

**Minutes of the 103<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)  
Held on March 11–15, 2019 in Toronto, Canada**

**Voting Members**

Present: Prof. Arnold Schilder (Chairman) (March 12-15)  
Fiona Campbell (Deputy Chair)  
Chun Wee Chiew  
Julie Corden  
Robert Dohrer  
Karin French  
Marek Grabowski  
Kai Morten Hagen  
Len Jui  
Sachiko Kai  
Prof. Kai-Uwe Marten  
Lyn Provost  
Fernando Ruiz Monroy  
Rich Sharko  
Roger Simnett  
Isabelle Tracq-Sengeissen  
Eric Turner  
Imran Vanker

**Technical Advisors (TA)**

Helene Agélii (Mr. Hagen)  
Sara Ashton (Ms. French)  
Vivienne Bauer (Mr. Monroy)  
Nicolette Bester (Mr. Vanker)  
Wolf Böhm (Prof. Marten)  
Melissa Bonsall (Ms. Corden)  
Fabien Cerutti (Ms. Tracq-Sengeissen)  
Johanna Field (Mr. Turner)  
Andrew Gambier (Mr. Chiew)  
Hiram Hasty (Mr. Dohrer)  
Josephine Jackson (Mr. Grabowski)  
Susan Jones (Mr. Jui)  
Kohei Yoshimura (Ms. Kai)  
Jamie Shannon (Mr. Sharko)  
Sylvia Van Dyk (Ms. Provost)  
Denise Weber (Ms. Campbell)  
Matthew Zappulla (Mr. Simnett)

Apology: *None*

**Non-Voting Observers**

Present: Jim Dalkin (IAASB Consultative Advisory Group (CAG) Chair) (March 11-14), Yosh'inao Matsumoto (Japanese Financial Services Authority)

Apology: Juan Maria Arteagoitia (European Commission)

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

Present: Ms. Karen Stothers

### IAASB Technical Staff

Present: James Gunn (Managing Director, Professional Standards) (March 15 only), Willie Botha (Technical Director), Beverley Bahlmann (via teleconference), Brett James, Natalie Klonaridis, Armand Kotze, Phil Minnaar, Hanken Jane Talatala, Joy Thurgood, Jasper van den Hout.

Dan Montgomery (Senior Advisor – Technical projects)

IAASB agenda materials referred to in these minutes can be accessed at <http://www.iaasb.org/meetings/iaasb-board-meeting-toronto-canada>. These minutes are a summary of the decisions made at the March 2019 IAASB meeting, in light of the issues and recommendations in the agenda material put forth by the Task Forces (TF), Working Groups, Drafting Teams and Staff supporting the individual projects. These recommendations are made taking into account feedback from respondents to the IAASB's public consultations, in particular Exposure Drafts (EDs) of the IAASB's proposals, consideration of previous discussions of the Board and its CAG, and feedback from stakeholders through outreach activities.

## 1. Welcome and Approval of Previous Minutes

Ms. Campbell, standing in for Prof. Schilder on Monday March 11, 2019, welcomed all participants to the meeting held in Toronto, Canada. Ms. Campbell specifically welcomed the incoming board members and new technical advisors. She also introduced Mr. Willie Botha, the IAASB's new Technical Director and welcomed him to his first IAASB meeting.

## 2. Group Audits – ISA 600<sup>1</sup>

Mr. Jui updated the Board on the work performed by the ISA 600 Task Force since the start of the project and provided an overview of some of the issues the ISA 600 Task Force identified for discussion with the Board, as presented in **Agenda Item 2** and **Agenda Item 2-A**. The following sets out the more substantive comments from the Board.

### SCOPING A GROUP AUDIT

The Board continued to support the development of a risk-based approach for scoping a group audit but noted that the revised approach to scoping a group audit should not lead to a wholesale revision of ISA 600. It was also suggested that the Board should agree on the underlying concepts of the new approach before the ISA 600 Task Force commences drafting its proposals. With respect to this new approach for scoping a group audit, the Board asked the ISA 600 Task Force to further consider:

- Using another way to describe the approach rather than the 'top-down approach,' as this may be confusing.
- Maintaining a principles-based approach but with a focus on professional judgment and flexibility in how to scope a group audit engagement.

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<sup>1</sup> International Standard on Audit (ISA) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- Clarifying the important role that component auditors play in the risk assessment. Component auditors may be better aware of risks of material misstatement at the component level than the group engagement team. The importance of two-way communication between the group engagement team and the component auditor was highlighted in this regard.

#### DEFINITIONS

The Board agreed with the proposed way forward on the definitions as set out by the ISA 600 Task Force in **Agenda Item 2**. With respect to the definitions, the Board asked the ISA 600 Task Force to consider:

- Revising the definitions after the ISA 600 Task Force has fully developed the new approach to scoping a group audit as the definitions depend on, and support, the approach chosen. It was also suggested to wait before revising the definition of the group engagement team as proposed ISA 220 (Revised),<sup>2</sup> which includes the definition of engagement team, is out for exposure.
- Whether the definition of a 'component' should be based on whether other auditors are used for the engagement, and not based on the structure of the entity itself.
- Working together with the International Ethics Standards Board for Accountants (IESBA) on matters that may be relevant and may need to be coordinated.

#### OTHER ISSUES

The Board supported clarifying and reinforcing the linkages with other ISAs. With respect to the issues and the proposed way forward to those issues as presented in **Agenda Item 2-A**, the Board asked the ISA 600 Task Force to consider:

- Clarifying how proposed ISA 220 (Revised) works in a group audit, particularly the nature, timing and extent of direction, supervision and review by the engagement partner.
- Clarifying whether the IAASB's Staff Audit Practice Alert, *Responsibilities of the Engagement Partner in Circumstances when the Engagement Partner Is Not Located Where the Majority of the Audit Work is Performed* would be retained.
- Highlighting the importance of the group engagement team being involved in the component auditors' work given that the component auditors are often located in a different location than the group engagement team.
- Including guidance that explains what auditors can do in situations where access to information for the purpose of the group audit is an issue. It was suggested that outreach could further inform the ISA 600 Task Force about how firms deal with this in practice.
- With respect to access to information, enhancing the linkage between ISA 600 and ISA 210<sup>3</sup> by highlighting that management is responsible for providing the auditor with access to all information of which management is aware that is relevant to the preparation of the financial statements.
- Strengthening paragraph 12 of ISA 600 by including a more specific conclusion on the acceptance or continuance of the group audit engagement.

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<sup>2</sup> Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>3</sup> ISA 210, *Agreeing the Terms of Audit Engagements*

- Emphasizing the importance of two-way communication between the group engagement team and the component auditor when planning the audit. The importance of understanding internal control when assessing the risks of material misstatement was also highlighted.
- Including or enhancing material on:
  - The identification of related parties in a group audit;
  - Fraud considerations; and
  - Automated tools and techniques.
- Enhancing the standard by addressing issues related to sub-consolidations, for example, by explaining who should do the work, as well as the group engagement team's involvement in the sub-consolidations.

The Board also suggested that the Task Force consider the United States Public Company Accounting Oversight Board's (PCAOB) proposals relating to the supervision of audits involving other auditors<sup>4</sup> as the PCAOB have undertaken significant research on these matters.

#### IAASB CAG CHAIR REMARKS

Mr. Dalkin highlighted that the CAG was supportive of the project and the ISA 600 Task Force's direction for scoping a group audit. He noted that auditors focus too much on the identification of significant components and should focus instead on addressing the identified risks of material misstatement. He also noted that the communication between the group engagement team and the component auditor is too formalized and is more focused on the mechanics, rather than the risks of material misstatement. Mr. Dalkin noted that access to information may also be an issue from a public sector perspective.

#### PIOB OBSERVER REMARKS

Ms. Stothers highlighted that, from a public interest perspective, the project to revise ISA 600 is important as almost all significant entities globally are group audits. She was very supportive of further progressing this project and suggested that the public interest issues be clearly identified. She also added that as the proposal is developed it needed to be clear what issues are being addressed.

#### WAY FORWARD

The ISA 600 Task Force will continue to progress its work on scoping of a group audit, the definitions and other issues identified, with matters for discussion being presented at the June 2019 IAASB meeting. The ISA 600 Task Force will also continue working on developing an initial outline of the revised standard

### **3. Conforming Amendments to Other Standards**

Mr. James described proposed processes for making conforming amendments arising from the revised and restructured IESBA Handbook of the International Code of Ethics for Professional Accountants (including

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<sup>4</sup> <https://pcaobus.org/Standards/research-standard-setting-projects/Pages/other-auditors.aspx>

International Independence Standards) (IESBA Code) and the conforming amendments to certain IAASB pronouncements resulting from the quality management (QM) projects<sup>5</sup> and other recent standards.

#### LIMITED AMENDMENTS TO THE IAASB HANDBOOK TO ADDRESS CHANGES TO THE IESBA CODE

Mr. James highlighted that because of the limited nature of the amendments required, an accelerated approach with a 30-day exposure period was proposed to enable the amendments to be implemented as close as possible to the effective date of the IESBA Code.

Overall, Members were supportive of the proposed approach. Members supported a longer exposure period, noting that a 30-day exposure period would be too short for translation or other processes that jurisdictions may require in preparing their response to the ED. Some members also questioned the proposal to delete certain footnotes referring to specific provisions in the IESBA Code, noting that the footnotes helped readers of the IAASB's standards locate the related provisions in the IESBA Code. Mr. James responded by noting that references to specific parts of the IESBA Code were not consistent with the intent that the IESBA Code be applied in its entirety, but that staff would consider further refining the approach to these footnotes.

#### THE APPROACH TO THE CONFORMING AND CONSEQUENTIAL AMENDMENTS TO THE IAASB'S OTHER STANDARDS

Mr. James noted that these conforming changes would address changes needed to Volumes 2 and 3 of the IAASB Handbook arising from the three QM projects. He noted that there was also a need to update IAPN 1000<sup>6</sup> in response to the finalization of ISA 540 (Revised)<sup>7</sup> and for proposed ISA 315 (Revised).<sup>8</sup>

Members were generally supportive of the proposed approach to making the conforming changes. Some Members questioned the need to delete duplicative text in the IAPN, including not making changes if the issue is simply duplication.

#### WAY FORWARD

Mr. James noted that staff would prepare the project proposals and conforming amendments for Board consideration and approval in due course.

#### **4. Identifying and Assessing Risk of Material Misstatement – Proposed ISA 315 (Revised)**

Ms. Campbell provided an overview of the ISA 315 Task Force's initial views to address specific responses to ISA 315 (Revised) Exposure Draft (ED-315), as set out in **Agenda Items 4 and 4A**.

#### APPROACH TO ADDRESS THE LENGTH AND COMPLEXITY OF THE STANDARD

The focus of the Board's discussions was on addressing broad concerns raised by respondents to ED-315 in relation to the length and complexity of the standard. For this purpose, the Board considered an alternative approach about how to present the requirements for the auditor's understanding of the entity's system of internal control, with a view that this approach to drafting would then be applied to the rest of the standard.

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<sup>5</sup> Proposed International Standards on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, Proposed ISQM 2, *Engagement Quality Reviews* and Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>6</sup> International Auditing Practice Note (IAPN) 1000, *Special Considerations in Auditing Financial Instruments*

<sup>7</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>8</sup> Proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

In relation to the proposed new drafting approach, and acknowledging that the new approach to drafting would not necessarily address scalability, the Board:

- Supported the focus on the “what” in the requirement, and keeping the requirements at a principles level.
- Generally supported the use of definitions but this was subject to seeing how the whole standard would be drafted in this style, as there were concerns about maintaining the robustness of the standard.
- Encouraged the ISA 315 Task Force to further explore the “why’s,” i.e., to further consider whether more were needed and also where they were best placed within the standard.
- Liked the flow, noting it was more understandable.

However, concern was expressed by a few Board members:

- That this approach may result in a making the application of the standard more difficult because it would require moving between different sections of the standard for a full understanding of what is required.
- That the changes were largely cosmetic and did not address the real issues related to complexity.

On balance, and subject to maintaining the robustness of the standard, the Board agreed to continue exploring this approach moving forward.

The Board also encouraged the Task Force to continue to consider the work effort that would be required to implement the standard as revised. Although generally supportive of further exploring the new drafting approach, the Board also noted that a full set of the requirements and application material would better help the Board to fully assess or evaluate the consequences of such an approach.

#### OVERARCHING REQUIREMENT TO PERFORM RISK ASSESSMENT PROCEDURES

The Board broadly supported the proposed revisions to paragraph 17 of ED–315 that explains the overarching objective of risk assessment procedures, as presented in **Agenda Item 4-A Updated**. However, some Board members recommended that the wording ‘*shall design and perform risk assessment procedures*’ (i.e. the “how”) should remain in the requirement itself, as this provides the necessary obligation or requirement to perform risk assessment procedures.

#### OVERARCHING APPROACH TO OBTAIN AN UNDERSTANDING OF THE ENTITY’S SYSTEM OF INTERNAL CONTROL

The Board broadly supported the proposed revisions to the overarching requirement to understand the system of internal control (paragraph 25 of ED–315, as presented in **Agenda Item 4-A Updated**). In particular, the Board welcomed the removal (from the requirement) of the explanation that the understanding provides a basis to identify and communicate control deficiencies to management and those charged with governance in accordance with ISA 265.<sup>9</sup> The Board expressed concern that this may be interpreted too narrowly as being the primary objective of the understanding of the system of internal control. The Board agreed that this material is better suited in the application material. In addition:

- Some Board members expressed concern that the revision may be construed as stand-alone requirement to understand the system of internal control and is therefore independent from risk

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

assessment procedures. Accordingly, the Task Force was asked to consider bringing back the wording '*perform risk assessment procedures, in accordance with paragraphs 27 to 38*' (i.e. the '**how**') into the requirement, to clarify the link to risk assessment procedures, as initially presented in **Agenda Item 4-A**.

- It was also suggested that the Task Force further consider whether the proposed revisions to this requirement are consistent with the auditor's responsibility in relation to the system of internal control as set out in the auditor's report in accordance with ISA 700 (Revised).<sup>10</sup>

Mixed views were expressed by the Board on the proposed deletion of the 'set-up' or 'signposting' requirement (paragraph 26 of ED-315) to identify controls that require an evaluation of its design and a determination of whether it has been implemented (D&I procedures).

#### TERMINOLOGY AND STRUCTURAL CHANGES RELATED TO THE UNDERSTANDING OF THE ENTITY'S SYSTEM OF INTERNAL CONTROL

On balance, the Board supported the following terminology changes:

- Replacing the term '*controls relevant to the audit*' with '*controls*,' subject to clarification about which controls would require D&I procedures.
- Replacing the reference to '*relevant to financial reporting*' with language that requires the auditor to understand how the entity's system of internal control '*supports the preparation of the financial statements*,' although one Board member expressed concern that this may weaken the extant requirement.
- When evaluating the entity's risk assessment process, replacing the term '*including its formality*' with '*including the extent to which it is formalized*' (paragraph 31(a) of ED-315).

#### INDIVIDUAL ASPECTS WITHIN THE COMPONENTS OF THE ENTITY'S SYSTEM OF INTERNAL CONTROL

In discussing the structure of the requirements in relation to the components of the system of internal control, the Board supported a flow that commences with the understanding of each component followed by the auditor's evaluation of the outcome of the procedures performed. In addition, the Board broadly supported the proposed changes and agreed with:

- The proposed revisions to simplify specific aspects of the control environment that have to be considered in obtaining the required understanding by the auditor;
- The proposal to add a requirement for the auditor to evaluate the entity's process to monitor the system of internal control;
- Proposals to clarify or distinguish between the evaluation of information system controls and the evaluation of controls in the control activities component.
- Maintaining paragraph 39 that lists those controls that require D&I procedures. However,
  - The Board remained concerned over the scope or meaning of those controls that '*are necessary*' to be identified for D&I procedures in identifying and assessing risks of material misstatement (paragraph 39(c) of **Agenda Item 4-A**). One Board member acknowledged that although there has to be an element of judgment, further clarification is required as the current

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<sup>10</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

wording may lead to varying interpretations in identifying the nature and extent of such controls. Ms. Campbell acknowledged that the identification of such controls has always been controversial and is best likely to be addressed through an example in the application material or in another form of non-authoritative guidance.

- One Board member questioned whether the requirement to always consider D&I procedures for a significant risk is appropriate.

#### SEPARATE ASSESSMENT OF INHERENT AND CONTROL RISK

The Board broadly supported the proposed editorial change to clarify that the identification of risks of material misstatement at the assertion level for classes of transactions, account balances and disclosures is based on inherent risk (paragraph 45 of ED-315). However, the Board expressed concern as to whether the change is sufficient or has gone far enough in relation to how the auditor considers the combination of inherent and control risk in order to identify or assess the risks of material misstatement. Ms. Campbell reiterated that the proposal only intended to address the identification of risks of material misstatement and noted that the other aspects of the identification and assessment of risks of material misstatement still requires further consideration by the Task Force.

#### SIGNIFICANT CLASSES OF TRANSACTIONS, ACCOUNT BALANCES AND DISCLOSURES

- The Board supported the proposal to leave the definition of '*significant classes of transactions, account balances and disclosures*' unchanged.
- The Board generally supported the proposed change to the definition of '*relevant assertions*.' Based on concerns that the threshold of '*more than remote*' is too low, there was particular support for the removal of language that clarified that the threshold of '*reasonable possibility*' is equal to or the same as '*more than remote*.'
  - One Board member cautioned that by continuing to use the term '*reasonable possibility*,' the connotation or relationship with the threshold of '*more than remote*' will remain due to the interpretations or definitions of the PCAOB. However, another Board member noted concern that by removing this term it could lead to misinterpretation that the ISAs are more lenient than the PCAOB standards.
  - Another Board member questioned whether there is still a need for a definition of '*relevant assertions*' and whether it is possible to combine this concept with '*significant classes of transactions, account balances and disclosures*.'
- The Board expressed various views on the alternative options or proposals to reconcile the threshold of '*reasonable possibility*' with aspects of the definitions of the '*risk of material misstatement*' and '*detection risk*' in accordance with ISA 200.<sup>11</sup> However, on balance it was agreed that the explanation of '*reasonable possibility*' should be clarified through the enhancement of application material in ISA 200, and not by changing the definition of '*risk of material misstatement*' in ISA 200, although there continued to be a Board member that did not support the proposed change, noting that the inclusion of the concept of '*risk of material misstatement*' in the definition of '*relevant assertion*' would likely cause confusion..

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<sup>11</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraphs 13(e) and 13(n)(i)

## SIGNIFICANT RISKS

Strong support was expressed by the Board for proposals to:

- Change the definition of significant risk, which clarifies that the auditor has to consider the '*likelihood of misstatement occurring*' and '*the magnitude of potential misstatement*' in determining whether an inherent risk is close to the upper end of the spectrum of inherent risk. Notwithstanding this support, concern was expressed with this change, noting that this could result in the determination of fewer significant risks.
- Retain the description of significant risks as being '*close to the upper end of the spectrum of inherent risk*.' The Board further agreed that the change in the definition of a significant risk would be helpful in determining when an inherent risk is '*close to the upper end of the spectrum of inherent risk*.'
- Add application material to clarify that in rare circumstances there may be an entity that does not have a significant risk. However, one Board member cautioned that when translated, the term '*rare*' is often interpreted as meaning '*never*,' and requested the Task Force to consider an alternative term.

## ISA 330 PARAGRAPH 18 AND THE STAND-BACK REQUIREMENT

Support was expressed by the Board for:

- The proposal to retain both paragraph 18 of ISA 330<sup>12</sup> as well as the stand-back requirement in paragraph 52 of ED-315, in particular as they serve different purposes. In this respect, the Board recommended that the application material should clarify that ISA 330 paragraph 18 is not a '*stand-back*,' but rather a '*safety net*' that requires the auditor to perform substantive procedures over all material account balances in the financial statements.
- The proposal to remove '*qualitative*' and '*quantitative*' in paragraph 18 of ISA 330 as materiality could only be those two things.
- The proposed redrafting of the stand-back requirement in ED-315 (paragraph 52).

## SPECTRUM OF INHERENT RISK

The Board supported the proposal to keep the concept of the '*spectrum of inherent risk*' and adding application material to make it clear that where a risk falls on the spectrum of risk is a matter of professional judgment, rather than a matter capable of precise measurement. In light hereof, the Board further agreed that a supporting requirement to assess where each risk of material misstatement belongs on the spectrum of inherent risk, would be inappropriate.

## SUFFICIENT AND APPROPRIATE AUDIT EVIDENCE FOR RISK ASSESSMENT PROCEDURES

The Board supported the proposal to change the purpose of risk assessment procedures to be '*to obtain audit evidence that provides an appropriate basis for the identification and assessment of the risk of material misstatement*' (paragraph 17 of ED-315). However, one Board member still noted concern with the inclusion of the term '*audit evidence*,' observing that it may imply a certain threshold in determining an appropriate basis, which is not clear.

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<sup>12</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

#### APPLICATION MATERIAL

The Board broadly supported the proposals for redrafting the application material. In addition:

- Mixed views were expressed regarding the utilization of flowcharts. Some Board members noted that the flowcharts are extremely helpful in navigating through the standard, while other Board members cautioned that the need for flowcharts supports the notion that the structure or language of the standard is too complex.
- One Board member encouraged the Task Force to explore technology solutions to enhance the presentation or navigation of the standard.
- Given that ED-315 is an inherently a complex standard, one Board member echoed calls that some requirements or principles justify more detailed or comprehensive explanatory material. Under these circumstances, the objective to achieve clarity should weigh more than efforts to reduce the length of the standard.
- The Board supported the proposal to separate scalability and proportionality considerations.

#### IAASB CAG CHAIR REMARKS

Mr. Dalkin noted by e-mail continuing support for progress being made to revise ISA 315 (Revised). Particular support was expressed for the 'overall approach' in presenting the requirements (the '**what**') and the relocation of criteria or matters that describe certain words to definitions. In addition, Mr. Dalkin further encouraged the Board to consider other guidance (authoritative) such as an interpretations, guides or tools to help reduce the volume in the standard itself. This would allow the standard to focus on the requirements and be less procedural.

#### PIOB REMARKS

Ms. Stothers questioned the proposed deletion of the overall requirement (paragraph 26 of ED-315) to identify controls that require D&I procedure, noting that this may weaken the robustness of ED-315. Ms. Stothers also expressed concern with the proposal to change the definition of significant risk ('likelihood' and 'magnitude'), noting that this may create an opportunity to manipulate the interpretation of the definition. However, she agreed that this concern could be addressed through clearly articulated application material, by explaining that in some circumstances, either a high likelihood or a high magnitude can cause the determination of a significant risk.

Ms. Stothers further acknowledged the challenges in addressing the varying needs of different stakeholders, in particular in finding the right balance in responding to broad concerns in relation to complexity and scalability. However, Ms. Stothers cautioned against proposals that may weaken the robustness of the standard or are detrimental to the public interest. She noted that public interest matters would remain the key focus area of the PIOB as the standard is revised, and accordingly, she recommended that the Task Force reaches out to Monitoring Group members to engage in dialogue prior to the next round of substantive drafting.

#### **5. Audits of Less Complex Entities**

The Board discussed a proposed Discussion Paper (DP), *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Implementing the ISAs*, which highlighted the shift in focus on the complexity of an entity rather than its size in driving the ongoing discussions and activities to address

challenges related to the use of the ISAs in audits of less complex entities (LCEs). The Board was supportive of the DP's overall direction, highlighting the importance of the project and the need for action by the IAASB and others.

The Board acknowledged the simple, clear and balanced way the DP had been presented and noted it was appropriate for its key target audience (i.e., auditors of LCEs). It was highlighted that it was important to finalize the document for consultation, keeping in mind the balance between providing sufficient information for respondents and maintaining the succinctness of how it was presented for the March Board discussion.

The Board encouraged the LCE Working Group to consider how the following key messages could be better emphasized earlier in the DP:

- The IAASB is in the 'next phase' of its research and information gathering activities to support an evidence-based response to the identified challenges related to the use and application of the ISAs in audits of LCEs, because much of the content of the DP was developed based on anecdotal evidence.
- The IAASB continues to remain mindful that when considering any future possible actions, the needs of all of its stakeholders would be considered so that there are not any unintended consequences. Accordingly, it was highlighted that it was important that the DP makes clear that the IAASB is looking for input from all of its stakeholders.
- The IAASB is neutral and open-minded to explore possible actions to address the challenges related to the use of ISAs in audits of LCEs, and has not yet decided on a course of action.

In addition to editorials, the Board also noted the following more significant matters related to the content of the DP for the LCE Working Group's consideration.

#### CHALLENGES RELATED TO APPLYING THE ISAs IN AUDITS OF LCEs

The Board noted that it was important to highlight that the IAASB is aware of many of the challenges facing auditors of LCEs, but would like to further understand the underlying reasons for, or root causes of, the identified challenges, which will assist with identifying appropriate future possible actions.

Board members emphasized the importance of outreach with audit inspection bodies and those writing audit methodologies as it was difficult to really understand the underlying issues, and these stakeholder groups may be able to provide greater insight. The Board further noted that it may be useful to understand whether there is anything else, other than what has currently been identified, that should be considered as it progresses its thinking in relation to audits of LCEs. The Board also noted, with regard to challenges within the scope of the IAASB's work on audits of LCEs, in relation to documentation that it is not clear for audits of LCEs as to what needs to be documented, as well as the extent thereof, and that both of these needed to be highlighted within the DP.

The LCE Working Group were also asked to consider the flow of this section.

#### POSSIBLE ACTIONS TO BE EXPLORED

The Board suggested explaining that there may not only be one exclusive solution, including emphasizing that the most appropriate way forward may be a combination of the possible actions, or only some aspects of the possible actions, and may also include any other actions identified by respondents. The Board also asked for further consideration by the LCE Working Group about how various aspects of the possible actions had been presented within the DP, including:

- The balance of the information presented about each of the possible actions, as it appeared that more consideration had been given to some of the actions over others, which may indicate that the IAASB had already decided on a course of action. In particular, it was noted that the presentation of benefits and consequences in some sections may suggest that more thought had been given to these possible actions that had actually been done.
- How the current work of the IAASB in further considering scalability and proportionality was presented within the DP. It was noted that this work effort should be more clearly recognized, and was likely part of the 'revising the ISAs' possible action rather than undertaking no further action, as something was being, and would continue to be, done.
- How technology was presented within the DP, including how it may impact each of the various possible actions presented. It was noted that although it was not necessarily within the IAASB's remit to produce a 'technology solution,' technology would still impact the possible actions. It was also highlighted that the aspects of technology for the IAASB and for others should be better distinguished.
- With regard to revising the ISAs, the Board suggested clarifying the so-called "building-blocks approach" to possible actions that are feasible.
- With regard to developing a separate auditing standard for audits of LCEs, the Board noted that the way that this section had been articulated may suggest that it appeared that the IAASB has deliberated the contents of such a standard when it had not.
- With regard to a separate auditing standard based on the existing ISAs, the Board asked that it be made clearer that such a separate auditing standard may be based on the existing ISAs with the aim of achieving the same objective and encompassing all the requirements, including compliance with the relevant quality management standards and relevant ethical requirements.
- With regard to a separate auditing standard developed based on a different framework, the Board asked that this possible action be clarified to distinguish it from a separate standard developed using the ISAs as a framework. (i.e., developing a different framework with necessary criteria to obtain reasonable assurance). It was also noted that it was not clear whether this would involve a different level of assurance or whether it alluded to other types of assurance engagements that are not audits and could be considered instead of an audit of an LCE, for example such as a direct engagement.

Although broadly supporting the revisions that were made during the week, noting that good progress had been made in revising the DP, Board members noted that certain areas still needed further consideration, in particular, in relation to technology and the development of a separate auditing standard. There were also Board members that still expressed a preference for more on the benefits and consequences of the potential actions to help respondents better understand how the actions may impact them.

#### QUESTIONS FOR RESPONDENTS

In order for the IAASB to make an informed decision on the best way forward, the Board noted that it was important to clarify the questions to be more focused and direct in order to obtain relevant and useful feedback from respondents with respect to the:

- Appropriateness of the shift in focus on complexity of the entity rather than its size in driving the ongoing discussions and activities to address the challenges in audits of LCEs;
- Appropriateness and completeness of the qualitative characteristics currently included in the DP to describe LCEs;

- Challenges that have been identified, in particular in relation to those that the IAASB is looking for more information on to better understand the underlying reasons for the challenges;
- What respondents' may have done to address the challenges related to the use of the ISAs in audits of LCEs; and
- Whether there are any other matters that have not been identified that should be considered.

The Board broadly supported the revised questions that had been presented during the week, but noted that some questions were now asking for too much detail in relation to the stakeholder group that was being targeted. The Board also expressed a view, on balance, to not include questions with 'allocations' to indicate the respondents' preferences.

#### IAASB CAG CHAIR'S REMARKS

Mr. Dalkin highlighted the CAG's support for this work, and noted the importance of emphasizing that this was an information gathering exercise, and that no decisions had yet been taken about the possible actions. He also encouraged the Board to remain open minded about the possible actions when considering the feedback, as the solution may encompass something that had not yet been considered. Mr. Dalkin also expressed his support for exploring an alternative possible action taking a different approach from that in the current ISAs (i.e., developing a different framework with necessary criteria to obtain reasonable assurance).

#### PIOB REMARKS

Ms. Stothers expressed concern about how public interest entities may interpret the definition of an LCE, noting that it was important to maintain the robustness of the audit for these entities. She suggested that the Board further consider a question focusing on the appropriateness and completeness of the qualitative characteristics of LCEs currently included in the DP to describe LCEs. She also suggested further consideration of how the IAASB intends to use the definition of an LCE. In response, it was noted that LCEs may, in some jurisdictions, encompass a broad range of entities including such entities as those in the public and not-for-profit sectors, as well as entities that may be considered to be public interest entities, if those entities are deemed as LCEs within those jurisdictions.

#### WAY FORWARD

Proposed changes to the DP to address Board comments will be presented in a Board call on April 10<sup>th</sup>, 2019, with the final DP targeted to be published for public consultation before the end of April 2019

## **6. Extended External Reporting (EER) Assurance**

#### OVERVIEW

Mr. Grabowski provided an update on Phase 1 of the project, noting that the consultation paper (CP) of the proposed guidance on EER Assurance for issues identified in Phase 1 had been issued with a response date of June 21, 2019. Mr. Grabowski noted that the project is being run with the support of the World Business Council for Sustainable Development (WBCSD).

Mr. Grabowski informed the Board that it is expected that the funding will carry through to completion of the project and that it is hoped that a replacement for Mr. Neilson to staff the project would be in place soon.

## KEY CHALLENGES

Mr. Grabowski introduced the key challenges being addressed in Phase 2 of the project and the Task Force's preliminary views on aspects of the guidance that would be needed to address them, on which the IAASB's views would be sought during the breakout sessions.

Board Members and Technical Advisors formed breakout groups to discuss the Phase 2 challenges in more depth and reported back to the Board on the results of the discussions. The breakout groups discussed the scope of an EER assurance engagement; the evidence implications of narrative and future-oriented information; the role of professional judgement, professional skepticism, and competence in an EER assurance engagement; and the communication in the assurance report.

## IAASB CAG CHAIR COMMENTS

Mr. Dalkin noted that the breakout sessions allowed for more informed discussions, particularly in the early phases of the development or revision of standards or guidance and encouraged more of these in the future.

## PIOB OBSERVER REMARKS

Ms. Stothers observed that the breakout session allowed the kind of in-depth dialogue and debate not possible at Board level, and that transparency was achieved by the reporting back of breakout groups' views to the Board.

## NEXT STEPS

Mr. Grabowski expressed the EER Task Force's thanks for the feedback received and indicated that the EER Task Force would consider it in developing the phase 2 guidance, for which an initial discussion is planned at the June 2019 IAASB meeting. He indicated that an ED of the combined Phase 1 and Phase 2 guidance is planned for approval at the December 2019 IAASB meeting.

Some Members commented that the work plan was ambitious. Mr. Grabowski agreed and indicated that the ability to meet the planned milestones would depend on the nature and extent of comments received on Phase 1, and finalization of the staff resourcing and funding for Phase 2.

He also pointed out that Alistair Neilson's secondment to the project had recently ended and the Board thanked Mr. Neilson for his work on the project.

## **7. Technology**

The Board received two presentations relating to technology.

Mr. Botha introduced the first presenter, Ms. Erin Kelly of Advanced Symbolics Inc. Ms. Kelly provided a presentation on what Artificial Intelligence (AI) is and the ways that AI can be used in business.

Mr. James introduced Ms. Taryn Abate from Chartered Public Accountants (CPA) Canada, and Nicole Deschamps, from Deloitte Canada. The presentation focused on the work that has been done by CPA Canada's Audit Data Analytics (ADA) Committee. The committee conducts research and delivers guidance in ADA space, and provide considerations for auditors, management, and audit committee members on ADAs.

## 8. Audit Evidence

Ms. Jones provided an overview of how the ISAs currently address audit evidence and the relationships between the ISAs. Mr. Dohrer updated the IAASB on the American Institute of Certified Public Accountants (AICPA's) Auditing Standards Board's (ASB) project to address audit evidence. This included a walkthrough of the proposed requirements, an explanation of how the requirements address the key issues identified by the ASB and an outline of the ASB's proposed timeline to completion of the project.

The IAASB engaged in breakout discussions to further explore the issues related to audit evidence. The feedback from the breakout discussions highlighted the following points:

- Support for the issues highlighted in **Agenda Item 8**. The IAASB acknowledged that more challenges will arise in the future that also affect how auditors obtain and evaluate audit evidence.
- Support for the Audit Evidence Working Group (AEWG) commencing activities to further understand the key issues related to audit evidence, and emphasis that the activities need to be exploratory at this stage. The IAASB noted that the work of the AICPA would be a useful reference point as part of the research undertaken by the AEWG.
- Encouragement for the AEWG to prioritize the issues and consider the most appropriate mechanisms for addressing the priority issues, for example, technology may be addressed more promptly through mechanisms other than revisions to standards. However, the IAASB raised caution that stakeholders' expectations of how the IAASB will address technology could be idealistic.
- A need to keep a broader perspective on the ISAs that are affected by audit evidence (i.e., the issues do not only affect ISA 500).<sup>13</sup> The IAASB also suggested considering the types of conclusions the auditor makes throughout the audit and the nature of audit evidence that is obtained to support those conclusions.
- Consideration of how the ISAs could be more principles-based to cater for changes in the audit environment, for example, establishing requirements that are evidence-based rather than procedures-based.
- Retaining the focus on designing and performing procedures in ISA 500, although the IAASB agreed that more could be done in ISA 500 to address the evaluation of information obtained to be used as audit evidence.
- A need for clarity on what is considered sufficient appropriate audit evidence. The IAASB also commented that while less focus may be needed on the quantity of audit evidence, it remains an important consideration in conjunction with relevance, reliability and persuasiveness. The IAASB further noted that the persuasiveness of audit evidence is affected by both sufficiency and appropriateness.
- A need for further exploration of the factors that would be considered by the auditor regarding the reliability of information to be used as audit evidence. The IAASB indicated that there are mixed views about whether all information to be used as audit evidence should be subject to the same considerations.
- Consideration of the concepts surrounding audit evidence and differentiating what is information, data, audit procedures and audit evidence. The IAASB noted that this has other ramifications for the

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<sup>13</sup> ISA 500, *Audit Evidence*

ISAs, for example, if an activity is considered an audit procedure, whoever performs that activity is considered to be a member of the engagement team.

- Consideration of whether technology changes the nature of the audit evidence or whether it changes the nature of the procedures performed on information that becomes audit evidence. The IAASB also questioned whether technology affects the categories of audit procedures described in the standards, and noted the need for clarification about the nature of procedures performed using technology (e.g. whether a procedure is a risk assessment procedure versus a substantive procedure).
- The impact of technology used by the entity subject to audit and the linkages with ISA 315 (Revised). In particular, the IAASB noted the challenges of testing the algorithms on which the technology is built, given the complexity of the algorithms and the multiple inputs. The IAASB also noted that the algorithms supporting the auditor's technology are also important considerations, although these would form part of proposed ISQM 1 and proposed ISA 220 (Revised).
- How the use of technology affects the documentation so that an experienced auditor having no connection with the audit is able to understand how the technology operated.
- An increasing need for professional skepticism, given the evolution in the nature and number of sources of information. The IAASB also commented that it would not be practicable to require auditors to seek contradictory evidence, however information that is contradictory should not be ignored by an auditor on the basis that it might not be reliable (e.g., information on social media).
- Consideration of evidence more broadly in the context of other types of engagements.
- Questions about whether the ASB's proposed changes would affect the auditor's judgments, for example, would an auditor reach a different conclusion on whether sufficient appropriate audit evidence has been obtained than under the extant standards.

#### WAY FORWARD

The AEWG will consider the input provided by the IAASB as it commences its activities to further understand the key issues and identify areas of focus in scoping a future project

### **9. CAG Chair Closing Remarks**

Prof. Schilder noted that Mr. Dalkin could not attend the meeting on Friday March 15, 2019 but shared his appreciation and comments on the meeting to Prof. Schilder via email. Prof. Schilder then noted Mr. Dalkin's comments:

- He is appreciative of the willingness of the Board and the Task Forces to review how they present their papers and presentations to the IAASB CAG Representatives, with a focus on the strategic questions for the IAASB CAG early on in the process of developing the new and revised standards.
- He encouraged the Board to have break-out sessions specifically to discuss the "future of audit" to further inform the future of standard-setting.
- He encouraged more break-out sessions.
- He further noted that the IAASB CAG encouraged the Board to develop other guidance and material for ISA 315 as well as other applicable standards in the form of Interpretations, Guides and Tools to help reduce the volume of the standard itself. This he noted, will allow the standards to focus on the requirements and be less procedural.

- Mr. Dalkin thanked the IAASB staff and CPA Canada for their hospitality.

#### **10. PIOB Observer Closing Remarks**

Ms. Stothers noted that the IAASB meeting was well managed by the Staff, the Chair and Deputy Chair. She noted that there had been a number of topics discussed that impacts the public interest with regard to audit and assurance. She further noted that the topics discussed at this meeting had made her reflect on all the important topics on the Board's agenda. She acknowledged the substantial work expected to turnaround the Board's current projects in very short periods of time but encouraged the Board to further reflect on the timelines communicated, as these often changed. She added the public's perceptions may be impacted by too many changes in expected timing. Therefore, she noted that the Board should further consider how it is demonstrating success when these expected timelines are developed.

She further acknowledged the input from Board members on the topics of ISA 315 (Revised), LCEs and Audit Evidence, noting that value of this input and commending Board members on that input.

Ms. Stothers noted the importance of balancing the public interest and the calls by the SMP community for scalability without weakening the assurance delivered as the LCE project progresses.

Ms. Stothers highlighted that break-out sessions were well organized allowing a more in-depth dialogue. She encouraged the Board to further consider this format for discussions as appropriate.

#### **11. Closing**

The minutes of the December 2018 IAASB meeting and teleconferences of January 22 and 31, 2019 were approved with two changes in the December 2018 public session meeting minutes under 'Resources' for 'Quality Control at the Firm Level' and 'Entities Subject to Engagement Review' for 'Engagement Quality Reviews'.

Prof. Schilder thanked the IAASB members, technical advisors and IAASB Staff and closed the meeting.

#### **12. Next Meeting**

The planned Board teleconferences on April 10 was confirmed, with the topic being the approval of the audits of less complex entities Discussion Paper. The next physical IAASB meeting will be held in New York, United States of America, from June 17–21, 2019.