



Meeting: IAASB Consultative Advisory Group
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Meeting Date: March 8–9, 2016

**Approved Minutes of the Public Session of the Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
CONSULTATIVE ADVISORY GROUP (CAG)**

Held on September 15–16, 2015

New York, U.S.A.

PRESENT

Members

Matthew Waldron	Chairman
Vânia Borgerth	Associação Brasileira de Instituições Financeiras de Desenvolvimento
Nicolaas van der Ende	Basel Committee on Banking Supervision (Basel Committee)
Mohini Singh	CFA Institute (CFA)
Juan-Maria Arteagoitia	European Commission (EC)
Marie Lang	European Federation of Accountants and Auditors for SMEs (EFAA)
Noémi Robert	Fédération des Experts Comptables Européens (FEE)
Myles Thompson	FEE
John Kuyers	Information Systems Audit and Control Association (ISACA)
Patricia Miller	Institute of Internal Auditors (IIA)
Michael Stewart*	International Accounting Standards Board (IASB)
William Hines	International Actuarial Association (IAA)
Jean-Luc Michel	International Association of Financial Executives Institutes – Europe, Middle East, and Africa Region (IAFEI-EMEA)
George White	International Bar Association (IBA)

* Views expressed by the IASB Representative represent his views and do not necessarily reflect the view of the IASB.

Anne Molyneux	International Corporate Governance Network (ICGN)
Atsushi Inuma	International Organization of Securities Commissions (IOSCO)
Nigel James	IOSCO
Huseyin Yurdakul	IOSCO
Jim Dalkin	International Organization of Supreme Audit Institutions (INTOSAI)
Mauro Bini	International Valuation Standards Council (IVSC)
Jaseem Ahmed	Islamic Financial Services Board (IFSB)
Kazuhiro Yoshii	Japan Securities Dealers Association (JSDA)
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Lucy Elliott	Organisation for Economic Cooperation and Development (OECD)

Observers

David Rockwell	IBA
Dawn McGeachy-Colby	IFAC Small and Medium Practices (SMP) Committee
Anusha Mohotti	Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)
Martin Baumann** (September 15)	U.S. Public Company Accounting Oversight Board (PCAOB)

IAASB

Prof. Arnold Schilder	IAASB Chairman
Chuck Landes	IAASB Deputy Chair
Prof. Annette Köhler (Agenda Items B and J)	IAASB Working Group (WG) and Drafting Team (DT) Chair
Ron Salole (Agenda Item C) (September 15)	IAASB WG Chair
Rich Sharko (Agenda Items D and F)	IAASB WG Chair
Karin French (Agenda Item F)	IAASB WG Chair
Megan Zietsman (Agenda Item F)	IAASB WG Chair
Marek Grabowski (Agenda Item K)	IAASB Task Force (TF) Chair
Robert Dohrer (Agenda Item L)	IAASB WG Chair
Merran Kelsall ***	IAASB WG Chair

** Views expressed by PCAOB Representative represent his views and do not necessarily reflect the view of the PCAOB Board or other Board members or staff.

*** Via teleconference

(Agenda Item M)

James Gunn Managing Director of Professional Standards

Kathleen Healy IAASB Technical Director

Jasper van den Hout IAASB Technical Manager

Nancy Kamp-Roelands (Agenda Items I and M) IAASB Deputy Director

Beverley Bahlmann IAASB Senior Technical Manager

(Agenda Items F and K)

Diane Jules (Agenda Items B and J) IAASB Senior Technical Manager

Bradley Williams (Agenda Items F and L) IAASB Senior Technical Manager

Public Interest Oversight Board (PIOB) Charles Horstmann

APOLOGIES

Members

Kristian Koktvedgaard BUSINESSEUROPE

Dr. Obaid Saif Hamad Ali Al Zaabi Gulf States Regulatory Authorities (GSRA)

Conchita Manabat International Association of Financial Executives Institutes – Asia Region (IAFEI-A)

Sanders Shaffer International Association of Insurance Supervisors (IAIS)

Irina Lopez World Bank (WB)

Wei Meng World Federation of Exchanges (WFE)

Observers

Simon Bradbury International Monetary Fund (IMF)

Norio Igarashi Japanese Financial Services Agency (JFSA)

September 15, 2015¹

Welcome and Approval of Minutes of Previous Meeting (Items A and A.1)

To *APPROVE* the minutes of the March 2015 CAG public session and the June 2015 CAG teleconference.

OPENING REMARKS

Mr. Waldron welcomed the Representatives and Observers, including new Representatives Mr. Iinuma and Mr. Yurdakul (IOSCO – replacing Mr. Fukushima),² Mr. van der Ende (Basel Committee), Mr. Rockwell (IBA – replacing Mr. White as of March 2016), Mr. Bini (IVSC – replacing Mr. Bollmann) and Ms. Mohotti (SLAASMB – replacing Ms. Wijesinghe).

Mr. Waldron also welcomed Mr. Charles Horstmann from the PIOB as well as the IAASB Chair and Deputy Chair, the IAASB TF and WG Chairs, and Staff as well as the observers.

Mr. Waldron noted that Mr. White, Mr. Lu and Mr. Fukushima will rotate off as Representatives of their respective CAG Member Organizations or have already done so since the last meeting. He acknowledged their contributions, and noted that the respective organizations have appointed replacements.

MINUTES OF THE PREVIOUS MEETING

The minutes of the March 2015 meeting and the June 2015 CAG teleconference were approved as presented.

INTRODUCTION TO MATTERS RELEVANT TO THE MEETING'S AGENDA

Ms. Zietsman explained why the IAASB had developed a combined Invitation to Comment (ITC) relating to its four key projects for 2015–2016, which are quality control, group audits, professional skepticism; and special audit considerations relevant to financial institutions (financial institutions).

Ms. Zietsman noted that, although the individual projects of quality control and group audits were discussed with the Representatives and Observers in March 2015, the IAASB's thinking on the best approach to gathering information for each of the projects in an efficient and effective way had evolved since then. The IAASB discussed the possibility of combining consultation on the four topics at its March and April 2015 meetings and supported doing so. In the course of these discussions, the IAASB noted that discussions on the individual topics had identified common issues, as well as those that 'crossed over' or overlapped among and between the various projects. Ms. Zietsman also explained that the Board is of the view that a combined consultation paper, premised on an overall objective of enhancing audit quality, could also prevent 'response fatigue' that would be exacerbated by issuing four separate consultations within a short period of time. This approach has also been discussed with, and supported by, various stakeholders as part of the IAASB's ongoing outreach activities. Several stakeholders have indicated that the use of a single document that demonstrates the relationship between issues would be helpful to them in formulating responses.

¹ The minutes present the discussions in the order that they were taken. This may not be the same as that indicated on the agenda.

² IOSCO previously held three seats on the CAG and will now do so again.

Ms. Zietsman drew attention to the structure of the draft ITC presented in Agenda Item F.2, which is further explained in Agenda Item F, and highlighted that the CAG would have an opportunity to discuss the draft in the public meeting as well as breakout sessions. She explained that the various components of the draft ITC were at different stages of development. Although the Board's discussions were well-advanced in relation to group audits and quality control, the relevant content of the ITC with respect to financial institutions is still in an early stage of development and subject to the outcome of the Financial Institutions Working Group (FIWG)'s discussions with the CAG and IAASB at their respective September 2015 meetings (see Agenda Item D). Ms. Zietsman also noted that the topic of professional skepticism is planned to be addressed broadly in the forepart of the ITC, to enable the Board to solicit feedback on ways to encourage the application of professional skepticism (see Agenda Item B).

Ms. Zietsman noted that the IAASB expected to finalize the ITC at its December 2015 meeting, and publish it shortly thereafter with a 150-day comment period. She added that extensive outreach is being planned for 2016 to solicit input from a broad range of stakeholders. Current plans include roadshows and other targeted outreach.

Ms. Zietsman explained that the responses to the ITC, as well as input from the various outreach activities, would be analyzed in mid-2016, with standard-setting proposals for projects on group audits and quality control expected to be presented to the CAG and IAASB in September 2016. IAASB activities for the way forward relating to financial institutions and professional skepticism would be discussed by the Board at its September 2015 meeting.

PIOB OBSERVER REMARKS

Mr. Horstmann noted that the PIOB considers the proposed combined approach to the ITC to be innovative and fully supports the Board on its efforts on the four topics being explored.

Professional Skepticism (Item B)

To *RECEIVE* a presentation on the topic of professional skepticism by an academic, and to *OBTAIN* Representatives' and Observers' views on how to enhance the application of professional skepticism in audits

Prof. Köhler introduced the topic, describing how the International Standards on Auditing (ISAs) address professional skepticism. She indicated that, in response to calls for the improved application of professional skepticism, the IAASB established the Professional Skepticism WG (PSWG), comprised of representatives from the IAASB, the International Ethics Standards Board for Accountants (IESBA) and the International Accounting Education Standards Board (IAESB). She explained that the PSWG's aim is to further understand the conceptual issues relating to professional skepticism and how the topic is addressed by the international standards promulgated by the IAASB, IESBA and IAESB, and identify recommendations for further actions to improve the application of professional skepticism.

Prof. Köhler explained that the IAASB plans to incorporate the topic of professional skepticism exercised within its planned projects on quality control, group audits and financial institutions, and would initially seek public feedback on the topic of professional skepticism through the planned ITC (see further discussion in Agenda Item F).

Prof. Köhler welcomed Prof. Prawitt of Brigham Young University, who participated in the panel on professional skepticism at the June 2015 IAASB meeting.

Prof. Prawitt thanked the Representatives and Observers for the opportunity to speak to them, commented on the high quality of the documents on professional skepticism provided by the IAASB and its Staff, and, using the slide presentation in Agenda Item B.3, provided his perspectives on:

- The importance of establishing a professional judgement model with common, shared vocabulary and framework. Prof. Prawitt explained that, in his view, it is important to establish a simple process for reaching a conclusion where there are a number of possible alternative solutions and uncertainty involved. He also noted that having such a process in place could better assist auditors develop the appropriate mindset for applying professional skepticism as they: (i) define and frame issues; (ii) determine objectives and identify alternatives; (iii) collect and analyze information; and (iv) reach and document a conclusion.
- The common pitfalls in applying professional judgement and professional skepticism. He noted that the application of professional judgement and professional skepticism is impacted by judgement frames (the mental structures that human beings use subconsciously to simplify, organize and guide the understanding of a situation) and that those frames determine the information that is seen as relevant or irrelevant, important or unimportant. By way of illustrations, Prof. Prawitt explained that, while there is no single best frame, it is important that auditors be aware that frames exist, and consider alternative frames in applying professional judgment and professional skepticism.
- The need to identify and understand judgement biases and how to mitigate their impact. He explained that based on academic research individuals are influenced by many bias tendencies, and he briefly covered the four that he believes are most fundamental and relevant to auditors: (i) availability; (ii) anchoring; (iii) confirmation; and overconfidence.

The Representatives and Observers complimented and thanked Prof. Prawitt and the IAASB for the presentation and commented as follows:

- Ms. Molyneux questioned whether the audit profession could benefit from having professionals who are trained in the study of historical information, and whether accounting firms should be more selective in recruiting audit professionals so as to refrain from attracting “just do it” personalities and focus more on observers and analysts. She also asked whether Prof. Prawitt was of the view that junior auditors, new to the profession should not be making judgements in audits. He responded that, in his view, judgement can be developed and enhanced with effective on-the-job training and supervision (the “apprentice” model), but that judgements made by junior team members should be reviewed by more senior team members. He noted that, in his view, the increased use of alternative delivery models by accounting firms could have implications for the “apprentice” model.
- Mr. van der Ende complimented Prof. Prawitt and the Global Public Policy Committee (GPPC) of the six largest accounting firms on the research paper included as Agenda Item B.2, and asked for views about what the GPPC itself thought they could do with respect to increasing the application of professional skepticism, and whether there could be an increased role for member bodies and regulators, including prudential and securities regulators. Prof. Prawitt explained that the GPPC wanted the paper to primarily focus on what auditors could do to enhance professional skepticism. However, he explained his view that it is critical to highlight what others, in particular audit committees, could do as well, for example, focusing on the depth of the audit and pushing auditors to do more work where needed, rather than exerting pressure on audit fees. Audit committee members should not be immune from liability—they should feel similar pressures to what auditors face so that their incentives are aligned. Prof. Prawitt also explained his view that it is important that accounting firms create a culture that rewards auditors who exercise skeptical behavior or follow up

on issues even if it does not result in an audit finding. Mmes. Molyneux and Singh stressed that a greater connection likely needs to be made between external auditors, internal auditors and the audit committee in this area.

- Mr. Ahmed questioned whether and how the audit profession could benefit from adopting standard decision theory and analysis. Prof. Prawitt agreed that training in a broad range of decision making knowledge and skills is important for auditors and explained his view that when audit professionals have a judgement process they can regularly use and are aware of judgment traps and biases, they are able to better exercise judgement and mitigate the effects of biases.
- Mr. Dalkin noted that both auditors and investigators play an important role at the United States Government Accountability Office, and noted the different approaches of the two groups, in that auditors may be more likely to give the benefit of the doubt in particular circumstances, whereas investigators generally assume a statement is false. Prof. Prawitt noted the importance of a skeptical mindset for auditors but also suggested that for this approach to be feasible in the context of an audit of financial statements, a long-term shift would be needed on the economics of an audit.
- Ms. Miller asked about the role that ethics and courage plays in the exercise of professional skepticism, and whether that aspect formed part of his research. Prof. Prawitt explained that while his own research did not focus on those elements, he is aware of existing research that suggests that appropriate application of professional skepticism is influenced by a person's individual ethics and courage. He noted that the results of this research indicate that people generally respond to what they are rewarded to do, and that not everyone has the courage and conviction to do what is right when rewards are not aligned. Prof. Köhler agreed that the topic of professional skepticism is closely linked to integrity, courage, ethical standards, education and training.
- Mr. Baumann expressed support for Prof. Prawitt's presentation and remarks. He noted there seems to be mixed messaging from accounting firms. On the one hand, the GPPC supports the research on enhancing professional skepticism and a number of firms have developed professional judgment frameworks, but on the other hand, accounting firms' allegiance to their clients and client service mentality often contributes to engagement team members having a mindset that avoids causing problems for their clients (i.e., exercising professional skepticism may be not appropriately rewarded). Mr. Baumann suggested the overarching message of accounting firms should be that no client is critical to the firm – only high-quality audits. He also suggested that a change in tone at the top towards serving investors is necessary. Prof. Prawitt agreed and added that the mindset accounting firms and others adopt and the "words" they use in describing their culture and views matter.
- Mr. James added his view that, while words, firm culture, and established norms are important, something more is needed to change and transform auditors' way of thinking to inspire auditors to go beyond what they see in gathering audit evidence. Prof. Prawitt reiterated his view that training and adequate supervision, as well as the alignment of rewards, is important, noting that, until auditor actions that denote appropriate skepticism are rewarded even when no issue is ultimately found, it is unlikely that much will change in practice.

Prof. Köhler thanked the Representatives and Observers for their comments and Prof. Prawitt for presenting. She noted the IAASB will continue to explore the topic at its meeting the following week.

Agreed-Upon Procedures (Agenda Item C)

To *OBTAIN* Representatives' and Observers' views on the issues identified

As this was the first time this project was discussed in the CAG, Mr. Salole provided the Representatives and Observers with a summary of the activities of the agreed-upon procedures working group (AUPWG) so far. He noted that his objective was to explain the characteristics of agreed-upon procedures (AUP), to distinguish an AUP engagement from an audit engagement and to discuss the next steps planned by the AUPWG.

Mr. Salole explained that, in an AUP engagement, the practitioner carries out procedures of an audit nature to which the practitioner and the entity and any appropriate third parties have agreed, reports on factual findings and highlights the key elements within the AUP report.

He noted that the key differentiating factors between an AUP engagement and an assurance engagement – that in an AUP engagement, the engaging party is responsible for determining the nature, timing and extent of the work to be performed, while in an assurance engagement, it is the responsibility of the practitioner. Also, in an AUP engagement the intended user assesses the sufficiency and appropriateness of evidence (in light of the procedures that were carried out) while in an assurance engagement, it is assessed by the practitioner.

Mr. Salole noted that, while much attention is given by the IAASB to assurance engagements, AUP engagements are a key part in the practitioner's toolkit to serve clients. He noted that the AUPWG has done initial outreach activities with national auditing standard setters (NSS), SMPs and others and that, based on that outreach, it was noted that there appears to be an element of scope creep as some AUP engagements may be viewed as providing assurance, instead of factual findings. He highlighted that the AUPWG is in a preliminary phase in exploring whether there is a need for a separate standard to address such engagements. Mr. Salole also noted that there are opposing views with respect to ISRS 4400,³ as to whether the standard should simply be clarified or whether it should be more substantively revised to address other issues. He further highlighted that the AUPWG will undertake more outreach activities with different stakeholders in the coming months.

The Representatives and Observers commented as follows:

- Mr. Thompson noted that auditors should be able to exercise some form of professional judgment in an AUP engagement, especially in assessing the sufficiency and appropriateness of the procedures to be performed. Mr. Hansen agreed, adding that if an auditor identifies issues based on the procedures performed they should be brought to the attention of the involved parties. Mr. Stewart questioned if there should be an ethical obligation for the practitioner to consider the appropriateness of the procedures performed based on what the specified parties want to achieve or what is needed by the user(s), as this could lower any expectation gap. Mr. White agreed and added that this is especially important when the auditor is involved in developing or advising on appropriate procedures to be performed. Mr. Salole noted that ISRS 4400 currently prohibits the auditor from assessing the sufficiency and appropriateness of the procedures to be performed in an AUP engagement and that changing this could be seen as scope creep towards assurance engagements, as user needs are diverse and understanding their needs means that the practitioner needs to make his own judgments as in an assurance engagement.

³ International Standards On Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

- Ms. Elliott noted that there is a market demand for engagements that include specified procedures and findings that are in the form of a conclusion on subject matter information (Type II hybrid engagements as referred to in Agenda Item C.1) and supported the AUPWG's intention to further explore the demand and application of these kind of engagements in practice. She noted that these kind of engagements often exist when there is a voluntarily contribution from a donor to an organization, for example a government grant. She explained that a donor often would like some form of assurance from an independent third party that the organization that receives the grant has spent the grant as intended. She further noted that these engagements are in a grey area between an assurance and an AUP engagement and offered to discuss these engagements in more detail with the AUPWG. Mr. Dalkin agreed and noted that AUP engagements are widely used by governments and highlighted that the nature, timing and extent of the procedures and the level of assurance provided are often not fully understood by the parties involved in the engagements. He explained that AUP engagements are often seen as a cost-effective way of obtaining assurance even though they will receive no assurance through an AUP report. Mr. Dalkin highlighted that there is an expectation gap between the parties who request them and the practitioners who perform the engagements. Mr. Salole noted that the example given by Ms. Elliott exactly highlights the issues the AUPWG attempts to target and attempts to resolve and also noted that AUPWG could consider if specific guidance for the public sector is needed. Mr. Thompson added that the public sector often provides the private sector with funding and noted that there is enormous crossover.
- Mr. Thompson furthermore noted that some clarification would be useful in terms of what constitutes specified procedures, as described under ISA 600,⁴ and AUPs under ISRS 4400, as many practitioners and users think they are the same. Mr. Salole agreed and noted that the difference between specified procedures and AUP will be clarified as part of the group audit project and that the WGs will liaise when necessary.
- Mr. Thompson expressed the view that the revised version of ISRS 4400 should become more flexible and should seek to find balance between the practitioner simply performing procedures or, on the other hand, providing insights in the development of those procedures or the practitioner's work. He also noted that the revised standard should also address third-party involvement as, in some AUP engagements (e.g., those related to government grants), the intended user may not be a party to the contractual agreement.
- Mr. Hansen noted that AUP engagements are an important part of the procedures an auditor can perform for clients and highlighted the importance of drawing a clear line between an AUP engagement and an assurance engagement. He also noted his support for the restricted distribution of the AUP report to the parties involved in the agreement. Mr. Salole noted that this is one of the issues the AUPWG will assess and noted that governmental organizations sometimes post the issued AUP reports on their website.
- Mr. Stewart noted support for a requirement to make a statement about independence, although not noting a preference as to whether the practitioner should be independent or not. He also supported the extension of the scope of ISRS 4400 to non-financial information.

⁴ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Mr. Salole thanked the Representatives and Observers for their comments.

Special Audit Considerations Relevant to Financial Institutions (Agenda Item D)

To DISCUSS Implications of IFRS 9⁵ and other matters related to ISA 540⁶

As this was the first time this project was discussed in the CAG, Mr. Sharko provided the CAG with a summary of the activities of the FIWG to date. He noted that, while the project is initially focused on financial institutions, many aspects of it are likely to be relevant to other entities due to the linkage to ISA 540.

Mr. Sharko highlighted that, as part of its information-gathering activities, the FIWG has met with, among others, the IASB, the Financial Stability Board, the Basel Committee, IAIS, and the GPPC. These outreach activities have identified audit issues related to financial institutions and suggested that the IAASB should initially focus on the auditability issues related to IFRS 9.

ISSUES RELEVANT TO THE PROJECT

In addition to feedback received through this outreach, Mr Sharko noted that the preparation of a “gap analysis” of ISA 540 with respect to IFRS 9 identified several issues with ISA 540, most notably the need for (i) a stronger link between high estimation uncertainty and the existence of a significant risk, (ii) the type of audit procedures to be performed over estimates that are determined to be a significant risk, and (iii) amendments to the application material to better guide the auditor’s thought process when dealing with high-volume environments.

The Representatives and Observers commented as follows:

- Mr. Stewart noted strong support for the IAASB’s work in this area, noting that the IAASB undertaking a project would build awareness for auditors who are likely to need support in relation to IFRS 9. Messrs. Ahmed, Baumann, and van der Ende, as well as Ms. Singh, agreed.
- Mr. Stewart drew attention to the issue of consistent use of models and data across a market or jurisdiction, noting that, while companies should be making consistent estimates within their entity based on certain key assumptions, it would be reasonable that different entities will come up with different assumptions and estimates. In his view, the FIWG should address this issue, as some stakeholders in the financial reporting supply chain could be of the view that certain assumptions, like macro-economic data, should be consistently applied across an industry. Mr. Sharko agreed. He added that different departments within an entity should have a robust discussion about what the assumptions and estimates should be and that, between different entities, assumptions, like macro-economic data, should be in a similar range, but may not necessarily be consistent. He also noted the important role that regulators can play in helping auditors compare assumptions, like macro-economic data, across entities, as auditors cannot share this information amongst themselves due to client confidentiality.
- Mr. Rockwell was of the view that it might be difficult to expect that all assumptions across an entity, or that inputs from an external party, will be the same, as some departments within an entity may work with assumptions or inputs from sources for other purposes, which are not suitable for use in

⁵ International Financial Reporting Standard (IFRS) 9, *Financial Instruments*

⁶ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

developing accounting estimates. He suggested the IAASB could provide guidance to auditors on what sort of inputs they should consider most relevant when assessing a financial institution's estimate. Mr. Stewart added that auditors and preparers may develop different ranges relevant to an accounting estimate and the IAASB will need to provide sufficient guidance to auditors to assist them in assessing these differences and their implications to the audit. Mr. Sharko also noted that auditors will often have to come up with a range to assess if management's estimate is reasonable as, for complex estimates, it will be difficult to come to a point estimate, a point that, in his view, is not very well highlighted in ISA 540.

- Mr. Hines noted the increased importance of the use of experts in audits because of the increased use of estimates. He also noted that under the proposed IFRS addressing insurance contracts, much of the income statement will be estimates. Mr. Hines expressed the view that this change might pose a different set of challenges for auditors, both from a process perspective and with regard to materiality. Mr. Baumann agreed and added that, in his opinion, the IAASB's and PCAOB's standard on the use of experts could be improved with respect to the auditor's responsibilities. He cited issues in practice related to auditor's reliance on estimates prepared by management's experts, in particular when proprietary assumptions and models are used, and auditors inappropriately relying on this work without understanding how the estimate was made. In response to Mr. Hines' comment. Mr. Sharko clarified that the FIWG classifies banks and insurance companies as financial institutions and noted that the use of experts will be a part of the project and feedback on the topic will be sought in the ITC. The FIWG intends to address any auditability issues that come out of the new IASB's insurance contracts standards when the standard is finalized.
- Mr. Baumann also noted the need for the IAASB to address the issues related to the use of third-party pricing services for financial instruments in this project as the issues around it are pervasive to any entity with a portfolio. He explained these groups are not considered auditor's experts and as such the standards currently do not address how auditors should approach them in conducting an audit.
- Mr. Stewart noted that, because of certain requirements in IFRS 9 (e.g., the expected credit loss impairment model and the business model test), information obtained from systems and processes outside the general and subsidiary ledgers will become a more important aspect of the audit and noted the importance of addressing this in this project, as was done under the IAASB's Disclosures project. He also noted the involvement of internal audit, due to their focus on operational matters, may also become more significant with the implementation of IFRS 9, and suggested that coordination between external and internal auditors will likely be necessary.
- Mr. Stewart noted that under principle based audits and specifically IFRS 9 several judgements need to be made for which auditors and experts will come up with different ranges. He noted the importance that auditor's should become comfortable that there will be different ranges and should have sufficient guidance to assess these differences.
- Ms. Molyneux noted that the IASB's Conceptual Framework project will most likely reintroduce the concept of prudence and noted that there is a fine balance between too much and not enough prudence. She suggested the FIWG given further consideration to the implications of this change on the auditor's approach and provide further guidance to auditors in this regard.
- Mr. Ahmed appreciated the approach taken and the outreach performed by the FIWG, as this will benefit audit quality and assist the IAASB in any standard-setting activity. He questioned whether the FIWG has reached out to the European Banking Authority (EBA). Mr. Sharko explained that one of

the FIWG members works closely with the EBA and the FIWG leadership had met with the EBA in June 2015.

- Mr. Ahmed further noted that the change from an incurred loss model to an expected credit loss is the critical challenge for auditors, in particular related to the changes in process and the advanced data that will be needed. While he agreed that the FIWG had identified all issues of which he was aware, it was difficult to understand the relative priority attached to individual issues. Mr. Sharko explained that the order of the issues in the agenda material was based on the order how it is addressed in the ISAs; starting with the risk identification and ending with reporting. Mr. Sharko also agreed that the availability of data is one of the more significant issues that the FIWG has identified.
- While agreeing with the need to look at the adequacy of the auditor's work on accounting estimates, Mr. Thompson also noted that the auditor, through new ISA 701,⁷ can emphasize the importance of significant accounting estimates and the work performed on them in the auditor's report. He was of the view that more guidance in ISA 540 to highlight the interactions with auditor reporting would be useful. Mr. Sharko also noted that further guidance on disclosures relating to accounting estimates may also be useful.

WAY FORWARD, INCLUDING CONSIDERATION OF TARGETED CHANGES TO ISA 540

Mr. Sharko presented the FIWG's proposed way forward, which includes 3 key deliverables: (i) a "Project Update" in Q1 2016 to inform the public of the IAASB's interest in the area and the way it proposes to progress the project, (ii) a package to be developed in 2016 that includes targeted changes to ISA 540 and a new International Auditing Practice Note (IAPN) to address audit issues arising from IFRS 9, particularly around expected credit losses and (iii) a broader revision in 2017 and beyond of ISA 540 to address any other issues, including those highlighted in the ITC. He noted the FIWG's view that the merit of this approach is that, subject to the Board's deliberations, the IAASB will be able to address the audit challenges of IFRS 9 in advance of its effective date as the broader revision of ISA 540 will take some time to resolve, and will involve further outreach to ensure that all the issues are on the table.

In addition to the comments described in the previous section, the Representatives and Observers commented as follows:

- Mr. Thompson questioned whether the targeted changes to ISA 540 as proposed by the FIWG should be limited to financial institutions or if they should be applicable for all entities. In his view, it would seem inconsistent if the proposed changes did not apply to entities other than financial institutions, as there can be high estimation uncertainty that should be considered significant risk in all entities. He suggested issues relevant to financial institutions would be best dealt within an IAPN, so as not to confuse auditors as to whether changes to ISA 540 would be applicable in their circumstances. Ms. Borgerth, supported by Mr. Bini, also noted that IFRS 9 is not restricted to financial institutions, notwithstanding its importance to them. Messrs. Baumann and Dalkin, and Mmes. Borgerth and Singh, supported making the changes more widely applicable due to the pervasive nature of estimates. Mr. Sharko noted that he personally agreed with this approach and noted that the Board may also agree that the proposed targeted changes to ISA 540 should be made more widely applicable, rather than trying to carve out requirements that apply only to financial institutions (as these may also be difficult to define).

⁷ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

- Mr. Inuma cautioned that the IAASB should be careful in deciding to make changes to the ISAs for IFRS 9, as there is not yet enough experience with the expected credit loss model.
- Mr. Baumann added that all fair value estimates are based on forward-looking information and that many estimates other than those developed in accordance with IFRS 9 have very similar and pervasive issues as identified by the FIWG (e.g., the use of complex systems and models and the availability of data). He therefore suggested that the IAASB take a holistic approach to the issues related to ISA 540 and not only focus on financial institutions. Mr. Sharko noted the FIWG had acknowledged that forward-looking data had a significant impact in IFRS 9, but also noted that there were other more significant items with respect to IFRS 9 that the FIWG feels should also be addressed on a timely basis.
- Mr. Baumann further suggested that, if a more holistic revision of ISA 540 indicates the need for specific guidance for financial institutions, this guidance could potentially be added as an appendix to ISA 540. Mr. Dalkin added that the focus is currently on financial institutions because of the financial crisis, but the next crisis might be initiated because of the use of estimates and the changes to ISA 540 should therefore be applicable to all entities, with an industry guide if considered necessary. Mr. Thompson noted that the FIWG could develop financial institution-specific guidance in the form of an IAPN. Mr. Baumann noted he would prefer changes to the standards as needed, in particular ISA 540, as an IAPN is non-authoritative.
- Mr. van der Ende noted the Basel Committee and its Accounting Experts Group appreciates how it has been cooperating with the FIWG on this project of mutual interest, and the FIWG and IAASB's change of focus to issues related to IFRS 9 and possible revisions to ISA 540 in light of feedback from the Basel Committee and others. He noted that the Basel Committee Accounting Experts Group had intensively discussed the way forward on this project and welcomes the plans for a project update in the near term to signal the IAASB's plans in this area. Mr. van der Ende shared that he made the members of the Basel Committee aware that a "quick fix" of ISA 540 is unlikely because of the IAASB's due process. As a result, he noted that the project update will be crucial, but questioned to what extent the project update can signal the IAASB's intent to change certain areas in ISA 540 and provide flavor as to the nature and extent of those potential changes. He explained that the Basel Committee is in the process of finalizing its own guidelines on credit risk management and accounting for expected losses (which is accounting framework-neutral by design). Within this guideline, there is a strong emphasis on a bank's management, who is responsible for setting up the internal systems, including internal control, including beyond the finance function. He explained that data previously not available to the finance function will come into play with IFRS 9. The Basel Committee is also discussing with the IASB and US Financial Accounting Standards Board to make sure the Basel Committee's guidance does not conflict with the accounting standards. This discussion has also highlighted the potential earnings management that could arise from IFRS 9, and as such the Basel Committee's guideline makes reference to the responsibilities of those charged with governance, including in relation to internal control.
- Mr. van der Ende also noted that the Basel Committee has also discussed issues relating to the implementation of IFRS 9 with the Institute of International Finance and the GPPC. He noted that entities are in the process of determining how much to invest in the implementation to develop new processes around forward-looking information. A question has arisen about the extent to which auditors can challenge an entity's processes and systems, with mixed views about whether or not this is sufficiently addressed in the ISAs in advance of the implementation of IFRS 9 (including with

respect to client acceptance and continuance). Mr. van der Ende suggested it is important for management to come up with and document a process and their decisions, and for auditors to be sufficiently involved in the implementation process. In his view, banks are implementing internal controls around systems and data that will go into the expected credit loss model and auditors should be involved in this process to be able to rely on the data and systems and to challenge decisions made by management, rather than postponing obtaining an understanding of the system until IFRS 9 is effective. Mr. van der Ende therefore suggested this topic could be usefully addressed in the project update, including by drawing attention to the applicable requirements in the ISAs as a reminder to auditors. In the Basel Committee's view, it cannot expect the IAASB to make changes to ISA 540 or a few other standards on an immediate basis because it has to follow due process, but something is needed in addition to the Basel Committee's guideline to raise awareness of the issues and he encouraged the IAASB to think about what could be done in a project update. Mr. Sharko noted other stakeholders had also supported the IAASB "signposting" and raising awareness with respect to the implementation of IFRS 9.

- Mr. Yoshii highlighted the importance of the dialogue between the bank's supervisor and the external auditor in light of experiences in Japan. Mr. Sharko explained that the IAPN on the relationship between the external auditor and the banking supervisor will move forward but slower than initially anticipated because of the focus on IFRS 9, although the topic could also potentially be addressed in some way in what the IAASB is planning in the near term. However, outreach indicated that this is also a very important area on which the IAASB should focus from a more systematic perspective.
- Ms. Borgerth also reiterated that it is the responsibility of management to make the estimates in the financial statements and that it is the auditor's responsibility to assess that the estimate are reasonable and can be supported by sufficient and appropriate audit evidence. Therefore, she noted it was important that revisions to ISA 540 should not infer that the auditor takes over management's responsibility by setting its own estimate. She noted there could be valid differences between estimates prepared by management and those prepared by an auditor as estimates are based on principles. Mr. Sharko explained that ISA 540 sets out a number of approaches that may be used to audit an estimate but, for complex accounting estimates, it may be the case that the auditor can sometimes only challenge management and audit the estimate by developing its own estimate. However, this is never intended to take over management's responsibilities.
- Mr. Inuma also suggested the IAASB should specifically consult on views in relation to the issue of the range of an accounting estimate being multiple times materiality.

PIOB OBSERVER REMARKS

Mr. Horstmann noted that the PIOB is of the view that this is a very important project and is very pleased with the early identification of the issues and the extensive outreach performed by the FIWG to date and plans to continue this outreach. He specifically noted the importance of further liaison with the Basel Committee on the topic. Finally, Mr. Horstmann noted his agreement with those who commented that the topic is more widely relevant than just to financial institutions, and the PIOB would see a risk if the issues were unduly limited to financial institutions. He therefore suggested that a fresh look at ISA 540 on a broader basis would be more appropriate.

SUMMARY

Prof. Schilder summarized the key messages received by the CAG and noted that there is a clear message that the issues identified should be addressed holistically, as the issues related to ISA 540 affect entities beyond financial institutions, although an Appendix to ISA 540 specific to financial institutions could be appropriate. He noted that the issues highlighted by the CAG, including those related to systems, the availability of data, and the concept of prudence in financial reporting, will be taken into account by the FIWG.

Prof. Schilder noted his personal view that it could be difficult to envisage how two separate sets of changes to ISA 540 in a relatively short period of time could be operationalized. He thanked the CAG for the input on the way forward and highlighted the difficulty in balancing a holistic approach with the urgency to address issues related to IFRS 9. In that respect, Prof. Schilder noted the importance of the project update, and the Basel Committee's support for such a publication. He asked Mr. Sharko to explain the intended purpose of this project update. Prof. Schilder also asked the Representatives and Observers whether a more elaborate project update could mitigate the need for targeted changes to ISA 540 in the short term to address IFRS 9 and rather focus on a more comprehensive approach to revisions in ISA 540.

Mr. Sharko explained that the main purpose for the project update is to explain (i) the IAASB's interest in the area and (ii) the intended activities of the FIWG. He noted that elaborating on the intended activities now could be useful to signal to auditors which changes are being explored in relation to ISA 540, so that they can begin discussing the changes and emphasis within the auditor's approach as a result of IFRS 9 (e.g., on governance and system) even if this is not fully described in ISA 540 currently.

Mr. Sharko explained that the proposal for targeted changes would enable the FIWG to make timely changes to ISA 540 in advance of IFRS 9 becoming effective, as IFRS 9 will be effective as of January 1, 2018. He suggested that a more holistic approach revision to ISA 540 would only be result in changes that would be effective in 2020/2021.

Ms. Healy acknowledged Mr. van der Ende's point, supported by the FIWG's gap analysis, that there are already requirements within the ISAs that address issues that will become more important as a result of IFRS 9, and that the IAASB could usefully draw attention to this in some level of detail in the project update. However, she explained that the FIWG, as a result of discussions in outreach, initially been of the view that changes to the requirements in ISA 540 may be needed to appropriately focus auditors on key issues in the context of IFRS 9 and therefore proposed targeted changes be made in the near term. She explained that the FIWG had not initially proposed a full revision of ISA 540 to address these and other issues related to experts and third-party pricing services, because it would be very difficult to complete such a revision before IFRS 9 becomes effective. She noted that the IAASB needs to carefully consider which option(s) best serves the public interest given all views, including whether it is beneficial to make two sets of changes to ISAs. She concluded by noting that creating awareness of the IAASB's project and increasing auditors' awareness of implementation issues related to IFRS 9 and other issues relevant to ISA 540 is very important.

The Representatives and Observers commented as follows:

- Mr. van der Ende noted that the FIWG's approach is, in principle, a good approach but highlighted the operational challenges and the limited time available and encouraged the IAASB to reconsider the approach. He suggested the FIWG and IAASB should consider three or four key messages that could help banks in making significant decisions in implementing IFRS 9, and raising auditors' awareness of these and other implementation issues related to IFRS 9, including how the auditor's

approach to accounting estimates is likely to be affected. He suggested that further involvement of the GPPC to raise awareness would be useful. Mr. van der Ende offered his assistance to the FIWG in refining the key messages.

- Mr. James noted IOSCO's support for a broader revision of ISA 540 to address the issues holistically rather than the targeted approach driven by IFRS 9 as presented by the FIWG.
- Mr. White noted he understands the FIWG's rationale for the proposed two-phase approach, but highlighted the importance of having a clear roadmap upfront, perhaps through the project update. He also recommended removing references to IFRS 9 and financial institutions, to the extent such references distract stakeholders from understanding there are broader issues related to ISA 540 also under consideration. Mr. Sharko agreed that the project update needs to set out the issues, why they are important, and how the IAASB plans to address them, in order to raise awareness of the issues.
- Mr. Stewart noted that the IASB's Transition Resource Group on impairments will meet on September 16, 2015 to consider what forward-looking information to include in the expected credit loss model under IFRS 9. He suggested this may be of interest to the FIWG.
- Mr. Bini noted that IVSC also has a number of relevant projects on the topic of financial instruments underway, and suggested further coordination between the IAASB and IVSC could provide an opportunity for further alignment between the auditing standards and the valuation standards.

Mr. Sharko thanked the Representatives and the Observers for their comments.

Non-Compliance with Laws and Regulations (NOCLAR) (Agenda Item E)

To REPORT BACK on the July 2015 Exposure Draft (ED)

Mr. Landes explained the background of the project, noting that the IESBA first issued proposals for professional accountants on how to respond in situations where they encounter a suspected illegal act. He noted that several ISAs address the auditor's responsibilities related to laws and regulations that have a direct and material effect on the financial statements and that the IAASB decided to consider the implications of IESBA's NOCLAR project on the ISAs. He noted that the IAASB decided in its June 2015 meeting that limited changes to the ISAs would be helpful to make the ISAs consistent with the IESBA's *Code of Ethics for Professional Accountants* and that an ED is currently out for comment.

Representatives and Observers had no comments or observations on Report Back.

Responding to Calls to Enhance Audit Quality (Agenda Item F)

To DISCUSS the approach to the combined Discussion Paper, including the common themes and crossover issues outlined in the forepart and to HIGHLIGHT feedback from the breakout sessions

FOREPART OF THE ITC

Ms. Zietsman explained that the forepart was intended to provide a broad view of the issues identified relating to the IAASB's priority projects, including matters of significance for individual projects and crossover issues. She noted that stakeholder views on the individual topic would be solicited through the use of broad questions in the forepart. She further noted that this first draft had been intentionally designed to appeal to a wider audience of stakeholders (for example, those that have broad interest in audit-related

matters and who may wish to provide input on the significant issues on a more holistic basis, rather than at a detailed technical level, such as investors or audit committee members). She added that this approach is modeled on and intended to be consistent with that taken in the IAASB's Auditor Reporting ITC, which was well-received by those stakeholders, including those who may not frequently comment on the IAASB's EDs.

In relation to the forepart, Representatives and Observers had the following comments and observations:

- Ms. Molyneux offered support for the IAASB's activities in relation to the ITC and commended the IAASB for focusing on efforts to enhance audit quality as this is directly relevant to investors.
- In the forepart, Ms. Molyneux encouraged the IAASB to clearly articulate the respective responsibilities and accountability of the auditor, and also those of management and the audit committee, but without shifting the responsibilities of the auditor in any way. Specific to quality control, she noted that investors would like to see enhanced relationships between supervisors, external auditors and internal auditors and that there should be clarity as to limitations and constraints. She also expressed support for efforts to "maximize the audit dollar", meaning that a view should be taken such that all important areas are dealt with rather than certain areas being over or under-emphasized.
- Mr. Stewart noted that, if the forepart was to appeal to a wider audience, certain aspects of it, such as detailed references to the ISAs, should be reconsidered and the articulation thereof made less technical so as to not be off-putting to some respondents. He also noted that it was not immediately clear what all of the cross-over issues were. Mr. Waldron noted that he supported the overall approach, in particular an overall document with an appropriate amount of detail to be able to extract for outreach with investors. In reference to the draft forepart presented for discussion, he also urged the IAASB to consider the length and language to make it more user-friendly to the audience for whom it is intended. Mr. Ahmed also agreed that the forepart should be simplified. Ms. Robert suggested the IAASB consider an approach similar to the International Integrated Reporting Council's (IIRC's) recent consultation on assurance on integrated reporting, where two consultations were used (one was succinct and high-level, aimed at investors or other interested stakeholders who would not require extensive technical details in order to respond, with another more detailed technical consultation in a separate publication). Ms. Zietsman noted that the Audit Quality Enhancements Coordination Group (Enhancements Group) would look at the IIRC's publication when considering revisions to the forepart.
- Mr. White supported the possibility of separating the document to appeal to different audiences. In his view, references to the *Framework for Audit Quality* (AQF) may be useful in the forepart as the audience could be assumed to not have a detailed knowledge of the content of the AQF, whereas the content in Part II would be used by those with more detailed technical knowledge of the ISAs. Ms. Zietsman acknowledged the comment, and noted that the ITC was grounded in the AQF but consideration would be given in the various parts of the ITC about where to appropriately emphasize relevant parts of the AQF and also on how to make the forepart less technical.
- Mr. James appreciated the WG's efforts to include issues that had been raised by members of the IOSCO. However, he questioned whether, in some instances, the issues were articulated clearly enough for respondents to be able to fully understand them. He added that it was particularly important to describe the issues in sufficient detail so that stakeholders could consider the adequacy of the possible actions and develop an effective response. Ms. Zietsman responded that the individual WGs would take this into account as they were working to finalize the ITC.

- Mr. James also noted that some members of IOSCO questioned the combined approach and wondered whether a staggered approach with multiple consultations would be more effective to make sure that each of the topics received the right level of attention. For example, he noted the issues related to quality control could be approached at a higher level, whereas the discussion on group audits by its nature is going to be more technically detailed. Mr James added that these members nevertheless understood the objectives of the IAASB in undertaking a combined approach.
- Mr. Dalkin also questioned whether the nature of the issues relating to group audits were different from those related to quality control and cautioned against confusing issues by combining them. He suggested that the IAASB further consider whether to continue to include group audits in the combined ITC. He also reiterated his views expressed in the discussion on Agenda Item D that issues relating to ISA 540 should be considered more broadly. Because of the significance of some of the crossover issues and the need to obtain the input to be able to scope the various projects, Ms. Zietsman added that group audits would likely continue to form part of the combined ITC but added that further consideration would be given as to how the various topics are presented in both the forepart and the detailed sections of the ITC. Ms. Healy further emphasized the need to consult on group audits in light of the responses to the consultations on the IAASB's *Work Plan for 2015–2016*.
- Mr. Yoshii suggested the IAASB should consider how best to solicit outreach from investors on the ITC, including creditors, as these stakeholders are unlikely to be familiar with the IAASB's standards and may not be aware of the request to respond to the ITC.

Ms. Zietsman thanked the Representatives and Observers for their comments and input, noting that the Enhancements Group would further consider how to revise the forepart to appeal to the audience for which it was intended, and more effectively facilitating responses from interested stakeholders that may not necessarily otherwise respond, including the possibility of two separate consultation documents.

In relation to initiatives or activities related to the ITC, Representatives and Observers noted the following that may be of relevance for inclusion in the ITC:

- Ms. Robert—the changes from the European Union's Directive on Statutory Audit and Regulation on specific requirements regarding statutory audits of public interest entities (PIEs) relating to Audit Committees. Ms. Robert also added that FEE would be undertaking activities in 2016 to assist with the implementation of the new requirements.
- Mr. Hines—standards of practice for actuaries to guide their work.
- Ms. Molyneux—Relevant activities from the governance community, including the Audit Committee Institutes established by some of the global accounting firms and the Global Network of Director's Institute. She also encouraged consideration of relevant activities of the compliance community, such as company secretaries.

SPECIFIC MATTERS RELATED TO QUALITY CONTROL

Ms. French introduced the topic, noting that the focus of the discussion would be on the three matters highlighted in Agenda Item F.1, which were the areas the IAASB had asked the Quality Control Working Group (QCWG) to further consider during its June 2015 discussions. These matters would also be discussed with the IAASB at its September 2015 meeting.

Quality Control Policies and Procedures at the Firm Level when Operating as Part of a Network of Firms

Ms. French noted that the IAASB suggested the QCWG should give further consideration to how the elements contained in ISQC 1,⁸ specifically those related to governance, should take into account the fact that some audit firms operate within a network of firms. She explained that audit firms that operate through a network of firms may share, among other things, common quality control policies and procedures and may seek to leverage the network's system of quality control and related policies and procedures in meeting the individual audit firm's responsibilities in accordance with ISQC 1. She explained that regulators and audit oversight bodies have expressed concerns about:

- Overreliance by audit firms on network-level quality control policies and procedures without an appropriate basis for doing so; and
- Inadequate consideration at the network level of the results of internal and external inspection findings of audit firms within the network, and their implications to not only the network as a whole but also the individual audit firms within the network.

Ms. French further explained that audit firms within a network, for various reasons, including jurisdictional law and regulation and risk and litigation management purposes, may not be controlled by the network entity. The extent of operational and decision-making power at the network level may be limited. As a result, she noted that establishing requirements in ISQC 1 relating to how audit firms are structured, including how audit firms may choose to operate through a network of firms, may be difficult or even inappropriate, as involvement in firms' operational matters is outside of the IAASB's mandate. For these reasons, the QCWG is of the view that it would likely not be appropriate to develop requirements within ISQC 1 or a separate "ISQC 1" like standard aimed specifically at the network entity. Rather, the QCWG is of the view that consideration should be given to additional requirements and application material in ISQC 1 for the audit firm to consider in instances where audit firms seek to place reliance on policies and procedures at the network level to meet their own ISQC 1 responsibilities.

The Representatives and Observers commented as follows:

- Mr. Baumann agreed that quality control policies and procedures should be at the firm level, because the responsibility for complying with the requirements of ISQC 1 apply to individual audit firms. He added that those same principles should also apply to any other audit firms that participate in the audit. Mr. Baumann requested additional clarification as to what the QCWG was suggesting related to additional requirements and application material in ISQC 1 and its application to networks. Ms. French explained that the intent was to make the distinction between imposing requirements on the network entity versus the audit firm. If an audit firm intended on leveraging, or is leveraging, policies and procedures at the network level as a means of meeting its responsibilities under ISQC 1, ISQC 1 could include matters that the audit firm would need to consider to be able to have a basis to do so, as well as how the audit firm would be able to demonstrate that the leveraging of network quality control policies and procedures is appropriate. Mr. Baumann noted that these should be requirements in ISQC 1, rather than guidance about matters that the audit firm would need to consider. Ms. Singh agreed with Mr. Baumann.
- Mr. Stewart drew attention to the definition of a network that had been included in Agenda Item F.1, noting his view that the definition is too broad in the context of an audit firm relying on network policies and procedures in order to meet the audit firms' requirements under ISQC 1. Additionally, he added

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

that if an audit firm wishes to rely on network policies and procedures, similar to Mr. Baumann's remarks regarding the need for ISQC 1 to contain requirements in the event an audit firm is relying on network quality control policies and procedures to meet the audit firm's responsibilities under ISQC 1, the audit firm needs to have a basis for being able to do so, and ISQC 1 should have an appropriate level of clarity as to what that basis should be.

- Ms. Molyneux noted that, while the governance community, including those charged with governance, have an interest in audit quality, this will be a difficult area on which to obtain their input. She noted that, while those charged with governance may have insight into how audit firms operate and, if applicable, the network's quality control policies and procedures, those aspects have far less relevance to those charged with governance compared to details about the individual audit that was performed. Ms. Molyneux noted further that, while she recognized that a lot of effort to create quality control policies and procedures at the network level, these were often applied differently in various jurisdictions. Mr. Dalkin noted, in the context of audits of governmental entities, that these challenges often arise as a result of the audit firm not being able to control or tell other audit firms within the network that are involved in the audit what they need to be doing to address, for instance, a specific governmental requirement relevant to the audit being performed. This becomes more problematic when public expectation would be that the systems of quality control are similar given the way firms market themselves as a network. He supported the IAASB considering these matters as part of the quality control project.
- Mr. van der Ende noted that there appears to be confusion between the application of ISQC 1 at network level and individual audit firm level. In light of his view that there is little that can be done centrally in relation to network member firms, Mr. van der Ende was not convinced that additional requirements in ISQC 1 would help in this regard. He also agreed with other comments made relating to stakeholders' expectations of consistent levels of quality control across firms in a network in circumstances where networks are marketing and communicating as one firm, when in reality this may not be the case. However, he cautioned against IAASB actions in this area as they would be difficult to implement.

Transparency Reporting

Ms. French noted that the IAASB asked the QCWG to further explore the topic of transparency reporting and how it could be addressed in the ITC. Ms. French explained the QCWG's view that requiring transparency reporting as an element of a system of quality control was not being recommended by the QCWG, mostly because transparency reporting typically addresses more than how an audit firm has complied with ISQC 1 and the ISAs, and trying to set meaningful requirements for such reporting on a global basis would likely not be feasible due to the effects of law and regulation on audit firms on a national or jurisdictional basis. Ms. French also noted that this is an area where practice is evolving and the QCWG would not want to institute requirements that could have the impact of inhibiting further innovation. In addition, she explained that requiring transparency reporting for all firms may disproportionately impact SMPs, as in many instances SMPs are unlikely to be currently issuing or contemplating issuing transparency reports or be required to do so.

The Representatives and Observers commented as follows:

- Mr. Hansen noted that transparency reporting is not a new issue and was addressed in the United States by the Advisory Committee on the Auditing Profession several years ago. Mr. Hansen noted that he is supportive of audit firms providing more transparency, including related to audit firm

governance; however, he acknowledged it would be difficult to mandate external reporting about such matters when they do not have a direct connection to engagement teams and audit standards. He therefore acknowledged that the recommendation of the QCWG was on point.

- Mr. Yoshii noted that investors do not currently have sufficient access to information about how an audit firm maintains its system of internal control. As a result, investors are interested in transparency reporting by audit firms. Mr. Yoshii agreed that a question related to transparency reporting should be included in the ITC, in particular to highlight the information for investors.
- Mr. James noted that IOSCO has an active project on transparency reporting and indicated his belief that it would be unfortunate if the IAASB decided not to pursue this area. Mr. James agreed that it is an evolving area, with a number of audit firms already issuing transparency reports. However, he noted that there is inconsistency in what is included in these transparency reports, but that they are improving in their usefulness. Mr. James highlighted that IOSCO would be issuing a publication related to its project on transparency reporting in the near future, and that this may be useful to the IAASB in assessing some of the ways in which to overcome some of the obstacles that have been noted in Agenda Item F.1. Prof. Schilder noted that the IAASB is not able to solve all of the issues that have been identified and that there will be times when the IAASB may need to coordinate with others, for example, IOSCO. He acknowledged that monitoring developments in transparency reporting, rather than eliminating the topic completely from the IAASB's considerations, would likely be useful going forward. Mr. Baumann echoed remarks made by Prof. Schilder and Ms. French and noted his agreement with the challenges identified in this area. He agreed that it is important not to prejudge the outcomes in this area and rather allow this area to develop, identifying ways in which the IAASB can facilitate the evolution of transparency reporting in a positive way. Mr. Baumann suggested that, by staying informed, the IAASB could consider whether at an appropriate time guidance on transparency reporting could be developed. Mr. Ahmed suggested that transparency reporting had a linkage to the contextual factors explained in the AQF. Ms. Miller agreed with Mr. Baumann's comments and noted that the IIA routinely monitors evolving developments in a similar manner.
- Mr. White noted that, although there are a number of challenges related to transparency reporting, he would not want to see it being dropped altogether. He suggested that the IAASB look at focusing more narrowly on firm's quality control systems and the possibility of disclosures in relation to their effectiveness, rather than looking at governance overall.

Development of a Separate Engagement Quality Control Review (EQCR) Standard

Ms. French explained that improving the robustness and effectiveness of the EQCR (including issues related to the selection and responsibilities of the engagement quality control reviewer) has been a focus throughout the quality control project. While a few IAASB members indicated that they did not support the development of a separate EQCR standard at the Board's first discussion on the topic of QC, at its March 2015 meeting, some CAG Representatives had the view that a separate EQCR standard should be considered. The QCWG has revisited the topic and continues to believe that the disadvantages of developing a separate EQCR standard outweigh the advantages as discussed in Agenda Item F.1.

The Representatives and Observers commented as follows:

- Mr. Hansen noted that, if the view is that the EQCR is an important element of audit quality, there should be a separate standard dedicated to EQCR. He also drew attention to the IESBA's current discussions on depth and breadth with respect to the rotation requirements of the EQCR. Mr. Hansen

noted the fact that the US PCAOB has a separate EQCR standard, and suggested considering information, if available, from the US PCAOB on whether the existence of a separate standard and the appropriate focus on the role and performance of the EQCR has changed behavior at the engagement level.

- Mr. Dalkin agreed that the EQCR is viewed as an important aspect of audit quality. He added that the EQCR has been identified as one possible solution to solving audit quality challenges in audits of governmental entities, and therefore that the development of a separate EQCR standard may be worth further consideration.
- Consistent with his comments at the March 2015 CAG meeting and in light of the importance the investor community places on the role of the EQCR, Mr. Baumann stressed that he continues to believe the IAASB should pursue a separate EQCR standard that places specific responsibility on the individual, or individual supported by a team, responsible for the EQCR, rather than the audit firm. Mr. Waldron noted that CFA Institute also strongly supports the development of a separate EQCR standard as this would assist in elevating the importance and relevance of the EQCR. Mr. Arteagoitia noted that the recently issued EC Regulation related to PIEs included a specific Article that addresses the EQCR, and therefore the EC would also be in favor of the development of a separate EQCR standard.
- Mr. James noted that, considering IOSCO's view of the importance of the role of the EQCR, any actions that would serve to heighten the relevance and the role of the EQCR would be welcome, including the development of a separate EQCR standard.

PIOB Observer Remarks

Further to Mr. Hansen's point, Mr. Horstmann highlighted that the IESBA CAG had discussed the rotation requirements of the engagement quality control reviewer and other matters related to the engagement quality control reviewer, such as whether an individual could serve as an engagement quality control reviewer immediately after serving as the engagement partner or vice versa. He noted that the IESBA is of the view that the requirements in ISQC 1 related to engagement quality control reviewers should address these and related matters, rather than the IESBA standards.

FEEDBACK FROM BREAKOUT SESSIONS

To discuss the detailed sections on quality control and group audits, as well as provide feedback on any other matters relevant to the draft ITC, Representatives and Observers were broken into three breakout groups. Ms. Zietsman noted that the [comments made by various Representatives and Observers](#) in these three breakout groups was compiled and made available to the CAG during the September 2015 meeting. Ms. Zietsman noted that the detailed notes from the breakout sessions would be further considered by the WG's in finalizing the ITC.

She highlighted the following key messages from the sessions:

- Suggestions to improve the readability of the forepart and usability of the ITC overall, including the need for more open-ended questions in the forepart and consideration of how best to articulate the issues and present the information in a format that would be appealing to the intended audience.

Quality Control

- The need for consideration of what is meant by a quality audit, and how this could be ‘measured’ to be able to appropriately link to the engagement partner’s rewards
- The interrelationship between audit firms and network firms, and the need to further explore issues such as the ability of the engagement partner to be able to consider audit firm and network firm systems of quality control, subject to sufficient and appropriate work at the engagement level
- The importance of the role of the EQCR, and the potential for (i) transparency in the audit report about whether the engagement was subject to an EQCR; and (ii) communication between the engagement quality control reviewer and the audit committee, as well as issues related to assignment of the engagement quality control reviewer and entities that should be subject to an EQCR
- Although it was recognized that it was important to highlight the premise that an audit in accordance with the ISAs is designed to serve the public interest, a requirement to act in the public interest was not supported, in particular as this may have unintended consequences from a legal perspective
- Encouragement to consider evolving matters related to the key issues related to audit delivery models (ADMs) used by firms, such as concerns about access to work papers and recent positive developments relating to cross-border interactions, the need to understand the different legal structures of these models that may exist at the firm level, potential staff development issues, as well as the impact of the fundamental principles of ISQC 1 and ISA 220⁹ in these situations. It was emphasized that the matters in the ITC need to be presented in a neutral way (i.e., not promoting or discouraging the use of ADMs) and also to consider actions that would remain flexible to allow for evolving developments.
- Support was expressed for a holistic approach to quality under a quality management approach (QMA) that includes risk management, preventative and detective controls, continual improvement and remedial actions. However, it was noted that it should be made clear in the ITC that revisions to ISQC 1 and ISA 220 to follow the QMA approach would not weaken the quality control requirements as they exist today, but would rather further enhance them, while providing for flexibility in the design of the system of quality control. It was also noted that the use of a QMA approach may have benefits for SMPs in that it may help address scalability issues.
- Documentation of the quality control system, and the possibility of increased transparency about the effectiveness of the firm’s system of quality control, especially for network firms where levels of quality may not be consistent across a network
- Support for efforts to explore other issues related to monitoring and remediation, engagement acceptance, engagement partner roles and responsibilities, consideration of cultural matters.

Group Audits

- The increasing complexity of group structures was recognized, and the IAASB was encouraged to further consider how to highlight in particular (i) situations where the audit partner is not located where the work was performed; and (ii) entity’s use of shared services centers.
- Support was expressed for asking a question in the ITC about the potential need for requirements and guidance for component auditors, and it was agreed that the procedures for component auditors

⁹ ISA 220, *Quality Control for an Audit of Financial Statements*

needed clarification, especially in light of the varying circumstances in which audits of components are carried out.

- In relation to the possible actions relating to the acceptance of group audit engagements, caution was expressed about requiring particular actions that may be too granular, as the ability to be able to address them may be problematic if an auditor have not yet been appointed as group auditor. In addition, the IAASB was encouraged to give additional consideration to laws and regulations impacting the information needed in order to accept a new audit engagement.
- Lastly, support was noted for a question to explore the group engagement team's ability to use the report of another auditor, recognizing there may be concerns about whether this is appropriate and also the need for appropriate background to be provided so as to allow respondents to submit informed responses.

Financial Institutions / ISA 540

- The IAASB was encouraged to specifically consider the need for clarification of the requirements relating to management's expert versus the use of the auditor's expert, and the implications of third-party pricing sources. In particular, there was a view that the use of proprietary models, which may pose threats to audit quality if the auditor is unable to understand the model.
- The IAASB was also encouraged to consider how the importance of the dialogue between auditors and regulators could be further highlighted.
- In linking to professional skepticism, it was noted that it may be useful to explore changes to the way that certain requirements in ISA 540 are articulated to encourage a more challenging mentality.

CAG Discussion

In reference to the feedback from the breakout sessions, Representatives and Observers had the following comments:

- Ms. Molyneux noted that the focus of the ITC is on audit quality and the goal should be how to encourage a better quality audit, rather than simply focusing on how to make the quality control system work better. Ms. Zietsman agreed. Ms. Molyneux also cautioned that, when considering possible actions relating to strengthening the role of the EQCR, it was important to maintain the responsibility and accountability for the audit engagement with the engagement partner, and that investors do not want the engagement quality control reviewer to have contact with the company. Ms. Zietsman explained that the ISAs already have robust requirements addressing communications with those charged with governance by the engagement partner who is accountable for the audit, but that some suggestion had been made that it may be appropriate for those charged with governance to also have the opportunity to interact more directly with the engagement quality control reviewer.
- Ms. Molyneux also encouraged, in the public interest, consideration of requirements for an EQCR beyond listed entities, i.e., potentially for all PIEs.
- Mr. Dalkin noted that it may not be clear how the role of the engagement quality control reviewer applies in a group audit situation. Ms. Zietsman noted the role generally of the engagement quality control reviewer is to provide an objective sanity check on the significant judgments made during the audit. She agreed that there could be challenges related to performing EQC reviews in a group audit situation.

- Mr. Thompson urged the IAASB to address how AUPs relate to the specified audit procedures or audit procedures referred to in ISA 600 as types of procedures that may be performed by component auditors.
- Mr. Yoshii suggested further consideration be given to ensure all matters relevant to investors (such as transparency reporting) are included in the forepart as they may not read Part II of the ITC.
- Mr. James noted some concern from IOSCO members about how the QMA approach was described, specifically the notion of flexibility in the application of policies and procedures, and whether allowing that type of flexibility could dilute the quality of the internal control structures.
- Mr. James also noted it was difficult to see the correlation that was attempted to be made in the ITC with respect to continuity planning and engagement partner performance and rewards, and suggested further attention be given to this text.
- In relation to group audits, Mr. James also noted IOSCO members provided feedback variously as follows:
 - Concerns with the expression in ISA 600 about “the majority” of the audit from a scoping standpoint, and how the group auditor would approach the audit in circumstances where the majority of the procedures were performed elsewhere. He also questioned how the group engagement team’s procedures to be sufficiently involved might differ depending on the levels of work performed overall by component auditors and not the group engagement team
 - Suggestion that with respect to the acceptance/continuance section, that the ITC could highlight that, in addition to client-imposed restrictions, auditors may also face broader difficulties in obtaining sufficient appropriate audit evidence imposed by the circumstances, for example, circumstances where there are safety concerns.
 - The need to further emphasize that the group engagement team should understand what experts are being used at components.
 - Consideration of how much involvement the group engagement team should have in the risk assessment that is undertaken at the component level, including understanding whether a component auditor has consulted at the component level and the outcome of such consultation. With respect to the latter, Mr. James noted that consultations are typically indications of significant issues that would be important for the group engagement team to understand.
 - How and when the group auditor involves the component auditor in auditing disclosures, in light of the premise of the Disclosures project that it is important for auditors to focus on disclosures throughout the audit process.
 - The need for greater emphasis in the ITC on the procedures (including analytical procedures) that may be expected when there are a large number of insignificant components.
 - Concerns with the implications of the language in paragraph 176 of Agenda Item F.2 in relation to the need for the group engagement partner to make a significantly robust assessment that this was not always required.

Mr. James indicated that he had further comments on the specific actions being proposed and would pass these along offline.

Mr. Waldron thanked Ms. Zietsman and her team for their efforts to conduct the breakout sessions and summarize the feedback, noting his view that using this approach had achieved the objective of soliciting

helpful input in a different way. Ms. Zietsman noted that all the points raised would be further considered as the ITC was finalized, and thanked the Representatives and Observers for their input.

September 16, 2015

Innovation (Agenda Item I)

To *OBTAIN* Representatives' and Observers' views on emerging developments.

Mr. Landes updated the Representatives and Observers on the result of the Innovation WG's (WG) monitoring activities to date. He explained the purpose of the WG, the process for making recommendations to the IAASB, the sources of input to the Innovation WG, the topics that were identified and how the relevance of these topics were ranked by NSS. He explained that other WGs addressing integrated reporting and AUP sufficiently cover information-gathering on non-financial information. He also provided further insight in recent developments in cybersecurity, assurance on corporate governance reporting, and internal control over financial reporting and risk management. Mr. Böhm provided specific insights on the Institut der Wirtschaftsprüfer's project on governance, risk management, internal control, internal audit and compliance.

The Representatives and Observers commented as follows:

- Mmes. Elliott, Lang, Molyneux, and Singh and Messrs. Dalkin and van der Ende noted their support for the monitoring activities of the Innovation WG and the topics identified. Mr. Dalkin noted that similar topics would also be relevant in the governmental context. Ms. Lang noted that the topics identified by the Innovation WG are relevant to large, medium and small audit firms.
- Ms. Molyneux noted that the different topics discussed with the NSS are all part of the Corporate Governance Principles of the OECD and that corporate governance can be seen as an umbrella. She noted that it would be challenging for the Innovation WG to explore how these topics interact. She also highlighted that there are different assurance challenges with regard to corporate governance, including what level of assurance may best serve user needs, the quality of the different inputs practitioners would gather in obtaining evidence on which to base an assurance conclusion, and the need to engage with different departments within the entity subject to the assurance engagement.
- Mr. van den Ende noted that internal controls in banks are becoming more important. Ms. Molyneux suggested the Innovation WG look further at methodologies currently available for assessing corporate governance, as well as at the assurance reports that had been issued in this area. Ms. Elliott suggested the WG should take into account the Committee of Sponsoring Organizations of the Treadway Commission's and the IIA's paper on the three lines of defense in effective risk management and control.¹⁰ Ms. Miller also suggested the Innovation WG should take into account the IIA's standards on assessing governance, risk management and controls. Although they are not focused on external assurance, she suggested that the Innovation WG and NSS may seek further opportunities to work with local IIA institutes. Messrs. Landes and Böhm confirmed that such interactions already take place at a national level in their jurisdiction. Mr. Landes noted some areas

¹⁰ <http://www.coso.org/documents/COSO-2015-3LOD-PDF.pdf>

that need further exploration such as the level of assurance, the demand for direct engagements, including performance audits, and the wording of the assurance report.

- Mr. van der Ende noted that the audit of financial statements and the ISAs should be considered as a whole, since regulators increasingly like to have information on the sufficiency of internal controls and the quality of information before the issuance of the audit opinion. He also expected an increasing demand for continuous assurance, which might impact the current ISAs. Mr. Dalkin agreed and suggested that the Innovation WG explores how the audit of the future may look like and look at ISAs more holistically in the context of this. He cited some fundamental changes in information technology that are ongoing within reporting entities and noted the risk that auditors continue to use a traditional approach while the environment in which audits are performed is changing.
- Mr. van der Ende questioned why NSS did not view eXtensible Business Reporting Language (XBRL) as more relevant. He expressed a view that in the future XBRL will become more important and therefore also the auditor's reports will only be available electronically. He suggested the Innovation WG should explore further this trend. Ms. Singh noted that data analytics and XBRL are linked and was surprised that data analytics scored significantly higher on the NSS' relevance listing. She also drew the attention to a paper that the CFA Institute is developing on data analytics and technology, noting the transformation of the reporting landscape. The paper addresses the standardization, the processing and use of such data. She also suggested that the Data Analytics WG consider XBRL in its monitoring activities. Mr. Landes drew the attention to the XBRL project of the American Institute of Certified Public Accountants. He noted that, although the project has been running for some time and the market has been using XBRL for a few years, no market demand has been identified for an independent assurance report on XBRL. He also elaborated on the use of data analytics and how this leads to more effective audits, which may eventually link to continuous audits.
- Mr. Hansen expressed the view that cybersecurity is becoming increasingly relevant and the IAASB should therefore address this on a timely basis. Mr. Landes confirmed the relevance of cybersecurity and noted that the Innovation WG has started to monitor this topic.
- Ms. Molyneux noted that the topic of human rights is quickly gaining attention from investors and suggested the Innovation WG should monitor this.
- Ms. Molyneux highlighted the need to look at the required competence levels of practitioners performing engagements that deal with the topics addressed in Mr. Landes' presentation. Ms. Lang questioned whether the audit profession has sufficient skills to deal with these topics. Mr. Landes agreed that the skillset of professional accountants may need to change to cope with the changing environment in relation to assurance, noting opportunities in training and education.

Mr. Landes thanked the Representatives and Observers for their input and noted that the IAASB would discuss the agenda material at its September 2015 meeting.

Auditor Reporting – ISA 800 Series (Agenda Item J)

To *DISCUSS* responses to the ISA 800¹¹ and ISA 805¹² ED (Final standards planned for September 2015) and to *REPORT BACK* on the July 2015 ISA 810¹³ ED (Final standard planned for December 2015)

PROPOSED ISA 800 (REVISED) AND PROPOSED ISA 805 (REVISED)

Prof. Köhler introduced the topic, noting that the IAASB planned to approve consequential amendments to ISA 800 and ISA 805 as a result of the release of its new and revised Auditor Reporting standards, in particular the auditor reporting enhancements relating to key audit matters, going concern and other information.

Prof. Köhler summarized the feedback received from the 35 respondents, including one Monitoring Group respondent (IAIS). She explained that the IAASB considered the issues raised by respondents to the ED and the DT's recommendations at its June 2015 meeting. She also explained that the Board planned to consider remaining issues and DT's further suggestions for revisions to proposed ISA 800 (Revised) and proposed ISA 805 (Revised) at its September 2015 meeting.

Prof. Köhler provided an overview of the significant matters raised by respondents to the ED and explained how they had been addressed in the revised drafts of the proposed standards drawing the Representatives and Observers attention to Agenda Items J.1, J.2 and J.3.

The Representatives and Observers did not raise any comments.

REPORT BACK ON PROPOSED ISA 810 (REVISED)

Prof. Köhler provided a report back on the comments raised by Representatives and Observers during the March 2015 CAG discussion drawing their attention to Agenda Item J.4. The Representatives and Observers did not raise any comments.

¹¹ Proposed ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, deals with special considerations in the application of the ISAs (100-700 series) to an audit of financial statements that are prepared in accordance with a special purpose framework. A special purpose framework is defined in the ISAs as a financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.

¹² Proposed ISA 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, deals with special considerations in the application of the ISAs (100-700 series) to an audit of a single financial statement or a specific element, account or item of a financial statement (the phrase "specific element, account or item of a financial statement" is referred to hereafter as "an element").

¹³ Proposed ISA 810 (Revised), *Engagements to Report on Summary Financial Statements*

Disclosures (Agenda Item K)

To *REPORT BACK* on the final changes to the ISAs (Final changes to ISAs issued in July 2015)

Mr. Grabowski noted that the final amendments to the ISAs¹⁴ were approved by the IAASB in March 2015, with due process approved by the PIOB in June 2015. The final documents were published in July 2015, with an effective date for periods ending on or after December 15, 2016. Mr. Grabowski added that the package of final documents included a Staff publication summarizing the approach to disclosures in the financial statements, bringing together the new changes with the existing requirements and application material intended to assist auditors, particularly SMPs, in implementing the changes.

Mr. Grabowski reminded Representatives and Observers that the purpose of the changes were to:

- Focus auditors' attention on disclosures throughout the audit process, thereby contributing to relevant and adequate disclosures for users of the financial statements.
- Enhance the requirements in various ISAs to drive changes in the auditor's approach and improve consistency in practice to more specifically address disclosures, in particular in relation to qualitative disclosures.
- Clarify the auditor's work effort in relation to disclosures by providing additional guidance in the application material in the ISAs to assist auditors in better applying the requirements, regardless of the applicable financial reporting framework, and to draw attention to evolving types of disclosures and the auditor's work effort in relation to them.

Mr. Grabowski highlighted some of the significant issues discussed by the IAASB in finalizing the changes. He added that, in finalizing the amendments to the standards, the IAASB had considered that the changes would build on the fundamental principles in a risk-based audit and would be capable of being applied proportionately in audits of entities of all sizes.

The Representatives and Observers commented as follows:

- Mr. Stewart updated the Representatives and Observers on the IASB's activities with respect to disclosures. He noted that the IASB is working on a practice statement on materiality and explained that the objective of the practice statement is to help management in applying materiality in preparing the financial statements and to help users understand management's decisions. He noted that the next step is to expose the practice statement, which is scheduled for October 2015 with a 120-day comment period. Mr. Stewart further noted that the IASB is working on a discussion paper on the principles of disclosures and explained that the IASB will assess, among other topics, the various concepts of disclosures in financial statements, the role of primary financial statements versus notes,

¹⁴ As a result of the Disclosures project, changes were made to the following ISAs: ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*; ISA 210, *Agreeing the Terms of Audit Engagements*; ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*; ISA 260 (Revised), *Communication with Those Charged with Governance*; ISA 300, *Planning an Audit of Financial Statements*; ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*; ISA 320, *Materiality in Planning and Performing an Audit*; ISA 330, *The Auditor's Responses to Assessed Risks*; ISA 450, *Evaluation of Misstatements Identified during the Audit*, and ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*.

proportionality in disclosures and non-IFRS disclosures. It is expected that the discussion paper will be exposed in the first quarter of 2016 with a 120-day comment period.

- Mr. van der Ende noted support for the IAASB and the IASB liaison working together with respect to disclosures and other topics of mutual interest like going concern and IFRS 9. He also encouraged the IASB to work together with the IAASB in the development of accounting standards that take into account the auditability for auditors. With respect to the topic of going concern, Mr. Stewart noted that the IASB currently has no plans to make changes to its standards and encouraged the Representatives and Observers to respond to the IASB's consultation on the Conceptual Framework to highlight the importance to address the topic of going concern in the accounting standards. Prof. Schilder informed the Representatives and Observers on the discussions he had with the IASB's leadership on the topic of going concern.

Mr. Grabowski thanked the Representatives and Observers for their comments.

Data Analytics (Agenda Item L)

To <i>RECEIVE</i> a presentation and <i>OBTAIN</i> Representatives' and Observers' views on further areas to be explored.

Mr. Dohrer introduced the discussion, providing the CAG with a brief summary of the background of why the Data Analytics Working Group (DAWG) was established and a synopsis of the work of the DAWG to date. At its June 2015 meeting, the IAASB provided feedback on the DAWG's proposed areas of focus and information gathering activities. The IAASB was supportive of the proposed general direction, but noted that an appropriate scope of the project needed to be maintained (i.e., a focus on "audit relevant data") and cautioned against moving forward too quickly, specifically proposing amendments to the ISAs, prior to sufficient information gathering being completed. Mr. Dohrer then provided the CAG with a summary of the discussions planned with the IAASB at its next meeting, including consideration of a number of illustrations of the application of audit data analytics in a financial statement audit.

Mr. Dohrer then continued through the presentation in Agenda Material L.1, commenting specifically on various aspects of the presentation. Mr. Dohrer provided an overview of those who are interested in audit data analytics, which include, among others, regulators, audit oversight bodies, practitioners and investors. Mr. Dohrer explained that, while there have been advances in the use of technology in the audit, these have been incremental rather than transformative. He also noted that in the context of how companies, internal auditors and similar groups are utilizing data analytics, the external audit profession is lagging in its use of these techniques.

As it relates to the auditing standards themselves, Mr. Dohrer noted that there are those that believe only incremental guidance is necessary related to audit data analytics, while there are others who believe the standards need to be more encouraging regarding the use of data analytics, while at the same time being able to stand the test of time and be technology agnostic. Those who have already analyzed the auditing standards in the context of audit data analytics, such as the American Institute of Certified Public Accountants, believe they are sound; however, there is a view that the ISAs could also benefit from further consideration in the context of the technology environment in which we operate today.

Mr., Dohrer highlighted the key areas of an audit of historical financial statements impacted by audit data analytics, noting that one of the more prominently impacted areas relates to risk assessment. He explained that there are certainly other areas of the audit that are relevant in the application of data analytics, such

as substantive procedures, but these areas hold some additional practical challenges in the context of the requirements of current standards. For example, in the area of substantive analytics, which require the development of an expectation, audit data analytics can be very effective, but many of those techniques do not start with an expectation, as current substantive analytical procedures require. Rather, the audit data analytics predict what the auditor should expect, and once the auditor applies the analytic, it becomes unclear as to what type of evidence the auditor has. Mr. Dohrer continued by discussing topics related to data validation (particularly external sources of data), audit data standards and data security and privacy concerns, and also highlighted the benefits to audit quality and the challenges of effectively implementing the use of audit data analytics. Mr. Dohrer also noted that questions had arisen regarding whether, even in cases where 100% of a population is tested using audit data analytics, the outcome of the procedure constituted audit evidence and if so, how the audit documentation and other standards apply, particularly when all of the evidence is in electronic format. However, he explained that, even in a 100% test of a population scenario, the concept of audit sampling that is used today will likely continue to be relevant.

Finally, Mr. Dohrer provided an overview of the organizations that the DAWG was planning to perform outreach with and other information gathering activities. He concluded with the fact that, in medicine, doctors are expected to utilize the most technologically advanced procedures to the extent they improve patient outcomes, the question is why would stakeholders require anything less of the auditing profession.

The Representatives and Observers commented as follows:

- Mr. Waldron noted that audit data analytics is certainly an interesting topic and appreciated Mr. Dohrer's presentation. He noted the topic would likely be particularly of interest to students who will become auditors.
- Mr. Stewart drew attention to Mr. Dohrer's comments on the material related to the benefits to audit quality and specifically to the reference to improved coverage and analyzing larger populations, asking whether there is any thought yet on whether this path will have the effect of a higher level of assurance from an audit of the financial statements. Mr. Dohrer responded that is not yet known, and noted that greater coverage does have implications for greater level of assurance. He noted that there are many different types of analytics that can be used, and care needed to be taken to differentiate between them in suggesting a greater degree of assurance can be obtained. Mr. Dohrer explained that other considerations, such as the testing of completeness and accuracy of the population, consideration of outliers, will be relevant to the concept of 100% verification. In his view, ultimately the degree of assurance depends on a number of other factors, including how the auditor responds to the outcome of the data analytics, but it is a question to be further considered by the DAWG and the IAASB.
- Mr. Ahmed noted that he respected the manner in which Mr. Dohrer responded to Mr. Stewart's question related to the level of assurance. He explained that there are a number of areas where changes envisaged through use of audit data analytics will affect how current audit procedures are performed. In his view, the use of audit data analytics will allow for identification of more anomalies. If utilized effectively, Mr. Ahmed believed that audit data analytics can contribute to more effective and efficient procedures, resulting initially in being able to perform an audit with the same level of assurance being obtained as an audit today, at a lower cost. However, he noted that moving to the next level – i.e., to be in a position to assert that a higher level of assurance can be obtained at the same cost, may be more difficult. Mr. Ahmed raised the example that increased use of audit data analytics techniques in an audit (and outsourcing of certain aspects of that data analysis) provides additional opportunities to involve other skillsets in the audit and given the electronic nature of the

data, analysis can be done by individuals that don't need to be located near the client or the engagement team. In his view, this will result in additional time for experienced auditors to focus on key judgments and other significant matters that require the auditor's areas of expertise.

- Ms. Molyneux commented in relation to Mr. Dohrer's concluding thought and the analogy to the medical community. She questioned whether there is an expectation in a change in the balance in an audit, suggesting that the associated training and skillset to be able to effectively utilize the new techniques is imperative and could possibly result in a different structure of the engagement team to incorporate data analytics experts since the engagement partner may not have this experience. Mr. Dohrer responded that would likely be the case. He explained that, where these techniques are being currently being used on audits, in many instances they are considered specializations as opposed to part of the day to day audit. Mr. Dohrer reiterated that the auditing standards as they exist today are fundamentally sound. While they allow for the use of new techniques such as data analytics, the ISAs require the engagement partner to assess whether sufficient appropriate audit evidence has been obtained in order to support the auditor's opinion, and Mr. Dohrer noted that this responsibility will not change, no matter how that evidence is obtained.
- Ms. Lang noted the discussion related to boundaries with respect to the ISAs was relevant in the context of data analytics but that she was not sure where those boundaries would be and noted that this would likely be a challenge for the DAWG.
- Ms. Miller noted that from her experience and hearing from her colleagues in the internal audit environment, the challenge of data gathering cannot be underestimated. Access to the data needed to perform the techniques can be challenging as well, including in a way that can be usable (e.g., in relation to both volume and confidentiality aspects, and the stability of the evidence if the auditor has not accessed the information in a way that the auditor can control). Ms. Miller noted that the IIA has issued guidance on many of these topics and recommended the DAWG consider this material.
- Mr. Ahmed asked whether a distinction exists between internal and external audit with regards to the use of audit data analytics and transformational change. Mr. Dohrer explained that, from what is known so far, internal audit is using data analytics in a manner that is different than what the external auditor would use them, with internal audit use of data analytics more focused on use related to internal controls. While there are differences in how internal audit and external audit are using audit data analytics, there are certainly aspects of internal audit's use of audit data analytics that can be leveraged by external audit.
- Ms. Singh was interested in the DAWG's plans for outreach, and whether specific organizations or individuals had been identified. Mr. Dohrer noted at this stage the DAWG had identified broad categories of groups from whom to gather information. Ms. Singh responded that she was aware of individuals who are doing work in this area and would pass along those details to the DAWG.
- Mr. Inuma noted various stakeholders are interested in the topic of audit data analytics. He suggested that, in considering the DAWG's outreach plans, the timetable included in the agenda materials and the speed at which technology develops, the DAWG should consider the possibility of issuing a document that summarizes the results of the outreach performed prior to issuing something more specific such as a discussion paper (currently planned for June 2016). He suggested this type of publication could highlight the current use of data analytics to raise awareness. Mr. Dohrer noted the DAWG will reflect upon the outcome of outreach and consider what may be appropriate.

- Ms. Lang also noted that an additional group that the DAWG should consider within their outreach activities is marketing companies that have been successful in targeting advertising, particularly on the internet, to consumers. Ms. Lang also noted she is aware that Brunel University has activities related to data analytics, in particular in relation to the possibility that data analytics would be used to drive further “real time” reporting by companies, and suggested the DAWG might wish to reach out to them.

Mr. Dohrer thanked the Representatives and Observers for their comments.

Integrated Reporting (Agenda Item M)

To <i>REPORT BACK</i> on the March 2015 meeting and <i>OBTAIN</i> Representatives’ and Observers’ views on the issues identified
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Ms. Kamp-Roelands drew the Representatives’ and Observers’ attention to the Report Back. The Representatives and Observers did not raise any specific comments.

She also noted the IAASB Integrated Reporting Working Group’s (IRWG) paper that was published in July, noting the CAG had discussed a previous draft at its March 2015 meeting. Ms. Kamp-Roelands also highlighted other recent activities of the IRWG, in particular results of the information-gathering activities with stakeholders and the IRWG’s in-depth analysis of the responses to the IIRC’s two Discussion Papers exploring assurance on integrated reporting.

She explained that the IRWG has three focus areas in progressing its work on the topic: (i) broadening the focus from integrated reporting to wider developments in external reporting; (ii) viewing assurance engagements in the broader context of credibility and trust; and (iii) exploring an analysis model for considering how assurance engagements could be conducted, including their nature and scope and the underlying rationale for them. Finally, she provided insight on the IRWG’s initial thoughts on the topics to be included in a Discussion Paper planned for 2016.

The Representatives and Observers commented as follows:

- Ms. Borgerth noted her support for the IRWG’s activities. She also noted that the IIRC is working further with regard to materiality in the context of the International Integrated Reporting <IR> Framework. She noted that non-financial information is becoming increasingly important to inform stakeholders about companies and that the purpose of the International <IR> Framework is to bring non-financial information to the same level of quality as financial information. Therefore, in her view, the possibility of assurance on non-financial information will be essential. However, Ms. Borgerth agreed that the IAASB should not rush in terms of assurance on non-financial information as the International <IR> Framework will continue to evolve. Rather, she suggested that the IAASB continue to follow developments and the focus on non-financial information to be in a position to respond to assurance needs in the future.
- Mr. Waldron and Ms. Singh cited results of a recent CFA Institute survey noting the increased use of non-financial information as well as investors’ increasing interest in both required environmental, social and corporate governance disclosures by companies and independent verification of these

disclosures. Mr. Waldron also noted the feedback from investors that they use this information to manage risk in portfolios. They agreed to distribute the survey to Representatives and Observers.¹⁵

- Ms. Molyneux cited different results from a recent PwC survey on investors' expectations with respect to environmental, social and corporate governance disclosures to support her view that the IAASB should not unduly delay its work in this area. She noted the existence of a wide variety of different standards addressing environmental, social and corporate governance reporting and provided examples of developments in different jurisdictions and different industries. Mr. Rockwell agreed that the variety of information, standards and implementation across jurisdictions is concerning. Ms. Molyneux was of the view that investors need environmental, social corporate governance and other non-financial information and need to know that it is reliable. She suggested that the IAASB's work should track current practice, out of which will likely come some cohesion and consistent expectations. Ms. Borgerth noted she supports the concept of integrated reporting because, in her view, it will likely be difficult for the other different regulations and initiatives to be sufficiently connected to give integrated information about the entity. Ms. Kamp-Roelands explained that differences in jurisdictions as well as demand for assurance on some or all of the information will always remain and, as such, flexibility is relevant to the further work of the IRWG. She reiterated that the IRWG is exploring the thought process of the practitioner in deciding whether to undertake an assurance engagement, starting with the options for an appropriate assurance conclusion, to the underlying subject matter, subject matter information, management assertions and risks of material misstatements. Ms. Kamp-Roelands noted that this initial consideration will help the IAASB's future discussions, including identifying areas where limitations may occur due to the criteria, as well as the skillsets of practitioners.
- Ms. Robert explained the new European Directive on disclosure of non-financial and diversity information, which amends the Accounting Directive 2013/34/EU,¹⁶ will require large PIEs to report on a number of key performance indicators, including human rights. She also noted that the Directive includes an option for individual member states to ask practitioners to verify this information. As such, Ms. Robert explained that FEE is currently monitoring these developments, including how practitioners are responding to these requests. She noted that, most often, ISAE 3000 (Revised)¹⁷ is being used, although ISO standards have also been used. She also confirmed the relevance of the IAASB having a broader focus than integrated reporting as it may take several years for integrated reporting to mature, while the need for assurance on non-financial information may be more urgent.
- Mr. Rockwell questioned whether all information related to environmental, social and corporate governance disclosures fall within the professional competence skills of the auditing profession. While in some cases the controls over this information may be similar to financial reporting and therefore assurance concepts may also be similar, in his view, the nature of controls over governance and social policy may be very different. Mr. Rockwell therefore suggested it would be important in considering whether to develop a standard for the IAASB to further explore whether boundaries to assurance engagements may be needed in light of the scope of the practitioner's professional confidence, to prevent an assurance report on certain areas becoming merely a "check the box" exercise. Ms. Molyneux agreed, highlighting the complexity of topics that may be subject to an

¹⁵ http://www.cfainstitute.org/ethics/Documents/issues_esg_investing.pdf

¹⁶ See also Directive 2014/95.

¹⁷ ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

assurance engagement on non-financial information, and her view that cooperation with other disciplines (such as engineers and other experts) may be necessary in light of the limitations of what practitioners can do. She cited the flexibility that the European Directive allows in selecting the reporting framework under which to report, and asked the IRWG to further consider what is possible within the competencies of the accountancy profession. Ms. Kamp-Roelands confirmed that audit firms are currently using multi-disciplinary teams when performing these types of assurance engagements, but also acknowledged that assurance in relation to particular topics, such as human rights, may be inherently difficult.

- Ms. Borgerth noted that a recent IASB ED sets out the view that an entity's accounting policies should be based on its business model, so auditors will need to consider the entity's business model in conducting audits in the near future. However, she agreed with Mr. Rockwell's view that assurance on non-financial information may require additional skills that practitioners may not currently have. She also noted that the biggest supporters of integrated reporting are audit firms as it conveys business opportunities for them, so in her view they will acquire the skills necessary to conduct these engagements. Mr. Rockwell continued to caution that the audit profession may need to acknowledge the boundaries of its expertise.
- Mr. Yoshii expressed the view that the most important aspect of disclosure in integrated reports is the entity's business models and its long-term prospects, noting these differ within industries. In his view, the accountancy profession may find it difficult to assure such information because they are experts in auditing, not the entity's business.

Ms. Kelsall noted the CAG discussions confirmed the relevance of the IRWG and the IAASB continuing its work in this area, consistent with the feedback to the IIRC's consultations. She summarized that the IRWG's broader focus on other external developments in reporting, as well as on keeping up dialogue and information-gathering in this area, will be critical. She highlighted that the timeline for issuing a Discussion Paper takes into account the need for the IRWG to understand the levels of demand and the developments in different jurisdictions in determining the best way forward. Mmes. Kelsall and Kamp-Roelands thanked the Representatives and Observers for their input and noted that the IAASB would discuss the agenda material at its September 2015 meeting.

Closing Remarks (Agenda Item N)

PIOB OBSERVER REMARKS

Mr. Horstmann noted that the Representatives and Observers have provided enormously valuable information to the IAASB's WGs and TFs and noted that the WGs and TFs have taken the input very seriously. Mr. Horstmann was impressed by the continuing improvements that were proposed by the CAG in the private session and the synergies that the CAG creates, and noted that this results in better ideas.

Mr. Horstmann highlighted the importance of the Financial Institutions project to the PIOB. He noted that the focus of the WG has matured and that the close cooperation with the Basel Committee is critical and seems to be working well. He also noted that the changes to ISA 540 should be applicable to all entities and not just financial institutions.

Mr. Horstmann noted that the breakout groups were very efficient and effective in getting input on the proposals of the Enhancements Group. He also noted that all WGs and TFs are focused on public interest.

Mr. Horstmann concluded by noting that the CAG should continue its good work and that he is impressed by the work done.

IAASB CHAIRMAN REMARKS

Prof. Schilder complimented Mr. Waldron on his first meeting as CAG Chairman and thanked the Representatives and Observers for their comments and suggestions. He noted the importance of receiving feedback from the CAG in advance of the IAASB meeting and indicated that the input will be helpful to next week's IAASB meeting. Prof. Schilder also noted his appreciation for the record number of IAASB members who attended the CAG meeting.

Reflecting on the discussion, Prof. Schilder highlighted to the Representatives and Observers that the IAASB is commencing many of its projects to be responsive to issues which the audit profession is facing and to address the ISA Implementation Monitoring and audit inspection findings. Prof. Schilder explained that ADMs are changing because of new technologies, business models and documentation requirements. Therefore, the ISAs better need to address these complexities and new developments in technologies.

Prof. Schilder noted that one of the objectives of the work of the Enhancements Group is to increase the auditor's transparency and observability which is influenced by the perceptions that the auditors should change from a commodity in a black box to a professional who challenges management, is a critical thinker who operates in the forefront and who is supported by a regime of public interest and quality management.

IAASB CAG CHAIRMAN REMARKS

Mr. Waldron thanked the CAG Representatives and Observers for their high level of preparation and participation and the quality of comments provided during the meeting. He also thanked the Chairman, IAASB members and Staff for their contribution to the success of the meeting. He then closed the meeting.