



Meeting: IAASB Consultative Advisory Group
Meeting Location: New York
Meeting Date: March 9–10, 2015

Agenda Item

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

Held on September 8–9, 2014

New York, U.S.A.

[Marked to Show Changes Since December 1, 2014]

PRESENT

Members

Linda de Beer	Chairman
Vânia Borgerth	Associação Brasileira de Instituições Financeiras de Desenvolvimento
Kristian Koktvedgaard*	BUSINESSEUROPE
Matthew Waldron	CFA Institute
Marie Lang	European Federation of Accountants and Auditors for SMEs (EFAA)
Federico Diomeda	EFAA
Jean-Luc Michel	European Financial Executives Institutes (EFEI)
Hilde Blomme	Fédération des Experts Comptables Européens (FEE)
Myles Thompson	FEE
John Kuyers	Information Systems Audit and Control Association (ISACA)
Michael Stewart**	International Accounting Standards Board (IASB)
William Hines	International Actuarial Association (IAA)
George White	International Bar Association (IBA)
Anne Molyneux	International Corporate Governance Network (ICGN)

* During the meeting, Mr. Koktvedgaard participated in the capacity of both an IAASB CAG member and the International Ethics Standards Board for Accountants (IESBA) CAG Chair.

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

Seiya Fukushima	International Organization of Securities Commissions (IOSCO)
Nigel James	IOSCO
Jim Dalkin	International Organization of Supreme Audit Institutions (INTOSAI)
Frank Bollmann	International Valuation Standards Council (IVSC)
Jaseem Ahmed	Islamic Financial Services Board (IFSB)
Hayanari Uchino	Japan Securities Dealers Association (JSDA)
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Lucy Elliott	Organisation for Economic Cooperation and Development (OECD)
Gamini Wijesinghe	Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)
Irina Lopez	World Bank (WB)

Observers

Pat Sucher	Basel Committee on Banking Supervision (Basel Committee)
Martin Baumann***	U.S. Public Company Accounting Oversight Board (PCAOB)
Brian Bluhm	IFAC Small and Medium Practices Committee, Deputy Chair (SMPC)
Chris Hemus	International Monetary Fund (IMF)
Simon Bradbury	IMF

IAASB

Prof. Arnold Schilder	IAASB Chairman
Dan Montgomery	IAASB Deputy Chair and Task Force (TF) Chair
Cédric Gélard (Agenda Item J)	IAASB TF Chair
Marek Grabowski (Agenda Item C)	IAASB TF Chair
Merran Kelsall **** (Agenda Item E)	IAASB Innovation Working Group (WG) Member / Integrated Reporting Liaison
Chuck Landes **** (Agenda Item I)	IAASB TF Chair
Bruce Winter (Agenda Item G)	IAASB TF Chair

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

**** Via teleconference

**** Via teleconference

James Gunn	Managing Director of Professional Standards
Kathleen Healy	IAASB Technical Director
Diane Jules	IAASB Senior Technical Manager
Nancy Kamp-Roelands	IAASB Deputy Director
Brett James**** (Agenda Item J)	IAASB Senior Technical Manager
Beverley Bahlmann**** (Agenda Items C and L)	IAASB Senior Technical Manager
Sara Ashton (Agenda Item I)	IAASB Senior Technical Manager
Jasper van den Hout (Agenda Item D)	IAASB Technical Manager
Public Interest Oversight Board	Jane Diplock Susana Novoa

APOLOGIES

Members

Conchita Manabat	Asian Financial Executives Institutes (AFEI)
Fang Han	AFEI
Juan Maria Arteagotia	European Commission (EC)
Dr. Obaid Saif Hamad Ali Al Zaabi	Gulf States Regulatory Authorities (GSRA)
Tom Finnell, Jr.	International Association of Insurance Supervisors (IAIS)
Abdelilah Belatik	IFSB
Marie Hollein	North American Financial Executives Institutes (NAFEI)
Xiaoma Lu	World Federation of Exchanges (WFE)

Observers

Norio Igarashi	Japanese Financial Services Agency (JFSA)
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September 8, 2014¹

Welcome and Approval of Minutes of Previous Meeting (Item B)

To *APPROVE* the minutes of the March 2014 CAG public session.

OPENING REMARKS

Ms. de Beer welcomed the Representatives and Observers, including new Representatives Mr. Jean-Luc Michel (EFEI – replacing Mr. Peyret), Mr. Gamini Wijesinghe (SLAASMB – Ms. Perera), and Ms. Lucy Elliott (OECD – replacing Mr. Pannier). She noted that Ms. Elliott's term started in March 2014, but she was unfortunately unable to attend that meeting. She also welcomed Ms. Pat Sucher, observing on behalf of the Basel Committee while they are in the process of finding a replacement for Mr. Grund.

Ms. de Beer also welcomed Mmes. Jane Diplock and Susana Novoa from the PIOB as well as the IAASB Chair and Deputy Chair, the IAASB TF Chairs, and Staff. She also welcomed the observers, including Mr. Steve Harris, Chairman of the Investor Working Group of the International Forum of Independent Audit Regulators and Mr. Simon Bradbury (who will be replacing Mr. Hemus from IMF). She welcomed other observers to the meeting with particular reference to Ms. Noemi Robert (who will be replacing Ms. Hilde Blomme in March 2015) as well as a number of IAASB members.

Ms. de Beer noted that Ms. Blomme and Messrs. Diomeda, Hemus and Uchino are attending their last meetings after which they will rotate off as Representatives of their respective CAG Member Organizations. She acknowledged their contributions, and noted that she is working with the respective CAG Member Organizations in appointing suitable replacements.

MINUTES OF THE PREVIOUS MEETING

The minutes of the March 2014 meeting were approved as presented.

Report Back – Financial Statement Disclosures (Item C)

To *REPORT BACK* on the matters discussed in advance of the exposure draft (ED), *Proposed Changes to the International Standards on Auditing (ISAs)–Addressing Disclosures in the Audit of Financial Statements* (ED approved in March 2014 and open for comment through September 2014) .

Mr. Grabowski drew the CAG's attention to the report back included in Agenda Item C, noting that the IAASB would be working to finalize the changes in March 2015, based on the input received on the ED. He added that the comment period for the ED was still open until September 11, 2014 and encouraged CAG Member Organizations to provide their comments on the IAASB's proposals for disclosures. Mr. Stewart noted that comments had been provided, by a member and Staff from the IASB, to the IAASB on the ED.

Ms. de Beer reminded the CAG that report backs was an important, albeit not the only mechanism, for ensuring that the comments of the CAG are adequately considered by the various TFs and the IAASB. She emphasized that, in addition to this formal report back mechanism, CAG comments were also taken to the IAASB meeting by herself, the Chair, Deputy Chair and Technical Director of the IAASB as well as the TF

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.

Chairs, who all attend the CAG meetings to have a first-hand understanding of the CAG comments. Other than Mr. Stewart, the Representatives and Observers had no comments.

Auditor Reporting – Overview (Item D)

To *REPORT BACK* and *DISCUSS* issues identified and the drafting team's (DT) proposed revisions and proposals for a way forward relating to key audit matters (KAM), going concern (GC) and other suggested improvements to the auditor's report in light of the feedback received from respondents to the ED, the Board and the CAG.

Mr. Montgomery introduced the topic, noting that significant progress has been made by the auditor reporting DTs. He updated the CAG on the project status and noted that the IAASB will be asked to approve the standards at its upcoming September 2014 meeting for submission to the PIOB for confirmation that due process had been followed in their development at the PIOB's December meeting. Pending such confirmation, the new and revised auditor reporting standards would be issued in January 2015.

The Representatives and Observers commented as follows:

- Mr. Koktvedgaard, speaking on behalf of the CAG WG on auditor reporting, recognized the work effort being undertaken by the IAASB on the auditor reporting project and generally supported the direction proposed by the DTs. Mr. Hansen agreed.
- However, Mr. Koktvedgaard and the WG questioned the purpose of the sessions in light of the stage of the project, namely whether the DTs were soliciting comments of a "fatal flaw" nature or whether decisions made by the DTs or IAASB may be revisited based on CAG input from this meeting. Mr. Montgomery explained that the CAG agenda material firstly focuses on a number of remaining issues for the CAG's consideration, with the Report Backs explaining how previous CAG comments had been taken into account in the current version of the standards. Input on all aspects, however, was welcome to inform the IAASB as it finalizes the standards.
- Mr. Koktvedgaard noted the WG was unclear as to how DT-701 considered the insights and learnings from the new auditor reporting requirements in the UK, and suggested this should have been explicitly addressed in the detailed Report Back. Mr. Montgomery noted that DT-701 has learned much from the experiences in the UK and has considered this in revising proposed ISA 701,² by reaching out to engagement partners and other firm representatives and the United Kingdom (UK) Financial Reporting Council (FRC), participating in the PCAOB's open meeting on auditor reporting, and reviewing various publications detailing investor feedback. However, Mr. Montgomery acknowledged that the UK has a different reporting model whereby a separate report describes the work of the Audit Committee in discharging its responsibilities (including the significant issues in the financial statements and how the Audit Committee addressed them). Further, principles-based requirements and limited guidance for auditors are included in the UK FRC's auditor reporting standard. Ms. Healy noted the experience in the UK was viewed as positive, including by auditors, without the need for additional prescription in the standard. Overall, Mr. Montgomery noted his view that the thought processes in proposed ISA 701, and the expected results of its application, are consistent with what is generally being applied in the UK.

² Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

- Ms. Molyneux noted that the investor community welcomes the new standard addressing KAM, as investors are of the view that the new auditor's reports being issued in the UK provide more and better information to users of the financial statements.
- Mr. Kottvedgaard noted that this meeting represented the first opportunity for the CAG to review the full set of auditor reporting standards. While recognizing that the ED included markups of changes from the extant standards, which had been made available to the CAG, he expressed a view that it would have also been helpful for such changes to be updated to the final versions of the standards, in order to see the progress that had been made from the extant standards and how all the changes fit together. Ms. Healy explained the process that the DTs and the Board have followed to date in considering the nature and extent of changes since the ED. She noted that the final standards had been provided for the CAG's consideration, in light of the desire to focus the CAG on the remaining issues, supplemented with the DT's consideration of whether re-exposure was necessary as discussed in paragraphs 17–22 of Agenda Item D, G, I. Mr. Kottvedgaard reiterated the need for both the CAG and the IAASB to consider whether the changes as a whole are in the public interest.
- Mr. Baumann updated the CAG on the PCAOB's auditor reporting project, including its work on critical audit matters and other information. He noted that the PCAOB and IAASB have been close all along in terms of the philosophy of the need for changes to the auditor's report, the proposed changes and the comments received on their respective proposals, remarking that there are no material differences in the two approaches. He acknowledged the PCAOB's timeline towards finalization and adoption of its standards would be longer than the IAASB's because of the complexity of United States (US) laws, which include the need for cost/benefit analyses. He mentioned that the PCAOB is following a similar approach to the auditor's duties on other information (proposed ISA 720 (Revised))³ which will similarly include a reporting requirement. He suggested the PCAOB will likely re-expose its auditor reporting proposals later in 2014. Mr. Baumann also noted that the naming of the engagement partner is a separate PCAOB project, which also includes disclosure of other participants in the audit. He explained that the PCAOB had re-exposed its original transparency proposals, and that the goal remains to disclose the name of the engagement partner.

Auditor Reporting – KAM (Item D)

COMMUNICATING KAM – CIRCUMSTANCES IN WHICH A MATTER DETERMINED TO BE A KAM IS NOT COMMUNICATED IN THE AUDITOR'S REPORT

Mr. Montgomery introduced the topic by noting broad support across all stakeholder groups for a requirement that addresses the circumstances in which an auditor may decide not to communicate a matter that is determined to be a KAM. He explained that the Board and CAG previously supported developing such a requirement, provided that appropriate parameters could be put in place within the standard to make sure that this requirement is not being used as a means of not communicating KAM when it would otherwise be appropriate for the auditor to do so. For that reason, the standard explains this as an "extremely rare" circumstance. As outlined in the agenda material, Mr. Montgomery explained the steps to be taken by the auditor before the auditor can decide not to communicate a KAM in the auditor's report, noting the intent is for the auditor to take into account the facts and circumstances relating to the matter, in particular whether management could include additional disclosures in relation to the matter or the auditor could describe the

³ Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

KAM in such a way that would not be viewed as giving rise to significant adverse consequences to the entity.

The Representatives and Observers commented as follows:

- Ms. de Beer noted that, in her view, previous CAG concerns that this requirement was too broad have been addressed by DT-701, with the result being a more stringent requirement to limit its application for non-reporting of KAM. Messrs. Thompson and White and Ms. Sucher agreed that the proposed changes to the requirement are an improvement in response to the CAG's concerns.
- Mr. Thompson noted the view that proposed ISA 701 could be more specific in paragraph 14(b) that a matter not disclosed by the entity may still be communicated as a KAM. He also noted that, due to its positioning, the application material in paragraph A55 in relation to GC "close calls" could be misinterpreted as implying that auditors could not communicate these matters as KAM. Mr. Montgomery agreed, noting that the intent of this paragraph was to provide auditors with guidance about how GC "close calls" could be communicated (rather than being omitted from the auditor's report if viewed as a "sensitive matter"). Mr. Montgomery agreed this material may be better placed in support of the requirement addressing how to describe individual KAM.
- Mr. White noted that it would be helpful for the requirement in paragraph 14(a) to include reference to relevant ethical requirements to highlight the interplay between these requirements and law and regulation, even though he recognized that relevant ethical requirements might be applied in different ways by national auditing standard setters (NSS). Mr. Stewart was of the view that the guidance in paragraph A53 of proposed ISA 701 was unclear and could be confusing in cases where a generic reference is made to relevant ethical requirements embedded in law or regulation. Mr. Montgomery agreed, noting that further specificity within the standard is difficult due to the range of ethical requirements that may be applied other than the IESBA *Code of Ethics for Professional Accountants* (the IESBA Code).
- Mr. White noted strong support for the approach taken in the revised requirement in paragraph 14(b) of proposed ISA 701 and related application material, which focuses on the fact that the significance of adverse consequences is about new information that is not otherwise publicly disclosed and that there should be compelling reasons for non-disclosure.
- Mr. Fukushima noted that some IOSCO Committee 1 members had expressed significant concerns about the inclusion of a requirement, as it might be used in an inappropriate manner. In particular, he cited concern that the term "adverse consequences" was not defined in the standard nor was it explained in the proposed requirement in paragraph 14(b) of proposed ISA 701. He suggested a definition of adverse consequences should be included in the standard or that application material in paragraph A58 should be elevated as part of that requirement so that stakeholders can come to the same understanding of the meaning of adverse consequences through a clear articulation of the concept. However, Messrs. Dalkin, Hemus, Stewart and White and Mmes. de Beer, Diplock and Sucher suggested DT-701 should reconsider both the intent and the clarity of the guidance in paragraph A58, in particular the last sentence. The reference to "that involve harm to the entity's commercial negotiations or competitive position" may be viewed as too categorical in asserting what are not adverse consequences. Ms. Diplock also noted that some entities might suggest that reputational risk alone constituted a significant adverse consequence, which may not be what the IAASB intends. Mr. Montgomery agreed that specifically defining adverse consequences is difficult

in light of the various legal frameworks in which the ISA will be applied, and so an attempt was made to compare and contrast certain circumstances that may arise to provide guidance for auditors. However, he acknowledged the difficulties in describing a sufficiently high bar in relation to significant adverse consequences, as the possible consequences need to be considered in light of the facts and circumstances of the entity being audited.

- Mr. White agreed with the need for the standard to articulate that the decision whether to communicate a KAM in certain circumstances needed to take into account the public interest considerations in relation to both communicating and not communicating a KAM. Mr. Hansen noted that there may be competing public interest considerations (e.g., in relation to current investors vs. future investors). He noted the principle of transparency is important and was appropriately reflected in the proposed requirement and application material.
- Ms. Sucher welcomed the move to limit the application of the proposed requirement to “extremely rare circumstances.” In view of her experience with the application of the UK auditor reporting proposals, Ms. Sucher suggested that a “less is more” approach in both the requirement and application material may be useful, supplemented with an explanation of the Board’s rationale for such a requirement in the Basis for Conclusions accompanying the final standard. In her view, because such circumstances are already highlighted in the requirement as extremely rare, auditors dealing with them may overly rely on any application material rather than considering the facts and circumstances as intended. Mr. Montgomery agreed, noting concerns that too much specificity about the concept of significant adverse consequences to the entity may be viewed as the auditor being required to make a legal determination of such consequences. He suggested the possibility of changing paragraph 14 to: “In extremely rare circumstances, the auditor determines that a matter that has not otherwise been publicly disclosed should not be communicated in the auditor’s report”. He noted that the application material could refer to management’s assertion about why the matter was not disclosed and rationale for the reasonable expectation of significant adverse consequences, including the possibility of obtaining a written representation from management in this regard. The standard would continue to require documentation of the auditor’s decision not to communicate a KAM in the auditor’s report. In Mr. Montgomery’s view, this change would still result in appropriate parameters because the circumstances are already described as “extremely rare”. Mr. Stewart agreed with Mr. Montgomery’s proposed change to the requirement and suggested that the adverse consequences and harm to the entity when disclosing should be weighed up against the benefits of disclosure. Mr. Stewart also noted that ethical guidance might be needed in A53 as to how the auditor should deal with decision between confidentiality versus public interest in such circumstances.
- Mr. Dalkin asked how the UK auditor reporting standard addresses sensitive matters. Mr. Thompson was of the view that this was less of an issue in the UK as the Audit Committee is the first point of reporting about such matters. Ms. Sucher noted that sensitive matters were not addressed in the UK standard but that it has come up in the context of GC issues on the audit of banks. She raised, as an example, negotiations of lending situations for a bank and the view that auditors communicating about such negotiations in the auditor’s report could have a negative impact on the bank’s ability to conclude the negotiations, which would have public interest implications. Ms. Molyneux agreed that consideration needs to be given to the environment in which the entity operates, both in terms of whether matters should or should not be reported, including, for example, banks and financial institutions and family- and state-controlled enterprises. Mr. Ahmed also suggested in the cases of

entities under the purview of prudential regulators that consideration may need to be given as to how best to acknowledge communication requirements with those regulators.

- Mr. Hemus questioned if the required statement that there are no KAM to communicate in the auditor's report would be the same in both the scenario, namely where the auditor determined that there are no KAM to be communicated as well as where the auditor determined there is one KAM but that KAM is not communicated because of proposed requirement in paragraph 14 in proposed ISA 701. Mr. Montgomery explained that in both scenarios the same statement is made, as requiring a different statement would serve to highlight that a particular KAM was not communicated without providing transparency as to why this was the case. Mr. Montgomery explained that the proposed wording in the Auditor's Responsibilities section was aimed at providing transparency about the possibility that this may occur in extremely rare circumstances.
- Mr. Bluhm noted that, in a small listed entity, those charged with governance (TCWG) might not be fully independent from management and that TCWG could try to persuade the auditor to omit a KAM from the auditor's report, citing broad adverse consequences of the auditor communicating about the matter. He cautioned that auditors may be inappropriately persuaded by their clients to not communicate KAM.

OTHER CHANGES TO PROPOSED ISA 701

Mr. Montgomery highlighted the other significant changes made to proposed ISA 701 as a result of the Board and CAG discussions. He noted that the requirement in paragraph 13 of proposed ISA 701 was revised to require, in all cases, the description of a KAM to include not only why the matter was considered to be one of most significance in the audit and therefore determined to be a KAM, but also how the matter was addressed in the audit. Mr. Montgomery also explained that paragraph 16 of proposed ISA 701 was revised to respond to concerns expressed at the June 2014 IAASB meeting that it was unclear when the requirement would apply. In this regard, DT-701 was of the view that it would apply not only when the auditor had determined that there are no KAM, but also in circumstance where (i) the only KAM are matters related to a modified opinion or a material uncertainty or (ii), the only KAM is a matter that the auditor has determined not be communicated in the auditor's report (i.e., the circumstance contemplated by paragraph 14 of proposed ISA 701. Mr. Montgomery explained that the IAASB agreed to retain the position in the ED to require communication of KAM in circumstances when the auditor expresses an adverse opinion on the financial statements.

The Representatives and Observers commented as follows:

- Mr. Hansen was of the view that, since users of the financial statements cannot rely on financial statements on which the auditor has expressed an adverse opinion, KAM should not be included in an auditor's report with an adverse opinion. Ms. Blomme agreed, noting that users of the financial statements could be confused by several "positive" KAMs in an auditor's report with an adverse opinion, and may inappropriately rely on these descriptions as "piecemeal opinions" or suggest greater credibility in relation to those matters, when the focus of the auditor's report should be on the reasons for the adverse opinion.
- Mr. James, supported by Ms. Sucher, suggested that the auditor should be required in all cases to communicate the outcomes of the auditor's procedures in the description of a KAM, as investors like to see the outcome. However, it should be emphasized to the users of the financial statements that, despite including reference to an outcome, the description of a KAM is not intended to be a separate

opinion in relation to the matter. Mr. Koktvedgaard disagreed, preferring the flexibility permitted by proposed ISA 701, as he was of the view that it was not possible to describe the outcome without users viewing the description of a KAM as a separate opinion that might possibly call into question the opinion on the financial statements as a whole, which undermines the objective of communicating KAM. Mr. Montgomery noted that in the UK there have been only a limited number of auditor's reports issued with outcomes or findings. He acknowledged the reactions by investors are mainly positive. However, he explained that, due to the mixed views of respondents to the ED and this limited experience, the IAASB was not persuaded to require communication of the outcome of the auditor's procedures in all cases. Prof. Schilder noted that the language in the European Audit Reforms also indicates flexibility about whether to include a discussion of key observations arising from the auditor's work.

- Mr. Fukushima noted that the ISAs do not define “higher assessed risks of material misstatement” as referred to in the requirement in paragraph 9(a) of proposed ISA 701 and questioned whether a definition should be included or more guidance should be provided to ensure a consistent application of proposed ISA 701 in this regard. Mr. Montgomery noted that adding a definition would require substantive change to the approach taken in ISA 315 (Revised)⁴ and that application material was intended to clarify the intent of the phrase and the view that the higher the risk of material misstatement relating to a matter, the greater possibility that the matter could be a KAM.
- Mr. Fukushima also noted IOSCO's view that application material in paragraphs A27–A29 of proposed ISA 701 should be elevated to support the requirement in paragraph 10, as in IOSCO's view there is no reference point to enable auditors to assess the concept of “most significance” within the requirement. Mr. Montgomery acknowledged that the determination of KAM is subjective but that, based on field testing performed by firms and the auditor reporting experience in the UK, auditors instinctively know which matters are KAM and viewed the application guidance as helpful to support a more principles-based requirement.
- Mr. Koktvedgaard noted that the limitation of the application of proposed ISA 701 is not addressed until paragraph 5 of the ISA and questioned whether it should be included in the title of the standard. Mr. Montgomery noted that reference to listed entities was specifically not included in the title because auditors may be required to communicate KAM for entities other than listed entities and also have the flexibility to voluntarily communicate KAMs. In both cases, the IAASB agreed the auditor would be required to apply proposed ISA 701. Ms. Healy noted that the requirement to communicate KAM in accordance with proposed ISA 701 is established in proposed ISA 700 (Revised).⁵ Ms. Lang noted support for the approach taken by DT-701 as explained by Mr. Montgomery and Ms. Healy, as well as the hope that KAM would be communicated voluntarily.
- Mr. Fukushima, supported by Mr. Baumann, was of the view that proposed ISA 701 should require the auditor to document the auditor's judgment as to why matters communicated with TCWG were not determined to be KAM given the importance of this judgment and to increase the enforceability of proposed ISA 701. Mr. Baumann was of the view that it would not be particularly burdensome for the auditor to explain why some matters were not KAM. Mr. Montgomery explained that auditors may

⁴ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

⁵ Proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

discuss many things with TCWG, and DT-701 did not want to introduce overly burdensome documentation requirements without an apparent benefit. He also noted the view that the more significant matters communicated with TCWG (i.e., those that required significant auditor attention) should be largely self-evident from existing audit documentation (e.g., reports to audit committees or other audit committee agenda materials).

- Mr. James noted that, in his personal view, the auditor should have a holistic mindset and communicate with TCWG about which matters are likely to be KAM in the planning stage of the audit. He questioned whether paragraph A16 of proposed ISA 701 should be a requirement. Ms. Healy noted that paragraph A49 in proposed ISA 260 (Revised)⁶ encourages the auditor to communicate with TCWG throughout the audit and that DT-701 was of the view that the auditor should be encouraged to do this but did not believe it was appropriate to require the auditor to provide a view as to what matters may be KAM at the planning stage, as the CAG had previously advised the IAASB that KAM should be based on the outcome of the audit. Mr. James was of the view that guidance about communicating the possibility of a matter being determined to be KAM could be linked to paragraph 15 of proposed ISA 260 (Revised).
- Mr. James noted that the acronym “KAM” is used but not explained in proposed ISA 701. Ms. Healy noted that reference to the acronym should not be made in the final standard.

CHANGES TO PROPOSED ISA 706 (REVISED)⁷

Mr. Montgomery introduced the topic, emphasizing that it was very clear from the responses to the ED that the concepts of Emphasis of Matter (EOM) and Other Matter (OM) paragraphs should be retained even when KAM are communicated. He explained the rationale for the changes made to proposed ISA 706 (Revised), specifically highlighting a requirement that prohibits an EOM paragraph from being used as a substitute for KAM, with guidance explaining that KAM provide more relevant information to the users of the financial statements. Mr. Montgomery also noted a new requirement that, when EOM paragraphs are included in the auditor’s report, the heading is required to include the term “Emphasis of Matter”.

The Representatives and Observers commented as follows:

- Mr. Koltvedgaard, supported by Messrs. Dalkin and Hansen and Ms. Molyneux, questioned how KAM and EOM interact for listed entities, noting that the WG had difficulties understanding the linkage. Mr. Hansen also noted that the WG was of the view that, due to the underlying complexities in how all the standards fit together, it would be important to ensure that practitioners, preparers and investors understand the intent of the changes and the relationship between the various elements of the auditor’s report. Ms. Molyneux suggested the development of some examples or guidance to explain how the two concepts work together would be helpful to minimize confusion when the standard is implemented. Ms. de Beer agreed, noting this would be considered in the context of the rollout plan. Mr. Waldron noted that investors should be included in writing the examples to make them more useful. Mr. Montgomery noted the attempts to simplify the proposed standards, as the IAASB would also agree that that standards themselves cannot address all the questions that might arise on implementation, and that investors have signaled that labelling of information within the auditor’s report is less important than the communication and relevance of such information.

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

⁷ Proposed ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*

- Mr. Koktvedgaard, supported by Ms. de Beer, questioned whether the requirements in proposed ISA 701 should include a link to proposed ISA 706 (Revised), as reference is made from proposed ISA 706 (Revised) to proposed ISA 701. Mr. Montgomery explained that DT-701 was of the view that it was preferable not to refer to proposed ISA 706 (Revised) when proposed 701 applies, as the auditor should focus on determining KAM. As such, adding a reference from proposed ISA 701 to proposed ISA 706 (Revised) could potentially confuse auditors.

Innovation WG (Item E)

To *REPORT BACK* and *RECEIVE* an update on the Innovation WG's activities and suggested way forward.

Mr. Montgomery provided an explanation of the recent developments of the Innovation WG and the rationale for the Innovation WG's recommendation for the IAASB to establish two separate working groups (WG) to address integrated reporting (<IR>) and data analytics and their effect on the audit (data analytics). He provided an overview of the intended activities of these WGs, indicated that the Innovation WG will continue its ongoing monitoring activities of other topics and explained the process of when the Innovation WG may recommend that further attention by the IAASB would be warranted. With regard to the activities of the Innovation WG, he noted that consideration had been given as to whether the activities of the Innovation WG were sufficiently different from those of the IAASB's Steering Committee (SC). Mr. Montgomery explained the conclusion that a separate WG allows resources to further focus on innovation, including communicating this more explicitly in IAASB's outreach activities.

The Representatives and Observers commented as follows:

- Mmes. Diplock, Elliott, Lang, Molyneux, and Sucher and Messrs. Ahmed, Hansen and Waldron expressed support for the Innovation WG to continue its strategic monitoring. Support was also expressed for the recommendation of the two separate WGs for <IR> and data analytics and the retention of the separate Innovation WG. However, Mr. Hansen encouraged the IAASB to continually evaluate whether there continues to be a need for a separate Innovation WG, in light of the activities of the IAASB's SC.
- Mr. Bollmann suggested that the IAASB explore to what extent there is an opportunity for the Innovation WG to become a more proactive "think tank" to identify, explore and support innovation with respect to audit issues. Mr. Koktvedgaard agreed, making reference to the significant impact of technology in designing audit procedures. Mr. Montgomery responded that the activities of the Innovation WG are intended to be proactive. He noted how the various outreach activities of IAASB have already led to new thinking. He explained that the rationale for forming the Innovation WG was to ensure that the IAASB was focusing on the right projects, at the right time, to support its mission in the public interest. Prof. Schilder provided different examples of how the IAASB is proactive and innovative, including its publication of the *Framework for Audit Quality*, its projects on auditor reporting and ISAE 3000 (Revised)⁸, as well as the new project on agreed upon procedures and formation of a separate WG to further pursue the area of data analytics.

⁸ International Standard on Assurance Engagement (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

- Mr. Ahmed suggested that Innovation WG should focus on risk management as a potential topic in the future. Ms. Molyneux agreed and also suggested a focus on corporate governance and internal control as the investor community relies heavily on internal control reporting. She also noted the increased relevance of sustainability reporting for investors and suggested that the IAASB continue to monitor developments relating to assurance in these areas.
- Mr. Hansen suggested that, in exploring the various topics, it would be important for the IAASB to consider whether there were sufficient underlying frameworks on which to base the proposed assurance engagements and whether such frameworks were developed by appropriate bodies. He noted that the IAASB should consider the attributes of groups developing frameworks, in particular their independence and governance structures, in assessing their outputs.

<IR>

- Mr. Waldron questioned whether there was sufficient market demand for the IAASB to prioritize <IR> as opposed to other projects, for example, exploring assurance on non-financial information, including sustainability reporting. Mr. Montgomery explained that exploratory work to be undertaken on <IR> could highlight matters more broadly applicable to the assurance on non-financial information such as management commentary, key performance indicators (KPIs) or other types of reports in the various jurisdictions. Mr. Montgomery noted that, compared to sustainability reporting, addressing the assurance of <IR> might result in a more holistic approach. He noted that part of the rationale for starting a separate WG was the growing interest in this area globally, which suggests a need for the IAASB to begin to explore possible issues relating to assurance on integrated reports at an early stage.
- Ms. Lang asked how the Innovation WG assessed the demand for work on <IR> and its prioritization relative to other projects, as she expressed concern that <IR> could become a very significant project that would demand significant resources. She expressed support for the Innovation WG's recommendation to liaise with and leverage the work of NSS.
- Ms. Borgerth, citing evidence from various public meetings including those of the United Nations, national developments in Brazil and the IAASB NSS Liaison Group meeting in May, noted that there is a strong demand for <IR>. Ms. Borgerth explained that although there is not yet a significant demand for assurance on <IR>, having the IAASB involved in the process now is critical to ensuring a robust framework for providing future assurance on <IR>. Mmes. Blomme, Elliott and Molyneux agreed. Ms. Elliott noted that the OECD's activities, as well as recent industry surveys, indicated that <IR> is becoming increasingly important. Ms. Blomme noted that the International Integrated Reporting Council (IIRC) has issued a consultation paper exploring assurance on <IR>. Ms. Blomme added that IAASB is an important standard setter, but not the only one, and encouraged the IAASB to be more visible on the topic. She also informed the CAG that FEE would be hosting a roundtable to discuss the IIRC's consultation paper in October 2014.
- Ms. Diplock encouraged the IAASB to continue to focus on public interest and the needs of investors as it progresses the <IR> project. She noted her membership on the Board of the IIRC and commented on the global developments relating to <IR>. She noted that assurance is already being provided on some integrated reports and that there is a risk that these assurance engagements may be to the detriment of what is in the public interest in the absence of an appropriate assurance

standard for these engagements. She agreed with Ms. Borgerth that it is important for the IAASB to be involved in <IR> now to instill the appropriate level of rigor for assurance on integrated reports.

- Ms. de Beer expressed agreement with the comments raised in support of the prioritization of <IR>. She referred to a recent panel discussion held in South Africa where the IIRC's consultation paper was discussed. She suggested that the IAASB consider the feedback on the IIRC's consultation paper to further inform its position. This might possibly lead to an IAASB thought piece to start the debate on assurance on integrated reports.
- Mr. Montgomery confirmed that there are significant global developments relating to <IR>, noting that many large and influential companies are exploring <IR>. Mr. Montgomery explained that those companies are at different stages and are already asking questions of their auditors regarding assurance. He agreed that IAASB needs to be ahead of the curve with respect to <IR> and cited plans for the IAASB to proactively discuss issues with relevant parties to evaluate whether ISAE 3000 (Revised) is fit for the purpose, or whether additional guidance or a new standard is needed to address <IR> assurance engagements. He also acknowledged the need for the IAASB to consider whether there are threats to the IAASB's standards if practitioners issue assurance reports on integrated reports where such engagements have been conducted in accordance with standards other than ISAE 3000 (Revised).

DATA ANALYTICS

- Ms. Sucher noted that in Europe, a continued focus on stress testing of assets is likely to be relevant to the topics of data analytics and audits of financial institutions. Mr. Ahmed agreed and confirmed the relevance of data analytics to stress testing in the financial sector, in particular to improve information systems.
- Ms. Diplock noted that she was pleased to learn about the impact of data analytics within the financial sector. She encouraged the IAASB to continue to keep the needs of investors and the public interest at the forefront as it progresses this project, noting the audit profession's keen interest in this area. Mr. Montgomery agreed, noting the importance of the ISAs serving the public interest by support high-quality audits. He explained that the IAASB needs to ensure the ISAs support the use of new and emerging techniques in a way that supports audit quality.

Report Backs

Ms. de Beer drew the Representatives' and Observers' attention to the Report Back. The Representatives and Observers did not raise any specific comments.

Mr. Montgomery thanked the Representatives and Observers for their input and noted that the recommendations would also be presented to the IAASB at its September 2014 meeting.

Open Session – PIOB Presentation (Item F)

To <i>RECEIVE</i> a presentation from the PIOB.

Ms. Diplock thanked the Representatives and Observers for the opportunity to talk to them about the structure and activities of the PIOB.

Ms. Diplock provided some background into the establishment of the PIOB, noting that it was established as part of the IFAC 2003 Reforms as way of addressing concerns about audit. She noted that the PIOB is an independent oversight body with objectives to:

- Ensure the public interest responsiveness of the standards;
- Improve the due process by which they were formulated; and
- Increase the quality of standards for audit, education and ethics.

She described the PIOB's mandate as being to "increase the confidence of investors and others that the public interest activities of IFAC (including the setting of standards by IFAC boards and committees) are properly responsive to the public interest."

Ms. Diplock described the architecture of the PIOB, and explained the oversight role of the Monitoring Group,⁹ as well as the scope and nature of the PIOB. She reminded the Representatives and Observers of an upcoming POIB Public Interest Workshop to which all were invited. She noted that the objective of the Workshop is to discuss the challenges faced by the profession, and the role of the CAGs in the standard-setting process.

She then provided her perspectives on the current standard-setting model, emphasizing the importance of volunteerism and the contributions of the profession. Ms. Diplock explained that in her view there is still a need for balance in the experience and backgrounds of those involved in standard-setting, noting that this would be helpful in addressing the perceptions that standards are not being developed in the public interest. She stressed the need for independent funding; and the involvement of non-accountants and non-auditors (public members) in standard-setting.

Ms. Diplock indicated that the current model is strong and has several checks and balances in place, including oversight by the PIOB. She also emphasized the role of the CAGs as a proxy for the public interest, as well as other regulatory organizations, such as IMF and IOSCO who provide input on the standard-setting bodies work.

The Representatives and Observers commented as follows:

- Mr. Stewart drew a parallel between the PIOB's oversight of the IAASB and the Trustees oversight role of the IASB. Mr. Stewart asked for Ms. Diplock's perspectives on the difference in the level interaction between the PIOB and the IAASB in fundraising versus technical matters in comparison to that of the Trustees and IASB members. Ms. Diplock responded that models are different. Ms. de Beer pointed out that there might be a need for more PIOB's oversight involvement in the IAASB's technical work compared to Trustee's, as IAASB work is performed by volunteer members versus full-time paid IASB members.
- Reacting to Ms. Diplock's comment about the need for public members in the standard-setting process, Mr. Bollmann indicated that the actuary profession experience a similar challenge. He asked whether the PIOB had a framework or definition for the public interest in place. Ms. Diplock explained that the public interest is a highly subjective, and broad concept that is difficult to define, although it is very recognizable. She explained that the PIOB has developed publications that have put in place

⁹ The Monitoring Group is group of international regulatory bodies and related organizations committed to advancing the public interest in areas related to international audit quality. MG comprises of Basel, EC, the Financial Stability Board, International Association of Insurance Supervisors, IFIAR, IOSCO, and WB.

helpful parameters around what is meant by the public interest. Mr. Ahmed agreed, noting that a key aspect of public interest is that of the role of ethics. Mr. Winter noted that the 6th Annual Report of the PIOB prominently featured the PIOB's work on the public interest.

- Ms. Blomme asked whether the PIOB's had plans to address the EC's recent questions about the governance of the IAASB and its independence from the profession. Ms. Diplock explained that changing perception takes time, but that almost all the PIOB's work was aimed at addressing concerns such as those put forth by the EC. She added that the appointment of an independent chairman for the standard-setting boards and targeted outreach to key stakeholders are meaningful over time at addressing those concerns.
- Prof. Schilder acknowledged the perceptions issues that the IAASB faces, but pointed out the IAASB members, both public and practitioners, are passionate about developing high quality auditing standards. He explained that in his view, there should be a distinction in how the PIOB evaluates the quality of the standard-setting process versus the outcome. He noted that the quality of the process could only be done towards the end of a project when the PIOB approves an IAASB standard, but that the quality of the outcome could be effected by the PIOB on an ongoing basis through active discussions and participation in IAASB meetings.

Auditor Reporting – Matters Related to ISA 700 (Item G)

To *REPORT BACK* and *DISCUSS* proposed revisions to proposed ISA 700 (Revised) in light of the feedback received from respondents to the ED and previous IAASB and CAG discussions (*Final standards planned for approval in September 2014*) .

To *PROVIDE* an update on DT-700's activities related to the development of consequential amendments to ISAs 800,¹⁰ 805¹¹ and 810¹² (the "ISA 800 Series"), and seek the Representatives' and Observers' views on the DT-700's recommendations.

OTHER SUGGESTED IMPROVEMENTS TO THE AUDITOR'S REPORT

Statement about Independence and Other Relevant Ethical Requirements

Mr. Winter introduced the topics, updating the CAG on the revisions that were made to proposed ISA 700 (Revised) with respect to the statement about independence and other relevant ethical requirements, explaining that the proposed changes incorporated input from the CAG, the IAASB, and the International Ethics Standards Board for Accountants (IESBA).

The Representatives and Observers commented as follows:

- Mr. Kottvedgaard, speaking on behalf of the CAG WG on Auditor Reporting, indicated that there was general consensus among the WG members that DT-700's proposed changes regarding the requirement to identify the jurisdiction of origin of the independence and other relevant ethical

¹⁰ ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

¹¹ ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statements*

¹² ISA 810, *Engagements to Report on Summary Financial Statements*

requirements in the auditor's report was a step in the right direction. Messrs. Hansen, Hines and Waldron as well as Ms. Molyneux also expressed support for DT-700's revised proposals.

- Mr. Koktvedgaard noted that the WG was of the view that an identification of the jurisdiction of origin would be particularly useful to experienced investors in circumstances where they are aware of the ethical requirements in the jurisdiction and also where the perception of such rules were that they were of a high standard. As such, although the identification of the jurisdiction of origin of the independence and ethical requirements was helpful to have in the auditor's report, some WG members were of the view that more detail is needed in proposed ISA 700 (Revised) to explain that it is necessary for the reference to the jurisdiction to be supported by a description of what it addresses in some way (e.g., through a description provided by a professional body or other organization). It was suggested that the standard be sufficiently flexible to allow for law, regulation or national auditing standards to further develop more specific requirements that would require additional auditor reporting about sources of independence and ethical requirements, including where possible the listing of ethical codes. Ms. de Beer asked whether a possible solution could be for the application material to indicate where the listing of the specific ethical requirements could be accessed. Mr. Koktvedgaard supported Ms. de Beer's suggestion, but was of the view that the optimal approach would be to list all the sources in the auditor's report if reference to a description of such sources was not readily available elsewhere. Mr. Winter explained that the option to refer to the IESBA Code, together with specific illustrations in the standard as to how that might be done, was in DT-700's view a way of having a statement about independence in the auditor's report that would be well-understood globally.
- Mr. Waldron noted DT-700's continued concern that listing of sources would result in a long list in the auditor's report, but explained it is difficult to ascertain whether providing a detailed listing of sources would result in the addition of a half of a page, a full page, or multiple pages in the auditor's report.
- Mr. Hansen suggested that DT-700 consider moving up the application material related to group audits when multiple sources of independence and ethical requirements exist (i.e. paragraph A38 of Agenda Item G.2) in order for it to be more prominent in the standard. Mr. Hansen was of the view that doing so may help address the question regarding which sources of relevant ethical requirements should be listed.
- Mr. Hansen suggested that the description of what is meant by relevant ethical requirements in paragraph A35 of Agenda Item G.2 be clarified. Specifically, Mr. Hansen was of the view that the phrase "IESBA Code related to an audit of financial statements together with national requirements that are more restrictive" was problematic. In his view it would not be possible or appropriate to generalize that a particular Code is more restrictive than the IESBA Code. By way of example, Mr. Hansen noted that in the US it is assumed that the Securities and Exchange Commission's (SEC) independence requirements are more restrictive than those related to private companies, except in relation to specific topics (e.g., affiliates). Mr. Baumann agreed and suggested that this phrase could be revised as follows: "...IESBA Code related to an audit of financial statements together with any relevant provisions of national requirements that are more restrictive..." Mr. Winter acknowledged Mr. Hansen's comment and Mr. Baumann's suggestion and indicated that the phrase drew from language

in ISA 200,¹³ but that DT-700 would consider whether changes are warranted in the proposed standard and in ISA 200 by way of a conforming amendment. However, Ms. Sucher cautioned against moving forward with Mr. Baumann's suggested edit. She explained that in her experience it is often very difficult for the auditor to determine which particular element of a national code is more restrictive than the IESBA Code.

- Mr. Hansen suggested that the proposed standard clarify within the requirements when the "jurisdiction of the origin" should be included in the auditor's report, versus when a reference should be made to the IESBA Code (i.e., explain what is meant by the word "or" as used in the requirement). Mr. Winter acknowledged the comment and indicated that DT-700 will further consider how to clarify the requirement accordingly.
- Mr. Hines suggested that the proposed requirement to identify "jurisdiction of origin" should instead be to the "organization that promulgated the standard to which the auditor is asserting compliance".
- Regarding the requirement to refer to the IESBA Code, Ms. Molyneux suggested that the standard also requires the auditor to specify which version of the IESBA Code was applied. She noted that some emerging markets are not applying the current version of the IESBA Code. Mr. Winter noted that DT-700 would give further consideration to this matter.

Report Back

Mr. Winter drew the CAG's attention to the Report Back included in Agenda Item G.1. The Representatives and Observers commented as follows:

- Mr. Waldron challenged the IAASB's decision to permit auditors to refer to a description of the auditor's responsibilities located on the website of an appropriate authority rather than require this information to be included in the auditor's report, in light of the lack of support for the approach from a number of Representatives. He explained that, as a matter of principle, investors prefer not to have to go to multiple locations to retrieve information, but instead prefer to keep all the sections of the auditor's report together. Mr. Winter acknowledged Mr. Waldron's comment, noted the mixed views received on this topic and explained that the main reason for the IAASB's position was that a major jurisdiction (i.e., the UK) already permits auditors to use this option as a way of streamlining the auditor's report so as to have it be more focused on entity-specific information that is relevant to users. Prof. Schilder added that the IAASB was of the view that it was important to allow flexibility in the standard for jurisdictions to continue to tailor auditor's reports to make them relevant to users in the context of their local regulatory and corporate governance regimes as well as their customs and preferences. Notwithstanding the need for such flexibility, Prof. Schilder noted the IAASB's intent to put appropriate parameters around the possibility of reference being made to a website, which is why proposed ISA 700 (Revised) only allows reference to a description of the auditor's responsibilities on a website of an appropriate authority when law, regulation or national auditing standards expressly permit the auditor to do so.
- Mr. Koktvedgaard continued to express support for, and cited the merits of, having a standard that permitted auditors to refer to the description of the auditor's responsibilities on a website of an appropriate authority.

¹³ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

- Ms. Sucher asked whether any problems had been experienced in the UK in relation to allowing for reference to be made to a website. Mr. Winter indicated that, to his knowledge, there were no issues.

*Revisions to Proposed ISA 705 (Revised)*¹⁴

Mr. Winter introduced the topic and explained that in the ED proposed ISA 705 (Revised) prohibited the auditor from including additional information on GC, KAM and other information (OI) in the auditor's report when the auditor disclaims an opinion on the financial statements as a whole. Mr. Winter explained that, as a result of the IAASB and DT-700's discussions, the revised draft of proposed ISA 705 (Revised) (Agenda Item G.3), no longer prohibits the inclusion of information about GC, as the IAASB agreed that there may be merit in allowing auditor reporting on material uncertainties related to GC in disclaimer situations, given the importance investors attach to GC issues, and the fact that disclosures about material uncertainties related to GC would have been required by extant ISAs 570¹⁵ and 705. Mr. Winter further noted that the decision about whether to prohibit the auditor from including information on OI when the auditor disclaimed an opinion on the financial statements would be further considered by the ISA 720 TF, and a conforming amendment made to proposed ISA 705 (Revised) if considered necessary.

The Representatives and Observers commented as follows:

- Mr. Stewart asked whether DT-700 considered requiring disclosure on GC only in circumstances when it was possible to do so (i.e., when the auditor had been able to obtain sufficient appropriate audit evidence about whether a material uncertainty exists). Mr. Winter explained that the intent was for proposed ISA 570 (Revised) to continue to be as flexible as extant ISA 705, in acknowledgment that the extent of work performed in relation to GC may vary depending on the reason for the disclaimer (i.e., the auditor may have disclaimed an opinion at the very early stages of an audit). Mr. Dalkin expressed support for the change, noting its relevance and importance to audits of public sector entities and the need for flexibility.
- Ms. Sucher asked for further clarification on the changes that were made to proposed ISA 705 (Revised). Ms. Healy explained that proposed ISA 705 (Revised) in the ED included specific requirements that expressly prohibited the inclusion of certain information (i.e., KAM, GC and OI) in the auditor's report when the auditor disclaims an opinion. However, paragraph 29 now only addresses the prohibition of reporting on KAM when the auditor has disclaimed an opinion on the financial statements as a whole.

CONSEQUENTIAL AMENDMENTS TO THE ISA 800 SERIES

Mr. Winter provided an overview of each of the ISAs in the ISA 800 Series and explained that the intent was for the IAASB to propose changes to these ISAs in a separate ED in December 2014. He characterized the nature of the changes as consequential amendments, noting that they are slightly more substantive than conforming amendments, but are directly linked to the enhancements proposed in the new and revised auditor reporting standards.

¹⁴ Proposed ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

¹⁵ Proposed ISA 570 (Revised), *Going Concern*

Audits of Special Purpose Financial Statements (Proposed ISA 800 (Revised))

Mr. Winter directed the CAG to Table 1 in Appendix 1 of Agenda Item G.4 to solicit feedback on DT-700's recommendations with respect to the changes proposed to extant ISA 800. The Representatives and Observers did not raise any specific comments.

Audits of Single Financial Statements or a Specific Element of a Financial Statement (Proposed ISA 805 (Revised))

Mr. Winter directed the CAG to Table 2 in Appendix 1 of Agenda Item G.4 to solicit feedback on DT-700's recommendations with respect to the changes proposed to extant ISA 805. Ms. de Beer noted that DT-700 was suggesting that there be consistency in the approach taken with respect to the content of the auditor's report on a single financial statement and the auditor's report on the complete set of financial statements. The Representatives and Observers did not raise any specific comments.

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

Mr. Winter explained that, in contrast to ISAs 800 and 805, which direct auditors to the reporting requirements in proposed ISA 700 (Revised), extant ISA 810 prescribes the elements to be included in an auditor's report on summary financial statements (the ISA 810 auditor's report). However, these reporting elements are broadly consistent with the elements that are required in an ISA 700 auditor's report. To facilitate a discussion about which new elements should be included in a revised ISA 810 auditor's report, and how they should be presented, Mr. Winter pointed the CAG to the illustrative auditor's reports in Appendices 2 and 3 of Agenda Item G.4. Those illustrative auditor's reports on summary financial statements both included a new section titled "Additional Information Contained in the Auditor's Report on the Audited Financial Statements". Appendix 2, DT-700's preference, included a more detailed reference to the matters contained in the ISA 700 auditor's report. It repeated the "Materiality Uncertainty about Going Concern" section; referred to the KAM topics addressed and included a statement on the name of the EP who performed the ISA 810 engagement as well as the name of the EP responsible for the ISA 700 auditor's report. Appendix 3 illustrated an alternative, more condensed presentation of the "Additional Information Contained in the Auditor's Report on the Audited Financial Statements" section of the auditor's report than what was considered by DT-700.

The Representatives and Observers commented as follows:

- Mr. Koktvedgaard indicated that the WG had not discussed Agenda Item G.4. He expressed a personal preference for the revised ISA 810 auditor's report included in Appendix 3, noting its synergy with the summary financial statements. Messrs. Dalkin, Hansen and Thompson agreed. However, Mr. Hansen suggested that the auditor should be required to include the specific date of the auditor's report be included if the format in Appendix 3 were used.
- Ms. de Beer agreed that there was a certain level of symmetry between the illustrative auditor's report in Appendix 3 and the summary financial statements that was desirable to retain. However, Ms. de Beer was of the view that providing greater detail as in the illustrative auditor's report in Appendix 2 would be more helpful if users were only to read the summary financial statements and the accompanying auditor's report. She highlighted an increasing trend in light of <IR>, particularly among banks in South Africa, to only provide a summarized version of the financial statements in the integrated report. Therefore, the more comprehensive auditor's report proposed in Appendix 2 is useful. She suggested that DT-700 further explore what information should be included in an ISA 810

auditor's report in light of what users deem to be most useful. Ms. Molyneux and Mr. Waldron agreed, noting that they found the "pointers" to further details in the auditor's report on the audited financial statements very helpful.

- Mr. Thompson noted that the requirements of the applicable financial reporting framework to summarize the financial statements may not require the inclusion of disclosures about GC matters. Accordingly, requiring the auditor to include the same details about a material uncertainty relating to GC in the summary auditor's report as presented in Appendix 2 may not be appropriate or possible. Mr. Winter noted DT-700 was assuming that such disclosures would likely be required by the framework, but would need to consider this further.
- Ms. Diplock also expressed a preference for DT-700's preferred approach as set out in Appendix 2, noting that while it is helpful to have ISA 810 auditor's reports that are streamlined, clear and concise, the issue of GC has been a key issue since the inception of the auditor reporting project. Therefore where GC is relevant to the engagement (i.e., due to a material uncertainty), it is important to address it in an ISA 810 auditor's report. Ms. Diplock also expressed support for DT-700's approach for communicating about KAM in the ISA 810 auditor's report, given the investment of KAM and the support of investors for such reporting.
- Mr. Stewart questioned whether there was an applicable financial reporting framework that set a standard for summarized financial statements and required it in specific circumstances, as IFRSs did not address such circumstances. Mr. Baumann suggested that summary financial statements should only be prepared if required by a securities regulator with appropriate criteria for such engagements. In his view, accounting standard setters and securities regulators should decide what information investors need. If those bodies have not set criteria for summary financial statements or decided to require reporting of such information, auditors should not be associated with such information. Mr. Montgomery explained that the auditor cannot accept an ISA 810 engagement unless the auditor believes there are appropriate criteria for the process of condensing and summarizing the full set of financial statements. He also noted that the auditor's report issued for such an engagement is fundamentally different from the auditor's report on the audited financial statements – the auditor is only expressing an opinion as to whether the financial statements have been summarized in accordance with the applicable criteria. As such, Mr. Montgomery was of the strong view that it is important for users to read the complete set of financial statements and the auditor's report thereon as the basis for decision making. Mr. Montgomery cautioned that, by requiring an ISA 810 auditor's report with more detail, users may incorrectly assume that the auditor did more work, or that the auditor was opining on the summary financial statements. Mr. Winter acknowledged Mr. Baumann's views, but explained that extant ISA 810 currently allows for such reporting. Mr. Winter asked whether extant ISA 810 should be withdrawn. Mr. Koktvedgaard did not support doing so, noting that there is a public interest need to continuing to have ISA 810 auditor's reports, in particular because, in his view, they are the ones most widely read among investors. Mr. Koktvedgaard added that, in determining what elements to include in the ISA 810 auditor's report, DT-700 should give consideration to the fact that users may not read the auditor's report on the audited financial

statements, regardless of the statement in the ISA 810 auditor's report that encourages them to do so.

September 9, 2014

Auditor Reporting – GC (Item I)

To *REPORT BACK* and *DISCUSS* proposed revisions to proposed ISA 570 (Revised) in light of the feedback received from respondents to the ED and previous IAASB and CAG discussions (*Final standard planned for approval in September 2014*)

Mr. Montgomery introduced the topic and gave an overview of the changes proposed to ISA 570 (Revised).

ACCOUNTING DEVELOPMENTS

Prior to issuing the ED, the IAASB wrote to the IASB encouraging timely progress on proposals to clarify and provide guidance on the disclosure of MU relating to GC and the entity's ability to continue as a GC to complement the IAASB's proposed requirements for auditor reporting on GC. However, the IASB concluded at its November 2013 meeting not to pursue amendments to IAS 1¹⁶ to clarify concepts and required disclosures related to GC. The need for clarification relating to GC was further considered by the International Financial Reporting Standards (IFRS) Interpretations Committee (Interpretations Committee), and ultimately led to the issuance of an Agenda Decision (the Decision). Paragraph 122 of IAS 1 notes "An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements."

Mr. Montgomery noted recent developments by accounting standard setters in respect of management's disclosures in relation to GC, and provided an overview of the Interpretations Committee Agenda Decision noting that it highlights existing disclosure requirements in IAS 1 in respect of significant judgments made by management in the preparation of the financial statements. He further noted that the requirement in IAS 1 can be applied to judgments made in respect of GC and, as such, would be relevant in GC "close call" situations. Mr. Landes provided an update on the US Financial Accounting Standards Board's (FASB) new standard addressing GC,¹⁷ referring to key points in the standard, including the definition of terms and the disclosure requirements.

The Representatives and Observers commented as follows:

- Mr. Dalkin requested that Mr. Stewart provide a brief update of where the IASB was on the topic of GC. Ms. de Beer added that it would be helpful for the CAG to also understand the importance and standing of Interpretations Committee Agenda Decisions. Mr. Stewart noted that, at the previous CAG meeting, he reported that the IASB had decided not to proceed with changes to IAS 1 to address the topic of GC. However, subsequent to that meeting, Interpretations Committee had considered a Tentative Agenda Decision that discussed the application of paragraph 122 in IAS 1 to judgments

¹⁶ IAS 1, *Presentation of Financial Statements*

¹⁷ *Presentation of Financial Statements—Going Concern*, Sub-topic 205–40
http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176164329772&acceptedDisclaimer=true

made around GC and that this had been finalized, as indicated by Mr. Montgomery, and considered the topic of GC closed. The Decision was published in the Interpretations Committee newsletter.

Mr. Stewart explained that Agenda Decisions are formal observations ~~and judgments~~, initially published in draft form and open for comment for a period of 60 days. Based on an analysis of the comments received, the Interpretations Committee then finalizes the Decision. The Decisions do not change IFRS but are a useful means to provide a reminder of existing requirements in IFRS and how these requirements may be applied in certain circumstances. Although Decisions do not have formal authority, they are widely used by audit firms and regulatory bodies (such as the European Securities and Markets Authority and other securities regulators), with the expectation that companies would follow the guidance within those Decisions.

Mr. Stewart commented that Mr. Montgomery had summarized the Decision well. He further elaborated that, while IAS 1 paragraph 122 has a broad remit that extended to more than disclosures around GC, the Interpretations Committee agreed that there was benefit to specifically highlighting its applicability to judgments in assessing GC and material uncertainties, in particular, to describe the nature of the uncertainty and the principal events or conditions that may give rise to such uncertainty. He further noted that changes in disclosure practices as a result of this Decision would be difficult to predict, as every situation where GC disclosures were considered would be unique.

- Mr. Baumann highlighted that the term “probable” as defined by the FASB was different than its definition under IFRS, with the FASB definition being a very high threshold. He further noted that existing PCAOB standards had not yet been changed to take into account the FASB’s proposals. He asked Mr. Stewart how the wording of the IFRS disclosure requirement would compare with the US requirement, and specifically if using the word “may” in the phrase “events or conditions that may cast significant doubt on an entity’s ability to continue as a going concern” dilutes the meaning of significant. Mr. Stewart responded that there were similarities between the terminology of probable and significant doubt, but that it is also necessary to look at the requirements of the accounting standards in totality and not to form conclusions on every piece separately.

FEEDBACK ON THE NEW REQUIREMENT AND APPLICATION MATERIAL

Mr. Montgomery noted that even though the IAASB has agreed to revert to exception-based reporting for GC (i.e., to include specific statements in the auditor’s report only when a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a GC), the Board has continued to look for ways to respond to CAG comments and additional calls for increased focus by auditors on GC. He noted the approach in proposed ISA 570 (Revised) now focuses on enhancing disclosures regarding GC as a means of strengthening the auditor’s work effort on GC. He noted that DT-570 believes that the Interpretations Committee Decision provides a useful “hook” into the accounting literature to enable a new requirement around GC disclosures to be incorporated into proposed ISA 570 (Revised). He also noted changes to the placement of the application material as a result of comments received at the previous IAASB Board meeting in response to suggestions that there was too much focus on “close call” situations to the detriment of situations where a material uncertainty has actually been identified.

Mr. Montgomery noted that some limited initial feedback had been received on this change, with concerns expressed that some of the guidance could be perceived as the IAASB setting accounting standards and also that the proposed guidance to explain the “stand back” provision (i.e., the auditor’s evaluation whether

the financial statements are fairly presented) goes beyond what is intended by the requirement in proposed ISA 700 (Revised).

The Representatives and Observers commented as follows:

- Ms. de Beer noted that she was very encouraged with the progress made in relation to the auditor's work effort and reporting on GC based on the concerns at the March 2014 CAG meeting. It was important from a CAG perspective that progress continues to be made with GC and that the Auditor Reporting project does not conclude with the status quo on GC.
- Mr. Stewart was also supportive of the additional guidance incorporated into proposed ISA 570 (Revised) and stated that he thought it was possible to apply it to both IFRS and other accounting frameworks in light of the Decision and FASB proposals. He did not believe this resulted in the IAASB moving into setting accounting or disclosure requirements, but understood that others may have that perspective. He suggested that it might be sufficient within proposed ISA 570 (Revised) to provide a reminder to auditors to ensure that adequate disclosure of a material uncertainty is made without the added description of the types of disclosures that could be considered, notwithstanding that he agreed with the types of disclosures included.
- Ms. Sucher noted that the proposed updates to ISA 570 were welcomed and that enhancing the auditor's responsibilities in the area of GC disclosures is an important step forward in light of questions arising from the financial crisis as to why more emphasis was not placed on GC by both preparers and auditors. She noted that the accounting "hook" provided by the Decision was helpful in spite of the potential need for more technical debate by the IASB. She further noted that it is always a challenge in standard-setting when the auditor's responsibilities are being further increased and that there can always be the argument that additional guidance could be viewed as setting accounting requirements. However, she was of the view that an important part of the auditor's work relates to judgment in relation to what is required by accounting standards, rather than a strict linkage to such standards. In her view, the guidance in paragraph A22 of proposed ISA 570 (Revised) would be useful to auditors to make judgments about the adequacy of GC disclosures when dealing with objective-based disclosures, in particular in respect of liquidity.
- Ms. Sucher further noted that, in respect of banks, the proposed new requirement could lead to interesting debates about what disclosures would result for banks in respect of "close call" situations, which would likely involve dialogue with regulators as well. However, she felt that a potential issue that may only occur in rare circumstances should not preclude the IAASB from moving forward in this direction.
- Mr. Ahmed noted that this was also an important area for the Islamic Financial Services Board (IFSB) and the area of GC is especially problematic as it involves issues of uncertainty. He further noted that their capital adequacy standard was perhaps a more stringent framework than even that of the Basel Committee on Banking Supervision. He noted that maximum disclosure is recommended subject to regulatory oversight.
- Mr. White agreed with paragraph A22 of proposed ISA 570 (Revised), as he was of the view that these examples were relevant considerations for auditors in relation to GC. Ms. Borgerth stated that, as a preparer, she was strongly in support of this guidance and that she would expect that auditors would require such disclosures in respect of GC. Ms. Molyneux noted that investors particularly supported the incorporation of paragraph A22 into proposed ISA 570 (Revised) and felt that the

suggested disclosures reflected the types of disclosures that investors believe were missing during the financial crisis. Mr. Montgomery noted Ms. Borgerth's view from a preparer perspective was helpful, as some had expressed concern that the inclusion of such guidance in proposed ISA 570 (Revised), in the absence of similar guidance in IAS 1, would lead to tension between management and auditors as to what should be disclosed, because such disclosures would not be explicitly required by the applicable financial reporting framework. Ms. de Beer did not agree with the belief that paragraph A22 of proposed ISA 570 (Revised) was too prescriptive or could be viewed as setting accounting standards, given it is only providing guidance to the auditor and is not providing requirements of exactly what management would need to disclose.

- Ms. Molyneux noted that paragraph 20 of proposed ISA 570 (Revised) still used too much terminology that was not clearly defined. Mr. Montgomery explained the IAASB had urged the IASB to consider the need for clarification of this terminology but, as this had not occurred, DT-570 sought to clarify as much as possible.
- Mr. Thompson, supported by Mr. White, noted that he fully supported the disclosure requirement with respect to “close calls” but asked whether DT-570 had considered whether there should be a direct link in proposed ISA 570 to proposed ISA 701 to remind auditors of the potential that matters related to GC may be KAM. Mr. Montgomery noted that DT-570's intent was to focus on reporting in proposed ISA 570 (Revised) and believed it was better to address KAM in proposed ISA 701, thereby keeping all the guidance around KAM in one location. Ms. Healy also noted that proposed ISA 570 (Revised) applies to all entities, while only auditors of financial statements of listed entities are required to communicate KAM. However, she noted that there may be an opportunity to discuss the relationship between GC and KAM within the application material in proposed ISA 570 (Revised) or in other types of IAASB communications. Ms. Lang agreed it would not be appropriate to infer that the auditor may need to communicate a KAM relating to GC matters if not otherwise required to communicate KAM.
- Ms. Lang questioned whether the example in paragraph A24 of proposed ISA 570 (Revised) was necessary. Mr. Montgomery noted DT-570 was of the view that an example showing the application of the stand back using an extreme circumstance would be useful to explain the concept. Mr. Hemus suggested DT-570 further consider the wording of the example, noting that if the example reflected a situation where the disclosure would be obvious, stating that it “may” need to be disclosed could dilute the effect of including such guidance.
- Mr. Baumann was of the view that there was a lot of exuberance from the Representatives about the developments in proposed ISA 570 (Revised), while in his view the new requirement in paragraph 20 is simply restating an existing requirement that the auditor should evaluate the disclosure requirements of the applicable financial reporting framework, rather than establishing additional responsibilities for auditors. However, he had no objections to the guidance in paragraph A22. Mr. James questioned whether the guidance in paragraph A22 should be elevated to a requirement to drive changes in auditor work effort. Ms. Sucher agreed this may be useful to consider.
- Mr. Koktvedgaard did not believe that there was a need to elevate the guidance and that the auditor should still judge whether the disclosures made by management are adequate. He further noted that if the application material were to be elevated to a requirement, it may become too prescriptive, which is contrary to the objective of the ISAs, citing the need for flexibility in relation to GC issues.

- Ms. Diplock noted that she was very interested to hear the regulator and investor comments and also to hear Mr. Baumann's comment and she wondered how much further the new paragraphs actually go in closing the expectation gap. She further noted that users and the investor community would not be interested in debates over whether these are requirements that should be included in accounting or auditing standards but would be more interested in whether the updates to the standard go far enough in the public interest.
- Mr. Harris commented on the independent responsibility of the auditors. He felt that there will be more clean opinions and fewer GC opinions as a result of the new FASB standard. He also noted that investors want more to hear more, that they want early warnings with respect to GC and to understand what the implications of GC issues could be. He explained that the PCAOB would give further consideration to its auditing standard addressing GC as a result of the FASB's standard.

Mr. Landes thanked the Representatives for their comments with respect to the new paragraphs in proposed ISA 570 (Revised). He noted that an objective of DT-570 had been to push the auditor's responsibilities for GC disclosures further, but that the challenge was to do this within the context of the accounting framework. He recognized that paragraph A22 could be seen as somewhat prescriptive but actually reflected what the new FASB standard would require to be disclosed in respect of GC. He recognized that there will always be the tension between management and the auditor but felt that the IAASB should encourage auditors, through the auditing standards, to have those tough discussions with management. Mr. Landes further noted that DT-570 would further review the application guidance in light of comments received.

MANAGEMENT AND AUDITOR RESPONSIBILITIES

Mr. Montgomery introduced the proposed expanded wording for the management and auditor responsibility sections of the auditor's report. He noted that support had been received from both the IAASB and the CAG to further explore language for those sections at their previous respective meetings. He further noted that DT-570 believes this language has educational value and that it should be required for all auditor reports. He noted that the Board is supportive but consideration had to be given to the length and content of the language included in these responsibilities sections. Mr. Montgomery further highlighted the revision of the "guarantee statement," in response to previous CAG comments, to make it a more factual statement. He noted that DT-570 continued to believe that the guarantee statement is appropriate.

Mr. Montgomery directed the Representatives to Illustration 1 in the Appendix of Agenda Item G.2 highlighting the last two bullets that had been added to the description of management's responsibilities to describe those responsibilities for the assessment of the appropriateness of the use of the GC basis of accounting and the assessment and disclosure of material uncertainties. He also highlighted the additional bullet incorporated into the auditor's responsibilities section of the auditor's report to describe the auditor's responsibility for GC. He further noted that additional requirements were added to proposed ISA 700 (Revised) relating to the management and auditor responsibility language in the auditor's report.

Mr. Montgomery shared concerns that had been expressed on the length and optics of adding to the description of management's responsibilities and the perceived imbalance with respect to other important responsibilities of management. He also noted a related concern that management's responsibilities for GC would appear in every auditor's report but the auditor's responsibilities could be included in an appendix or via reference to a website of an appropriate authority, rather than within the body of the auditor's report.

The Representatives and Observers commented as follows:

- Ms. de Beer, supported by Messrs. Bluhm, Hansen and Waldron, expressed concern about the auditor responsibilities not being sufficiently visible if reference is made to a website. Mr. Waldron was of the view that investors are less concerned with the length of the auditor's report but more with the information contained therein and that it was described in a way that is useful. However, he noted a preference to have the management and auditor responsibilities presented together in the auditor's report. Mr. Hansen believed that a cross reference to a website is not specific enough and that users may have to go to multiple sources to find the information. He believes that the auditor's report is not too lengthy and can be easily navigated through the use of appropriate headings and labels to focus the attention of users. Mr. Bluhm agreed with the separation of responsibilities, and had no reservations on language included in the report. He did, however, agree with the potential disconnect resulting from allowing the option to place auditors responsibilities with respect to GC outside the body of the auditor's report or by reference to a website. He noted that it was hard to reconcile putting something that was considered to be so important outside of the auditor's report.
- Mr. Koktvegaard noted that some investors in the smaller jurisdictions were concerned about the length of the report and were looking to exclude wording that is redundant, i.e., the focus should be only on what is relevant for the company, to highlight the critical issues. He further noted the need for flexibility for smaller companies.
- Mr. Koktvegaard further noted that he believes that, as a result of the additional wording in relation to GC, the management responsibilities section is now too long. He expressed the view that the auditor's report is not the right place to include such responsibilities, especially recognizing that management has its own mechanisms for communication. He also believed that the weight given to GC in management's responsibilities compared to other responsibilities sends the wrong signal. Mr. Koktvegaard suggested retaining only the first sentence of the first bullet discussing management's responsibilities, as the remaining wording is redundant as it is part of the responsibilities described by the first sentence.

OTHER MATTERS RELEVANT TO PROPOSED ISA 570 (REVISED)

The Representatives and Observers commented as follows:

- Mr. Dalkin noted that GC is one of the more critical issues and that there is still tension between auditing and accounting standard setters and suggested that a holistic approach continues to be necessary, whereby the standard setters could discuss issues to better achieve what the IAASB is trying to attain in its role in serving the public. Ms. de Beer noted that there had been many debates on this at the beginning of the project and, while the IAASB and the CAG continue to agree with the need for a holistic approach, it is also necessary for the Board to move forward to improve reporting on GC. Prof. Schilder noted that this was the most important and most sensitive issue in the auditor reporting project. He explained that the IAASB had written to the IASB on the subject of the holistic approach to GC and the issue had been taken very seriously by the IASB. Although the IASB had decided not to pursue changes to IAS 1 or other actions on the topic of GC, IASB Staff had also put the topic before the Interpretations Committee. It was his view that the good dialogue with the IASB may provide opportunities for further progress in the future. He noted that he agreed with Mr. Baumann's comment that the proposed requirement in paragraph 20 of proposed ISA 570 (Revised) is not new, but that he believes that the new requirement makes the auditor's responsibilities very

clear, and that the Interpretations Committee's Decision provides a good reminder of management's responsibilities for disclosures around GC. He was of the view that progress had been made on the topic of GC and that the IAASB has progressed as far as it can for the moment.

- Ms. Sucher noted that, for banks, when a material uncertainty is identified, the auditor is required to report to the regulator, either directly or through management. However, she noted that there is no reference in proposed ISA 570 (Revised) to such reporting requirements. She cited the specific reference in ISA 250¹⁸ that, if the auditor identifies a fraud, they have the duty to report it and suggested similar guidance in proposed ISA 570 (Revised) addressing reporting a material uncertainty would be appropriate.
- Mr. Stewart recommended revisiting paragraphs 5, 13 and 26 of proposed ISA 570 (Revised) to ensure that it is clear that the look forward period in respect of GC is not limited to 12 months, but that 12 months is a minimum look forward period. Mr. Montgomery agreed that application material may be useful to explain the timeline.

ISA 720 – OI (Agenda Item J)

To *REPORT BACK, RECEIVE* a summary of feedback on the April 2014 ED of proposed ISA 720 (Revised) ED (ED-720 (2014)), and *DISCUSS* issues identified and TF's proposals for a way forward (Final standard planned for approval in December 2014).

Mr. Gélard introduced the topic, noting that the ED-720 (2014) was approved by the IAASB at its March 2014 meeting. He indicated that the comment period closed on July 18, 2014 and that 69 comment letters were received. Mr. Gélard noted that respondents' views on the IAASB's revised ISA 720 proposals were mixed but, overall, respondents were generally supportive. Mr. Gélard explained that, based on review of the comment letters, the TF identified three key areas of significant concern that warranted the CAG's input at this point in time – the key work effort requirements; the definition of a misstatement of the OI and the implications of OI obtained after the date of the auditor's report. He explained that the TF plans to discuss further significant issues that were raised by respondents with the CAG in a teleconference on November 24, 2014.

WORK EFFORT

Mr. Gélard indicated that respondents were generally supportive of the three part work effort on OI that was proposed in ED-720 (2014). He noted that, overall, respondents were more supportive of the requirements than was the case for ED-720 (2012).¹⁹ However, there were still some concerns raised, for example, about the use of the word "consider" being imprecise and difficult to translate, as well as aspects of the work effort being too judgmental.

The Representatives and Observers commented as follows:

- Mr. Fukushima clarified the feedback provided in the IOSCO comment letter, noting that in general IOSCO was of the view that standard should provide further clarification as to what auditors are

¹⁸ ISA 250, *Consideration of Laws and Regulation in an Audit of Financial Statements* paragraph 28. See also ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* paragraph 43.

¹⁹ Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*, issued November 14, 2012

required to do, for example, by using a more “action”-based term such as “assess” rather than “consider.” Regarding respondents’ suggestions that the word “consider” be replaced with the word “evaluate”, Ms. Lang drew attention to similar concerns noted in the Report Back and suggested that, as a matter of principle, the TF should take into consideration the existing meaning and intent of the use of terms in the exiting ISAs (for example, the use of the term “evaluate” as used in ISA 210)²⁰ to ensure consistency, thereby avoiding potential confusion and translation issues.

- Mr. Fukushima suggested that the last sentence of paragraph 14(a) that reads “[T]he determination of which amounts or other items to select in performing these procedures is a matter of professional judgment”, be moved to the application material in the standard, as it was of an explanatory nature rather than an explicit requirement. Mr. Baumann complimented the TF on its progress, but questioned the TF’s rationale for adding the last sentence to paragraph 14(a), challenging whether procedures could be performed on some items and not on others. Mr. Baumann was of the view that it was important that the auditor always apply the requirement in paragraph 14(a) of ED-720 (2014) to provide a basis for the auditor’s conclusions about whether there is an inconsistency between the OI and the financial statements.
- Ms. Molyneux asked for a high-level overview of the increased benefit to users of the proposed changes to the OI standard. Mr. Gélard explained that the proposed changes are intended to result in an improved and consistent increased work effort among auditors with respect to OI. He also added that explicit reporting on OI in the auditor’s report is new and is intended to add transparency to the audit with respect to OI. Ms. de Beer and Mr. Waldron agreed. Mr. Waldron, reflecting on his involvement with the TF earlier in the project, added that, in his view, auditors are already performing work with respect to OI and it is important to make it clear to users what that is.
- Mr. Hemus suggested that the TF revisit the revised language in paragraph 15A, noting that the phrase “not related to the financial statements or the auditor’s knowledge obtained in the audit” was confusing. He suggested that the phrase be replaced with “not related to the audit”. Mr. Fukushima suggested that the TF clarifies the apparent difference between the messages in paragraph 2 regarding not needing to obtain further audit evidence and paragraph 15A, which could be seen as implying a need to obtain further evidence. Mr. Gélard responded that the requirement in paragraph 15A was to “remain alert” using the auditor’s existing general knowledge (i.e., knowledge other than that obtained in the audit), but there was no requirement to expand that general knowledge. Mr. Gélard noted that the TF would discuss further clarification of this point.

THE DEFINITION OF A MISSTATEMENT OF THE OI

Mr. Gélard introduced the topic, noting that respondents’ views on the definition of a misstatement of the OI were mixed. Though many respondents explicitly supported the IAASB’s definition of a misstatement of the OI, some did not comment on it, while others expressed specific concerns. Broadly, these concerns were as follows:

- When considering OI that addresses matters beyond the financial statements and the auditor’s knowledge obtained in the audit, expecting the auditor to remain alert to omissions or obscurity may not be reasonable and could be seen as a need for a completeness check of the OI;

²⁰ ISA 210, *Agreeing the Terms of Audit Engagements*, paragraph 21

- The definition lacks criteria for assessing omission or obscurity; and
- The concept of materiality was too focused on the financial statements description of materiality and too close to the description of materiality included in ISAE 3000 (Revised).

Mr. Gélard noted that the TF's proposed revisions used language drawn from ISA 320²¹ to describe materiality by way of application material and removed the phrase "recognizing that the other information is only part of the overall information available to users". He also noted that the proposals clarify that the auditor is not responsible for performing a completeness check on the OI.

The Representatives and Observers commented as follows:

- Mr. James questioned the clarity of the phrase in paragraph 12(b), ("including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information"). In his view it does not seem logical that something that is omitted could be disclosed in the OI. Mr. Gélard noted that the auditor was not required to search for omissions in general. Rather, the purpose of the phrase was to make clear that if the OI purports to address a matter, the OI should not omit a material item relevant to that disclosure. He gave the example of a disclosure of key performance indicators (KPI) used by management, where management omitted a relevant KPI which showed a negative trend. Ms. de Beer suggested that the sentence structure be simplified.

IMPLICATIONS OF OI OBTAINED AFTER THE DATE OF THE AUDITOR'S REPORT

Mr. Gélard noted that majority of respondents expressed support for requiring the same work effort on the OI obtained after the date of the auditor's report and agreed with the IAASB's position in the ED not to require the auditor to report on the work on such OI due to the diversity of the legal and regulatory systems across jurisdictions. He noted that respondents had various concerns, including that the auditor should not be required to take responsibility for such OI at all; that there should be a cut-off date after which the auditor would be not be required to have any responsible with respect to such OI; that the auditor's report should provide transparency about the auditor's work with respect to such OI; and that there should be greater specificity in the requirement for the auditor to "take appropriate action" if there is a material misstatement in such OI.

Mr. Gélard explained that that the TF agreed that greater transparency of the auditor's responsibility with respect to such OI would be useful and that the TF recommends that the IAASB:

- Clarify and strengthen the requirement to take appropriate action if a material misstatement exists in such OI;
- Require the auditor to seek to obtain written representation regarding the provision of such OI;
- Require the auditor's report to identify such OI and the expected work effort thereon; and
- Consider the need for further disclosure in the auditor's report on the auditor's possible response if there is a material misstatement in such OI.

The Representatives and Observers commented as follows:

- Mr. Bluhm questioned the use of the phrase "withdrawing from the audit" and suggested "withdrawing from the engagement" would be more consistent with other literature. He also questioned whether

²¹ ISA 320, *Materiality in Planning and Performing an Audit*

withdrawing from the audit was a practical response after the auditor's report had been issued. Mr. White agreed and suggested that the focus of this action should be on withdrawing the auditor's report, if permitted by law or regulation. Mr. Gélard explained that establishing guidance in this area is difficult, given the different legal and regulatory environments across jurisdictions. He noted that the TF included application material intended to provide different options, similar to those in ISA 560,²² which would allow for flexibility across jurisdictions. Ms. de Beer suggested that the TF revisit the wording of paragraph A45 in light of the feedback from Messrs. Bluhm and White to consider whether the application material could highlight whether the auditor may be permitted to withdraw the auditor's report. Mr. Montgomery agreed that the TF should seek to clarify the actions that may be appropriate in such circumstances, but noted that the TF did not intend for the words in the last bullet of paragraph A45 to deal with the auditor withdrawing the auditor's report, as this is addressed by the first bullet in paragraph A45. Rather, the reference to withdrawal was intended to refer to withdrawing from (or not continuing with) future audit engagements. He highlighted that this situation is different to that addressed by ISA 560, in that ISA 560 is concerned with a subsequent event related to the financial statements that indicates that users should no longer rely on the auditor's report. He noted that it is important that the work done on the OI should not be seen to undermine the reliance on the auditor's report, where the auditor concludes that it is the OI (and not the financial statements) that is materially misstated. Mr. Montgomery explained that the TF was of a view that management's decision not to correct a material misstatement in the OI should be factored into the auditor's assessment whether continue as that entity's auditor.

- Mr. Koltvedgaard expressed a more general concern about the auditor being able to withdraw and reissue the auditor's reports. Acknowledging that there are situations where it may be necessary to reissue the auditor's reports, he was of the view that it is in the public interest that those situations be very rare so that users can continue to have confidence in the auditor's opinion provided in the auditor's report. Ms. de Beer and Mr. Waldron agreed. Mr. Baumann noted that, in some jurisdictions, the audited financial statements have to be filed on a certain date but the annual report filing date may be thereafter. He added that, if the auditor's report states that there is nothing to report, but the auditor later discovers that there is a material misstatement in the OI, the auditor has to take action. He acknowledged that it is a very difficult issue to deal with if the IAASB continues to scope in such OI in proposed ISA 720 (Revised).
- Mr. White supported for the TF's suggestion to require identification of the OI in the auditor's report.
- Ms. Blomme indicated that, based on her experiences, the situations when OI is available after the auditor's report date is uncommon. She asked the TF to consider whether having such extensive guidance in this area could potentially make it seem as though such situations occur more commonly than they actually do. She suggested that the standard would be enhanced by ensuring that there is balance in the amount of guidance provided, in light of the expected frequency of its use among auditors. She also suggested that the standard emphasizes the close interactions and coordination that exists between the auditor and management, in order to minimize situations where OI is released after the date of the auditor's report.

²² ISA 560, *Subsequent Events*

OTHER MATTERS

The Representatives and Observers commented as follows:

- Mr. Baumann noted that, in his view, the TF has done an excellent job on what is a very challenging standard. His only concern is with the final sentence in paragraph 14(a) as noted before.
- Ms. Elliott questioned whether the IAASB had a process to obtain investors' views to inform decisions in this project. Ms. de Beer noted that Mr. Waldron participated in the project during its earlier stages in order to bring an investor view to the discussions. Mr. Waldron confirmed his involvement in the formative stages of the project, and also shared his view that it has historically been difficult for investors to comment on all the work of standard setters (e.g., the IAASB, PCAOB, and FASB) by way of formal comment letters. Mr. Waldron noted that he and other investor representatives on the CAG have had the opportunity to share their views on the proposals and contribute to the process. Ms. de Beer agreed, noting that ISA 720 has been on the CAG agenda many times, which allowed investor Member Organizations to comment. Prof. Schilder noted that, beyond the formal comment letter process, the IAASB also routinely conducts outreach targeted at obtaining input from investors and other specific stakeholder groups. Ms. Healy added that the IAASB has observed that NSS who respond to the IAASB's EDs often conduct national outreach within their respective investor communities and use that information as a basis for formulating their responses. Specific to the OI project, Ms. Healy also noted that the IAASB received very helpful feedback from investors on the proposals relating to auditor reporting on OI as part of the IAASB's 2012 Invitation to Comment: *Improving the Auditor's Report*.

Ms. de Beer concluded by noting that the OI project is very important to the investor community specifically and the CAG in general and that the lack of significant comments from the CAG is an indication of its support for moving towards finalization. She thanked Mr. Gélard for his presentation and continued engagement with the CAG, noting his term at the IAASB was ending at the end of the year. Mr. Gélard thanked the Representatives for their comments and the opportunity to work with the CAG over the years.

Open Session – IFIAR Presentation (Item K)

Open Session – To <i>RECEIVE</i> a presentation from the IFIAR.

Mr. Harris thanked the CAG for the opportunity to talk to them about the activities of the IFIAR Investor Working Group and the PCAOB Investor Advisory Group, both of which he chairs. Mr. Harris disclaimed that the views expressed are his own, and are not representative of the PCAOB or IFIAR. He commended on the work of the CAG, acknowledging the diverse and impressive backgrounds of the Representatives and Observers and thanked those who also contributed to the work of the PCAOB and IFIAR.

He then complimented the IAASB for its work in the area of audit reporting. He noted that the modernization of the auditor's report is one of the top priorities of investors both in the US (PCAOB Investor Advisory Group) and globally (IFIAR Investor Working Group). He explained that investors would have liked to have had an auditor's report that included an auditor's discussion and analysis (AD&A) and that they are seeking more in the course of the PCAOB's standard-setting process. He acknowledged that the IAASB's concept of KAM, represents an effort to balance competing interests of matching users' wants with what is obtainable. Commenting on the IAASB's other current projects, Mr. Harris encouraged the IAASB to seek out further opportunities to gain investor input.

Mr. Harris discussed his background, highlighting, in particular his involvement in the development of the US Sarbanes Oxley Act of 2002 (SOX) and the establishment of the IFIAR Investor Working Group. He emphasized the importance of protecting the interests of investors, drawing from the missions of SOX and the IFIAR Working Group. He also shared his perspectives on a variety of issues affecting audit and the audit profession today including, auditor independence and the inherent conflicts that exist in the auditor payment model; audit quality; and governance of audit firms.

Mr. Harris provided an update on the topics that are intended to form part of future IFIAR Investor Working Group discussions, including: profession skepticism; communication with audit committees; auditor tenure; competition among audit firms too big to fail; living wills; firm governance; and other current trends in the profession.

Mr. Harris added that investors are of the view that there is room for improvement in the area of audit quality. He added that a recently issued IFIAR survey indicated that audit quality is lacking.

The Representatives and Observers commented as follows:

- Mr. Waldron thanked Mr. Harris for the presentation and echoed his comments relating to the need for auditors to change their mindset as to who is really their client (i.e. investors and users versus management). He asked whether Mr. Harris would share some perspectives on how the PCAOB established a process that was successful in obtaining investor input. Ms. de Beer further asked about whether there must be a value-proposition for investors. Mr. Harris responded that PCAOB Standard Advisory Group (SAG) is akin to the CAG, and is comprised of a diverse group that includes investors, auditors, preparers, regulators and others. He further noted that the Office of the Chief Auditor, led by Mr. Baumann, also conducts project-specific outreach to investors. Lastly, he noted that the PCAOB Investor Advisory Group (IAG) is a distinguished group of 18 individuals who meet once a year, some of whom have money under management, investor advocates, ex-regulators, and academics who have written about investor protection. Mr. Harris noted that the IAG is unlike other groups as it allows the PCAOB to hear concerns directly from the investor.
- Ms. Molyneux also thanked Mr. Harris for the presentation and asked for views about the implementation and application of ethics and corporate governance standards in emerging markets, as well as inspections finding. She also asked whether there were differences in terms of the inspection findings in audits performed in emerging markets versus other markets. Mr. Harris acknowledged the importance of corporate governance and complimented the ICGN for its work in this very complex area. He noted that in the US, the role of the audit committee falls under the jurisdiction of the Securities Exchange Commission, and thus it is very limited what the PCAOB can do. He noted that jurisdictions like Singapore are realizing the importance of investor protection and audit quality and are moving ahead in terms of establishing policies. Mr. Harris explained that it is important to obtain the view of individuals who are familiar with accounting and audit as well as corporate governance, but he emphasized the importance of the need for there to be a majority of independent board members on standard-setting bodies.
- Ms. Sucher asked Mr. Harris for perspectives on the threats to audit quality in light of a model where firms also provide consulting services. Mr. Harris explained that IFIAR is a clearing house and puts issues such as those discussed at the CAG to regulators for consideration. He noted specific to the US, SOX provides for a list of prohibited activities. He noted that this may not be the case for other jurisdictions.

- Mr. James thanked Mr. Harris for the presentation, noting that securities regulators echo his comments about the need to emphasize the role of investors and their needs. Mr. James noted that though investors are the primary stakeholders, others stakeholder are more likely to provide input. He asked for views on how the IAASB should seek to balance the important input received from those representing the public interest with the views of others, which may be more voluminous. Mr. Harris explained that the number of those who represent the public interest is disproportionately small, thus it is most important to determine the substance of the input provided rather than trying to balance and determine weight based on total count. Mr. Harris added that he does not agree with the view that has been expressed by some that investors do not know what they want. For examples, he noted that investors have been unified in their requests for transparency about audits and the need for a more informative auditor's report.
- Ms. de Beer asked Mr. Harris about his views on whether and what role IFIAR should play in the IAASB's standard-setting process and what steps should be taken to get there. Mr. Harris responded that IFIAR is a member of Monitoring Group and naturally has an interest in the work of the IAASB. He also noted that IFIAR is a relatively new organization, and is in the process of evaluating which organizations it affiliates with and in what capacity. Mr. Harris noted that he will report back his observations of the CAG meeting to the IFIAR Investor Working Group.

IAASB's Strategy 2015–2019 and Work Plan 2015–2016 (Item L)

To *REPORT BACK*, *RECEIVE* a summary of the feedback on the IAASB's December 2013 Consultation Paper, and *DISCUSS* the issues identified and revisions made to the IAASB's proposed Strategy for 2015-2019 and proposed Work Program for 2015-2016 (*Final document planned for December 2014*)

Prof. Schilder introduced the session, noting that the IAASB was evolving its practices as it prepares for its future agenda. As an example, he noted that Mr. Montgomery, Chair of the Auditor Reporting TF, will continue to be involved in the implementation activities being planned for the rollout of the new and revised auditor reporting standards in 2015, notwithstanding that his term on the IAASB will have ended.

Prof. Schilder also explained, in relation to an earlier question from Mr. Koktvedgaard, that the IAASB had further considered how its successes could be measured, and was pleased that the number of jurisdictions that were using, or committed to using, the clarified ISAs had increased to over 100. He added that the IAASB would continue to monitor the uptake of the ISAs and its other international standards.

Prof. Schilder explained that, within its proposed Work Plan for 2015–2016, the IAASB had initially proposed to focus on three projects. Notwithstanding strong support for those projects, many respondents expressed concern that work in some other key areas should commence on a timely basis. As a result, the IAASB has reassessed its approach and agreed to commence work on more projects than initially envisaged in the period 2015–2016.

Prof. Schilder noted that, in order to do so, the IAASB considered how best to use others, such as NSS, to progress various initiatives and standard-setting activities, building on existing relationships with stakeholders. He also noted that dialogue with key stakeholders was intensifying and becoming more structured, for example with regulatory bodies such as IOSCO Committee 1, the IFIAR Standards Coordination Working Group, the Basel Committee on Banking Supervision, and the International Association of Insurance Supervisors.

The Representatives and Observers commented as follows:

- Ms. de Beer noted the CAG's previous support for the direction of the Strategy and 2015–2016 Work Plan and was pleased by the changes that had been made to the strategic objectives, and in particular, the enhancements made to the Work Plan.

STRATEGY FOR 2015–2019

- Mr. Kottvedgaard congratulated the IAASB on achieving the milestone of more than one hundred jurisdictions using, or committed to using, the clarified ISAs. However, he noted that the Strategy had no specific targets in relation to the next milestone and did not specifically address efforts to achieve the goal of increasing use of the ISAs globally, similar to an approach taken by the IASB. Mr. Ahmed agreed that defined goals would be useful. Mr. Kottvedgaard suggested the Strategy could highlight key regions in which the IAASB may target efforts towards adoption and implementation, for example the European Union in light of the recently issued regulation. He added that the rollout of the new and revised auditor reporting standards would provide a useful mechanism for promoting use of the IAASB's standards in some of these regions. Prof. Schilder acknowledged that the IAASB would like to work towards increasing the number of jurisdictions using its standards. He added that the IAASB will continue to monitor this, and work with groups within IFAC such as the Compliance Advisory Panel (CAP), which monitors developments in different jurisdictions. He explained that translation of the standards into other languages also helped facilitating the adoption of the standards, for example the Spanish translation had enabled a greater uptake in Spanish-speaking regions. Prof. Schilder specifically noted jurisdictions that were advancing on their plans for adoption of the ISAs, including the African Francophone countries, some jurisdictions in South America and Russia. He added that progress was being made in Europe, as the ISAs were now recognized in the new regulation and directive, but cautioned that much work may still be needed before the ISAs would be adopted for Europe as a whole. However, most member states have already adopted them on a national basis. Therefore, the IAASB would be reluctant to identify "key regions" for adoption by 2020 as many regions would be important.
- Ms. Blomme expressed support for the Strategy and 2015–2016 Work Plan. However, she expressed concern over the use of the term "financial reporting supply chain" in the third strategic objective, as the efforts of the IAASB to strengthen outreach and collaboration go beyond issues relating to the financial reporting supply chain. She suggested that consideration be given to using the term "corporate reporting supply chain." Prof. Schilder explained that the IAASB had considered doing so, but some concern was expressed that this would be viewed as excluding the public sector. Further consideration could be given to whether an alternative term could be used.
- Ms. Blomme also noted that, while the factors guiding the identification of potential priorities and future actions made reference to entities of different sizes and complexities, she was unsure whether work in relation to small- and medium-sized entities (SMEs) would be a specific focus for the IAASB. Prof. Schilder noted that changes had been made to the proposed Work Plan, in particular to bring forward the work to revise the standard addressing agreed-upon procedures (AUP) engagements,²³ were done as a means of focusing on the needs of SMEs and small and medium practices (SMPs).

²³ International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

He also added that post-implementation reviews of the recently revised compilation²⁴ and review²⁵ engagements standards were planned. He further pointed out the proportionality element of the Quality Control standards, ISA 220²⁶ and ISQC 1.²⁷

- Mr. Ahmed noted support for the Strategy, in particular what the IAASB was going to do to achieve its mandate. However, he questioned why the IAASB had developed three new strategic objectives when its stated principal areas of focus seemed to adequately align with the IAASB's mandate. He also noted that the interaction between the principal areas of focus and the strategic objectives was unclear. Prof. Schilder explained that the areas of focus were more general and visionary while the strategic objectives developed for the 2015–2019 period were intended to be more specific to the IAASB's focus for that period. For example, the IAASB would be focusing on the ISAs more than the current strategy and work plan. Therefore the first strategic objective, together with the planned projects in the 2015–2016 Work Plan, describes in more detail how that will be accomplished. Ms. Healy further explained that the IAASB had challenged the TF as to whether the areas of focus were sufficiently detailed as a means of explaining the Board's strategic focus and therefore of greater impact. Prof. Schilder also added that the strategic objectives would be revisited for their continuing relevance through a mid-period review.

WORK PLAN FOR 2015–2016

- Ms. Blomme noted support to accelerate work on the AUP standard, as it is becoming a widely used standard in Europe, especially for engagements on grant schemes of the EC. She added that consideration of the potential wider application of this standard will be important, as it is being used in relation to a wide range of subject matters. Ms. de Beer commented that this reference to the EU was an important perspective, especially in the context of consistency for these types of engagements.
- Messrs. Fukushima and James expressed concern about the possibility of lessening the requirements within ISQC 1 to address considerations for SMPs relating to proportionate application, in particular if SMPs were auditing listed entities. In their view, the requirements for quality control should not be diluted for certain types of entities, but should rather be able to be applied across all types of entities. Prof. Schilder clarified that the intent is not to change the work effort, but rather to determine whether more could be done within the standard or by other means to illustrate how ISQC 1 can be applied in a proportionate manner.
- Mr. Stewart questioned what the IAASB's plans may be with regard to monitoring changes in financial reporting frameworks that might lead to new or different expanded effort by auditors, in particular in relation to new accounting standards involving significant judgment.²⁸ Prof. Schilder acknowledged that further consideration may be needed on how to pro-actively monitor the future needs of auditors

²⁴ ISRS 4410 (Revised), *Compilation Engagements*

²⁵ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

²⁶ ISA 220, *Quality Control for an Audit of Financial Statements*

²⁷ International Standards on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other assurance and Related Services Engagements*

²⁸ For example, IFRS 9, *Financial Instruments*, which will become effective in 2018, and the revised *Revenue Recognition* standard once finalized

in light of new accounting requirement, beyond the current efforts of the IAASB-IASB Liaison Working Group. This was also noted in other outreach, notably at the last US PCAOB Standing Advisory Group (SAG) meeting. He also noted that matters related to IFRS 9 may be addressed in the project dealing with special audit considerations for financial institutions.

- Ms. Lang noted support for the revisions that had been made, in particular the IAASB's acknowledgement of supporting SMEs and SMPs by including planned efforts to further consider hybrid engagements, as EFAA values a focus on innovation. Prof. Schilder added that careful consideration would be given whether to link hybrid engagements to AUP engagements, or to address as a separate initiative. Mr. James noted that IOSCO was pleased that changes had been made to allow for work to commence on more projects, as the majority of IOSCO's recommendations of areas on which the IAASB should focus were now included in the Work Plan. However, IOSCO did not agree with plans to focus on a project on AUP engagements, in light of other competing priorities for example addressing issues relating to the use of experts. Prof. Schilder explained that the IAASB's Work Plan had been developed taking into account the broad range of stakeholders using its standards and balancing all of their needs. He further explained that AUPs had been emphasized by many as an area where IAASB attention was needed, in particular because of the increasing use of ISRS 4400 in Europe, and the IAASB had responded accordingly.
- Mr. James drew attention to a comment included in the Report Back and clarified that he was questioning whether the 2015–2016 Work Plan included sufficient time to plan for the IAASB's Strategy and Work Plan for from 2020 onwards, as the process seemed to involve considerable resource and time. Prof. Schilder acknowledged that time would need to be spent later in the strategy period and noted that this would be more evident in the 2017–2018 Work Plan rather than the 2015–2016 Work Plan.
- Ms. Molyneux supported the Board's approach to the Strategy, in particular the focus areas of quality control and group audits, as work on these areas would have the greatest impact. She suggested careful consideration be given to using appropriate experts in the project planned for financial institutions, as this would involve areas of special focus and a degree of depth of technical skills. Prof. Schilder agreed, and noted that plans were already in place to find people with relevant experience in this area for the Working Group.

Prof. Schilder thanked the Representatives for their support and comments. Mr. Gunn acknowledged the importance of the CAG's input to the IAASB about developing trends in the environment, and encouraged the continuing efforts of the CAG in influencing the IAASB's work.

Efficiencies (Item M)

To *OBTAIN* Representatives' and Observers' views and further direction to enable Staff to progress the following:

- Potential amendments to the due process to address circumstances requiring an accelerated response (formerly referred to as the “rapid response mechanism”).
- Process for developing International Practice Notes (IPNs), which could also be applied to other forms of non-authoritative material (other than Staff publications for which there is an established process).

Ms. Kamp-Roelands provided an introduction to the topic, noting that the CAG had previously supported the IAASB exploring the concept of a “rapid response” mechanism that is, putting in place an accelerated due process to respond to matters relevant to international standard-setting. She drew attention to this proposed process in Agenda Item M.1, addressing the proposed mechanism to create an accelerated due process for the issuing of authoritative material as well as the proposed process to develop non-authoritative material, set out in Agenda Item M.2. She noted that there was interaction with the Staff of the other Standard-Setting Boards (SSBs), but that the SSBs, their respective CAGs and the PIOB had not yet discussed these processes.

The Representatives and Observers commented as follows:

- Mr. Fukushima questioned whether it would be possible to operationalize an accelerated due process for international standards, as he was of the view that, when an issue is of such significance as described in paragraph 32(a) of Agenda Item M.1, full due process would always be required to ensure the legitimacy of the international standard.
- Mr. Stewart noted that the IASB has a mechanism in place to accelerate its standard-setting process, but that the mechanism is rarely used. He explained that in order to use the mechanism, the IASB must obtain permission from its Trustees (i.e., the body responsible for oversight of the IASB). He suggested that a similar permission should be obtained by the IAASB from the PIOB.
- Mr. Kottvedgaard supported the need for an accelerated due process, but questioned the sufficiency of the length of the public consultation via the comment letter period. He suggested that the proposed exposure period of 45 days should be extended as, in his view, it is too short a period for international organizations to appropriately deliberate and form a view.
- Mr. Kottvedgaard further suggested the mapping of the regular process, estimating the time that would be required at all stages of the process, but exploring possible efficiencies through the use of technology such as teleconferences in between the bi-annual CAG meetings as well as other steps that could be taken to accelerate the process. Despite supporting the use of teleconferences, he emphasized the importance of the CAG having the opportunity discussing the matter for which an accelerated response was considered necessary in a physical meeting at least once.
- Mr. Stewart expressed concern with paragraph 34 in Agenda Item M.1 which suggests encouraging public submission of evidence for the need for and urgency of a project. In his view, such evidence should already be obtained before the IAASB commenced a project using the accelerating due process. He suggested that this evidence, obtained beforehand, should inform the IAASB as to the relevance of the matter as well as its urgency. He was of the view that, due to the importance of the IAASB applying its accelerated due process, the PIOB would likely wish to consider such evidence

in advance of the Board commencing a project. Ms. Diplock agreed. Ms. de Beer added that the evidence to be submitted to the PIOB should also capture the input from the CAG on whether the issue is urgent and whether applying the accelerated due process for the project was in the public interest. Ms. de Beer suggested that paragraph 33 in Agenda Item M.1 be revised to better capture this process.

- Mr. James suggested that further clarification is needed on what is meant by the term “in the public interest” in the context of how it is used in Agenda Item M.1. Ms. Diplock noted that whether an issue is in the public interest and whether an issue requires an accelerated response are delicate decisions that require the expertise of the PIOB. Although the proposed process had not yet been discussed by the PIOB, Ms. Diplock offered a personal view that the IAASB should specifically seek the PIOB’s input at two stages: (i) before initiating an accelerated response; and (ii) when the project is finalized, to obtain the PIOB’s concurrence that the accelerated due process was followed in the development or revision of the international standard.
- Ms. de Beer suggested that consideration be given to extending the CAG involvement envisaged in the process, as described in paragraph 36 of Agenda Item M.1. She was concerned that, if a project is of such importance that it triggers the accelerated due process of the IAASB, the input from the CAG will be important and that the CAG could not only be seen as “noting” various aspects, including the project proposal, as that is not consultation or advise, as is the role of the CAG. Mr. Koltvedgaard agreed and suggested that CAG input may be obtained by way of CAG teleconferences, rather than omitted entirely at certain stages. Mr. Gunn noted that the more interaction that is re-introduced into the proposed process, the less likely it would be to achieve the acceleration intended. He acknowledged, however the importance of balance between the need for consultation and achieving an accelerated response to a particular matter.
- Mr. Koltvedgaard suggested that, as the different SSBs explore various processes, that they should first discuss and agree on matters of mutual interest before seeking input from their respective CAGs. Ms. de Beer agreed.

Ms. de Beer noted that more CAG deliberation is needed on both the accelerated process as well as the process for non-authoritative material. However, due to the limited time available to debate these matters, she suggested that Staff consider the comments so far as well as an appropriate way forward to seek further input from the CAG. She suggested that it might be useful to request the CAG Member Organizations to submit a first round of comments to the Staff, for the Staff to use such comments to update the paper and that a revised proposal then be debated, possibly via a CAG teleconference.

PIOB Remarks

Ms. Diplock congratulated the CAG on a productive meeting, adding the Representatives and Observers seem to have been given adequate opportunities to comment and have shared their diverse views on wide range of issues related to the agenda items. She commended the work of the IAASB, noting that the finalization of the auditor reporting project will mean the release of critical standards that investors, regulators and others have been waiting for some time. She congratulated Mr. Montgomery and his team for “wrestling with snakes” and finding a workable solution.

Ms. Diplock then congratulated Ms. de Beer on the chairing of the meeting, noting that there was a great balance of opinion expressed. She noted that Representatives and Observers seem to have felt free to offer frank feedback during the meeting, and that the meeting was conducted in the public interest.

Closing Remarks

Ms. de Beer thanked the CAG Representatives and Observers for their high level of preparation and participation and the quality of comments provided during the meeting. She also thanked the IAASB members and Staff for their contribution to the success of the meeting. She congratulated the CAG for having voted a new CAG Chairman. Subject to PIOB approval, the term for this new Chairman is to commence after the March 2015 CAG meeting.

Mr. Harris thanked Ms. de Beer and the CAG for the opportunity to observe its meeting. He complimented the diversity in the representation of stakeholder groups on the CAG, as well as the quality of the discussions. He also commended Prof. Schilder and Mr. Montgomery for the outstanding progress made on the auditor reporting project. He also thanked them for the IAASB's productive working relationship with Mr. Baumann and his Staff, and the IAASB's valued participation on the PCAOB SAG. He then extended an invitation to the Representatives and Observers to attend the PCAOB SAG, and expressed an interest in establishing a working relationship with the PIOB.

Prof. Schilder also thanked the Representatives, Observers and Mr. Harris for their kind comments and compliments. He noted the importance of receiving the very specific and direct feedback from the CAG in advance of the IAASB meeting and indicated that this input would be helpful to the IAASB at its meeting the following week.

Ms. de Beer closed the meeting.