

**Minutes of the 66th Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
Held on December 1–5, 2014 in New York, USA**

Voting Members

Present: Arnold Schilder (Chairman)
Dan Montgomery (Deputy Chair)
Jean Blascos
Valdir Coscodai
Karin French
Cédric Gélard
Marek Grabowski
Jonas Hällström
Merran Kelsall
Annette Köhler
Charles Landes
Brendan Murtagh
Marc Pickeur
Tomokazu Sekiguchi (December 1-3)
John Wiersema
Bruce Winter
Megan Zietsman

Technical Advisors

Sue Almond (Mr. Murtagh)
Wolf Böhm (Ms. Köhler)
Jennifer Burns (Ms. Zietsman)
Alejandro Gonzalez (Mr. Coscodai)
Hiram Hasty (Mr. Landes)
Josephine Jackson (Mr. Grabowski)
Susan Jones (Mr. Blascos)
Len Jui (Mr. Tang)
Maria Manasses (Ms. French) (December 1–4)
Richard Mifsud (Ms. Kelsall)
Alexandra Popovic (Mr. Hällström)
Jon Rowden (Mr. Winter)
Greg Shields (Mr. Wiersema)
Sayaka Suminda¹ (Mr. Sekiguchi)
Isabelle Tracq-Sengeissen (Mr. Gélard)
Jacques Vandernoot (Mr. Pickeur)
Denise Weber (Mr. Montgomery)

Apology Jianhua Tang

Non-Voting Observers

Present: Linda de Beer (IAASB Consultative Advisory Group (CAG) Chairman)

Apology Juan Maria Arteagoitia (European Commission), Norio Igarashi (Japanese Financial Services Authority)

Public Interest Oversight Board (PIOB) Observer

Present: Chandrashekhar (Chandu) Bhave

¹ At this meeting, Ms. Sayaka Sumida sat in as Technical Advisor to Mr. Sekiguchi in place of Ms. Sachiko Kai. Ms. Kai is currently serving a four month secondment with IFAC, Office of Professional Standards.

IAASB Technical Staff

Present: James Gunn (Managing Director, Professional Standards), Kathleen Healy (Technical Director) (December 3 only), Nancy Kamp-Roelands, Sara Ashton, Beverley Bahlmann, Brett James, Diane Jules, Michael Nugent; Jasper van den Hout

International Auditing and Assurance Standards Board (IAASB) agenda materials referred to in these minutes can be accessed at the IAASB [December 2014 meeting](#) page on the IAASB's website. These minutes are a summary of the decisions made at the December 2014 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 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

The minutes of the September 2014 physical meeting, and the October 28, 2014 teleconference were approved as presented.

2. Proposed ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information (OI)

The Board considered recommendations from the ISA 720 Task Force in response to the comment letters received on the Exposure Draft (ED) of proposed ISA 720 (Revised). With some exceptions, the Board agreed with the Task Force's recommendations as set out in Agenda Items 2-A and 2-B. In addition to various editorial and other less substantive amendments to proposed ISA 720 (Revised), the Board agreed changes as noted in the following sections.

WORK EFFORT

The IAASB agreed that the word "compare" should be used in place of the term "perform comparison procedures" to streamline the requirement for auditors to consider whether there is a material inconsistency between the OI and the financial statements. The IAASB also agreed that the term "evaluate the consistency" should be relocated within the sentence to clarify that it is the individual amounts or other items whose consistency is being evaluated, rather than the OI as a whole. One IAASB member continued to express concern about the use of the term "evaluate" given its definition in the *Glossary of Terms* in the IAASB *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

Reflecting on the overall tone of the proposed ISA 720 (Revised), the IAASB agreed to include additional application material to clarify its intent regarding certain requirements and avoid the perception that these requirements may lead to the auditor being required to obtain assurance. This additional application material clarifies that:

- The auditor's responsibilities under the proposed ISA 720 (Revised) do not constitute an assurance engagement on the OI, or impose an obligation for the auditor to obtain assurance about the OI.

- Based on management's further information or explanations, or following changes made by management to the OI, the auditor may be satisfied that a material inconsistency no longer appears to exist or that the OI no longer appears to be materially misstated.

In relation to the requirement to consider whether there is an inconsistency between the OI and the auditor's knowledge obtained in the audit, the IAASB noted concerns from some CAG Members and some IAASB members that the word "recollection" was insufficiently precise a word to use in the context of a requirement. After discussion, the IAASB concluded that the "read and consider" required by the standard should be made "in the context of audit evidence obtained and conclusions reached in the audit," to reinforce the intent of the comparison with the auditor's knowledge, while avoiding the risk that the auditor would be required to perform an exhaustive search of the audit documentation (or make exhaustive inquiries of engagement team members or component auditors). The IAASB also agreed to several changes to the application material to reinforce that, in relation to many matters in the OI, the auditor's recollection of the audit evidence obtained and conclusions reached in the audit may be sufficient, while also noting that referring to relevant audit documentation or making inquiries of relevant members of the engagement team or relevant component auditors may be appropriate in some cases.

IAASB CAG Chairman's Remarks

To obtain the CAG's input on the significant comments received on the ED and the Task Force's proposed responses thereon, a CAG teleconference was held in November 2014. Ms. de Beer and Mr. Gélard conveyed the most pertinent comments from this CAG's teleconference to the IAASB as follows:

- Some CAG Members supported the work effort proposals. One user representative on the CAG wanted the work effort to be more robust by using terms such as "evaluate" and "remain vigilant." It was also noted by some that the requirements may be simplified by using, for example, the word "compare" instead of the term "perform comparison procedures."
- A few CAG Members wanted the reference to the auditor's recollection to remain in the requirement about the auditor's knowledge, while a few others preferred that it be moved to the Application Material. However, many CAG Members expressed concern about the term "recollection" as, in particular, it was seen to be too subjective and based on the individual auditor's memory. Ms. de Beer noted that, due to this concern the use of the term "recollection" would be suitable in the Application Material.

REPORTING IMPLICATIONS OF OI

The IAASB noted comments from CAG Members that the reporting requirements should not be differentiated between listed entities and other than listed entities, as was proposed in Agenda Item 2-B with respect to identifying the OI expected to be obtained after the date of the auditor's report. A few members continued to disagree with the treatment of OI expected to be obtained after the date of the auditor's report. After discussing the matter and considering the merits of various options, the Board concluded that requiring only listed entities to identify such OI balanced the benefits of improved transparency for those entities where law or regulation was most likely to clearly set out the expected nature, content and timing of such OI with the practical difficulties that may be encountered with audits of other than listed entities, who may not have such law or regulation or such law or regulation may not be as explicit. However, recognizing the additional transparency provided by this identification of such OI, the IAASB agreed to add application material to indicate that, for an audit of financial statements of an entity other than a listed entity, the auditor may consider that identifying such OI would be appropriate in order to provide

additional transparency about the OI that is subject to the auditor's responsibilities under this ISA (for example, when management is able to represent to the auditor that such OI will be issued after the date of the auditor's report).

The IAASB also considered two versions of the illustrative section of the auditor's report addressing OI and concluded that the more concise option was preferable to the more detailed option.

IAASB CAG Chairman's Remarks

Ms. de Beer conveyed the most pertinent comments from the CAG:

- The CAG Members noted that at least in a listed company, there is already an expectations gap regarding the auditor's involvement with the OI. She noted that the importance of having reporting on expected information for listed entities strongly outweighs the view that there should be no distinction between listed and not listed. She noted that this was similar to the CAG's views on ISA 701,² and that the Task Force's proposals represented a practical approach to a difficult issue.
- The investors and other users of financial statements on the CAG did not raise any concerns regarding the wording of the illustrative statements.

OTHER MATTERS

Other matters agreed by the IAASB included that:

- The definition of a misstatement of OI should not include reference to materiality, as it was seen by most IAASB members as a change to the definition of the term materiality in the context of misstatements in OI. The IAASB noted that the sentence removed from the definition of a misstatement was duplicated in the introduction to the ISA and removing it from the definition would not, therefore, lose the important message that a material misstatement of the OI may inappropriately influence the economic decisions of users for whom the auditor's report is prepared. Notwithstanding these changes, a few members still expressed concern about the definition of misstatement in the context of OI. The auditor may need to consider the effect, if any, on the date of the new or amended auditor's report, in view of the requirements of the ISAs or applicable law or regulation, when a new or amended auditor's report is provided to management and management is requested to provide this new or amended auditor's report to users for whom the auditor's report is prepared.

IAASB CAG Chairman's Remarks

Ms. de Beer noted that CAG Members had diverse comments around the proposed wording of key sections of the ISA, but generally, CAG Members were comfortable with proposed ISA 720 (Revised). She added that the CAG's view was that the ISA should be finalized at this meeting. She also noted that a comment from a number of CAG Members, already debated and cleared by the IAASB, was again brought up by IOSCO. IOSCO expressed a preference for having "securities offerings" fall within the scope of proposed ISA (Revised).

² ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

CONFORMING AMENDMENTS

The IAASB generally agreed with the Task Force's proposals in relation to the proposed conforming amendments to ISA 210,³ ISA 230,⁴ ISA 260 (Revised),⁵ ISA 450,⁶ ISA 500,⁷ ISA 560,⁸ ISA 700,⁹ and ISA 800.¹⁰ The IAASB also agreed with Staff's recommendation that the proposed conforming amendment to the example audit engagement letter in ISA 210 that described the auditor's responsibilities with respect to OI expected to be obtained after the date of the auditor's report was too detailed and may be perceived as overemphasizing the auditor's responsibilities under ISA 720 (Revised) vis-à-vis other ISAs.

In relation to ISA 810,¹¹ the IAASB agreed with Staff's recommendation regarding the necessary conforming amendments to update ISA 810 for changes in terminology in proposed ISA 720 (Revised). Section 4, *Consequential Amendments to the ISA 800 Series*, below addresses the IAASB's conclusions regarding Staff recommendations for a way forward with respect to ISA 810 as it relates to the auditor reporting project.

The IAASB also agreed with the conforming amendments to Illustration 1 in Appendix 1 of ISA 700 (Revised) and, in accordance with the Task Force's proposal, and agreed that the ISA 720 Task Force Chair and Staff will liaise with the IAASB Chairman and Auditor Reporting Task Force Chair to process the required changes to align the wording in illustrative auditor's reports across the ISAs.

DUE PROCESS CONSIDERATIONS

The IAASB agreed with the Task Force's positions as set out in Agenda Items 2-A, and confirmed that there were no issues raised by respondents to the ED, in addition to those summarized by the Task Forces, that should have been discussed. Mr. Gélard confirmed that the Task Force has raised with the IAASB all significant issues they have deliberated. Ms. Kamp-Roelands, as delegate for Ms. Healy, advised the IAASB that it had adhered to its stated due process in finalizing the new and revised standards and related conforming amendments.

APPROVAL

After agreeing all necessary changes to the standards and conforming amendments, the IAASB approved, on an individual basis, ISA 720 (Revised) and related conforming amendments as final standards, with 14 affirmative votes out of the 16 Board members present. Ms. Köhler and Mr. Wiersema dissented. Two members were not present at the meeting and were therefore ineligible to vote.

Ms. Köhler stated that she had fundamental issues with the project to revise ISA 720 from its inception. She explained that while there were a number of important technical grounds for her not supporting the standard, her main reason for casting a dissenting vote related to the use of the term "material

³ ISA 210, *Agreeing the Terms of Audit Engagements*

⁴ ISA 230, *Audit Documentation*

⁵ ISA 260 (Revised), *Communication with Those Charged with Governance*

⁶ ISA 450, *Evaluation of Misstatements Identified during the Audit*

⁷ ISA 500, *Audit Evidence*

⁸ ISA 560, *Subsequent Events*

⁹ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

¹⁰ ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

¹¹ ISA 810, *Engagements to Report on Summary Financial Statements*

misstatement” in relation to OI in the auditor’s report. She noted that term “material misstatement” is explained in the auditor’s report in the section covering the auditor’s responsibilities for the audit of the financial statements. She added that the use of the same term in the section of the auditor’s report dealing with OI will mislead users by causing them to believe that a misstatement of the OI, when there will often be no suitable criteria from which to depart, is equivalent to a misstatement of the financial statements, which is a departure from an applicable financial reporting framework. In Ms. Köhler’s view, users will consequently unjustifiably ascribe some assurance to the information relating to OI in the auditor’s report, which would likely increase the expectations gap. Speaking as an economist, Ms. Köhler was of the view that users unjustifiably ascribing assurance to the OI in the auditor’s report would also have dysfunctional effects on the market for assurance services by reducing the demand for useful assurance engagements that would otherwise have been performed on those parts of the OI for which suitable criteria exist.

Mr. Wiersema stated that he shared many of the concerns expressed by Ms. Kohler. However, his reason for dissenting to the standard is his disagreement with its provisions for differential reporting by auditors of entities other than listed entities. In his view, this change to the standard is not in the public interest and will introduce unnecessary confusion in the market place. He noted that it was important to preserve the principle that “an audit is an audit” and that he had not heard any convincing reasons to deviate from that principle in reporting on entities other than listed entities. He was of the view that any practical difficulties in auditor reporting about OI for entities other than listed entities can be accommodated in practice and, therefore, that the related differential reporting requirement should be removed from the standard.

CONSIDERATION OF THE NEED FOR RE-EXPOSURE

The IAASB noted the Task Force’s assessment that there is not a need for re-exposure of the ISA. The Board agreed with the Task Force’s view that the changes to the ISAs since exposure have been in response to comments received and will be viewed as improving the proposals set forth in the ED and enhancing the standard, both from a public interest perspective as well as in terms of the ability to implement the standard in practice. The IAASB voted on the matter, and only one member, Mr. Wiersema, voted in favor of re-exposure.

EFFECTIVE DATE AND WAY FORWARD

The Board agreed that ISA 720 (Revised) would be effective for audits of financial statements for periods ending on or after December 15, 2016 to align with the effective date of the new and revised auditor reporting standards approved in the IAASB’s September 2014 Board meeting. The Board also agreed that the planned post-implementation review of the auditor reporting standards should also include ISA 720 (Revised).

The final ISA 720 (Revised) is tentatively planned for release in early April 2015, pending approval from the PIOB that due process was followed in its development.

3. Quality Control

The Board generally supported consideration of the topics outlined in the agenda item for inclusion in the project proposal for quality control. However, concern was expressed around the relative importance of the topics as outlined in the agenda item, and that these topics were being considered on a segmented basis

and not as part of a holistic approach to the project. The Board also raised various matters and concerns to the Working Group (WG) for further consideration as the scope of the project is developed:

- The need for a definitive objective for the project. It was noted that the initial scoping discussion in the agenda item was based on the topics as identified in *The IAASB's Work Plan for 2015—2016* (the Work Plan). The Board questioned if the project was bound by this scoping or if it was possible or appropriate to revisit.
- The consideration of incorporation of governance issues into the project scoping, given its relative importance. Specifically, how a firm compensates and rewards its personnel is a key aspect of the “tone at the top” and the attitude to audit quality throughout the firm.
- The consideration of addressing the topics highlighted in the agenda paper through methods other than amendments to the International Standards on Auditing (ISAs), such as an International Practice Note (IPN) or Staff guidance.

ENGAGEMENT QUALITY CONTROL REVIEWS (EQCRs)

The Board reiterated its view on maintaining an appropriate balance of responsibilities between the engagement partner and the engagement reviewer and counseled the WG to deliberate if consideration of engagement partner responsibilities should become part of the project. The Board also expressed concern around extending the scope of engagements requiring an EQCR and that additional requirements in respect of EQCRs would make the guidance more “rules based.” In light of these concerns, the Board counseled the WG to consider the appropriateness of developing practical implementation and application guidance.

The Board expressed support for the inclusion of remediation within the scope of the project proposal, specifically with respect to the extension of ISQC 1¹² to external reviews and the consideration of root cause analysis. However, the view was also expressed that the existing requirements in ISQC 1 on this topic were sufficient. The WG was encouraged to consider if implementation guidance would be more appropriate.

OUTSOURCING

The Board agreed that this topic should be further explored by the WG, however counseled that there should be no preconceived notion that any further research would automatically lead to updates to ISQC 1 or other ISAs.

PROPORTIONATE APPLICATION OF ISQC 1

The Board expressed concern over the WG's recommendation to focus on promoting the awareness of the existing guidance that has been developed by the IAASB and others on the proportionate application of ISQC 1. It was the Board's view that much concern had been expressed and continues to be expressed by the small- and medium-sized practices (SMPs) that ISQC 1 could not be proportionately applied, nor would the structure of ISQC1 facilitate such proportionate application. It was also suggested that the manner in which the standard is written may not facilitate proportionate application. The Board advised the WG to consider these matters, including any practical help that could be given to SMPs on its proportionate application.

¹² International Standard on Quality Control (ISQC 1), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

The Board further counseled the WG to continue its research, including understanding the current practices of the accounting firms and more broadly the views of regulators and audit oversight bodies.

IAASB CAG Chairman's Remarks

Ms. de Beer noted that the issue of proportionality has been raised many times with the CAG and not just with regard to quality control, so it was clear that action is needed in this area. With regard to the scope of the project proposal, Ms. de Beer suggested that a good understanding of the issues is needed before commencing the project to avoid "scope creep" in later stages of the project. She also noted that the project should not be restricted to the topics identified in the Work Plan.

4. Consequential Amendments to the ISA 800 Series

PROPOSED CHANGES TO ISA 800 AND ISA 805¹³

The IAASB generally agreed with the Drafting Team's (DT) revisions to the proposed consequential amendments as presented in Agenda Items 3-A and 3-B relating to:

- ISA 800, which deals with special considerations in the application of the ISAs (100–700 series) to an audit of financial statements that are prepared in accordance with a special purpose framework; and
- ISA 805, which deals with special considerations in the application of the ISAs (100–700 series) to an audit of a single financial statement or a specific element, account or item of a financial statement

During the meeting, the IAASB agreed to various editorials aimed at clarifying the new application material included in proposed ISA 800 (Revised) and ISA 805 (Revised) with respect to the new reporting requirements related to going concern and OI.

The IAASB confirmed its view to retain the approach in extant standards, whereby the reporting requirements in ISA 700 (Revised) and other ISAs are not repeated in ISA 800 and ISA 805. Instead, ISA 700 (Revised) contains the overarching reporting requirements that are applicable for auditor's reports on special purpose financial statements and single financial statements, or elements, accounts or items of a financial statement, with additional requirements and guidance as considered necessary in proposed ISA 800 (Revised) and proposed ISA 805 (Revised).

IAASB CAG Chairman's Remarks

Ms. de Beer noted that the CAG had a number of comments when they discussed the proposed consequential amendments to ISA 800 and ISA 805, and that she was pleased to see how they had been addressed.

PROPOSED EFFECTIVE DATES

In line with the effective date of the new and revised Auditor Reporting standards that were approved at its September 2014 meeting, the IAASB agreed to proposed effective dates of:

- Proposed ISA 800 (Revised) for audits of special purpose financial statements for periods ending on or after December 15, 2016; and

¹³ ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

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

MATTERS RELEVANT TO THE REVISION OF ISA 805

Referring to KAM that is Communicated in the Auditor's Report on the Complete Set of Financial Statements

The IAASB agreed that it may be in the public interest to provide transparency to users of the ISA 805 auditor's report about the fact that KAM had been communicated in the auditor's report on the complete set of financial statements, without inferring that the auditor had applied ISA 701 in its entirety to the ISA 805 engagement, if that were not the case. Specifically, the IAASB deliberated about:

- Whether reference should be made in the ISA 805 auditor's report to the fact that KAM had been communicated in the auditor's report on the complete set of financial statements, or to only the subset of those KAM that the auditor also deems relevant to users of the ISA 805 auditor's report.
- How much information might be included in the ISA 805 auditor's report about the KAM communicated in the auditor's report on the complete set of financial statements, with a concern that repeating the full narrative of such KAM in the ISA 805 auditor's report might imply that the auditor had applied ISA 701 in its entirety in the context of the ISA 805 engagement.

The IAASB agreed with the DT's recommendation that there was a public interest benefit to having guidance for auditors who may consider it relevant to users' understanding of the ISA 805 auditor's report to refer to the existence of KAM in the auditor's report on the complete set of financial statements, and considered an Other Matter (OM) paragraph in accordance with ISA 706 (Revised)¹⁴ to be the appropriate vehicle to do so. Accordingly, the IAASB agreed to revisions to paragraph A23 of proposed ISA 805 (Revised) that were intended to explain this.

The IAASB concluded that the auditor's determination of those KAM that are relevant to the ISA 805 engagement would best be made when the auditor applied ISA 701 in its entirety in the context of the ISA 805 engagement. As such, the IAASB expressed a preference for the auditor to instead include a succinct reference in the ISA 805 auditor's report to the existence of KAM in the auditor's report on the complete set of financial statements, as noted in Illustration 3 in Appendix 2 of proposed ISA 805 (Revised).

The IAASB was of the view that:

- Explicitly noting that such a reference would be included in an OM paragraph alleviates the possibility that auditors would simply repeat the description of the KAM that is included in the auditor's report on the complete set of financial statements, as OM paragraphs are not intended to refer to matters presented or disclosed in the financial statements.
- Auditors would continue to have the ability to draw attention to matters presented or disclosed in the financial statements that, in the auditor's judgment, are fundamental to users' understanding of the single financial statement or the element by including an Emphasis of Matter paragraph in accordance with ISA 706 (Revised).

¹⁴ ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

The IAASB acknowledged, however, as drafted, that it would be possible, under its revised proposed guidance for auditors to make a more specific (i.e., targeted) reference to KAM in the auditor's report on the complete set of financial statements. The Board considered an alternative, whereby an auditor could choose to refer only to relevant KAM that are communicated in the auditor's report on the complete set of financial statements by including the subheading for the KAM description required by ISA 701.

Recognizing the possibility of different application of its proposed guidance, the IAASB considered whether it should establish a conditional requirement addressing how auditors should refer to a KAM that is communicated in a complete set of financial statements. However, the IAASB concluded that it was preferable:

- To provide flexibility to auditors to determine what may be most useful to users of the ISA 805 auditor's report, and concluded it was sufficient for the application material to indicate that any such reference would be through an OM paragraph; and
- Include its preferred approach in the proposed standard as part of the ED, but also discuss the alternatives in the explanatory memorandum (EM) and ask targeted questions aimed at obtaining respondents' feedback on the matter. Mr. Bhave agreed with this approach.

The IAASB also agreed to proposed new application material that includes considerations to safeguard against auditors including a reference to information that is included in the auditor's report on the complete set of financial statements when there are restrictions on the availability of those financial statements or the auditor's report thereon. One IAASB member was of a view that the ISA 805 auditor's report should be a stand-alone report, and that such safeguard was not appropriate to include in the standard.

IAASB CAG Chairman's Remarks

Ms. de Beer expressed support for the revisions to the guidance in paragraph A23 in proposed ISA 805 (Revised) to refer to the existence of KAM in the auditor's report on the complete set of information, and consider an Other Matter (OM) paragraph in accordance with ISA 706 (Revised).

APPROVAL AND WAY FORWARD

Seventeen out of 17 voting Board members approved the text of the changes to ISA 800 and ISA 805 for exposure. One member was absent. The Board also agreed that the EM to the ED should specifically ask for views about the IAASB's approach for auditors to make a reference in the ISA 805 auditor's report to KAM that is communicated in the auditor's report on the complete set of financial statements. The ED will be issued for comment for a period of 90 days.

ISA 810—OPTIONS FOR A WAY FORWARD

The Board explored the merits and drawbacks of three options, discussed in Agenda Item 9-A, for a way forward with respect to ISA 810. Reflecting on its September 2014 discussions about potential consequential amendments to ISA 810 resulting from the new and revised Auditor Reporting standards, the Board noted that the nature of an ISA 810 engagement was substantively different from an audit of financial statements, and concluded that it was necessary to first obtain a better understanding of the nature and use of ISA 810 on a global basis. The IAASB also considered feedback obtained from an informal survey of national auditing standard setters and accounting firms about the use of extant ISA 810 and how the standard was adapted at the national level.

The IAASB noted that ISA 810 is used as a starting point for jurisdictions in which auditors are engaged to report on summary financial statements, and that those jurisdictions have further tailored ISA 810, and in some cases supplemented it with national guidance to reflect the facts and circumstances that are relevant within the context of their national environments.

Next Steps

The IAASB had mixed views about the way forward with respect to ISA 810. On one hand, some IAASB members were of a view that there was a potential public interest benefit in expanding the requirements in extant ISA 810 to require, at a minimum, a statement indicating that reading the auditor's report on the summary financial statements is not a substitute for reading the auditor's report on the complete set of financial statements. Those IAASB members expressed the importance of aligning the requirements in extant ISA 810 that are truly conforming in nature to the new and revised Auditor Reporting standards in order to preserve the similarity that exist in the extant standards.

On the other hand, some IAASB members were of the view that the objective of an ISA 810 engagement is for the auditor to report on the derivation of the summary financial statements from the audited financial statements, and not to express an opinion on the fairness of those summary financial statements. Those IAASB members were of a strong view that requiring the auditor to include or refer to additional information (e.g., KAM, GC and OI) in the auditor's report on summary financial statements may give the impression that the engagement is something other than what is intended, would potentially lengthen the auditor's report, and could be misleading if the underlying issues were not disclosed in a similar manner in the summary financial statements.

The IAASB agreed:

- To defer its decision about whether conforming amendments should be made to extant ISA 810.
- That Staff will undertake, and report back in March 2015, a detailed technical review of extant 810 for the purpose of identifying conflicts, if any, which would make extant ISA 810 inoperable in relation to the new and revised Auditor Reporting standards.
- To further explore at a future date, possibly as part of developing its Work Plan for 2017–2018, whether a more holistic approach to revising extant ISA 810 may be necessary.
- To include information about its decision to defer developing consequential amendments to ISA 810 to take into account the new and revised Auditor Reporting standards, and ask a question in the ISA 800 and ISA 805 ED about the appropriateness of this deferral.

IAASB CAG Chairman's Remarks

Ms. de Beer noted that an expectation of conforming amendments existed. She however, expressed support for the IAASB's decision, subject to ensuring that the IAASB's plans for ISA 810 be discussed with the CAG at its March 2015 CAG meeting.

5. Group Audits – Letterbox

The Board recognized that the topic of letterbox audits has a long history and that the issue essentially relates to situations where there were concerns about the extent to which the financial statements had been sufficiently audited, and whether the person signing the opinion had been sufficiently involved in the audit engagement to be able to take responsibility for the audit and the related opinion. The Board was of the

view that the question was not just whether ISA 600¹⁵ applied to letterbox audits, but more broadly, an issue of audit quality in letterbox audit situations, including who should be signing the auditor's report and whether such person had sufficient involvement in that audit to meet the requirements in ISA 220.¹⁶

A number of Board members noted that although it may appear obvious that ISA 600 would apply to the letterbox audits in group situations, complex group structures exist which give rise to challenges in applying the definition of "group" as stated in ISA 600, such that the applicability of ISA 600 is not always clear in these situations.

In addition to thinking about the application of ISA 600 in group audit situations, Board members also highlighted the need to think more broadly about single component letterbox audits and whether, and if so, how ISA 600 might be adapted to address these situations, or how further clarification may be needed on how to apply the ISAs to these situations. The Board also noted that many of the challenges of applying ISA 600 to letterbox audit situations are also applicable to group audits generally.

The Board agreed with the WG's plans to gather further information about the challenges of applying the ISAs to letterbox audits from different stakeholders, how these challenges were being addressed, and specifically advised consulting audit firms and regulators, including the International Organization of Securities Commissions.

The Board also counseled the WG to consider the clarification of the application of the ISAs (including ISA 600 for group situations) to letterbox audits as a short term solution, possibly through an IPN or Staff guidance, but to also factor in the results of analysis of the related issues and implementation challenges into the broader project to revisit ISA 600.

IAASB CAG Chairman's Remarks

Ms. de Beer noted that in practice some of the larger firms thought that ISA 600 did not apply to letterbox audits and it was important to understand why. She further noted comments made by the Board cautioning that ISA 600 should not be made to apply to letterbox audits if this was not the correct answer. Ms. de Beer suggested that there may be opportunity for a more immediate clarification of the application of ISA 600 and also noted that this could be a project that ultimately would affect many of the ISAs.

6. Auditing Financial Statement Disclosures

Mr. Grabowski introduced the topic by providing a summary of the responses to the Exposure Draft (ED). He also described the progress of the International Accounting Standards Board (IASB) on its Disclosures and Materiality initiatives as relevant to this project. Mr. Grabowski also noted that the Task Force had held meetings with two investor groups, as response letters had not been received from this stakeholder group. He also added that the IFAC Small and Medium Practices Committee (SMPC) had provided a written response to the agenda papers presented.

MOVING FORWARD

Mr. Grabowski noted that the responses could be categorized into three groups as follows:

- 38 respondents supported the IAASB moving forward with the proposed changes.

¹⁵ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

¹⁶ ISA 220, *Quality Control for an Audit of Financial Statements*

- 17 respondents supported the changes as proposed but would like more substantial guidance or requirements in certain areas (e.g., applying the concept of materiality to disclosures and evaluating misstatements in disclosures).
- 15 respondents did not support moving forward with the proposed changes (with varied reasons for this, including the cost versus benefit of making changes in ten ISAs, or that they did not believe that the changes would result in the behavioral change needed).

Many of those who agreed with moving forward with the proposed changes (with or without further substantial change, as well as some who disagreed) also acknowledged that more needed to be done in due course when others, such as the IASB, had progressed their work in this area.

The Board agreed to progress the proposed changes to finalization, including consideration of strengthening the proposed changes in some areas, because:

- The majority of respondents, including members of the Monitoring Group, had agreed that moving forward with the ISA changes now was important.
- It was noted by some Board members that 'moving forward' was emphasized by investor groups and regulators on various outreach activities in recent months.

Mr. Grabowski noted that the SMPC had strongly disagreed with moving forward with the proposed ISA changes, but added that further dialogue would be arranged with this group to further understand their concerns.

IAASB CAG Chairman's Remarks

Ms.de Beer noted that the CAG supported moving forward with the proposed changes to the ISAs now.

MATERIALITY

Mr. Grabowski explained that, notwithstanding the IAASB's work in this area, some respondents were of the view that the proposed changes could and should go further than what had been proposed, and called for additional requirements or guidance on how to apply the concept of materiality to disclosures, particularly qualitative disclosures. Mr. Grabowski explained that the Task Force had mixed views about the need for new requirements to determine qualitative materiality for disclosures, but nevertheless had agreed to present an illustrative requirement for the Board's consideration. The Board agreed not to proceed with the development of changes to the requirements in ISA 320¹⁷ and instead to wait for the IASB to progress its work on materiality, at which time the Board could then consider a more holistic review of ISA 320. However, the Board asked that the Task Force consider whether other changes, such as application material to support the existing requirements, could be developed to address qualitative disclosures, whether this was in ISA 320 or ISA 315 (Revised).¹⁸

ELEVATION OF APPLICATION MATERIAL TO REQUIREMENTS IN ISA 330¹⁹ AND ISA 700

Mr. Grabowski explained that some respondents, particularly regulators, have urged the IAASB to consider

¹⁷ ISA 320, *Materiality in Planning and Performing an Audit*

¹⁸ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

¹⁹ ISA 330, *The Auditor's Responses to Assessed Risks*

whether certain application material in ISA 330 and ISA 700 could be elevated to requirements, particularly in the case of audit procedures that would be expected to be performed on every audit. A few members cautioned the Board about elevating some of this material and asked that further consideration be given to whether the elevation of the application material to requirements would improve auditor behavior. The Board generally agreed to the proposed changes but asked the Task Force to reconsider the articulation of the new requirements (in particular, to clarify the auditor's work effort), and provide additional application material to support such new requirements where relevant. A Board member also asked the Task Force to reconsider whether some of the application material that the Task Force had not elevated, in the relevant paragraphs in ISA 700, should be elevated.

ADDITIONAL REQUIREMENTS IN ISA 315 (REVISED)

The Board agreed, in principle, to the Task Force's proposal to add new requirements to ISA 315 (Revised) to clarify that the auditors' understanding of controls over the relevant information systems should extend beyond the general ledger and subsidiary ledgers. The Board, however, asked the Task Force to reconsider the placement of the new requirements. In addition, the Task Force was also asked to reconsider the articulation of the new requirements to clarify what the auditor's action would be.

IAASB COMMENTS ON OTHER ISAS

IAASB members generally agreed with the other proposed changes, but noted some areas for further Task Force consideration including:

- ISA 200²⁰—reconsideration of some of the terminology used in the revised definition of financial statements.
- ISA 315 (Revised)—reconsideration of the additional guidance added in certain paragraphs in the application material. One Board member also asked the Task Force to consider whether the extant assertions for presentation and disclosure should be retained in some form in the section on the assertions about other disclosures (i.e., not related to transactions or events, or account balances).
- ISA 450—reconsideration of the new application material in paragraph A13b, for the terminology used, as well as whether this is appropriately articulated in the clarity format. A Board member asked the Task Force to consider whether guidance could be added regarding the communication of misstatements that could be indicative of an internal control deficiency.

WAY FORWARD

Notwithstanding that other matters arising from the responses to the ED will be presented to the Board in March 2015, it was noted that the most significant comments had been discussed with the Board in December 2014. The Board therefore agreed to proceed on the basis that the Task Force would present the proposed changes to the ISAs for approval in March 2015.

It was also agreed that, if necessary, the Task Force would bring relevant material for Board discussion at the January IAASB teleconference.

At the March 2015 IAASB meeting, the Board will also further consider the way forward on materiality and sufficient appropriate audit evidence, as well as the updated Staff Publication.

²⁰ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

7. IESBA – Topics of Common Interest

The Interim Chair of the International Ethics Standards Board for Accountants (IESBA), Mr. Wui San Kwok, gave a presentation on the key projects on the IESBA's current agenda, including the project on responding to non-compliance or suspected non-compliance with laws and regulations (NOCLAR). He also outlined key elements of the IESBA's Strategy and Work Plan 2014-2018, including monitoring the global uptake of the IESBA Code²¹ and developing greater engagement and cooperation with IAASB and other key stakeholders.

Among other matters, IAASB members acknowledged the importance of collaboration between IAASB and IESBA, including consideration of how IAASB and IESBA task forces can work more closely together on topics of mutual interest. It was suggested that the chairmen of both Boards further explore future collaboration opportunities.

Suggestions were made regarding topics on which there would be opportunity for IAASB-IESBA coordination and collaboration, including NOCLAR, ISQC 1, professional skepticism, offshoring, academic research and outreach. There was also a suggestion for a discussion of the NOCLAR project at the March 2015 IAASB meeting, which staff of both Boards were asked to further explore.

8. Integrated Reporting

ASSURANCE ON INTEGRATED REPORTS

Ms. Kelsall provided an update to the IAASB on market developments in relation to Integrated Reporting (<IR>) and the need for assurance in this area and the related assurance issues relevant to the work of the IAASB. She also noted the current inconsistencies in practice in obtaining assurance on integrated reports. She further provided insight into the proposed activities of the Integrated Reporting Working Group (WG) and the anticipated milestones. She also explained how the consultation by the International Integrated Reporting Council (IIRC) on the Discussion Papers on <IR> Assurance related to the future work of the IAASB in this area. Prof. Schilder reported that the IAASB had submitted a comment letter to the IIRC as a response to their consultation. He also noted that during the IAASB outreach activities, a number of stakeholders have urged the IAASB to take action in the area of developing guidance to obtain assurance on integrated reports.

The activities were discussed and support was noted with the following suggestions made:

- Some board members suggested that the IAASB leverage its activities in the public sector (e.g., with regard to performance reporting, as well as obtaining further insight into the activities of the public sector pioneer network recently initiated by the IIRC).
- A Board member cautioned against acting too quickly and suggested spending sufficient time on exploring the scope and boundaries of the project, taking into account the competence of professional accountants as well as exploring the concept of integrated reporting in a wider corporate reporting context.

The Board also supported continuing the interaction with the IIRC, as well as the dialogue more broadly in the corporate reporting supply chain. They also noted that the feedback statement that the IIRC will compile based on its consultation will be valuable input to the IAASB.

²¹ *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants

IAASB CAG Chairman's Remarks

Ms. de Beer noted that the topic had not yet been discussed in detail with the CAG, and suggested exploring the role of various assurance providers in the integrated reporting process (such as risk, internal audit, ESG auditors, etc.) She suggested that the IAASB give consideration to the extent to which the work of those assurance providers add to the credibility of the integrated report. She also suggested that it would be useful to explore a structure similar to that of the Framework for Audit Quality, where roles of different stakeholders are described at first, in considering the way forward for standard setting activity for assurance on <IR>.

WAY FORWARD

The Integrated Reporting WG will work toward its next milestone, the Staff Awareness Paper, and will take into account the suggestions made during this Board meeting. This paper will provide insight into the market developments in assurance on <IR>, the existing standards of the IAASB relevant to this area, the emerging assurance issues and the anticipated work of the IAASB.

9. Process for Developing IPNs

The Board discussed the Staff proposal in Agenda Item 11 for the development of a formal process for IPNs.

The Board generally agreed with the proposed process. In addition to various editorial and other less substantive amendments, the Board agreed to:

- Allow flexibility for public exposure of a draft IPN.
- Require the outcome of deliberations on significant comments made by CAG Members to be communicated to the CAG.

IAASB CAG Chairman's Remarks

Ms. de Beer noted that the comments of the CAG had been sought by e-mail prior to the IAASB meeting. Only a few comments were received. Those comments supported the proposed process, but raised the following suggestions:

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

WAY FORWARD

The process for developing IPNs is to be revised by Staff and considered by the IAASB out of session, then circulated to the CAG and the PIOB.

10. PIOB Observer's Remarks

Mr. Bhave thanked the Board for the warm welcome and the Staff and Board for their work efforts on the various projects.

He noted that he was glad to see that the Board came to a conclusion on, and approval of, a version of ISA 720 that is acceptable to most Board members even though there were divergent views. Mr. Bhave expressed that he was encouraged by the IAASB's lively debate in its consideration of the issues impacting the public interest, and the Board's process to produce readable, clear and accessible standards. Notwithstanding this robust process, Mr. Bhave expressed some of his personal observations and concerns about international standard-setting more broadly. He noted that the principles-based ISAs, much like other auditing standards, are getting too voluminous, and suggested that the Board work towards achieving a practical solution to having standards that are sufficiently robust and explicit about the IAASB's intent, but also simple, concise and not overly prescriptive. Prof. Schilder thanked Mr. Bhave for his remarks.

11. Next Meeting

The next meeting of the IAASB is a teleconference scheduled for January 22, 2015. The next physical meeting is scheduled for March 16–20, 2015 in Brussels, Belgium.

12. Closing

Prof. Schilder noted that this would be the last year of service as Board members for Messrs. Montgomery, Gélard, Sekiguchi, Wiersema and Winter and technical advisors Mr. Rowden and Ms. Tracq-Sengeissen. He highlighted each of their many achievements over their terms and thanked them for their tremendous service to the IAASB and their contributions to the public interest.

Prof. Schilder thanked the IAASB members, technical advisors, observers, and Staff for their contributions to the meeting. He also expressed special appreciation for the work of the ISA 720 Task Force team, including Technical Advisors Ms. Tracq-Sengeissen and Ms. Weber. He then closed the meeting.