



Agenda Item

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Meeting: IAASB Consultative Advisory Group
Meeting Location: Madrid, Spain
Meeting Date: September 11–12, 2017

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

Held on March 7-8, 2017

New York, United States of America

PRESENT

Members

Marie Lang	Interim CAG Chair
Noémi Robert	Accountancy Europe (AE)
Vânia Borgerth	Associação Brasileira de Instituições Financeiras de Desenvolvimento
Nicolaas van der Ende	Basel Committee on Banking Supervision (Basel Committee)
Kristian Koktvedgaard	BUSINESSEUROPE
Mohini Singh	CFA Institute (CFA)
Paul Sobel	Institute of Internal Auditors (IIA)
Michael Stewart*	International Accounting Standards Board (IASB)
James Milholland	International Actuarial Association (IAA)
David Rockwell	International Bar Association (IBA)
Anne Molyneux	International Corporate Governance Network (ICGN)
Atsushi Iinuma	International Organization of Securities Commissions (IOSCO)
Nigel James	IOSCO
Huseyin Yurdakul	IOSCO
Jim Dalkin	International Organization of Supreme Audit Institutions (INTOSAI)

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

Mauro Bini	International Valuation Standards Council (IVSC)
Kazuhiro Yoshii	Japan Securities Dealers Association (JSDA)
Lucy Elliott	Organisation for Economic Cooperation and Development (OECD)
Gayani Perera	Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)
Henri Fortin	World Bank (WB)

Observers

Dawn McGeachy-Colby	International Federation of Accountant (IFAC) Small and Medium Practices (SMP) Committee
Simon Bradbury	International Monetary Fund (IMF)
Martin Baumann**	United States Public Company Accounting Oversight Board (PCAOB)

IAASB

Prof. Arnold Schilder	IAASB Chairman
Megan Zietsman (Agenda Item G)	IAASB Deputy Chair
Fiona Campbell (Agenda Item F)	IAASB Member and Task Force (TF) Chair
Rich Sharko (Agenda Item D)	IAASB Member and TF Chair
Karin French (Agenda Item H)	IAASB Member and TF Chair
James Gunn (March 8)	Managing Director, Professional Standards
Matt Waldron	IAASB Technical Director
Beverley Bahlmann	IAASB Deputy Director
Brett James	IAASB Deputy Director
Jasper van den Hout	IAASB Principal
Natalie Klonaridis	IAASB Principal
Csilla Molnar	IAASB Manager, Standards Development and Technical Projects
Schuyler Simms	IAASB Manager, Standards Development and Technical Projects
Vijiata Kirpalani	IAASB Manager, Standards Development and Technical Projects

Public Interest Oversight Board (PIOB)	Maria Helena Pettersson
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APOLOGIES

Members

Myles Thompson	AE
Juan-Maria Arteagoitia	European Commission (EC)
Dr. Obaid Saif Hamad Ali Al Zaabi	Gulf States Regulatory Authorities (GSRA)
Erik Bradbury	Financial Executives Institutes (FEI)
John Kuyers	Information Systems Audit and Control Association (ISACA)
James Pelletier	Institute of Internal Auditors (IIA)
Jean-Luc Michel	International Association of Financial Executives Institutes – Europe, Middle East, and Africa Region (IAFEI-EMEA)
Sanders Shaffer	International Association of Insurance Supervisors (IAIS)
Jaseem Ahmed	Islamic Financial Services Board (IFSB)
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Yospeh Asmelash	United Nations Conference on Trade & Development (UNCTAD)
Wei Meng	World Federation of Exchanges (WFE)

March 7, 2017¹

Welcome and Approval of Minutes of Previous Meetings (Item C)

To *APPROVE* the minutes of the September 2016 CAG public session.

OPENING REMARKS

Ms. Lang welcomed the Representatives, including new Representative, Mr. James Milholland (IAA). Ms. Lang also welcomed Ms. Maria Helena Pettersson from the PIOB as well as the IAASB Chairman, Deputy Chair, the IAASB Task Forces and WG Chairs, and Staff, as well as the observers.

MINUTES OF THE PREVIOUS MEETING

Mr. van den Hout introduced two changes initiated by the PIOB to the minutes of the public session of the September 2016 CAG meeting. The minutes including the PIOB changes were approved.

The minutes of the joint IAASB – International Ethics Standards Board for Accountants (IESBA) CAG session of September 2016 and the minutes of the November 2016 IAASB CAG Teleconference have been approved.

OTHER MATTERS

Prof. Schilder introduced the future IAASB outreach activities in the Asia Pacific region. He also described the discussions with the IFIAR, and referred to the latest IFIAR Inspection Report.

Michael Stewart, gave an update on the use of skepticism in the IASB Conceptual Framework.

ISA 540² (Agenda Item D)

- To *REPORT BACK* on the September 2016 meeting; and
- To *DISCUSS* proposed amendments to ISA 540 and conforming amendments to ISA 500 (Exposure Draft planned for March 2017)

Mr. Sharko introduced the topic by explaining the Task Force's activities since the September 2016 CAG meeting and noted the report back on the previous CAG discussion in September 2016. He noted that this would be the last discussion of the CAG prior to the anticipated approval of proposed revised ISA 540 at the IAASB's meeting in March 2017.

INTRODUCTION

The Representatives and Observers commented as follows:

- Messrs. Iinuma and Yoshii supported the inclusion of paragraph 3B that highlights the importance of professional skepticism. Mr. Iinuma suggested enhancing the paragraph by including the importance of a challenging mindset when auditing accounting estimates and suggested including

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

² International Standards on Auditing (ISA) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

more references to professional skepticism throughout the standard. Mr. Sharko noted that the Task Force, based on suggestions from the Professional Skepticism Working group, included wording throughout the standard that enhances the use of professional skepticism.

- Mr. van der Ende noted support for the Introduction section as it addressed several of the Basel Committee's concerns, including the focus on disclosures.
- Mr. Koktvedgaard noted that Introduction section is lengthy and questioned what the value is of all the new paragraphs. He also provided the Task Force with some suggestions to shorten the introduction. Ms. Robert agreed and noted the importance of keeping the introduction short. Mr. Sharko noted that the Task Force has tried to simplify the standard given comments received in the December 2016 Board meeting, but that the question could also be asked in the Exposure Draft (ED). Prof. Schilder added that the complexity of the topic influences the complexity of the standard and that it is difficult to make a simple standard on such a complex topic. Mr. van der Ende agreed, noting that the Basel Committee discussed this as well and came to a similar conclusion.
- Mr. Rockwell explained that "appropriate" may be seen as a higher bar than "reasonable" as "reasonable" means that an average practitioner would think it is defensible while "appropriate" means that it is more defensible than other options. He also questioned whether "reasonable" should be defined. Ms. Lang noted that the difference between "reasonable" and "appropriate" is subtle and that the difference might get lost when translating the standard. Mr. Sharko explained that the Task Force discussed whether to use "reasonable" or "appropriate" and is most comfortable with "reasonable" given how the terms were used in other ISAs. He noted that the Task Force also discussed whether a definition is needed for "reasonable" but concluded that it was not feasible as the term is used throughout the ISAs.
- Mr. Baumann noted that the aspects of data that increase the susceptibility of an accounting estimate to a risk of material misstatement are not limited to the aspects listed in paragraph 3. He also questioned how management could address management bias as suggested by paragraph 3(b)(ii) and questioned what the appropriate steps are to address estimation uncertainty.
- Mr. Stewart questioned what the Task Force meant with 'further audit procedures' in paragraph 3A and why complexity is a particular risk to management bias. Mr. Sharko explained that the term "further audit procedures" is used in paragraph 6 of ISA 330³ to describe procedures other than overall responses.
- Ms. Robert noted that paragraph 4 and paragraph 2 could be better aligned with the objective of the ISA and the definitions respectively.
- Mr. N. James suggested that paragraph 3 should be framed in terms of what management should do, and that this paragraph should more clearly bring out inherent risk factors.

APPENDIXES

The Representatives and Observers commented as follows:

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

- Mr. Dalkin supported the appendixes as they reduce the amount of application material and make the standard easier to navigate. Mr. van der Ende agreed and noted that the appendixes will help auditors understand the intentions of the IAASB. Mr. Bini added that Appendix 1 will be very useful for auditors in understanding how different measurement basis impact accounting estimates. He also highlighted the importance of professional skepticism in this respect. Mr. Koktvedgaard suggested issuing the appendixes as staff publications instead of including them in ISA 540 (Revised) as some of the guidance in the appendixes might require revisions sooner than ISA 540 itself. He noted that when the appendixes are issued as staff papers it will be easier to update them. Ms. Lang agreed.
- Mr. Stewart questioned the purpose of Appendix 1. He noted that it seems to provide a summary of accounting standards and questioned whether this should be included in an auditing standard. Mr. Sharko noted that the purpose of Appendix 1 is similar to that of the appendix on fair value measurements in extant ISA 540; that is, to provide the auditor with background information how the factors of complexity, the need for the use of judgment, and estimation uncertainty may be inherent in the use of a particular measurement basis.
- Mr. Stewart noted that there are several important differences between the terminology used in Appendix 1 and the terminology used in the IFRS Standards. He acknowledged that ISAs are intended to be framework neutral, but highlighted that there is a risk of confusion if different terms are used for similar concepts. For example, paragraph 13 of Appendix 1 could be read as presenting fair value measurements categorized within Level 3 as estimates of fair value and recommend rephrasing the paragraph to link fair value measurements categorized within Level 3 with the use of valuation techniques to measure the fair value (as opposed to using measurement techniques to estimate fair value). Mr. Stewart also noted that Appendix 1 does not seem to cover the measurement of amortized cost or the measurement of liabilities and suggested including some references to these measurements to improve the overall balance of the appendix.
- Mr. Stewart noted that throughout Appendix 1 the term “valuation attributes” is used and questioned whether this term refers to features of the items to be measured and the need to reflect those features in the corresponding measurements (as included in paragraphs 3 and 4), or if this term refers to inputs and/or assumptions considered when measuring accounting estimates (paragraph 5). Mr. Sharko noted that the Task Force will consider whether alternative wording could be used to clarify that these are factors that would be taken into account.
- Mr. Baumann noted that in Appendix 2, and also in the work effort section, reference is made to sufficient appropriate audit evidence about “matters” and questioned whether this is a new concept, as normally the auditor needs to obtain sufficient and appropriate audit evidence to address the risk of material misstatement. In Appendix 2 he also questioned what the difference is between estimation uncertainty and residual estimation uncertainty and why the concept of residual estimation uncertainty is not used in the rest of the ISA. He furthermore noted that Appendix 2 links the factors of complexity, judgement, and estimation uncertainty with each other and that this might be confusing, and that clearly separating the factors might aid clarity. Finally, he questioned why the order of the factors complexity, judgement and estimation uncertainty is different in the appendix than in the rest of the standard. Mr. Sharko noted that the Task Force referred to obtaining sufficient appropriate audit evidence about matters to link back to paragraph 13A-C without repeating lengthy excerpts from those paragraphs. With respect to the use of residual estimation

uncertainty he noted that initially it was included more holistically in the standard but that the Task Force was of the view that it might be confusing to use the two terms too often.

RISK ASSESSMENT

The Representatives and Observers commented as follows:

- Mr. Iinuma noted that, of the three risk factors identified by the Task Force, only estimation uncertainty is included in paragraph 8(c) and suggested to include the other factors more clearly. Mr. Sharko noted that the Task Force was of the view that, in the risk assessment, it would be clearer to focus on methods, assumptions, data, and management bias instead of the factors complexity and judgment.
- Mr. Dalkin noted that paragraph 8 is very useful for auditors of large entities but questioned whether the paragraph is as applicable for small and medium practices. Mr. Sharko explained that paragraph 8 is required for all accounting estimates as the auditor does not know for sure until risk identification and assessment procedures are performed. He noted that small entities may have complex accounting estimates and that not all accounting estimates in large entities are complex. The Task Force is therefore of the view that the risk assessment should focus on the nature of the accounting estimate and not the size of the entity.
- Mr. Baumann supported the changes to paragraph 8. He also noted that the introduction to paragraph 10 suggests that there are other factors than complexity, judgement and estimation uncertainty and questioned if this was the case. Mr. Sharko noted that there may be other factors and that paragraph A44M includes examples of these factors.
- Mr. Baumann questioned why the Task Force made the retrospective review conditional given its importance and questioned whether there are circumstances when the retrospective review is not useful. Messrs. Milholland and James agreed. Mr. Sharko explained that paragraph A38Q includes the Task Force's view when a retrospective review might not be useful but that the Task Force will consider further changes to make its intentions clearer.
- Mr. Milholland noted he supported the enhanced application material on models and noted that the IAA will assess how the changes to this standard can be aligned with the actuarial standards.

WORK EFFORT

The Representatives and Observers commented as follows:

- Mr. Baumann noted the importance of the work effort paragraphs given that most financial statement items are accounting estimates these days. He questioned whether auditors will understand how to apply the objective-based work effort as the standard does not include specific procedures, unlike paragraph 13 of extant ISA 540. He also noted the importance of selecting the right factors that drive the risk of material misstatement and questioned whether it will always be clear to the practitioner which factor(s) is driving the risk of material misstatement. Mr. N. James agreed and also questioned whether it was the Board's intention to delete the specific procedures that were included in paragraph 13 of extant ISA 540. Mr. Sharko noted removing the specified procedures was intentional. Prof. Schilder added that while the standard doesn't include specific audit procedures, the standard does provide guidance on which procedures might be performed. Mr. B. James noted that the inclusion of

specific procedures did not mean that the auditor would select the most appropriate procedure, whereas setting out the objectives that the auditor must seek to achieve would better direct the auditor's efforts toward having appropriate responses to the reasons for the risk of material misstatement.

- Mr. Dalkin noted that paragraph 13(a) is complex and suggested to simplify the requirement. He also noted that the related application material in paragraph A57H could be simplified. Mr. Sharko noted that a flow chart may also help here to improve the clarity of the standard.
- Mr. N. James questioned whether the assessment of which accounting estimates have a low risk of material misstatement will be applied consistently. He also questioned whether the stand back provision, as included in paragraph 13E and 13F, is required for all accounting estimates or only for accounting estimates that have an inherent risk that is not low. Mr. Sharko noted that a flow chart in the implementation guidance may be helpful to explain which requirements are applicable in which scenario. Ms. McGeachy added that a flow chart would also help small and medium practitioners to navigate through the standard. Prof Schilder and Ms. Lang agreed.
- In paragraph 13B(b) Mr. Stewart questioned whether the feasibility of management's actions should be added. He also questioned why inspecting the underlying contract, as included in paragraph A59E, shouldn't always be performed.
- With respect to paragraph A59H, Mr. Rockwell questioned whether the assumption, as included in the first sentence, that a change that is not based on a change in circumstances or new information is unlikely to be reasonable nor in compliance with the applicable financial reporting framework, is correct and suggested to make it softer.
- Mr. Iinuma questioned what the auditor should do when the auditor cannot make a point estimate or develop a range in accordance with paragraph 13C(b). He noted that it would be useful to include guidance on what alternative procedures the auditor may perform in this scenario. Mr. N. James added that including this requirement may be challenging for auditors and may give the auditor's an incentive to avoid selecting estimation uncertainty as a source of the risk of material misstatement.
- Mr. Rockwell noted that some of the procedures included in 13A, 13B or 13C could also be useful in other circumstances. For example, developing a range might also be useful when the accounting estimate is complex or when judgement is needed. Mr. Sharko explained that the auditor is required to select procedures to meet the objectives, which could include developing a range. He also that that there is interplay between the factors, which is explained in the application material. Mr. Rockwell also noted that paragraph 13B(b) refers to "appropriate" application of the financial reporting framework but that this is inconsistent with how the Task Force has used "appropriate" in other circumstances.
- Ms. Robert noted that subsequent events are not mentioned in the requirements and noted that this would be useful as it would scope a lot of accounting estimates out. Mr. Sharko noted that the Task Force discussed including a separate requirement regarding subsequent events but concluded that subsequent events testing would only be useful in certain cases.
- Ms. Robert noted that the ISA includes considerations specific to smaller entities and questioned whether this should be changed to considerations for simpler accounting estimates as the nature of

the accounting estimate determines the audit procedures to be performed. Ms. Lang agreed. Mr. Sharko responded by noting that the heading is consistent with other ISAs.

OTHER MATTERS

The Representatives and Observers commented as follows:

- Mr. van der Ende noted that the Basel Committee discussed whether the IAASB should strive for a perfect revision of ISA 540, but concluded that it was better to deliver an ISA that significantly improves on the extant ISA in a timely fashion. He noted that in his view the standard, as provided to the CAG, is ready for exposure and that further enhancements can be made based on the comments received on the ED. He noted the importance of having a standard on accounting estimates that provides sufficient hooks for regulators to do their work and to base guidance off. In that respect he mentioned the Global Public Policy Committee's (GPPC) intention to publish a paper on dealing with expected credit losses for Banks in Q4, 2017. Mr. van der Ende noted one area where further drafting was needed; the determination of audit misstatements when dealing with ranges.
- Mr. Koltvedgaard asked whether the IAASB plans to issues non-authoritative guidance or support tools. Mr. Sharko noted that the Task Force will, after finalizing ISA 540 (Revised), consider which IAPNs will be developed. Prof. Schilder added that this project will keep the Task Force busy for several years and that an implementation working group might be needed to ensure a smooth implementation.
- Mr. Rockwell provided the Task Force with specific drafting suggestions on paragraph A35E, A57H and A126 to improve the clarity of the guidance. Mr. Sharko noted that the Task Force would consider the suggestions.
- Ms. Robert questioned whether the Task Force reached out to practitioners other than those auditing financial institutions. Mr. Sharko responded by noting that the practitioners auditing other entities had been consulted as part of the Task Force's outreach.
- Ms. Lang questioned whether the references to other standards could be included in footnotes as that would improve the readability. Mr. Sharko explained that the clarity conventions do not allow that.

CONFORMING AMENDMENTS

The Representatives and Observers commented as follows:

- In paragraph A1A, Mr. Rockwell supported the inclusion that whether a fee is paid is not a determining factor in the determination whether an external party is an external information source or a management's experts. He also suggested to include 'or' in the bullet list as the factors mentioned are not exclusive of each other. With respect to paragraph A33H he noted that if the auditor uses another external information source because management and the auditor use the same external information source, it is important that the auditor needs to assess the relevance and reliability of the other external information source.
- Mr. Baumann noted that external information sources include third party pricing sources but that they are very different in nature and questioned whether the Task Force should include more specific guidance with respect to third party pricing sources given their importance, particularly when dealing

with level 2 fair values. Mr. Sharko explained that the Task Force tried to keep the changes to ISA 500 limited given that the IAASB may consider initiating a project on ISA 500.⁴

- Mr. Yoshii questioned whether a broker is an external information source or a management's expert. Mr. Sharko explained that it depends on the facts and circumstances, and that if the information from the broker is specifically generated for the entity, the broker is most likely a management's expert.
- Mr. Fortin noted that an important aspect whether an information source is an external information source or a management's expert is whether the source can be influenced by the entity. He suggested including a concept like "independent" in the application material that differentiates an external information source from a management's expert, but acknowledged that "independent" may be difficult in light of the use of the term in the IESBA Code.⁵

PIOB REMARKS

Ms. Pettersson noted that the PIOB observer of the December 2016 meeting highlighted the importance of a clear and concise standard and noted that a simple standard improves the implementation.

Ms. Pettersson noted that the public interest may be served by expanding the documentation required given the complexity and the professional judgments needed. The documentation paragraph could be enhanced by requiring the auditor to document which judgements were made, how the auditor evidenced a professionally skeptical mindset, and how the auditor's assessed the factors that drive the risks. Mr. Sharko noted that the Task Force proposed changes to the documentation requirement in 2016 but that the Board was of the view that ISA 230⁶ should continue to address documentation holistically, with each standard only highlighting specific items. With respect to documenting how the auditor demonstrated professional skepticism, Mr. Sharko noted that the Professional Skepticism Working Group is working on how to address Professional Skepticism more holistically and was of the view that proposed ISA 540 (Revised) should not preempt the work of the Professional Skepticism Working Group.

Small and Medium Practices Conference (Agenda Item G)

To <i>RECEIVE</i> a presentation on the IAASB Small and Medium Practices Conference.
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Ms. Zietsman provided Representatives with a [presentation](#) of feedback from the IAASB Small and Medium Practices (SMP)/ Small and Medium Entities (SME) Working Conference (the Conference) held in January 2017 noting that the Conference was well-attended by over 100 participants representing 28 jurisdictions around the world. The 2-day discussion focused on understanding the needs of SMPs and the challenges in performing audits of SME's as follows:

- Day 1 – Focused on sharing views about what users want or need in different jurisdictions for services other than audits (including whether gaps exist in the International Standards), including panel discussions about needs in different jurisdictions, presentations of standards in different jurisdictions (e.g. Danish extended review), and roundtable discussions.

⁴ ISA 500, *Audit Evidence*

⁵ IESBA Code of Ethics for Professional Accountants

⁶ ISA 230, *Audit Documentation*

- Day 2 – Focused on discussing ISA implementation challenges on audits of SMEs, including a panel discussion about audits in different jurisdictions, presentations on audit tools, software (e.g. Descartes), and roundtable discussions.

The Representatives and Observers commented as follows:

- Mr. Koktvedgaard commented that highlighting the value that small and medium sized firms bring as well as the value of an audit itself is essential in messaging to SMEs. He also questioned whether there were any in attendance at the conference with a preparer focus. Mr. Waldron responded that one presenter from Mississippi brought in elements from a preparer focus as well as a few other presenters at the Conference.
- Mr. Dalkin commented that the value of an audit is not limited to this context but more to all of the services that auditors offer. The focus of these discussions with SMEs is not so much about the value of an audit, but the value of the financial reports.
- Mr. Fortin noted that scalability was more of concern than proportionality and a lot of interest in the standards for small issuers from the Nordic Federation. Prof. Schilder added that the audit of a multinational corporation is very different from a small shop audit and it is important to keep this distinction between these audits. He also responded that the IAASB has been in intense discussions with the Nordic Federation and their efforts are much appreciated on this exposure draft for a standard for smaller firm practitioners. Ms. Robert responded that the Nordic Federation's standard is not published as of yet and is currently still in draft form with additional discussions to be had on the topic in different jurisdictions in the coming months.
- Ms. Elliot commented that SMEs are an important part of the global economy and a source of economic growth so anything that the IAASB can do to consider SMEs in the ISAs would be very welcome from that point of view.
- Mr. Stewart highlighted that the IASB's standard, 'IFRS for SMEs Standard' is not trying to enable an SME to comply with IFRS standards as such, instead an entity would describe in its report that the financial statements comply with the "IFRS for SMEs Standard" only. However, a single standard that would allow for SMPs to comply with the ISAs could be something that the IAASB might consider. Prof. Schilder responded that the IAASB's approach does not contemplate that there would be a separate standard for SMEs at this particular point in time but that the Board is continuing to discuss many different options.
- Mr. Koktvedgaard suggested that the IAASB might be able to leverage the use of technology to automate some of the ISAs which may alleviate the scalability issues. Prof. Schilder mentioned that Norway has done some work in this regard and that global applicability of the use of technology would be an important point to consider.
- Ms. Lang concluded the discussion by commenting that considering scalability and proportionality is an important step forward in promoting the adaptability of the ISAs.

Data Analytics (Agenda Item E)

To *RECEIVE* a video presentation of the Working Group's question and answer session with the International Forum of Independent Audit Regulators.

Prof. Schilder introduced the topic by stating that the IAASB fully acknowledges the importance of the subject of Data Analytics, which is why we published the Consultation Paper as we continue to explore this topic and solicit feedback on the role IAASB should play. This video, which features Bob Dohrer, Chair of the IAASB's Data Analytics Working Group (DAWG), was originally presented at the IFIAR Inspector's Workshop (IFIAR Workshop) in Athens in early February 2017. The IAASB will discuss this topic, including the feedback received from this consultation, in June 2017 and determine the way forward. Following the video presentation, Ms. Zietsman offered some additional points of interest on discussions from the IFIAR Workshop, which included a presentation from the UK Financial Reporting Council (FRC) of its recently published thematic review on the use of data analytics.

Representatives and Observers commented as follows:

- Ms. Singh questioned where the formation of the project advisory panels stands. Ms. Zietsman responded that preliminary selections for the panel have been made but have not been communicated those individuals just yet. Mr. Waldron added that the communication will be finalized in the coming weeks.
- Mr. Sobel stated that technology changes will happen very quickly and therefore the DAWG will need to be nimble and able to react quickly to these changes. Ms. Zietsman responded in agreement that this is something that will be discussed by the IAASB in the following week, specifically as it relates to the ISA 315 (Revised) project.
- Mr. Stewart questioned whether it was discussed at the IFIAR Workshop if there were any particular industries where data analytics have been used more. Ms. Zietsman responded that it wasn't clear whether data analytics was being used in a particular industry from the discussions but that it could be inferred that the use of data analytics within the financial services industry was prominent.
- Ms. Borgerth cautioned that technology will not remain stationary while the standards are developed and there is also a risk that the standards will be obsolete before they become effective.

ISA 315 (Revised) (Item F) ⁷

To *UPDATE* Representatives on the progress of the ISA 315 (Revised) project since the September 2016 IAASB CAG meeting and to *OBTAIN* Representatives' views on matters set out in **Agenda Item F.1** relating to possible amendments to ISA 315 (Revised).

Ms. Campbell updated representatives about the Task Force's work to revise ISA 315 (Revised), including the views of IAASB members and the Small and Medium Practices Committee on matters presented at the December 2016 IAASB meeting.

⁷ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

Ms. Campbell noted that discussions had been also been undertaken about aspects of ISA 315 (Revised) with Staff from the US Public Company Accountancy Oversight Board and representatives from the Nordic Federation of Public Accountants on its Standard for Audits of Small Entities.

Ms. Campbell provided an overview of the current direction of the Task Force relating to possible changes. The Representatives were generally supportive of the direction of the matters set out in Agenda Item F.1, but Mr. Inuma cautioned that consideration should be given to the implementation of the changes if new concepts are introduced. He emphasized the importance of the usability of the standard in practice.

Representatives commented on specific matters as follows:

GREATER EMPHASIS ON FINANCIAL REPORTING FRAMEWORK WHEN UNDERSTANDING THE ENTITY

With regards to strengthening the standard for a greater emphasis on the financial reporting framework:

- Ms. Lang questioned the need for a change to ISA 315 (Revised) in this regard as it was likely already considered as part of the auditor's risk assessment procedures. Mr. N. James questioned the need to separate out considerations relating to the financial reporting framework when understanding the entity, as auditors should be doing that already. Ms. Campbell acknowledged that auditors already consider the financial reporting framework in identifying risks of material misstatement, but that an enhancement to the standard was needed to help clarify the context of this understanding as it relates to its effect on risk assessment (i.e., what the auditor is measuring against). Furthermore, she noted that the likely impact would be in how the auditor's consideration of the financial reporting framework and its impact on risk identification is documented.
- Messrs. Stewart, Sobel and Fortin noted support for amending the standard to also focus on the financial reporting framework when considering risks, noting that the audit opinion is expressed in relation to the applicable financial reporting framework and this would therefore help the auditors focus their work. Mr. Stewart added that consideration should also be given to fair presentation frameworks when considering changes in this area, which may also help the auditor identify additional disclosures that may be required and on which the auditor should focus during the audit. Ms. Campbell noted the support and added that the Task Force would further consider the impact of fair presentation frameworks.
- Mr. N. James questioned the 'development of expectations' and what this would mean. Ms. Campbell explained that an emphasis on the applicable financial reporting framework would help develop the auditor's expectations as procedures are undertaken to understand the entity, and noted that the Task Force would consider how to make this clearer.

INHERENT QUALITATIVE RISK FACTORS

In relation to the inherent qualitative risk factors:

- Mr. Koktvedgaard questioned whether aspects of fraud from ISA 240 would be better placed in ISA 315 (Revised) if fraud was considered one of the inherent qualitative risk factors. He noted the embedded nature of fraud in identifying risks and suggested further consideration be given to how fraud could be better explained in ISA 315 (Revised). Ms. Campbell acknowledged the iterative interaction between ISA 315 (Revised) and ISA 240 but explained that fraud had been removed into a separate standard to help auditors focus on the various considerations around fraud, and that the

intention of changes in this project were not to involve changes to ISA 240 with the exception of conforming amendments as appropriate.

- Mr. Sobel supported the addition of fraud as a qualitative inherent risk factor. He noted that although it was a more detailed attribute and not at the principal level, COSO had included it in its revised 2013 Framework.
- Mr. Yoshii highlighted the importance of using the qualitative inherent risk factors in identifying risks.

OBTAINING AN UNDERSTANDING OF INTERNAL CONTROL

In relation to obtaining an understanding of internal control:

- Mr. Rockwell questioned what the role of understanding the entity's internal control is when understanding the entity, in particular in relation to identifying inherent risks. Ms. Campbell explained that understanding the entity's internal control is related to identifying and assessing control risk, and that the Task Force had focused on identifying inherent risks separately to identifying control risks to be able to better understand the changes that were needed to be made to the standard to make clear what was needed in respect of inherent risk and control risk. Mr. Koktvedgaard agreed that inherent risk and control risk should be dealt with separately and noted that this was consistent with the audit risk model.
- Mr. Yoshii highlighted the importance of understanding internal control in identifying risks, and noted support for the Task Force's work in this area. Mr. van der Ende also noted support for the Task Force's work in this area, noting the importance of internal control in audits of financial institutions.
- Mr. Dalkin highlighted the importance of clarifying the relevance of internal control when identifying risks. He added that the role of the auditor and the extent of the work undertaken on internal controls had received greater focus since the COSO Framework was revised in 2013.
- Mr. Dalkin also highlighted that further consideration would need to be given to information technology and its impact on control risk, as greater clarity is needed in the standard. Ms. Campbell agreed and noted that the Task Force were currently deliberating this area, and that further material would be presented to the IAASB and CAG for discussion at a later meeting.

SIGNIFICANT RISKS AND SPECTRUM OF RISKS

In relation to significant risk and spectrum of risk:

- Messrs. Baumann, Dalkin, Fortin, Ilnuma, James, Sobel and Ms. Robert supported maintaining the concept of significant risk. Mr. Baumann noted that changes to the definition and guidance were needed and looked forward to the further considerations of the IAASB in relation to significant risk. Mr. Fortin highlighted the need to describe those risks that were on the very high end of the spectrum. Mr. Sobel and Ms. Robert cautioned that the definition, when revised, needed to provide clarity on the difference between a significant risk and a risk of material misstatement. Ms. Campbell noted the support for maintaining the concept of significant risk and explained that the risk of material misstatement comprised both inherent risk and control risk, but that significant risks related to inherent risks only. She added that further consideration would be given to how this would be made clearer in the standard.

- Mr. Rockwell cautioned about how the term 'significant' is described, as words may be interpreted differently. Mr. Stewart highlighted the importance of consistency in identifying significant risks. Ms. Campbell agreed and noted the caution.
- Ms. Molyneux questioned how consistency in identifying significant risks could be achieved. Ms. Campbell acknowledged the concern and explained that it would up to the auditor's professional judgment as to which inherent risk are identified as significant risks, and added that the Task Force would continue to consider the definition, and related application material, to help auditors in making this judgment.
- Mr. Sobel questioned whether identifying significant risk as illustrated by the graph showing likelihood and magnitude was correct. He suggested that its magnitude that makes it significant, and Ms. Campbell agreed to further consider this notwithstanding this is how some firms had developed methodologies for identifying significant risks.
- Messrs. Inuma and Sobel highlighted the need to understand the work effort for those higher risks that were not significant risks. Ms. Campbell explained that further consideration is being given to how the spectrum of risks is described in the standard, but noted that the work effort to respond to identified risks is set out in ISA 330, the revision of which is not part of this project with the exception of conforming amendments as appropriate.
- Messrs. Rockwell, Sobel and Stewart questioned whether there is still a need for 'significant risk' if the concept of a spectrum of risks is adopted, i.e., how the concept of 'significant risk' would interact with a spectrum of risks. Mr. Rockwell added that it may be difficult to define where the cutoff is between significant risks and other risks. Mr. Stewart noted that the work effort on those risks in a spectrum of risk that were very high would have an increased work effort, and therefore questioned the need for a separate concept. Ms. Campbell explained that the Task Force (and IAASB) had agreed that the concept of significant risk was understood and therefore that it should be retained. However, she acknowledged this point by noting the Task Force and IAASB will continue to consider the concept of significant risks, in particular focusing on revisions intended to make the identification of significant risks more consistent. She added that further discussions on the need for the concept of significant risk were planned for the March 2017 IAASB meeting.
- Mr. N. James noted that further clarity was needed on the terms used in a spectrum of risks to make the distinction between the various risks, for example if these are articulated as 'high' or 'higher' or similar. He explained that if there was too much judgment in designating risks, there would be a lack of consistency and ultimately enforceability by regulators. Ms. Campbell acknowledged his concerns and explained that the Task Force was currently considering defining significant risks, and then leaving to firms how they designated other risks, but added that this was still being deliberated by the Task Force.

WAY FORWARD

Ms. Campbell thanked the Representatives for their feedback and noted that ISA 315 (Revised) Task Force would take these comments in account, together with the IAASB's comments from its March 2017 meeting in moving forward on the topic.

Professional Skepticism (No Agenda Item)

Ms. Simms highlighted the recent and planned actions of the Professional Skepticism Joint Working Group (PSWG). She noted that the PSWG plans to present a draft of the publication to each of the three standard-setting boards (SSBs) in June 2017. Ms Simms also updated the CAG on the activities of the IAASB Professional Skepticism Subgroup noting that it has provided input to the ISA 540, ISA 315 (Revised), and quality control projects on matters related to professional skepticism and has commenced the analysis of issues related to the current concept of professional skepticism within the ISAs (as raised by respondents to the Invitation to Comment).

The Representatives and Observers commented as follows:

- Mr. Koktvedgaard supported the continued coordination of the professional skepticism joint working group and emphasized that the work of the PSWG remains important. He questioned whether the work that is being done at the IAASB related to the other current standards setting projects, similar to the work done at the other SSBs, will be embedded within the joint publication. In addition, as it relates to the longer term activities of the PSWG, Mr. Koktvedgaard inquired about the PSWG's thinking around the timeline beyond 2017. Ms. Simms confirmed that the PSWG intends to include a description of the actions that each of the SSBs have taken, and plan to take, within the joint publication on professional skepticism. She also commented that the working group acknowledges that there are longer term issues that will need to be prioritized and addressed beyond the completion of the joint publication and that the group will continue to think through the timeline for those longer term activities.
- Mr. Koktvedgaard commented to the group that at the previous day's IESBA CAG session, there was a discussion on their short term initiatives and that there was a strong push to do more in the longer term. Prof. Schilder responded and stated that he and Stavros Thomadakis, IESBA Chair, have been in recent talks about a potential joint IAASB and IESBA meeting in later in 2017.
- Mr. Dalkin commented that it is important to note that, as it relates to contrary information, it is important to note that there could be circumstances where it is appropriate to seek out contrary evidence, for example when auditing accounting estimates, but that it may not be necessary to do so in all circumstances.

PIOB OBSERVER'S REMARKS

Ms. Pettersson reinforced the importance to prioritize the discussions across the three SSBs around unifying the definition of professional skepticism and how it applies to the whole financial reporting chain since it applies to the entire accounting profession as a whole. Ms. Pettersson emphasized that the activities of the joint working group should be prioritized and be reflected in the strategies and work plans of each of the SSBs, especially those longer-term activities.

Prof. Schilder thanked Ms. Pettersson and commented that he hopes it is clear that the SSBs have tried to be responsive to the discussions.

Islamic Financial Services Board (Agenda Item X)

To RECEIVE a presentation from the Islamic Financial Services Board (IFSB)

Mr. Ahmed, Secretary General of the IFSB, provided the Representatives with a presentation about the IFSB, including its membership, main function and key goals. Mr. Ahmed explained how the IFSB cooperates with international standard-setting bodies and member countries, and emphasized how the IFSB's standards complement those of its international counterparts, including Basel Committee on Banking Supervision (BCBS), International Organization of Securities Commissions (IOSCO), International Association of Insurance Supervisors (IAIS) and the International Federation of Accountants (IFAC). Mr. Ahmed also described the mandate of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) that focuses on the development of accounting and auditing standards relevant to Islamic Finance activities, and explained how this inter-relates with the mandate of the IFSB.

Mr. Ahmed discussed recent developments in Islamic Finance, in particular the widening interest in Islamic Finance and the rapid growth that has been experienced in recent years. He further explained some of the regulatory challenges relating to Islamic Finance, arising from the overarching principles of Islamic Law and the distinctive aspects of Islamic Finance. In relation to the work of the IFSB, Mr. Ahmed provided an overview of the standards developed to date and those planned for the immediate future, as well as planned areas of research over the next few years. He also informed the Representatives about the implementation progress of the Standards across jurisdictions, as well as some of the implementation challenges. Mr. Ahmed further highlighted key aspects of its 2016–2018 strategic performance plan.

The Representatives commented variously, including in relation to the challenges for Islamic Finance and the assurance and audit aspects thereof.

Ms. Lang and Mr. Waldron thanked Mr. Ahmed for the informative presentation. Mr. Waldron noted the IFAC's publications on Islamic Finance available on the IFAC website.

Quality Control (Agenda item H.1)

To OBTAIN the Representatives' input on the Quality Control Task Force's (QCTF) proposals in relation to the restructure of ISQC 1 to incorporate a quality management approach (QMA), as well as the QCTF's proposals in relation to engagement quality control (EQC) reviews, which will assist the QCTF in further exploring the revisions to ISQC 1.

Ms. French introduced the topic and explained how a QMA would be translated into the various components comprising the firm's system of quality management. She further indicated how the structure of ISQC 1⁸ would be revised to accommodate these components and explained how the existing elements of ISQC 1 would be adapted to reflect the principles of quality management. Ms. French provided insight as to how the QCTF envisions the robustness of the requirements of ISQC 1 would be retained, while at the same enhancing the scalability of the standard.

The Representatives were generally supportive of the direction proposed by the QCTF in relation to how a QMA would be incorporated in ISQC 1 and the proposed components. The Representatives commented

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

further as follows:

- Mr. Iinuma and Mr. N. James were of the view that more clarity is needed on how these proposals would be operationalized, including scalability. Mr. N. James was also unclear as to whether a QMA is “built-in” to ISQC 1 or whether it would be an “add-on” to ISQC 1. Ms. French agreed that it is difficult to understand the proposals until such time as all of the requirements are presented together and noted that this would be the focus of the QCTF in the next few months.
- Mr. Baumann suggested clearly articulating the problems with the extant standard and evaluating how the QMA would solve these problems, for example, if there are consistently high levels of deficiencies in the audits performed, how would improvements to the firm’s system of quality control translate into improvements in the quality of audits. Mr. Iinuma was of the view that examples of where firms have applied a QMA in practice would be helpful and also questioned how a QMA would change firms’ behaviors. Ms. French agreed that as the standard is developed, it will be critical to keep in mind the original intention of the changes. She added that practical examples will be critical to proving the concept of a QMA, including demonstrating the scalability of ISQC 1 and how firms of different sizes would apply the requirements.
- Ms. Pettersson agreed with Mr. Bauman’s comments and questioned whether a QMA would promote and support a more preventative and continuous approach to quality management, i.e., that quality is achieved in the engagement throughout the process, rather than quality being addressed through detection at the end or after the completion of the engagement. Prof. Schilder agreed and noted that achieving quality the first time around is the fundamental goal. Ms. French noted that the foundations of the QMA are based on a preventative, proactive approach to quality management, rather than a detective approach, and highlighted that the revisions to ISA 220⁹ would also incorporate this principle.
- Ms. Perera and Ms. Lang were supportive of the proposals relating to scalability. However, Ms. Molyneux cautioned that overly emphasizing scalability could result in firms not implementing policies and procedures, or other responses, necessary to comply with ISQC 1 and that adequately address the firm’s responsibility for quality. Similarly, Mr. Yoshii noted that in practice entities may appoint firms without appropriate resources and skills because the audit fees are lower for such firms. Mr. N. James was of the view that while flexibility is positive, the standard also needs to enable consistent application in practice and be enforceable. Ms. French explained that maintaining the robustness of the standard is critical to the revisions, and that there would be certain objectives, risks and responses which all firms would be expected to apply that are based on the current elements of ISQC 1.
- Mr. Fortin was supportive of the “foundational components” as important aspects that underpin the firm’s system of quality management. He also suggested reconsidering the term “applying the QMP”, since “applying” a process is illogical and may not be sufficiently clear that this component includes requirements. Ms. French agreed that the terminology used needs to be sufficiently clear that this component incorporates requirements, and accordingly indicated that the QCTF would reconsider the terminology.
- Mr. van der Ende expressed his support for maintaining the robustness of the standard and noted that the components of governance and leadership and information and communication are very

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

important. He explained that in the Netherlands firms are required to establish a “public interest committee” comprising external senior representatives, and that this function has resulted in a positive effect on firms through the committee’s independent challenge of the firm’s leadership and actions they take. Ms. French thanked Mr. van der Ende for the insightful information.

- Ms. Pettersson emphasized the importance of incorporating inspection findings into ISQC 1 in order to improve quality management.

GOVERNANCE AND LEADERSHIP, INCLUDING ORGANIZATION, CULTURE AND STRATEGY

Ms. French explained how governance principles would be introduced in to ISQC 1 and the QCTF’s initial thinking regarding possible enhancements to the requirements addressing leadership’s responsibilities. She added that these provisions would also address the organization, culture and strategy of the firm. Ms. French noted that the QCTF is considering including references to the firm’s public interest role in the requirements and application material, where relevant, to remind firms of their responsibilities.

The Representatives were generally supportive of the QCTF’s proposals in relation to governance and leadership and commented further as follows:

- Ms. Molyneux was particularly supportive of the component of “governance and leadership” and suggested that merely calling this component “governance” would encompass all of the aspects including leadership, culture, strategy and organization. Ms. French noted that the QCTF had extensively debated the terminology of the components and would consider this suggestion while ensuring the terminology is clear and understandable.
- Mr. Fortin and Ms. Molyneux noted that each individual within the firm is responsible for their work. Nevertheless, they, in addition to Mr. N. James and Mr. Rockwell agreed that there needs to be ultimate responsibility and accountability for quality at the highest level within the firm. Ms. Molyneux suggested that the proposals relating to firm leadership’s accountability for quality needs additional emphasis.
- Mr. Iinuma and Ms. Molyneux highlighted the importance of the governance principles being principles-based in order that smaller firms are able to apply the governance principles in practice. Ms. Robert and Ms. Lang expressed their support regarding the new QMA approach, but expressed concern that there may be difficulties for small- and medium sized practices in applying governance principles. Mr. Iinuma made reference to the Japanese audit firm governance code which is principles-based and noted that how the firms are governed would vary from firm to firm. Ms. French explained that the QCTF is considering how to develop the governance principles in a manner that would facilitate application by all firms, but at the same time ensure the requirements are not too broad that they are not sufficiently robust and achieve their intended purpose.
- Mr. N. James challenged the proposals of the QCTF related to the firm identifying appropriate personnel within firm leadership to be responsible and accountable for independence matters. He noted that Agenda Item H.1 suggested that firm leadership would be responsible for quality, yet it was implied that it is not possible to assign responsibility for independence to a single person. Mr. N. James suggested that the same principle should be applied to assigning responsibility for independence as was applied to assigning responsibility for quality to firm leadership. Ms. French explained that the QCTF were of the view that independence is subsumed as part of quality and noted that the QCTF is debating the extent to which ISQC 1 should require specific allocation of

responsibility for certain matters, such as independence. Mr. N. James added that while he agrees that independence is a subset of quality, independence is a matter that is sufficiently important that it warrants separate identification.

- Mr. Fortin agreed that governance is an important underpinning component. However, he was concerned that the types of principles identified in Agenda Item H.1 are incomplete or limited, for example, it doesn't include a concept similar to the "public interest committee" that is required in the Netherlands and he questioned how transparency would be addressed in these principles. Ms. French explained that the QCTF had undertaken extensive research of various governance codes and other publications related to governance in developing the proposals and further explained that the topic of transparency reporting would be discussed by the QCTF and with the Board in the near future.
- Mr. Rockwell noted his support for including references to public interest in the requirements and application material.
- Mr. Yoshii noted that a culture that promotes professional skepticism at engagement level is established through the governance of the firm.

INFORMATION AND COMMUNICATION

Ms. French explained why information and communication are important to the functioning of the firm's system of quality management and further noted that the QCTF is considering how to reflect the iterative nature of information and the importance of two-way communication in the requirements. She noted that the QCTF had not yet deliberated "documentation", as further understanding is needed on how the rest of ISQC 1 would be developed.

The Representatives commented as follows:

- Mr. Yoshii noted that communication with parties external to the firm is very important. Ms. French agreed and noted that the QCTF were evaluating how to emphasize the importance of external communication in ISQC 1.
- Ms. Molyneux explained the importance of the firm communicating externally regarding the firm's governance and how it manages quality, and noted that only providing internal communication of these matters is too limited. Ms. Molyneux and Ms. Robert were of the view that such information is important to those charged with governance in appointing the audit firm and understanding their approaches to quality. Mr. N. James noted the International Organization of Securities Commissions (IOSCO) report on [*Transparency of Firms that Audit Public Companies*](#), and highlighted that firms tend to use transparency reports as a tool for marketing purposes, with inadequate information about the firm's system of quality management and how quality is being addressed and monitored. Mr. N. James further noted that the requirements related to transparency reports across jurisdictions are basic and therefore suggested that the IAASB has the opportunity to raise the bar by introducing requirements that promote high quality transparency reports. Ms. Molyneux agreed and added that governance is about striving to exceed the minimum requirements. Ms. French indicated that the QCTF is still considering the topic of transparency reporting and that they would consider what type of information is appropriate in developing the requirements. She added that ISQC 1 would most likely address circumstances when the firm is required to prepare a transparency report and would include the type of information that should be communicated in such circumstances.

- Mr. Baumann explained that in some jurisdictions, such as the United Kingdom, firms are required to conclude in the transparency report on the effectiveness of their system of quality control. However, he noted that often firms may conclude in the transparency report that the firm's system of quality control is effective, yet the results of external inspections reflect a different outcome. He added that companies are expected to go through a rigorous process in order to be able to conclude on the effectiveness of their internal control (e.g., in the United States) and therefore questioned whether firms should also be expected to go through a similar process in concluding on the effectiveness of their system of quality control. Mr. Fortin noted that the European Union has the same regulation as the United Kingdom.
- Mr Dalkin noted that many firms strive to undertake quality work and follow the requirements of the standards, and cautioned that adding additional requirements may disproportionately burden such firms because there are other firms that do not intend on complying with the standards. Mr. Koktvedgaard noted that through his role in relation to disciplinary hearings, firms have either failed to read the standard or have no desire to comply with the standard. Mr. Koktvedgaard was therefore supportive of less, but more precise, requirements.
- Mr. Yoshii highlighted that in Japan the quality of the transparency reports is very poor and that investors struggle to understand the information presented. Accordingly, he was supportive of the IAASB addressing this topic.
- Ms. Robert referred to the legislation within the European Union regarding the transparency report and to the Accountancy Europe publication about audit quality indicators.
- Ms. Lang indicated that the development of the requirements related to documentation would be critical to the scalability of ISQC 1.

QUALITY MANAGEMENT PROCESS

Ms. French explained how the requirements related to the quality management process would be developed.

Ms. Lang noted that the Representatives were overall supportive of the direction proposed. The Representatives commented further as follows:

- Mr. Rockwell supported the concept of establishing a threshold for the risks for which no further response or consideration is needed by the firm, although was agnostic about how such a threshold should be established.
- Ms. Molyneaux indicated that those charged with governance of the entity may be interested about the quality objectives, the key performance indicators on the quality objectives, and encouraged transparency about the threshold for the risks for which no further response or consideration is needed by the firm.

EQC REVIEW

Ms. French introduced the topic of EQC reviews and highlighted the key aspects in relation to the objective and the definition of the EQC review, the scope of the engagements subject to an EQC review, and the execution of the EQC review. She explained that this topic was discussed by the IAASB in its December 2016 meeting, and also noted that the documentation of the review will be further considered by the QCTF.

The Representatives commented as follows:

- Ms. Molyneux asked whether the IAASB had considered extending the scope of the engagements subject to EQC review to public interest entities (PIEs). Ms. French explained that the IAASB had concluded that the use of PIEs as a basis for the scope of engagements subject to EQC review would be inappropriate given the varying definitions of PIEs across jurisdictions. She added that the IAASB had instead concluded that ISQC 1 should establish more robust risk-based requirements that would capture engagements that should be subject to an EQC review, which would in most cases include PIEs. Mr. Rockwell was of the view that a risk-based approach seemed workable, but questioned how there would be consistent interpretation and application across firms in practice in following a risk-based approach. Mr. Dalkin noted that in the public sector, there could be an entity that is extremely small, which is audited by a firm comprising a single partner (e.g., a school) and highlighted that in such cases it would be impracticable for an EQC review to be undertaken. Mr. Dalkin encouraged the QCTF to understand what “public interest” means and the nature of the firms that would perform engagements that would be subject to an EQC review in accordance with the requirements in ISQC 1.
- Mr. N. James indicated that the EQC review being performed throughout the engagement versus at appropriate stages during the engagement could be subject to different interpretations. He added that performing the EQC review at the final stage of the engagement could be interpreted as an “appropriate stage” and therefore was cautious about the use of this term.
- Mr. N. James expressed concern about the EQC review focusing only on significant judgments and was uncomfortable that the determination of the significant judgments would be left to the EQC reviewer, as this could be problematic from an enforceability perspective. He noted that the PCAOB’s Standard, AS 7, is more specific about the matters that the EQC reviewer should consider. Mr. Yurdakul was of the view that the EQC review should focus also on compliance with the firm’s policies and procedures and with professional standards. Mr. Fortin suggested that the EQC review should consider other matters beyond significant judgements, and noted the direction of the project in relation to ISA 315 (Revised) that aims to place additional focus on risks at the higher end of the spectrum of risk, rather than just significant risks. He added that the term “significant” is used across the IAASB’s International Standards and accordingly there is a need to understand what it means. Ms. French highlighted that the IAASB agreed that the EQC review should remain focused on the significant judgements, with application guidance that explains the types of matters that may be considered significant judgments. She added that the standard would also impose a responsibility on, and encourage, the EQC reviewer to evaluate other areas of the engagement, as necessary, in order to meet the objective of the EQC review.
- Ms. Robert supported the EQC review being a role of the firm and encouraged the QCTF to compare the matters subject to the EQC review with that of the EU Regulation.¹⁰ Ms. French indicated that the QCTF has considered the relevant EU Regulation.
- Mr. Sobel reiterated that each member of the engagement team has a responsibility towards quality and encouraged the QCTF to consider emphasizing this in the standard.

ELIGIBILITY OF THE EQC REVIEWER

¹⁰ [Regulation \(EU\) No 537/2014 of the European Parliament and of the Council](#) (EU Regulation)

Ms. French explained that the QCTF had identified several attributes that would enable an individual to be eligible to perform the role of EQC reviewer and highlighted the QCTF's proposal on the process for the selection of the EQC reviewer. She explained the QCTF's thinking in addressing the objectivity of the EQC reviewer and noted that the QCTF had liaised extensively with the International Ethics Standards Board for Accountants (IESBA) on this matter and that this would be discussed by the IESBA at their June 2017 meeting.

The Representatives commented as follows:

- Ms. Molyneux questioned why industry knowledge had not been included as one of the necessary attributes to be eligible to perform the role of EQC reviewer.
- Ms. McGeachy suggested using the expression "sufficient time" instead of "capacity" as this is clearer.
- Mr. Koktvedgaard noted the IESBA Code provisions in relation to long association, which prohibit the engagement partner from fulfilling the role of EQC reviewer in the cooling-off period, and address the cooling-off of the EQC reviewer. Mr. Yoshii added that the IESBA Code addresses the independence of the EQC reviewer. Mr. Iinuma questioned the objective of the proposals in relation to the cooling-off period, and how these relate to the provisions of the IESBA Code. Ms. Klonaridis explained that the IESBA Code provisions in relation to long association address the cooling-off of the engagement partner in circumstances when the entity is a PIE and when the engagement partner has reached the maximum period, i.e., seven years. She added that the proposals of the QCTF would therefore address circumstances when the engagement is not an audit of a PIE, or the engagement partner has not served a full seven years. Ms. Klonaridis also noted that the long association provisions in the IESBA Code address a familiarity and self-interest threat, whereas the cooling-off provisions in this case are intended to address a self-review threat.
- Ms. Molyneux noted her support for a cooling-off period, and although she agreed that a minimum period of two years would be appropriate, she indicated that the period should probably align with the IESBA period in relation to the cooling-off provisions addressing the long association of an EQC reviewer (three years).
- Ms. Robert noted that the combination of requirements relating to a cooling-off period and industry knowledge might be too onerous and may result in a lack of individuals that are eligible to fulfill the role. Ms. Robert encouraged the QCTF to consider how to balance the requirements, for example, considering whether it would be more important for the individual to have the right competence, or whether objectivity be more important. Mr. Yurdakul was not supportive of a cooling-off period as he was of the view that the qualification of the EQC reviewer and the procedures they should perform are more important and a prescriptive cooling-off period would be too onerous for SMPs to apply.
- Ms. Robert supported locating the requirements in relation to the cooling-off period in ISQC 1, given that many jurisdictions do not adopt the IESBA Code.
- Mr. Yurdakul was of the view that there should be an individual or a committee within the firm who is assigned responsibility for establishing the policies and procedures in relation to the firm's system of quality management and who would be responsible for selecting the EQC reviewer.
- Prof. Schilder noted that the coordination with IESBA on this matter is a good example of the cooperation between the two standard setting boards.

WAY FORWARD

Ms. French thanked the Representatives for their feedback and noted that the QCTF would take these comments into account, together with the IAASB's comments from its March 2017 meeting in moving forward on the revisions to ISQC 1.

Closing Remarks

IAASB CHAIRMAN REMARKS

Prof. Schilder thanked Mr. Waldron for his hard work as the IAASB CAG Chair in the last two years, and stated that he was looking forward to working with him in his new role as IAASB Technical Director.

Prof. Schilder and Mr. Gunn thanked Ms. Lang for her outstanding work as an interim CAG Chair during the March 2017 IAASB CAG meeting, and also congratulated Mr. Dalkin for his IAASB CAG Chair position from April 1, 2017.

PIOB OBSERVER REMARKS

Ms. Pettersson noted that she enjoyed the IAASB CAG meeting, congratulated the Representatives, the Observers and the IAASB for their involvement in addressing the public interest and appreciated the work that is behind. She also expressed her appreciation to the CAG Chair for the excellent job and for the successful meeting.

IAASB CAG CHAIRMAN REMARKS

Ms. Lang 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 CAG Representatives and Observers and IAASB staff for the support she received before and during the meeting. She then closed the meeting.