

**Minutes of the 88th Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD**

Held on October 24–26, 2017 in New York, USA

[Marked for IAASB Comments]

Voting Members

Present:

Prof. Arnold Schilder (Chairman)

Megan Zietsman (Deputy Chair)

Abhijit Bandyopadhyay (By teleconference
October 24–25)

Fiona Campbell

Robert Dohrer

Karin French

Marek Grabowski

Len Jui

Prof. Annette Köhler

Charles Landes

Brendan Murtagh

Marc Pickeur

Lyn Provost

Ron Salole

Rich Sharko

Sayaka Sumida

Imran Vanker

Ge Zhang

Technical Advisors

Sara Ashton (Ms. French)

Nicolette Bester (Mr. Vanker)

Dora Burzenski (Ms. Zietsman)

Chun Wee Chiew (Mr. Murtagh)

Jan Thijs Drupsteen (Mr. Pickeur)

Shu Duan (Mr. Zhang)

Sylvia Van Dyk (Ms. Provost)

Ahava Goldman (Mr. Dohrer)

Hiram Hasty (Mr. Landes)

Josephine Jackson (Mr. Grabowski)

Susan Jones (Mr. Jui)

Sachiko Kai (Ms. Sumida)

Jamie Shannon (Mr. Sharko)

Eric Turner (Mr. Salole)

Sanjay Vasudeva (Mr. Bandyopadhyay)

Denise Weber (Ms. Campbell)

Apologies:

~~Jacques Vandernoot (Mr. Pickeur)~~

Wolf Böhm (Prof. Köhler)

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: Prof. Karel Van Hulle

IAASB Technical Staff

Present: Matt Waldron (Technical Director), Beverley Bahlmann, Brett James, Natalie Klonaridis, Phil Minnaar (via teleconference October 24 and 26), Csilla Molnar, Schuyler Simms, Jasper van den Hout

Apology: James Gunn (Managing Director, Professional Standards)

International Auditing and Assurance Standards Board (IAASB) agenda materials referred to in these minutes can be accessed at <http://www.iaasb.org/meetings/new-york-usa-18>. These minutes are a summary of the decisions made at the October 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. Prof. Schilder highlighted that the "House of Audit" graphic used for outreach activities was now reflected as the "House of Audit Under Renovation," and that this had been well received by a number of stakeholders, and invited Ms. French, Mr. Murtagh, Ms. Campbell, Ms. Zietsman, and Mr. Grabowski to share feedback from ~~the~~ various outreach activities described in **Agenda Item 1** that took place since the last Board meeting. Prof. Schilder also highlighted the PIOB's support for a four year strategy period, from 2020–2023, to more closely align with the strategy period of the International Ethics Standards Board for Accountants.

The minutes of the September 18–22, 2017 IAASB meeting, as presented, were approved.

2. ISA 540¹

The Board discussed the ISA 540 Task Force's analysis of responses to the ED of Proposed ISA 540 (Revised)² with respect to the scalability of the ISA and the risk assessment and work effort requirements, as well as the conforming and consequential amendments to ISA 500. The Board also discussed initial revisions to key paragraphs in the risk assessment and work effort requirements and selected application material.

SCALABILITY

With respect to scalability the Board:

¹ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

² Proposed ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

- Generally supported the ISA 540 Task Force's views to consider removing the threshold and to reinforce scalability by reinforcing the existing concept of the spectrum of risk and drawing upon the existing material in ISA 315 (Revised)³ and ISA 330.⁴ The Board noted the importance of considering the revised drafting and appropriate application material and examples to support this approach before concluding on this matter;
- Highlighted that the persuasiveness of the audit evidence needed depends on the risk of material misstatement; and
- Suggested that a flow chart and examples be included with the final ISA 540 (Revised) to explain how proposed ISA 540 (Revised) can be applied to simpler estimates.

RISK ASSESSMENT AND WORK EFFORT

With respect to the identification and assessment of the risks of material misstatement and the response thereon the Board:

- Supported the ISA 540 Task Force's proposed way forward with respect to the risk factors but questioned how the risk factors would interact with the revised work effort;
- Supported aligning the terms used for the risk factors with those being considered for similar factors in the revision of ISA 315 (Revised) and in the U.S. Public Company Accounting Oversight Board's proposals on auditing accounting estimates;
- Supported the proposed structure of the standard, including basing the work effort requirements around the testing strategies and methods, data, and assumptions;
- Noted the importance of emphasizing professional skepticism;
- Noted that the procedures that the auditor will need to perform will differ for each of the testing strategies in terms of the degree of reference to methods, data, and assumptions; and
- Noted the importance of coordination between the ISA 540 Task Force and the ISA 315 Task Force on the risk factors and other matters.

REVISIONS TO KEY PARAGRAPHS IN THE RISK ASSESSMENT AND WORK EFFORT

The Board generally supported the ISA 540 Task Force's revisions to the risk assessment and work effort and asked the ISA 540 Task Force to consider:

- Whether the repetition of requirements that exists in other ISAs is necessary;
- To give more prominence to estimation uncertainty in identifying and assessing the risks of material misstatement; and
- To include the risk factors more prominently in the risk assessment and to reduce the duplication in the work effort requirements.

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

⁴ ISA 330, *The Auditor's Responses to Assessed Risks*

OTHER MATTERS

The Board also:

- Supported the ISA 540 Task Force's proposed way forward with respect to the conforming and consequential amendments to ISA 500;⁵
- Supported the analysis of the responses received to the ED, except for clarifying some matters on the responses related to scalability; and
- Expressed interest in how the ISA 540 Task Force took into account the results of field testing.

The IAASB also discussed the progress of the finalization of proposed ISA 540 (Revised) in response to the comments received. It was noted that there were a relatively large number of respondents and some letters were particularly detailed. In light of this, the Board agreed to reflect further as the finalization of proposed ISA 540 (Revised) progresses.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin supported the revised structure of the standard and expressed the view that a flow chart would help explain the revised structure of proposed ISA 540 (Revised). He also noted that scalability and complexity are related and that removing the threshold reduces the complexity and can therefore help make the standard more scalable.

PIOB OBSERVER REMARKS

Prof. Van Hulle noted that financial institutions are subject to many prudential requirements and that including a linkage to those requirements would assist auditors of those entities.

WAY FORWARD

For the December 2017 Board meeting, the ISA 540 Task Force will redraft the requirements of proposed ISA 540 (Revised) and will prepare an overview of proposed changes to the application material.

3. International Accounting Standards Board (IASB) Annual Update

The IAASB received a presentation from Mary Tokar, IASB member, about recent IASB activities, and with a focus on matters that may be of particular interest to the IAASB. The presentation included an update on the central theme of their current agenda 'Better Communication in Financial Reporting,' which included updates on the IASB's work on the Primary Financial Statements, the Disclosure Initiative and the recently published Materiality Practice Statement. Mary Tokar also discussed the IASB's research program, their implementation support for new International Financial Reporting Standards,' and relevant upcoming consultations.

4. Emerging External Reporting

Mr. Grabowski presented a detailed summary of the responses to the Integrated Reporting Working Group's (IRWG) Discussion Paper, [Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements](#) (IRWG Discussion Paper), as set out in **Agenda Item 4-B**. He also presented a Project Proposal to develop new non-authoritative guidance to address key challenges

⁵ ISA 500, *Audit Evidence*

identified by the IAASB that arise in the performance of assurance engagements over Emerging External Reporting (EER) when applying ISAE 3000 (Revised),⁶ as set out in **Agenda Item 4-C**.

The IAASB approved the project proposal, supporting the proposed development of non-authoritative guidance, with the addition of a feedback statement on the Phase 1 exposure draft responses. However, in light of the new model to staff the project, the IAASB emphasized the importance of the independence of the Board's work.

The Board also agreed to publish a Feedback Statement setting out a high level summary of the responses to the IRWG Discussion Paper and explaining the proposed way forward, as set out in **Agenda Item 4-D**.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted that CAG Representatives is very supportive of the direction of the project proposal and moving forward in developing non-authoritative guidance. CAG Representatives discussed looking at the priorities of the board, given the capacity of the board. He noted that CAG Representatives also questioned how the proposed guidance would interact with ISAE 3000 (Revised). He highlighted that CAG Representatives emphasized that it was important that independence be maintained in developing the guidance in light of external funding.

PIOB OBSERVER REMARKS

Prof. Van Hulle noted that the PIOB also supported the proposed project, highlighting that work in this area was timely. He highlighted that, in September 2017, the European Commission issued a paper dealing with the reform of the supervisory architecture in Europe relating to matters of environmental, social and governance reporting. He also encouraged the EER Task Force to liaise with the European Supervisory Authorities responsible for this work.

WAY FORWARD

The EER Task Force will continue to progress this project and will present matters for discussion at the December 2017 IAASB meeting.

5. ISA 315 (Revised)

Ms. Campbell provided an overview of proposed changes to ISA 315 (Revised) as presented in **Agenda Item 5-A** relating predominantly to changes about how the standard can be enhanced with regard to the entity's use of information technology (IT), and the auditor's considerations when understanding the entity and its environment, the applicable financial reporting framework and internal control, and identifying and assessing the risks of material misstatement.

In relation to the proposed changes in relation to IT aspects of ISA 315 (Revised), the Board:

- Supported:
 - The addition of application material to more clearly reflect current practice and provide further guidance about the auditor's consideration related to IT. However, it was noted that scalability could be better reflected in some of the examples.

⁶ ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

- More guidance related to general IT controls, but the ISA 315 Task Force was encouraged to further consider how the guidance could be made more robust to reflect the range of general IT controls that may be considered.
- Noted concerns about:
 - Whether the limited changes to the requirements were sufficient to support the changes being proposed to the application material.
 - The boundary of the auditor's understanding that is required because some of the proposals appeared very broad, and, in the view of the Board, it should be made clear that the understanding required should relate to the audit of the financial statements. Areas highlighted included the 'business model,' 'cyber security' and 'data security regulations.' The ISA 315 Task Force was encouraged to provide more guidance about what is required to be understood for the purpose of identifying risks.
 - Some of the terminology being used, in particular the ISA 315 Task Force was asked to further consider the consistency of the words used.

The ISA 315 Task Force was also encouraged to consider whether the revisions should also focus on using IT experts where appropriate, as well as whether there were IT frameworks that may be relevant when considering changes related to obtaining an understanding of the IT aspects of an entity.

The IAASB also broadly supported the revisions to the proposed changes to the definition of controls and understanding the five components of internal control as it appeared to reflect current practice. However, concern was expressed about the use of 'informal expectations' to represent a policy, which may suggest an informality not representative of a policy. The ISA 315 Task Force was also encouraged to make clear what needed to be done for each component of internal control, in particular giving consideration as to what comprises an 'understanding,' including when an 'evaluation' is required.

WAY FORWARD

The ISA 315 Task Force will present a first read of the ED of proposed changes to ISA 315 (Revised) for IAASB discussion in December 2017.

6. Closing Remarks from IAASB CAG Chair

Mr. Dalkin acknowledged the good progress made on proposed ISA 540 (Revised) during the course of the meeting.

7. PIOB Observer Remarks

Prof. Van Hulle emphasized the importance of the ISA 540 project and noted that, although a lot of progress had been made since the start of the project, there was still a lot of work to do so that the standard contains the right principles, in particular in light of the complexity of the subject matter and the importance of the standard in the public interest. He added that he was supportive of the proposed direction of the project and highlighted that any redraft of the standard needed to be complete and clear about what auditors are required to do, and that all the necessary principles should be within the standard. He also emphasized the importance of the link between what auditors are required to do for financial institutions and the expectations of the relevant supervisors.

8. Closing

Prof. Schilder thanked the IAASB members, technical advisors, observers, and particularly Staff for their hard work and contributions to the meeting. He then closed the meeting.

9. Next Meeting

The November 7, 2017 IAASB teleconference has been cancelled. The next IAASB physical meeting will be held December 11–15, 2017 in New York, USA.