



**Meeting:** IAASB Consultative Advisory Group  
**Meeting Location:** New York, United States of America  
**Meeting Date:** March 7–8, 2017

## Agenda Item **C.3**

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

Teleconference

Held on November 30, 2016

#### PRESENT

##### Members

Matthew Waldron	Chairman
Nicolaas van der Ende	Basel Committee on Banking Supervision (Basel Committee)
Kristian Koktvedgaard	BUSINESSEUROPE
Marie Lang	European Federation of Accountants and Auditors for SMEs (EFAA)
Paul Sobel	Institute of Internal Auditors (IIA)
William Hines	International Actuarial Association (IAA)
David Rockwell	International Bar Association (IBA)
Atsushi Iinuma	International Organization of Securities Commissions (IOSCO)
Jim Dalkin	International Organization of Supreme Audit Institutions (INTOSAI)
Mauro Bini	International Valuation Standards Council (IVSC)
Kazuhiro Yoshii	Japan Securities Dealers Association (JSDA)
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Wei Meng	World Federation of Exchanges (WFE)

##### Observers

Dawn McGeachy-Colby	IFAC Small and Medium Practices (SMP) Committee
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##### IAASB

Prof. Arnold Schilder	IAASB Chairman
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Chuck Landes	IAASB Deputy Chair
Megan Zietsman (Agenda Item B)	IAASB Working Group Chair
Karin French (Agenda Item B)	IAASB Working Group Chair
James Gunn	Managing Director of Professional Standards
Beverley Bahlmann	IAASB Acting Technical Director
Brett James	IAASB Deputy Director
Natalie Klonaridis (Agenda Item B)	IAASB Principal
Bradley Williams (Agenda Item A)	IAASB Principal
Jasper van den Hout	IAASB Manager, Standards Development and Technical Projects
<b>Public Interest Oversight Board (PIOB)</b>	Susana Novoa

## **APOLOGIES**

### **Representatives**

Noémi Robert	Accountancy Europe (AE)
Myles Thompson	AE
Vânia Borgerth	Associação Brasileira de Instituições Financeiras de Desenvolvimento
Mohini Singh	CFA Institute (CFA)
Juan-Maria Arteagoitia	European Commission (EC)
Erik Bradbury	Financial Executives International (FEI)
Dr. Obaid Saif Hamad Ali Al Zaabi	Gulf States Regulatory Authorities (GSRA)
John Kuyers	Information Systems Audit and Control Association (ISACA)
Michael Stewart*	International Accounting Standards Board (IASB)
Jean-Luc Michel	International Association of Financial Executives Institutes – Europe, Middle East, and Africa Region (IAFEI-EMEA)
Sanders Shaffer	International Association of Insurance Supervisors (IAIS)
Anne Molyneux	International Corporate Governance Network (ICGN)
Nigel James	IOSCO
Huseyin Yurdakul	IOSCO
Jaseem Ahmed	Islamic Financial Services Board (IFSB)

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

Lucy Elliott	Organisation for Economic Cooperation and Development (OECD)
Gayani Perera	Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)
Yospeh Asmelash	United Nations Conference on Trade & Development (UNCTAD)
Henri Fortin	World Bank (WB)
<b>Observers</b>	
Simon Bradbury	International Monetary Fund (IMF)
Norio Igarashi	Japanese Financial Services Agency (JFSA)
Martin Baumann**	United States Public Company Accounting Oversight Board (PCAOB)

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

**November 30, 2016**

**The IAASB's Work Plan for 2017–2018 and Continuing Relevance of Its Strategic Objectives (Item A)**

To *OBTAIN* Representatives' views in relation to the:

- (a) Analysis of the responses received to the [Survey Consultation—The IAASB's Work Plan for 2017–2018 and Continuing Relevance of Its Strategic Objectives](#) (the Survey Consultation); and
- (b) IAASB Work Plan for 2017–2018 (the Work Plan) and the Supplement to the IAASB's Strategy for 2015–2019.

Prof. Schilder introduced the topic, noting that the overall message from respondents to the Survey Consultation was for the IAASB to continue focusing on its existing priority projects. He further noted that in relation to new projects for the 2017–2018 period that respondents were, on balance, in favor of the IAASB continuing to progress its initiative on agreed-upon procedures (AUP) and to commence a new project related to audit evidence, encompassing aspects of existing important initiatives relating to professional skepticism and data analytics.

Ms. Bahlmann highlighted paragraph 24 of Agenda Item A.1 listing the IAASB's priority projects, which were supported by respondents to the Survey Consultation. Ms. Bahlmann noted that the way forward on the AUP project is to be determined after analysis of the responses to the Discussion Paper on this topic to be issued shortly. She also noted that resourcing of the AUP project would be further considered in light of circumstances at the time that standard-setting activities commence, taking into account the current model of leveraging National Auditing Standard Setter resources to supplement IAASB staff used to develop the Discussion Paper. Related to a new project on audit evidence, Ms. Bahlmann noted that the project is intended to incorporate a number of related topics, such as audit evidence, professional skepticism, data analytics, with further consideration given to whether, and how, to include other related aspects including analytical procedures, sampling and documentation.

Ms. Bahlmann acknowledged that there would be limited capacity for other new topics in the 2017–2018 period. She noted that for topics that received strong support from respondents, but not quite as strong as for projects on AUP and audit evidence, that these topics would be prioritized at the time that the IAASB considers new work efforts towards the end of the Work Plan period or the following work plan period, taking into account circumstances at that time.

Ms. Bahlmann noted that considerations about an appropriate way forward related to Emerging Forms of External Reporting would be based on the feedback received from the Discussion Paper currently out for comment with a comment deadline of February 3, 2017.

*Priority Projects and New Projects for 2017–2018*

In responding to the questions regarding whether CAG Representatives agreed with the Steering Committee's recommendations relating to the current priority and new projects for 2017–2018, CAG Representatives responded as follows:

- Messrs. Atsushi, Bini, Dalton, Hines, Koktvedgaard, Rockwell, Sobel, van der Ende and Yoshii, as well as Mmes. Lang and McGeachy agreed with the Steering Committee recommendations for a

continued focus on progressing and completing the priority projects as set out in paragraph 24 of Agenda Item A.1.

- Mixed views were expressed by CAG Representatives relating to the proposed project on AUPs. In expressing their support for the Steering Committee's recommendations regarding a project on AUP, Mr. Koktvedgaard and Mmes. Lang and McGeachy highlighted the importance of the stakeholders that would benefit from such a project. Messrs. Atsushi and Rockwell noted that while supporting a project on AUP during the 2017–2018 Work Plan period, in their view the IAASB should consider audit related projects to be of higher priority than projects on topics not related to audits. While recognizing the need to balance the Board's resources on the needs of a wide range of stakeholders, Mr. van der Ende did not support the recommendation to include a project related to AUP, particularly if the allocation of the Board's resources toward a project on AUP would result in delays in the Board's other priority projects. Mr. Hansen also noted concerns regarding the inclusion of a project related to AUP, as those engagements are often between two organizations and not available to the general public, and as a result, questioned whether a project on AUP is in the public interest, when compared to other topics to which the Board's resources may be better allocated (e.g. going concern, which would have a more far-reaching impact as it affects all audits). Prof. Schilder noted that he was pleased with the support from many of the CAG Representatives, noting that a project on AUP had been postponed a number of times. He appreciated the caveats expressed by some Representatives, but offered that the AUP project was less complex than most others, and that helpful technical support had been received from the Canadian national standard setter.
- With regard to the proposed project on audit evidence, Ms. McGeachy noted the importance of the project, in particular due to its linkage to the topic of data analytics. Mr. van der Ende also noted his support for a proposed project on audit evidence.
- Mr. Bini highlighted the importance of professional skepticism to the proposed audit evidence project, as well as the interaction with the IAASB's other projects.

#### *Work Plan Timetable*

CAG Representatives provided the following input related to the forward timetable included in the Appendix to Agenda Item A.2 setting out the targeted timing of the projects in the 2017–2018 period:

- Messrs. Bini, Dalkin, Koktvedgaard, Rockwell, Sobel and van der Ende, as well as Mmes. Lang and McGeachy were of the view that the proposed forward timetable was ambitious given the nature of the various projects. Mr. Hines noted that the IAASB has had tight timetables before and has been able to manage the time constraints through managing and addressing the scope of the individual projects, making sure they are in line with the approved project proposals and being transparent when a project scope needs to change.
- The planned quarterly updates to the forward timetable was welcomed as it provided transparency to the IAASB's progress. Messrs. van der Ende, Koktvedgaard and Hines suggested that transparency be provided when there is a delay or change in the targeted timeline, or a new topic arises that the IAASB needs to address, with communication about how these changes affect the timeline of the Board's existing projects.
- Mr. van der Ende noted that there is no "cushion" in the forward timetable, with the effect being that a delay in one project may have a ripple effect on the timing of the other projects. Prof. Schilder

acknowledged the CAG Representative's observations regarding the lack of "cushion" in the forward timetable, but noted that senior IAASB Staff and the Steering Committee had considered this and had agreed that there is some flexibility built into some of the projects that is not so easy to see in the forward timetable.

- Mr. Rockwell expressed the view that if there was a need to re-prioritize projects that the prioritization within paragraph 24 of Agenda Item A.1 be retained (i.e., that the revision to ISA 540<sup>1</sup> remain the highest priority).
- Mr. van der Ende noted that it was difficult to see the extent of the work effort and how it has been allocated to the respective task force and working group members and staff. Ms. Bahlmann responded noting that the allocation of resources to task forces and working groups and staff to each of the projects is assessed on a regular basis to evaluate the work loads of those individuals and ensure an efficient and effective progression of the projects.
- Mr. Koktvedgaard noted a concern related to the extent of coordination with the other standard setting boards (e.g., coordination with the International Ethics Standards Board for Accountants (IESBA), in particular in relation to professional skepticism). He questioned whether sufficient time had been built into the forward timetable for coordination matters, including if a new topic arises because of work being undertaken by another standard-setting board. He also highlighted that the other standard setting boards have their own timetables and constraints, and this may impact the IAASB's timing for matters arising from coordination efforts. Prof. Schilder acknowledged that although the impact of work arising from projects of the other standard-setting boards may not necessarily be presented in the IAASB's project timeline, that this would continue to be actively monitored and changes made to the project timetable considered as and when necessary. He noted the importance of the coordination efforts, highlighting that many respondents to the Survey Consultation had emphasized the importance of this.
- Ms. McGeachy noted the importance of allowing for sufficient time in the forward timetable for consultation and outreach to obtain the necessary input in the development of the various proposals.
- Specifically related to the timing of the ISA 540 project, Mr. van der Ende noted that it was unfortunate that the exposure draft (ED) will be released in April 2017 (previously targeted for release in January 2017). Mr. Yoshii noted that the issuance of an ED in April 2017 will result in an effective date after the effective date of IFRS 9<sup>2</sup> and queried whether confusion would result in practice. Mr. James responded noting that the original target date for issuance of the ED of January 2017 would have resulted in an effective date after IFRS 9. He added that other efforts have been made to provide stakeholders with transparency of the direction of the ISA 540 project, including the [project update](#) that was issued in March 2016. Mr. Koktvedgaard noted that with the now targeted finalization of ISA 540 in March 2018, the CAG Representatives would not have an opportunity to see the detailed feedback from the ED before the March 2018 CAG meeting, when ISA 540 is targeted for finalization. Ms. Bahlmann responded that while what is included in the forward timetable is in accordance with

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<sup>1</sup> International Standard on Auditing (ISA) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

<sup>2</sup> International Financial Reporting Standards (IFRS) 9, *Financial Instruments*

the IAASB's due process, there is recognition of the importance of the CAG Representatives having an opportunity to consider the feedback to the ED prior to the March 2018 CAG meeting, and that further consideration would be given for discussion with the CAG Representatives, likely via teleconference. Prof. Schilder noted that every effort is being made to finalize the ED for ISA 540 in as short a time frame as possible, while maintaining a focus on the quality of the ED. He also noted that the draft ED would be tabled for the CAG March 2017 meeting.

- Mr. Iinuma queried why there was a difference in timing for completion of the group audits project between the IAASB's proposed Work Plan in Agenda Item A.2 and in the project proposal set out in Agenda Item B.2. Ms. Bahlmann noted that it was the way that the timing for completion was presented in the project proposal, and that these were not intended to be different periods. She added that changes would be made to make clear that it was the same targeted completion date.
- Mr. Koktvedgaard noted that there were inconsistencies between projects related to the time periods between approval of ED and full review of the responses to the ED. Ms. Bahlmann responded that this would be relooked at, but in some cases the timing is based on current expectations of respondents views considering the extensive consultation that has occurred prior to issuance of EDs for some of the projects.

#### *Other Matters*

With respect to other matters relating to the IAASB's Work Plan, as well as the continuing relevance of the IAASB's strategic objectives, CAG Representatives commented as follows:

- Messrs. Bini, Hines, Iinuma, Rockwell and Sobel, as well as Mmes. Lang and McGeachy, noted agreement with the Steering Committee's recommendations related to the continuing relevance of the IAASB's strategic objectives.
- Mr. van der Ende queried the extent of the IAASB's involvement in the IESBA's audit fee project. Mr. Gunn noted that the IESBA is at the fact finding stage of its audit fee project and that this is a project that IAASB staff are monitoring. As the IESBA audit fee project progresses, IAASB involvement, if needed, will occur at the appropriate time.
- Related to professional skepticism, Ms. Lang commented that enhancements to audit quality in this area are not likely to be realized from standard-setting activities alone.
- Ms. McGeachy noted appreciation for the greater consideration of the effect of the current projects and how they affect small- and medium-practices.

Prof. Schilder thanked the CAG Representatives for their support and noted his appreciation for the comments.

#### PIOB OBSERVER REMARKS

Ms. Novoa experienced problems with the sound during the teleconference. This did not allow her to fully participate in the discussion on the IAASB's Work Plan and she was not able to participate in the discussions on Agenda Item B at all. With this caveat, early in the discussion of the Work Plan, Ms. Novoa noted that her comments were her personal views, as the PIOB had not discussed the Work Plan yet. She noted that in her view the projects prioritized in the Work Plan were appropriate, and that the inclusion of a

new project on Audit Evidence is positive as this was an area that had been highlighted in the most recent International Forum of Independent Audit Regulators' inspection report.

### **Project Proposal—Group Audits and Quality Control (Item B)**

To *OBTAIN* Representatives' views in relation to the project proposal to address the revision of:

- (c) International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*.
- (d) ISA 220, *Quality Control for an Audit of Financial Statements*; and
- (e) ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.

Ms. Zietsman provided an overview of the project proposal presented in **Agenda Item B.1**, noting that it combines the topics of quality control and group audits due to the interaction and extent of crossover of the issues affecting these topics. Ms. Zietsman highlighted that there has already been extensive consultation on these topics in the Invitation to Comment, *Enhancing Audit Quality: A Focus on Professional Skepticism, Quality Control and Group Audits*. Accordingly, the project proposal is more succinct than other project proposals recently presented to Representatives.

Ms. Zietsman explained the timing of the projects, noting that it takes into account the interactions between the various current projects of the IAASB, for example, quality control at the firm level forms the foundation for quality control at engagement level, which in turn has an effect on group audits. Ms. Zietsman also noted that the project on ISA 315 (Revised)<sup>3</sup> has an impact on the quality control and group audits projects, and accordingly the sequencing of addressing matters in the quality control and group audits projects in conjunction with the ISA 315 (Revised) project is also important.

Ms. Zietsman noted that the project proposals specifically highlight the considerations about the proportionality and scalability of the standards, given the particular challenges of auditing small- and medium-sized entities (SMEs). Ms. Zietsman explained that based on the discussions at the September 2016 CAG and IAASB meetings regarding how the standards could be structured (e.g., the proposals for separate or new standards for the quality control standards), the appropriate structure of the standards would only be considered once the content has been further developed (i.e., whether there should be a series of standards at a firm level addressing quality control, and separate standards at the firm or engagement level dealing with discrete topics).

The Representatives were generally supportive of the project proposal and the matters being addressed, with Mr. van den Ende and Ms. McGeachy emphasizing the importance of the quality control project, and Mmes. Lang and McGeachy acknowledging the focus on scalability. Representatives commented further as follows:

- Mr. van der Ende noted the importance of considering quality control at the network level, in addition to the engagement level and firm level, and addressing this in the standards. Ms. McGeachy agreed

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<sup>3</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*



and noted that it was important to consider how the reliance by the firm on the network firm's policies and procedures when tailoring the firm's quality management could be addressed in the standards. Ms. Zietsman agreed and highlighted that network policies and procedures affect quality at the firm and engagement level, as well as in group audits, and accordingly the various task forces would work together in determining an appropriate way forward.

- Ms. Lang supported the focus on audits of SMEs, noting however that the definition of an SME changes across jurisdictions, and accordingly it would be important to take into consideration the broad range of SMEs in developing the scalability and proportionality of the standards.
- Messrs. Lang and McGeachy highlighted the proposals to develop the quality management approach, and Ms. McGeachy added that is an essential aspect of the revision of ISQC 1.
- Mr. Hines encouraged the IAASB to consider the use of experts in the context of quality control, i.e., how quality management is established when making use of different experts throughout the network. Ms. Zietsman explained that the project related to quality control at the engagement level would address considerations related to the composition of the engagement team in addressing risks to quality, i.e., that there may be a level of expertise needed within the team to respond to certain risks, resulting in the use of experts. She added that at a firm level the use of experts would also need to be considered when such experts come from another division within the firm or the network, and noted that consideration would be given to addressing this.
- Mr. Koktvedgaard observed that some jurisdictions have not adopted ISQC 1, and only adopt the ISAs and therefore encouraged the IAASB to be focused on the ability of the ISAs to operate in such circumstances. Mr. Koktvedgaard had the view that it is important that there is clarity regarding when something is considered a responsibility of the firm versus a responsibility of the engagement partner, and noted that this is often an area of uncertainty for regulators.
- With regard to professional skepticism, Mr. Koktvedgaard questioned whether the project proposal adequately takes into account the possible long-term outcomes of the Professional Skepticism Working Group, in particular those that have not yet been determined. Mr. Rockwell agreed and noted the importance of the working groups taking into account developments with respect to professional skepticism as the projects progress. Ms. Zietsman indicated that the working groups do not want to prejudge what will happen with respect to the project on professional skepticism, however as the revisions to the standards are progressed, the task forces would consider how the revised requirements and related application guidance can be structured to address professional skepticism in a way that encourages auditors to think about what impediments may exist.
- Mr. Yoshii was supportive of the consideration of transparency reporting in the project proposal, and highlighted the aspects relating to governance, engagement quality control reviews and engagement partner compensation as being very important.
- Mr. Dalkin encouraged the IAASB to reflect, as the projects progress, on how the proposals for changes that are developed would be executed in practice, and to consider whether these changes align with what was originally intended. Ms. French agreed with the view that as the projects progress it would be important to look back and consider how the requirements would be implemented in practice is the way that was as intended. She noted that as the task forces develop and revise the

requirements that outreach would be undertaken with relevant stakeholders that would help inform the IAASB's decisions.

- Mr. van der Ende noted that although the project proposal sets out the issues that would be addressed, it was difficult to grasp how these issues would be addressed, however he recognized the challenge of being explicit about a way forward at this early stage of the projects.

Ms. Zietsman and Prof. Schilder thanked the Representatives for their support of the project proposals.

### **Closing Remarks**

Mr. Waldron thanked the CAG Representatives and Observers for their comments provided during the teleconference. He also thanked the IAASB Chairman, members and Staff for their contributions. He then closed the meeting.