

**Minutes of the 111<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)  
Held during March and April 2020 via Video Conference<sup>1</sup>**

	<b>Voting Members</b>	<b>Technical Advisors (TA)</b>
Present:	Tom Seidenstein (Chair)	Helene Agéll (Mr. Hagen)
	Fiona Campbell (Deputy Chair)	Sara Ashton (Ms. Almond)
	Sue Almond	Vivienne Bauer (Mr. Monroy)
	Chun Wee Chiew	Wolf Böhm (Prof. Marten)
	Julie Corden	Melissa Bonsall (Ms. Corden)
	Robert Dohrer	Fabien Cerutti (Ms. Tracq-Sengeissen)
	Kai Morten Hagen	Antonis Diolas (Mr. Chiew)
	Josephine Jackson <sup>2</sup>	Johanna Field (Mr. Turner)
	Len Jui	Hiram Hasty (Mr. Dohrer)
	Sachiko Kai	Rene Herman (Mr. Simnett)
	Prof. Kai-Uwe Marten	Susan Jones (Mr. Jui)
	Lyn Provost	Kohei Yoshimura (Ms. Kai)
	Fernando Ruiz Monroy	Jamie Shannon (Mr. Sharko)
	Rich Sharko	Sylvia Van Dyk (Ms. Provost)
	Roger Simnett	Denise Weber (Ms. Campbell)
	Isabelle Tracq-Sengeissen	
	Eric Turner	
	Imran Vanker <sup>2</sup>	
Apology:	<i>None</i>	
	<b>Non-Voting Observers</b>	
Present:	Jim Dalkin (IAASB Consultative Advisory Group (CAG) Chair), Yosh'inao Matsumoto (Japanese Financial Services Authority)	
Apology:	Juan Maria Arteagoitia (European Commission)	

<sup>1</sup> Due to the COVID-19 pandemic that spread worldwide in January and February 2020, the IAASB took the decision to hold the planned March 2020 IAASB physical meeting instead via a number of video conference sessions during the week of March 16–20, and on April 1, 8 and 14, 2020. The discussions of all the video conference sessions are captured within these minutes.

<sup>2</sup> It is noted that Ms. Jackson was not supported by a TA during the March 2020 IAASB video conferences and Mr. Vanker was supported by Mr. Yussuf Choonara.

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

Present: Mr. Markus Grund

**IAASB Technical Staff**

Present: James Gunn (Managing Director, Professional Standards), Willie Botha (Technical Director), Beverley Bahlmann, Yvonne Chan, Brett James, Natalie Klonaridis, Armand Kotze, Phil Minnaar, Hanken Jane Talatala, Joy Thurgood, Jasper van den Hout  
Angela Donnelly (April 1, 8 and 14) (IAASB Staff Fellow) Dan Montgomery (Senior Advisor – Technical Projects)

IAASB agenda materials referred to in these minutes can be accessed on the IAASB's Website for the sessions held [March 16–20](#), [April 1](#), [April 8](#) and [April 14](#). These minutes are a summary of the decisions made at the March 2020<sup>1</sup> IAASB meeting, in light of the issues and recommendations in the agenda material put forth by the Task Forces (TF), 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**

Mr. Seidenstein welcomed all participants to the first virtual session of the March 2020 IAASB meeting, noting that all sessions held that formed part of the March IAASB meeting would be conducted virtually. Mr. Seidenstein noted that there would be no public observers, explaining that this was because it was the first virtual session of the Board with new technology being used, and so it had been agreed to limit attendance to those more directly involved in the meeting. However, he added that the recordings of the meeting would be made available soon after the end of each session. Mr. Seidenstein further updated the Board on some of the outreach performed during the first quarter of 2020.

**2. Quality Management at the Engagement Level<sup>3</sup> – ISA 220 (Revised)<sup>4</sup>**

Mrs. Provost introduced the topic, noting that proposed ISA 220 (Revised) had been updated to respond to the Board comments at the December 2019 IAASB meeting as presented in **Agenda Item 2-B**. During the course of the March 2020 IAASB meeting, updates were also made to address the March 2020 videoconference and offline comments received from Board Members as presented in the updated agenda material.

**DEFINITIONS AND TERMINOLOGY**

The IAASB broadly supported the proposed changes to clarify the engagement team definition. Members asked the ISA 220 Task Force to consider the need to further clarify:

<sup>3</sup> This topic was discussed on the March 16, March 19, and April 1, 2020 IAASB Board videoconferences.

<sup>4</sup> Proposed International Standards on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*

- Whether the definition of “network firm” is intended to apply only to a firm belonging to the same network as the firm on the engagement. It was noted that “network firm” in paragraph A18 did not address the issue of joint audits, which may involve several networks involved in the same audit.
- How the term “service delivery center” used in proposed ISA 220 (Revised) aligns with “service provider” used in proposed ISQM 1.<sup>5</sup>

#### ENGAGEMENT RESOURCES

The ISA 220 Task Force was asked to consider clarifying the meaning of “made available by the firm” as used in the Engagement Resources section. Members asked the ISA 220 Task Force to work with the ISQM 1 Task Force to clarify whether component auditors are service providers when the component auditor is engaged by the component entity directly.

The IAASB supported the clarifications made in paragraph A64A to address the engagement partner’s communication to individuals from another firm who are required to use specific automated tools and techniques when performing audit procedures.

#### ENGAGEMENT PARTNER RESPONSIBILITIES

The IAASB broadly agreed with the changes made to clarify which requirements are the engagement partner’s sole responsibility and those for which the design or performance of procedures, tasks or actions may be assigned to other engagement team members.

#### LINKAGES TO OTHER INTERNATIONAL STANDARDS

The IAASB broadly supported how proposed ISA 220 (Revised) links to the quality management projects and proposed ISA 600 (Revised).<sup>6</sup>

#### PROFESSIONAL SKEPTICISM AND BIAS

The IAASB broadly supported aligning the biases described in paragraph A36 of proposed ISA 220 (Revised) with those in the International Ethics Standards Board for Accountants (IESBA) “role and mindset” project, including adding “automation bias.” The Board suggested also including “groupthink bias” from the IESBA project.

#### STAND-BACK PROVISION

The IAASB broadly supported the amendments to clarify the stand-back provision. Members suggested reconsidering the indicators of insufficient or inappropriate involvement by the engagement partner in paragraph A111A to make the indicators more closely tied to the audit process.

#### DOCUMENTATION

The IAASB broadly agreed with the how documentation was addressed, and the clarifications made to paragraph A114 of matters to be documented. Members asked the Task Force to consider whether

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<sup>5</sup> Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

<sup>6</sup> Proposed ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

paragraph 41(aa) was needed as it would require extensive guidance to avoid unintended consequences, and the same material is included in proposed ISA 600 (Revised).

#### ILLUSTRATIVE EXAMPLE

Mrs. Provost noted that the ISA 220 Task Force developed a draft illustrative example whose objective was to show how the requirements as drafted under that approach could be achieved in an audit of a larger, more complex entity.

The Board broadly supported including the example as non-authoritative implementation guidance to accompany proposed ISA 220 (Revised) and provided suggestions for improvements. Mr. Botha cautioned that the nature and extent of implementation guidance provided needs to be considered in light of the Board's role in providing guidance under its Framework for Activities. Mr. Seidenstein further pointed out that implementation guidance provided to support proposed ISA 220 (Revised) also needs to be considered as part of the implementation guidance provided for the quality management standards overall.

#### OTHER MATTERS

Mrs. Provost noted that after careful consideration, the ISA 220 Task Force determined that the drafting approach used for examples in ISA 315 (Revised 2019)<sup>7</sup> was not suitable for ISA 220 (Revised) as a significant number of examples were embedded in the text and restructuring would increase the length of the standard without corresponding benefits. The IAASB supported describing the rationale for the approach taken for drafting proposed ISA 220 (Revised) in the Basis for Conclusions. It was also noted that the drafting convention for new standards going forward required Board deliberation more broadly.

The IAASB supported including material related to joint audits as a conforming change to proposed ISA 220 (Revised) with the exposure draft of proposed ISA 600 (Revised) and noted the need to include a question in the explanatory memorandum.

#### PIOB OBSERVER REMARKS

Mr. Grund reiterated that the PIOB's main public interest issue in proposed ISA 220 (Revised) is that the objective is seen to be compliance oriented but agreed that the issue had been discussed at previous IAASB meetings. He also noted that he had no further issues.

#### IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted the CAG Representatives' overall support for proposed ISA 220 (Revised). He noted the CAG Representatives' views on the importance of the stand-back described in paragraph 40 of proposed ISA 220 (Revised) being timely and occurring throughout the engagement.

#### WAY FORWARD

Mr. James drew Board Members' attention to the due process considerations described Agenda Item 2. It was also noted that the ISA 220 Task Force would present selected issues to the IAASB meeting in June 2020. The ISA 220 Task Force will continue its coordination activities with the ISQM 1, ISQM 2 and ISA 600 Task Forces and the relevant IESBA Task Forces.

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<sup>7</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

### 3. Group Audits – ISA 600 (Revised)

Mr. Jui updated the Board on the work of the ISA 600 Task Force since the December 2019 Board meeting, including the outreach performed, as presented in **Agenda Items 3, 3-A, 3-B, 3-C, 3-D and 3-E**. The following sets out the more substantive comments from the Board.

#### SCOPE, OBJECTIVES AND DEFINITIONS

The Board discussed and agreed to:

- Move paragraph A3 to the Scope section to further clarify that the ‘entry point’ into proposed ISA 600 (Revised) is the preparation of group financial statements.
- Add a paragraph and related application material in the Scope section to emphasize the importance of professional skepticism in a group audit. It was also agreed to include a question in the Explanatory Memorandum about whether the standard appropriately reinforces the exercise of professional skepticism in relation to an audit of group financial statements.
- Remove the reference to ‘amounts’ in the definition of component performance materiality as that may imply that each component could be assigned more than one component performance materiality amount.
- Add application material to the Scope section to clarify that a shared service center may be a component.
- Add application material to the Definitions to:
  - Clarify that, when determining components, the group engagement team’s consideration of the risks of material misstatement of the group financial statements encompasses all of the entities and business units that comprise the group; and
  - Clarify who component management would be when the group engagement team combines entities and business units into components.

#### LEADERSHIP RESPONSIBILITIES FOR MANAGING AND ACHIEVING QUALITY ON A GROUP AUDIT AND ACCEPTANCE AND CONTINUANCE

The Board discussed and agreed to:

- Clarify in paragraph 11 that the group engagement team should obtain an understanding of the group that is sufficient to identify components and a preliminary determination whether to involve component auditors.
- Replace ‘can be obtained’ by ‘has been provided’ in paragraph 19(b) to clarify that the group engagement team is not required to perform an extensive search for information about the results of the monitoring and remediation process or external inspections with respect to the component auditor’s firm.
- Change the structure of paragraph 20 to clarify that this requirement relates to serious concerns about any of the matters in paragraphs 16–19, including if a component auditor does not meet the independence requirements that are relevant to the group audit.
- Add application material in the Acceptance and Continuance section to:

- Clarify that, as part of the requirement in paragraph 17, the group engagement team may request the component auditor to confirm that it will conduct its work as directed by the group engagement team.
- Clarify that the level of fees, including the allocation of fees to component auditors, may be a more important consideration by the firm for group audit engagements.
- Clarify that the firm's policies or procedures may be different, or different actions may need to be taken, with respect to the nature timing and extent of direction, supervision and review of component auditors that are from a firm that is not a network firm than for component auditors from a network firm.
- Delete paragraph A23 as this paragraph repeats ISA 210<sup>8</sup> and does not include a special consideration for a group audit.

UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT, THE APPLICABLE REPORTING FRAMEWORK AND THE ENTITY'S SYSTEM OF INTERNAL CONTROL AND MATERIALITY

The Board discussed and agreed to:

- Make several changes to paragraph 23 to clarify its intent. The Board agreed to clarify that the group engagement team shall consider the results of risk assessment procedures that are assigned to component auditors. The Board also provided a link to the requirement in paragraph 29 for the group engagement team to determine whether the component auditor's risk assessment procedures provide an appropriate basis for the identification and the assessment of the risks of material misstatement of the group financial statements.
- Replace 'discuss' with 'communicate' in paragraphs 23, 24, 25, 34 and 53(d), as 'discuss' could be interpreted as having to speak to component auditors while, depending on the circumstances, other forms of communication may be appropriate.
- Enhance paragraph 25 by:
  - Requiring two-way communication between the group engagement team and component auditors about events or conditions that may cast significant doubt on the group entity's ability to continue as a going concern. The Board therefore added a requirement to communicate with component auditors about any events or conditions identified by the component auditor that may cast significant doubt on the group entity's ability to continue as a going concern; and
  - Removing paragraph 25(a), as the Board was of the view that it is not the group engagement team's responsibility to communicate to component auditors any events or conditions that may cast significant doubt on the component's ability to continue as a going concern.
- Eliminate the repetitiveness in the wording of paragraph 27 by referring to the amounts determined in accordance with paragraph 26.
- Delete paragraph A59 as this paragraph is repeating guidance in Appendix 5 of ISA 315 (Revised 2019) and does not include a special consideration for a group audit.

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<sup>8</sup> ISA 210, *Agreeing the Terms of Audit Engagements*

#### IDENTIFYING, ASSESSING AND RESPONDING TO THE RISKS OF MATERIAL MISSTATEMENT

The Board discussed and agreed to:

- Clarify that paragraph 35 relates to areas of higher assessed risks of material misstatement of the group financial statements, including significant risks, because the wording presented in **Agenda Item 3-B** was deemed confusing.
- Clarify, in paragraph 34, that the group engagement team assigns the design and performance of further audit procedures to component auditors.
- Add a requirement in paragraph 38 for the group engagement team to request component auditors to communicate on a timely basis any events or conditions that may cast significant doubt on the group's ability to continue as a going concern. The Board noted that such a requirement is similar to the requirement for component auditors to communicate on a timely basis related parties not previously identified and therefore would be useful.
- Delete paragraphs A76, A77, A78 and A83 as these paragraphs are repeating ISA 315 (Revised 2019) and do not include a special consideration for a group audit.

#### TWO-WAY COMMUNICATION, SUBSEQUENT EVENTS, EVALUATING THE SUFFICIENCY AND APPROPRIATENESS OF AUDIT EVIDENCE OBTAINED, AUDITOR'S REPORT, COMMUNICATION WITH GROUP MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE OF THE GROUP AND QUALITY MANAGEMENT WHEN COMPONENT AUDITORS ARE INVOLVED

The Board discussed and agreed to:

- Clarify the wording in several paragraphs, including:
  - Paragraph 40 to indicate that the communications between the group engagement team and component auditors should take place at appropriate points in time throughout the group audit and reflect the component auditor's involvement in various phases of the group audit.
  - Paragraph 42 to indicate that the group engagement team's evaluation of the communications with component auditors is to make sure that such communications are adequate for the group engagement team's purposes.
  - Making the requirement in paragraph 52(c) more specific by focusing on 'limitations on the scope of the group audit' rather than any limitations on the group audit. The Board also added as an example significant matters related to restrictions on access to people or information, consistent with the documentation requirement in paragraph 53(a).
- Include a requirement in paragraph 44A for the group engagement team to request component auditors to notify the group engagement team if they become aware of subsequent events that may require an adjustment to, or disclosure in, the group financial statements.
- Add new application material to clarify that:
  - Professional judgment may be needed in determining the person(s) in the governance structure with whom to communicate when entities or business units are combined into components.

- The 'auditor's view' in determining components is part of the communication of planned scope and timing required by ISA 260 (Revised).<sup>9</sup>

#### DOCUMENTATION

The Board discussed and agreed to:

- Add a requirement for the group engagement team to document its determination of components, including the rationale for combining entities or business units into components. The Board was of the view that such a requirement is needed given the changes to the definitions.
- Clarifying that the documentation requirement in paragraph 53(d) relates to how the group engagement team has addressed significant matters arising from such communications.
- Enhancing the application material by, for example:
  - Explaining that the group engagement team may determine that it is appropriate to include certain of the component auditor's documentation in the group engagement team's audit file.
  - Clarifying that, when the group engagement team determines that it is appropriate to include certain component auditor documentation, but is unable to do so due to restrictions, the group engagement team's audit documentation may need to include a description of procedures performed by the component auditor on matters relevant to the group audit, evidence obtained from performing the procedures, and the findings and conclusions reached by the component auditor with respect to those matters.
- Adding application material that highlights the importance of exercising professional skepticism when evaluating the sufficiency and appropriateness of the audit evidence obtained.

#### APPENDICES

The Board discussed and agreed to adding an appendix that further explains the matters that the group engagement team may consider in determining whether, and the extent to which, component auditors are to be involved in the group audit.

#### CONFORMING AND CONSEQUENTIAL AMENDMENTS

The Board agreed with the proposed conforming and consequential amendments to the IAASB's International Standard as a result of the proposed revisions to ISA 600.

#### EFFECTIVE DATE

The IAASB agreed that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after the approval of a final ISA. Earlier application would be permitted and encouraged.

#### IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted that the IAASB considered the IAASB CAG Representatives' comments in the development of the Exposure Draft of proposed ISA 600 (Revised). He also suggested to clarify when component auditors have to communicate the matters included in paragraph 41.

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<sup>9</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*



#### PIOB OBSERVER REMARKS

Mr. Grund noted that the IAASB considered the PIOB's comments in the development of the Exposure Draft of proposed ISA 600 (Revised). Mr. Grund also commented that the time pressure and the difficult circumstances under which the Board had to operate influenced the discussion of **Agenda Item 3-B Updated** and that, even though the process was adequate, the Board may want to consider this for future virtual meetings. Mr. Grund also questioned how Appendix 3 of **Agenda Item 3** relates to the objectives of proposed ISA 600 (Revised).

#### EXPLANATORY MEMORANDUM

The IAASB agreed with the ISA 600 Task Force regarding the matters on which to seek respondents' views on exposure, as well as noting some additional specific issues to highlight in the Explanatory Memorandum. In addition, it was noted that there would be further opportunity to comment on matters for the Explanatory Memorandum when it was circulated to the Board before finalization.

#### APPROVAL

After agreeing on specific changes, the IAASB approved the Exposure Draft of proposed ISA 600 (Revised), together with the proposed conforming and consequential amendments, for exposure, with 18 affirmative votes out of the 18 IAASB members present. The Board agreed that the Exposure Draft would remain open for comment for at least 120 days and that, if needed given the circumstances, the Board may extend the exposure period.

#### 4. Quality Management at the Firm Level – ISQM 1

Ms. Corden recapped the Board's discussions from the September 2019 and December 2019 board meetings, outlined feedback from proposed ISQM 1 outreach activities undertaken in the first quarter of 2020, and updated the Board on the proposals presented by the ISQM 1 Task Force in **Agenda Item 4-A**. In doing so, Ms. Corden emphasized the key areas of focus for consideration by the Board. During the course of the March 2020 IAASB meeting, updates were also made to certain aspects of proposed ISQM 1 to address the March 2020 videoconference and offline comments received from Board Members as presented in **Agenda Item Agenda Item 4-A (Updated)**. The IAASB broadly supported the structure of the standard, and continued to encourage the ISQM 1 Task Force to consider the length of the application material.

#### THE FIRM'S RISK ASSESSMENT PROCESS

The Board supported the approach to the firm's risk assessment process. The Board encouraged the use of a diagram to illustrate the process for identifying and assessing quality risks and suggested that it be considered whether the diagram can be included in the standard. The Board provided further specific comments regarding the firm's risk assessment process and related definitions, including the following:

- Refining the definition of quality risk, including considering whether the threshold, "significant to the non-achievement," is appropriate.
- Further considering the interrelationship of the definition of quality risks with the requirements in the firm's risk assessment process, including removing duplication between the definition and the requirements.
- Clarifying what are the factors, and how the factors are used to identify and assess quality risks.

- Retaining only a few examples in the application material to demonstrate how factors may give rise to quality risks, and further clarifying these examples.
- Clarifying the documentation expectations for the quality risks.
- Removing the application material describing how factors may positively affect the achievement of quality objectives.
- Retaining a separate requirement for the firm to establish policies or procedures for identifying information that indicates that modifications to the quality objectives, quality risks or responses are needed. The Board also emphasized that this requirement should be clear that the firm is required to modify the quality objectives, quality risks or responses as appropriate.

#### THE APPROACH TO QUALITY OBJECTIVES AND RESPONSES IN THE COMPONENTS

With regards to the general approach to quality objectives and responses in the components, on balance, the Board reaffirmed their support for the approach and the level of specificity of the quality objectives.

#### MONITORING AND REMEDIATION

##### *Definitions of “Deficiency” and “Findings”*

With respect to the definition of “deficiency,” the Board supported the principle of a threshold in the definition, but raised various further comments related to the threshold including:

- Explaining “acceptably low” in the application material;
- Concern that the threshold is too high; and
- Observations that the definition is too complex because of the multiple negatives in describing the threshold.

With respect to the definition of “findings,” the Board suggested clarifying that a finding may exist regardless of whether or not there is an indication that a deficiency exists.

The Board also provided various suggestions for the application material for the definitions of “deficiency” and “findings.”

##### *Monitoring and Remediation Component*

The Board supported the monitoring and remediation component and provided additional suggestions, including:

- Reconsidering the reference to “acceptably low level” in the context of designing and performing monitoring activities.
- Specifying what the individual with ultimate responsibility and accountability for the system of quality management is expected to do with the information communicated to them in accordance with paragraph 52 of **Agenda Item 4-A**.

Furthermore, the Board, on balance, supported how the inspection of completed engagements has been addressed in the requirements and application material of proposed ISQM 1.

#### EVALUATION OF THE SYSTEM OF QUALITY MANAGEMENT (SOQM)

The IAASB supported the ISQM 1 Task Force's proposals, including introducing the concept that the firm's conclusion about the system of quality management may not be binary (i.e., there may be severe deficiencies that are not pervasive and therefore, except for those deficiencies, the firm has reasonable assurance that the system of quality management achieves its objectives). Further recommendations from the Board included:

- Clarifying the responsibility of the firm for the system of quality management, versus the individual(s) assigned ultimate responsibility and accountability for the system of quality management. The Board also suggested explaining that the individual may further assign tasks to support them in fulfilling their responsibility.
- Clarifying the difference between the conclusions about the system of quality management, as outlined in paragraphs 65AA(a)–65AA(c) of **Agenda Item 4-A (Updated)**, and how the remediation of deficiencies affects these conclusions.

#### SYSTEM OF QUALITY MANAGEMENT

The Board provided various comments on the requirements and application material addressing the system of quality management. This included a suggestion to simplify paragraph 22A of **Agenda Item 4-A (Updated)** dealing with the assignment of responsibilities related to the system of quality management.

#### RESOURCES

The IAASB supported the proposal to move the section on service providers into resources. The Board further recommended undertaking coordination with the ISA 220 Task Force and ISA 600 Task Force on the definition of service providers, in particular how component auditors are considered in the context of proposed ISQM 1.

#### INFORMATION AND COMMUNICATION

The IAASB supported this component, including the quality objective for external communications and the inclusion of a specified response addressing communications to external parties. With respect to the specified response addressing external communication, the Board asked the ISQM 1 TF to consider:

- Refocusing the requirement on determining the appropriateness of communicating to external parties, rather than whether to communicate to external parties.
- The interaction between the specified response and the quality objective in paragraph 40(d) of **Agenda Item 4-A**; and
- Removing certain application material, including examples that could create a de facto requirement to communicate with external parties.

#### OTHER SECTIONS

The Board supported the remaining sections of proposed ISQM 1 and provided various further comments, including the following:

- With respect to the effective date, the Board:
  - Acknowledged the difficulties currently being experienced given the global pandemic and that this may need to be considered in finalizing the effective date; and

- Suggested further clarifying the meaning of “commenced operation” and that the evaluation of the system of quality management needs to be performed within a calendar year from the effective date.
- With respect to relevant ethical requirements, the Board suggested:
  - Further simplifying the requirement; and
  - Reconsidering some of the changes, which had inadvertently scoped certain parties out of the quality objectives.
- With respect to acceptance and continuance, the Board suggested reinstating the quality objective addressing access to information.
- With respect to specified responses, the Board encouraged the ISQM 1 Task Force to seek ways to better connect the specified responses with the related quality objectives.
- With respect to documentation, the Board suggested
  - Reconsidering some of the factors in paragraph A212 of **Agenda Item 4-A** as some of the factors could drive inconsistent approaches to documentation across networks.
  - Clarifying paragraph A214 of **Agenda Item 4-A** addressing the documentation of quality risks and considering whether it should be a requirement.

#### OTHER MATTERS

##### The Board:

- Noted respondents’ feedback on the change in title to “ISQM” and continued to support this title.
- Encouraged the ISQM 1 Task Force to undertake outreach with practitioners to understand practical implementation challenges.
- Suggested that the ISQM 1 Task Force further consider the presentation of the examples throughout the application material.

#### IAASB CAG CHAIR’S REMARKS

Mr. Dalkin noted that the IAASB CAG Representatives were generally supportive of proposed ISQM 1, and highlighted the following specific comments from the IAASB CAG Representatives:

- The emphasis on the importance of transparency reports (from IAASB CAG Representatives who represent investor groups). He added that there appeared to be general consensus to explore external communications further, but not as part of the ISQM 1 project.
- Concern with the possible effective date of December 2021, as it was indicated that the implementation period would be too short.
- The need for those assigned operational responsibility for monitoring to be objective.

Mr. Dalkin also emphasized the IAASB CAG Representatives’ general view that the standard should be principles-based, with the location of examples in separate guidance.

Mr. Dalkin noted his support for paragraph 7 of **Agenda Item 4-A**, and did not believe that an explicit link to professional skepticism is necessary.

#### PIOB OBSERVER REMARKS

Mr. Grund expressed support for the ISQM 1 Task Force's proposal for paragraph 7, as it makes explicit reference to the public interest.

In regard to the information and communication component, Mr. Grund noted the PIOB's view that firms should be required to prepare transparency reports.

Mr. Grund highlighted that networks is one of the key public interest issues of the PIOB because the quality of engagements should be consistent across the network, and that proposed ISQM 1 had not adequately addressed this.

Mr. Grund enquired about the IAASB's policies for determining what material should be located in the standard versus separate guidance, and encouraged the IAASB to develop such policies.

#### WAY FORWARD

The ISQM 1 Task Force will consider the matters raised by the IAASB and plans to present further proposals on key issues to the IAASB in June 2020. The ISQM 1 Task Force will continue its coordination activities with the ISQM 2, ISA 220 and ISA 600 Task Forces and the relevant IESBA Task Forces.

### 5. Engagement Quality Reviews – ISQM 2<sup>10</sup>

Mr. Vanker introduced the topic, noting that proposed ISQM 2 had been updated to respond to the Board comments at the December 2019 IAASB meeting as presented in **Agenda Item 5-B** and **Agenda Item 5-E**. During the course of the March 2020 IAASB meeting, updates were also made to address the March 2020 videoconference and offline comments received from Board Members as presented in **Agenda Item 5-B (Updated)** and **Agenda Item 5-E (Updated)**.

#### SCOPE OF ENGAGEMENTS SUBJECT TO AN EQ REVIEW

The Board generally supported the proposed revisions to the scope of engagements subject to an engagement quality (EQ) review. A Board member raised a concern about the mismatch between the requirement for which the firm determines that an EQ review is an appropriate response to assessed quality risks, and the related application material regarding examples of conditions and circumstances relating to the types of entities for which engagements are undertaken.

#### OBJECTIVITY AND COOLING-OFF PERIOD

The Board reaffirmed its broad support for a mandatory cooling-off period in proposed ISQM 2 to address the objectivity of individuals moving into the role of EQ reviewer after serving as the engagement partner.

The Board received an update about the discussions with the IESBA EQR Task Force Chair and staff regarding IESBA's [exposure draft](#) on the EQ reviewer's objectivity. Mr. Vanker informed the Board that the ISQM 2 Task Force has yet to deliberate the initial proposals by the IESBA EQR Task Force Chair and staff. The Board encouraged continued coordination with the IESBA on the matter.

#### IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted that IAASB CAG Representatives were generally supportive of the proposed revisions to

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<sup>10</sup> Proposed ISQM 2, *Engagement Quality Reviews*

the scope of engagements subject to an EQ review in proposed ISQM 1 and the mandatory cooling-off period in proposed ISQM 2. Mr. Dalkin noted that some IAASB CAG Representatives asked whether entities planning to undertake initial public offerings were subject to EQ reviews, to which Mr. Vanker clarified that this was addressed in the relevant application material. Mr. Dalkin also provided suggestions regarding public sector considerations for engagements subject to an EQ review.

#### PIOB OBSERVER REMARKS

Mr. Grund commented about whether the scope of engagements subject to an EQ review was aligned with the public interest entity concept as defined in the IESBA Code,<sup>11</sup> to which Mr. Seidenstein noted that the approach taken by the IAASB avoids inconsistencies with the concept of public interest entity in the IESBA Code.

#### WAY FORWARD

The ISQM 2 Task Force will consider the comments received in preparing a revised full draft of proposed ISQM 2 for discussion and approval at the September 2020 IAASB meeting. The ISQM 2 Task Force will continue its coordination activities with the ISQM 1, ISA 220 and ISA 600 Task Forces and the relevant IESBA Task Forces.

### 6. Audits of Less Complex Entities (LCEs)

Prof. Simnett, Chair of the Less Complex Entities (LCE) Working Group introduced the session, explaining the LCE Working Group's further work to explore an appropriate way forward in relation to Audits of LCEs, as included in **Agenda Item 9**. The Board was generally supportive of progressing two separate workstreams, one focused on exploring a separate standard specifically and how it can address issues relating to audits of LCE's, and another workstream to explore how to address issues relating to the ISAs more broadly.

The following sets out the more substantive comments, suggestions and concerns from the Board.

#### ISA FOCUSED WORKSTREAM

The Board generally supported the development of "drafting principles and guidelines for a revised presentation of the standards," which would underpin the drafting of the ISAs and help promote clarity and consistency for audits of all entities (including audits of LCEs). The Board asked the LCE Working Group to further consider:

- The proposed timeline to develop these, in light of the work that has been undertaken previously with developing the Clarity conventions and the 'drafting approach' applied when revising ISA 315 (Revised 2019); and
- How the consistent use of such drafting principles and guidelines for a revised presentation of the ISAs would continue to be used over time.

In respect of the timing and manner in which the ISAs could be revised, various views were expressed about how the drafting principles and guidelines for a revised presentation of the standards could be applied

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<sup>11</sup> International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*

to the ISAs once they had been developed, but it was acknowledged that they needed to first be developed, with a decision thereafter on the appropriate way to apply them.

The Board also encouraged the LCE Working Group to:

- Provide further clarity to the Board about how the issues that have been identified and outlined at earlier meetings are being addressed, and whether what was being proposed would address these issues. It was suggested that in this regard further outreach with the International Federation of Accountants Small and Medium Practices Committee and other targeted stakeholders may be needed;
- Clarify how the two workstreams interacted with one another;
- Further consider whether the concerns in respect of scalability and proportionality are being addressed adequately with the work that was being proposed in both workstreams; and
- Reconsider how the “pain points” that had been specifically identified were being dealt with.

Board members also supported the conversion of the handbook to a digital format for enhanced accessibility and searchability.

#### SEPARATE STANDARD WORKSTREAM

Notwithstanding that the Board broadly supported a workstream to explore the development of a separate standard, some concerns were expressed about how this would be done and whether it would achieve the objectives for undertaking the work. The Board encouraged the LCE Working Group to focus on how the separate standard could be developed so that the Board could better understand the implications of the LCE’s Working Group’s proposals in this regard.

With regard to this workstream, the Board encouraged that:

- Significant proposals be tested and checked along the way to ensure that the final output will meet stakeholder needs and expectations, i.e., that the significant proposals are checked on an ongoing basis during the development process for early feedback to make sure that the proposals will actually address the issues that have been raised and that the separate standard would be used;
- The LCE Working Group perform further outreach with policy-makers to understand whether, in principle, the new standard would be adopted (and used); and
- Further clarity be provided about how the standard would be developed, including explaining the objectives for the work and the principles used to develop the separate standard. In particular that it was noted that there would need to be clarity about how this standard would relate or interact with the ISAs.

The LCE Working Group consider how to demonstrate the proportionality of the requirements included in the separate standard in relation to the ISAs. The LCE Working Group was also cautioned about moving too quickly without having the underlying principles properly developed. However, it was also highlighted that the Board needed to consider the consequences or risks of not acting in a timely manner in this regard.

In respect of the matters for further consideration by the LCE Working Group while determining the applicability of the separate standard for audits of LCEs, the Board encouraged the LCE Working Group to further consider:

- Which types of entities would be able to use the standard. In particular, there was support from the Board for excluding listed entities. In this regard, the Board also encouraged that the LCE Working group continue to monitor the IESBA's project on the definition of Listed Entity and Public Interest Entity (PIE); and
- The relationship between the applicability of the separate standard for LCEs and the extant ISAs in relation to the membership obligations for Forum of Firms.

The LCE Working Group was also asked to further consider the basic principles in light of excluding specific entities, for example listed entities, and how that would interact with some of the basic proposed principles such as reasonable assurance.

#### PIOB OBSERVER REMARKS

Mr. Matsumoto expressed concern for the development of a separate standard for audits of LCEs outside the extant ISAs, noting a preference that the applicability of such standard should exclude listed entities and those with public accountability. Further, in order to avoid confusion among users as to which standard has been applied in the audit, the auditor's report should clearly indicate whether an audit is performed based on the separate standard.

#### WAY FORWARD

The LCE Working Group will bring recommendations for the way forward relating to the separate standard workstream to the June 2020 IAASB meeting for a Board decision about the way forward.

### **7. IAASB CAG Chair's Closing Remarks**

Mr. Dalkin thanked all Task Forces and Working Groups for considering and including the IAASB CAG Representatives' perspectives and comments in the relevant discussions.

### **8. PIOB Observer Closing Remarks**

Mr. Grund congratulated the IAASB for their response to the current circumstances, noting that generally the format of the meeting worked well. He further noted that the meetings were well disciplined and the discussions robust, with balanced input from all Board members.

### **9. Closing**

The minutes of the December 2019 IAASB meeting and the teleconference held on January 23, and February 11, 2020 were approved as presented.

Mr. Seidenstein thanked the IAASB for their disciplined participation and robust discussions, and thanked the IAASB members, technical advisors and IAASB Staff for the efforts leading up to, and during, the Board meeting. He closed the public sessions of the meeting.

### **10. Next Meeting**

It is noted that there are no planned Board teleconferences for quarter two of 2020. The next IAASB meeting will be held via several video conferences during the week of June 15–19, 2020.