Agenda Item 1-A

Minutes of the 84th Meeting of the

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)

Held on June 19–22, 2017 in New York City, USA

<mark>**[Marked for IAASB Comments]**</mark>

	Voting Members	**Technical Advisors**
Present:	Prof. Arnold Schilder (Chairman)	Sara Ashton (Ms. French)
	Megan Zietsman (Deputy Chair)	Nicolette Bester (Mr. Vanker)
	Abhijit Bandyopadhyay	Wolf Böhm (Prof. Köhler)
	Fiona Campbell	Dora Burzenski (Ms. Zietsman)
	Robert Dohrer	Chun Wee Chiew (Mr. Murtagh)
	Karin French	Jan Thijs Drupsteen (Mr. Pickeur)
	Marek Grabowski	Shu Duan (Mr. Zhang)
	Len Jui	Sylvia Van Dyk (Ms. Provost)
	Prof. Annette Köhler	Ahava Goldman (Mr. Dohrer)
	Charles Landes	Hiram Hasty (Mr. Landes)
	Brendan Murtagh	Josephine Jackson (Mr. Grabowski)
	Marc Pickeur	Susan Jones (Mr. Jui)
	Lyn Provost	Sachiko Kai (Ms. Sumida)
	Ron Salole	Jamie Shannon (Mr. Sharko)
	Rich Sharko	Eric Turner (Mr. Salole)
	Sayaka Sumida	Sanjay Vasudeva (Mr. Bandyopadhyay)
	Imran Vanker	Denise Weber (Ms. Campbell)
	Ge Zhang	

Non-Voting Observers

Present: Jim Dalkin (IAASB Consultative Advisory Group (CAG) Chair), Yosh'inao Matsumoto (Japanese Financial Services Authority)

Apology: Juan Maria Arteagoitia (European Commission)

Public Interest Oversight Board (PIOB) Observers

Present: Karel van Hulle

IAASB Technical Staff

Present: James Gunn (Managing Director, Professional Standards) (June 21–22), Matt Waldron (Technical Director), Beverley Bahlmann, Brett James, Natalie Klonaridis, Jasper van den Hout, Csilla Molnar, Schuyler Simms

IAASB agenda materials referred to in these minutes can be accessed at http://www.iaasb.org/meetings/new-york-usa-15. These minutes are a summary of the decisions made at the June 2017 IAASB meeting, in light of the issues and recommendations in the agenda material put forth by the Task Forces, Working Groups, Drafting Teams 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 (EDs) of the IAASB's proposals, consideration of previous discussions of the Board and its CAG, and feedback from stakeholders through outreach activities.

1.   Welcome and Approval of Previous Minutes

Prof. Schilder welcomed all participants to the meeting, including IAASB members, technical advisors, staff and observers.

The minutes of the March 13–17, 2017 IAASB meeting, as presented, were approved.

2.   Quality Control at the Firm Level – ISQC 1[1]

Ms. French and other members of the Quality Control Task Force (QCTF) provided an overview of the proposals to revise ISQC 1 set out in **Agenda Item 2–B** (working draft of revised ISQC 1) and **Agenda Item 2–C** (prescribed quality objectives, quality risks and responses)**.**The IAASB generally supported the overall direction proposed by the QCTF in relation to the revisions to ISQC 1. In addition, the IAASB:

- Emphasized the importance of outreach with a variety of stakeholders in order that input on the practicality of the QCTF's proposals is obtained as the ED is developed.

- Recommended consideration of the development of a publication to accompany the ED that would provide additional guidance and examples in relation to the implementation and application of the revised standard.

ROBUSTNESS AND SCALABILITY

The IAASB expressed mixed views about whether the changes would result in the robustness of the standard being maintained. Some members noted that the term "reasonable assurance" has not been used in revised ISQC 1 in relation to each element of the system of quality management, which could be perceived as diluting the robustness of the standard. These members further noted that the robustness of the standard is dependent on whether the proposed revisions address the issues that the project aims to address. In addition to these comments, the IAASB:

- Expressed varying views about the extent to which the requirements in extant ISQC 1 should be retained, noting that the proposals may appear substantial and overwhelming. The IAASB further

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

noted that the specificity of the requirements in extant ISQC 1 in relation to each element are inconsistent and therefore may need to be considered as these are adopted into the revised standard.

- Encouraged the QCTF to consider the applicability of the proposed requirements to small- and medium-sized practices (SMPs) and to further explore how to address their needs, such as through more conditional requirements, better signposting or clarifying how a system of quality management can be scaled according to the circumstances of the firm.

GOVERNANCE AND LEADERSHIP, INCLUDING ORGANIZATION, CULTURE AND STRATEGY

The IAASB in general supported the proposals in this component, although a member questioned whether establishing governance principles is beyond the scope of ~~the~~ ISQC 1, while another raised concern regarding the relevance of the proposals to SMPs. The IAASB also provided recommendations regarding the overall title of this component.

In relation to the governance principles, the IAASB:

- Cautioned that ISQC 1 should not inappropriately extend to firms' commercial considerations through the governance principles.

- Encouraged the QCTF to further highlight the interaction between ISQC 1 and jurisdictional requirements relating to the governance of firms.

- Questioned whether the use of the term "governance" is appropriate given the wide use and interpretation of this term in various contexts across jurisdictions. It was suggested that the standard could clarify that governance means the governance of quality that is embedded in the governance of the whole firm.

- Suggested various enhancements to the governance principles, including:

  o Emphasizing the "tone in the middle".

  o Explain~~ing what is meant by~~ the public interest context in which firms operate, rather than using the term "public interest."

  o Clarifying the principle relating to enhancing stakeholder confidence.

  o More explicitly addressing assigning responsibility throughout the firm.

  o Incorporating concepts related to human resources, including commitment and competence.

- Recommended recognizing different types of firm structures, including the use of alternative delivery models.

In relation to the responsibilities of firm leadership, the IAASB:

- Expressed varying views regarding what firm leadership should be responsible for, i.e., the system of quality management, management of quality or quality.

- Noted firms' varying structures and circumstances and therefore encouraged a flexible approach regarding who within firm leadership is ultimately responsible for quality.

- Recommended that the responsibilitiy in relation to resources should be further elaborated.

In relation to those assigned operational responsibility for the system of quality management, the IAASB:

- Recommended that the standard better clarify the difference between such individuals and firm leadership, and clarify the accountability of such individuals.

- Provided various suggestions relating to their authority and reporting lines of communication.

The IAASB also encouraged the QCTF to explore whether the leadership responsibilities for independence should instead relate to a responsibility for relevant ethical requirements.

The IAASB recommended various enhancements relating to the proposals on whistleblowing and questioned whether:

- The term "whistleblowing" is appropriate, given the use of this term in jurisdictional law or regulation.

- The section on whistleblowing should be placed in the component addressing communication.

INFORMATION AND COMMUNICATION

The IAASB was broadly supportive of the proposed direction, however the Board indicated that the proposals were too conceptual and needed to be further elaborated. The IAASB:

- Encouraged the QCTF to emphasize the two-way nature of communication, as it was not seen to be evident in the proposals.

- Recommended that the requirements focus on explaining the purpose of the information and the decisions being made based on that information.

- Suggested establishing a discrete requirement for "external parties" since how the firm manages such communication is different than how the firm would address internal communication. The Board further suggested clarifying the role of management and those charged with governance and recognizing the role of oversight authorities.

- Suggested identifying circumstances when the manner in which information is communicated needs to be systematic.

- Encouraged the QCTF to further explore and develop the interrelationship with ISA 220.[2].

QUALITY MANAGEMENT PROCESS

The IAASB supported the direction proposed by the QCTF in relation to the Quality Management Process (QMP) and encouraged the QCTF to continue to develop visual mechanisms to support an understanding of the QMP. In addition, the IAASB:

- Noted that the quality objectives define the criteria in relation to quality and therefore encouraged the QCTF to further clarify and develop the objectives in a principles-based manner, such that the quality objectives provide an overall framework for firms. The IAASB further encouraged the QCTF to explore how the elements in extant ISQC 1 could be retained in the revised standard, in order that all of the areas in extant ISQC 1 are clearly addressed, in particular in relation to the objectives.

- Recommended that the proposed approach in relation to the firm's identification and assessment of quality risks and design of responses that include the prescribed quality risks and responses, should be simplified. The IAASB further noted the inconsistent granularity across the proposed prescribed

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[2]   ISA 220, *Quality Control for an Audit of Financial Statements*

quality risks and responses and encouraged the QCTF to further refine these requirements. However, the IAASB had varying views regarding the appropriate level of specificity.

- Recommended that the "threshold" in the proposed requirements related to the identification and assessment of quality risks should be further considered, including how the "threshold" and identification of quality risks relates to deficiencies in the system of quality management and the overall objective of the standard (i.e., "reasonable assurance").

- Questioned how the proposals would operate in the circumstance of a network of firms and encouraged the QCTF to explain the impact of alternative delivery models on the quality risks and responses in the standard.

- Suggested that the prescribed quality objectives include the quality of professional judgments at the engagement level and the processes needed to support the professional judgments.

- Supported the use of the term "policies or procedures" throughout ISQC 1.

- Encouraged the QCTF to more explicitly address the linkage between the quality risks and responses in ISQC 1 and the engagement partner's overall responsibility for quality ~~management~~ at an engagement level.

- Discussed the importance of the documentation in relation to the QMP.

MONITORING AND REMEDIATION

The IAASB supported the QCTF's proposals in relation to the enhancements to the requirements regarding monitoring and remediation. Furthermore, the IAASB:

- Suggested that the objective of monitoring and remediation should incorporate an evaluation of both the effectiveness and the design of the system. It was also suggested that the meaning of reasonable assurance should be clarified, including how it relates to the assessment of the system of quality management.

- Noted the difference between a "deficiency", a "deficiency in the system of quality management" and the varying levels of severity of deficiencies. The IAASB therefore encouraged further clarification of these concepts, including how deficiencies are considered individually and in aggregate.

- Emphasized the importance of having appropriate reporting lines within the firm for those performing monitoring activities, and questioned whether those assigned responsibility for the monitoring activities should be the same as the individuals assigned operational responsibility for the firm's system of quality management. The IAASB further suggested clarifying who in the firm is responsible for assessing the system of quality management overall.

- Highlighted the need for additional material to explain how this component would apply to SMPs.

- Encouraged the QCTF to explore ways to emphasize other types of reviews as an alternative to engagement inspections, and to clarify the difference between monitoring activities and review-type activities under the QMP (e.g., in-flight reviews), including whether such activities or reviews can fulfill both functions.

- Confirmed that requirements related to the cyclical inspection of engagement partners remains appropriate, although had mixed views on whether a period should be specified in the application material.

- Noted that the proposed requirements to "determine the cause(s) of deficiencies" were too definitive to apply in practice and therefore supported a term that implies an investigation and recogizes that in some instances a "root cause" may not exist. The IAASB further recommended that the requirements focus on the investigation of more important deficiencies, rather than all deficiencies.

- Encouraged more emphasis on understanding engagements that went well as part of undertaking the root cause analysis.

- Supported the use of the term "root-cause analysis" and proposed various other clarifications, including how internal and external monitoring activities are inter-related, highlighting other forms of external reviews other than inspections and more explicitly signaling that other information may indicate a deficiency in the system of quality management (e.g., a restatement).

- Recommended adding more emphasis to monitoring being a continuous process. The IAASB further suggested improving the emphasis on the firm's consideration of the appropriateness of the quality objectives, quality risks and responses, in response to findings from monitoring activities.

- Noted that in some cases communication may need to be more frequent than annually and that there are circumstances when communication may be restricted under law or regulation.

OTHER MATTERS

Other matters discussed included:

- The terminology in revised ISQC 1. Board members generally supported the proposed terminology, although encouraged the QCTF to consider using terms that may be more familiar and address similar concepts, for example, terms used throughout the IAASB's Standards.

- The overall objective of ISQC 1. Board members recognized that the objective is similar to extant ISQC 1, however expressed mixed views regarding whether it remains appropriate or whether it should reflect a notion of quality (e.g., by explaining what is meant by "appropriate" in the definition).

- The proposal to introduce a new standard to address EQC reviews. This proposal was supported by the IAASB.

- How the proposals would be expected to change firm behaviors. The IAASB encouraged the QCTF to instead focus on ~~explaining how~~why the changes would be in the public interest and improve audit quality and emphasized the importance of messaging the proposals as a fresh approach.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin encouraged the QCTF to develop principles-based requirements that support scalability and to recognize other forms of entities, other than firms, within ISQC 1. He further supported the development of guides to support firms in implementing the standard and concurred with various views of the Board, including ~~the reference to~~ how the "public interest" should be addressed in the governance principles and throughout ~~in~~ the standard and the development of a separate standard for EQC reviews.

PIOB OBSERVER REMARKS

Mr. van Hulle was of the view that the overall objective in paragraph 16 of the working draft appears very much compliance-based, "reasonable assurance that the firm and its personnel comply with professional standards and applicable legal and regulatory requirements", and therefore suggested to aim at a higher perspective, such as the public interest.~~could be enhanced.~~ He encouraged the QCTF to clarify that the

use of the term "quality management", instead of "quality control", does not result in a dilution of the standard. He further ~~added that it is difficult to define public interest and expect firms to examine whether they have acted in the public interest, and provided a suggestion as to how the term public interest could be used in the standard.~~ raised the question how the Board understood the public interest role of a firm and referred to the debate about the firm's business model. "He suggested to define in the application guidance what practices cannot be considered to be in the public interest, for instance."~~.~~

WAY FORWARD

The QCTF will reconsider the IAASB's proposals and further develop the revisions to ISQC 1. In addition, the QCTF plans to undertake outreach to obtain views from various stakeholders regarding the practicality of the proposed changes to ISQC 1. A first read of the proposed ED of ISQC 1 will be presented to the IAASB for discussion at the December 2017 IAASB meeting. A first read of the proposed ED of ISQC 2, the new standard addressing EQC reviews, will be presented to the IAASB for discussion at the September 2017 meeting.

3.   Emerging External Reporting

Mr. Grabowski presented a brief summary of the responses received on the Discussion Paper*, Supporting Credibility and Trust in Emerging Forms of External Reporting*. Among other matters, he noted that comments had been received in support of the ten challenges identified in the consultation paper, and that a majority of respondents did not have the view that further subject-matter specific standards were needed at this time.

Board members noted that it was important for the Working Group to continue to liaise with other organizations.

WAY FORWARD

Mr. Grabowski noted that the Working Group would be consulted with a view to bringing some more detailed material for IAASB discussion later in 2017. He added an external party had been identified that may assist with resourcing the initiative.

4.   Consideration of Networks

Ms. Zietsman explained the matters set out in **Agenda Item 4-A**, noting that these matters had been discussed by the QCTF, ISA 220 TF and Group Audits Task Force (GATF) (Together 'the Task Forces').

In relation to the matters set out in **Agenda Item 4-A**, the Board supported the Task Forces':

- Overall direction for changes for firms and where applicable, engagement teams to more actively consider information provided by networks as part of the quality management process, ~~,~~ and encouraged the Task Forces to further consider how changes could be made in the relevant standards to reflect this direction.

- Approach to not revisit the definition of networks that is used in the International Ethics Standards Board for Accountants' Code and the IAASB's International Standards.

- Proposal to not further consider the establishment of requirements directed towards networks in the IAASB's international standards.

Board members variously encouraged the Task Forces to give further consideration to:

- The practical implications of the changes, including how to evidence and document considerations when using network policies and procedures as part of the firm's quality management (e.g., as responses to address the firm's quality risks) and how the firm could understand that, for example, policies and procedures are effective in achieving their objective. Similarly, what might need to be done at the engagement level in relation to information obtained from the network, or the firm regarding network policies and procedures. Concern was expressed about the extent of effort that could be required, and the Task Forces were encouraged to keep any changes practical, in particular for smaller firms and engagements.

- How to incorporate changes into the standards, e.g., as part of the requirements and application material, or as separate guidance.

- Ensuring that any changes remain principle based and capable of being applied to the wide diversity of network structures that exist.

- Whether the principles developed should also be be extended to external providers (e.g., where firms responses to quality risks involve activities or products and services provided by external providers).

- How the standards can reflect how quality and consistency can be driven across all the firms in a network, regardless of structure, in particularly when there are one, or a few, firms taking the lead in driving quality.

WAY FORWARD

The Task Forces will further consider the matters noted by the Board in a coordinated manner, and will progress changes for the relevant standards within each project as appropriate.

5.   Quality Control – Engagement Level (ISA 220)

Ms. Zietsman explained the recommendations of the ISA 220 TF as set out in **Agenda Item 5-A**, in particular how these recommendations interact with the changes being proposed to ISQC 1. She noted that the ISA 220 TF's recommendations had been developed using the extant elements of ISA 220, although it was acknowledged that changes were being made to ISQC 1 would require further consideration in ISA 220, and would therefore involve efforts by both the ISA 220 TF and QCTF to address the interaction among the two standards.

While agreeing broadly with the direction of the changes proposed for ISA 220, in relation to the recommendations set out in **Agenda Item 5-A**, Board members:

- Agreed with the principle that addressing quality risks at the engagement level is important and should be addressed, but encouraged the ISA 220 TF to further consider how this could be accomplished. In particular, it was noted that the proposed four-step approach and the resulting changes being proposed to the requirements could be very challenging, or impractical, to implement, as well as being unnecessarily and difficult to document, all of which would likely result in the engagement partner spending unnecessary time demonstrating compliance with the revised standard.

- Questioned how ISA 220 interacts with the revisions being proposed to ISQC 1, in particular as ISA 220 was still presented using the elements, whereas ISQC 1 no longer distinguished the elements separately. The Task Force was encouraged to further consider how the elements could help users of the standard understand what quality 'looks like.'

- Questioned whether some of the changes were needed as ISA 220 is "not broken". Rather, the ISA 220 TF was encouraged to focus on the areas highlighted as requiring attention in the Invitation to Comment, *Enhancing Audit Quality in the Public Interest*,[3] such as the engagement partner's involvement in the direction, supervision and review of an audit. It was noted that focusing on the appropriate involvement of the engagement partner would likely have the most significant impact in enhancing audit quality, and encouraged that further consideration be given by the TF to how the engagement partner could assess that quality had been achieved at the engagement level, which is the underlying objective of ISA 220.

- Questioned some of the new introductory paragraphs making the link to other ISAs, including whether it was necessary to add a lot of extra content regarding the interaction with ISQC 1 (as this was unchanged) and noting that these paragraphs linked to only some relevant ISAs and there may be others that shodul also be highlighted.

Board members variously supported:

- Strengthening the responsibilities of the engagement partner.

- Enhancing the standard to consider all resources needed for the engagement.

- Strengthening the requirements for ongoing, two-way communication. However, it was emphasized that further consideration should be given to how this is achieved, as requiring communication in a standard would not necessarily promote the necessary behavioral change.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin agreed with the Board's concerns regarding building in quality management principles, and encouraged the ISA 220 TF to focus on the ongoing responsibilities of the engagement partner in an audit engagement.

WAY FORWARD

The ISA 220 TF will reconsider the proposed changes, including reflecting on how to embed quality management principles into ISA 220 while keeping the requirements appropriate but focused on the necessary changes. In addition, the ISA 220 TF will focus on requiring the appropriate involvement of the engagement partner in the direction, supervision and review of the audit. The ISA 220 Task Force will continue to work with the QCTF in progressing changes, and will present revised proposals for changes to ISA 220 to the IAASB for discussion at the December 2017 IAASB meeting.

6. Group Audits

Ms. Zietsman and Mr. Dohrer provided a summary of the topics that have been discussed by the GATF since the last IAASB discussion on the topic and the proposed way forward.

The IAASB supported the proposal of the GATF:

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[3]   http://www.ifac.org/publications-resources/invitation-comment-enhancing-audit-quality-public-interest

- To engage more directly with the Task Forces responsible for revising ISQC1, ISA 220 and ISA 315 (Revised)[4] to help ensure that the requirements in those standards provide appropriate connection points between those projects and ISA 600;[5] and

- To publish a brief project update to inform stakeholders on the current status of the project.

The Board also noted that the GATF would consider, in due course, the need for conforming amendments to standards not currently under revision, for example, documentation, materiality and audit evidence.

WAY FORWARD

The GATF will consider the matters noted by the Board in relation to the publication of the project update, and will further liaise with other Task Forces as needed.

7. Data Analytics

The Board received a presentation of high-level observations from respondents to the Request for Input: *Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics.* It was noted that respondents supported the IAASB in undertaking this work and also encouraged continued active participation of the Data Analytics Working Group (DAWG) in other current standard-setting projects of the Board.

WAY FORWARD

The DAWG will continue to analyze the responses and provide a more detailed analysis of the responses at the September 2017 IAASB meeting. The DAWG will also continue liaising with other relevant Task Forces and Working Groups on issues related to data analytics in other ongoing projects of the IAASB. The DAWG plans to arrange targeted roundtables with firms and others to discuss relevant issues.

8. Professional Skepticism

Prof. Köhler provided the Board with an update on the activities of the Professional Skepticism Working Group (PSWG) and the Professional Skepticism IAASB Subgroup (PS IAASB Subgroup) since the last Board meeting in March 2017.

The Board supported the release of the Joint Professional Skepticism Publication in Agenda Item 9-B to update stakeholders about the actions and current status of the PSWG's work. Board members offered several suggestions to improve the document.

The Board also discussed the concept of levels of professional skepticism and other related matters set out in Agenda Item 9-A. While some Board members expressed concern with several of the matters set out in the issues paper, such as referring to the current concept of professional skepticism as "invariant", because the actions that auditors take in applying professional skepticism vary, the Board agreed with the recommendations of the PS IAASB Subgroup not to introduce the concept of "levels" for the attitude of professional skepticism into the ISAs. Some Board members agreed with the recommendation to better communicate the concept of professional skepticism to stakeholders as described in Agenda Item 9-A.

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

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

PIOB Observer Remarks

Mr. van Hulle underlined the historical event of the release of a document agreed between the three Boards and commended the IAASB on this. He noted that one important aspect related to this topic, although not addressed in Agenda Item 9-A, is the behavioral aspect of professional skepticism, and the fact that the auditor's starting point should be an "open mind." He noted that when audit failures occur, there is generally criticism around the auditor's lack of professional skepticism. However, those criticisms could actually be highlighting that there were other factors involved that affected the auditor's behavior, such not starting with an open mind. He encouraged the Board to further explore the behavioral aspect of professional skepticism further.

Way Forward

The PSWG intends to publish the professional skepticism publication in Quarter 3, 2017. The PS IAASB Subgroup intends to analyze the remaining two potential fundamental changes to the concept of professional skepticism within the ISAs and present its findings at a future Board meeting.

9.   CAG Chair Remarks

Mr. Dalkin thanked the Board and noted he looked forward to further progression of the topics presented. He also encouraged the Board to consider how the matters discussed in the Board breakout sessions could be implemented.

10.   PIOB Observer Remarks

Mr. van Hulle commended the Board for its work on a number of important topics.. He furthermore supported the joint IAASB Steering Committee and IESBA Planning Committee meeting, noting that the meeting was a historical event, and emphasized that close cooperation between the standard-setting boards moving forward was essential.

11.   Closing

Prof. Schilder thanked the IAASB members, technical advisors and IAASB staff and closed the meeting.

12.   Next Meeting

The next IAASB Teleconferences will be held on July 18th and August 1st, 2017. The next IAASB physical meeting will be held in New York on September 18–22, 2017.