



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

**Held on September 11-12, 2017**

**Madrid, Spain**

**PRESENT**

**Members**

|                                    |  |
|------------------------------------|--|
| Jim Dalkin                         | Chairman   |
| Noémi Robert                       | Accountancy Europe (AE)  |
| Myles Thompson (11 September only) | AE   |
| Vânia Borgerth                     | Associação Brasileira de Instituições Financeiras de Desenvolvimento                     |
| Nicolaas van der Ende              | Basel Committee on Banking Supervision (Basel Committee)                                 |
| Kristian Koktvedgaard              | BUSINESSEUROPE   |
| Mohini Singh                       | CFA Institute (CFA)  |
| James Milholland                   | International Actuarial Association (IAA)  |
| Conchita Manabat                   | International Association of Financial Executives Institutes                             |
| Jean-Jacques Dussutour             | International Association of Insurance Supervisors (IAIS)                                |
| Atsushi Iinuma                     | International Organization of Securities Commissions (IOSCO)                             |
| Nigel James (11 September only)    | IOSCO  |
| Huseyin Yurdakul                   | IOSCO  |
| Gregg Ruthman                      | 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)                              |
| Henri Fortin                       | World Bank (WB)  |
| Dawn McGeachy                      | International Federation of Accountant (IFAC) Small and Medium Practices (SMP) Committee |
| Wei Meng                           | World Federation of Exchanges (WFE)  |

## Observers

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| Simon Bradbury   | International Monetary Fund (IMF)                               |
| Martin Baumann** | United States Public Company Accounting Oversight Board (PCAOB) |

## IAASB

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| Prof. Arnold Schilder                            | IAASB Chairman  |
| Megan Zietsman (Agenda Item G)                   | IAASB Deputy Chair  |
| Fiona Campbell (Agenda Item K)                   | IAASB Member and Task Force (TF) Chair                      |
| Rich Sharko (Agenda Item B)                      | IAASB Member and TF Chair                                   |
| Karin French (Agenda Item D)                     | IAASB Member and TF Chair                                   |
| Marek Grabowski (Agenda Item L)                  | IAASB Member and TF Chair                                   |
| Ron Salole (Agenda Item F) via teleconference    | IAASB Member and Working Group (WG) Chair                   |
| Robert Dohrer (Agenda Item M) via teleconference | IAASB Member and WG Chair                                   |
| James Gunn (11 September only)                   | Managing Director, Professional Standards                   |
| Matt Waldron                                     | IAASB Technical Director                                    |
| Jasper van den Hout                              | IAASB Principal   |
| Phil Minnaar                                     | IAASB Manager, Standards Development and Technical Projects |

## IESBA

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| Sylvie Soluier | IESBA Member |
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| <b>Public Interest Oversight Board (PIOB)</b> | Michael Holm |
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## APOLOGIES

### Members

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| Ms. Lucy Elliott, | Organisation For Economic Cooperation and Development        |
| Ms. Anne Molyneux | International Corporate Governance Network                   |
| Ms. Gayani Perera | Sri Lanka Accounting and Auditing Standards Monitoring Board |
| Ms. Sarah Ovuka   | Financial Executives International                           |
| Mr. Paul Sobel    | Institute of Internal Auditors                               |

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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.

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| Mr. Henry Rees                    | International Accounting Standards Board                 |
| Mr. John Kuyers                   | Information Systems Audit and Control Association        |
| Mr. Yoseph Asmelash               | United Nations Conference on Trade & Development         |
| Mr. Erik Bradbury                 | Financial Executives International                       |
| Dr. Obaid Saif Hamad Ali Al Zaabi | Gulf States Regulatory Authorities                       |
| Ms. Marie Lang                    | European Federation of Accountants and Auditors for SMEs |
| Mr. David Rockwell                | International Bar Association                            |

**September 11, 2017<sup>1</sup>**

**Welcome and Approval of Minutes of Previous Meetings (Item A)**

To APPROVE the minutes of the March 2017 CAG public session.

OPENING REMARKS

Mr. Dalkin welcomed the Representatives, including new Representatives Ms. Sarah Ovuka (FEI), Mr. Henry Rees (IAASB) and Mr. Gregg Ruthman (INTOSAI). Mr. Dalkin noted that various Representatives submitted their apologies and were unable to attend the meeting, including Ms. Ovuka and Mr. Rees.

Mr. Dalkin also welcomed Mr. Michael Holm from the PIOB as well as the IAASB Chairman, Deputy Chair, 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 previous meeting to the CAG. No comments were noted and the minutes were approved.

**ISA 540<sup>2</sup> – Accounting Estimates (Agenda Item B)**

ISA 540 – Accounting Estimates

- To REPORT BACK on the March 2017 meeting
- To RECEIVE a high level presentation on the responses to Exposure Draft, *Proposed ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures*

Mr. Sharko provided the representatives with a preliminary high level overview of the responses received to the Exposure Draft, *Proposed International Standard on Auditing 540 (Revised), Auditing Accounting Estimates and Related Disclosures* (the ED),<sup>3</sup> and explained the way forward.

The representatives commented as follows:

GENERAL COMMENTS

- Mr. van der Ende noted support for the direction taken in the ED and suggested to include the flow chart in the final standard given that it is helpful to understand the flow of the standard. Ms. McGeachy agreed.
- Mr. Milholland questioned who is responsible for making the standard practical – the IAASB or regional institutes or firms.
- Mr. Fortin questioned whether the risk factors will be maintained as there doesn't seem to be much support for them. Mr. Sharko explained that respondents generally supported the use of the risk

<sup>1</sup> The minutes present the discussions in the order that they were taken. This may not be the same as that indicated on the agenda.

<sup>2</sup> International Standards on Auditing (ISA) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

<sup>3</sup> <http://www.ifac.org/publications-resources/proposed-international-standard-auditing-540-revised-auditing-accounting>

factors in identifying and assessing the risk of material misstatement (RoMM) but that some respondents questioned whether the factors should be used in the response to the assessed RoMM given their interrelationships. In the risk assessment these interdependencies don't matter as much as you can assess the factors at the same time. However, in the auditor's response to the RoMM, the objectives are based on each factor separately. Mr. Sharko also explained that that the PCAOB uses similar risk factors as part of their risk assessment procedures. Mr. Baumann agreed.

#### FIELD TESTING

- Mr. van der Ende highlighted the importance of field testing the requirements in the ED given the upcoming implementation of IFRS 9.<sup>4</sup> Ms. Weng questioned how many firms and what type of firms have performed field testing procedures. She noted that such information is important to better interpret the results of the field testing. Mr. Gaylen questioned if the field testing was performed at actual audits. Mr. Sharko noted that the Task Force's leadership will have a call with the Global Public Policy Committee (GPPC) to obtain more information about the field testing and that the results will be shared.
- Ms. McGeachy noted that field testing was performed in Canada and that respondents didn't have difficulty in determining whether the RoMM came from complexity or estimation uncertainty. She therefore questioned at what level the restructuring of ISA 540 would take place. Mr. Sharko explained that the restructuring of the ED has not been discussed yet by the Board or the Task Force given that Staff is analyzing the comments received. He noted that a possible way forward is to move away from the risk factors in the work effort as this will help to alleviate the complexity and interrelationship issues. Mr. Sharko noted that another way to make the standard easier to apply, is to bring out more clearly that the auditor can obtain audit evidence about events occurring up to the date of the auditor's report for all accounting estimates.

#### NON-IAASB STANDARDS

- Mr. Fortin highlighted the importance of aligning the IAASB's and the PCAOB's proposals on auditing accounting estimates. Mr. Dalkin agreed. Mr. Sharko noted that 15 letters asked the IAASB and the PCAOB to work together to bridge the gap between their respective proposal and that the IAASB is open to working with the PCAOB. Mr. Baumann noted that the PCAOB is currently analyzing the comments received on their accounting estimate standard and agreed that it is important to reconcile the different approaches for the response to the assessed RoMM. Mr. Baumann also offered to work together with the IAASB.
- Mr. Milholland noted that there is a gap between the auditing standards and the actuarial standards and explained that the IAA's comment letter provides suggestions how that gap can be bridged. Mr. Sharko noted that the gap between the actuarial standards and the IAASB's standards seems to be a broader issue and that the IAASB should consider it going forward.

#### OTHER COMMENTS

- Mr. Koktvedgaard questioned how the Task Force obtains views from investors as only one investor responded to the ED. Mr. Yoshi added that the Corporate Reporting Users' Forum (CRUF) is

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<sup>4</sup> International Financial Reporting Standard (IFRS) 9, *Financial Instruments*

classified under ‘member bodies and other professional organizations’ but should be classified as an investor. Mr. Yoshi added that CRUF supported paragraph 21(a) and related application material and supported paragraph A157 which discusses the dialogue between regulators and auditors. Mr. Sharko noted that the Task Force’s leadership has spoken to investors as part of its outreach activities subsequent to the ED and that Staff will look into reclassifying CRUF.

- Mr. van der Ende asked the Task Force to include more specific guidance with respect to expected credit losses and asked the Task Force to keep the hooks that are included in the ED.
- Mr. Milholland noted that a simple model doesn’t necessarily mean that the inherent risk is low. He explained that for some accounting estimates little information is available and that the model used is therefore simple. However, the accounting estimate may have high estimation uncertainty which should be reflected in the disclosures.
- Mr. Hansen noted concern about the enforceability of the standard given the comments around the complexity of the standard.

#### TIMING

- Mr. van der Ende noted support for approving ISA 540 (Revised)<sup>5</sup> in March 2018 but questioned, in that case, when the CAG will be informed about the progress of the project. If the plan is to approve the standard in March 2018, he suggested having a call to update the CAG around the December Board meeting. Mr. Dalkin agreed and noted that a call will be scheduled to update the CAG on this important project. Mr. Baumann questioned whether a March 2018 approval will be achievable given the extent of the comments (including the comments from field testing), and particularly given the concerns around the operability and clarity of the standard. Mr. Sharko explained that the Task Force is aiming for a March 2018 approval but that a high quality standard on auditing accounting estimates is more important as that is in the public interest. Mr. Sharko noted that the IAASB will have a discussion on the way forward in the IAASB’s October 2017 meeting and that based on that the discussion the approval date may change. Prof. Schilder acknowledged that it will be challenging to meet the March 2018 deadline given that the comments don’t agree with each other, which illustrates the complexity of the topic. He also noted that the Task Force will be pushing to get standard finalized by March 2018 and that many useful comments have been received to improve the standard.
- Mr. Thompson suggested to align the timing of this project with the project to revise ISA 315 (Revised),<sup>6</sup> especially in case of re-exposure, given the interrelationship between the standards and the risk that changes have to be made to ISA 540 (Revised) as the result of revising ISA 315 (Revised). Mr. Sharko explained that aligning with the timeline of the ISA 315 (Revised) Task Force would result in a 1-1.5 year delay for the project to revise ISA 540. He added that the ISA 540 Task Force’s leadership regularly meets with the ISA 315 (Revised) Task Force to align the standards.
- Mr. Baumann questioned whether the IAASB could avoid re-exposure given the number and the extent of the comments received. Mr. James agreed. Mr. Sharko acknowledged there is a chance for re-exposure but that it is too early to answer that question as the Task Force is in the process of

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<sup>5</sup> International Standard on Auditing (ISA) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>6</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

analyzing the responses to the ED. Prof Schilder added that the Board first needs to reach agreement on the standard before the question is asked whether re-exposure is needed.

#### PIOB REMARKS

Mr. Holm noted that many areas in the ED were enhanced such as the risk assessment, communications with regulators and those charged with governance and the auditor's judgment, but that the documentation section could be further enhanced. He highlighted that it is important to document the procedures and the auditor's judgements, including whether the accounting estimate is reasonable in the financial reporting spectrum. He furthermore noted that more guidance on expected credit losses and insurance contracts is needed given that was the issue the IAASB was addressing when the project started. Mr. Sharko explained that the Basel Committee and IAIS suggested to have an International Auditing Practice Note (IAPN) on auditing expected credit losses and insurance contracts. The advantage of this approach is that it would make the application material shorter and therefore less complex.

#### **Small and Medium Practices Conference (Agenda Item C)**

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| To DISCUSS matters relevant to Small and Medium Practices (SMPs) and audits of Small and Medium Sized Entities (SMEs) |
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Prof. Schilder introduced the topic by referring to the IAASB SME/SMP Working Conference in Paris during January 2017, as well as the discussions by the Board during March 2017 on this subject matter.

- Ms. Robert noted the efforts of the IAASB to support the SMPs, and noted that AE has started working on a project dealing with this topic. Areas of particular focus include characteristics of SMEs that may cause these entities to be deemed as less complex, such as a single investor and the application of simple accounting policies. Ms. Robert noted that the outcome of this project may be useful during the deliberations of the Small and Medium Practices Committee (SMPC). She further noted that it may be beneficial to also discuss the concept of "proportionate application" of the ISAs, as practitioners all over Europe have expressed their need for guidance in this area.
- Mr. van der Ende noted his support for the efforts of the IAASB in respect of SMPs.
- Mr. Milholland noted that he appreciates that the SMP environment is an area of contention, as even his own views are mixed. He expressed his concern that no user of a set of financial statements would accept that the audit was "watered down" or less robust. However, he accepted that the discussion is relevant and important, and going forward, consensus has to be reached. Mr. Milholland noted a particular challenge, being the interrelationship between small, complex and less-complex. For example, an entity may be small, but not necessarily less-complex. And in this context, the quality of an audit should not be compromised just because of size. Prof. Schilder noted his support for this comment and emphasized that a Standard or Framework for SMEs can never undermine the meaning of reasonable assurance.
- Ms. Meng noted her support for the efforts of the IAASB and noted that it would be useful to include more guidance in the Application Material for SMPs, in particular in the context of small versus large SMEs.
- Mr. Dalkin noted that he believes the CAG supports the IAASB to continue their efforts in contextualizing its support for the audits of SMEs; whilst specifically taking into account that "small"

does not have the same meaning as “less complex”. Prof. Schilder acknowledged this concern and reiterated that the concept of a less restrictive auditing framework would always be subject to the facts and circumstances of the individual entity being audited. Prof. Schilder thanked the CAG members for their support.

### Quality Control (Firm Level) (Item D)

To *UPDATE* Representatives and Observers on the progress of the Quality Control (Firm Level) project since the March 2017 IAASB CAG meeting and to *OBTAIN* Representatives' and Observers' views on the Quality Control Task Force's (QCTF) proposals in relation to the working draft ISQC 1 (Revised),<sup>7</sup> set out in **Agenda Item D.1**.

Ms. French provided an overview of the activities of the QCTF since the IAASB CAG's March 2017 meeting, in particular the development of the working draft of ISQC 1 (Revised) that was presented to the IAASB in June 2017. Ms. French noted that the IAASB supported the proposed direction and provided various recommendations. She added that the QCTF presented some additional proposals to the IAASB on the IAASB's August 2017 teleconference in response to certain recommendations, which were also supported. Ms. French explained that since the June 2017 IAASB meeting and August 2017 teleconference, the QCTF updated the working draft of ISQC 1 (Revised) to address certain of the IAASB's comments, for the purpose of presentation to the CAG, and in order to use the working draft for outreach purposes. In addition to the working draft of ISQC 1 (Revised), Ms. French noted that the IAASB had agreed that a separate standard should be developed that will incorporate the requirements in relation to engagement quality control (EQC) reviews (ISQC 2). Ms. French highlighted the outreach being undertaken with various stakeholders and further noted that the QCTF continues to liaise with the ISA 220<sup>8</sup> Task Force on matters of mutual interest, as well as the IESBA with respect to the objectivity of the EQC reviewer.

Ms. French explained the public interest issues being addressed by the project on ISQC 1 (Revised) and the key issues being considered, including the scalability of the standard and keeping the standard robust. She explained the revised structure of ISQC 1 (Revised), as set out in the working draft (**Agenda Item D.1**) and noted that the QCTF is considering the development of guidance to accompany the revised standard.

The Representatives and Observers provided the following general comments:

- Mr. van der Ende supported the proposals in relation to the incorporation of a quality management approach in ISQC 1 (Revised).
- Mr. Ruthman encouraged the QCTF to consider other types of assurance engagements. Ms. French noted that the QCTF has yet to consider the impact of the proposals on the IAASB's other standards and plans to do so once the standard has been further developed.
- Prof. Schilder asked the Representatives and Observers about their views on whether the standard sufficiently addresses the needs of SMPs, in particular whether SMPs would be able to easily navigate the standard, whether the volume of the proposed application material is excessive and the need for more explicit guidance addressing sole practitioners and networks. In response to Prof.

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<sup>7</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements and Related Services Engagements*

<sup>8</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

Schilder's request:

- Mr. Hansen noted the guidance developed by the American Institute of Certified Public Accountants for the purposes of the peer review process, addressing how a system of quality control would apply in the case of a sole practitioner. Mr. Dalkin questioned whether the standard could be bifurcated to address the needs of SMPs. Ms. French indicated that the responses to the Invitation to Comment (ITC) called for additional examples and guidance, but recognized that such examples and guidance would not necessarily need to be included in the standard. Ms. French noted that the QCTF is considering guidance and examples and how best to present these, for example, in application material or a supplemental publication.
- Mr. Hansen questioned how the standard would address circumstances when firms intentionally establish policies or procedures that are not sufficiently stringent. Ms. French noted that the QCTF is of the view that the prescribed objectives and quality risks in the revised standard may be sufficient for a small, non-complex firm, i.e., the firm may not necessarily have to establish more quality objectives and quality risks in their circumstances. Ms. French added that firms that intentionally take a minimalist approach will do so irrespective of how the standard is written.
- Mr. Dalkin questioned whether there were any plans to undertake a post-implementation review and evaluate how the proposals have affected firms and whether the proposals have addressed the issues identified. Ms. French noted that this could be considered. She added that the QCTF had considered requesting firms to pilot test the proposals, however it had been identified that it would be impracticable to do so given the time it would take firms to implement the full system and for the system to flow through an entire cycle. However, she noted that it could be explored whether certain aspects of the proposals could be pilot tested.
- Mr. Inuma noted that due to rotation requirements, entities are increasingly changing their auditors. He therefore suggested exploring whether ISQC 1 should address the firm's responsibilities in circumstances when the audit firm is changed.
- Mr. Thompson questioned the appropriateness of locating the responsibilities of the EQC reviewer in ISQC 2, since it would be a firm-level standard and the performance of the EQC review is undertaken at an engagement level. He added that the procedures undertaken by the EQC reviewer in relation to an audit may be different than other engagements, and accordingly the EQC reviewer's responsibilities may be better placed in ISA 220. Ms. French emphasized that the EQC review is a firm's response to the quality risks, despite it being performed by an EQC reviewer at an engagement level. Ms. French explained the key elements of ISQC 2, in particular that the firm would establish the policies or procedures for the performance of the EQC review and the EQC reviewer would then be required to follow those policies or procedures. She added that including the requirements in a single standard streamlines the requirements that were duplicative between ISQC 1 and ISA 220 and would also apply to EQC reviews performed on engagements other than audits of financial statements. Ms. French also highlighted that the IAASB would be discussing the proposals at the September 2017 meeting, including the placement of the EQC reviewer's responsibilities. Mr. Dalkin indicated that a separate standard for EQC reviews assists in reducing the volume of ISQC 1 and elevates the importance of the EQC review, thereby emphasizing audit quality.

Ms. French described the IAASB's discussions in relation to networks and how these would be addressed

in the standard, including that the firm would be responsible to proactively obtain appropriate information in order to determine the appropriate use of activities at a network level, in order that the firm is able to fulfil their responsibilities under the standard. She added that the IAASB had determined that it would not be appropriate to establish requirements in ISQC 1 (Revised) for networks. The Representatives and Observers commented as follows:

- Mr. van der Ende noted the transformation in recent years across the larger firms regarding leadership responsibilities at a network level, as well as the increased focus on networks by audit oversight authorities. While he indicated his support for the proposed approach in addressing the firm and engagement team's responsibilities in relation to networks, he encouraged the QCTF to consider how to further emphasize the role of networks. Prof. Schilder agreed with the observation and the importance of addressing networks.
- Mr. Koktvedgaard questioned the IAASB's decision with respect to how networks will be addressed, given that responsibilities may be assigned to the network. He added that in the case of a group audit, the group engagement team's responsibilities in relation to components audited by a firm within a network could differ from the responsibilities in relation to components audited by a firm outside of a network, and therefore it may be necessary to establish requirements for the network. Mr. Koktvedgaard further questioned the level at which the "tone at the top" is established, i.e., the firm or network level, and also noted that aspects such as monitoring and technology are set up at a network level and such areas are not within the control of the firm. Mr. Koktvedgaard also indicated that in a global environment, the perception of the auditor is not in the context of the individual partner, but rather the network. Ms. Manabat pointed out that the perception is that networks are responsible for accepting the audits of global entities, who would then cascade the performance of the audit to the firms within the network. She noted that while jurisdictionally the firm is accountable for the work performed, she questioned the responsibility of the network. Ms. French and Ms. Zietsman explained that the IAASB's decision to not impose requirements on networks was based on a multitude of reasons, including:
  - The network itself does not perform any services or engagements.
  - Networks are structured in a variety of ways and the responsibilities assigned to the network may vary. Ms. Zietsman added that recent outreach has also highlighted increasing use of other types of firm structures within networks, for example, regional clusters.

Ms. Zietsman therefore noted that it would be impracticable to develop requirements for networks given the variety of structures. Ms. French and Ms. Zietsman explained the firm would be responsible to proactively understand the activities at a network level and establish the accuracy and quality of the information received from the network, and determine additional responses needed at the firm level in order that the firm's quality risks are appropriately addressed. Ms. French and Ms. Zietsman also noted that establishing requirements for the firm would promote two-way communication with the network and improve the network's transparency, i.e., the network would need to provide the necessary information to the firms within the network in order that the firms are able to fulfill their responsibilities. Ms. Zietsman noted that in relation to a group audit, the involvement of the group engagement team with components audited by a firm within a network would need to be adapted based on the information about that firm, despite it being part of the network. Ms. French also added that the principles in relation to networks would equally apply to circumstances when the firm utilizes something outside the firm, for example, a methodology from a third party service provider. Mr.

Koktvedgaard emphasized his view that networks should be directly addressed, and suggested that this could be achieved through “voluntary compliance”, i.e., instead of mandating requirements in the standards, other mechanisms could be used to address networks, for example, through the membership requirements for the Forum of Firms.

- Mr. Baumann agreed with the proposed approach. He added that although networks are doing more to establish consistency across the brand, networks are not subject to inspections since the firms are the legal entities that undertake the engagements and are responsible for the engagements. He therefore noted that leadership at the firm level is responsible for quality. Mr. Baumann encouraged the QCTF to more explicitly address the firm’s responsibility for ensuring that the procedures performed by other firms as part of a group audit are undertaken in accordance with the IAASB’s standards, irrespective of whether the firm is within the network or outside of the network. Mr. Baumann added that while ISA 600<sup>9</sup> would include the responsibilities of the group engagement team in considering the work of other firms, the firm should also consider the quality of the work undertaken by other firms.
- Mr. Fortin highlighted that the culture of the firm is influenced by the network and noted the difficulty in addressing this topic and the importance of referring to networks throughout ISQC 1. He added that ISA 600 should also address the consideration of networks, noting that there is increased risk in circumstances when components are audited by firms outside of the firm’s network. Prof. Schilder noted that due to rotation requirements, there is an increased mix of firms from various networks involved in group engagements.
- Mr. Dalkin questioned whether the proposals would be effective in circumstances when the firm utilizes methodologies from third party service providers. Ms. French noted that the approach would be similar to how networks would be addressed, i.e., the firm would need to obtain the necessary information in order to establish the appropriateness of the products from the third party service provider.

Ms. French provided a summary of the proposed approach in relation to each component of the system of quality management, as set out in the working draft of ISQC 1 (Revised) (**Agenda Item D.1**). Representatives and Observers provided input on the components as summarized below.

#### GOVERNANCE AND LEADERSHIP, ORGANIZATION, CULTURE AND STRATEGY

Representatives and Observers commented as follows:

- Mr. Yurdakul was of the view that the proposals were too general and therefore could be difficult to understand and apply.
- Mr. Hansen noted that the term “public interest” had not been incorporated in the working draft of ISQC 1 (Revised) and was of the view that there should be a reference to the firm’s “public interest role”. He added that the working draft of ISQC 1 (Revised) appears to set a tone that firms should aspire to a higher level of quality, but questioned whether, in practice, all firms aspire to higher levels of quality and how the standard would therefore be applied. Ms. French indicated that the public interest term was not used in the standard as this was not supported by the IAASB in its June 2017 discussions for various reasons, including that the term is difficult to define and may imply an

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<sup>9</sup> ISA 600, Special Considerations – *Audits of Group Financial Statements (Including the Work of Component Auditors)*

aspiration and adding the phrase “public interest” to the standard does not necessarily result in a change in behavior. Ms. French added that the governance principles were intended to describe the firm’s public interest role, however the QCTF would further consider whether it could be more clearly explained.

- Mr. Baumann encouraged the QCTF to consider whether ISQC 1 should explicitly address how the firm’s business model may influence quality, given that firms’ audit services are, in general, proportionally less than other services provided by the firm.
- Mr. Fortin emphasized the importance of firm culture in addressing quality, however was of the view that the working draft does not fully address it. He indicated that the reference to professional values is unclear and that the manner in which culture has been described in the working draft appears limited to ethical considerations. Mr. Fortin suggested that culture is broader, for example, it includes encouraging a culture of consultation, innovation, challenge and excelling. Ms. French indicated that the QCTF would consider these suggestions as the proposals did not intend on narrowing culture to ethical considerations.
- Mr. Inuma noted that the Japanese Audit Firm Governance Code contains two additional elements not included in the proposals in the working draft and encouraged the QCTF to consider these elements. The elements are as follows:
  - An audit firm should enhance the function for supervision and evaluation for its effective management and operations, and effectively utilize the knowledge and experience of independent third persons.
  - An audit firm should promote the initiatives for people development, human resources management and performance evaluation in order for the firm members to appropriately demonstrate their professional competence.

Ms. French noted that the QCTF has extensively researched multiple audit firm governance codes in developing the governance principles, and that resources is addressed in the leadership responsibilities.

- Mr. Yoshii noted that stakeholders have less information about audit quality in relation to smaller and medium sized firms, however these firms may perform audits of publicly listed entities. He therefore recommended that in addressing communication externally with stakeholders, the standard should emphasize that the need for such communication is dependent on the type of engagements undertaken by the firm, rather than the size of the firm. Mr. Thompson questioned which firms should be required to prepare transparency reports, noting that in the European Union the requirement to prepare transparency reports only applies to firms that perform audits of public interest entities. Ms. French noted that the QCTF has not yet discussed transparency reporting or presented any proposals on this topic to the IAASB.
- Ms. Meng sought clarity regarding why the QCTF was seeking views regarding the responsibilities of firm leadership. She added that firms may have well established systems of quality management, however there are still quality management failures. Therefore she recommended that the responsibility of firm leadership should be for the results of the system of quality management as this would compel firm leadership to implement effective systems. Ms. French indicated that the QCTF is in agreement that firm leadership is ultimately responsible for quality, however this needs to be further

explored and deliberated with the IAASB.

- Mr. Yurdakul highlighted that all persons within the firm have a responsibility for quality and encouraged the QCTF to add emphasis to this in the working draft.
- Mr. Ruthman raised concern regarding the practical implications of the proposed new requirement addressing performance evaluations of firm leadership and those assigned operational responsibility for the system of quality management. He noted that although performance evaluations are important and valuable, this could create a challenge to implement in the public sector since leadership may be appointed by statute and may have a fixed tenure. Mr. Dalkin suggested that guidance could be included to explain the unique situation. Ms. French noted the concerns and indicated that the QCTF plans to undertake outreach specifically with the public sector to explore how the proposals in the working draft would apply in their circumstances.

#### INFORMATION, COMMUNICATION AND DOCUMENTATION

Representatives and Observers commented as follows:

- Mr. Baumann questioned whether the proposals on documentation would address documentation of who is accountable for the activities within the system of quality management. Ms. French responded by indicating that the standards address the responsibilities of firm leadership and those assigned operational responsibility for the system of quality management, however it does not include any specific requirements on documentation of the responsibilities. She added that these matters would be documented to the extent necessary to support a consistent understanding of the components.
- Mr. Hansen questioned whether the standard would address documentation of matters related to monitoring and remediation that includes names of clients and details associated with individual engagements. Ms. French noted that this would be a consideration by the firm.

#### QUALITY MANAGEMENT PROCESS

- Mr. Ruthman supported establishing minimum quality objectives and quality risks, given that there is a risk that firms fail to identify certain quality risks. Ms. French noted the comment, and added that the QCTF had previously considered using the term “minimum”, however this was not widely supported.
- Mr. Inuma indicated his support for promoting a proactive and preventative approach to the system of quality management, but was concerned whether the approach would be sufficiently robust. Mr. Inuma encouraged the QCTF to develop additional guidance to explain how the QMP would apply in various scenarios and change firm behavior. Ms. French noted that firms would be driven to consider their circumstances and design their system according to their circumstances which would contribute to changing firm behaviors. She added that the additional requirements in the other components of the proposed standard would also have a positive influence on firm behaviors, including communication, the responsibility of firm leadership to cascade quality through the firm and establish mechanisms to support quality.
- Mr. Dalkin questioned whether the QCTF had considered whether the proposed approach would result in firms applying the requirements on a checklist basis. Ms. French noted that this was discussed in the June 2017 IAASB discussions and accordingly the approach was refined. Under the refined approach there is more focus on prescribed risks, with fewer prescribed responses, in order

that firms are required to consider the quality objectives and design responses appropriate to their circumstances.

- Mr. Yurdakul questioned whether it would be possible for the requirements to be developed in a more positive manner, i.e., focus on what is needed to support quality engagements. Mr. Yurdakul also encouraged the QCTF to consider audit quality indicators. He further emphasized the importance of human resources and recommended that there should be requirements addressing recruitment and continuous training, both internal and external. Ms. French indicated that the QCTF would further consider the quality risks and whether these could be made more positive. She added that the QCTF has not yet considered audit quality indicators and how these may be addressed in the standard.
- Mr. Koktvedgaard questioned how the firm would address the risk in paragraph 36(a) in relation to network personnel, including how the firm would monitor compliance by network personnel. Ms. French noted the proposals on how networks will be addressed in ISQC 1, adding that how this will be drafted in the standard has yet to be considered.

#### MONITORING AND REMEDIATION

- Mr. Inuma and Mr. Dalkin indicated their support for the proposals. Mr. Inuma further supported the use of the term “root cause”.
- Mr. Gunn noted the value of the firm’s self-assessment and ongoing monitoring of the quality objectives, quality risks and responses, adding that it is useful in identifying deficiencies and implementing incremental improvements. However, he questioned whether there should be a long-term periodic review of the firm’s system of quality management that evaluates, at a point in time, whether the system of quality management addresses the circumstances of the firm and the environment in which the firm operates. Ms. French indicated that the QCTF had considered a point in time assessment, however was concerned that it would be overly burdensome. She added that through monitoring the system, remediating and evaluating the effectiveness of remedial actions, it should be apparent whether the system does not address the circumstances of the firm or the environment in which the firm operates.
- Mr. Fortin indicated that there may be confusion as to whether the monitoring activities are intended to evaluate the system of quality management, or whether they are intended to monitor engagement quality. Ms. French noted that the QCTF had extensively debated the appropriate placement of monitoring within the components. She explained that monitoring activities would need to also include monitoring of the monitoring activities. She added that the QCTF would add further clarity to the standard to explain this.
- Mr. Dalkin questioned the meaning of question 6(a) of **Agenda Item D**, noting that it implied that firms should be ahead of regulators’ expectations. Ms. French noted that the question was intended to gather feedback about whether the proposals would meet expectations of all parties.

#### PIOB OBSERVER’S REMARKS

Mr. Holm commented on various aspects of the proposals as follows:

- He was of the view that requirements for networks should be established since a network creates an expectation of a consistent level of quality across the network and it would not be in the public interest

if networks were not addressed, irrespective of the variety of structures.

- Prof. Schilder emphasized the proposal of the QCTF that would address the firm’s responsibilities to understand the activities at a network level and establish the accuracy and quality of the information received from the network. He further noted the varying structures of networks and that given their multi-jurisdictional status, they are not inspected at a network level.
- He said that it was in the public interest that the ISQC 1 addressed the issue of the firm’s Business Model and the relationship between NAS and audit business, and that the removed references to the public interest in paragraphs 23(a), 24(a) and 24(b) should be included in the proposals.
- Ms. French indicated that the public interest term was not used in the standard as this was not supported by the IAASB in its June 2017 discussions for various reasons, including that the term is difficult to define and may imply an aspiration and adding the phrase “public interest” to the standard does not necessarily result in a change in behavior. Ms. French added that the governance principles were intended to describe the firm’s public interest role, however the QCTF would further consider whether it could be more clearly explained.
- He emphasized that the firm’s culture should create an environment that supports and fosters the application of professional skepticism.
- He recommended several quality risks that should be included in the prescribed quality risks in paragraph 36, including provision of non-assurance services, commercial and fee pressures, appropriate allocation of resources at an engagement level and failure to consult with those charged with governance at the engagement level. Ms. French noted the suggestions.
- He supported a point-in-time periodic assessment of the firm’s system of quality management, even though it may be time-consuming for firms to undertake, and highlighted that banks and insurance companies are generally required to undertake an annual risk assessment.
- Finally he encouraged the QCTF to include a requirement for all firms to prepare a transparency report that sets out the matters that the firm should disclose in the transparency report. Ms. French noted that the QCTF has not yet discussed transparency reporting or presented any proposals on this topic to the IAASB.

#### WAY FORWARD

Ms. French thanked the Representatives and Observers for their feedback and provided an overview of the proposed timeline of the project, as well as matters that have yet to be discussed with the IAASB.

#### Open Session (Agenda Item E)

To RECEIVE a presentation on “Investor views on data and technology”

Ms. Singh introduced her presentation by sharing information about the CFA Institute, and in particular its mission, member base and the CFA certification program.

- Mr. Koktvedgaard noted the reference to the appropriate tagging of XBRL data and questioned whether there is any flexibility in the format of the data. Ms. Singh noted that the format of the XBRL data is critical. XBRL has a dictionary of customary tags, and if the user does not apply these tags,

the data is not machine readable and cannot be interpreted through XBRL technology. Having said that, Ms. Singh recognized that there may be unique or rare circumstances where a customary XBRL tag is not appropriate, and therefore an “extension” to the tag would be appropriate.

- Mr. Dalkin noted the emergence of the fast growing block chain technology and questioned whether there is an opportunity or role for this technology in the financial reporting environment and whether it could potentially replace XBRL in the future. Ms. Singh acknowledged that there have been extensive discussions in various arenas regarding block chain technology; however, none related to financial reporting. She believes that the block chain technology is too advanced and any steps to incorporate financial reporting would take too much time and be counterproductive.
- Mr. Koktvedgaard noted that there are some views that the XBRL technology is outdated. He is aware of alternative or artificial intelligence technology, allowing, for example, the extraction and evaluation of data, even in pdf format. Further, companies are now producing financial statements directly from the entity’s management or information system, irrespective whether the format of the data is XBRL compliant or not. Mr. Koktvedgaard asked whether the CFA has any views on these developments and the impact on XBRL. Ms. Singh acknowledged that these developments are favorable to both companies and the investor community, and therefore, the CFA would support it. The question; however, is whether it would be accepted by the Regulators. If not, XBRL is here to stay as the regulatory community still requires its use.
- Mr. Waldron noted the distinction between XBRL US and XBRL International, and consequently, certain challenges are encountered when considering the differences in the 2 standards when dealing with, as an example, earnings releases. Mr. Waldron therefore questioned whether there are any developments to address these differences, and more specifically, what is the pace of change and who is responsible? Ms. Singh noted that firstly, an attempt is made by both XBRL US and XBRL International to coordinate their efforts. For example, it would be rare for both organizations to work on the same project as resources are limited. However, in the case of earnings releases, she believes both organizations are working on this topic due to the significant push by investors on this topic.
- Mr. Baumann noted as a general comment that the Securities and Exchange Commission (SEC) requires companies to file data in XBRL format. However, companies are spending huge amounts of money on other type of technologies, such as artificial intelligence. He further noted that whereas the investment in XBRL may be beneficial to the investors, this may not be the case for the company itself. It seems therefore reasonable that companies will only support an investment in XBRL, if there is a premium on the return of the investment. Ms. Singh supported this assertion, stating that companies do not see the benefits of XBRL. Education is therefore important, in particular where Regulators require data in XBRL format. Ms. Singh further expressed her view that regulators can do more in general to address poor quality XBRL data. For example, if a Regulatory filing letter is deficient from a XBRL perspective, the SEC will most certainly send a comment letter. However, the concern is that there is hardly any enforcement action or consequence to respond to poor quality of XBRL data.
- Mr. Milholland noted the various survey results included in the presentation, and referred specifically to those respondents who require an audit on the appropriateness of the XBRL tagging of reported amounts. Mr. Milholland acknowledged that there may be a desire for this type of assurance; however he questioned whether there is an appropriate or robust standard for this purpose? Ms. Singh reacted that firstly, the investors are concerned about the poor quality of the data and therefore their need for

an assurance report by an independent third party. Secondly, she believes the data can be audited to some extent. For examples, when extensions are used unnecessarily or inappropriately, the auditor could easily identify the deficiency and pinpoint the appropriate tag. Another example is scaling errors or the incorrect formatting of dates – it is easy identifiable and therefore “auditable”.

- Mr. Thompson noted that audit firms are investing huge amounts of money in technology, and in particular, data analytics tools and technology. These technologies are designed to address data at the transactional level. And therefore, the investment of the firms does not include XBRL technology as it does not extend to the transactional level, or alternatively, it is not applied at this level by the companies. Mr. Thompson therefore acknowledged the view of the investors, but there may be little incentive for an audit firm as the benefits are limited. Mr. Kockvedgaard supported the concern surrounding inappropriately or not tagging data at transactional level. Ms. Singh acknowledged this challenge and pointed out that it would be a huge impediment to the objectives of XBRL and contrary to what the investor community wants.
- Mr. Kockvedgaard asked whether the trends of the survey results, included in the presentation, mirror the jurisdiction of the respondents. He suggested that respondents in the US, where the appetite for XBRL are perceived to be low, are likely to respond differently to respondents in Japan, where robust regulatory requirements enforce XBRL requirements. Ms. Singh noted that she does not have this breakdown readily available and the scope of the survey results do not reflect these parameters. However, she acknowledged that this is likely to be the case due to the reasons mentioned by Mr. Kockvedgaard.
- Ms. Robert noted that in the European Union, by 2020, all listed companies will be mandated to report through XBRL, and this is likely to improve the general XBRL appetite of investors in Europe.
- Ms. Meng referred to the survey results dealing with the “Awareness of XBRL Initiatives”. She expressed her concern that one would expect “XBRL awareness” to improve over time; however, the results suggest otherwise. Ms. Singh agreed with this concern, and clarified that the audience interviewed comprised of analysts and investors. Moreover, the number of respondents was very low and this further suggests that due to the poor data quality, analysts and investors engage directly with data providers as opposed to the data included in regulatory filings.

#### **ISRS 4400 – Agreed-Upon Procedures (Agenda Item F)**

To RECEIVE a presentation on the responses to the Discussion Paper, Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's Standards

To OBTAIN the Representatives' and Observers' views on the standard-setting project proposal to revise ISRS 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information

Mr. Salole provided the representatives with a high level overview of the responses received to the Agreed-Upon Procedures (AUP) Working Group's (WG) Discussion Paper, *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards*<sup>10</sup> (the Discussion Paper), and explained how this project serves the public interest.

<sup>10</sup> <https://www.ifac.org/publications-resources/discussion-paper-exploring-demand-agreed-upon-procedures-engagements-and>

The representatives commented as follows:

- Ms. McGeachy noted that this project is very important for SMPs given the increased audit thresholds which prompt small and medium entities to look for alternative services to an audit. She also noted that the SMPC will publish a publication to raise awareness on AUP engagements later in 2017.
- Mr. Hansen noted that users may assume that the practitioner is independent when no statement on independence is included in the report of factual findings. He therefore suggested to include such a statement when a practitioner is not independent. Ms. Weng noted that practitioners should always be independent when performing an AUP engagement and that, when the practitioner is not independent, the practitioner should explain why.
- Mr. Bradbury noted that the comment letter from the European Commission (EC) was written at a very high level and therefore encouraged the AUP WG to reach out the EC to understand their needs as the EC is one of the biggest users of AUP reports in the world. Ms. Robert, Mr. Salole and Prof. Schilder agreed. Prof. Schilder added that the EC presented to the Board in March 2015 and that the AUP WG will continue to reach out to key stakeholders, including the EC.
- Mr. Milholland questioned whether this project will lead to a revised AUP standard and whether there are other options available to address the identified matters. Mr. Salole explained that the standard is out of date and needs to be modernized to respond to current needs from stakeholders and promote consistent interpretation and application. He furthermore noted that the standard is not in the clarity format which confuses some stakeholders. Because of these reasons the AUP WG is of the view that no other vehicle is appropriate to address the matters identified. Prof. Schilder agreed and added that the outcome of the Discussion Paper clearly supports revising the standard. He also noted that, given the clear direction that was given by the respondents to the Discussion Paper, the AUP WG may be able to complete the project faster than proposed.
- Mr. Dalkin noted that the United States has split their AUP standard into two standards—one standard requires management assertions and the other standard not.
- Ms. Robert noted that integrating professional skepticism, which is part of project proposal, may be a bit contentious.

PIOB

Mr. Holm supported the comments made but questioned what the practitioner's responsibility is with respect to fraud and non-compliance with laws and regulations in an AUP engagement. He suggested that these topics should also be addressed when revising the standard.

**ISA 220 and ISA 600 – Quality Control at Engagement Level and Group Audit (Agenda Item G)**

To RECEIVE an update on the ISA 220 and ISA 600 projects.

Ms. Zietsman provided an update on the project to revise ISA 600. She highlighted that the IAASB would be discussing a draft Project Update, intended to inform the public about the status of the project.

Representatives and Observers commented as follows:

- Mr. Baumann indicated that the PCAOB has a project dealing with supervision of audits involving

other auditors I . Mr. Baumann highlighted certain aspects of the recent PCAOB proposal including noting that quality control standards apply to firms and not to networks. He also emphasized that the PCAO's approach that addresses the responsibilities of the lead auditor and that it is the lead auditor who is responsible for scoping the group audit. This approach is different to the approach in ISA 600, which is less prescriptive and where the auditor of the group financial statements is not required to scope the work of the component auditors Ms. Zietsman acknowledged these differences between the two approaches and noted that some may arise, in part, from differences in how the PCAOB and the IAASB deal with the quality control standards.

- Mr. Fortin expressed the view that as corporate groups are increasingly more integrated through globalization, it may be worth revisiting the scoping of the group audits, including the understanding of the group and establishing the group audit strategy. . Mr. Fortin suggested that the Task Force build into the standard an approach under which the group engagement team, who has the deep understanding of the drivers of the business, communicates to component auditors to inform them about the risks identified. Ms. Zietsman highlighted that the scoping of the group audits will align well with the approach being taken in ISA 315 (Revised) to focus on obtaining a robust understanding of the entity's business. .She noted that the evolving nature of businesses is relevant in terms of how to audit them. Furthermore, she noted that the ability to appropriately exercise professional skepticism is enhanced by knowledge of the client and through having the necessary understanding of the business and, therefore, having an informed basis for identifying and assessing the risks.
- Mr. Thompson questioned whether the Group Audits Task Force (GATF) has had a discussion on component materiality. Ms. Zietsman explained that this is one of the group audit specific issues highlighted in the Invitation To Comment<sup>11</sup> and that some preliminary discussions had taken place on the topic at the Task Force level. She also explained that the IAASB does not intend to revise the standard on materiality more broadly, but the Task Force will consider whether to provide more guidance regarding component materiality.
- Mr. Kazuhiro highlighted the importance of the group auditor communicating with the management and those charged with governance of the parent entity as they may wish to interact with the component auditors as part of the process. He also highlighted the importance of documenting the communications between the group engagement team and the component auditors. Ms. Zietsman agreed that the topic was important and noted that the GATF will discuss the different types of communications, including emphasizing their two way nature.
- Mr. linuma raised a question about the planned timing of the ED of ISA 600. Ms. Zietsman explained that the planned date is no earlier than Q4, 2018 due to the need to develop proposals in other standards, such as ISQC1 and ISA 220, on which ISA 600 expands. Prof. Schilder noted that other meetings in 2018 are all planned to be used for approvals of EDs or final standards, including those for ISA 540 (Revised), ISA 315 (Revised), and the quality control standards.

Ms. Zietsman provided Representatives with a [presentation](#) to introduce the topic and update Representatives on the activities of the ISA 220 Task Force since the previous CAG discussions in September 2016. Ms. Zietsman explained the key changes being proposed to revise ISA 220 that seek to embed quality management principles into ISA 220.

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<sup>11</sup> [www.ifac.org/system/files/publications/files/IAASB-Invitation-to-Comment-Enhancing-Audit-Quality.pdf](http://www.ifac.org/system/files/publications/files/IAASB-Invitation-to-Comment-Enhancing-Audit-Quality.pdf)

The Representatives and Observers commented as follows:

- Mr. Dalkin emphasized that there should be consistency among the timelines for the quality control-related projects in order to avoid causing firms to have to change their policies and procedures twice.

PIOB Observer's Remarks

Mr. Holm commented that he looks forward to seeing the revisions to the standards in due course.

### **ISA 315 (Revised) (Agenda Item K)**

To *OBTAIN* Representatives' views on the proposed revisions to ISA 315 (Revised) (**Agenda Items K.1 and K.2**).

Ms. Campbell provided an overview of the Task Force's activities, including outreach, since the last discussion with the CAG in March 2017. Ms. Campbell noted that it was expected that an exposure draft of ISA 315 (Revised) would be issued in June 2018. In relation to the matters set out in Agenda Item K.1 and the drafting proposals in Agenda Item K.2, the Representatives were broadly supportive subject to the matters set out below.

#### DEFINITIONS

Representatives generally supported the proposed revisions to the definitions set out in Agenda Item K.2, but had the following comments:

- Mr. Fortin cautioned about the use of 'significant' in the definition of business risk, noting that this may be confused with the use of the word in 'significant risk.'
- With regard to the proposed revised definition of internal control:
  - Mr Koktvedgaard questioned the use of the term 'to provide reasonable assurance,' in the context that this was an audit term and there was no requirement for management to provide 'reasonable assurance.'
  - Mr. Yoshi noted that the Japanese framework for internal control included six components. Ms. Campbell explained that the five components proposed are consistent with the extant ISAs and other commonly used internal control frameworks.
- With regard to the proposed revised definition of controls:
  - Mr. Fortin expressed concern that the revised definition of controls may be circular as it referred to 'control objectives.'
  - Mr. van der Ende questioned whether there is still opportunity to further explore the definition of internal control, as he believes the definition should clarify the difference between management's view about its control objectives versus the way the external auditor views controls.
- With regard to the proposed revised definition of assertions:
  - Messrs. Yurdakul and Hansen questioned the removal of the wording "management representations" from the extant definition of "assertions." Ms. Campbell explained that this

had been removed as it had been noted that there was confusion between management representations made generally with those more formally required by the ISAs (say by ISA 580).<sup>12</sup>

- Mr. Bradbury encouraged the Task Force to reconsider the complexity of the language now used to describe the assertions.
- Mr. Hansen noted that there may be a circular reference in the definition of “assertions,” and specifically with respect to the notion of “needs.” The wording “need” or “needs” appear in both the first and second sentences of the proposed definition. In addition, he noted the definition refers to “materiality” and the context thereof may require clarification.
- Mr. Yurdakul questioned whether the task force considered the term “significant assertions,” as opposed to the proposed wording of “relevant assertions.”
- With regard to the proposed definition of the qualitative inherent risk factors (QIRF):
  - Messrs. Kocktvedgaard, Ruthman and Fortin expressed their concern with the removal of the “susceptibility to the risk of fraud” (risk of fraud) as a QIRF. Ms. Campbell noted that this has been debated significantly by the Task Force but added that further consideration would be given to whether the susceptibility to fraud should be included as a QIRF.
  - Ms. Meng cautioned that there is a fundamental and underlying distinction between inherent risk and the risk of fraud. She noted that whereas inherent risk is deemed to be present regardless of the circumstances (de facto), the risk of fraud is driven by an act of intention to commit the fraud.
  - Mr. Hussein suggested that ‘judgment’ be included in the definition of a QIRF, as the application of judgment is generally prone to risks of material misstatement. Mr. Fortin supported this comment, in particular as it would be consistent with the principles of ISA 540. Ms. Campbell explained that the use of QIRF’s would be further explained in the application material, including how the auditor uses judgment to determine their impact or effect.
  - Mr. Fortin further emphasized the importance to properly define the QIRFs, as there may be uncertainty in the interpretation thereof by the auditor.
- With regard to the proposed revisions to the definition of significant risk:
  - Messrs. Van der Ende and Fortin questioned whether the revised definition for significant risks was sufficient to identify all significant risks, in particular where there was an obvious significant risk.
  - Mr. Baumann expressed concern that the revised definition no longer referred to the auditor’s response (previously had referred to that significant risks would require ‘special audit consideration.’) Mr. Fortin supported the change as the response should not be dealt with in the definition. Ms. Campbell agreed with Mr. Fortin and noted that the meaning of ‘special audit considerations’ was not clear and had therefore been removed.
  - Mr. Fortin questions the use of ‘higher’ in the definition, and noted that this may be interpreted differently, and suggested rearticulating in terms of the spectrum of risk.

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<sup>12</sup> ISA 580, *Written Representations*

- Mr. Ilnuma noted that the first part of the definition of a ‘significant risk’ referred to the QIRFs, and noted that the definition may be misunderstood and interpreted as qualitative risk factors (only) in the general sense. Ms. Campbell noted that further consideration would be given how to clarify this in the application material.
- Mr. Koktvedgaard noted the various references in the proposed Standard to “inherent risk” and questioned whether it should not also be defined in ISA 315 (Revised). Ms. Campbell noted that “inherent risk” is already defined in the ISAs as part of the risk of material misstatement. This definition is now included in the introduction section of the standard.
- Mr. Dalkin questioned whether IT environment should be defined.

#### IDENTIFICATION AND ASSESSMENT OF RISK OF MATERIAL MISSTATEMENT

In relation to the proposed revisions to the identification and assessment of the risks of material misstatement, including the separation of the assessment of inherent risk and control risk, the Representatives commented as follows:

- Messrs. van der Ende, Fortin and Ms. Meng strongly supported the separation of the assessment of inherent risk and control risk. Mr. Fortin suggested the development of a decision tree to illustrate the process for these assessments.
- Mr. Dalkin questioned how precluding a ‘combined’ risk assessment by requiring a separate assessment for inherent and control risk would change practice. Ms. Campbell explained that this change had been made to provide clarity about what needed to be done for each of the relevant assessments, but in practice some of the procedures are carried out simultaneously and was therefore not expected to impact how the assessments were done.
- Although supporting the change, Mr. Ilnuma asked for further clarification for the change. Ms. Campbell explained that the proposed change was driven primarily by the concerns by some who believe that auditors may take credit for, or place reliance on controls, during the risk assessment process without testing those controls. The separation of the assessment of inherent risk and control risk is expected to clarify the auditor’s considerations around control risk. Messrs. Dalkin and Hussain concurred that this would likely clarify the auditor’s considerations around controls, including the work effort needed regarding controls.
- Ms. Meng noted a subtle difference in the wording of the proposed paragraph 25C compared to the wording included in the staff paper (Report back – Agenda Item K): The proposed paragraph read “...and determine that they have been implemented.” In contrast, the staff paper read “...and determine whether they have been implemented.” Ms. Campbell acknowledged the difference in wording, but noted that the context or meaning of the sentence remains the same and appropriate. She added that the proposed paragraph is consistent with the extant Standard, it was just moved from extant paragraph 29.

#### SCOPE OF THE PROJECT

In relation to the matters being addressed by the Task Force as part of the project, Representatives generally supported the direction of the changes and noted significant improvement in some areas (even though some may not have been the exact scope, Representatives had the view that these changes were necessary to improve the extant standard), and had the following specific comments:

- Mr. Yoshii emphasized the need for a proper understanding of the industry and business model for small and medium entities also, in order to undertake an effective identification and assessment of risks of material misstatement. Ms. Campbell agreed and noted that further changes were being made in the application material regarding business model to emphasize the kinds of matters that needed to be understood.

#### PIOB OBSERVER'S REMARKS

Mr. Holm agreed with the Representatives that the proposed changes have improved the extant standard. In particular he noted that the separation of the assessment of inherent risk and control risk was supported and would be expected to improve the quality of the risk assessment. He also agreed that an understanding of the business model should be emphasized and noted that the removal of the fifth quality inherent risk factor, "susceptibility to fraud", was not in the public interest, and it should be moved back.

#### WAY FORWARD

Ms. Campbell thanked the Representatives for their feedback and noted that ISA 315 Task Force would take these comments into account, together with the IAASB's comments from its September 2017 meeting in moving forward on the topic.

#### Emerging Forms of External Reporting (Agenda Item L)

To RECEIVE a presentation on the responses to the Discussion Paper, *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements*

Mr. Grabowski introduced the topic by discussing the response to the Integrated Reporting Working Group's Discussion Paper, *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements*.<sup>13</sup> He also explained the recent work of the Integrated Reporting Working Group and possible next steps.

The representatives commented as follows:

- Mses. Robert and Borgerth and Messrs. Fortin and van der Ende supported the project and the way forward as there is demand for reliable non-financial information. Ms. Robert noted that the IAASB needs to act as otherwise other organizations will develop guidance in this area. She noted that, for example, if nothing is done, the Global Reporting Initiative (GRI) plans to issue guidance in this area and this guidance may not be in line with our standards. Mr. van der Ende added that there is a trend emerging in assurance that shows movement from assurance on historical financial information to providing assurance over data generally.
- Given that it is an area in development, Mr. van der Ende noted that the scope of this project should be limited for now and that the IAASB should not develop a new standard. Ms. Borgerth and Mr. Kuktvedgaard agreed. Mr. Kuktvedgaard suggested to develop non-authoritative guidance that explains how the IAASB's International Standards can be applied in an integrated audit. Mr. Grabowski explained that this is exactly what the Integrated Reporting Working Group is proposing

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<sup>13</sup> [http://www.ifac.org/system/files/publications/files/IAASB-Discussion-Paper-Integrated-Reporting\\_0.pdf](http://www.ifac.org/system/files/publications/files/IAASB-Discussion-Paper-Integrated-Reporting_0.pdf)

given that there is no support for a separate standard. Ms. Robert added that developing guidance on how to apply ISAE 3000<sup>14</sup> is important.

- Mr. Koktvedgaard noted that he was surprised that a lot of audit firms responded to the Discussion Paper but only one investor. He expected more investors to respond if they were really interested in this project. Ms. Singh responded that a limited response from investors does not necessarily mean that they are not interested in the project. She noted that, based on her interactions with investors, this is a project that is of interest to them and that they would support the direction of travel. She also noted that the CFA institute has resource constraints and had to respond to two other consultations at the same time.
- Ms. Borgerth noted that the IAASB should engage with the GRI as this organization has a lot of knowledge in this field and offered to help as well. Mr. Grabowski noted that he will explore how the Integrated Reporting Working Group can best liaise with the GRI.
- With respect to the proposal to staff the project externally, Mr. Koktvedgaard noted that for every project there should be some involvement of IAASB staff to meet the quality criteria of the IAASB. In relation to using external staffing, Mr. Gaylen noted that, if it is just a matter of resources, he would caution against working with another organization as there is a reputational risk. Ms. Robert noted that an external party can be used as a resource to perform the work but that the independence of the IAASB should be ensured. Mr. Grabowski noted that the plan was to use dedicated incremental IAASB staff, whose services could be obtained through a secondment arrangement.

#### Data Analytics (Agenda Item K)

To RECEIVE a presentation on the responses to the *Request for Input: Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics*

Mr. Dohrer introduced the topic by explaining the purpose of the presentation. Most prominently, the objective is to share the high level observations from the comment letters received from the “*Request for Input: Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics*” (RFI),<sup>15</sup> as published on September 1, 2016. The deadline for comment was February 15, 2017, and a total of 51 respondents provided comments to the RFI. Since this deadline, the Data Analytics Working Group (DAWG) provided a similar high level overview to the Board during their June 2017 meeting. The DAWG is currently finalizing a more detailed analysis of the responses received, and the findings will be presented to the Board on September 21, 2017. From a CAG perspective, the DAWG would require and appreciate input as to the activities and direction of the Working Group going forward.

The Representatives commented as follows:

- Mr. Baumann noted his appreciation for the DAWG’s conversations with the PCAOB on the subject of data analytics (DA). With reference to the DA presentation by Mr. Dohrer, he further noted his support for the challenges raised, and the proposed steps of the Working Group going forward. In particular, Mr. Baumann supported the caution against prematurely commencing with standard

<sup>14</sup> International Standard On Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

<sup>15</sup> <http://www.ifac.org/publications-resources/exploring-growing-use-technology-audit-focus-data-analytics>

setting activities. Mr. Baumann also referred to a comment included in the presentation, being: “*Some comments that the DAWG’s activities should be accelerated*”. He questioned whether there were any specific comments or reasons provided by the respondents to support this comment? Mr. Dohrer explained that many respondents articulated and supported the notion that the “*Standards are not broken*”, and generally, it was the same group of respondents that cautioned against premature standard setting. Nonetheless, it is recognized that the Standards may not explicitly promote the use of DA, and consequently, the emphasis during the short term is directed towards the development of guidance. This may be included in the Application Material, or another form of non-authoritative guidance. In the context of “*activities should be accelerated*”, the need for guidance was the key desire and area that was prioritized throughout the comment letters.

- Mr. Koktvedgaard noted a general concern regarding the changes in the regulatory environment in respect of audit documentation requirements. For example, he questioned whether the DAWG has discussed, or intends to discuss, matters relating to the protection or retention of personal data. Mr. Dohrer acknowledged that this is an area of concern and the development of high level audit documentation requirements would generally always be subject to jurisdictional or regional regulatory requirements (such as in the European Union). The DAWG has not engaged in advanced discussions in this particular area; however, it could definitely be an area that is explored further during future round table discussions, other outreach activities and consultations with members of the Project Advisory Panel who have specific expertise in this area.
- Ms. Robert noted her attendance to a useful and informative discussion on the “*Impact of Technology on the Audit*”,<sup>16</sup> hosted by the PIOB on 30 June 2017 (that include Prof. Miklos Vasarhelyi as one of the speakers). Ms. Robert questioned whether the DAWG discusses or leverages on these type of resources to enhance the outcome of the Working Group’s considerations. Mr. Dohrer acknowledged that the landscape of DA is continually changing and therefore a broad range of expertise is required. To this end, the Working Group is cognizant of the need to consult on a regular basis, and the RFI listed specific initiatives or resources that are deemed relevant to their work. At the same time, the RFI requested the constituents to propose additional resources that may further inform the work of the DAWG (question e). Moreover, the Project Advisory Panel (PAP) was created to, inter alia, serve as a technical resource to the IAASB and Working Group, and to provide input to any guidance or materials the IAASB may develop. It should be noted that Mr. Vasarhelyi is a member of the PAP as well as an academic (Rutgers Business School). Mr. Dohrer concluded that the DAWG will continue to reach out to all the resources that inform the work of the DAWG.
- Mr. Dalkin noted that the approach of the DAWG appears to be a collaborated or coordinated approach with other (extant standards) projects, as opposed to a separate project to develop a new or separate Standard. He asked whether the CAG members are supportive of this approach. Mr. Fortin expressed his support and noted that it is critical that the activities or findings of the DAWG inform the work of all existing IAASB projects. In addition, when considering the other IAASB projects that were dealt with prior to this agenda item, it seems that the finalization of those projects may be dependent on the key findings or outcomes of the DAWG. It is therefore important that the activities of the DAWG are appropriately prioritized to recognize the timetables and deadlines of relevant and existing IAASB projects. Mr. Hansen noted that it may be difficult to separate the coordinated

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<sup>16</sup> PIOB June 30, 2017: The Impact of Technology on Audit Presented by: Liv Apneseth Watson, Workiva, Inc

approach versus a single project approach, as it may be a little bit of both. However, in his opinion, it may add value to identify and consider individual Standards that require imminent changes, as opposed to collectively attempting to integrate DA with all existing projects. For example, when considering ISA 530<sup>17</sup>, the whole notion of sampling could be replaced with the power of DA. And therefore, consideration should be given to prioritize the revision of this this particular standard sooner rather than later. Mr. Dohrer noted that whereas the comment of Mr. Hansen is well taken, he does believe that the DAWG can contribute significantly to the ISAs in general through their involvement with existing IAASB's projects. Nonetheless, Mr. Dohrer agreed that it would be beneficial to prepare an internal inventory of specific ISAs that are more likely to be impacted by DA principles and techniques. And subsequently, as the IAASB progresses through their agenda of projects, the DAWG may be involved on a priority basis. Prof. Schilder acknowledged the comments of Mr. Hansen, and noted that the revision of ISA 530 may well be deemed to be a priority; however, when considering other ISAs, one may reach the same conclusion. For example, the impact of DA on ISA 315 is deemed critical, and this consequently impacts, inter alia, ISA 500<sup>18</sup> and professional skepticism (current IAASB projects). It is accepted that that the impact of DA on the ISAs is broad, but taking into account the Board's timetable and resources, the involvement of the DAWG has to be limited to current IAASB projects. Going forward, the Group may consider to initiate steps to be more visible in the context of all the ISAs, and in particular, as it relates to the revision of other ISAs that should be prioritized.

## Closing Remarks

### IAASB CAG CHAIRMAN REMARKS

Mr. Dalkin thanked the CAG Representatives for their preparation and participation during the meeting. In his view, the contributions were significant and provided good feedback and direction for the IAASB going forward.

### IAASB CHAIRMAN REMARKS

Prof. Schilder thanked the Representatives for their comments and suggestions. He further expressed his appreciation to the Representatives for being supportive of the direction of the IAASB's projects. He specifically thanked Ms. Singh from the CFA Institute for her time and insightful presentation on "Investor views on Data and Technology". Prof. Schilder also expressed his sincere gratitude to Mr. Gonzalo Ramos and Mr. Michael Holm for hosting the CAG meeting at the PIOB, and thanked Mr. Ramos for his presentation.

### PIOB OBSERVER'S CLOSING REMARKS

Mr. Holm noted that the CAG would like to be closer or more informed regarding the finalization of the ISA 540 project, and this was agreed by the IAASB. In his opinion, this had been a productive CAG meeting, and a lot of input was provided to the Chairs of the various TFs. The presentations made at this meeting had shown that the IAASB is very focused on the impact of the different ISAs. Finally, he expressed his appreciation and support that the ISQC1 and ISA 220 projects are aligned.

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<sup>17</sup> ISA 530, *Audit Sampling*

<sup>18</sup> ISA 500, *Audit Evidence*