

# Agenda Item 1-C

**Minutes of the 76<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD**

Held on April 26th, 2016 by teleconference

**[Marked for IAASB Comments]**

**Voting Members**

Present: Charles Landes (Deputy Chair)  
Abhijit Bandyopadhyay  
Jean Blascos  
Fiona Campbell  
Robert Dohrer  
Karin French  
Marek Grabowski  
Merran Kelsall  
Brendan Murtagh  
Marc Pickeur  
Ron Salole  
Rich Sharko  
Sayaka Sumida  
Imran Vanker  
Ge Zhang  
Megan Zietsman

**Technical Advisors**

Sara Ashton (Ms. French)  
Wolf Böhm (Ms. Köhler)  
Dora Burzenski (Ms. Zietsman)  
Ahava Goldman (Mr. Dohrer)  
Hiram Hasty (Mr. Landes)  
Susan Jones (Mr. Blascos)  
Jamie Shannon (Mr. Sharko)  
Eric Turner (Mr. Salole)  
Denise Weber (Ms. Campbell)  
Cindy Yang (Mr. Zhang)

Apologies: Prof. Schilder (Chairman)  
Annette Köhler

Chun Wee Chiew (Mr. Murtagh)  
Sachiko Kai (Ms. Sumida)  
Alejandro Gonzalez (Mr. Coscodai)  
Josephine Jackson (Mr. Grabowski)  
Richard Mifsud (Ms. Kelsall)  
Inge Vanbeveren (Mr. Pickeur)

**Non-Voting Observers**

Present: Matthew Waldron (IAASB Consultative Advisory Group (CAG) Chairman)  
Norio Igarashi (Japanese Financial Services Authority)

**Public Interest Oversight Board (PIOB) Observer**

Present: Michael Holm

**IAASB Technical Staff**

Present: James Gunn (Managing Director, Professional Standards), Kathleen Healy (Technical Director), Beverley Bahlmann, Brett James, Nancy Kamp-Roelands, Vijyata Kirpalani, Natalie Klonaridis, Jasper van den Hout, Bradley Williams.

Apologies: Schuyler Simms

International Auditing and Assurance Standards Board (IAASB) agenda materials referred to in these minutes can be accessed at <http://www.iaasb.org/meetings/iaasb-conference-call-april-26-2016>. Meeting minutes are a summary of the decisions made at IAASB meeting, in light of the issues and recommendations in the agenda material put forth by the Task Forces, Working Groups, and Staff supporting the individual projects. These recommendations are made taking into account feedback from respondents to the IAASB's public consultations, in particular Exposure Drafts of the IAASB's proposals, consideration of previous discussions of the Board and its Consultative Advisory Group (CAG), and feedback from stakeholders through outreach activities.

**1. Welcome**

Mr. Landes welcomed all participants to the meeting.

Mr. Murtagh informed the Board that the International Ethics Standards Board for Accountants (IESBA) had approved the final changes to the IESBA *Code of Ethics for Professional Accountants* (the IESBA Code) with respect to non-compliance with laws and regulations (NOCLAR) via teleconference on April 25, 2016.

**2. Select Changes to ISA 250<sup>1</sup>**

Mr. Murtagh indicated that the Task Force had considered the comments from the International Organization of Securities Commission (IOSCO) and KPMG and that the issues paper reflected all of the comments from these two respondents that related to the items for discussion. Any remaining items from those responses will be incorporated into the June 2016 agenda material.

**RESPONSIBILITY TO REPORT NON-COMPLIANCE TO AN APPROPRIATE AUTHORITY OUTSIDE THE ENTITY**

Mr. Murtagh provided an overview of the key changes to paragraph 28 of ISA 250 and the related application material, which were proposed in response to the comments received from the Board and the CAG at their respective March 2016 meetings.

There was not full support from the IAASB regarding the revised wording explaining the auditor's responsibility to report NOCLAR. In particular, some members did not agree with the phrase "in relation to reporting", as it was not sufficiently clear. The Task Force was asked to consider how this requirement

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<sup>1</sup> ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

could differentiate that, in some cases, the auditor is only required to determine *whether* to report NOCLAR, and therefore does not have an explicit reporting requirement.

In addition, the majority of the Board did not agree with including the second sentence in paragraph 28, which dealt with the duty of confidentiality. It was seen to be confusing as well as duplicative of application material.

Two members did not agree with including a specific reference to the IESBA Code in paragraph A19d, on the basis that not all jurisdictions apply the IESBA Code, which could unduly call into question whether auditors in those jurisdictions are in compliance with the ISAs.

The Task Force was also asked to consider whether the ordering of the application material was consistent with how decisions regarding NOCLAR would normally be reached, with some concern expressed by the PIOB observer that the current sequencing could be viewed as not promoting disclosure of NOCLAR.

In summary, the Board agreed that the drafting of paragraph 28 would be reconsidered, noting the Board was satisfied with the direction of the Task Force, and that the second sentence in paragraph 28 would be removed. Furthermore, the organization of the application material would be reconsidered.

#### DEFINITION OF NON-COMPLIANCE

Mr. Murtagh noted that, in finalizing the IESBA NOCLAR pronouncement, the IESBA had removed the reference to “persons” in Section 225.9(b). Accordingly, Mr. Murtagh proposed that paragraph 11(b) of ISA 250 be aligned to the revised wording in the IESBA NOCLAR pronouncement as follows: “Non-compliance other than by the entity or those charged with governance, management or other individuals working for or under the direction of the entity”.

Many members were supportive of the revised wording proposed by Mr. Murtagh. However, some members questioned the necessity of having paragraph 11(b) in the definition, since the definition is already clear about what is considered to be non-compliance, and suggested that it could be relocated to the application material.

One member continued to express concern with the relocation of the sentence that deals with “transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or other individuals working for or under the direction of the entity” to the application material in paragraph A6. This member was concerned that not all stakeholders would agree that this text in extant ISA 250 is an illustration of non-compliance. There was also a request to provide clarity regarding personal misconduct related to the business activities of the entity that would be considered to be within the scope of ISA 250, through the use of an example.

#### EFFECTIVE DATE

The Board provisionally agreed that the revisions to the IAASB’s International Standards should become effective for audits of financial statements for periods beginning on or after December 15, 2017. It was noted that the effective date of the IESBA NOCLAR pronouncement applies to acts of non-compliance that come to the professional accountant’s attention on or after July 15, 2017.

#### OTHER MATTERS

Concern was raised about the additional requirements in the IESBA NOCLAR pronouncement to communicate NOCLAR in the circumstances of group audits. A few members were somewhat

apprehensive about the IAASB's decision at the March 2016 meeting to not make any revisions to ISA 600<sup>2</sup> to address NOCLAR at this time and instead include the issue in the IAASB's ongoing project in relation to ISA 600. These members were of the view that, because those revisions would only come into effect in several years' time, this would result in a temporary gap between the IESBA Code and the ISAs, which would be unhelpful. It was suggested that the Task Force could explore whether a new requirement could be included in ISA 250 (Revised) to alert auditors to the additional requirements in respect of group audits contained in the IESBA NOCLAR pronouncement, which could be deleted at a later stage when ISA 600 is revised. Mr. Murtagh noted that adopting an approach of making temporary revisions to the ISAs was not the usual practice and would need to be thoroughly considered by the IAASB before implementing these types of changes.

Comments received from Prof. Köhler in advance were relayed to the Board. These comments were consistent with her concerns reported at the March 2016 IAASB meeting, where it was suggested that a fundamental dialogue between the IAASB and IESBA at the Board level at an earlier stage in the process on certain issues would have been useful and that in future cooperation between the two Boards might need to be improved for matters that affect both Boards. In Ms. Köhler's view, these issues lead to legitimate questions about the relationship between IAASB's International Standards and the IESBA Code.

#### **4.3. PIOB Comments**

Mr. Holm supported the changes to the definition and the proposed effective date. However, Mr. Holm believed that paragraph 28 was not sufficiently clear about the requirement to report non-compliance and shared some suggested improvements. He further noted the sequencing of the application material supporting paragraph 28 should be revisited.

#### **5.4. Consultative Advisory Group Chair's Remarks**

Mr. Waldron agreed with the views of the majority of the Board that the second sentence of paragraph 28 should be removed.

#### **6.5. Next Meeting**

The next meeting of the IAASB is scheduled for June 21–24, 2016 in New York, USA.

#### **7.6. Closing**

Mr. Landes thanked the IAASB members, technical advisors, observers, and Staff for their contributions. He then closed the meeting.

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<sup>2</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*