

Agenda Item

A.1

Meeting: IAASB Consultative Advisory Group

Meeting Location: New York, USA

Meeting Date: March 10–11, 2020

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

Held on September 10–11, 2019

New York, USA

PRESENT

Members

Mr. Jim Dalkin	Chair
Mr. Mauro Bini	International Valuation Standards Council (IVSC)
Ms. Vânia Borgerth (Sept. 10 th only)	Associação Brasileira de Instituições Financeiras de Desenvolvimento
Mr. Hysen Cela	European Federation of Accountants and Auditors for SMEs (EFAA)
Mr. Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Ms. Tara Hansen	International Actuarial Association (IAA)
Mr. Takeshi Hirai	International Organization of Securities Commissions (IOSCO)
Mr. Nigel James	IOSCO
Ms. Conchita Manabat	International Association of Financial Executives Institutes (IAFEI)
Ms. Wei Meng	World Federation of Exchanges
Mr. Daniel Pavas	Interamerican Accounting Association (IAAA)
Mr. Henry Rees	International Accounting Standards Board (IASB)
Ms. Noémi Robert	Accountancy Europe (AE)
Mr. Gregg Ruthman	International Organization of Supreme Audit Institutions (INTOSAI)
Ms. Mohini Singh (Sept 10 th only)	CFA Institute (CFA)
Mr. Paul Sobel	Institute of Internal Auditors (IIA)
Mr. Myles Thompson	Accountancy Europe (AE)

Ms. Inanc Yazar	Organization for Economic Cooperation and Development (OECD)
Mr. Hüseyin Yurdakul	IOSCO

Observers

Mr. Simon Bradbury	International Monetary Fund (IMF)
Ms. Dawn McGeachy	International Federation of Accountants (IFAC) Small and Medium Practices (SMP) Committee
Ms. Megan Zietsman**	United States Public Company Accounting Oversight Board (PCAOB)

IAASB

Mr. Tom Seidenstein	IAASB Chair
Ms. Fiona Campbell	IAASB Deputy Chairman and TF Chair
Mr. Robert Dohrer	IAASB Member and Working Group Chair
Ms. Karin French (ISQM 1 video conference on September 10 th)	IAASB Member and Task Force Chair
Mr. Marek Grabowski	IAASB Member and TF Chair
Mr. Len Jui	IAASB Member and TF Chair
Ms. Lyn Provost (ISA 220 video conference on September 10 th)	IAASB member and TF Chair
Mr. Eric Turner	IAASB Member and TF Chair
Mr. Imran Vanker (ISQM 2 video conference on September 11 th)	IAASB Member and TF Chair
Mr. Willie Botha	IAASB Technical Director
Ms. Beverley Bahlmann	IAASB Deputy Director
Mr. Brett James	IAASB Deputy Director
Mr. Jasper van den Hout (Sept. 11 th only)	IAASB Principal
Ms. Natalie Klonaridis	IAASB Principal
Ms. Joy Thurgood	IAASB Principal
Mr. Phil Minnaar	IAASB Manager
Ms. Jane Talatala	IAASB Manager
Ms. Yvonne Chan	IAASB Manager
Ms. Kalina Shukarova Sovovska	IAASB Manager

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

Mr. Armand Kotze

IAASB Analyst

International Ethics Standards Board for Accountants (IESBA)

Ms. Sylvie Soulier

IESBA Member

Public Interest Oversight Board (PIOB)

Ms. Maria Helena Pettersson

APOLOGIES

Members

Dr. Bello Lawal Danbatta

Islamic Financial Services Board (IFSB)

Mr. Robert J. De Tullio

Basel Committee on Banking Supervision (Basel Committee)

Mr. Henri Fortin

World Bank (WB)

Mr. John Kuyers

Information Systems Audit and Control Association (ISACA)

Ms. Anne Molyneux

International Corporate Governance Network (ICGN)

Mr. Sanders Shaffer

International Association of Insurance Supervisors (IAIS)

Ms. Laura Shiffman

Financial Executives International (FEI)

Mr. Kazuhiro Yoshii

Japan Securities Dealers Association (JSDA)

September 10, 2019¹

Welcome

OPENING REMARKS

Mr. Dalkin welcomed the Representatives to the meeting. He also welcomed the newly-elected IAASB Chair, Mr. Tom Seidenstein, and the newly-elected IESBA CAG Chair, Mr. Gaylen Hansen (noting that Mr. Hansen previously attended the IAASB CAG meetings as a Representative of NASBA).

Mr. Dalkin further noted that Mr. Myles Thompson was attending his last IAASB CAG meeting, as his term as the Representative of AE has ended. Mr. Dalkin thanked Mr. Thomson for his valuable contribution to the IAASB CAG. Although not being able to attend this meeting, Mr. Dalkin noted the appointment of three new Representatives in September 2019, representing the Basel Committee, FEI and BE respectively.

Mr. Dalkin also welcomed Ms. Maria Helena Pettersson from the PIOB as well as the IAASB Task Forces and WG Chairs, IAASB Staff, as well as the observers.

MINUTES OF THE PREVIOUS MEETING

Mr. Dalkin presented the minutes of the IAASB CAG meeting in March 2019 to the Representatives. No comments were noted and the minutes were approved.

ISA 315 (Revised)² – Risk Identification and Assessment (Agenda Item B)

- To *REPORT BACK* on the March 2019 Meeting
- To *OBTAIN* Representatives' Views With Regard to Identified Aspects of the Proposed Final Standard

Ms. Campbell provided Representatives with an overview of the new proposed presentation of ISA 315 (Revised) agreed to by the IAASB in June 2019, noting that this would help to address Representatives' concerns related to complexity, scalability and understandability, and certain definitions. She also explained aspects of the changes that had been made to the final proposed standard that will be discussed with the IAASB for approval.

Representatives commented as follows:

With regard to the ISA 315 Task Force's efforts to refine the requirements to be more succinct and understandable, Ms. Zietsman supported the changes that have been made, indicating that the efforts to streamline the drafting had made a complicated and long standard more digestible. However, Ms. Zietsman expressed concerns on the use of tables in the standard, noting that when firms, legislators or others using the standard incorporate the new requirements this may cause unintended consequences, including that the requirements may be read *inf* a different way. Ms. Campbell noted that the tables were designed to help auditors better understand the requirements, in particular in relation to the understanding of each of the components of the entity's system of internal control. Acknowledging that not everyone may understand the

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

intention of the tables, she also added that if the text in the tables were taken out of the table formats (and shown in a linear format as had been done in Agenda Item 2-G in the IAASB's papers), the articulation and understandability of those requirements remains unchanged.

SIGNIFICANT RISK

Ms. Zietsman supported the new proposed wording for the definition of significant risk, in particular the change of the "... likelihood of a misstatement occurring **or** the magnitude of potential misstatement..." to "... likelihood of a misstatement occurring **and** the magnitude of potential misstatement...".

Also, in relation to the changes made to the definition of significant risk, Ms. Zietsman:

- Questioned whether it was the 'combination of' the magnitude and likelihood in the new proposed wording, as this together with where it was placed in the sentence may suggest that every inherent risk factor needed to be considered. Rather, she suggested that the previous language referring to the 'intersection' of the likelihood and magnitude was more appropriate, also noting that this is how it was explained in the application material, ~~and was more helpful.~~
- In the explanation in the issues paper of the proposed changes to the definition of significant risk, questioned the "rare" circumstance where there would be no significant risks in an audit, and what those circumstance could be, if any. She encouraged that this be clarified in the application material. Ms. Campbell indicated that the intention of "rare" was not to suggest "never," and that the ISA 315 Task Force would revisit that this was clear in the standard.

INHERENT RISK FACTORS – FRAUD

Mr. Dalkin and Ms. Zietsman expressed support for the new proposed wording for the way that fraud had been dealt with in the revised inherent risk factors:

- Mr. Dalkin also acknowledged that these revisions made to the definition of the inherent risk factors with respect to fraud also addressed previous CAG concerns about duplicating what was already in ISA 240.
- Ms. Zietsman also added ~~that the~~ that the change to "fraud risk factors" was helpful but suggested that this be linked to the identification and assessment of *inherent risk* to help clarify that it is not all the fraud risk factors that need to be considered.

Ms. Campbell thanked the Representatives for their views and noted that there appeared to be broad support for the new proposed definition. With regard to further guidance, Ms. Campbell noted that the ISA 315 Task Force would continue to also further consider the content of the implementation guidance and what would be helpful to auditors in applying the revisions and changes in ISA 315 (Revised).

REQUIREMENT TO IDENTIFY CONTROLS THAT ADDRESS RISK OF MATERIAL MISSTATEMENT (ROMM)-CONTROLS THAT ADDRESS RISKS THAT COULD BE BUT ARE NOT DETERMINED TO BE SIGNIFICANT RISKS (PARAGRAPH 39(A)(II))

Mr. Dalkin supported a requirement to further consider other controls (to address risks of material misstatement) not specifically identified, but highlighted that the way the requirement had been articulated was confusing. He encouraged the ISA 315 Task Force to reconsider how it could be made clearer that auditor judgment would be used in considering whether there were any further controls that needed to be identified. However, Mr. Hansen questioned whether the requirement was needed based on the other

changes that had been made to identify controls.

Messrs. Thompson, Hirai, Ruthman, Hansen and Bini also expressed concerns over the understandability of the new proposed wording, highlighting that this may result in inconsistencies in application. Ms. Zietsman noted a similar concern and added that the requirement is too complex to be operable.

Messrs. Thompson and Hirai expressed the view that the proposed changes may significantly change this requirement from what had been exposed as this may require the auditor to document why risks had not been determined to be significant risks, and Mr. Ruthman questioned whether the new proposed wording would drive auditors away from identifying significant risks. Ms. Zietsman also added that the way that the requirement was now articulated narrowed the requirement which may also have unintended consequences. Ms. Campbell explained that this had not been the intention and agreed that this requirement would need further consideration by the ISA 315 Task Force.

Messrs. Hirai and Bini both noted confusion with the inclusion of 'reasonable possibility' in this requirement, in particular:

- Mr. Hirai questioned the difference between the threshold for reasonable possibility in this context (i.e., linking reasonable possibility to when an identified risk is not a significant risk) and the threshold for material misstatement as explained in ISA 200.
- Mr. Bini questioned whether 'reasonable possibility' considers the likelihood or magnitude of misstatement individually or the combination of the two.

Ms. Campbell responded that this particular paragraph had been challenging to articulate, and agreed that the ISA 315 Task Force would need to further consider how to more clearly explain what was intended by this requirement for the auditor to identify any other controls they may want to think about, such as controls for those for risks related to areas that are more complex but have not been determined to be significant risks.

THRESHOLD FOR ROMM

Mr. Dalkin supported the use of diagrams to explain concepts within ISA 315 (Revised). However, Ms. Zietsman noted that the diagram may not accurately reflect how the threshold has been articulated in ISA 200, noting that the revisions in ISA 200 were clearer. She encouraged the ISA 315 Task Force to further consider the diagram, in particular to make sure that the use of terminology was consistent, otherwise this may further confuse auditors and therefore result in inconsistency in practice. Mr. Thompson agreed that this was confusing and encouraged that further consideration be given to the use of the terms 'risks of material misstatement' and 'inherent risk' as appropriate, including in this area.

CONSIDERATIONS OF RE-EXPOSURE

Ms. Campbell provided an overview of the circumstances in which due process would prompt a re-exposure and noted that if the standard were to re-expose for specific issues, it would likely result in at least a 12-month delay in the implementation timeline.

The majority of the Representatives agreed that re-exposure is not necessary:

- Messrs. Hansen, Hirai, Bradbury and Ms. Hansen noted that this project has been ongoing for several years, had followed due process and should move forward.

- Messrs. Hansen, Bini and Ms. Meng noted that there is no standard that would satisfy all stakeholders in every way, and as such, the IAASB should move forward with finalizing the standard.
- Ms. Yazar and Mr. Bradbury noted that no substantial changes had been made to the standard since exposure in their view, and Ms. Yazar noted that the proposed wording was to respond to feedback to address the complexity, understandability and scalability.
- Mmes. McGeachy and Borgerth and Mr. Rees noted that a re-exposure would likely not provide the IAASB with new information and therefore re-exposure was not necessary.

Ms. Borgerth encouraged the ISA 315 Task Force to clearly articulate why a re-exposure is not necessary, to evidence that this part of the IAASB's due process is not being disregarded.

However, there were a few Representatives that supported re-exposure:

- Mr. Pava noted concern about the complexity of this standard still, noting that this would impact the legislative process to adopt the standard and encouraged that further comment be sought on the complexity of the standard.
- Mr. Yurdakul noted that the new presentation is a conceptual change to the standard and that stakeholder views should be obtained.
- Given that ISA 315 (Revised) is a foundational standard and highly interrelated to other standards, Mr. Ruthman noted concern over the consistent understandability of the standard for all stakeholders.

Mr. Thompson agreed that re-exposure is not necessary, noting that his view is conditional on the basis that the Board monitored implementation and made adjustments if, and when, necessary.

Ms. Robert agreed that re-exposure is not necessary but also conditional on the basis that the Board has the view that the proposed standard is scalable.

Messrs. Cela and James did not provide a view on re-exposure, with Mr. Cela noting that the decision should be deferred until progress had been made about the direction of the project on audits of Less Complex Entities (LCE), and Mr. James noting he needed to understand why one of the ISA 315 Task Force members wanted re-exposure. Ms. Campbell indicated that the LCE project is on a different timeline and it would not be in the public interest to wait any longer for the publication of the revisions to ISA 315 (Revised). Ms. Campbell also noted that the ISA 315 Task Force (and Board) member who had the view that re-exposure is necessary, was because the changes that had been made since the Exposure Draft were, in their view, substantial enough to warrant re-exposure.

OTHER COMMENTS

Other matters raised by Representatives for further Board consideration in finalizing the standard included the following matters:

- Mr. Thompson highlighted the need for support for operationalizing the revisions to the standard as the standard was written in a way that did not necessarily reflect how it would be implemented. Ms. Campbell highlighted the focus on implementation activities, noting that it was important that these were undertaken in the first 6 to 9 months after finalization of the standard. She also highlighted that the flowcharts would form part of the guidance.

- Ms. McGeachy encouraged the Board to make the period until the standard is effective longer as the standard is foundational to an audit. She noted a longer period would allow for effective implementation, and would also allow for a longer period for translation.
- Ms. Zietsman questioned the change relating to the definition of relevant assertions⁶, and whether, in referring to the auditor's plans to test the operating effectiveness of controls it was intended to suggest that the auditor's assessment of control risk is linked. Ms. Campbell noted that this was not the intention of the ISA 315 Task Force and suggested that this be revisited before finalization of the standard.
- Ms. Zietsman also noted that the articulation of how inherent risk factors are taken into account in identifying the risks of material misstatement is not as clear as it is articulated in ISA 540 (Revised).³ Ms. Campbell noted that this would be considered again.

PIOB OBSERVER'S REMARKS

Ms. Pettersson expressed her strong support for the re-drafted standard, indicating that:

- The PIOB had the view that the ISA 315 Task Force had achieved appropriate simplification to the standard while not weakening the requirements.
- The main comments provided by the PIOB during the course of the project had been addressed.
- Based on the analysis of the changes to the exposure draft, there was no substantial change from ED-315.
- It is in the public interest to not delay this standard for another year or more, as due process has been followed.

Ms. Pettersson also strongly supported the changes that had been made to the definition of the inherent risk factors with regard to the incorporation of fraud, highlighting that this had been an ongoing area of concern of the PIOB.

IAASB CAG CHAIRMAN REMARKS

Mr. Dalkin expressed overall support from the CAG about the changes that had been proposed subject to the matters raised. Mr. Dalkin thanked the Representatives for their input during the course of this project. He also emphasized the importance of implementation guidance and in particular, highlighted the helpfulness of the flowcharts.

Proposed ISQM 1⁴ – Quality Management at Firm Level (Agenda Item C)

- To *OBTAIN* Representatives' Views on the Proposed Way Forward With Regard to Identified Aspects of Exposure Draft (ED) ISQM1

Ms. French provided a summary of respondents' feedback on the questions in ED-ISQM 1 that related to the quality management approach, benefits to quality, scalability, the structure of ED-ISQM 1 and the firm's

³ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

⁴ Proposed International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

risk assessment process. Ms. French further explained the ISQM 1 Task Force's proposals to address respondents' views on these matters. Ms. French noted that the proposals include important changes, and therefore emphasized that outreach will be undertaken across various stakeholder groups.

Representatives commented as follows:

- Mmes. Robert and Zietsman and Mr. Sobel noted that the proposals in general appear to be going in the right direction.
- Mr. Dalkin noted that, in his outreach discussions, many have been overwhelmed by the nature and complexity of ED-ISQM 1. Mr. Thompson noted a complex standard is not in the public interest as it creates a deterrent for firms, thereby increasing the risk of audit firm market concentration. Mr. Hansen noted the difficulty of developing a standard that deals with firms of varying size and complexity, however highlighted the lack of incentive for firms to support and implement the standard. While he noted that firms' lack of compliance with the standard would be addressed through peer reviews or external inspections, he emphasized the need to address firm's concerns.
- Mr. Dalkin suggested that Proposed ISQM 1 should be broken down into a basic set of requirements that are applicable to all firms, with additional layers of requirements that are only applicable to larger or more complex firms. Ms. Manabat agreed, adding that the approach in ED-ISQM 1 appeared to be a "one-size-fits-all." Ms. French noted that a building-block approach had previously been considered by the IAASB but this approach was not taken given concerns about it creating a two-tier standard. Ms. French added that the Board's views on this approach may have changed as a result of the firm's risk assessment process being built out. Ms. French also emphasized that the proposed quality risk considerations may be the mechanism through which a building-block approach is incorporated into the standard.
- Mr. Ruthman highlighted that while more prescriptive requirements create a burden for firms and perpetuate a checklist-mindset, prescriptive requirements assist auditors in determining what controls need to be in place. He therefore highlighted the need for an appropriate balance in the requirements.
- Mr. Sobel indicated that the approach taken in ED-ISQM 1 appears to "bolt-on" a system of quality management to a firm's operations, rather than integrating it with the day-to-day activities of the firm. Accordingly, Mr. Sobel suggested that a more integrated approach is needed that is similar to the COSO ERM Framework,⁵ which integrates enterprise risk management into the entity's strategy and performance. Mr. Sobel added that this approach may facilitate a building-block approach, with high-level principles that are applicable to all firms, and more specific guidance to address larger or smaller firms. Mr. Ruthman also noted that in the public sector firms may already have control frameworks in place, and that the standard may therefore duplicates the controls that are already in effect. He added that although the standard acknowledges external inspections as a source of input into the firm's monitoring, it could go further to recognize other sources of input arising from the firm's enterprise risk management.
- Mr. James emphasized the importance of certain concepts, including ethics, the public interest considerations and application of professional skepticism. He recommended that larger or more complex firms should be encouraged to do more than the minimum requirements of the standard in addressing quality management.

⁵ Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Enterprise Risk Management — Integrated Framework*

- Ms. Zietsman encouraged the ISQM 1 Task Force to consider the drafting and presentation approach used by the ISA 315 Task Force, to assist with addressing the complexity of the standard.

Ms. French acknowledged the comments, indicating that the message from Representatives is clear about the need to address scalability.

THE COMPONENTS AND STRUCTURE OF ED-ISQM 1

Representatives commented as follows:

- Ms. Zietsman supported the ISQM 1 Task Force's rationale regarding the different types of components, however suggested that governance and leadership may also be a component that addresses "how" the system is managed. Ms. Zietsman noted that these considerations may be useful to the ISQM 1 Task Force in terms of how it thinks about how to organize Proposed ISQM 1, however she cautioned that the standard should not be over-engineered in categorizing the components and explaining the relationships between the components. In this regard, Ms. Zietsman noted that the COSO Integrated Framework⁶ has components and does not explain extensively how the components interrelate. Ms. Zietsman highlighted the key benefit of the new quality management approach as it brings emphasis to the integrated nature of the components and highlighted the need to focus on how information from components feeds into other components.
- Ms. Robert sought further information about the ISQM 1 Task Force's proposals related to the information and communication component. Ms. French highlighted that some respondents had suggested that information and communication be incorporated into the other components, however the ISQM 1 Task Force is not proposing to adopt this approach because, among other reasons, it would result in repetitiveness in each component and lengthen the standard.

HOW QUALITY OBJECTIVES, QUALITY RISKS AND RESPONSES ARE DEALT WITH IN PROPOSED ISQM 1

Representatives commented as follows:

- Mmes. McGeachy, Robert and Zietsman supported the proposals to address quality objectives, quality risks and responses. Ms. Zietsman added that the proposal could be responsive to calls for more rigor in the standard, without becoming too prescriptive. She further added that this approach could support a building-block approach, with quality risk considerations that are always relevant, and layering on additional quality risk considerations for certain firms.
- Ms. Zietsman indicated that there appeared to be a theme in respondents' comments about the purpose of the required responses and therefore encouraged the IAASB to further consider how the required responses are addressed in the standard.

THE FIRM'S RISK ASSESSMENT PROCESS

Representatives commented as follows:

- Ms. Zietsman supported the direction proposed by the ISQM 1 Task Force, although noted that the proposals would need further consideration when they are drafted. She added that the principles used in the ISAs for risk identification and assessment could be useful, however noted that a risk-based approach in a system of quality management is different from an audit. Ms. Zietsman noted

⁶ COSO, *Internal Control – Integrated Framework*

the concerns raised by respondents with respect to the threshold for identifying quality risks, however indicated that having a threshold is important to having appropriate rigor in the standard and supporting firms in implementing the standard. Ms. French noted that there will be a need for a threshold to be explained somewhere in the standard, and that the Board's feedback will be important to determining the appropriate way forward.

THE SCOPE OF FIRMS AND SERVICES COVERED BY PROPOSED ISQM 1

Representatives commented as follows:

- Mmes. Robert and Zietsman noted that the proposal to develop a separate quality management standard for related services engagements needs further consideration. Ms. Robert added that she was not convinced that this is the right approach, and emphasized the need for consultation, given that the proposal was not part of ED-ISQM 1.
- Ms. McGeachy indicated that a separate standard could be a good approach but noted that it could lead to concerns about bifurcation of firms. She further added that in Canada, a separate standard could facilitate easier implementation as they have been considering how ED-ISQM 1 would apply to related services engagements. Ms. Yazar noted her support for Ms. McGeachy's comments, emphasizing the extent of feedback from respondents on the scalability of the standard.

Ms. French highlighted that in her recent outreach activities on the ISQM 1 Task Force proposals, there have been suggestions to deal with quality management for related services engagements through the quality risk considerations, instead of a developing a separate standard.

OTHER COMMENTS

Representatives commented variously as follows:

- Ms. McGeachy commented on the implementation date, emphasizing that the proposals would be a significant change for firms. Ms. French noted that the implementation date is being dealt with through a separate process involving the three quality management Task Force chairs. Ms. French added that the feedback on the implementation date is being presented to the Board in September 2019, although there are no proposals at this stage on the way forward.
- Mr. Pavas noted that regulators and inspectors often look at supporting guidance when inspecting audit firms and therefore questioned whether the guidance for SMPs on extant ISQC 1 would be updated. Ms. McGeachy clarified that the guidance was issued by the IFAC SMP Committee.

PIOB OBSERVER'S REMARKS

Ms. Pettersson indicated that the ISQM 1 Task Force has made good progress. However, she indicated that there should not be a distinction between the level of quality of an audit engagement and quality of other engagements. She noted that the public is unable to distinguish between the reports, and that a poor-quality non-audit engagement could negatively affect the reputation and credibility of the firm's quality, including the quality of its audit engagements.

WAY FORWARD

Ms. French thanked the Representatives for their feedback. The ISQM 1 Task Force will further consider respondents' comments on ED-ISQM 1 and will present an updated draft of proposed ISQM 1 to the IAASB CAG in March 2020.

Technology (Agenda Item D)

- To *RECEIVE* an Update on the Activities of the IAASB Technology Working Group

Mr. Dohrer provided an overview of the development of the '*Technology Workstream Plan*' (TWP), including the establishment of the '*Technology Working Group*' (TWG) which effectively replaced the '*Data Analytics Working Group*' (DAWG).

Representatives commented as follows:

- Mr. Dalkin asked whether new technologies such as blockchain and bitcoin raised issues within the remit of the TWG. Mr. Dohrer responded by noting that the fundamental principles of the ISAs remain applicable to new technologies, although guidance may be helpful on specifics.
- Mr. Bradbury asked whether the IAASB has considered the impact of technology on audit fees. Mr. Dohrer responded by noting that audit fees is not something the IAASB focusses on and that other organizations, such as the International Federation of Accountants, may have a view.
- Ms. Singh asked about the format of the guidance material and asked whether such material would be released in stages, noting that it would be helpful if the IAASB CAG could provide input prior to publication.
- Ms. Singh noted she believes the IAASB should undertake a project about assurance on eXtensible Business Reporting Language (XBRL) filings. Mr. Thompson agreed, noting that there are discussions currently within his own jurisdiction taking place in the European Union on how reasonable assurance audit opinions which assurance may be expressed over such filings. Mr. Dohrer noted that there are several challenges from an assurance perspective in this area, but that in some jurisdictions, such as the US, the regulator has stated that they do not expect external auditor involvement with XBRL filings. Mr. Dohrer and Mr. Botha noted that the IAASB will consider the needs of its global stakeholders through outreach and the framework of activities as outlined in its strategy and workplan.
- Ms. Zietsman noted some of the Public Company Accounting Oversight Board's (PCAOB) technology-related initiatives, which include an analysis of extant standards to determine whether there are any barriers in the standards to using technology. Ms. Zietsman indicated that the general view of the PCAOB staff is consistent with the feedback from the IAASB DAWG's 2016 Request for Input that the PCAOB standards do not prohibit the use of technology, however they also do not necessarily encourage the use of technology. Ms. Zietsman also noted the PCAOB's website contains information about its~~some of the initial high-level observations arising from the~~ technology-related initiatives~~s, which are on the PCAOB's website,~~ and that preliminary coordination discussions have been held between the PCAOB and the IAASB.

PIOB OBSERVER'S REMARKS

Ms. Pettersson supported the initiatives of the TWG, including the focus to develop specific technology related guidance material. Ms. Pettersson commented on current business trends when, for example, client management places extensive reliance on predictive analytical tools to manage their businesses. Ms. Pettersson expressed concern about whether the auditing profession is keeping pace with the technological advancements and asked whether the IAASB is considering all its opportunities to add value and enhance quality from a technology perspective. Mr. Dohrer acknowledged the concerns and noted that where there is significant demand for guidance on such technologies, there may be a demand for standard setting in due course.

Audit Evidence (Agenda Item E)

- To *RECEIVE* an Update on the Activities of the IAASB Audit Evidence Working Group.

Mr. Dohrer provided an overview of the development of the '*Audit Evidence Workstream Plan*' (AEWP).

Representatives commented as follows:

- Mr. Dalkin noted the recent exposure draft on audit evidence issued by the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA), and asked Ms. Zietsman about whether a similar initiative is being undertaken by the PCAOB. Ms. Zietsman noted the PCAOB's current research project on data and technology and that the PCAOB's audit evidence standard is largely similar to the IAASB standard and the extant AICPA standard. She added that the PCAOB intends to monitor the feedback to the ASB's exposure draft, although highlighted the challenges of making targeted changes to standards to address audit evidence, given the possible ripple effects of changes across the suite of standards. Ms. Zietsman also emphasized the need for coordination~~harmonious—standards~~ across various standard setters to minimize unnecessary differences, particularly relating to foundational aspects such as audit evidence, because differences in foundational aspects could have a negative effect in how firms implement the standards. Mr. Dohrer agreed with the specific concern of Ms. Zietsman about the need for unnecessary differences between~~harmonious~~ standards in general and added that although the AICPA proposed standard is a modernization of the standards to enhance their relevance in today's business environment, the proposed AICPA audit evidence standard remains consistent and converged with the requirements of the IAASB audit evidence standard.
- Mr. Thompson noted concern with determining the accuracy and completeness of information in accordance with extant ISA 500⁷ in circumstances when the auditor is dealing with large amounts of data, particularly external data. Mr. Thompson suggested that this issue be included in the *Technology Workstream Plan* as a topic where immediate guidance may be required. Mr. Dohrer acknowledged the concern raised, however reiterated that the issue of accuracy and completeness of information is relevant to all sources of information, whether manual or electronic and that extant ISA 500 only currently addresses information produced by the entity. Mr. Dohrer noted that issues associated with sources of information is included in the AEWP.

⁷ ISA 500, *Audit Evidence*

Extended External Reporting (EER) (Agenda Item F)

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| <ul style="list-style-type: none">• To <i>REPORT BACK</i> on the March 2019 meeting• To <i>RECEIVE</i> an Update on Status of the Project |
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- Mr. Grabowski provided a brief overview of the matters raised by IAASB CAG Representatives at the March 2019 IAASB CAG meeting, asked for comments on the report back on those matters, and gave an update on the progress of the EER project. Mr. Grabowski then presented a high-level summary of the feedback on the phase 1 draft guidance, noting that, apart from the investor group, from which only one response had been received, the responses covered a broad range of respondents, most of whom were supportive of the guidance. Only three respondents disagreed that the guidance had adequately addressed the challenges identified as being within phase 1, but the focus of these respondents had been on specific points, rather than on the guidance as a whole.

NATURE AND BREADTH OF THE GUIDANCE

Representatives commented as follows:

- Mr. Dalkin queried the relationship of the draft EER guidance with ISAE 3000 (Revised),⁸ and the reason the guidance had been drafted as non-authoritative, rather than as a standard, noting that there may be some confusion among readers about its status. Mr. Grabowski noted that the draft guidance is intended to address the application of ISAE 3000 (Revised). The decision not to develop a standard during the project was explicitly made when the project was approved, with strong stakeholder feedback to that effect. If it is not already clear, the guidance needs to be clearly positioned as guidance on the application of ISAE 3000 (Revised) and it is not intended to introduce any new requirements not in that standard. Mr. Grabowski also noted that, as ISAE 3000 (Revised) is a generic rather than subject-matter specific standard, the two possible approaches when approving the project proposal had been to: (i) write a new subject-matter specific standard; or (ii) develop non-authoritative guidance on how to apply the generic standard. This position has been further supported by a number of respondents to the CP who broadly agreed with the proposed guidance but advised further caution to avoid inadvertently implying new requirements.
- Mr. Cela noted that small- and medium-sized entities (SME) are not as involved in this type of reporting as they would like to be. He noted that the European Federation of Accountants and Auditors (EFAA) had presented its suggestions and had encouraged the IAASB to work on developing standards for non-assurance engagements in relation to EER reporting by entities that are SMEs, rather than public interest entities. He asked whether there was a plan to extend the guidance so that it could be applied to non-assurance services such as agreed-upon-procedures. This could be useful in the context of SMEs to assist them in providing non-assurance engagements related to EER reporting. Unlike larger companies, SME's usually cannot cover the cost of assurance services. Mr. Grabowski noted that the draft guidance does not distinguish between large or small entities, but rather on how the identified challenges are addressed by the practitioner. Addressing CP respondents' comments that the guidance could be shorter and simpler should help make it easier to apply in a less complex environment. Longer, more complex examples are intended to assist practitioners applying the guidance in more complex engagements. Regarding agreed-upon-

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

procedures, the project proposal was clear that this guidance was on the application of ISAE 3000 (Revised); in approaching other types of service, the guidance may be helpful, but it has not been designed to provide guidance in applying the IAASB standards relating to such other services, as that is outside of the scope of the project proposal. The guidance should enable any practitioner to understand the principles and how to address the challenges in the circumstances of the engagement.

- Mr. Rees welcomed the Task Force's proposal to broaden and balance the range of examples in the guidance, noting that the IASB was in the process of updating its *Management Commentary Practice Statement* at present. Questions arise about the verifiability of management commentary, and it would be useful to have some examples of how to obtain assurance over items such as non-financial performance measures and descriptions of business models. In broadening the examples, Mr. Grabowski confirmed that the EER Task Force proposes to give consideration to matters such as the business model, strategy and how they create value. Mr. Grabowski also noted that some of these matters may be addressed not only in EER reporting primarily intended for the use of financial stakeholders (such as integrated reporting and reporting under the IASB's *Management Commentary Practice Statement*) but also in sustainability reports (such as those prepared using the standards established by the GRI), which are usually intended for use by wider stakeholders.

STRUCTURE OF THE GUIDANCE

- Ms. Robert questioned whether it would be clarified who the intended users are of the guidance, noting that part of the guidance is intended for practitioners, but other parts may be useful to both practitioners and preparers of EER information.
- Mr. Grabowski responded that it was the intention to make it clear that the guidance is written for practitioners in applying the requirements of ISAE 3000 (Revised). That is the intended audience of the main body of the guidance and the appendices. While some of the material in the supplementary document may be of interest to other readers of the document, and they may find it useful, they are not the intended users.

PRECONDITIONS FOR ASSURANCE

- Ms. Robert also noted that the guidance on the preconditions was valuable as it was an area where misunderstandings had arisen. She further queried whether the concept of the "materiality process" was being retained in the draft guidance as it was a newly introduced concept in phase 1.
- In response, Mr. Grabowski noted that further guidance on the preconditions had already been developed during phase 2 to further clarify some of the potential misunderstandings. Feedback from respondents to the CP on the 'materiality process' was that it was an important area to address and the guidance was broadly supported, but respondents found the terminology confusing. The EER Task Force is giving further consideration to an alternative term, one that describes the process as covering both the development of relevant criteria and the application of those criteria by preparers when deciding what to include in the EER report.
- Mr. Rees noted that, in relation to the 'materiality process,' an area of the IASB's focus in its project to revise its *Management Commentary Practice Statement* is to develop guidance for preparers, to assist them in considering the qualitative characteristics of useful information identified in the IASB's Conceptual Framework, in preparing their management commentary.

- Mr. Grabowski welcomed this and noted that guidance on such considerations by preparers, in developing entity-specific criteria in the 'materiality process', would provide an important link with the guidance being developed by the Task Force. EER frameworks usually do not include reporting criteria to a high degree of precision, and there is likely to be a need for further development of more precise entity-specific criteria in order to meet the precondition for suitable criteria as envisaged by ISAE 3000 (Revised). High level principles, such as the qualitative characteristics, can assist preparers in developing entity-specific criteria that are suitable, and this is likely to be enhanced if the framework, itself, provides guidance on how to apply those principles in the development of such criteria.
- Mr. Grabowski also presented the draft phase 2 guidance, which the EER Task Force has developed to date.

ETHICAL CONSIDERATIONS RELATING TO EER ENGAGEMENTS

- Mr. Thompson queried whether the guidance would address whether ethical considerations that may arise as a result of a practitioner performing an EER engagement for an entity that may preclude them from being the financial statement auditor of the entity. An example might be assurance over an entity's reported customer retention data, given that such data may be used in assessing goodwill impairment in the financial statements and may therefore need to be considered by the financial statement auditor.
- Mr. Grabowski acknowledged that there may be relevant ethical considerations and noted that the example could raise questions about a self-review threat. He noted that the guidance does not make the presumption that the assurance practitioner delivering the EER assurance engagement is also be the financial statement auditor. However, if they are, ethical considerations may arise. There may be a link to the current considerations by the International Ethics Standards Board for Accountants (IESBA) in relation to self-review threats in non-assurance services but the question raised by Mr. Thompson may extend those considerations into a broader area. Mr. Grabowski also indicated that, although this had not been identified as a specific challenge, the EER Task Force would give further consideration to whether it should be addressed, as compliance with relevant ethical requirements is an important requirement of ISAE 3000 (Revised). It may be possible to draw attention relevant considerations for the practitioner in this context.

PIOB COMMENTS

- Ms. Pettersson indicated that the PIOB supported the work on the project to date, as it was in the public interest to develop some guidance on extended reporting. However, one aspect that was of relevance and not yet addressed by the guidance is the impact of developments in the use of technology in relation to the preparation and assurance of non-financial information. As the financial statement audit moves towards more extended use of data analytics, there is a need for external information to perform certain types of data analytics. There may be an intersection between such developments in audit with this project. For example, guidance may be useful in EER assurance engagements on what is regarded as internal or external information, on how to use the information, and on addressing questions about the reliability of the information. There are a number of issues relating to non-financial information that may become very relevant for the extended use of data analytics.

- Mr. Grabowski noted that the EER Task Force had considered this question primarily in relation to the challenges of obtaining evidence in the context of narrative and future-oriented information. He noted that the draft phase 2 guidance now includes an additional chapter to address evidence-gathering more generally before focusing on the specific challenges of narrative and future-oriented information. At this stage, the EER Task Force view is that the IAASB's work on these matters in the context of an audit is likely to be broadly applicable to assurance over EER reporting but does not believe it is likely to be practical to address these issues directly within the scope of this project. The guidance will, however, address the different sources of evidence, which may assist practitioners in identifying where in an EER assurance engagement more general guidance on the impact of technology may be relevant, as and when it becomes available.

WAY FORWARD

Mr. Grabowski indicated that a complete version of the combined phase 1 and 2 draft guidance would be presented to the IAASB in December 2019, with the aim of issuing a consultation paper for public exposure early in 2020. He noted that the Board's input in the week of the September 16, 2019 would be important in setting the direction for completion of the draft guidance.

Proposed ISA 220 (Revised)⁹ – Quality Management at the Engagement Level (Agenda Item G)

- To *OBTAIN* Representatives' Views on the Proposed Way Forward With Regard to Identified Aspects of Exposure Draft (ED) ISA 220 (Revised) (ED-220)

Ms. Provost introduced the topic. In addition to the specific questions posed to the CAG, she also invited comments on any other significant issues related to the comments received on ED-220. Ms. Provost also highlighted the ISA 220 Task Force's initial views on clarifying the requirements related to assigning procedures, tasks or actions to other engagement team members in Appendices 5 and 6 of the Issues Paper.

Representatives commented as follows:

- Mmes. Zietsman and Manabat agreed that the engagement partner remains accountable for quality on the audit overall. Ms. Zietsman also indicated that she did not support the view of some respondents that the engagement partner could share responsibility for the audit. However, she noted that on larger engagements, supervisory roles are necessary. Ms. Provost noted these comments.
- Mmes. Meng and Zietsman and Mr. Hansen did not find the analysis in Appendix 6 to Agenda Item G.1 to be helpful because it may have unintended consequences and could be confusing. Ms. Zietsman noted that the references to 'assistance from other audit team members' could be read as implying that the engagement partner's responsibility for achieving audit quality is alleviated. She and Mr. Hansen agreed that the engagement partner retains overall responsibility for quality on the audit, and must be involved in cases when procedures, tasks or actions are assigned to other engagement team members to assist the partner in fulfilling the requirements in ED-220. In addition, there are certain actions the partner needs to take without assistance from engagement team members. Ms. Provost noted Representatives' concerns with Appendix 6 and pointed out that the appendix was not

⁹ Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

intended to imply that the engagement partner did not remain responsible when certain procedures, tasks or actions were assigned to other engagement team members.

- Mr. Yurdakul asked which partner is to be held responsible if there is more than one partner on the engagement team as this matter is not addressed in ED-220. He questioned if it would be the senior partner.
- Ms. Zietsman expressed support for the proposed changes to paragraph 13. Ms. Provost noted the support.

ENGAGEMENT TEAM DEFINITION

Ms. Provost highlighted respondents' comments on the engagement team definition and noted the Monitoring Group comments supporting the revised definition in ED-220.

Representatives commented on the practical issues related to the engagement team definition as follows:

- Mr. Thompson and Ms. McGeachy questioned how the definition works practically in group audits and would link with ~~the~~ ISA 600,¹⁰ particularly the direction and supervision of the work of component auditors.
- Mr. Thompson noted that the definition in ED-220 may lead to an unintended consequence that all group audits would be done within a network. He questioned whether that outcome would enhance audit quality. Ms. Zietsman indicated that it was not practically possible for many audits to be done by a single network, ~~including only~~ because of mandatory rotation rules in different jurisdictions.
- Ms. McGeachy questioned how the definition takes account of engagement teams with members operating in different jurisdictions that have different independence requirements, and how such differences would be resolved.
- Ms. Zietsman noted that the definition in ED-220 is consistent with the PCAOB's work related to supervision of the work of other auditors. She stressed the importance of retaining the fundamental premise that the engagement partner has overall responsibility for quality on the audit. She also ~~expressed a view that it may be indicated that it is~~ possible to reconcile different ethical requirements for different engagement team members; noting that the IESBA Code of Ethics for Professional Accountants (IESBA Code) allows for variations for different members.
- Mr. B. James noted that the definition of an "auditor" in ISA 200¹¹ notes that the term 'engagement partner' is used when an ISA expressly intends that a requirement or responsibility be fulfilled by the engagement partner. He added that there were comments from respondents that the inclusion of paragraph 13 has implied that a lesser level of responsibility was possible for such requirements, and that the ISA 220 Task Force would explore the implications further. He noted that the engagement partner retains overall responsibility when other engagement team members assist the engagement partner.
- Ms. Zietsman agreed with Mr. James and noted that the ISAs are intended to be principles-based standards. Mr. Thompson noted that large engagement teams cannot be managed by a single

¹⁰ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

¹¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards On Auditing*

person. Messrs. Dalkin and Thompson noted that delegation of work to other engagement team members does not mean that the engagement partner is no longer responsible for complying with the requirement. Ms. Provost agreed with those comments and noted that there is a balance required between the procedures, tasks and actions related to the requirements the engagement partner must fulfil personally and those that could be assigned. She stressed, however, that the fundamental principle that the engagement partner cannot delegate responsibility for managing and achieving quality on the audit.

- Ms. Zietsman did not support including the alternative in Appendix 7, i.e. to move the engagement team definition to ISA 600. She noted that the revisions to the engagement team definition proposed in ED-220 were intended to address evolving structures of engagement teams that include shared service centers and any others performing audit procedures, and not just component auditors. She highlighted that ISA 600 deals with group audits, rather than all other auditors involved in the audit, and that it mayse it would be difficult to fit these evolving audit delivery models into ISA 600. She also noted that coordination with IESBA was important but that the IAASB should not depart from the original intent of the revision to the definition.

SCALABILITY

Representatives commented as follows:

- Messrs. Dalkin and Hansen noted the importance of appropriate delegation, i.e., putting the right people in right places to perform the work, to scalability of the audit process. Ms. Provost noted the Representatives' comments on the need to achieve a balance between delegation and retaining overall responsibility by the engagement partner.
- Mr. Dalkin noted the importance of retaining a principles-based approach. While he noted that respondents to ED-220 did not identify length and complexity as a concern, he cautioned that a prescriptive approach could lead to increased length and complexity. Ms. Provost agreed with the need to strike balance between principle and practice in finalizing the proposed standard.

OTHER MATTERS

Mr. Thompson questioned what changes would be required to extant ISA 600 during the period when ISA 600 is exposed for public comment and ISA 220 (Revised) is approved. Ms. Provost indicated that the Chair of the ISA 600 Task Force is also a member of the ISA 220 Task Force. She also noted that conforming changes would be required to extant ISA 600 and that the ISA 220 Task Force was also considering developing implementation guidance on the practical considerations.

Mr. Hansen questioned whether the engagement quality reviewer was part of the revisions to ISA 220. Ms. Provost responded that the requirements for engagement quality reviews were being addressed in proposed ISQM 2,¹² and that there were certain matters of coordination between the ISA 220 and ISQM 2 Task Forces.

PIOB COMMENTS

Ms. Pettersson noted that the engagement partner's overall responsibility for quality on the engagement is important, but timeliness of the engagement partner's involvement throughout the audit is equally important.

¹² Proposed International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*

WAY FORWARD

Ms. Provost noted the two other related issues on which the ISA 220 Task Force would be seeking the IAASB's comments—direction, supervision and review and the ability to depend on the firm's system of quality management. She thanked the Representatives for their feedback. She also informed them that the ISA 220 Task Force will continue to liaise with the ISQM 1, ISQM 2 and ISA 600 task forces and with IESBA representatives on various matters, including those identified during the discussion.

Proposed ISQM 2 – Engagement Quality Control Reviews (Agenda Item J)

- To *OBTAIN* Representatives' Views on the Proposed Way Forward With Regard to Identified Aspects of Exposure Draft (ED) ISQM 2 (ED-ISQM 2)

Mr. Vanker provided an overview of the feedback received on ED-ISQM 2 and question 11 of the Explanatory Memorandum (EM) to ED-ISQM 1, and sought to obtain the Representatives' views on the ISQM 2 Task Force's proposals to address the key issues presented on the scope of engagements subject to an engagement quality (EQ) review, and the objectivity of the EQ reviewer, including a cooling-off period for individuals moving into the role of EQ reviewer after having served as the engagement partner.

Scope of Engagements Subject to an EQ Review

The Representatives were supportive of the ISQM 2 Task Force's proposals on the scope of the engagements subject to an EQ review. Mr. Dalkin noted that there was confusion relating to the proposal in the ED regarding entities that the firm determines are of 'significant public interest' (SPI) and hoped that the proposal to add a requirement for an EQ review for engagements for which the firm determines is appropriate due to the nature of the entity will provide clarity. Mr. Ruthman noted that the ISQM 2 Task Force proposals represented an elegant solution to the concerns raised, particularly the concept of SPI, and that the requirements as redrafted would be functional in the public sector. Mr. Dalkin agreed.

Representatives also provided the following comments and suggestions:

- Mr. Hansen suggested that the IAASB consider scoping Public Interest Entities (PIE) first and then adding such entities where an EQ review is appropriate due to its nature. Mr. Hansen further noted that issues related to the scope of engagements subject to an EQ review would benefit from the resolution of IESBA's PIE initiative. Mr. James asked whether the scope of engagements subject to an EQ review can be tied to entities defined by law and regulation as PIEs, in addition to listed entities. Mr. Vanker noted that the IAASB is unable to use the PIE definition for the purpose of scoping engagements subject to an EQ review because of the varying definitions of PIEs across jurisdictions. Mr. Vanker also recognized the importance of IESBA's PIE initiative, including concerns of pre-empting it, but noted that there is sufficient time for both Boards to determine an appropriate way forward.
- Mr. Hirai expressed support for the proposals but noted the importance of the objective of extending EQ reviews to more engagements and asked whether the proposals would meet this objective. Mr. Vanker noted that, in his view, the revised proposals will result in significantly more engagements scoped in compared to extant requirements, and about the same number of engagements in relation to ED-ISQM 1 but with greater clarity and consistency across firms and public sector audit bodies.

- Ms. Meng sought clarification whether entities planning to undertake an initial public offering will be subject to an EQ review. Mr. Vanker expressed his view that such entities will likely be subject to an EQ review based on the nature of the entity.

Objectivity and Cooling-Off Period

Representatives commented as follows:

- Ms. Manabat questioned whether the location of a more prescriptive requirement for a specific cooling-off period should be further considered by both the IAASB and the IESBA before the CAG provides its views. Mr. Dalkin noted that the Representatives are free to express their views to help inform the IAASB regarding an appropriate way forward. Ms. Soulier noted that applying the Conceptual Framework of the IESBA Code may lead practitioners to conclude that a cooling-off period may be necessary to protect objectivity. Ms. Soulier further noted that the location of a more prescriptive requirement for a specific cooling-off period is still subject to further consideration by both the IAASB and the IESBA.
- Mr. James pointed out that there are jurisdictions where the ISAs are in effect but the IESBA Code is not. Hence, it is important to determine an appropriate location for a more prescriptive requirement for a specific cooling-off period. Mr. Hansen agreed and noted that it is important to have consistent application of standards throughout the world. Mr. Vanker reiterated the ISQM 2 Task Force's efforts to align with the PIE concept in the IESBA Code as shown in its current proposals in paragraph A105A.
- Ms. McGeachy stated that the required ethical requirements are within the remit of the IESBA and therefore a requirement for a specific cooling-off period within ISQM 2 will be pre-emptive and will be a concern for small- and medium sized practitioners (SMPs). Ms. Robert agreed. Mr. Pavas also recognized the importance of an EQ review but expressed concern about the proposed length of cooling-off period of two years, particularly for SMPs. In response, Mr. Vanker noted that SMPs benefit from the scalability provided through the scoping requirements because there may be no or only a few engagements subject to an EQ review.
- Mr. Ruthman noted the importance of the linkage between the requirements and guidance in ISQM 2 and the IESBA Code but cautioned against delaying the approval of ISQM 2 to allow for this to be resolved. For this reason, Mr. Ruthman was supportive of a cooling-off period in ISQM 2 if it is not addressed in the IESBA Code. This alternative would result in the implementation of a cooling-off period without amending the IESBA Code, or the withdrawal of such requirement in ISQM 2 if the IESBA Code is amended, which helps with speed to market. Mr. Gunn noted that whatever route the IAASB may pursue should be consistent with, and complementary to, the IESBA Code.
- Mr. Vanker noted that a key takeaway from Representatives' views was that regardless of how the issues are resolved between the two Boards, it is important that Representatives' and respondents' concerns are addressed clearly and appropriately. Mr. Vanker echoed the views expressed by respondents that threats to objectivity of the EQ reviewer in this circumstance are unique, and that it is unlikely (or certainly less likely) that an EQ reviewer would be able to objectively evaluate significant judgments with which he or she had recently been involved as the engagement partner without a cooling-off period. Mr. Vanker also put into context the issue on objectivity and cooling-off period in relation to the broader EQ review standard and its importance, noting that this issue cannot be

allowed to be the biggest obstacle to the passage of an otherwise crucially important EQ review standard responsive to current quality management issues.

WAY FORWARD

Mr. Dalkin noted the Representatives' support for the proposals but encouraged the IAASB to further consider the concerns and suggestions that had been raised by Representatives. Mr. Vanker thanked the Representatives for their comments and views and noted that the proposals will be discussed at the September 2019 IAASB meeting.

ISA 600¹³ – Group Audits (Agenda Item K)

- To *REPORT BACK* on the March 2019 meeting
- To *OBTAIN* Representatives' Views on Proposed Changes to ISA 600

Mr. Jui introduced the topic by explaining the ISA 600 Task Force's activities since the March 2019 IAASB CAG meeting and by explaining the ISA 600 Task Force's proposals related to the risk-based approach to planning and performing a group audit (the risk-based approach), the scope and structure of the standard, access issues and materiality.

RISK-BASED APPROACH TO PLANNING AND PERFORMING A GROUP AUDIT

Representatives commented as follows:

- Mr. Thompson and Ms. Zietsman supported the ISA 600 Task Force's proposals related to the risk-based approach. Ms. Zietsman noted that the risk-based approach is aligned with the PCAOB's direction of travel in its project on other auditors.
- Mr. Thompson questioned whether the group engagement team's understanding of components is sufficient to identify all risks of material misstatement and highlighted the importance of involving component auditors in this regard. He also noted that the extant ISA 600 requirement to perform an audit for significant components was a safeguard against doing insufficient work to address a risk of material misstatement and questioned whether ISA 600 (Revised) should have something to prevent doing insufficient work on risks of material misstatement for certain account balances in the group financial statements. Mr. Jui noted that the ISA 600 Task Force had preliminary discussions about a stand back requirement, which focuses on evaluating whether sufficient and appropriate audit evidence has been obtained. Application material could include guidance for the auditor to consider whether sufficient work has been done, including at components that are individually financially significant. Ms. Zietsman supported including a stand back requirement and noted it could be based on the stand back relating to risk assessment procedures in ISA 315 (Revised).
- Ms. Zietsman cautioned against retaining the concept of a significant component because some of the identified issues arise from this definition. Mr. Jui agreed and noted that this was the reason why the ISA 600 Task Force deleted the definition of a significant component.

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

SCOPE AND STRUCTURE OF THE STANDARD

Representatives commented as follows:

- Ms. Zietsman and Mr. Hirai were of the view that the standard should be principles based given the different group structures that exist today and to make the standard capable of being adapted to evolving situations ~~future-proof~~. Mr. Hirai noted that paragraph 18 of Agenda Item K.2 has useful examples regarding the applicability of the standard and suggested including them in the application material. Ms. Zietsman supported the proposed structure, including having all requirements related to the involvement of component auditors in a separate section.
- With respect to the scope of the standard, Ms. Zietsman challenged the ISA 600 Task Force's statement in paragraph 19 of Agenda Item K.2 that 'questions may still arise about whether or not the revised standard would apply in some limited circumstances.' She noted that, for example, a shared service center does not neatly fit into the proposed definition of a component. Mr. Jui agreed that shared service centers are widely used and noted that the ISA 600 Task Force will further discuss this matter.
- Mr. Pavas supported the project to revise ISA 600. He questioned the group auditor's responsibility when the group auditor issues an opinion on matters that are not part of the financial statements, for example, internal control and compliance statements. Mr. Jui noted that another stakeholder also raised this matter and that the ISA 600 Task Force will consider whether this needs to be addressed.

ACCESS TO PEOPLE AND INFORMATION AT THE COMPONENT LEVEL

Representatives commented as follows:

- Mr. Hirai supported the ISA 600 Task Force's proposals with respect to access to people and information.
- Mr. Hansen noted that some of the identified access issues go beyond the IAASB's remit. He noted that it should be clear that there should be a scope limitation if the auditor cannot obtain sufficient audit evidence. Mr. Jui explained that when law or regulation restricts cross-border access of relevant audit documentation of a component auditor, the group engagement team may be able to overcome these restrictions by, for example, visiting the location of the component auditor and reviewing the relevant audit documentation and discussing the procedures performed by the component auditor. Mr. Jui also noted that when the group engagement partner expects access issues, the group audit engagement should not be accepted. Mr. Hansen added that regulators need to be able to review the work performed by the group auditor. Mr. Jui noted that the IAASB can't address all access issues and noted that the group engagement team could, for example, prepare a detailed memorandum evidencing the review of the component auditor's documentation when law or regulation restrict the ability to include copies of such documentation in the group engagement team's files. Mr. Hirai questioned what the group engagement team should document in the detailed memorandum.
- Ms. Manabat noted that, in addition to access issues, there may be other complexities in obtaining sufficient appropriate audit evidence. For example, audit evidence related to a foreign component may be in a foreign language and may need to be translated. She noted that whether or not a source document can be used as audit evidence depends on several factors and that it is a matter of professional judgment. Mr. Jui agreed and noted that even group audit instructions can be interpreted differently.

MATERIALITY CONSIDERATIONS IN A GROUP AUDIT

Representatives commented as follows:

- Mr. Thompson supported the ISA 600 Task Force's proposals with respect to materiality considerations in a group audit, including not making broader changes to ISA 320¹⁴ and including guidance about aggregation risk in ISA 600 (Revised). He also suggested that the guidance in the standard not be overly detailed. Mr. Hansen agreed with Mr. Thompson's points.
- Mr. Hansen questioned whether the requirements and application material in proposed ISA 600 (Revised) will be different from extant ISA 600. Mr. Jui explained that the ISA 600 Task Force only had preliminary discussions on this matter and that it is hard to say where the ISA 600 Task Force will land.

WAY FORWARD

The ISA 600 Task Force will continue to work on the drafting and the issues identified and will update the IAASB CAG on its progress in March 2020.

Conforming Amendments for Revised IESBA Code (Agenda Item L)

- To *OBTAIN* Representatives' Views on the IESBA Code Conforming Amendments Project Proposal and Issues Identified.

Mr. B James introduced the project proposal. He explained that the IAASB's standards need to be updated for the revised IESBA Code and that the IAASB CAG was being consulted as part of the due process requirements. Mr. James explained the limited and straightforward nature of the conforming amendments being proposed.

Ms. Robert commented that the Board may not need to be involved in this project since the possible changes seem to be minor. Mr. James explained that the Board had requested this approach, but that staff would seek comments from a small group of technical advisors to minimize the amount of plenary time needed to approve the exposure draft.

Mr. Dalkin invited Representatives who wish to see the full Exposure Draft prior to the Board's approval to notify staff.

IAASB Strategy and Work Plan (Agenda Item M)

- To *OBTAIN* Representatives' views on the IAASB's draft Strategy for 2020–2023 ('Strategy') and Work Plan for 2020–2021 ('Work Plan').

Messrs. Seidenstein and Botha, and Ms. Bahlmann, introduced the topic by providing a summary of respondents' comments to the IAASB's consultation on its draft Strategy, the Work Plan and the draft Framework for Activities.

STRATEGY FOR 2020–2023

In relation to the draft Strategy, the Representatives commented as follows:

¹⁴ ISA 320, *Materiality in Planning and Performing an Audit*
Agenda Item A.1
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- Mmes. Weng and Yazar supported the focus on technology in the Strategy. Ms. Weng noted that technology would affect auditors through the use of advanced technologies on audit and assurance engagements, and through the effect that evolving technologies will likely have on the clients' processes. She suggested further highlighting the latter in the Strategy. Mr. Seidenstein noted that evolving technologies also affect the activities and processes of standard setters. Mr. Botha added that the effect of evolving technologies on the clients' processes is also being addressed by the IAASB's project on audit evidence.
- Mr. Ruthman noted that the advancements in, and use of, technology is the most important strategic driver, and noted that the Board and the CAG should have experts in technology around the table. He added that technology could also be a threat to the profession as it may disrupt the financial reporting supply chain. He therefore encouraged that this be a top priority for the IAASB and the International Federation of Accountants (IFAC). Mr. Seidenstein noted that he can't speak on behalf of IFAC, but noted that the advancements in, and use of, technology is a top priority for the IAASB. Mr. Botha added that the advancements in technology will have a significant impact on the financial reporting supply chain and that the IAASB needs to determine how to best undertake its work in this changing environment.
- Mr. Cela highlighted the importance of small- and medium-sized entities (SMEs) for the economy, and noted that the Board should focus on its project on audits of less complex entities (LCE). Furthermore, Mr. Cela suggested that more information on this project be added in the Strategy and Work Plan, in particular detailing more on the way forward for this project. Ms. McGeachy added that many national standard setters are pressured to address issues related to audits of LCE and suggested reaching out to national standard setters to see how they are addressing the issues related to audits of LCE. Mr. Seidenstein explained that the LCE project is a top priority for the Board, and that further action will be taken based on the comments to the IAASB's Discussion Paper relating to audits of LCEs.
- Mr. Rees noted that, in setting its strategy, the International Financial Reporting Standards (IFRS) Foundation faced similar issues as the IAASB. For example, respondents to the International Accounting Standards Board's (IASB) strategy also suggested having a period in which there are no or limited new projects, focusing on implementation activities, addressing the complexity of the IASB's standards and responding to the effect of evolving technologies. With respect to implementation activities, he highlighted the importance of clearly describing the scope of such activities so as to manage the expectations of stakeholders. Mr. Botha explained that the Framework for Activities will clearly describe what each activity entails and that IAASB Staff also acknowledges that clear boundaries are needed.
- Mr. Rees also highlighted the importance of managing expectations about how long a project takes to progress and complete. He suggested communicating the time to market for the different type of activities (e.g., revising and developing a standard versus narrow scope maintenance) and, when there are delays, communicating why it takes longer to complete a project.
- Ms. Weng supported having an explicit reference to public interest in the goal.
- Mr. Sobel noted that a strategy is often used for making decisions and prioritizing actions. He questioned whether the IAASB's strategy could be used for that as it is not clear what the available resources are or whether additional resources are available. Mr. Botha explained that the Work Plan has a section on the allocation of resources and that the Steering Committee needs to further discuss

the level of detail to be included. Mr. Seidenstein added that the available resources could be expanded by adding new resources, by leveraging of external resources and using technology to work more efficiently.

- Ms. Manabat suggested including clear targets in the Strategy and Work Plan so that the IAASB can assess whether it achieved its goals, and to learn from the past. Mr. Seidenstein explained that the complete Strategy and Work Plan would be used for assessing whether the IAASB achieved its goals, and that further consideration would be given to transparency around this.

WORK PLAN FOR 2020–2021

In response to the draft Work Plan, the Representatives commented as follows:

- Ms. Zietsman noted support for the development of the Framework for Activities and supported the IAASB's planned activities as set out in the Work Plan.
- Mr. Hansen questioned which of the projects that are included in Appendix 2 of **Agenda Item M.4** would be addressed first by the IAASB. He also questioned if the strategic drivers, as included in the Strategy, would impact this determination. Mr. Seidenstein explained that the Board would first develop the Framework for Activities, which would detail the Board's decision making process for commencing a new workstream (or project). He noted that the Framework for Activities includes a research phase, which is intended to inform the Board about future workstreams. In addition, he explained that because of the proposed shift in focus to, for example, implementation activities, a completed project is not replaced by a new standard-setting project necessarily. Mr. Seidenstein furthermore noted that the Work Plan is already largely at capacity, and that the IAASB would need to further consider how to make more capacity available to address emerging issues. Ms. Bahlmann added that the determination about which project would commence would include consideration of the strategic drivers, and that the Steering Committee would make this linkage clearer in the next draft of the work plan.
- Mr. Rees supported having a research phase in the Framework for Activities. He noted that obtaining an understanding of the issues to be addressed is key, for example to determine whether issues relate to the standard, or whether there was something else. He also cautioned the IAASB to not make the Framework too procedural in order to keep it workable. Mr. Rees also supported collaborating with NSS and others, and noted that the IASB has done the same. He added that, based on the IASB's experience, keeping involved in any work performed by the national standard setters works better than completely outsourcing it.
- Mr. Hansen highlighted the importance of balancing the needs of all the IAASB's stakeholders, notwithstanding the pressure from certain groups to focus on their needs. He added that the Board should focus on standards and guidance for public interest entities.
- Mr. Bini supported the ongoing project on professional skepticism, and encouraged further discussions with the CAG on this topic. Ms. Bahlmann explained that the Professional Skepticism Working Group is continuing its work on an ongoing basis, and makes recommendations to other IAASB task forces and working groups on relevant matters relating to professional skepticism. She also highlighted the importance of the CAG's input in relation to this topic.

PIOB REMARKS

Ms. Pettersson highlighted the importance of the Strategy and Work Plan for the PIOB, and noted that the PIOB has provided input throughout the development. She questioned how the IAASB dealt with contradictory views and what the main contradictory views were. Mr. Botha noted that there are often conflicting views, for example on a particular issue or the way forward on a project, and that the Board balances the views of our stakeholders to come to an outcome that is reasonable for most stakeholders. Appendix 3 of **Agenda Item M.2** includes a summary of respondent's comments to the IAASB's consultation on its Strategy and Work Plan, which would also have included any contradictory views.

WAY FORWARD

The Steering Committee will further develop the Strategy and Work Plan and present an updated draft to the Board for approval in December 2019. The Framework for Activities would continue to be developed in 2020, although a more comprehensive draft would be presented to the Board in December 2019 to support the discussions for the approval of the Strategy and Work Plan at that meeting.

ISRS 4400 (Revised)¹⁵ – Agreed-Upon Procedures Engagements (Agenda Item N)

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| <ul style="list-style-type: none">• To <i>OBTAIN</i> Representatives' Views on Key Issues – Professional Judgment and Independence |
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Mr. Turner introduced the topic by providing an update on the Agreed-Upon Procedures (AUP) project.

PROFESSIONAL JUDGMENT

Mr. Turner highlighted the introduction of the requirement to exercise professional judgment in Exposure Draft ISRS 4400 (Revised) (ED-4400). Based on the assertion that procedures in an AUP engagement are capable of being described objectively, in terms that are clear, not misleading, and not subject to varying interpretations, Mr. Turner further noted the ISRS 4400 Task Force's proposal to require the practitioner to exercise professional judgment in an AUP engagement, except in the performance of the procedures as agreed upon in the terms of the engagement.

Key views expressed by the Representatives included the following:

- Mr. Sobel agreed that there may be circumstances where limited professional judgment is exercised in an AUP engagement. However, he expressed concern with the notion that the practitioner exercises no professional judgment during the performance of the procedures, as this may imply that professional judgment can be switched on and off. Mr. Hansen agreed with Mr. Sobel and expressed the same concern.
- Messrs. Pavas and Cela supported the introduction and requirement for the practitioner to exercise professional judgment, noting that it adds value to the practitioner's report and the intended users of an AUP engagement.
- Recognizing the challenges in articulating the nature and extent of professional judgment in an AUP engagement, Ms. McGeachy supported the inclusion of specific examples in the application material to describe areas where professional judgment is typically exercised in an AUP engagement.

¹⁵ International Standards on Related Services (ISRS) 4400 (Revised), *Agreed Upon Procedures Engagements*
Agenda Item A.1

INDEPENDENCE

Mr. Turner provided an overview of the ISRS 4400 Task Force's views on independence, with particular reference to the following two key aspects:

- Consistent with extant ISRS 4400, as well as the IESBA Code, ED-4400 does not include a precondition for the practitioner to be independent when performing an AUP engagement.
- Proposed disclosure requirements in relation to independence. In particular, in all circumstances where there is no requirement for the practitioner to be independent, the ISRS 4400 Task Force has proposed the same disclosure in every instance, i.e. a statement that the practitioner is not required to be independent and accordingly, makes no assertion about independence.

Key views expressed by Representatives included the following:

- Unless required by law, regulation or otherwise, Mmes. Zietsman and Soulier and Mr. Thompson highlighted the practical difficulties associated with requiring independence, or proposing disclosures in relation to independence, when there is no framework under the IESBA Code for the practitioner to determine independence. Ms. Soulier further explained that independence is required for AUP engagements under the AICPA standards because the AICPA considers AUP engagements to be an attestation engagement, and accordingly, the relevant attestation framework is applied in determining independence.
- A significant majority of the Representatives agreed with not requiring independence to be a precondition for an AUP engagement. In contrast, based on the general presumption that professional accountants are independent, Mr. Dalkin ~~and Ms. Meng~~ expressed a view that independence should be precondition during AUP engagements.
- Notwithstanding broad agreement not to require independence as a precondition for AUP engagements
 - Messrs. Sobel, Pavas, Hirai, Thompson and Cela agreed that based on the particular circumstances of the engagement, it may be appropriate for the practitioner to be independent. The Representatives suggested that such circumstances or factors are addressed in the application material.
 - Messrs. Dalkin, Thompson, Ruthman, Hansen and Ms. Meng encouraged the importance of transparency in relation to disclosures surrounding the independence status of the practitioner.

PIOB OBSERVER'S REMARKS

Ms. Pettersson noted the PIOB's concern with the proposed requirement on professional judgment, noting that the proposed exclusion of professional judgment in certain areas of an AUP engagement will cause confusion to the general public and the users of an AUP engagement.

Ms. Pettersson further acknowledged the absence of a recognized framework under the IESBA Code to determine independence for AUP engagements. However, as this is a matter of public interest, and taking into account that there is a general presumption of independence by the public, the PIOB's suggestion is

to require appropriate disclosures in the practitioner's report, which will promote transparency in relation to the independence status of the practitioner.

WAY FORWARD

Mr. Turner thanked the Representatives for their feedback and noted that the December 2019 IAASB meeting is targeted for the approval of proposed ISRS 4400 (Revised).

Closing Remarks

IAASB CAG CHAIRMAN REMARKS

Mr. Dalkin thanked the CAG Representatives for their preparation and participation during the meeting. Mr. Dalkin also acknowledged and thanked staff for the meeting arrangements and closed the session.