the importance of having a definition that addresses the core principles, but that is also flexible enough to accommodate the more subjective aspects of the meaning of the term public interest.

- Mr. Waldron complimented the PIOB on hosting the Workshop, noting that it was very informative. Reflecting on the discussions relating to the need for increased investor participation on the CAGs, Mr. Waldron suggested that consideration be given to having investors participative in their individual versus organization capacity. By way of example, he described the role, structure and some of the activities of the PCAOB's Investor Advisory Group. Mr. Kockvedgaard added that the term "investor" should be broadened to other users, including financial analysts, credit rating agencies, bankers, private equity, suppliers, and others who use the financial statements of both listed and other than listed entities. Mr. Muis agreed with the points raised by both Messrs. Kockvedgaard and Waldron and noted that it is critical to the standard setting-process that investors' and other users' views are obtained. He also suggested that in his personal view that the CAG membership would also benefit from seeking ways to capture the perspectives of the tax payer. By way of an example, he cited a 2008 Report to the US Department of the Treasury in which the tax payer perspective was considered.
- Mr. Greene suggested that consideration be given to how to encourage auditors to do high-quality audits through positive reinforcements. He also noted that it was important to understand whether there are impediments to doing good audits. Mr. Muis agreed, noting that while audit firms themselves can do more in this area, he suggested that improved communications between auditors and regulators about audit inspection findings could be helpful.
- Mr. Michel suggested that PIOB and others to re-emphasize and promote the important role that preparers play in developing underlying financial information. He noted that, while the role of the auditor should not be underestimated, it is critical that preparers be made to feel like they are part of the financial reporting process and that they be provided an opportunity to contribute to the public interest challenges that exist today. Ms. Muis noted that the PIOB attempted to acknowledge this during the Workshop. He acknowledged that the "Chief Financial Officer" or preparer function is a very important one, but that it is critical that auditors also speak out in the public interest.
- Mr. White noted that he also attended the Workshop and, based on his observations, the overall tone of the roundtable was negative. He suggested that further consideration be given to the positive progress that has been made over the last twelve years with the establishment of the audit oversight function, and improved communications among auditors, those charged with governance and preparers. Acknowledging Mr. White's positive perspective, Mr. Muis responded that it is important to retain healthy skepticism in considering ways to improve the process.

Ms. de Beer thanked Mr. Muis for his presentation and the Representatives and Observers for their comments.

### **PIOB Remarks**

Mr. Muis explained that the PIOB observer typically reflects established PIOB opinion, but also incorporates his own views on matters for which the PIOB views have not yet been crystalized. Mr. Muis congratulated the CAG on a productive meeting, adding the Representatives and Observers seem to have been given adequate opportunities to comment and have shared their diverse views on wide range of issues related to the agenda items. Reflecting more specifically on the respective projects, Mr. Muis noted that it is a difficult

balancing act for the IAASB to consider national law and regulation in developing their standards and to continue to seek to global solutions while minimizing conflicts to the extent possible.

On the topic of integrated reporting, Mr. Muis noted that, in his view, there are challenges to the project that are similar to those that exist with going concern. He cautioned against moving too fast, and suggested that the accounting firms be challenged to ensure that they are appropriately equipped to provide assurance services in relation to integrated reports should there be a demand.

Mr. Muis then congratulated Ms. de Beer on the chairing of the meeting, noting that there was a great balance of opinions expressed. He noted that Representatives and Observers seem to have felt free to offer frank feedback during the meeting, and that the meeting was conducted in the public interest.

### **Farewell Remarks to Ms. de Beer**

Prof. Schilder took the opportunity to celebrate Ms. de Beer's involvement with the CAG since 2005, and her exemplary leadership since the commencement of her Chairmanship four and half years ago. Noting that May 8, 2015 was the celebration of International Women's Day, Prof. Schilder acknowledged that this CAG meeting had benefited from the outstanding work and leadership of women leaders at the IAASB, both at the board and senior staff levels.

Prof. Schilder noted that Ms. de Beer's background (having worked with the South African Institute of Chartered Accountants, and her involvement with the Johannesburg Stock Exchange) positioned her with a unique perspective that was very relevant to the CAG. He noted that Ms. de Beer was always well-prepared for each CAG and IAASB meeting and brought a wide range of views drawing from her experience in not only the regulatory community, but also through her involvement in audit committees and her academic background. Prof. Schilder noted that Ms. de Beer kept the IAASB honest, though her consistent active participation in the Board discussions and ensuring the views of the CAG are raised. Prof. Schilder noted that since Ms. de Beer took over from Mr. David Damant as CAG Chair, she worked very hard to diversify the membership of the CAG, adding new member organizations and pushing existing member organizations to send their very best Representatives. He noted that Ms. de Beer's efforts have also kept the CAG updated on current developments that are relevant to international standard setting, with the starting the practice of having open sessions and bringing in external guests to the CAG meetings, including Paul Druckman of the IIRC and Steve Harrison on behalf of IFIAR and the PCAOB Investor Advisory Group.

Prof. Schilder bid Ms. de Beer farewell, but expressed enthusiasm for working with her soon in a different capacity to facilitate the IAASB leadership's visit to South Africa in May 2015.

Ms. de Beer thanked Prof. Schilder for his warm remarks and expressed her gratitude for the opportunity to serve the CAG. She acknowledged the very good foundation set by her predecessor, Mr. Damant, who established a diverse group of organizations that he often referred to as "his CAG." Reflecting on her term and her contributions, she described her role as needing to make the CAG "your" [the IAASB's] CAG." She noted her view that the CAG was really there for the IAASB and that it was important to take the CAG to next level – thereby deepening the CAG's input, the quality of the CAG's input, having the CAG be more vigilant and proactive in how it reports to the IAASB, and the way that it monitors the IAASB's consideration and disposition of its advice.

Ms. de Beer thanked the CAG for their valuable input which in turn made her job much easier. She also thanked Prof. Schilder for being a great listener and for being so open to incorporate the CAG's views where appropriate and for reporting back where and when necessary. Ms. de Beer also thanked IAASB staff for their commitment and support, in particular Ms. Healy, Mr. Gunn, Ms. Jules, Ms. German and all the other staff that support the work of the IAASB and as well as the CAG. Ms. de Beer also thanked her husband for his support, encouragement, and advice throughout the years.

She then expressed optimism for the CAG in coming years. She noted her confidence in the leadership and abilities of her successor, Mr. Waldron, who she observed has been very actively shadowing her over the last six months in preparing for his new role. She also noted that Mr. Waldron has already shared ideas on how to further improve the CAG, for example with further engagement and participation of investor stakeholders in the standard-setting process.

### **Closing Remarks**

Ms. de Beer thanked the CAG Representatives and Observers for their high level of preparation and participation and the quality of comments provided during the meeting. She also thanked the Chairman, IAASB members and Staff for their contribution to the success of the meeting.

Reflecting on the discussions, Prof. Schilder thanked the Representatives, Observers for their comments, compliments and suggestions. He noted the importance of receiving the very specific and direct feedback from the CAG in advance of the IAASB meeting and indicated that this input would be helpful to the IAASB at its meeting the following week.

Ms. de Beer thanked the CAG again and then closed the meeting.