

**Minutes of the 68<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD  
Held on March 16–20, 2015 in Brussels, Belgium**

**Voting Members**

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

**Technical Advisors**

Sue Almond (Mr. Murtagh)  
Wolf Böhm (Ms. Köhler)  
Ahava Goldman (Mr. Dohrer)  
Alejandro Gonzalez (Mr. Coscodai)  
Hiram Hasty (Mr. Landes)  
Diana Hillier (Mr. Sharko) (March 16)  
Josephine Jackson (Mr. Grabowski)  
Susan Jones (Mr. Blascos)  
Sachiko Kai (Ms. Sumida)  
Richard Mifsud (Ms. Kelsall)  
Alexandra Popovic (Mr. Hällström)  
Jamie Shannon (Mr. Sharko) (March 17–20)  
Greg Shields (Mr. Salole)  
Inge Vanbeveren (Mr. Pickeur)  
Denise Weber (Ms. Campbell)

Apologies:

Jennifer Burns (Ms. Zietsman)  
Maria Manasses (Ms. French)

**Non-Voting Observers**

Present: Juan Maria Arteagoitia (European Commission), Linda de Beer (IAASB Consultative Advisory Group (CAG) Chairman), Norio Igarashi (Japanese Financial Services Authority), Matthew Waldron (Incoming IAASB CAG Chairman)

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

Present: Nic van der Ende

Present: **IAASB Technical Staff**

Kathleen Healy (Technical Director), Sara Ashton, Beverley Bahlmann, Brett James, Nancy Kamp-Roelands

Apologies: James Gunn (Managing Director, Professional Standards), Diane Jules, Jasper van den Hout, Bradley Williams

International Auditing and Assurance Standards Board (IAASB) agenda materials referred to in these minutes can be accessed at <http://www.ifac.org/auditing-assurance/meetings/brussels-belgium-1>. These minutes are a summary of the decisions made at the March 2015 IAASB meeting, in light of the issues and recommendations in the agenda material put forth by the Task Forces, Working Groups, Drafting Teams and Staff supporting the individual projects. These recommendations are made taking into account feedback from respondents to the IAASB's public consultations, in particular Exposure Drafts (EDs) of the IAASB's proposals, consideration of previous discussions of the Board and its CAG, and feedback from stakeholders through outreach activities.

## 1. Welcome and Approval of Previous Minutes

The minutes of the December 2014 physical meeting and the January 22, 2015 teleconference were approved as presented. Prof. Schilder noted that Mr. Jianhua Tang has resigned from the IAASB and thanked him for his work for the IAASB.

## 2. Auditing Financial Statement Disclosures

The Board considered recommendations from the Disclosures Task Force in response to the comment letters received on the ED of *Proposed Changes to the ISAs, Addressing Disclosures in the Audit of Financial Statements* (changes to the ISAs). The ED included proposed changes to a number of ISAs.<sup>1</sup>

The Board generally agreed with the Task Force's recommendations as set out in Agenda Items 2-A, 2-B, 2-C and 2-D. In addition to various editorial and other less substantive amendments to Agenda Items 2-B, 2-C and 2-D, additional changes were made to the ISAs as described in the sections below.

### INFORMATION IN DISCLOSURES THAT IS FROM OUTSIDE THE GENERAL AND SUBSIDIARY LEDGERS

The Board further deliberated the changes being proposed to emphasize what is expected of auditors in relation to information in disclosures that is from outside the general and subsidiary ledgers, amid concerns expressed by a few Task Force members and other Board members that the proposed changes may inadvertently scope in a required understanding of systems and processes that may not be relevant to the audit, thereby unnecessarily increasing the auditor's work effort. In finalizing the proposed changes to ISA 315 (Revised), the Board agreed to:

- Revert to extant paragraph 18, but include new text following on from that paragraph to emphasize that the information in the financial statements may be from within or outside the general and subsidiary ledgers, and would therefore need to be considered when performing the required procedures to obtain an understanding of the information system, including the related business

<sup>1</sup> As a result of the Disclosures project, changes were made to the following ISAs: ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*; ISA 210, *Agreeing the Terms of Audit Engagements*; ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*; ISA 260 (Revised), *Communication with Those Charged with Governance Requirements*; ISA 300, *Planning an Audit of Financial Statements*; ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*; ISA 320, *Materiality in Planning and Performing an Audit*; ISA 330, *The Auditor's Responses to Assessed Risks*; ISA 450, *Evaluation of Misstatements Identified during the Audit*; and ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*.

processes, relevant to financial reporting. It was also highlighted that only the *relevant* aspects of the information system needs to be understood by the auditor.

- Make it clear in the examples provided in the application material in paragraph A89a that it is the information that has been disclosed in the financial statements that is subject to auditor consideration.
- Provide a simpler example of the information in disclosures that may come from outside the general and subsidiary ledgers, such as leases, to respond to a CAG Representative's suggestion that it was not only information relating to complex disclosures in paragraph A89a.
- Develop application material to emphasize that the understanding of the information system that is required by paragraph 18, including the relevant aspects of the information system relating to information obtained from outside of the general and subsidiary ledgers, is a matter of professional judgment.

Ms. De Beer noted that CAG Representatives strongly supported the proposed change to paragraph 18 of ISA 315 (Revised) relating to information in disclosures that is from outside the general and subsidiary ledgers, as it was seen as strengthening and enhancing ISA 315 (Revised).

#### MATERIALITY

The Board considered the need for more substantial changes to ISA 320 to address disclosures, including qualitative disclosures, and agreed with the Task Force's recommendation that any changes deemed necessary should be incorporated in a more holistic review of ISA 320 rather than attempting to make these changes on a piecemeal basis. In deciding not to pursue further changes to ISA 320 or ISA 315 (Revised), the Board was mindful of the work currently being undertaken by the International Accounting Standards Board (IASB) in relation to materiality.

However, the IAASB agreed to make limited changes to ISA 320 and ISA 315 (Revised) to highlight materiality considerations relevant to disclosures, including:

- The proposed changes in paragraph 26(a) and (d) of ISA 315 (Revised), to clarify that in assessing and identifying the risks of material misstatement, the auditor considers both quantitative and qualitative information, together with the related application material in paragraph A131a to emphasize that potential misstatements may be judged to be material due to size, nature or circumstances.
- Confirming that the new application material included in paragraphs A128a and A128b of ISA 315 (Revised) relating to the interaction of materiality and risk assessment is sufficient at this time.
- The new proposed application material in paragraph A1a of ISA 320 about materiality in the context of an audit.

#### OTHER CHANGES TO THE ISAS

The Board agreed to revise application material in ISA 450 to clarify that:

- "Clearly trivial" applies to all information in the financial statements, whether considered by magnitude or nature.
- Misstatements in disclosures that are not clearly trivial need to be accumulated.
- All misstatements, whether in the individual statements or disclosures, needed to be evaluated individually and in combination with other misstatements.

The Board also agreed other changes variously, including:

- Reverting to the extant wording in the definition of financial statements in paragraph 13(f) of ISA 200, which refers to “economic resources or obligations”, as “assets,” “liabilities” and “equity” may not be suitable for all types of entities using the ISAs. The corresponding change that had been proposed to the assertions in paragraph A124 of ISA 315 (Revised) to change “equity interests” to “equity” was therefore no longer considered appropriate.
- Clarifying in the application material to the definition of financial statements in ISA 200 that “cross-referenced” to the financial statements from another document does not mean that the cross-referenced information is part of the financial statements.
- Clarifying in the application material that, although disclosures in small- and medium-sized entities may be less complex, this does not relieve the auditor of the responsibility to obtain an understanding of the information in disclosures.
- The revised articulation of the elevated application material in ISA 330, paragraphs 20 (and corresponding changes in paragraph 30 about documentation thereof) and 24.
- Not to add additional application material to ISA 450 about communication of misstatements identified that may be indicative of deficiencies in internal control, as this was beyond the scope of the Disclosures project.
- The revised articulation of the elevated application material in ISA 700 (Revised), paragraphs 13(a) and (d).

#### IAASB CAG CHAIRMAN’S REMARKS

Ms. de Beer noted that CAG Representatives, in general, continued to strongly support the changes to the ISAs. She added that there was significant support to make the changes in the ISAs to help drive auditor behavior in relation to disclosures. Ms. de Beer noted that the CAG was supportive of the proposed changes to the requirements in ISAs 315 (Revised), 330 and 700 (Revised), as some were of the view that more changes to the requirements within the ISAs would be needed to enhance consistency in practice.

#### SUFFICIENT APPROPRIATE AUDIT EVIDENCE FOR DISCLOSURES

The IAASB agreed to continue to monitor the efforts and progress of the IASB on its Disclosures project before considering additional IAASB work effort in this area, noting that active monitoring of that IAASB’s work by common members of the current Disclosures Task Force and IAASB-IASB Liaison Working Group (WG), and Staff, would inform the IAASB’s future considerations. Informing the Board as to the progress of the IASB would take place on a periodic basis, with an active WG being formed at the time that the Board considered it appropriate to commence work in those areas.

#### SMALL AND MEDIUM PRACTICES CONSIDERATIONS

Mr. Grabowski explained that the Task Force had noted the concerns expressed by representatives from the IFAC Small and Medium Practices (SMP) Committee, including that the IAASB should wait to finalize the changes to the ISAs until such time that changes could also be made to address how the concepts of materiality and evidence relate to disclosures.

The IAASB took these concerns seriously, as effective implementation of the ISAs is fundamental to achieving audit quality regardless of the size of the entity or the accounting firm. The IAASB reflected upon the rationale behind the proposed changes and, on balance, believed that making changes to the ISAs at

this time is necessary in the public interest and with the support of a wide range of stakeholders. The changes to the ISAs continue to build on the principles fundamental in a risk-based audit. The IAASB therefore believes they would be capable of being applied to entities of all sizes, and in all jurisdictions and sectors.

To facilitate implementation of the changes by SMPs, the IAASB agreed to:

- Develop a short publication to provide an overview of the changes in the context of all of the ISAs.
- Reflect as to whether there was additional material that could be added to the planned Staff Publication in the form of additional considerations for SMPs. This publication will be issued concurrently with the release of the final changes to the ISAs.

#### CONFORMING AMENDMENTS

The IAASB generally agreed with the Task Force's proposals in relation to the proposed conforming amendments to ISA 540,<sup>2</sup> ISA 580,<sup>3</sup> ISA 705 (Revised),<sup>4</sup> ISA 800,<sup>5</sup> and ISA 805.<sup>6</sup>

#### DUE PROCESS CONSIDERATIONS

The IAASB agreed with the Task Force's positions as set out in Agenda Item 2-A, 2-B, 2-C and 2-D and confirmed that there were no issues raised by respondents to the ED, in addition to those summarized by the Task Force, that should have been discussed. Mr. Grabowski confirmed that the Task Force has raised with the IAASB all significant issues they have deliberated, and noted that the Task Force had the view that no further consultation (such as roundtables or further consultation with particular stakeholder groups) or field testing was needed. Ms. Healy advised the IAASB that it had adhered to its stated due process in finalizing the revised standards and related conforming amendments.

#### APPROVAL

After agreeing all necessary changes to the standards and conforming amendments, the IAASB unanimously approved, as a package, the proposed changes to the ISAs and related conforming amendments, with 17 affirmative votes out of the 17 Board members present.

#### 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 changes to the ISAs. The Board agreed with the Task Force's view that the changes to the ISAs since exposure have not fundamentally changed the principles of any of the affected ISAs, because changes to the requirements since exposure are either elevations of application material for procedures that would ordinarily be performed on an audit, or were the result of additions to existing requirements in order to emphasize how the requirement relates to disclosures.

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<sup>2</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

<sup>3</sup> ISA 580, *Written Representations*

<sup>4</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

<sup>5</sup> ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

<sup>6</sup> ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

## EFFECTIVE DATE AND WAY FORWARD

The Board agreed that changes to the ISAs 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 and ISA 720 (Revised).<sup>7</sup>

The final changes to the ISAs are tentatively planned for release in July 2015, pending approval from the PIOB that due process was followed in their development.

### 3. Integrated Reporting

Ms. Kelsall informed the IAASB about the meetings of the Integrated Reporting WG and the interaction that had taken place with different stakeholders, including the International Integrated Reporting Council (IIRC). She provided a preliminary summary of the feedback the IIRC received on its Discussion Papers (DPs) on assurance, provided further background to integrated reporting assurance in practice and clarified that, although the draft Awareness Paper addresses the IIRC Framework, the work of the Integrated Reporting WG captures also other frameworks relevant in this area. She noted the WG's intent to first issue the Awareness Paper, and then further develop a more detailed DP building on the IIRC's consultation and other information-gathering activities.

With regard to the market developments relevant to integrated reporting, IAASB members commented as follows:

- Some members questioned the current market situation and the fact that assurance engagements are being conducted, including whether there are already suitable criteria for the different types of assurance engagements in this area not only with regard to reporting but also with regard to internal control or reporting processes; and whether the assertions with regard to an integrated report are sufficiently clear.
- Other members also raised concerns about the risks of piecemeal assurance; over the type of limited assurance engagements currently being performed.

With regard to the Awareness Paper, the Board agreed in principle with the need to make the IAASB's work on the topic of integrated reporting known, but raised concerns with the draft that was presented for discussion and suggested the WG clarify its objectives and content in order to streamline the paper. In addition, the IAASB raised a number of other suggestions in relation to the WG's next steps, highlighting that the WG should:

- Remain open to frameworks other than the IIRC Framework, as different frameworks are used by preparers and not all of those frameworks are called "integrated reports". This point could also usefully be acknowledged in the Paper as a means of highlighting the wider applicability of the Board's work.
- Obtain further information on demand for assurance so that the IAASB could better tailor the solutions to what is needed in the public interest. In this regard, a suggestion was made that the WG should not focus too much on the current practices, but rather engage directly with investors and companies to understand their needs, as well as using academic research that identifies the most important information for decision-making.

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<sup>7</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

- Perform a gap analysis to understand whether the IAASB's assurance standards are fit for purpose and, if gaps are identified, what IAASB could do to address these gaps. However, members also cautioned that it may be too soon to do this.
- First consider how assurance could be obtained on the pieces of an integrated report for which there are suitable criteria, and in due course develop a paper exploring assurance on integrated reporting as a whole.
- Not to be too prescriptive on the timescale for further activities.

Prof. Schilder confirmed that informing external stakeholders on the activities of IAASB is important in the short term, in part to highlight the interactions with the IIRC, with a more robust DP to follow in due course. He also suggested it may be helpful to add one or more additional board members to the Integrated Reporting WG.

#### IAASB CAG CHAIRMAN'S REMARKS

Ms. de Beer noted that the CAG was supportive of the IAASB's work in the area of integrated reporting. She stressed the importance of WG focusing more pro-actively on obtaining insights into investors' assurance needs and the importance of not considering existing and ongoing academic research only, but also soliciting academic research specifically in the area of assurance, as such studies are not yet available. Currently most research is focused on integrated reporting more broadly. Such academic research would ensure that the IAASB does not respond to anecdotal concerns, but instead have a thorough understanding of the underlying issues.

She noted that the CAG was of the view that the current Awareness Paper was not clear in its objectives, was not sufficiently focused and that significant assurance issues (such as levels of assurance, internal and external assurance providers, assuring the process versus assurance of the date, single versus piece meal opinions, etc), were omitted from the paper. Furthermore, the paper focused on assurance providers rather than assurance itself. It was therefore questioned whether the proposed document was adding anything further to the debate, not already covered by the IIRC publications.

She suggested the purpose of the Awareness Paper is to inform stakeholders about the existence and work of the IAASB Integrated Reporting WG and provide a brief overview of the current perceived assurance difficulties, the more detailed discussion of key assurance challenges to be set out in a later DP. She noted that the CAG suggested the Awareness Paper should be released after the IIRC publishes its Feedback Statement.

#### WAY FORWARD

The Integrated Reporting WG will further streamline the draft Awareness Paper in response to the Board's and CAG's input and seek feedback from the IAASB in advance of its publication. The paper will be released after the IIRC has released its feedback statement on its consultation.

#### **4. Efficiencies**

Staff provided an update of the proposed changes to be made as a result of the feedback from the IAASB CAG and the circulation to the Board in advance of the IAASB March meeting.

## PROCESS TO DEVELOP AN INTERNATIONAL PRACTICE NOTE (IPN)

The Board concluded that flexibility in the process was very important. In addition, it was noted that:

- Public exposure may not be considered necessary only in exceptional circumstances, and therefore the process should allow more flexibility; and
- The Board discussions could be more emphasized in the process.

There was also continued concern on the status of non-authoritative material, insofar as the fact that it is approved by the Board and therefore implicitly is perceived to have some level of authority.

## PROCESS TO ADDRESS CIRCUMSTANCES REQUIRING AN ACCELERATED RESPONSE

Board members variously suggested further revisions as follows:

- A more explicit reference to the fact that all aspects of the IAASB's Due Process applies in circumstances where an accelerated response is needed;
- Removal of the example in which reference to inconsistency with the IESBA is made; and
- Reconsidering the language so as not to imply that an accelerated response must be undertaken by the Board if all conditions are met in relation to an issue.

## IAASB CAG CHAIRMAN'S REMARKS

Ms. de Beer noted that the CAG was, in general, comfortable with the proposed process of developing IPNs, but was of the view that the role of the CAG and the PIOB in the process could be better utilised and strengthened if obtained upfront at the initial stages of scope setting. She also noted the CAG's suggestion that, if a document is not publicly exposed, some form of review by external experts would be useful from a quality control perspective.

She also noted that the CAG was supportive of the process to address circumstances requiring an accelerated response, but the proposed document should note more explicitly that all criteria for an accelerated response need to be met.

## WAY FORWARD

The IAASB Steering Committee will consider revised drafts of the documents, which will then be circulated to the Board for a fatal flaw review. The documents will also be discussed with the PIOB in due course.

## 5. Quality Control

The Board generally supported soliciting the views of the SMPs on the topic of quality control by means of a targeted survey, together with the issuance of a DP to obtain the views of the wider stakeholder community. However, it was suggested that the deadline for the survey should be extended, given that it was issued in a busy season for many audit firms. The WG was also asked to extend information-gathering activities to other stakeholders, including national auditing standard setters (NSS), professional accountancy organizations, the European Audit Inspections Group and the European Federation of Accountants and Auditors.

The Board generally expressed agreement with the topics presented for discussion. However, the Board challenged the WG's presentation of potential solutions in Agenda Item 3-A as either short-term or long-term, and suggested this approach should be reconsidered. The IAASB also acknowledged the concerns that had been raised by some CAG Representatives as well as by the SMP Committee about making

changes to the standards multiple times (i.e., by proposing responses in the short term and then making further updates at a later time).

The Board therefore suggested it would be more appropriate for the topics to be presented more broadly in the planned DP, allowing respondents to provide views on the priority of the topics and timeframe in which they could be addressed, and the Board emphasized particular areas that should be explored within the DP. Specifically, the Board recommended that the Working Group:

- Consider whether an alternative term to “risk-based” approach could be used to reflect the different understanding of what this means in respect of ISQC 1<sup>8</sup> and the relative to the intent of the Working Group or the Board.
- Take a broader focus on audit quality, highlighting that the Board’s initial discussions have been focused on quality control at the firm level and not necessarily on quality control at the engagement level.
- Consider having separate sections in the Discussion Paper to discuss monitoring issues and those issues relating to remediation.
- Further explore issues related to the governance of accounting firms.

#### IAASB CAG CHAIRMAN’S REMARKS

Ms. de Beer noted that the CAG was supportive of the project, also in light of the IFIAR inspection finding. The CAG agreed with the approach to scope the quality control project by means of an SMP survey as input to a DP. She noted that CAG Representatives, similar to Board members, had expressed concern about the categorization of potential actions into short-term and long-term actions, as it was difficult to understand the criteria used for such classification. Also, classifying a potential action as a long-term action may be perceived as the IAASB postponing addressing a number of important issues. She noted that the CAG had expressed the need for a longer consultation period than initially proposed.

A number of specific CAG comments on matters such as the EQCR, the business model of the firms, fee pressure and client selection as well as the risk based approach were also made and already mentioned by the WG Chairman.

#### WAY FORWARD

The WG will continue its consideration of the issues and the feedback from the CAG and Board and present further matters for the IAASB’s consideration at its June 2015 meeting.

### **6. Outsourcing (Audit Delivery Models)**

The IAASB discussed results from the Staff-led survey on the use in practice of new “Audit Delivery Models”, including accounting firms’ use of outsourcing. It was noted that themes from the survey had been validated with representatives of the Global Public Policy Committee (GPPC) and Board members from practitioner firms, who indicated that the results of the survey were consistent with what they understood to be the practices within their respective firms. Board members further observed that the use of alternative Audit Delivery Models represents a change in the way firms are performing audits by means of a more distributed engagement team. Board members indicated that part of the issue was whether stakeholders would be comfortable with alternative audit delivery arrangements. The implications of the use of audit delivery

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<sup>8</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

models will be considered as the IAASB progresses its work on the topics of quality control and group audits.

## 7. Financial Institutions

The IAASB received an update on the Financial Institution WG's initial outreach and plans to progress the project. To assist in educating the IAASB about key issues in the audits of banks, the IAASB heard a panel presentation (by experts from the IASB and the Basel Committee on Banking Supervision (Basel Committee), and an experienced bank auditor) that provided the IAASB with views and opinions about current issues in the audits of financial institutions, including those related to the future implementation of IFRS 9.<sup>9</sup>

With regard to the relationship between auditors and banking and insurance supervisors, the IAASB supported in principle the development of non-authoritative guidance in the form of an International Auditing Practice Note (IAPN), taking into account the work on the topic already undertaken by the Basel Committee.

The Board suggested that the WG should do more research and information gathering, potentially through a DP, before deciding on whether or not other aspects of the project should proceed via an IAPN or through changes in ISAs. For example, it was suggested that, when issues arise on specific topics, the Board should take a step back and determine whether the current set of ISAs provides sufficient guidance to be applied in the circumstances. If so, it may be feasible to address the issues via the issuance of a Staff publication or other non-authoritative material to provide guidance based on the underlying concepts in the ISAs. On the other hand, it was also noted that the Board may need to be open to the possibility of industry-specific ISAs or industry-specific requirements within individual ISAs, which is not inconsistent with the practice within the ISAs that some requirements are only applicable for listed entities. However, caution about industry-specific ISAs or requirements was also expressed; it was noted that accounting standards setters, such as the IASB, generally issue standards in relation to certain activities, regardless of the industry in which those activities take place.

Additional specific points raised for the WG's further exploration included:

- Liquidity/Going Concern issues for banks, noting that the specific characteristics of banks may warrant a unique approach to these topics;
- New regulations that have been put into place since the global financial crisis; and
- Guidance to help auditors with the implementation of IFRS 9.

### IAASB CAG CHAIRMAN'S REMARKS

Ms. de Beer noted that the matter of Financial Institutions also came up in the CAG's private session, specifically in so far as the urgency of dealing with the IFRS 9 audit related issues are concerned. She noted that there may be a need to fast track guidance or changes to the ISAs to address IFRS 9.

In so far as the larger Financial Institutions project is concerned, she questioned whether the Board already agreed that an IAPN would be the proposed output. She suggested that the CAG should be consulted on the Board's consideration as to whether an IAPN or changes to ISAs would best address the issues related to financial institutions as regulators, in particular, have strong views on this. The CAG welcomed the possibility of having industry-specific requirements or standards to address the audit of financial institutions.

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

## WAY FORWARD

The IAASB recognized the urgency of beginning to address the implementation issues relating to IFRS 9 and also agreed that the scope of the work be initially limited to banks and insurance companies, rather than the broader concept of “financial institutions”, to enable the WG to become more familiar with the key issues.

The IAASB noted that many of the issues to be further considered by the WG may be more widely applicable to audits of entities other than financial institutions. A holistic approach to these issues was therefore suggested, in coordination with the quality control and group audit WGs, perhaps via a joint DP.

The WG will continue developing an IAPN on the relationship between auditors and the financial institution supervisors. The WG will also further explore the other points raised by the IAASB and provide an update at the June 2015 meeting.

## 8. Group Audits

The Board generally supported soliciting further input on the Group Audits project by means of a DP. Specifically, some members of the Board:

- Suggested the results of academic research should be considered in drafting the DP.
- Recommended considering the impact of relevant accounting standards (i.e., those that have a direct impact on entities that are considered groups), as well as monitoring developments in these accounting standards and considering their impact on the audits of group financial statements.
- Raised the issue of whether the group auditor should be able to more directly use or rely on a component auditor’s report, including making reference to such report in the group auditor’s report. Discussed that the Group Audit WG might potentially consider exploring the issue further and seeking further input in the DP.
- However, cautioned against the potential of diminishing the auditor’s responsibilities with respect to group audits, noting the requirement to obtain reasonable assurance to support the opinion on the group financial statements, which is a high level of assurance.
- Recommended that the Group Audit WG continue to focus its information gathering on understanding the root cause of inspection findings and to formulate preliminary views as to whether issues that have been noted might be best addressed through standard setting or whether they are more related to auditor performance.
- Considered whether it might be useful to address the identification of key audit matters (KAM) to be communicated in the auditor’s report in accordance with ISA 701 in a group audit.<sup>10</sup>

Board members expressed reactions to the proposal for a Staff document to be prepared to specifically address the issues that have been raised by certain audit regulators in respect to “audits of letterbox companies”, noting in particular that the issues relating to such audits are complex and that they are not necessarily unique to these audits, but rather are issues that have broader applicability to many other group audit situations. Certain Board members indicated that the term “audits of letterbox companies” was not consistently understood and that it also carried negative connotations. On balance however, the Board understood that there was a need for short term action and the WG was asked to proceed with developing a brief Staff publication that, although non-authoritative and also not an interpretation of the ISAs, would

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<sup>10</sup> ISA 701, *Communication of Key Audit Matters in the Independent Auditor’s Report*

nevertheless be a useful reminder to auditors of their responsibilities under the ISAs in the circumstances discussed. The Board also agreed that the draft Staff publication should provide information about the broader project that is underway. Some members cautioned that:

- Care would be needed to ensure that the staff document did not result in an interpretation of the existing standards that would go beyond just reminding auditors of the existing requirements and guidance.
- A staff alert may have little value and could run the risk of creating more issues in the area of group audits.

The Board agreed that some of the issues that arise in “audits of letterbox companies ” can also arise in other group audits (although less pervasively) and were supportive of them being explored in more detail in the planned DP; noting that the DP would provide the opportunity for the complexities to be fully identified and understood.

#### IAASB CAG CHAIRMAN'S REMARKS

Ms. de Beer noted the CAG was supportive of the proposal to publish a Staff document reminding auditors what is required by the ISAs in group audit situations, noting that inconsistent practices in the application could be damaging to the reputation of the ISAs. She noted the CAG's discussions also identified the difficulties of identifying components in the public sector, issues with access to component auditor working papers and the allocation of component materiality.

Ms. de Beer also noted that the CAG had recommended that the Working Group consider the results of academic studies already available on materiality in determining the population of group audits. The CAG also emphasised the importance of the Working Group gaining an understanding from regulators in this regard – especially in the insurance industry where some insurance companies have non-insurer entities within the group.

#### WAY FORWARD

Staff, in coordination with the WG, will develop a draft Staff publication to clarify the application of the ISAs in situations that have been described as “audits of letterbox companies”. The Group Audit WG will continue to explore and understand the issues pertaining to Group audits incorporating the feedback from the Board and the CAG and present further matters for the IAASB's consideration at its June 2015 meeting.

### **9. International Forum of Independent Audit Regulators (IFIAR) Presentation**

Ms. Janine van Diggelen and Ms. Marjolein Doblado, representing IFIAR, gave a presentation on the role of IFIAR and its WGs, as well as its recently issued inspection findings survey report. IAASB members raised a number of questions in relation to the nature and root causes of the inspection findings and the validity of the conclusions drawn based upon the methodology used. The IAASB noted that the IFIAR report highlighted that IFIAR's survey findings may indicate deficiencies in audit procedures suggesting that audit firms did not obtain sufficient appropriate audit evidence to support their opinions and, as such, do not in themselves directly indicate that the Auditing Standards are inadequate. It was also noted that the IAASB's focus on quality control and financial institutions, as well as the broader topics of accounting estimates, was appropriate in light of the level of inspection findings in these areas. IAASB members encouraged IFIAR to continue to analyze inspection findings, trends and root causes and provide input into the IAASB's work in light of the mutual aims of enhancing audit quality.

## 10. European Commission (EC) Presentation

Ms. Nathalie Berger, representing the EC, gave a presentation on the EC's audit reforms, including changes to enhance the information provided to investors, enhance the communication with audited entities, strengthen the independence regime, and strengthen oversight arrangements. IAASB members noted that a number of the matters raised in the presentation were also relevant to the work of the International Ethics Standards Board for Accountants (IESBA), for example in relation to auditor rotation and non-audit services, which confirms the need for continued cooperation between the two Boards. Ms. Berger also acknowledged that the new Directive allows for the possibility of the EC adopting the ISAs at the European Union level, but that this was unlikely in the near term due to the EC's current focus on the establishment of a Capital Markets Union.

## 11. The IESBA's Project on Non-Compliance with Laws and Regulations (NOCLAR))

Ms. Caroline Gardner, IESBA member and Chair of the NOCLAR Task Force, updated the IAASB on the IESBA's progress towards a re-exposure draft (re-ED) of the proposed changes to the IESBA Code<sup>11</sup> to address actions by professional accountants in the case of actual or suspected non-compliance with laws and regulations. She highlighted that the NOCLAR project was a top priority for IESBA and that the ED was planned for approval in April 2015. Mr. Murtagh explained that an IAASB WG was proposed to be established to consider the need for any amendments to the IAASB's International Standards to ensure there are no conflicts with the proposed revised IESBA Code and the timing of such amendments.

The IAASB supported the establishment of a WG and asked the WG to consider the following:

- Whether the amendments would be limited to changes to avoid inconsistencies between the IAASB's International Standards and the proposed revised IESBA Code, or whether the proposed revised IESBA Code indicates areas of the International Standards that may warrant additional scrutiny. It was noted that changes beyond the minimum to avoid inconsistencies may need to be considered as part of the IAASB's next work plan, whereas the initial intent would be to progress the amendments quickly to enable an IAASB ED to be exposed for comment concurrently with the NOCLAR re-ED.
- The impact on the professional accountant's proposed ability to override confidentiality in certain cases, under the IESBA Code, of laws requiring confidentiality to be maintained in certain circumstances to avoid 'tipping off'.
- How incidences of NOCLAR are communicated to the group auditor.
- The implications for the IAASB standards relating to review and other assurance engagements.

Mr. Van der Ende noted that it was helpful to have IESBA and the IAASB working together and that the IAASB may need to consider safe harbors and how differences in legal frameworks affect the auditor's obligations.

### WAY FORWARD

Subject to the WG's deliberations, an IAASB ED will be presented at the June 2015 IAASB meeting for approval.

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<sup>11</sup> *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants

## 12. IAAER Feedback

Prof. Kohler and Ms. Kamp-Roelands presented the outcome of research projects that were commissioned following the IAAER/KPMG/IAASB call for research, addressing:

- Auditor reporting, in particular how highlighting information in the auditor's report (including Key Audit Matters) affects investors' information acquisition;
- Integrated reporting – one project addressed materiality judgments in an assurance engagement and the other addressed implications for investor judgment of assurance on integrated reporting; and
- Professional skepticism – one project addressed whether hindsight bias in the evaluation process may be a substantial barrier to professional skepticism and the other addressed the effects of professional skepticism traits on auditors' assessment of fraud risk.

The Board found the research results very interesting and made some suggestions for follow-up research on these and other topics.

### WAY FORWARD

The research results will be considered as input to the relevant topics on the Board's agenda. Staff will provide feedback to the researchers, including on suggestions for follow up research, and will also take into account the suggestions for the next call for research to be issued by IAAER, the Institute of Chartered Accountants of Scotland and the IAASB.

## 13. Agreed-Upon Procedures (AUP) Presentation

The Board received presentations from Mr. Vittorio Morelli, Mr. Villanueva Garcia Jorge and Mr. Dinos Alevizopoulos, representing the EC, and Ms. Hilde Blomme, representing Fédération des Experts-comptables Européens (FEE), about the EC's Horizon 2020 program ("Horizon 2020"), which is a major source of AUP engagements in Europe. The EC representatives further explained the expectations of the EC in relation to auditors issuing reports of factual findings on "Horizon 2020" projects. Ms. Blomme updated the Board on the increasing importance of AUP engagements in Europe, and noted some of the issues practitioners may face when performing "Horizon 2020" engagements in accordance with ISRS 4400.<sup>12</sup>

Following the presentations, the Board and the presenters discussed some of the specific challenges practitioners may face when performing AUP engagements.

### WAY FORWARD

The AUP WG will use the information obtained through these presentations as input to its information gathering activities, and will present information about the use of, and issues related to, ISRS 4400 to the Board later this year.

## 14. Auditor Reporting, Including ISA 810<sup>13</sup>

The IAASB received an update on the work of the Auditor Reporting Implementation WG and exchanged views about activities and other activities already undertaken or planned in their respective jurisdictions to promote awareness, and support the effective implementation, of the IAASB's new and revised Auditor

<sup>12</sup> International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

<sup>13</sup> ISA 810, *Engagements to Report on Summary Financial Statements*

Reporting standards. The IAASB also considered proposed recommendations for a way forward with respect to ISA 810 as set out in Agenda Item 11-A.

#### IMPLEMENTATION ACTIVITIES

Staff provided an update of the implementation activities, including the implementation support plan for the standards through the period leading up to the effective date of December 2016. Incoming CAG Chair Matt Waldron encouraged the WG to further consider enhancements to both the Auditor Reporting toolkit and more broadly the IAASB's website to attract investors in particular, noting the issuance of the Auditor Reporting standards provided a strong opportunity to engage with investors on other topics.

#### EFFECTIVE DATE

The IAASB acknowledged that some questions were being raised relating to the effective date of the Auditor Reporting standards, as described in Agenda Item 11-A. The IAASB agreed to consider recommendations for a way forward at the June 2015 IAASB meeting, taking into account views already received from the IAASB CAG, and those expected from the IFIAR Standards Coordination Working Group, the Forum of Firms, and the NSS Liaison WG.

#### IAASB CAG CHAIRMAN'S REMARKS

Ms. de Beer noted that the CAG generally supported early adoption of KAMs even if done without adopting all of the other changes to auditor reporting. However, it suggested that the IAASB should clarify its intent with respect to early adoption of the new and revised Auditor Reporting standards, in particular to provide guidance on when and how the early adoption of ISA 701 might be appropriate. Ms. de Beer flagged that one of the regulators on the CAG discouraged early adoption on a "piecemeal" basis.

#### ISA 810

The IAASB agreed in principle with Staff's recommendation as set out in Agenda Item 11-A<sup>14</sup> to develop limited conforming amendments to ISA 810 to address issues relating to going concern (GC) and other information (OI).<sup>15</sup> However, one IAASB member was of the view that taking an approach that involved making a narrow fix to address ISA 810, without addressing the other overarching issues that had been deliberated by the IAASB at previous meetings, may incorrectly imply that ISA 810 as a whole is fit for purpose. In light of this view, this member suggested the IAASB might explore whether ISA 810 should be withdrawn, in light of the fact that the standard is not widely used, and even when it is being used, national

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<sup>14</sup> See Agenda Item 11-A, *Staff Review and Recommendations – ISA 810, Engagements to Report on Summary Financial Statements* of the March 2015 IAASB Meeting materials available at: <http://www.ifac.org/auditing-assurance/meetings/brussels-belgium-1>.

<sup>15</sup> Agenda Item 11-A explained that ISA 570 (Revised), *Going Concern*, and ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, now require separate sections in the auditor's report on the audited financial statements when a material uncertainty (MU) related to GC or a material misstatement of OI exists. Such information was previously required to be addressed in Emphasis of Matter (EOM) and Other Matter (OM) paragraphs, respectively, and, in accordance with paragraph 17 of extant ISA 810, would always be required to be highlighted in the ISA 810 report. Because extant ISA 810 does not refer to these new sections, without amendment to ISA 810 this new information would not be required to be addressed in the ISA 810 auditor's report, therefore resulting in an information gap.

auditing standard setters (NSS) have had to further tailor the standard in light of the environment in which such engagements are being conducted (e.g., to link to appropriate criteria).

In light of the IAASB's limited resources and other priorities, it was noted that any changes to ISA 810 should be truly conforming in nature at this stage and should not go beyond what was described in *The IAASB's Strategy for 2015–2019* and *The IAASB's Work Plan for 2015–2016*.

The IAASB agreed to seek feedback at its 2015 NSS meeting to confirm its approach, and take steps to emphasize the limited and conforming nature of the changes to ISA 810 when the Exposure Draft (ED) is issued.

#### IAASB CAG CHAIRMAN'S REMARKS

Ms. de Beer noted that the CAG was supportive of the Staff's recommendation to move forward with limited conforming amendments, but not to go beyond that. However, she flagged that IOSCO questioned the urgency for such amendments.

The CAG disagreed with the suggestion to withdraw ISA 810, noting that it is widely used in certain jurisdictions and that more stakeholder engagement would be needed before taking that decision.

#### **15. PIOB Observer's Remarks**

Mr. van der Ende thanked the Board for a meeting with rich and open discussion. He appreciated that a number of Board members attended the March 2015 CAG meeting, as cohesive conversations between the standard-setting boards and the CAG are important to identify public interest issues.

Mr. van der Ende congratulated the Board on the approval of the changes to the ISAs arising from the Disclosures project and noted that the PIOB is interested in the public interest issues that were addressed, how these issues were internalized in the standards and, if not addressed in the standards, the rationale why. He also provided the Board with his view on the new initiatives that the IAASB has commenced, highlighting for all initiatives the importance of outreach and interaction with stakeholders to identify public interest issues. On the Quality Control initiative, he noted the importance of obtaining an overarching view on the issues before drafting and encouraged the Board to be innovative in addressing public interest issues. On the Financial Institutions initiative, he noted that many of the issues identified have a more generic aspect and appreciated the suggestion that in the future some requirements in ISAs could apply only to financial institutions. He furthermore encouraged the Board to continue its cooperation with IESBA on the NOCLAR project. He noted his appreciation for the research program, as research can provide direction in addressing public interest issues. Finally, he noted that holding the Board meeting outside New York City enabled the Board to reach out to regional stakeholders, and to invite external stakeholders to the meeting.

#### **16. Closing Remarks from the IAASB CAG Chairman**

Ms. de Beer thanked the Chairman and the Board for the manner in which the views and comments, albeit often very diverse, were always well considered by the Board and the Task Forces. She encouraged the Board to be ambitious in its new initiatives and project and to continue to serve the public interest.

#### **17. Next Meeting**

The next meeting of the IAASB is a teleconference scheduled for April 29, 2015. The next physical meeting is scheduled for June 15–19, 2015 in New York, USA.

## **18. Closing**

Prof. Schilder acknowledged the discussions throughout the meeting had highlighted the interactions among the quality control, group audits and financial institutions projects. Ms. Healy noted the Steering Committee in its meeting had considered a preliminary proposal from Staff on how consultation on these key topics could be undertaken in a coordinated matter, possibly through a combined consultation paper to be issued later in the year. The IAASB will further consider this approach in due course.

Prof. Schilder thanked Ms. de Beer for her service as CAG Chairman, noting she had served on the CAG for ten years, firstly as member and then as chairman, and has been instrumental in diversifying the CAG and keeping the IAASB focused on the CAG's comments. He welcomed the appointment of Mr. Waldron as incoming CAG Chairman.

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