Minutes of the 89th Meeting of the

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)

Held on December 11–15, 2017 in New York City, USA

	Voting Members	**Technical Advisors (TA)**
Present:	Prof. Arnold Schilder (Chairman)	Sara Ashton (Ms. French)
	Megan Zietsman (Deputy Chair)	Nicolette Bester (Mr. Vanker)
	Abhijit Bandyopadhyay	Wolf Böhm (Prof. Köhler)
	Fiona Campbell	Dora Burzenski (Ms. Zietsman)
	Robert Dohrer	Chun Wee Chiew (Mr. Murtagh)
	Karin French	Jacques Vandernoot (Mr. Pickeur)
	Marek Grabowski	Shu Duan (Mr. Zhang)
	Len Jui	Sylvia Van Dyk (Ms. Provost)
	Prof. Annette Köhler (December 12–15)	Ahava Goldman (Mr. Dohrer)
	Charles Landes	Hiram Hasty (Mr. Landes)
	Brendan Murtagh	Josephine Jackson (Mr. Grabowski) (December 12-15)
	Marc Pickeur (December 12–15)	Susan Jones (Mr. Jui)
	Lyn Provost	Sachiko Kai (Ms. Sumida)
	Ron Salole	Jamie Shannon (Mr. Sharko) (December 12-15)
	Rich Sharko	
	Sayaka Sumida	Eric Turner (Mr. Salole)
	Imran Vanker	Sanjay Vasudeva (Mr. Bandyopadhyay)
	Ge Zhang	Denise Weber (Ms. Campbell)

Non-Voting Observers

Present:	Jim Dalkin (IAASB Consultative Advisory Group (CAG) Chair), Yosh'inao Matsumoto (Japanese Financial Services Authority)
Apology:	Juan Maria Arteagoitia (European Commission)

Public Interest Oversight Board (PIOB) Observers

Present:	Karen Stothers

IAASB Technical Staff

Present: James Gunn (Managing Director, Professional Standards), Matt Waldron (Technical Director), Beverley Bahlmann, Brett James, Natalie Klonaridis (12-15 December), Jasper van den Hout, Csilla Molnar (11-14 December), Schuyler Simms, Phil Minnaar (via teleconference 12,13 and 15 December), Armand Kotze.

IAASB agenda materials referred to in these minutes can be accessed at http://www.iaasb.org/meetings/new-york-usa-17. These minutes are a summary of the decisions made at the December 2017 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

Prof. Schilder welcomed all participants to the meeting, including IAASB members, technical advisors, staff and observers. Prof. Schilder specifically welcomed the new incoming board members and technical advisors.

The minutes of the September 18–22, 2017 IAASB meeting, as presented, were approved.

2. ISA 540 (Revised)[1]

Messrs. Sharko and Grabowski introduced the topic. The IAASB discussed key issues raised by respondents, including the scalability of the International Standard on Auditing (ISA), the use of the term "reasonable," the exercise of professional skepticism and the proposed approach to responding to comments on the application material. The IAASB also discussed the ISA 540 Task Force's revisions to requirements and application material. During the meeting, revised requirements were presented to the IAASB.

KEY ISSUES

In response to the key issues identified in **Agenda Item 2-A**, the Board:

- Supported the ISA 540 Task Force's direction with respect to scalability generally, and specifically the use of the spectrum of risk and the approaches as described **Agenda Item 2-A** to demonstrate scalability. With respect to the use of the spectrum of risk, the Board encouraged the ISA 315 Task Force and ISA 540 Task Force to keep working together to make sure the standards are aligned. The Board also noted the importance of including examples to demonstrate the scalability of the standard.

- Supported the direction of the ISA 540 Task Force to eliminate the threshold of low/not low inherent risk.

- Expressed mixed views about whether "reasonable" is the appropriate criterion for disclosures.

---

[1]   ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

- Suggested further changes to paragraph 15 to better convey that the auditor should not disregard contradictory evidence but that the auditor was not expected to seek out contradictory evidence.

- Supported the ISA 540 Task Force's proposed approach to the application material.

DRAFT ISA 540 (REVISED)

The Board discussed **Agenda Item 2-B**, and an updated version which included revisions made during the Board meeting. Other than editorial and minor drafting suggestions, the Board agreed with the ISA 540 Task Force's proposals except as noted below:

- The key concepts section needs to be clearer, and sections regarding the spectrum of inherent risk need to be aligned with the description in draft proposed ISA 315 (Revised).[2]

- The ISA 540 Task Force should consider whether further changes are needed to the objective to simplify it and clarify its intent.

- In relation to paragraph 10, the ISA 540 Task Force should further align the lead in text with the latest proposals of the ISA 315 (Revised) Task Force. It was also noted that further refinement of the sub-bullets is needed to make clear what incremental risk assessment is needed for accounting estimates, beyond that in ISA 315 (Revised). The ISA 540 Task Force was also asked to clarify the scalability of paragraph 10.

- The ISA 540 Task Force should consider clarifying when the auditor would be required to take more than one reporting period into account in performing a retrospective review.

- The ISA 540 Task Force should prepare a comparison of the work effort requirements in proposed ISA 540 (Revised) with the US Public Company Accountancy Oversight Board's (PCAOB) proposals.

- Paragraphs 15 and 16 should be aligned further with ISA 330.[3]

- Paragraphs related to the use of information from an external information source (paragraph 17E) and a management's expert (paragraph 17F) should be moved to a separate heading within the work effort section.

- The ISA 540 Task Force should further consider the documentation requirements to respond to the significant comments by certain stakeholders.

CONFORMING AMENDMENTS

In relation to the conforming amendments to ISA 500,[4] the IAASB:

- Requested that the conforming amendments be provided in the context of the whole of ISA 500.

- Asked the ISA 540 Task Force to consider whether the application material in ISA 500 implies a greater work effort than is required by paragraph 7 of ISA 500.

- Asked the ISA 540 Task Force to determine whether some of the application material proposed for inclusion in ISA 500 would be more appropriately placed in ISA 540 (Revised).

---

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

[3]   ISA 330, *The Auditor's Responses to Assessed Risks*

[4]   ISA 500, *Audit Evidence*

- Noted that ISA 500 also needed to provide guidance on the auditor's use of an external information source.

In relation to other conforming amendments, the IAASB:

- Did not support adding the term 'further audit procedures' to the glossary.

- Did not support the conforming amendments to ISA 200[5] that removed the reference to a combined assessment of inherent and control risk as commentators have not had the opportunity to comment on it. Instead, the Board suggested including guidance in ISA 540 (Revised) about the need for a separate assessment of inherent and control risk.

- Requested that relevant sections of Appendix 2 of ISA 260 (Revised)[6] be included in ISA 540 (Revised) so that ISA 540 (Revised) provides a comprehensive listing of matters related to accounting estimates that may be communicated to those charged with governance.

- Asked the ISA 540 Task Force to consider whether to clarify the application material in ISA 260 regarding the auditor's actions when a significant accounting practice that is acceptable under the applicable financial reporting framework but is not the most appropriate to the particular circumstances of the entity.

IAASB CONSULTATIVE ADVISORY GROUP (CAG) CHAIR'S REMARKS

Mr. Dalkin noted that the informal call with interested CAG representatives had been a success. He noted that the CAG was interested in seeing that the standard used terms such as "reasonable" consistently throughout. He also noted that the CAG was focused on incorporating discussion of professional skepticism into the discussions on ISA 540, and the discussions around contradictory evidence were useful in this regard.

PIOB OBSERVER REMARKS

Ms. Stothers noted the importance of the Board's consideration of the requests from key stakeholder for elevations of application material to the requirements. She also noted that the documentation requirements and associated guidance material were a key focus area for audit inspectors.

WAY FORWARD

The IAASB asked the ISA 540 Task Force to focus on redrafting the application material according to the planned approach with a view to conducting a first read of ISA 540 (Revised) in March 2018, ahead of a targeted approval in June 2018.

3.   ISA 315 (Revised)

Ms. Campbell provided an overview of proposed changes to the requirements and application material of ISA 315 (Revised) as presented in **Agenda Items 3-A and 3-B**.

Recognizing that some aspects of the revisions to ISA 315 (Revised) were still being explored by the ISA 315 Task Force, the IAASB broadly supported the direction of the proposals. However, in continuing to

---

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

[6]   ISA 260 (Revised), *Communication with Those Charged with Governance*

explore the different concepts in ISA 315 (Revised), in particular as the application material was progressed, the Board cautioned about the complexity of the explanations provided in the standard to clarify the concepts and flow of ISA 315 (Revised). In addition, the Board asked for further consideration by the ISA 315 Task Force on specific broader matters, including:

- Whether the introduction of the concept '*sufficient and appropriate*' as proposed in paragraphs 5 and 25 is in context of how it is used throughout the ISAs. It was noted that the terms "sufficient and appropriate" is ordinarily associated with audit evidence and if this concept were to be introduced as proposed, this may have unintended consequences.

- Scalability of the standard. The Board agreed that scalability should be presented through the requirements and application material in context of the auditor's consideration of risk (for example based on complexity, not only size, which may impact small and large entities) thereby eliminating the need for "considerations specific to smaller entities." In addition, the ISA 315 Task Force was encouraged to further consider how contrasting examples could be used to reflect scalability when implementing the requirements.

- The development of explanatory material to practically demonstrate the application or "bringing together" of the standard, such as through implementation guidance or flow charts.

- Consistency in the use of terms throughout the changes, for example 'events and conditions' and 'significant disclosures.'

- Whether some introductory paragraphs would be helpful to assist with the linkage to other foundational standards, such as ISA 200, or consequential standards such as ISA 330. It was noted that some paragraphs that had been introduced were more relevant to ISA 200 or ISA 330, and that by relocating these to an introduction may assist with context for the requirements of the ISA 315 (Revised).

- How professional skepticism has been encompassed in the changes.

- Matters relevant to the public sector, in particular the impact of some of the changes on audits being conducted on public sector entities, such as how controls are applied and in some of the terms used, such as business model.

DEFINITIONS

In relation to the proposed changes to the definitions, the Board continued to support:

- Developing a definition for 'controls.' However, concern was expressed about the meaning and scope of '*informal expectations'* as proposed in the revised definition.

- Developing a definition for 'relevant assertions,' but noted that further clarification was needed to explain the threshold of '*reasonable possibility*.' In addition, the ISA 315 Task Force was asked to further consider how this definition is articulated in comparison to the definition used by the PCAOB.

- The definition of qualitative inherent risk factors (QIRFs). However, the Board encouraged further consideration about:

  o The inclusion of the susceptibility to fraud as a qualitative inherent risk factor in light of the QIRF's being used to identify inherent risk, and fraud being relevant to both inherent risk and control risk. The Board also questioned how this would link to the fraud risk factors in ISA 240.[7]

  o How the QIRF's interact with one another.

  o Whether quantitative considerations should be included.

RISK ASSESSMENT PROCEDURES

There was support for the proposed revisions relating to the risk assessment procedures, but the Board asked that further consideration be given to:

- The scope of risk assessment procedures in paragraph 6 of ISA 315 (Revised), as it appears to be focused or restricted to internal sources only.

- Whether further changes were needed for the auditor to evaluate whether information obtained through prior experience remains relevant and reliable.

UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

The Board were generally supportive about the proposed changes, but asked that further consideration be given to:

- Further clarifying what is meant by business risks and business model in the context of understanding the entity and its environment.

- How the QIRF's are used when obtaining an understanding of the entity and its environment, and the applicable financial reporting framework.

OBTAINING AN UNDERSTANDING OF INTERNAL CONTROL

There was support for the proposals relating to the understanding of the entity's system of internal control, but the Board asked that further consideration be given to:

- Whether the scope of the required understanding, being '*relevant to financial reporting,*' is not too broad, as this may include irrelevant activities such as how financial statements are published or made available to external stakeholders.

- The work effort required when obtaining an understanding of the control environment, in particular for small and medium sized (SME) entities who may have limited controls in many cases.

- The proposed revisions to the requirement to obtain an understanding of the entity's risk assessment process (paragraph 15 of ISA 315 (Revised)), as it may be too complex and may not be clear about what needs to be done in the absence of such a process.

- The consequences if an entity does not have an appropriate process to monitor its system of internal control (paragraph 17 of ISA 315 (Revised)) or an effective information system (paragraph 18 of ISA

---

[7]   ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

315 (Revised)). It was noted that in contrast, when considering paragraphs 15 and 16 of ISA 315 (Revised), the auditor is required to consider whether the absence of an appropriate risk assessment process represents a significant deficiency in internal control.

- Modernizing paragraph 18 about the requirement to obtain an understanding of the information system, in light of how this is done in the current environment. In addition, the ISA 315 Task Force was asked to clarify what was required for each aspect as there seemed to be overlap in the detailed requirements.

- The required understanding of '*control activities*' (paragraph 19A of ISA 315 (Revised)) and the interaction or relationship of this understanding with '*controls relevant to the audit*' (paragraph 20 of ISA 315 (Revised)). In addition, the ISA 315 Task Force was asked to explain in the application material how the evaluation of the design of controls, and determination of the implementation, has been undertaken, and to make it clear in what circumstances this was required.

IDENTIFICATION AND ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Although the Board was supportive that control risk cannot be reduced if the operating effectiveness of controls has not been tested, the ISA 315 Task Force was encouraged to make this clearer in the standard. In addition, the ISA 315 Task Force was asked to further consider:

- Clarifying and explaining how some of the new concepts introduced manifested in the identification and assessment of the risks of material misstatement.

- The interaction of the auditor's inherent risk and control risk assessments.

- The documentation requirements when considering factors such as magnitude and likelihood of misstatements, and the QIRFs. In particular, it was not clear how the documentation requirements of ISA 315 (Revised) and the new concepts introduced interact with ISA 230.[8]

- Further explaining in the application material how the understanding obtained about the entity's system of internal control, including any work done to evaluate the design and determine the implementation of controls, impacted the auditor's assessment of control risk.

- The concept of '*spectrum of inherent risk*'. The Board continued to be supportive of using this concept but thought that the spectrum of inherent risk could be better emphasized and explained earlier in the standard.

- The consequences or auditor's response if the auditor identifies a risk of material misstatement, and in the auditor's judgment, it is not possible to obtain sufficient appropriate audit evidence only from substantive procedures.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted continuing support for the direction of the changes being developed, noting that the CAG had been generally supportive of the inclusion of the susceptibility to fraud as a QIRF.

---

[8]   ISA 230, *Audit Documentation*

PIOB REMARKS

Ms. Stothers continued to support the direction of the changes, specifically acknowledging the changes being considered to address scalability, and the introduction of the concept of the spectrum of risk and the clarification about the auditor's work in relation to the entity's system of internal control. She also noted support for the inclusion of the susceptibility to fraud as a QIRF, and was encouraged by the work being done to align the QIRFs in ISA 315 (Revised) with the concept in ISA 540 (Revised). Ms. Stothers also encouraged the ISA 315 Task Force to continue to consider how professional skepticism could be encompassed within the standard, particularly as the auditor is obtaining an understanding.

WAY FORWARD

The ISA 315 Task Force will present a second read of the ED of proposed changes to ISA 315 (Revised) for IAASB discussion in March 2018.

4. Group Audits

Ms. Zietsman updated the Board about the coordination between the Group Audit Task Force (GATF) and other task forces currently revising standards, noting that the GATF continues to monitor the other projects, provides input as appropriate and considers the implications of changes in the other standards on ISA 600.[9] She also added that the GATF is continuing its discussions on the "top-down" approach, which incorporates horizontal and vertical aspects of scoping a group audit engagement to facilitate a more effective approach to group audits. Mr. Gunn noted the importance of testing any changes in a number of circumstances to achieve proposals that are capable of being appropriately implemented. He suggested that the Task Force should consider testing the "top-down" approach to evaluate whether the requirements produce the desired outcome for different types of component auditors and group auditors, and different relationships between them.

WAY FORWARD

The GATF will continue to closely monitor the development of other relevant standards and continue to progress its work on revisions to ISA 600.

5. Quality Control – Engagement Level

Ms. Zietsman explained the proposed changes of the ISA 220[10] Task Force as set out in **Agenda Item 5-A**. Board members supported the direction of the proposed changes to ISA 220, in particular changes that emphasize that the engagement partner is responsible and accountable for audit quality.

Board members variously encouraged the ISA 220 Task Force to give further consideration to:

- Whether the extant objective of ISA 220 is too compliance-based and could be strengthened by creating a link to how the actions in ISA 220 contribute to audit quality.

- How the phrase "sufficient and appropriate" is used throughout the standard and whether it is appropriate in each instance.

---

[9] ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

[10] ISA 220, *Quality Control for an Audit of Financial Statements*

- How the concept of "policies or procedures" in ISA 220 links to the concept of "response" at the firm level in ISQC 1.[11]

- The way in which some of the requirements within ISA 220 are directed, e.g., directed at the "auditor," the "engagement partner," or the "engagement team" and whether they remain appropriate in each instance.

- Whether the definitions of "engagement team" and "network" remain appropriate given the evolving structures of audit firms and engagement teams and the need to consider that these definitions currently align with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants.

- Whether, and how, situations in which the signing partner is different from the engagement partner should be addressed within ISA 220 or elsewhere.

- How the concept of "manage and achieve" quality would be demonstrated by auditors, (i.e., what would constitute that quality has been achieved for a particular engagement).

- Clarifying how the engagement partner, in accordance with paragraph 9A, can be satisfied that the firm's policies and procedures related to relevant ethical requirements have been followed (i.e., how far the engagement partner is expected to go and what they are expected to obtain).

- How certain commercial considerations, for example audit fees, long association, or auditor rotation relate to acceptance and continuance decisions and the impact at an engagement level.

- Incorporating more concepts from ISA 300,[12] in particular paragraphs 8c and 11, and clarifying exactly which activities (procedures, tasks, or other actions) can be assigned by the engagement partner to other members of the engagement team.

Board members continued to support several previous proposals of the ISA 220 Task Force including, enhancing the standard to consider all resources needed for the engagement, and strengthening the requirements for ongoing, two-way communication. As it relates to the proposal for a new "stand-back" requirement in ISA 220, some Board members questioned whether this requirement may be better placed in ISA 700 (Revised).[13]

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin acknowledged the progress that has been made in revising ISA 220 and noted that the profession is currently operating in a manner that, when the requirements of ISA 220 are complied with, audit quality is achieved. Any revisions to the objective of ISA 220 that would change this, could represent a fundamental change for the profession. In addition, Mr. Dalkin noted that it isn't clear within paragraph 13 who would have the information first, the firm or the engagement partner, and how the communication would be done. He encouraged the ISA 220 Task Force to further consider the readability of this paragraph.

---

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

[12] ISA 300, *Planning an Audit of Financial Statements*

[13] ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

PIOB REMARKS

Ms. Stothers noted that the objective of this standard should not only be compliance-focused and, given inspection findings, the goal should be to achieve a higher quality standard which starts with the audit engagement team. She also recommended that further consideration be given to whether commercial considerations (e.g., audit fees) should be taken into account at the engagement level, specifically as it relates to acceptance or continuance decisions.

WAY FORWARD

The ISA 220 Task Force will reconsider the proposed changes and further develop the revisions to ISA 220. A first read of the proposed ED of ISA 220 is expected to be presented to the IAASB for discussion in June 2018.

6.   Quality Control at the Firm Level - Proposed ISQC 1 (Revised)

Ms. French provided an overview of the proposals presented in the draft ED of ISQC 1 (Revised) set out in **Agenda Item 6–A.** The IAASB supported the overall direction proposed by the Quality Control Task Force (QCTF) and in general agreed that the standard is scalable. However, the IAASB encouraged the QCTF to:

- Develop accompanying guidance or an appendix to the standard that is issued with the ED, which addresses how the standard would be applied to a broad spectrum of firms of varying complexity and size, including a sole practitioner.

- Explore how the scalability of the standard could be further emphasized, and provided various suggestions in this regard.

- Include more emphasis on the nature and circumstances of the engagements performed by the firm throughout the standard (i.e., in addition to the nature and circumstances of the firm).

The IAASB asked the QCTF to consider the use of policies or procedures, taking into account the proposed revisions to ISA 315 (Revised), and also how ISA 220 might use this term. The IAASB further requested the QCTF to consider the correct use of the terms 'sufficient' and 'appropriate' throughout the standard.

OBJECTIVE OF PROPOSED ISQC 1 (REVISED)

In relation to the objective of proposed ISQC 1 (Revised), the IAASB:

- Asked the QCTF to further clarify the objective.

- Noted confusion between the objective of the system of quality management and the objective of the firm (or the standard), and therefore clarification is required.

COMPONENTS AND STRUCTURE OF PROPOSED ISQC 1 (REVISED)

In relation to the proposed eight components of the system of quality management, the IAASB:

- Expressed mixed views regarding whether the quality management process should be a standalone component within the system of quality management.

- Expressed mixed views regarding whether the components could be condensed into fewer components

- Agreed that the quality management process is applied to the governance and leadership component, however questioned the appropriate placement of the governance and leadership component within the standard, and in relation to the diagram of the system of quality management, given its importance as a whole.

- Suggested clarifying the interrelationship of the eight components. In this regard, the IAASB also asked the QCTF to refine the illustration of the system of quality management to improve the reflection of the relationships between the components, draw analogies to the COSO Internal Control – Integrated Framework[14] (COSO Integrated Framework) and proposed ISA 315 (Revised), and to illustrate the relationship with quality management at the engagement level.

The IAASB on balance supported the structure of the requirements within the components, however:

- Suggested that the component objectives should be rearticulated as objectives (i.e., instead of in the style of a requirement).

- Encouraged the QCTF to consider certain of the quality objectives, quality risks and required responses, noting that some of them appeared incorrectly classified between quality objectives, quality risks and responses.

- Commented that the required responses appear as if they are the only responses the firm needs to implement in order to address the quality risks and achieve the quality objectives.

The IAASB also encouraged greater linkage to quality management at the engagement level.

QUALITY MANAGEMENT PROCESS

With respect to the identification and assessment of the quality risks, the IAASB suggested the QCTF reconsider the threshold for identifying quality risks, as the proposed threshold would be difficult to apply in practice.

GOVERNANCE AND LEADERSHIP

In relation to the proposed quality objectives, the IAASB suggested:

- Clarifying who are the relevant stakeholders in the context of the firm and more explicitly addressing the public interest and explaining what this means, possibly in the introductory section or overarching requirements of the standard.

- Improving the emphasis on the firm's business strategy, or financial and operational priorities in relation to the firm's strategic decisions and actions.

The IAASB encouraged the QCTF to consider and clarify the differentiation of the role of those assigned ultimate responsibility for the system of quality management and those assigned operational responsibility for the system of quality management.

INFORMATION AND COMMUNICATION

The IAASB asked the QCTF to include more emphasis on two-way communication within the firm through improving the emphasis on firm personnel and the firm's responsibility to create an environment that

---

[14]   Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control – Integrated Framework*

supports communication. The IAASB also recommended that the requirements addressing communication should be differentiated from the need to obtain or generate information.

RELEVANT ETHICAL REQUIREMENTS

The IAASB recommended:

- That the QCTF consider the extent to which the requirements in proposed ISQC 1 (Revised) should highlight the various aspects of relevant ethical requirements.

- Including a requirement in the responses that addresses the firm establishing appropriate resources to support compliance with relevant ethical requirements.

- Placing the proposed requirement that requires the firm to appoint an individual responsible for independence in the governance and leadership component, and including application material to reflect the scalability of how this may be applied in different firms.

ENGAGEMENT ACCEPTANCE AND CONTINUANCE

The IAASB asked the QCTF to address circumstances when the firm does not have an option in accepting or continuing a client relationship or an engagement, such as in the case of the public sector, and further suggested including a requirement for the firm to communicate information to engagement teams that has been obtained through the engagement acceptance and continuance process.

RESOURCES

The IAASB suggested various enhancements to the objectives and related application material addressing technological resources, human resources and intellectual resoruces and requested the QCTF to clarify the need to address financial resources. The IAASB further suggested a more forward-looking perspective in the objectives addressing the firm's resourcing needs and adding the consideration of the timeliness of the resource allocation and availability of resources, recognizing that resource allocation decisions may have an effect on engagement level risks.

ENGAGEMENT PERFORMANCE

In relation to engagement quality control reviews, the IAASB:

- In general agreed that the requirements should be located in this component.

- Suggested that the QCTF improve the linkage between the component objective and the performance of an engagement quality control review.

The IAASB further noted the discussions regarding the involvement of the engagement partner in relation to proposed ISA 220 (Revised) that may need to be reflected in this component.

MONITORING AND REMEDIATION

The IAASB encouraged the QCTF to further develop and clarify the concepts of a shortcoming, deficiency and major deficiency and to develop a framework for the identification and evaluation of deficiencies.

In relation to the requirements within the monitoring and remediation component, the IAASB suggested:

- Clarifying how the monitoring and remediation component relates to the firm's evaluation of whether the overall objective of the standard has been achieved (i.e., that it has reasonable assurance).

- Considering the role of in-process engagement reviews within the context of the firm's ongoing monitoring activities.

- Exploring whether the firm should be required to perform an annual evaluation of the results of the monitoring activities, in addition to responding to the results of the ongoing monitoring activites on a timely basis.

- Clarifying how monitoring and remediation and the concept of a deficiency relates to the quality management process and the monitoring and remediation component itself. In this regard, the IAASB noted the practical difficulty of "monitoring the monitoring" and therefore urged the QCTF to clarify the expectations on the firm.

- Clarifying the implications for the firm in circumstances when the firm determines that a major deficiency exists.

- Improving the emphasis on undertaking a root cause analysis on engagements that went well.

- Further refining the requirements addressing the communication of deficiencies and major deficiencies.

NETWORKS AND THIRD PARTY SERVICE PROVIDERS

The IAASB encouraged the QCTF to find a more suitable term in referring to network services and asked the QCTF to further enhance the requirements, taking into consideration the "services model" (i.e., the principles of ISA 402[15]), and the "expert model" (i.e., the principles of ISA 620[16]).

The IAASB supported introducing requirements for circumstances when the firm uses third party service providers, and suggested that it could be included in the resources component.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin suggested that the components and concepts of deficiencies be more aligned to the COSO Integrated Framework and recommended a more explicit reference to the public sector in the definition of "firm."

PIOB OBSERVER REMARKS

Ms. Stothers questioned whether the use of the term 'appropriate' in relation to design and implementation of responses in the objective of the quality management process is robust enough. She suggested further consideration about whether documentation should be an explicit component. She also questioned whether there should be requirements established for the network, and noted the importance of addressing security in the use of information technology.

WAY FORWARD

The QCTF will consider the IAASB's proposals and present a second read of the proposed ED of ISQC 1 (Revised) to the IAASB in March 2018. This will also include the topics of transparency reporting, engagement partner remuneration and rewards, and consideration of the restructured International Ethics Standards Board for Accountants (IESBA) Code (The Code).

---

[15] ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

[16] ISA 620, *Using the Work of an Auditor's Expert*

7.   Emerging forms of External Reporting

Mr. Grabowski presented an update to the board on the progress of the Emerging Forms of External Reporting (EER) Task Force (previously the Integrated Reporting Working Group) following approval of the EER assurance project at the October 2017 IAASB meeting. He noted that the agreement with the World Business Council for Sustainable Development (WBCSD) had been finalized and announced, and that Alastair Neilson had been seconded to the IAASB from Ernst and Young, as the staff member assigned exclusively to the project.

Mr. Grabowski noted the progress made by the EER Task Force in two meetings held since the October 2017 Board meeting, which included:

- Considering the interconnectedness of the Key Challenges to be addressed, which was summarized in a diagram presented in the form of an EER assurance "house under construction."

- Proposing the allocation of related issues to phases 1 and 2 of the project.

- Initial consideration of the form and structure of the non-authoritative guidance (a proposal would be brought to the IAASB in due course), which is likely to be organized either by reference to the Key Challenges or the requirements of ISAE 3000.[17]

- Developing a planned research agenda and potential resources.

- A project plan addressing the planned content and timing of task force meetings, and agenda content for IAASB meetings, throughout 2018, and the locations and timing of stakeholder outreach events to be held in October and November 2018.

- Developing a draft call for nominations to the Project Advisory Panel (PAP) to be formed to provide input to the EER Task Force, which was presented for comment to the IAASB.

The IAASB was broadly supportive of the work done and conclusions reached by the EER Task Force thus far and encouraged the EER Task Force to consider collaboration with other groups, including EER standard setters, relevant to the project.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin broadly supported the work done by the EER Task Force but asked how the proposed guidance would relate to ISAE 3000 (Revised), given the variety of types of EER reports. Mr. Grabowski clarified that the project encompasses the development of general guidance on applying ISAE 3000 (Revised) to the different types of EER reports, not to specific types of EER report such as a sustainability report.

Mr. Dalkin requested clarification that the guidance would be framework neutral in terms of the subject matter. Mr. Grabowski confirmed this, and noted that the EER Task Force would be seeking collaboration with the members of the Corporate Reporting Dialogue, a group of mainly international EER standard setters convened by the International Integrated Reporting Council.

---

[17]   International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historic Financial Information*

WAY FORWARD

The EER Task Force will continue to progress the development of non-authoritative guidance, with the input of the PAP once appointed. An ED of the non-authoritative guidance is planned to be tabled for approval by the IAASB at the end of 2018.

8.   Professional Skepticism

Prof. Köhler presented Agenda Item 8 to the Board. The Board broadly supported the conclusions of the IAASB Professional Skepticism Subgroup (Subgroup) set out in Agenda Item 8, including that the current concept of the attitude of professional skepticism involving a "questioning mind" continues to be appropriate and should be retained within the ISAs. Board members were of different views whether there is certain language that can be used in the standards to describe the actions the auditor should take in exercising professional skepticism. It was noted that a framework for terminology might be helpful in this regard.

Prof. Köhler also provided an update of the activities of the IESBA's Professional Skepticism Task Force's short-term proposals related to professional skepticism.

PIOB REMARKS

Ms. Stothers emphasized that audit inspection findings, in particular from the PCAOB and the Canadian Public Accountability Board, have revealed the importance of analyzing the required actions of the auditor to determine how best to strengthen the exercise of professional skepticism. She also emphasized the importance of close co-operation between the standard-setting boards. Ms. Stothers also suggested that further consideration be given to the topic of auditor compensation and its effect on professional skepticism, and how this could be addressed within the IAASB's project.

WAY FORWARD

The Subgroup will commence its analysis of the final potential change to the definition of professional skepticism, a potential requirement to seek out contradictory evidence. The Subgroup will also continue to support the other current standard setting projects of the IAASB, and liaise, as needed, with the Professional Skepticism Joint Working Group. Prof. Schilder noted that as Prof. Köhler will be rotating off of the IAASB after December 2017, Mr. Landes will assume the role of Chair of the Subgroup.

9.   ISA Adoption Update

Mr. Bryson (Deputy Director of Quality and Development with the International Federation of Accountants) updated the Board on the progress made in the compliance, adoption and implementation of international standards around the globe, in particular as their work relates to the adoption of the ISAs.

10.   Data Analytics

Mr. Dohrer updated the IAASB on the work and outreach done by the Data Analytics Working Group (DAWG). Highlighting the Feedback Statement – *Exploring the Growing Use of Technology in the Audit, With a Focus on Data Analytics*, and a video recorded by Mr. Dohrer and uploaded to the IAASB's website.[18]

---

[18]   http://www.ifac.org/news-events/2017-01/iaasb-data-analytics-project-update

He also noted the coordination between the DAWG and ISA 315 Task Force in the progression of the project to revise ISA 315 (Revised).

11. CAG Chair Remarks

Mr. Dalkin acknowledged the progress that had been made at the meeting. Mr. Dalkin noted the importance of continuing to share information with the CAG in relation to the ISA 540 project, in particular in relation to the further considerations of the ISA 540 Task Force about conflicting information and professional skepticism. In addition, Mr. Dalkin noted areas of particular interest to the CAG included the consideration of fraud in the qualitative inherent risk factors in ISA 315 (Revised), and the eight components and networks in relation to ISQC 1.

12. PIOB Observer Remarks

Ms. Stothers noted that the discussions of the Board were inclusive, balanced and were representative of the public interest. She added that appropriate time was given for the discussions. Ms. Stothers highlighted the progress that had been made on the ISA 540 project during the course of the meeting. Ms. Stothers also acknowledged the progress made on the other projects discussed at the Board meeting, noting that more work was needed on the application material of ISA 315 (Revised) and ISQC 1.

Ms. Stothers indicated her support for changes to the project timelines in relation to the timing of the ISA 315 and ISA 540 projects, and highlighted the importance of the discussion on the use of 'sufficient and appropriate' across the various projects. In relation to professional skepticism, she emphasized the importance of this project to the public interest, and suggested that professional skepticism be a standing agenda item on the Board's agenda. She further noted the valuable discussions in relation to the concept of 'challenging' and considering conflicting information and how this could be reflected in the ISAs. She further highlighted support for the overall coordination activities with the IESBA.

13. Closing

Prof. Schilder thanked the PIOB for their encouragement and observations across all of the projects. Prof. Schilder specifically thanked the members and technical advisors who were leaving the Board for their contributions. He further thanked the IAASB members, technical advisors and IAASB staff and closed the meeting.

14. Next Meeting

It was noted that the IAASB Teleconference scheduled for January 17, 2018 had been cancelled. The next IAASB Teleconference is scheduled for January 30, 2018. The next IAASB physical meeting will be held in Amsterdam, The Netherlands from March 12–16, 2018.