

**Minutes of the 73<sup>rd</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD**

**Held on December 7-11, 2015 in New York, USA**

**[Marked for IAASB Comments]**

**Voting Members**

Present: Arnold Schilder (Chairman)  
Charles Landes (Deputy Chair)  
(December 8-11)  
Jean Blascos  
Fiona Campbell  
Valdir Coscodai  
Robert Dohrer  
Karin French  
Marek Grabowski  
Jonas Hällström  
Merran Kelsall  
Annette Köhler  
Brendan Murtagh  
Ron Salole  
Rich Sharko  
Sayaka Sumida  
Ge Zhang  
Megan Zietsman

**Technical Advisors**

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

Apology: Marc Pickeur

Jennifer Burns (Ms. Zietsman)

**Non-Voting Observers**

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

Apology: Juan Maria Arteagoitia (European Commission)

**Public Interest Oversight Board (PIOB) Observer**

Present: Michael Holm

**IAASB Technical Staff**

Kathleen Healy (Technical Director), Beverley Bahlmann, Brett James, Diane Jules, Nancy Kamp-Roelands, Vijyata Kirpalani, Jasper van den Hout, Bradley Williams, James Gunn (Managing Director, Professional Standards) (December 7-8)

International Auditing and Assurance Standards Board (IAASB) agenda materials referred to in these minutes can be accessed at <http://www.iaasb.org/meetings/new-york-usa-11>. These minutes are a summary of the decisions made at the December 2015 IAASB meeting, in light of the issues and recommendations in the agenda material put forth by the Task Forces, Working Groups, Drafting Teams and Staff supporting the individual projects. These recommendations are made taking into account feedback from respondents to the IAASB's public consultations, in particular Exposure Drafts (EDs) of the IAASB's proposals, consideration of previous discussions of the Board and its CAG, and feedback from stakeholders through outreach activities.

## 1. Welcome and Approval of Previous Minutes

Prof. Schilder welcomed the participants to the meeting. He thanked Messrs. Coscodai and Hällström for their contribution as this was their last meeting.

Prof. Schilder congratulated the reappointed board members, Messrs. Landes, Salole and Zhang. He also congratulated the newly appointed board members Messrs. Bandyopadhyay and Vanker.

The minutes of the September 21-25, 2015 IAASB meeting and October 29, 2015 IAASB teleconference were approved as presented.

## 2. Invitation to Comment (ITC): Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control, and Group Audits

The IAASB members present<sup>1</sup> unanimously approved<sup>2</sup> two documents highlighting the Board's discussions and views on issues and potential actions (including standard-setting activities) to enhance audit quality relating to the topics of Professional Skepticism, Quality Control and Group Audits:

- [Invitation to Comment \(ITC\), Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits.](#)
- [An Overview of the ITC \(Overview\), Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits.](#)

In finalizing the documents, the Board was mindful whether the most significant public interest issues relevant to the three projects were sufficiently highlighted. The Board agreed that the most significant public interest issues to be addressed in the context of its work on professional skepticism, quality control and group audits were:

- Fostering an appropriately independent and challenging skeptical mindset of the auditor.
- Enhancing documentation of the auditor's judgments.
- Keeping the International Standards on Auditing (ISAs) fit for purpose.
- Encouraging proactive quality management at the firm and engagement level.
- Exploring transparency and its role in audit quality.

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<sup>1</sup> 17 Board members present

<sup>2</sup> In terms of the Board's due process and working procedures, the IAASB is not required to formally vote to approve the issuance of consultations like the Overview and ITC. However, in the context of seeking the IAASB's consensus on these documents, Board members were asked to indicate whether they were supportive of their issuance for public consultation.

- Focusing more on firms (including networks) and their internal and external monitoring and remediation activities.
- Reinforcing the need for robust communication and interactions during the audit.

#### OVERALL COMMENTS RELATING TO THE OVERVIEW

The Board, and IAASB CAG Chair, continued to strongly encourage the Audit Quality Enhancements Coordination Group (AQECG) to make the Overview as informative and readable as possible for the intended audience. The Board recommended clarifications to the professional skepticism section so that respondents could more clearly understand the early stage of this project, as well as to better describe what the IAASB might explore as part of its further work in this area. The Board also recommended having less focus on what others are or may be doing (more detail about the specific changes made to the professional skepticism section can be found below). Therefore, in finalizing the Overview for publication, adjustments were made to address these comments, as well as other Board input. The following overall changes were made:

- Rarticulate the Overview using ‘plain English,’ wherever possible and as appropriate, in order to appeal to the wider intended audience for this document. These changes included clarifying upfront the purpose of the document and more directly and succinctly describing those for whom the document is intended.
- More clearly describe the overarching matters included in the introduction and background sections of the document.
- Make a clearer link between professional skepticism and the matters being considered in relation to quality control and group audits.
- Further refine the explanation of what ~~the use of a quality management approach (QMA) to making revisions to the international standards, to reflect the use of a quality management approach (QMA), would entail, in order to~~ This could help stakeholders (i) better understand the implications of the use of such an approach, and in particular highlight that this would likely have effects at the individual engagement-level in addition to at the firm level, and (ii) assess the advantages and disadvantages of using such an approach.
- Further clarify Board views about various specific quality control and group audits issues.

The Board also recommended more clarity and focus in the Overview questions, especially the general questions. The Board asked the ~~W~~working ~~G~~group, in making revisions, to balance its concerns over having overly broad questions that would not sufficiently focus respondents on the matters related to the topics of professional skepticism, quality control and group audits – and risk setting or increasing expectations in relation to possible further actions on unrelated issues – with the feedback from the CAG that a more open-ended question on audit quality would provide useful input for the IAASB to consider as it develops its future work plans.

#### OVERALL COMMENTS RELATING TO THE ITC

The Board agreed that the ITC should be a standalone document, and therefore that relevant introductory and background information presented in the Overview should be replicated in the ITC. Although duplicative, this would negate the need for respondents to the ITC to also consider which parts of the Overview to read and respond to. Similarly, the Board agreed that the questions in the Overview would be

repeated in the ITC, supplemented in the ITC by more detailed questions on each of the three topics. In addition, specific questions were added to gather more information about issues specifically related to public sector audits and small and medium practices (SMPs).

In light of the Board's discussions, changes were also made to the ITC to:

- Clarify examples of where changes to existing definitions in the ISAs may need to be considered (for example, in relation to engagement partner and various group audit-related definitions). The ITC notes that the appropriateness of various definitions would be considered if, during the standard-setting process, changes were going to be proposed to standards that would necessitate reconsideration of their ongoing relevance.
- Better present the topics and issues on which the Board had expressed mixed views, to provide more transparency about the various debates and not suggest that the IAASB had already reached a consensus view on the proposed way forward.

A few Board members again expressed concern about the length of the document. Ms. Zietsman reminded them that it was important and necessary for the ITC to properly set out the issues and possible actions in order to obtain appropriate input for determining the way forward for each of the three projects, especially in light of the complexity of many of the issues described. In addition, Ms. Zietsman also reminded the Board that guides for certain stakeholder groups would be developed by IAASB Staff to help respondents navigate through the document. In addition, it was agreed that the questions would only be presented at the end of the document and that links within the document in the relevant sections would be included, thereby negating the need for the questions to be repeated and improving the navigability of the ITC.

One member expressed concern that, in the context of discussing a QMA, there is no description of "audit quality" or of "a quality audit" in terms of the expected outcomes, and encouraged the working group to further consider the need for this in that context.

The following sets out the significant discussions and decisions of the Board in relation to the individual topics of Professional Skepticism, Quality Control and Group Audits.

#### PROFESSIONAL SKEPTICISM

Prof. Köhler introduced the topic, and noted that feedback received in advance of the meeting on the current draft of professional skepticism section of the draft ITC and Overview suggested that further revisions could usefully be made.

The IAASB agreed that a redraft of the professional skepticism section of the ITC and the Overview was necessary to better (i) describe how the ISAs and ISQC 1<sup>3</sup> address the topic of professional skepticism; (ii) explain the early stage of the project in comparison to the quality control and group audits projects; and (iii) indicate the specific actions that the [Joint Working Group](#) plans to consider as part of determining the way forward for the professional skepticism project. Changes were also made in light of the IAASB's reflections from the summary of academic research for 2013–2015 presented during the meeting (see Item 7 of these minutes).

Additionally, the IAASB agreed to several revisions during the meeting to address the following comments:

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<sup>3</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*

- One Board member suggested that the ITC should indicate the impact of familiarity and advocacy threats on the application of professional skepticism. These concepts ~~that~~ are described in the International Ethics Standards Board for Accountants' (IESBA) *Code of Ethics for Professional Accountants* (the IESBA Code). This member was also of the view that the IESBA should undertake revisions to the IESBA Code to deal with how threats to auditors' application of professional skepticism should be addressed.
- The Board agreed to omit the diagram titled "Professional Skepticism: Interactions and Contextual Factors" from the ITC and Overview, replacing it with a more fulsome discussion within the text of the ITC and Overview. This new section, titled "Factors Influencing Professional Skepticism," includes:
  - An explanation of the link between professional skepticism, professional judgment and documentation as a means of evidencing the application of professional skepticism.
  - A description of how professional skepticism is impacted by individual auditor characteristics, the firm and others, including how individual personality traits, engagement-specific factors (e.g., staffing and time pressures), firm-specific factors (e.g., firm culture, rewards and incentives), and external environmental factors (e.g., local norms and culture) affect the auditor's application of professional skepticism.
  - A discussion of the challenges that have been identified by stakeholders during the Board's initial outreach activities on the topic.

The Board agreed to more prominently feature the issues being considered as part of the project, and to include a list of the areas being explored in the ITC and the Overview. To help inform the Board, the ITC and Overview questions were revised to solicit more specific suggestions from stakeholders about what they believe are the key drivers and impediments to auditors' application of professional skepticism.

#### QUALITY CONTROL

Ms. French provided a summary of the more substantial changes described in **Agenda Item 2-A** that had been made to the QMA, cross-over and quality control specific sections of the ITC in response to the feedback that had been received during the September 2015 IAASB and IAASB CAG meetings, the October 2015 IAASB teleconference and various other outreach.

In addition to suggestions for improvements to readability and other editorial changes, adjustments were also made to the ITC (including the questions) to:

- With respect to QMA:
  - Highlight that the Board strongly supports the use of a QMA for considering revisions to ISQC 1, while making it clear that the IAASB is looking for feedback about how such an approach could be undertaken, in addition to views from those who may not support the use of a QMA.
  - Clarify that revising ISQC 1 to require a QMA at the firm level may also incorporate or require a proactive approach to managing audit quality at the engagement level, and as such would lead to changes to other standards, including ISA 220<sup>4</sup> and ISA 600<sup>5</sup>.

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<sup>4</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

<sup>5</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- Provide additional clarity and specificity in circumstances where pursuant to law, regulation or custom within a jurisdiction, partners or individuals other than the engagement partner (as defined by the ISAs) sign the auditor's report in addition to, or instead of, the engagement partner. Some Board members were of the view that current practice was not clearly described in the ITC and therefore respondents may misinterpret why changes were being contemplated. In addition to making revisions to address this comment, changes were also made to include considerations about the potential impact on the naming of the engagement partner (where relevant) and the definition of the engagement partner in these circumstances. It was also noted that mixed views were expressed by the Board as to whether changes to the ISAs to address this circumstance would be appropriate.
- Enhance the description of Board views about whether requirements for networks could or should be established in the international standards where a Firm that operates as part of a network may seek to rely on the network's system of quality control. ~~A,~~ as the Board had mixed views on this matter. The Board agreed that the ITC should present the challenges identified in establishing requirements for networks and ask for views on this topic in order to assist the Board in determining an appropriate way forward. In developing requirements for a network firm to demonstrate its basis for reliance on network policies and procedures to meet its responsibilities in accordance with the IAASB's quality control standards, the Board agreed that it should first determine what such requirements would be in instances where a firm relies on a non-network firm and then determine how these requirements may be different when relying on a network firm or the network entity.
- Clarify that, in relation to audit delivery models (ADMs), the supervision and review of the procedures performed at the centralized locations or by centralized resources is the responsibility of the engagement team. In addition, it was noted that the ITC should not be presented so as to be discouraging the use of ADMs for areas of the audit that are more judgmental, as such actions may positively contribute to audit quality. Rather, it was noted the standards should be clear what would be expected of the firm and the engagement team in the case where judgmental aspects of the audit are performed at a centralized location or by centralized resources.
- With respect to engagement quality control (EQC) reviews, clarify that the role of the EQC review is different than the role of the engagement partner, and that the EQC review is effectively a firm-level control being performed at the engagement level.

#### GROUP AUDITS

Ms. Zietsman introduced the topic, explaining that a new introductory section had been added to the Overview (and was mirrored in the ITC) to provide additional context to the group audits section. Ms. Zietsman further explained that, while no significant changes had been made since the September 2015 IAASB discussions, further clarifications had been made to the descriptions of issues and possible actions by the IAASB. In addition, she noted that more details had been added from the extant ISAs to better help respondents understand the nature and extent of existing material relevant to the issues raised in this section of the ITC.

Further clarifications to the issues and possible actions were also made to address Board comments, including:

- Linking text in the group audits section to where the relevant crossover issues were described in the quality control section, such as material relating to the work effort when the group engagement team is using work performed by component auditors that are part of a network firm.

- Describing what the group engagement team should be doing in respect of a group audit, so as not to suggest (in the possible changes being proposed) that most of the work would always need to be carried out by the group engagement team specifically (which in many cases would be impractical in the Board's view).
- Adding a specific question relating to the development of requirements and guidance for component auditors.

#### WAY FORWARD

As noted above, the IAASB supported the issuance of the Overview and ITC, with a consultation period of 150 days, during which time extensive outreach was being planned. Ms. Zietsman explained that the input from the consultation, as well as the various outreach activities, would be used to develop project proposals for Quality Control and Group Audits, expected to be presented to the IAASB late in 2016. The input relating to Professional Skepticism would be used to help inform future activities of the Professional Skepticism Working Group (PSWG). Positive feedback from the PIOB observer and the IAASB CAG Chairman on the process to finalize the ITC and Overview are included in their respective sections at the end of these minutes.

### 3. ISA 540<sup>6</sup>

Mr. Sharko introduced the topic and explained the outreach conducted with regulators, practitioners and others since the September 2015 IAASB meeting. He noted that the Working Group drafted a project proposal to revise ISA 540 and developed a publication to update stakeholders on the project's progress (the Project Publication). He highlighted that the Project Publication identified the audit issues relating to Expected Credit Losses (ECL), and the preliminary views of the Working Group on what related action the Board may consider in the revision of ISA 540.

#### PROJECT PROPOSAL

Mr. Sharko introduced the project proposal to revise ISA 540 by highlighting the objectives of the project proposal, the issues to be addressed, and how the project to revise ISA 540 serves the public interest. He also highlighted the key comments that the IAASB CAG Representatives and Observers raised in their December 2015 teleconference.

Board members expressed broad support for the project proposal as presented in **Agenda Item 4-B**. In addition to some editorial comments, the following matters were noted with regard to the clarifying or further enhancing the project proposal and the actions to be taken in commencing the project:

- Emphasize the importance of exercising professional skepticism throughout the audit of accounting estimates and the Task Force should consider whether the definition of management bias needs to be enhanced.
- Emphasize the importance of the use of experts when auditing accounting estimates.
- Consider whether guidance is necessary to help auditors better understand the sources and characteristics of high estimation uncertainty.

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<sup>6</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

- Clarify that accounting estimates, in addition to impacting the balance sheet, have corresponding impacts on statements of performance, and that greater use of complex accounting estimates can stem from fair value measurements but also other measurement bases. It was also noted that often only certain aspects of accounting estimates are challenging.
- Clarify that it is not the intent of the project to increase the disclosures beyond those required by financial reporting frameworks.
- Conduct outreach with organizations that represent SMPs beyond the International Federation of Accountants' SMP Committee.
- Clarify that future publications to update stakeholders on the project's progress may be issued periodically to inform stakeholders about the evolving discussions at the Task Force and IAASB levels.

#### PIOB OBSERVER REMARKS

Mr. Holm noted that the proposed timetable is challenging. Given the effective date of IFRS 9,<sup>7</sup> he highlighted the importance of meeting the proposed deadlines. He also highlighted the importance of taking into account the audit implications of accounting estimates for insurance contracts.

#### IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron noted that CAG Representatives and Observers supported the project proposal to revise ISA 540 and agreed with the key comments raised by the CAG Representatives and Observers as presented by the Task Force. He also noted the CAG Representatives' and Observers' interest to be frequently engaged on this topic.

#### APPROVAL

Subject to addressing the matters noted above, the IAASB unanimously approved the project proposal to revise ISA 540 with 17 affirmative votes out of the 17 Board members present.

#### PROJECT PUBLICATION

Mr. Sharko introduced the Project Publication by noting that its purpose is to provide an outline of the project proposal and to highlight the significant audit challenges that may arise as a result of ECL. He explained that the project publication will explain the audit issues identified by the Working Group regarding ECL, highlight the Working Group's thinking on those issues in light of existing ISAs and International Auditing Practice Notes, and identify areas that the Working Group may explore as part of the project to revise ISA 540. Mr. Sharko also highlighted the drivers and the challenges of issuing the Project Publication and the feedback received from stakeholders.

Generally, the Board supported the Project Publication as included in **Agenda Item 4-C**. Board members provided, in addition to editorial suggestions, the following comments:

- The IAASB asked the Task Force to consider whether the document could be restructured and retitled to make the two objectives of the document clearer. It was suggested that the material on how the

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<sup>7</sup> International Financial Reporting Standard (IFRS) 9, *Financial Instruments*

identified issues may be addressed in the ISA 540 project could be expanded to make it more useful to readers.

- Some Board members questioned if another form of non-authoritative guidance, such as a Staff Alert, might be more appropriate, as some practitioners might find comments about the future direction of the project to revise ISA 540 unhelpful. Others disagreed, noting that requests for audit guidance had come from both practitioners and regulators and therefore it is important for the IAASB to provide these stakeholders with guidance to help facilitate auditors' early responses to the challenges posed by ECL models. It was also noted that CAG Representatives and Observers generally supported the section that describes the possible future direction of the project and that including this section in the Project Publication signals that the needed responses from auditors to ECL models will likely have an impact on ISA 540.
- It was noted that a clear list of issues or "action items" may help readers track the IAASB's progress on the issues.
- Support was noted for the outreach that the Working Group has conducted to date. The Task Force was encouraged to engage in further outreach throughout the project to ensure that relevant issues are being appropriately considered.

The Board also highlighted several areas that could be enhanced or that could be included in Section IV of **Agenda Item 4-C**, as follows.

- Several suggestions were made on how to clarify and expand the possible future direction sections to provide more detail on the possible changes to ISA 540.
- It was noted that the Task Force could include material linking to the auditors' responsibility to communicate with those charged with governance as described in ISA 260 (Revised)<sup>8</sup> and ISA 265.<sup>9</sup>
- With respect to challenges with data and assumptions, it was noted that the controls around systems and high volume accounting estimates could be emphasized in the considerations that may aid the auditor in considering management's use of data, including forward-looking data. The importance of consistent use of data within an entity and the role that regulators play therein was also highlighted.
- Support was noted for the proposed more granular risk assessment and the proposed stronger link between significant risks and certain characteristics of accounting estimates. It was questioned whether rebuttable presumptions would be the best future direction.
- With respect to understanding and assessing models and controls thereon, the importance of being involved in the implementation process was highlighted given the ability to suggest adjustments early on in the implementation process. Mr. Holm agreed and highlighted that small changes in a model can have a material impact on the financial statements and therefore stressed the importance of change management controls over models.
- It was suggested to elaborate on management's and the auditor's use of experts in dealing with ECL models and to emphasize that key audit matters in accordance with ISA 701<sup>10</sup> can also be applied voluntarily for entities other than listed entities.

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<sup>8</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

<sup>9</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

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

- It was suggested to combine the possible future direction sections into one section in order to reduce repetition and improve the readability. The combined possible future direction section would also enable the Task Force to summarize matters that are more holistic. Others preferred the approach taken by the Task Force as this approach could make future updates easier.

Mr. Waldron highlighted the importance of obtaining CAG Representatives' and Observers' input on the project on a timely basis and more frequently than may be the case for other projects.

#### WAY FORWARD

The IAASB will consider an updated version of the Project Publication at its January 2016 teleconference. The ISA 540 Task Force will bring issues around the revision of ISA 540 to the March 2016 IAASB meeting. Mr. Sharko suggested teleconferences with those CAG members who are interested in periodic updates.

#### 4. Auditor Reporting – ISA 810<sup>11</sup>

The Board considered issues arising from the responses to the ISA 810 ED and the Drafting Team's recommendations, as well as a revised draft of proposed ISA 810 (Revised).

Except for matters relating to the application of the enhanced auditor reporting requirements relating to other information, the Board generally agreed with the Drafting Team's recommendations as set out in **Agenda Items 3-A and 3-B**. Some Board members communicated a number of observations on **Agenda Item 3-B** that, while already acknowledged by the Drafting Team, were considered to be out of scope of the limited conforming amendments nature of the project. In addition to various editorial and other less substantive amendments to **Agenda Item 3-B**, additional changes were made to proposed ISA 810 (Revised) as described below.

#### INFORMATION IN DOCUMENTS CONTAINING SUMMARY FINANCIAL STATEMENTS

The Board confirmed its previous decision that the auditor's work effort related to other information required in an ISA 810 engagement would not fully reflect the enhanced work effort required under ISA 720 (Revised).<sup>12</sup> To avoid confusion between the work effort related to other information required by ISA 810 (Revised) and the work effort required by ISA 720 (Revised), the Board decided to amend proposed ISA 810 (Revised) to refer to "information included in a document containing summary financial statements and the auditor's report thereon," rather than "other information".

Responding-In response to requests from the respondents to the ED for further clarification of the auditor's responsibilities related to information included in a document containing summary financial statements, the Board agreed to:

- Move the requirements addressing the intended work effort related to information included in a document containing summary financial statements to appear in the standard prior to the requirements related to the auditor's report on the summary financial statements.
- Enhance and further clarify those requirements by:
  - ~~Requiring-Amending the work effort requirement to require~~ the auditor to read the information included in a document containing the summary financial statements and the auditor's report

<sup>11</sup> ISA 810, *Engagements to Report on Summary Financial Statements*

<sup>12</sup> ISA 720 (Revised), *The Auditor's Responsibilities Related to Other Information*

thereon and consider whether there is a material inconsistency between that information and the summary financial statements. Doing so could aligns this requirement to be more consistent with the manner in which the expected work effort on other information is described in ISA 720 (Revised) in the context of an audit of financial statements is described in ISA 720 (Revised). However, ~~t~~This represented a change from the conforming amendment to ISA 810 agreed in finalizing ISA 720 (Revised) (that requirement being “read to consider”). The Board considered views expressed in the meeting on whether making this change would lead to a significant increase in work effort or that such a change would not be in line with the Board’s due process, as the conforming amendment had previously been finalized. The Board decided that since the word “consider” is used throughout the ISAs as meaning that the auditor applies the auditor’s mind to the matter, no substantive increase in work effort would ensue, but greater clarification of the work effort actually applied in practice would result. The Board therefore did not believe that this change would not be in line with its due process, as it was viewed as a necessary clarification to respond to feedback from respondents to the ISA 810 ED.

- Adding the words “including considering the implications for the auditor’s report on the summary financial statements” to provide greater specificity about what appropriate action may be in the circumstances where the auditor identifies a material inconsistency between the information included in the document containing the summary financial statements and the summary financial statements, and management refuses to revise that information as necessary.
- Enhance the application material associated with those requirements to contrast the differences between the requirements in ISA 720 (Revised) and proposed ISA 810 (Revised) and provide the auditor with guidance on the application of the requirements when information in a document containing the summary financial statements deals with some or all of the same matters as the other information included in the annual report, as well as matters that are not dealt with in the other information included in the annual report.

REFERENCE IN THE AUDITOR’S REPORT ON THE SUMMARY FINANCIAL STATEMENTS TO AN UNCORRECTED MATERIAL MISSTATEMENT OF THE OTHER INFORMATION IN THE AUDITOR’S REPORT ON THE AUDITED FINANCIAL STATEMENTS

The Board acknowledged that some ED respondents were of the view that requiring a reference to a statement in the auditor’s report on the audited financial statements that describes an uncorrected material misstatement of the other information in accordance with ISA 720 (Revised) could be confusing for the reader of the summary financial statements where that other information is not contained in a document that also contains the summary financial statements. The Board did not agree with the Drafting Team’s proposed revisions in paragraphs 17 and 17A of **Agenda Item 3-B**, which were intended to address the concerns of the ED respondents. The Board was of the view that the proposed additional paragraph 17A was overly complex and applied to a particular scenario that would likely not occur frequently in practice; therefore, the Board did not see the need for the conditionality in the proposed requirement. Alternatively, the Board agreed to add an additional requirement that the auditor describe the uncorrected material misstatement of the other information described in the auditor’s report on the audited financial statements and the effects thereof, if any, on the information included in a document containing the summary financial statements and the auditor’s report thereon, as well as application material to explain these potential effects.

#### IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron noted that CAG Representatives and Observers had the opportunity to consider the Drafting Team's proposed responses to the ED in the IAASB CAG teleconference on December 2, 2015. The CAG Representatives and Observers did not raise objections to the consequential amendments to the standard.

#### DUE PROCESS CONSIDERATIONS

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

#### APPROVAL

After agreeing all necessary changes to proposed ISA 810 (Revised), the IAASB approved ISA 810 (Revised), with 16 affirmative votes out of the 17 Board members present. Mr. Blascos dissented. One member was not present at the meeting and was therefore ineligible to vote.

Mr. Blascos stated that he believed the amendment to paragraph 14 of ISA 810 (Revised) to require the auditor to read the information included in a document containing the summary financial statements and the auditor's report thereon and consider whether there is a material inconsistency between that information and the summary financial statements (the previous requirement being "read to consider") could be interpreted as a change to the work effort. By changing "to consider" to "and consider", in Mr. Blascos' view, there is an implication that, in order to consider, the auditor would need to do more than reading. Mr. Blascos noted that the change appears to have the intent that the work effort be more in line with the work effort required by ISA 720 (Revised), which would be a significant change to the existing requirement in the context of an ISA 810 engagement to report on summary financial statements.

In Mr. Blascos' view, the IAASB had previously had very extensive debate as part of the recent revision of ISA 720, where the Board decided not to carry the extended work effort requirements from ISA 720 (Revised) into ISA 810 for engagements to report on summary financial statements and approved a conforming amendment to ISA 810 using the terminology "read to consider".

Mr. Blascos continued, noting the scope of this ISA 810 project was to address the information gap resulting from the new and revised auditor reporting standards. ISA 570 (Revised)<sup>13</sup> and ISA 720 (Revised) now require separate sections in the auditor's report on the audited financial statements when there is a material uncertainty related to going concern and an uncorrected material misstatement of the other information, respectively (i.e., these matters are no longer addressed using an Emphasis of Matter (EOM) or Other Matter (OM) paragraph). Because extant ISA 810 does not refer to these new sections required by ISA 570 (Revised) and ISA 720 (Revised), without amendment to extant ISA 810, these newly required sections would not be required to be highlighted in the ISA 810 auditor's report. The scope of the project did not contemplate changing the underlying work effort requirements of an ISA 810 engagement.

Mr. Blascos further noted that this change to the work effort requirement with respect to other information in documents containing summary financial statements had not been exposed as part of the ISA 810 ED

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<sup>13</sup> ISA 570 (Revised), *Going Concern*

and that he was not aware of any respondents to the ISA 810 ED requesting that such a change be made. Mr. Blascos stated that a change to the requirement may be the outcome would there be a full application of the due process on this matter as part of a comprehensive review of ISA 810, but that was not the objective of this project.

In response to the argument that changing the requirement from “read to consider” to “read and consider” would align this requirement to be more consistent with what was included in ISA 720 (Revised) relative to the expected work effort, Mr. Blascos indicated that this argument confirmed his view that this change is both beyond the scope of this project to revise ISA 810 and in contradiction with the decisions reached after extensive due process as part of the recent revision of ISA 720. Mr. Blascos further stated that he stood by the decisions reached as part of the revision of ISA 720.

Mr. Blascos concluded that he therefore disagreed with this change and believed it was not in accordance with the IAASB’s due process for the IAASB to be making this change now and changing the requirement.

#### CONSIDERATION OF THE NEED FOR RE-EXPOSURE

The IAASB agreed with the Drafting Team’s view that there was not a need for re-exposure of proposed ISA 810 (Revised), as the changes made since the ED are in response to the comments received on exposure; and do not fundamentally change the principles of the standard from what was intended in the ED.

#### EFFECTIVE DATE AND WAY FORWARD

The Board agreed that the effective date for ISA 810 (Revised) should be in line with the effective date of the new and revised Auditor Reporting standards, i.e., effective for engagements to report on summary financial statements for periods ending on or after December 15, 2016.

The final changes to ISA 810 (Revised) are tentatively planned for release in March 2016, pending approval from the PIOB that due process was followed in their development.

#### PIOB OBSERVER REMARKS

Mr. Holm congratulated the Board on the approval of ISA 810 (Revised).

### **5. International Accounting Standards Board (IASB) Annual Review**

Prof. Schilder and Mr. Blascos, Chair of the IAASB-IASB Liaison Working Group, welcomed IASB Member Ms. Mary Tokar to the IAASB meeting. Ms. Tokar updated the Board on the IASB’s current agenda, including significant projects underway and those recently completed, that were expected to impact auditors. In particular, Ms. Tokar emphasized the need for consideration regarding how to help auditors relating to the impact of the new accounting standards on revenue recognition,<sup>14</sup> financial instruments<sup>15</sup> and leases,<sup>16</sup> especially in light of the judgment involved in their application. Ms. Tokar also briefed the IAASB on the progress on the IASB’s materiality initiative, noting the release of an ED of a Practice Statement, *Application of Materiality to Financial Statements*, and drew attention to the IASB’s Agenda Consultation.

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<sup>14</sup> IFRS 15 *Revenue from Contracts with Customers*

<sup>15</sup> IFRS 9, *Financial Instruments*

<sup>16</sup> IFRS 16, *Leases*

## 6. Non-Compliance with Laws and Regulations (NOCLAR)

The IAASB received a presentation from Mr. Fleck, IESBA member and Chair of the IESBA's project addressing NOCLAR. Mr. Fleck updated the IAASB on the relevant significant comments received on the May 2015 re-exposure draft of the IESBA's NOCLAR proposals.

Members' questions and comments were on the following topics:

- Whether the IESBA was considering having a conditional requirement for the auditor to disclose NOCLAR to an appropriate authority in certain circumstances;
- The need for alignment of the terminology between the IESBA NOCLAR ED and the IAASB NOCLAR ED;
- The communication regarding NOCLAR between the group auditor and the component auditor; and
- The effect of the IESBA's project to restructure the IESBA Code on the timing of finalization of the IESBA's NOCLAR proposals.

### WAY FORWARD

The IAASB will discuss the responses to the IAASB's NOCLAR ED and the Task Force's proposed responses at the March 2016 IAASB meeting.

## 7. Professional Skepticism

As part of its information-gathering activities on the topic of professional skepticism, the IAASB received a presentation (see **Agenda Items 7-A and 7-B**) from two academics, Joe Brazel, North Carolina State University and Tammie Schaefer, University of Missouri-Kansas City, on their summarization of academic research on professional skepticism for the period 2013–2015.

In light of this presentation, the Board was of the view that the PSWG had identified the right questions that needed to be addressed and areas to explore as part of the professional skepticism initiative and that the matters discussed in the ITC and Overview were appropriate. The Board also agreed to signal in the ITC and Overview its commitment, together with the PSWG, to continue to consider the impact of academic research on the topic as it progresses its work. In addition, the Board questioned if there was academic research:

- To investigate whether the use of audit data analytics could positively influence the application of professional skepticism. Ms. Schaefer noted that the research she is performing on data analytics is at a very early stage. She added that, while there may be a link between the use of data analytics and the application of professional skepticism, she is cautious about drawing any conclusions.
- To investigate whether there is a correlation between the auditor application of professional skepticism and auditor incentives, including the individual paying the auditor (i.e., the audited organization versus a third party). Mr. Brazel responded that he is not aware of such research, but noted that it would be a good research topic and could feasibly be dealt with in the short term.
- To indicate when and how the auditor should know that enough professional skepticism has been applied. Mr. Brazel noted that these were excellent research questions and suggested that exploration of those topics could usefully model existing academic research on fraud brainstorming.

- That links the change in the apprentice model as a means of on-the-job training and coaching to the application of professional skepticism. Ms. Schaefer responded that, while academic research on the apprentice model exist, it does not specifically address professional skepticism.

#### PIOB OBSERVER REMARKS

Mr. Holm congratulated the IAASB on the revisions made to the Professional Skepticism section in the ITC and the Overview, noting that the revisions have significantly improved the documents.

### 8. UK Financial Reporting Council (FRC) Presentation

Mr. Stephen Haddrill, CEO of the UK FRC, provided an update to the Board on the FRC's work as a standard setter and regulator. He acknowledged the IAASB's work being fundamental to the work of the FRC. He also explained the different instruments the FRC has developed to enhance confidence, including on the contribution being made through the Corporate Governance code and the role of the audit committee. He updated the IAASB on the uptake of the new auditor reporting model introduced by the FRC. With regard to enhancing audit quality, he explained the FRC's new monitoring regime, including the promotion of 'root cause analysis' within the firms, the role of governance and a quality-supporting culture within the firms. He also noted more intense dialogue between inspectors and firms and sharing best practices in how audit quality was enhanced.

The Board members inquired about on the FRC's thematic inspection reviews and its Financial Reporting laboratory, which brings together stakeholders to discuss new reporting issues.

### 9. Auditor Reporting Implementation

Prof. Schilder welcomed Mr. Jim Sylph, co-Chair of the Auditor Reporting Implementation Working Group, to the meeting. Mr. Sylph updated the Board on the outreach activities that have taken place on auditor reporting, emphasizing the importance of outreach to SMPs, various regions which have been relatively quiet, such as South America, as well as outside groups, i.e. audit committees, CFOs, investors, lawyers and regulators. Mr. Sylph indicated that there has been great support for the new auditor reporting standards, or a move towards accepting them, even from constituents who were initially skeptical or non-supportive. Mr. Sylph discussed some of the challenges that have been identified and indicated that the Auditor Reporting Implementation Working Group would consider these, as well as requests for further examples of key audit matters and train the trainer materials, and answers to frequently asked questions. Mr. Sylph requested that any outreach activity in respect of the ITC also address auditor reporting, and asked the Board to provide the Working Group with recommendations on jurisdictions or groups where outreach would be useful.

### 9.10. PIOB Observer Remarks

Mr. Holm congratulated the Board on the revisions to the Overview and the ITC, in particular to the professional skepticism section, noting that the revisions during the course of the meeting had significantly improved the documents. Mr. Holm further congratulated the Board on the approval of the ISA 540 project proposal and ISA 810 (Revised).

Mr. Holm noted that the Overview and the ITC and the related planned outreach to stakeholders will make a significant difference to the future enhancements to audit quality. Mr. Holm acknowledged the

compressed timeline for the ISA 540 project and assured the Board that PIOB will closely monitor the progress of this project and looks forward to continued dialogue with the IAASB.

**10.11. Closing Remarks from IAASB CAG Chairman**

Mr. Waldron thanked Prof. Schilder and the Board for the robust discussions during the week and its consideration of the matters raised by CAG Representatives and Observers on the recent IAASB CAG teleconference.

**11.12. Next Meeting**

The next IAASB Teleconference will be held on January 25, 2016. The next IAASB physical meeting will be held in New York, United States, March 14–18, 2016.

**12.13. Closing**

Prof. Schilder acknowledged the discussions throughout the meeting and the interactions among the professional skepticism, quality control, and group audits topics in ITC. He emphasized the importance of continued lively dialogue by IAASB members, technical advisors and staff with stakeholders as a further step towards improving audit quality for the future.

Prof. Schilder provided a synopsis of the IAASB Steering Committee meeting that was held during the week, where the discussions covered the IAASB's work plan for 2017–2018, upcoming meetings, and an update from the IAASB-IASB Liaison Working Group. Prof. Schilder also noted the desire for increased dialogue with the PIOB, both at the Board level as well as at the senior Staff level. He noted that Ms. Healy would reach out to individual Board members and technical advisors in relation to participation in various Task Forces and Working Groups, and that staff was already planning outreach activities for 2016.

Mr. Landes provided an update on the possibility of the IAASB commissioning further research on the topic of going concern. Due to the challenges of gaining access globally to users of financial statements, it has been decided to not go ahead at this time with the proposal that had been under consideration.

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