

**Minutes of the 70<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD  
Held on June 15-19, 2015 in New York, USA**

**Voting Members**

Present: Arnold Schilder (Chairman)  
Charles Landes (Deputy Chair)  
Jean Blascos  
Fiona Campbell  
Valdir Coscodai (June 15-17)  
Robert Dohrer  
Karin French  
Marek Grabowski  
Jonas Hällström  
Merran Kelsall  
Annette Köhler  
Brendan Murtagh  
Marc Pickeur  
Ron Salole  
Rich Sharko  
Sayaka Sumida  
Ge Zhang  
Megan Zietsman

**Technical Advisors**

Sue Almond (Mr. Murtagh)  
Wolf Böhm (Ms. Köhler)  
Jennifer Burns (Ms. Zietsman)  
Ahava Goldman (Mr. Dohrer)  
Alejandro Gonzalez (Mr. Coscodai) (June 15-18)  
Hiram Hasty (Mr. Landes)  
Josephine Jackson (Mr. Grabowski)  
Susan Jones (Mr. Blascos)  
Sachiko Kai (Ms. Sumida)  
Richard Mifsud (Ms. Kelsall)  
Alexandra Popovic (Mr. Hällström)  
Jamie Shannon (Mr. Sharko)  
Greg Shields (Mr. Salole)  
Inge Vanbeveren (Mr. Pickeur)  
Denise Weber (Ms. Campbell)  
Rick Wood (Ms. French)  
Cindy Yang (Mr. Zhang)

Apology: -

**Non-Voting Observers**

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

Apology: Juan Maria Arteagoitia (European Commission)

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

Present: Charles Horstmann

Present: **IAASB Technical Staff**

Kathleen Healy (Technical Director), Sara Ashton, Beverley Bahlmann, Brett James, Diane Jules, Nancy Kamp-Roelands, Jasper van den Hout, Bradley Williams, James Gunn (Managing Director, Professional Standards) (except June 18)

International Auditing and Assurance Standards Board (IAASB) agenda materials referred to in these minutes can be accessed at <http://www.iaasb.org/meetings/new-york-usa-9>. These minutes are a summary of the decisions made at the June 2015 IAASB meeting, in light of the issues and recommendations in the agenda material put forth by the Task Forces, Working Groups, Drafting Teams and Staff supporting the individual projects. These recommendations are made taking into account feedback from respondents to the IAASB's public consultations, in particular Exposure Drafts (EDs) of the IAASB's proposals, consideration of previous discussions of the Board and its CAG, and feedback from stakeholders through outreach activities.

## **1. Welcome and Approval of Previous Minutes**

Prof. Schilder welcomed the participants to the meeting, including Mr. Zhang, who was attending his first in person meeting as an IAASB member, and Ms. Yang, his technical advisor. The minutes of the March 2015 IAASB meeting were approved subject to a minor amendment. The minutes of the April 29, 2015 IAASB teleconference were approved. Mr. Coscodai and Ms. Köhler abstained from approving the minutes of the teleconference, as they were not present.

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

Mr. Murtagh introduced the topic and explained the background to the project, making reference to the International Ethics Standards Board for Accountants' (IESBA's) recently released re-ED-Exposure Draft (ED) on NOCLAR. He explained that the IAASB's project is intended to assess whether amendments to the IAASB's International Standards<sup>1</sup> are needed in light of the IESBA re-ED. He highlighted that the IAASB's NOCLAR Working Group, which was established after the March 2015 IAASB meeting, believed an expedited approach to this project is necessary and appropriate given the importance of providing stakeholders with an opportunity to consider the proposed amendments to the International Standards and the IESBA's NOCLAR proposals concurrently. Accordingly, the Board was presented with both a project proposal and ED for approval.

### PROJECT PROPOSAL

Mr. Murtagh highlighted the Working Group's recommendation that amendments to the International Standards should be proposed at this time in light of the IESBA re-ED proposals regarding NOCLAR. He explained that Staff had prepared a project proposal on this basis, with input from the Steering Committee and the Working Group, focused on the need for limited amendments to the International Standards to be made to identify and address actual or perceived inconsistencies of approach or scope between the IESBA NOCLAR re-ED and the International Standards. The project proposal also noted that the project may result in other recommendations, including identifying other areas where further improvements may need to be considered in due course. In response to a concern raised by a Board member that the IAASB should not only seek to ensure that its standards are aligned with the IESBA draft, but also become actively involved in the debate at IESBA as to the impact on audit quality of the IESBA's proposals, Mr. Murtagh also noted that the Working Group will have a communication process with the IESBA working group after the close of the respective ED comment periods to identify relevant issues arising from their respective EDs, including any relating to audit quality, for further consideration by the IAASB.

### APPROVAL

The IAASB unanimously approved the project proposal.

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<sup>1</sup> The IAASB's International Standards comprise the International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs), International Standards on Related Services (ISRSs), and International Standards on Quality Control (ISQCs).

## DRAFT ED

Mr. Murtagh explained that the draft ED proposed limited amendments to ISA 250<sup>2</sup> and several other<sup>3</sup> International Standards in light of the IESBA's NOCLAR proposals, in particular the approach to the interaction between the auditor's possible actions with respect to NOCLAR and the auditor's duty of confidentiality as specified in the IESBA *Code of Ethics for Professional Accountants* (IESBA Code).

In addition to editorial comments, the Board agreed that the ED should:

- Clarify in the new introductory material in ISA 250 and ISA 240 that the laws and regulations covered by the IESBA NOCLAR Re-ED were not intended to be different from the laws and regulations covered by ISA 250.
- Amend paragraph 28 of ISA 250 to specifically refer to the auditor's "legal or ethical duty or right" to communicate about actual or suspected NOCLAR, rather than the generic term "responsibility", in light of comments made at the June 2015 IAASB CAG teleconference about the importance of giving appropriate emphasis in the requirements of ISA 250 to the proposed changes in the IESBA Code.
- Not include reference to management's or those charged with governance's (TCWG's) responsibilities.
- Better describe the implications of the auditor becoming aware of information about non-compliance with laws or regulations other than as a result of performing the procedures in paragraphs 12–16 of ISA 250.
- Clarify paragraph A19 of ISA 250 by making clear that the paragraph is about how obtaining legal advice may assist the auditor in determining whether the auditor has a legal or ethical duty or right to report to parties outside the entity.
- Align the language in paragraph A8 of ISA 220 with the IESBA Re-ED regarding communication with the predecessor auditor.

The Working Group also presented its analysis of additional matters (referred to as "Category 2" issues in Agenda Item 2-A) and recommendations as to whether such matters should be addressed in the ED. The Board agreed that these matters were not of sufficient importance to warrant their inclusion in the ED as proposed amendments.

The Board also agreed with the Task Force that there was merit in using the Explanatory Memorandum to the ED to solicit stakeholders' views as to whether further improvements to ISA 250 may need to be considered in due course (i.e., under a future IAASB Work Plan), but that these matters (should not be included in the ED (these matters were referred to as "Category 3" issues in Agenda Item 2-A). Mr. Murtagh noted that the consultations undertaken as part of developing the current IAASB Strategy and Work Plan had not demonstrated that ISA 250 warranted immediate revision, particularly in light of the other projects that the IAASB was asked to prioritize in the public interest.

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<sup>2</sup> ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

<sup>3</sup> ISA 220, *Quality Control for an Audit of Financial Statements*; ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*; ISA 260 (Revised), *Communication with Those Charged with Governance*; ISA 450, *Evaluation of Misstatements Identified during the Audit*; ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*; ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*; and ISAE 3402, *Assurance Reports on Controls at a Service Organization*.

#### IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron noted that some members of the CAG had expressed concern that the proposed exposure period of 90 days may be difficult in light of the vacation period over the northern hemisphere's summer. He highlighted that there was some support for amending the requirement in paragraph 28 of ISA 250 to specifically refer to the auditor's ethical right to disclose NOCLAR to an appropriate authority.

He also noted that some representatives had questioned whether the IESBA Code could create a "right". Mr. Siong, IESBA Technical Director, explained that the IESBA was proposing to create a professional, not legal, right and as such the term "right" was appropriate in the context.

#### APPROVAL

After agreeing all necessary changes to the ED, the IAASB unanimously approved the ED for public exposure, with 17 affirmative votes out of the 17 Board members present. The IAASB agreed that the ED should be publicly exposed for a period of 90 days, noting that the ED contained only limited amendments and the likely exposure period would extend six weeks after the end of the northern hemisphere's summer period. Mr. Thomadakis noted a 90-day comment period would allow both Boards to coordinate in their evaluation of the responses to their respective EDs, as the IESBA's comment period closes in early September. He thanked the IAASB for giving priority attention for developing its ED.

#### PIOB OBSERVER REMARKS

Mr. Horstmann noted that a 90-day comment seemed sensible to enable both the IESBA and the IAASB to move forward on the topic in the public interest.

### 3. Data Analytics

Mr. Dohrer gave an update on the Data Analytics Working Group's (DAWG) initial activities, outreach, and plans to progress the project. The Board agreed with the topics presented for discussion and supported soliciting further input on the Data Analytics project by means of outreach to the stakeholders identified in the agenda material. In addition to other input, the Board:

- Was supportive of the general direction proposed by the DAWG and the intent to focus the WG's efforts on audit relevant data (that is, information / data areas that are relevant to the audit being performed). In relation to the proposed definition of Audit Data Analytics (ADA),<sup>4</sup> some members suggested considering a more narrow focus to prevent "scope creep", particularly in the context of the extent of the current stage of development of ADAs.
- Asked the DAWG to facilitate the Board's further consideration as to whether individual ISAs may be viewed as prohibiting the use of ADAs, and where changes to the ISAs could be helpful to acknowledge the use of ADAs and the benefits and challenges of doing so. The recent work of the Assurance Services Executive Committee of the American Institute of Certified Public Accountants (AICPA) in this area was noted. The Board agreed further consideration of the implications of the use of ADAs on audit quality would be helpful, as there may be an expectation that the IAASB should facilitate or encourage their use as techniques evolve.

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<sup>4</sup> Agenda Item 3-A defined ADA as 'the science and art of discovering and analyzing patterns, identifying anomalies, and extracting other useful information in the data underlying or related to the subject matter of an audit through analysis, modeling and visualization for the purpose of planning or performing the audit.' [AICPA White Paper – Reimagining Auditing in a Wired World \(August 2014\)](#)

- Was supportive of the proposed outreach to stakeholders and other proposed activities. The Board noted the importance of targeted outreach to practitioners across jurisdictions and other relevant stakeholders to explore how ADAs are used more prominently in financial statement audits. The Board noted that the input from audit regulators regarding observations from audit inspections will assist in identifying areas of concern relating to ADAs.
- Emphasized that the needs and capabilities of small and medium practices (SMPs) need to be carefully considered in the light of ADAs, specifically with respect to the types of changes that may be suggested to the ISAs or additional guidance provided. While not specifically recommended by the DAWG, some Board members expressed an initial view that mandating the ADAs would not be appropriate as a result of the potential impact on SMPs.

In addition to the abovementioned specific comments, some members of the Board emphasized caution in moving forward too quickly. The Board agreed with the WG's plans to continue to do more research and information gathering with those identified stakeholders, prior to determining whether or not changes to the ISAs are necessary or if other methods of providing guidance or direction to auditors may be appropriate.

#### IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron noted that investors will be interested in developments in ADA as a way to understand the work performed by the auditor, in a similar way as initiated by the new and Revised Auditor Reporting standards. He suggested a focus of the IAASB's discussions on ADAs should be on the benefits to audit quality and the potential audit efficiencies that may result from their use.

#### WAY FORWARD

The DAWG will continue with its planned outreach activities, with a focus on understanding the use of ADAs in practice and how individual ISAs may be impacted by the use of ADAs. The DAWG will also look for opportunities to further educate the Board on how ADAs are used in practice.

#### **4. Auditor Reporting – Effective Date**

The new and revised Auditor Reporting standards and related conforming amendments (the Auditor Reporting Standards) are effective for audits of financial statements for periods ending on or after December 15, 2016. The related Basis for Conclusions document noted that "...early adoption of the standards is permitted, though as a matter of practice, the IAASB does not explicitly state so in its standards."

The Board reaffirmed its view that the Auditor Reporting Standards, as well as ISA 720 (Revised),<sup>5</sup> are a package to be adopted and implemented at the same time. However, the Board considered that accounting firms and national auditing standards setters (NSS) might be in a position to early adopt ISA 701,<sup>6</sup> and decided it would be in the public interest to continue to allow for that possibility, rather than explicitly prohibiting the early application of one or more of the standards. However, the Board acknowledged that there may be practical challenges that may arise in doing so that would need to be addressed by NSS or the firm intending to early adopt ISA 701 in the context of their respective jurisdictions.

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<sup>5</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

<sup>6</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

## 5. Auditor Reporting – ISA 800<sup>7</sup> and ISA 805<sup>8</sup>

Ms. Köhler provided a summary of responses received to the ISA 800 and ISA 805 exposure draft (ED). She highlighted the significant matters raised, and noted that some of the feedback raised issues that went beyond the intended scope of the ED.

The IAASB generally agreed with the Drafting Team's (DT) recommended changes to proposed ISA 800 (Revised) and proposed ISA 805 (Revised) as set out in Agenda Items 4-B and 4-C, respectively, except as follows.

### THE RELATIONSHIP OF THE ISA 805 AUDITOR'S REPORT TO THE AUDITOR'S REPORT ON THE COMPLETE SET OF FINANCIAL STATEMENTS

The IAASB was supportive of the requirement in paragraph 14 of proposed ISA 805 (Revised) Agenda Item 4-C requiring auditors to determine the effects of certain matters<sup>9</sup> in the auditor's report on the complete set of financial statements on the single financial statement or on the element (the ISA 805 auditor's report) and report accordingly. The IAASB accepted that ISA 805 should explicitly specify that auditors should consider the implications for the audit to which ISA 805 applies. Accordingly, the IAASB asked that the DT:

- Expand the requirement in paragraph 14 of proposed ISA 805 (Revised) so that the term “determine the effects” would apply not only to the ISA 805 auditor's report, but also to the ISA 805 engagement. Specifically, the IAASB suggested that the DT replace the terms “...determine the effects and report accordingly...” with “...consider the implications for the audit and the resulting auditor's report.”
- Add key audit matters (KAM) to the list of matters in paragraph 14 of proposed ISA 805 (Revised) (Agenda Item 4-C) because, depending on its nature, the communication of a KAM in the auditor's report on the complete set of financial statements may have implications for the ISA 805 engagement and the ISA 805 auditor's report. The IAASB also suggested that the DT clarify the voluntary nature of the communication of KAM in an ISA 805 engagement.
- Enhance the application material to clarify the intended meaning of the term “determine the effect” as it relates to the audit to which ISA 805 applies, in particular when the matter is a KAM. For example, the IAASB suggested that the DT clarify the application material to further explain the factors that may be relevant to the auditor's consideration of the implications for the audit to which ISA 805 applies and resulting auditor's reports.
- Further elaborate on the relationship with ISA 570 (Revised)<sup>10</sup> if the going concern (GC) basis of accounting is not relevant in the context of the audit to which ISA 805 applies, but a *Material Uncertainty Relating to Going Concern* section exists in the auditor's report on the complete set of financial statements.

The IAASB did not support the DT's recommendation in paragraph 15 of Agenda Item 4-C which would require the auditor's report on the ISA 805 report to include a reference, in an OM paragraph, to the

<sup>7</sup> ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

<sup>8</sup> ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

<sup>9</sup> Those matters are: A modified opinion; an Emphasis of Matter (EOM) paragraph or an Other Matter (OM) paragraph; a *Material Uncertainty Related to Going Concern* section; communication of KAM in accordance with ISA 701, *Communication of Key Audit Matters in the Independent Auditor's Report*; or a statement that describes an uncorrected material misstatement of the other information (OI).

<sup>10</sup> ISA 570 (Revised), *Going Concern*

existence of certain matters in the auditor's report on the complete set of financial statements regardless of their relevancy. The IAASB was of the view that doing this would result in standardized language in all cases.

#### INCLUSION OF A REFERENCE TO THE AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS IN THE ISA 800 AUDITOR'S REPORT

Consistent with its decisions discussed above that a reference of this nature leads to standardized language and may not be relevant in all cases, the IAASB disagreed with the DT's proposed requirements and corresponding application material relating to the inclusion of a reference in the auditor's report on special purpose financial statements to the existence of certain matters in the auditor's report on general purpose financial statements.

#### OTHER MATTERS

The IAASB also provided minor points of clarification and editorial comments for the DT's further consideration on proposed ISA 800 (Revised) and proposed ISA 805 (Revised). The Board asked the DT to consider whether further changes are needed to the application material in proposed ISA 800 (Revised) and proposed ISA 805 (Revised) to:

- Clarify that ISA 260 (Revised)<sup>11</sup> is relevant and is applicable to all audits to which ISA 800 and ISA 805 apply.
- Explain the concept of OI in the context of audits to which ISA 800 and ISA 805 apply.

#### IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron expressed support for the IAASB's decision to move away from requiring a reference in the ISA 805 auditor's report to certain matters in the auditor's report on a complete set of financial statements. In his view, the auditor's report on the complete set of financial statements would typically be readily available to users and therefore a simple reference is neither necessary nor useful.

#### WAY FORWARD

The DT will consider further refinements to proposed ISA 800 (Revised) and proposed ISA 805 (Revised) for the IAASB's approval at its September 2015 meeting.

### **6. Auditor Reporting – ISA 810<sup>12</sup>**

Ms. Köhler provided an overview of the Board's previous discussions on ISA 810 and an update on outreach performed since the IAASB's March 2015 meeting. She noted that general support from the IAASB CAG, NSS, Forum of Firms, the IFIAR SCWG, and respondents to the ISA 800 and ISA 805 ED for the IAASB to develop limited conforming amendments to ISA 810, in particular to address the information gap that would result in circumstances when a material uncertainty related to going concern or a material misstatement of other information are highlighted in the auditor's report on the related audited financial statements.

The Board generally agreed with the need for, and content of, the proposed amendments to ISA 810 set out in Agenda Item 5-B, with the exception of one Board member who challenged whether any changes to

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<sup>11</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

<sup>12</sup> ISA 810, *Engagements to Report on Summary Financial Statements*

ISA 810 should be made at this time, given the feedback to the specific question on ISA 810 included in the ISA 800 and ISA 805 ED.

In addition to editorial comments, the Board also agreed the following additional amendments to proposed ISA 810 (Revised):

- Reordering of the elements within paragraph 14 of proposed ISA 810 (Revised) to be consistent with the proposed ordering of the elements of the illustrative reports contained in the Appendix to proposed ISA 810 (Revised);
- Replacing the various references to a *Key Audit Matters* section throughout proposed ISA 810 (Revised) with the phrase “communication of key audit matters”. This change acknowledges that listed entities will always be required to include a Key Audit Matters section in the auditor’s report, however, in limited circumstances, there may not be any key audit matters to be communicated; and
- Various amendments to the illustrations and related application material to further illustrate the optional alignment of auditor’s reports on summary financial statements with ISA 700 (Revised) auditor’s reports and to clarify the circumstances associated with each of the illustrations.

The Board considered requiring the auditor to list the subheadings / topics of key audit matters in the auditor’s report on the summary financial statements or include the descriptions of individual key audit matters in their entirety. The Board decided against doing so, as detailed reference to individual key audit matters may give the impression that the ISA 810 engagement is something other than what is intended, would potentially lengthen the ISA 810 report, and could be misleading if the underlying issues were not disclosed in a similar manner in the summary financial statements.

#### IAASB CAG CHAIRMAN’S REMARKS

Mr. Waldron agreed that the proposed limited amendments to ISA 810 were consistent with the IAASB CAG’s discussions on this topic.

#### APPROVAL

After agreeing all necessary changes to the ED, the IAASB unanimously approved the ED for public exposure, with 17 affirmative votes out of the 17 Board members present. The IAASB agreed that the ED should be publicly exposed for a period of 90 days.

#### PIOB OBSERVER REMARKS

Mr. Horstmann commented that the 90 day exposure period appeared appropriate, given the limited nature of the proposed amendments and the consistency with past practice of a 90 day exposure period in similar instances of limited amendments to ISAs.

### **7. Group Audits – Staff Audit Practice Alert**

The Board generally supported the direction and planned publication of a Staff Audit Practice Alert (the Alert), developed to remind auditors of the responsibilities of the engagement partner in circumstances when the engagement partner is not located where the majority of the audit work is performed. The Board also indicated its general support for staff making certain limited changes to address matters raised through discussions with a Global Public Policy Committee (GPPC) working group and members of the Standards Coordination Working Group of the International Forum for Independent Audit Regulators (IFIAR SCWG). In addition to providing some limited comments, some Board members expressed support for making the

reference to paragraph 2 of ISA 600,<sup>13</sup> (which indicates that an auditor may find ISA 600, adapted as necessary in the circumstances, useful when other auditors are involved in an audit of financial statements that are not group financial statements), could be made more prominent.

#### WAY FORWARD

Subject to the amendments noted above, the IAASB indicated its support for staff proceeding with finalization and publication of the Alert.

### **8. Approach to Combined Discussion Paper**

Ms. Zietsman highlighted the preliminary thinking of the Audit Quality Enhancements Coordination Group (Enhancements Group), in relation to the approach to the combined Discussion Paper (DP). Prof. Schilder highlighted that the topic of audit quality resonates with the Board's stakeholders and based on outreach and discussions with a number of key stakeholders, support had been received for the approach of a combined DP, as well as for the 150-day comment period.

The Board discussed a proposed outline to the combined DP and asked the Enhancements Group to consider the following in developing the draft:

- How best to balance possible concerns that the DP as a whole may be too unwieldy or that it may be viewed more broadly than intended (i.e., beyond the projects it is intended to address). In this regard:
  - The Board recognized the need in particular to keep the forepart of the DP as succinct as practicable and focused on the common themes between the projects being included in the DP, noting that many stakeholders may not be interested in responding to the more detailed discussions to be outlined in the back of the paper.
  - At the same time, it was noted that a certain level of detail within the paper, together with targeted questions, would be necessary to solicit informed responses from stakeholders on the topics of quality control, group audits and financial institutions.
- Whether, in addition to professional skepticism, the concepts of "professional judgment" and "sufficient appropriate audit evidence" should also be addressed in the DP as common themes.

With respect to the specific discussions of the individual topics, the Board agreed that the respective WGs should try to explore the relevant issues as fully as possible to inform the development of standard-setting proposals (planned for September 2016). Ms. Zietsman noted that an aim of the combined DP was to enhance the effectiveness of the standard-setting projects by obtaining as much information as possible to properly establish the scope of the respective standard setting projects that will follow.

In addition to plans for outreach outlined in Agenda Item 8-A, the Board suggested that liaison with Monitoring Group members would be useful. It was also noted that NSS would likely plan events in support of the DP in their respective jurisdictions. Finally, the Enhancements WG was asked to consider how best to engage with small and medium-sized practitioners (SMPs) and users of private company audits, including small- and medium-sized entities (SMEs).

#### PIOB OBSERVER REMARKS

Mr. Horstmann supported the outreach efforts being made by the Quality Control Working Group (QCWG), Group Audits Working Group (GAWG) and Financial Institutions Working Groups (FIWG), and encouraged

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<sup>13</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

these groups to continue obtaining information about matters at the early stages of the project, in particular from audit oversight bodies and regulators, as this would assist in early identification of the most pertinent public interest issues that need to be addressed.

#### WAY FORWARD

The Enhancements Group will continue with the overall oversight of the DP, including taking responsibility for the development of the forepart of the DP. Members of the group will also continue to support IAASB outreach to audit oversight bodies and regulators, representatives of the GPPC, and others as relevant, to further inform the development of the DP. The QCWG, GAWG and FIWG will continue to explore the issues related to the relevant topics to develop the more detailed discussion in the DP (as noted in the following three sections of these minutes). The Professional Skepticism Working Group will also continue to explore the nature of the issues related to professional skepticism, to further understand appropriate actions in this area.

### **9. Group Audits**

Ms. Zietsman introduced the topic of group audits and the work performed by the GAWG. She noted that the GAWG had continued to progress the discussions on the issues related to the topic, in particular in light of the feedback from the ISA Implementation Monitoring project and continued discussions with firms and audit oversight bodies. She noted the IFAC SMP Committee had also provided specific feedback on Agenda Item 9-A, noting that SMPs are often component auditors and that ISA 600 does not explicitly address the responsibilities of component auditors.

The Board generally supported the analysis of the issues and related recommendations made by the GAWG as outlined in Agenda Item 9-A, and encouraged the GAWG to set out these issues clearly and in sufficient detail in the DP to gain further feedback as to the causal factors of the inspection findings and practical challenges that have been noted. The Board acknowledged that the increasing complexity of entities and their structures has led to challenges in conducting group audits, and that understanding the different situations that occur in practice would be helpful to assist the Board in determining what standard-setting and other actions (for example, non-authoritative guidance) may be needed to drive more appropriate and effective auditor performance. It was noted, however, that a balance needs to be struck between having a principles-based standard that can continue to be “fit for purpose” as group structures continue to evolve and the need to establish sufficiently robust requirements and appropriately detailed guidance that result in high-quality group audits.

In particular, Board members variously raised the following matters for further consideration:

- The need to revisit the definitions within ISA 600, including group engagement partner, group engagement team, component and component auditor. It was suggested that the manner in which the definitions are articulated may unduly limit auditors in applying ISA 600, and it may not be sufficiently clear that the other ISAs also need to be applied in circumstances when ISA 600 is applicable.
- How the topic of shared service centers should be addressed in ISA 600 or other ISAs, in particular noting that a shared service center may not appear to meet the current definition of a component, and therefore the application of ISA 600 in similar circumstances is likely inconsistent in practice.
- It was noted that the ISAs do not sufficiently address situations when other auditors who do not meet the definition of component auditors are involved in an audit, which might happen in a group audit, or an audit of a single component (for example through alternative audit delivery models).

- The need to explicitly address issues related to equity method investees and non-controlled investees, in particular when there are access-related issues.
- Whether more is needed in the ISAs to articulate the expectations for the group engagement team in terms of acceptance and continuance decisions and risk assessment at the group level. In particular, IAASB members noted the importance of the auditor understanding the rationale for a group being structured in a particular way as a basis for the auditor's risk assessment. The treatment of both significant risks at the group and component levels and components that are deemed to be significant due to risk was highlighted as an area to be explored further, as was the aggregation risk of non-significant components and the need to potentially elaborate on the qualitative factors that may lead to a component being assessed as significant.
- While recognizing the need to explore aspects of component materiality in the DP, consistent with prior Board discussions, a few Board members cautioned that this topic should be addressed in the context of group audits and the DP should not attempt to address issues that would be more appropriately dealt with in a more holistic review of ISA 320.<sup>14</sup>
- The role of component auditors in assisting the group engagement team in determining and communicating key audit matters in accordance with ISA 701.
- Whether there is the need for a separate standard or specific requirements and guidance to address the responsibilities of component auditors.

#### WAY FORWARD

The GAWG will continue its consideration of the issues and summarize these matters in the draft of the DP for the IAASB's and CAG's consideration at their respective September 2015 meetings.

### 10. Quality Control

Ms. French introduced the topic, explaining the QCWG's recommendation that a holistic revision of ISQC 1 under a quality management approach may be a useful way to improve the application of ISQC 1 and address issues noted by audit oversight bodies in relation to firms' system of quality control and audit quality more generally, as well as questions of scalability for firms that perform engagements other than audits. The Board, in light of the details provided in the presentation of Agenda Item 12-C, cautioned that, in pursuing a quality management approach, care would be needed to retain the concept of "reasonable assurance" with respect to a firm's system of quality control, and that a quality management approach would still need to specify minimum requirements in order to be consistently applied. The Board agreed that the DP could be used as an opportunity to ask whether stakeholders would support moving forward with a quality management approach, so long as an emphasis on the public interest reasons for doing so and sufficient details on what this would entail are set out in the DP to contrast the current focus on a quality control approach. It was also noted that, if a quality management approach were to be proposed at the firm level, and therefore included in ISQC 1, it should also be reflected at the engagement level, and therefore included in ISA 220.

The Board generally agreed with the QCWG's recommendations in Agenda Item 12-A related to governance, engagement partner responsibilities and the result of the SMP survey. Board members variously noted further areas for exploration and consideration by the QCWG for inclusion in the DP as follows:

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<sup>14</sup> ISA 320, *Materiality in Planning and Performing an Audit*

- The application of quality control systems at the network level in firms, noting that the ISAs and ISQC 1 do not explicitly address whether the auditor can rely on systems at the network level when component auditors or other auditors are involved in the audit;
- Governance, including how the responsibilities are applied at the network level, creating an environment that allows quality to be pushed down throughout the entire firm and what that environment would look like;
- The linkage of remuneration and quality, and potentially audit quality indicators, to not only penalize for quality deficiencies but also to reward for good quality;
- To whom in the firm the linkage of remuneration and quality should extend, for example, the engagement partner signing the auditor's report, other engagement partners involved in the engagement, the engagement quality control reviewer, or other members of the engagement team;
- The impact on definitions, particularly highlighting the definition of the engagement partner and its interaction with the work of the GAWG;
- The effectiveness of peer reviews and how it would be possible to incorporate them into a system of quality control; and
- The concept of transparency reporting, as the Board did not agree with the QCWG's recommendation to exclude this from the DP.

#### WAY FORWARD

The QCWG will continue its consideration of the issues and summarize these matters in the draft of the DP for the IAASB's and CAG's consideration at their respective September 2015 meetings.

### 11. Financial Institutions

Mr. Sharko and Mr. Pickeur introduced the topic and highlighted the FIWG's outreach since the March 2015 IAASB meeting. They explained that the outreach with key regulator and practitioner bodies as listed in Agenda Item 11-A had highlighted the need to consider on a priority basis the implications of IFRS 9<sup>15</sup> to auditing standards, in particular regarding the change to an expected credit loss model. In light of this, the FIWG proposed to shift its focus to considering the audit implications of IFRS 9, beginning with an analysis of whether ISA 540<sup>16</sup> and IAPN 1000<sup>17</sup> adequately address the audit issues raised by IFRS 9.

The Board noted that the complexity of IFRS 9 might have highlighted some issues that are already addressed to some extent in the extant ISAs, albeit that greater specificity may be needed in light of the greater levels of judgment that both preparers and auditors will have to exercise. The Board agreed that the FIWG should concentrate on the audit implications of IFRS 9 and supported prioritizing a gap analysis between IFRS 9 and ISA 540 as an initial step. The Board also noted that IFRS 9 may raise issues for more than just financial institutions, recognizing that the issues may be less complex in some cases.

The Board also asked the FIWG to consider the following:

- The projects that the US Public Company Accounting Oversight Board (PCAOB) has on fair value measurement and on auditors' experts, and whether collaboration on some aspects of the IAASB's

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<sup>15</sup> International Financial Reporting Standard (IFRS) 9, *Financial Instruments*

<sup>16</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

<sup>17</sup> International Auditing Practice Note (IAPN) 1000, *Special Considerations in Auditing Financial Instruments*

Financial Institutions project may be warranted, including in response to the findings from the IAASB's ISA Implementation Monitoring project.

- The audit work that would be appropriate on IFRS 9 disclosures, recognizing that it will be fundamental that management provides users with sufficient information to enable them to understand the expected credit loss model.
- The implications for smaller financial institutions and firms, and how best to engage with these stakeholders, as the issues with IFRS 9 could be different due to differing specializations and data availability.
- Whether the proposed guidance on the relationship between the external auditors and the banking/insurance regulators could still be progressed, albeit with a lower priority.

As part of its efforts to increase its awareness about issues relevant to audits of banks, the Board also received a presentation focused on the planning phase of the audit of banks delivered by Mr. Robert Sullivan and Mr. David Halpern of PricewaterhouseCoopers.

#### WAY FORWARD

Mr. Sharko and Mr. Pickeur noted that the FIWG will continue assessing the audit implications of IFRS 9 and what actions may be needed (for example, through standard setting or other activities) and will present further matters for the Board's consideration at its September 2015 meeting.

## 12. Professional Skepticism

#### WG OBJECTIVES AND ACTIVITIES

Ms. Köhler introduced the topic and highlighted the proposed objective and activities for the Professional Skepticism WG.

The IAASB generally agreed with the proposals in Agenda Item 10-A, but asked that the WG:

- Consider how the behavioral aspects of the issues relating to professional skepticism could be best dealt with, recognizing that auditors are not trained in behavior analysis.
- Focus on those actions that can have the greatest impact on improving professional skepticism.
- Undertake a root cause analysis before determining a way forward.
- Acknowledge that it may only be possible to address some issues at the firm level, rather than the engagement level, although it was noted that the ISAs could better emphasize aspects of professional skepticism including, for example, addressing unconscious biases.

#### PANEL DISCUSSION

A panel discussion was held on the topic of professional skepticism, as described further in an [IAASB News Alert](#), including details about the Panel Session, including panelists' bios, presentation as well as an audio recording.

The panel focused on a number of areas, including: whether skepticism implies a neutral attitude regarding management's honesty; the factors that indicate that professional skepticism is high in a particular engagement; the impact of national culture on skepticism; incentives for skepticism; the involvement of others in the financial reporting supply chain; the implications of the payor model (i.e., the entity directly paying for the audit); and what is necessary to demonstrate that the auditor has been sufficiently skeptical.

Reflecting on the views expressed by the panelists, with respect to the IAASB's International Standards, the IAASB asked the WG to explore:

- Whether more could be said in the ISAs or in another form of guidance about the factors that influence professional skepticism, including individual biases and the auditor/entity relationship.
- How ISQC 1 could further emphasize the need for a strong "tone at the top" and an environment that promotes the application of professional skepticism.
- Whether the construct of the requirements in the ISAs are written in a way that promotes a mentality of corroborating management's numbers, as opposed to a more neutral or challenging mindset.
- Whether the requirements in the ISAs are sufficiently robust in terms of evidence gathering, in particular in areas of significant management judgment.

#### IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron expressed support for the establishment of the Professional Skepticism WG and suggested that Staff give consideration on how to convey the panel discussion to the CAG at its September 2015 meeting.

#### WAY FORWARD

In addition to the points raised by the IAASB, the WG agreed to compile relevant academic research on the topic of professional skepticism to assist the IAASB in determining a way forward. The topic of professional skepticism will also be explored in the December 2015 DP (see section 8 of these minutes).

### **13. Agreed-Upon Procedures**

Mr. Salole introduced the topic and provided the IAASB with an update on the Agreed-Upon Procedures Working Group's (AUPWG) efforts to date, including a summary of the issues identified relating to ISRS 4400,<sup>18</sup> and the use of hybrid engagements, and the AUPWG's suggested way forward for this project.

The Board discussed the current differences between ISRS 4400 and the AICPA and the Australian Auditing and Assurance Standards Board's (AUASB) standards on AUP, as both the AICPA and AUASB recently issued their respective standards on AUP. The Board also discussed key features of AUP engagements, which by their nature are not assurance engagements. The Board noted that practitioners seem to experience more challenges in reporting under ISRS 4400 and that reporting on findings may include more references to assurance than what is envisaged in ISRS 4400. The Board also noted that there may be a need for greater education to explain what an AUP engagement is (and what it is not) as compared to assurance engagements.

Board members raised additional matters for the AUPWG to consider before undertaking a revision of ISRS 4400 in the Clarity format, including:

- The need to more fully understand how engagements are being conducted in practice, and where practitioners are departing from ISRS 4400 and why, as this may identify changes needed to an AUP engagement or another type of engagement to be developed to meet user demand.

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<sup>18</sup> ISRS 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

- The implications of the practitioner's involvement in developing the procedures in an AUP engagement, noting the expertise that the practitioner may bring in this regard and the similarity between those procedures and audit procedures.
- The demand for, and implications of, AUPs addressing non-financial information, in light of the evolving needs of users.
- The need to obtain further information with respect to hybrid engagements that relate to specified procedures that require the practitioner to provide a conclusion on subject matter information, with a focus on the different types of engagements currently being performed in practice, including those on non-financial information.
- The potential need for the GAWG to consider whether specified procedures performed by component auditors as part of a group audit constitute an AUP in accordance with ISRS 4400.
- How best to obtain further information, for example through a Discussion Paper or other outreach, including surveys or other forms, or direct engagement with NSS, practitioners and users.

#### WAY FORWARD

The WG will continue its information-gathering activities on the issues related to ISRS 4400, including via further outreach.

#### **14. Integrated Reporting**

A panel discussion was held in which panelists shared their perspectives and experiences with integrated reporting and other emerging developments in external reporting, the relevance of assurance, the assurance issues encountered to date and their expectations of the IAASB's work on integrated reporting.

The Board supported the Integrated Reporting Working Group (IRWG) continuing its information gathering with regard to the demand for assurance, in particular from investors. The Board also suggested that the IRWG select a few assurance issues for more detailed exploration, including consideration of whether these issues are already sufficiently addressed in the International Standards, or whether more guidance might be needed.

Ms. Kelsall provided an update on the paper *Exploring Assurance on Integrated Reporting and Other Emerging Aspects of External Reporting* prepared by the IRWG and circulated earlier to the IAASB. She also provided a high level update of the feedback the International Integrated Reporting Council (IIRC) received on its discussion papers on integrated reporting.<sup>19</sup>

#### IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron noted that the panel session was very informative and confirmed the relevance of exploring the demand of investors.

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<sup>19</sup> The IIRC is compiling a feedback statement from the consultations on its Discussion Papers, "Assurance on <IR>: An introduction to the discussion" and a more technical paper "Assurance on <IR>: An exploration of issues" and its roundtables in partnership with various organizations around the world.

## WAY FORWARD

The IRWG will publish the brief paper on its activities after the IIRC has published its feedback statement. In addition, the IRWG will continue its information-gathering activities and present an update along with an overview of potential relevant assurance issues at the September 2015 meeting.

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

Mr. Horstmann thanked the Board for the open and robust discussion of the various topics on the agenda. He emphasized that it was important that the public interest issues be considered early in the projects. While it was clear from the discussions at the Board meeting that this is the case, he urged the WGs to continue focus on this and seek out the input of stakeholders, particularly the securities and banking regulators, early in the process.

On the quality control project, Mr. Horstmann commented that, in his view, it is very important to ensure that the scope of the project is broad and includes the many issues that were discussed during the week, such as governance issues, transparency reports, issues related to network firms, and the quality management approach of ISQC 1, as this would help ensure that the project addresses these important public interest issues. He closed by noting that the Board is an impressive group, clearly dedicated and passionate about setting high-quality standards.

### **16. Next Meeting**

The next IAASB meeting will be held in New York, United States, September 21–25, 2015.

### **17. Closing**

Prof. Schilder acknowledged the discussions throughout the meeting had continued to highlight the interactions among the quality control, group audits, financial institutions and professional skepticism projects. Prof. Schilder provided a synopsis of the IAASB Steering Committee meeting that was held during the week, focusing on discussions related to planned research on the topic of going concern and the continued importance of obtaining the investor and audit committee member input early on in the standard setting process.

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