Agenda Item 1-A

Draft Minutes of the 91th Meeting of the

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)

Held on March 12–16, 2018 in Amsterdam, the Netherlands

	Voting Members	**Technical Advisors (TA)**
Present:	Prof. Arnold Schilder (Chairman)	Sara Ashton (Ms. French)
	Megan Zietsman (Deputy Chair)	Viviene Bauer (Mr. Monroy)
	Abhijit Bandyopadhyay	Nicolette Bester (Mr. Vanker)
	Fiona Campbell	Wolf Böhm (Prof. Marten)
	Chun Wee Chiew	Dora Burzenski (Ms. Zietsman)
	Robert Dohrer	Shu Duan (Mr. Zhang)
	Karin French	Andrew Gambier (Mr. Chiew)
	Marek Grabowski	Ahava Goldman (Mr. Dohrer)
	Len Jui (March 12, 14–16)	Hiram Hasty (Mr. Landes)
	Prof. Kai-Uwe Marten	Josephine Jackson (Mr. Grabowski)
	Lyn Provost	Susan Jones (Mr. Jui)
	Fernando Ruiz Monroy	Sachiko Kai (Ms. Tracq-Sengeissen~~Sumida~~)
	Ron Salole	Jamie Shannon (Mr. Sharko)
	Rich Sharko	Eric Turner (Mr. Salole)
	Isabelle Tracq-Sengeissen	Sylvia Van Dyk (Ms. Provost)
	Imran Vanker	Sanjay Vasudeva (Mr. Bandyopadhyay)
	Ge Zhang	Denise Weber (Ms. Campbell)

Apology:	Chuck Landes

Non-Voting Observers

Present:	Jim Dalkin (IAASB Consultative Advisory Group (CAG) Chair) (March 12–15), Yosh'inao Matsumoto (Japanese Financial Services Authority)
Apology:	Juan Maria Arteagoitia (European Commission)

Public Interest Oversight Board (PIOB) Observers

Present:	Karen Stothers

IAASB Technical Staff

Present: James Gunn (Managing Director, Professional Standards) (via teleconference March 14 and 16), Matt Waldron (Technical Director), Beverley Bahlmann, Brett James, Natalie Klonaridis, Jasper van den Hout, Schuyler Simms (March 13–16), Phil Minnaar, Armand Kotze.

> IAASB agenda materials referred to in these minutes can be accessed at http://www.iaasb.org/meetings/amsterdam-netherlands. These minutes are a summary of the decisions made at the March 2018 IAASB meeting, in light of the issues and recommendations in the agenda material put forth by the Task Forces (TF), 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 held at the Royal Nederlandse Beroepsorganisatie van Accountants (NBA) in Amsterdam, the Netherlands, including IAASB members, technical advisors, staff and observers. Prof. Schilder specifically welcomed the incoming board members and new technical advisors.

2.   ISA 540 (Revised)[1]

Messrs. Sharko and Grabowski introduced the topic, noting that the ISA 540 Task Force has made changes to respond to comments from the IAASB on its proposals presented at the December 2017 IAASB meeting and from recent outreach events.

DRAFT ISA 540 (REVISED)

The Board discussed **Agenda Item 2-B**, and an updated version was presented later in the week, to respond to Board comments from earlier in the week. Although the Board supported many of the Task Force's proposals, Board members expressed some concerns and offered various suggestions, including~~Other than editorial and minor drafting suggestions, the Board generally agreed with the ISA 540 Task Force's proposals, but noted~~:

- That the description of the key concepts needed to be clearer, and the description of the spectrum of inherent risk needed to be further aligned with the description in draft proposed ISA 315 (Revised).[2] The Board suggested reducing the application material that describes the spectrum of risk because it would be better placed in ISA 315 (Revised).

- A c~~C~~oncern about the scope of the standard and the definition of accounting estimate, which could suggest that ISA 540 (Revised) would apply to all items in the financial statements, and the potential resulting impact on work effort.~~s about the proposed effective date in light of the difficulty that may~~

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[1]   ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

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

~~be encountered in updating methodologies and training staff in the short time before the standard would become effective. The ISA 540 Task Force was asked to further consider the time period for effective implementation.~~

- In relation to paragraph 10 relating to obtaining an understanding of the entity, that consideration should be given to further aligning the text of the requirement with extant ISA 315 (Revised), and as to whether the lead- in could be enhanced to more clearly and appropriately signal scalability. With repect to scalability, it was ~~The Board~~ also noted that, as drafted, the requirements may be too open-ended and therefore may not drive the intended understanding in a consistent manner. The Board further suggested removing some of the sub-headings that were included in the requirement.

- In relation to paragraph 13 relating to the identification and assessment of risks of material misstatement, that further consideration should be given to enhancing the lead in, by clarifying that the matters to be taken into account are inherent risk factors and relate to the assessment of inherent risk but not control risk.

- That the last sentence of paragraph 15, which requires the auditor to design further audit procedures to obtain relevant audit evidence, regardless of whether such audit evidence is evaluated to be corroborative or contradictory, could be further clarified. The Task Force was asked to consider whether the requirement or related application material could mention the importance of obtaining evidence from appropriate sources in an unbiased manner to avoid the implication that the auditor is required to explicitly seek out contradictory evidence.

- Various suggestions to more closely align paragraphs 16–18C (relating to…the response to the assessed risks of material misstatement) with other relevant ISAs, as well as to make these paragraphs clearer, more consistent with each other, and more concise.

- When a management's expert is used, clarification of the interrelationship of ISA 540 and ISA 500.

- The relocation from paragraph 21 to paragraph 23 of the bullets related to disclosures should be reconsidered, as the matters they addressed were related to the evaluation of disclosures rather than to obtaining audit evidence about them.

- Clarification was needed about how the enhanced documentation requirement in paragraph 27 should be presented to better align it with the documentation requirements in ISA 315 (Revised), whilst acknowledging that the matters proposed should be documented. Some Board members questioned whether the construct of paragraph 27(b) implied that these matters were intended to be 'significant professional judgments' and therefore significant matters as described in ISA 230.

The Board agreed not to include Appendix 1, which discusses measurement bases for accounting estimates, and~~or~~ Appendix 4, which included an example illustrating scalability, in the ISA, to reduce its length. With respect to Appendix 4, the Board also noted challenges in developing sufficiently detailed examples. It was agreed that the appendices would be further considered~~these matters would be published separately~~ in connection with the development of non-authoritative implementation guidance following the approval of the revised standard.

EFFECTIVE DATE

The Board discussed the effective date of proposed ISA 540 (Revised) and noted various concerns about the proposed effective date for audits of periods ending on or after December 15, 2019. Concerns expressed included the need for sufficient time for translation into the local language, for local due process

requirements, and for firms to update methodologies tools, and training. It was noted that insufficient time for effective and consistent implementation may threaten the objectives of the revised standard from being achieved. The ISA 540 Task Force was asked to further consider the time period needed for effective implementation.

CONFORMING AND CONSEQUENTIAL AMENDMENTS

The Board discussed **Agenda Item 2-F**. Other than editorial and minor drafting suggestions, the Board agreed with the ISA 540 Task Force's proposals for the conforming and consequential amendments, and noted the following matters:

- In relation to ISA 200,[3] consideration was needed about enhancing the applicability of the last sentence of paragraph A42 in light of other changes proposed to that paragraph;

- In relation to ISA 230,[4] consideration was needed about including an alternative example in paragraph A7 to address profesional skepticism, for example, drawing on paragraph 15 of proposed ISA 540 (Revised); and

- In relation to ISA 500, considerations was needed regardingabout:[5]

    o Further streamlining the definition of an external information source by relocating the explanation of what is not considered to be an external information source to application and other explanatory material;

    o Further clarifying the application material (in paragraphs A33F and A33H) that describesing matters the auditor may take into account, and potential procedures that may be undertaken, in considering the relevance and reliability of information from an external information source. The Board suggestedin order to to better linking the extent of the auditor's work effort to the nature and source of the information. In addition, it was noted that this may also clarify how the use of information from an external information source relates to the reasons for the identified and assessed risks of material misstatement

The Board also discussed an updated draft of **Agenda Item 2-F** that included further revisions made during the Board meeting and broadly supported the changes made to respond to Board comments and offered comments and suggestions for further consideration by the Task Force.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin agreed with the ISA 540 Task Force Chair's overview of comments from CAG Representatives (the CAG), which included that the CAG was, generally, of the view that the current standard is more understandable and readable than the Exposure Draft of proposed ISA 540 (Revised), and that the CAG supported the current requirements of proposed ISA 540 (Revised) including the enhancements made relating to the exercise of professional skepticism. In addition, Mr. Dalkin highlighted that the CAG supported the development of a flow chart to illustrate the flow of the requirements, and noted that the CAG had also discussed the importance of considering in due course whether re-exposure would be needed.

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[3] ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

[4] ISA 230, *Audit Documentation*

[5] ISA 500, *Audit Evidence*

Ms. Stothers noted the importance of 'raising the bar' with respect to auditing accounting estimates given the number of inspection findings and the importance of this standard to key stakeholders. Specifically, she supported including the last sentence of paragraph 15, which requires the auditor to design the further audit procedures to obtain relevant audit evidence, regardless of whether such audit evidence is evaluated to be corroborative or contradictory, and the enhanced documentation requirements. Ms. Stothers furthermore noted the importance of considering fraud as part of the assessment of inherent risk and highlighting the importance of including control testing in the *Key Concepts of This ISA* section.

WAY FORWARD

The ISA 540 Task Force will bring specific matters to the Board in the April 24 teleconference and will present a revised ISA 540 (Revised), and the related conforming and consequential amendments, for approval at the June 2018 IAASB meeting.

3.   ISA 315 (Revised)

Ms. Campbell provided an overview of proposed changes to the requirements and application material of ISA 315 (Revised) as presented in **Agenda Items 3-A, 3-B and 3-C**.

Noting that some aspects of the revisions to ISA 315 (Revised) still require clarification and that some terms, such as automated techniques and tools, need to be consistently articulated, the IAASB broadly supported the direction of the proposed changes, in particular as the proposed changes continued to address the matters included in the project proposal. The Board also generally noted support for the changes that had been made in relation to information technology (IT). Notwithstanding this support, the Board cautioned about the complexity that had been introduced by some of the revisions, and therefore continued to encourage the ISA 315 Task Force to develop explanatory material to practically demonstrate the application of the standard, for example through implementation guidance or flow charts. In addition, the Board asked for further consideration by the ISA 315 Task Force on specific broader matters, including:

- Scalability of the standard. The Board expressed its appreciation of the table included in the issues paper (agenda item 3), setting out those paragraphs where scalability could be applied. However, the ISA 315 Task Force was requested to further consider how the scalability paragraphs could be more distinct and gain more prominence, for example, by including the paragraphs in an appendix to the standard. Board members also asked the ISA 315 Task Force to further consider the paragraphs describing scalability that have been added to the introductory paragraphs, as these may be misinterpreted.

- The content and length of the introductory paragraphs. Although the Board generally supported the inclusion of the introductory paragraphs to highlight key risk assessment concepts; it was noted that these paragraphs could be simplified as they were too repetitive and complex in some places. In addition, some concerns were expressed, including that:

    o   Some terms or concepts are introduced too early and in some cases not consistent with the wording in the ~~relevant~~ other standards used to describe the same things. Suggestions included to rather utilize references back to other standards, or alternatively, to include these concepts in an appendix;

- o The paragraphs do not adequately describe the purpose behind obtaining an understanding of the entity's system of internal control and its relationship to tailoring further audit procedures.

- o The description of the spectrum of risk did not adequately describe the concept in a manner so that it would be understandable by all auditors, particularly how it relates to testing the operating effectiveness of the controls. One Board member queried whether a definition for the 'spectrum of risk' was required.

- o The paragraphs do not:

  - ▪ Provide a link to ISA 240[6] to recognize how the risks of fraud are dealt with in ISA 315 (Revised);

  - ▪ Do not recognize automated techniques or tools, including data analytics.; and

- o The description of a significant risk in paragraph 1D, with particular reference to the wording '*relative to other risks of material misstatement*', which may suggest that because it is a relative concept on every audit there would always be at least one significant risk, which is not consistent with extant or the task force's intention.

- • How to articulate the use of 'automated techniques and tools' in the standard. The Board expressed mixed views on whether an explicit reference to 'data analytics' is appropriate.

DEFINITIONS

In relation to the proposed changes to the definitions, the Board continued to support the further changes that have been proposed, as well as the inclusion and planned modernization of the new definitions of application controls in information technology and general IT controls, but still noted the following concerns in relation to:

- • The definition of 'assertions', where further consideration was thought needed to distinguish this definition from management representations in accordance with ISA 580.[7]

- • The definition of 'inherent risk factors' (IRFs), where the Board encouraged further consideration ofabout:

  - o Broadening of the definition to include quantitative aspects as this may detract from the qualitative aspects that this concept was focusing on. However, other Board members agreed with broadening this to include quantitative aspects.

  - o The susceptibility to management bias as an inherent risk factor, as it may be more of an overarching inherent risk factor. Other Board members supported the introduction of unintentional aspects of management bias.

  - o How the IRFs interact with the risk of fraud. Currently, the 'susceptibility to management bias' only covers part of the fraud triangle and therefore the link to the fraud risk factors of ISA 240 appears incomplete. However, the ISA 315 Task Force was cautioned not to confuse further explanations in ISA 315 (Revised) with the auditor's considerations about fraud already required in ISA 240.

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[6] ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

[7] ISA 580, *Written Representations*

- The definition for 'relevant assertions,' where it was noted~~noting~~ that further clarification was needed to explain the threshold of '*more than remote*' was not different from 'reasonably possible.'

- The definition of 'significant risk,' with some Board members still expressing concern about whether terms such as 'relative to other risks' and 'highest end of the spectrum' would be applied consistently by auditors and may be inconsistently interpreted. In addition, some Board members questioned the use of the word '*or*' with reference to the phrase '*the likelihood of a misstatement occurring or the magnitude of potential misstatement,*' however, Ms. Campbell explained the rationale and referred to previous Board discussions in support thereof to help make clear that significant risks could exist if there was a low likelihood of occurrence but a high magnitude of misstatement~~the event did occur~~. The Board generally agreed that the use of the word 'or' in this context remains appropriate.

RISK ASSESSMENT PROCEDURES

Although generally supportive of the further changes that were ~~have been~~ proposed, the Board asked that further consideration be given to:

- The use of the term 'sufficient appropriate audit evidence' in paragraph 5 of ISA 315 (Revised). ~~Although S~~some Board members believe~~d~~ that the introduction of this concept would help with why risk assessment procedures are performed (i.e., what the outcome should be when performing risk assessment procedures), and with the boundaries about how much audit evidence is needed (and therefore also assist with the documentation requirements). Other Board members indicated~~believed~~ that the use of 'sufficient and appropriate' is superfluous and may not change auditor behavior;

- Aligning the relevant parties in paragraphs 7 to 10 between the requirements and the application material.

- How analytical procedures are described in the application material, which~~as this~~ currently provides examples but which may be enhanced to better describe~~d as~~ characteristics of effective analytical procedures used as risk assessment procedures.

- Whether the engagement team discussion should focus on the risks inherent in the applicable financial reporting framework for the entity, rather than the entity's application thereof.

- The nature of audit evidence obtained through the use of automated techniques and tools as part of risk assessment procedures.

UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

The Board were generally supportive about the further changes that have been proposed, but asked that further consideration be given to:

- Better describing the reason or expected outcomes when obtaining an understanding the entity and its environment. Some Board members were also concerned that the requirement may be interpreted too narrowly as it only focuses on what may impact the expected classes of transactions, account balances and disclosures in the financial statements, and there may be other aspects that should be included to effectively identify all risks.

- Describing how to undertake the risk analysis rather than listing the matters to be understood to identify the risks.

OBTAINING AN UNDERSTANDING OF THE SYSTEM OF INTERNAL CONTROL

There was support for the proposals relating to the further changes made for the auditor's understanding of the entity's system of internal control, however, the Board asked that the descriptions provided be written in a simpler way and that aspects of scalability still be considered. The Board also asked that further consideration be given to:

- Whether the scope of the required understanding, being 'relevant to financial reporting,' is not too broad.

- Clarifying why the auditor is required to obtain an understanding of the system of internal control. One Board member also questioned whether the requirement to always consider the design and evaluation of controls that address significant risk is appropriate. For example, in the context of small- and medium-sized entities (SMEs), a significant risk may be addressed appropriately through a substantive procedure (only).

- Consolidating the auditor's response when identifying deficiencies in the various components of internal control into a single requirement.

- Better describing, and developing guidance to practically demonstrate (for example through a flowchart) how the requirements 'fit together,' in particular in relation to information technology.

- Related to whether a control has been placed into operation in paragraph 18A, clarifying the work effort to determine whether the control has been 'placed into operation' in paragraph 18A.

- Distinguishing the concepts of direct and indirect controls through the application material and clarifying what the differences are~~impact of the difference is~~.

- Clarifying under which circumstances general information technology controls are expected to be relevant.

IDENTIFICATION AND ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

The Board cautioned that the revised structure was complex and some noted that that reordering the required steps may be necessary~~appropriate~~, The ISA 315 Task Force was also encouraged to enhance the related application material to clarify the process, highlighting that a flowchart may be very helpful for implementing the new and revised requirements in this area. In addition, the ISA 315 Task Force was asked to further consider:

- Financial statement level risks, in particular:

  o The auditor's response to financial statement level risks and how these risks interact with risks at the assertion level; and

  o Whether a financial statement risk could be classified as a significant risk, and if so, the consequences for the auditor.

- The stand-back requirement in paragraph 30B:

  o Concern was expressed with the use of the terms 'significant' and 'material' in the same requirement; and

    o   how this the link with ISA 330[8] paragraph 18 could be better explained.

DOCUMENTATION

One Board member noted that the documentation requirements seemedstayed largely consistent when compared to the extant requirements, and questioned whether thatit sufficiently recognizes the enhancements to the standard.

APPENDICES

The Board expressed their general support for the appendices as included in Agenda Item 3-B.

IAASB CAG CHAIR REMARKS

Mr. Dalkin noted continuing support for the direction of the changes being developed. Mr. Dalkin specifically noted support for the coordination efforts to align ISA 315 (Revised) with ISA 540, and the inclusion of an explicit link to ISA 240 to recognize that the risk of fraud is integral to the auditor's risk assessment in accordance with ISA 315 (Revised). He also noted the CAG's concerns about the description of significant risk being at the 'highest end' of the spectrum of risk, which may suggest that there is only one significant risk.

PIOB REMARKS

Ms. Stothers continued to support the direction of the changes, specifically acknowledging the separation of the assessment of inherent risk and control risk. She further encouraged the ISA 315 Task Force to continue its efforts to clarify and explain in the standard, either through the inherent risk factors or more explicitly in the standard, the auditor's efforts in relation to considerations about the risk of fraud, as this is fundamental to the auditor's identification and assessment of risk of material misstatement. Ms. Stothers also encouraged the ISA 315 Task Force to continue to consider how the use of data analytics or automation is presented in the standard, including how this is described, as well as how professional skepticism could be further emphasized within the standard. She also emphasized the need to further consider how the standard could be made more understandable through the use of flowcharts or graphics.

WAY FORWARD

The ISA 315 Task Force will undertake specific outreach with public sector representatives in order to make amendments in relation to public sector considerations as appropriate. The ISA 315 Task Force will present specific matters at a Board teleconference in May 2018 and an Exposure Draft of the proposed changes to ISA 315 (Revised) for IAASB approval at the June 2018 IAASB meeting.

4.   Agreed-Upon Procedures (AUP)

The Board discussed the matters set out in **Agenda Item 5** and the accompanying Working Draft of ISRS 4400[9] (**Agenda Item 5-A**). The IAASB generally supported the AUP Task Force's proposals. Key views expressed included:

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[8]   ISA 330, *The Auditor's Responses to Assessed Risks*

[9]   International Standard on Relate Related Services (ISRS) 4400*, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

- Support for the use of the term 'findings' instead of 'factual findings,' but the board asked that the AUP Task Force consider further clarifications where possible.

- Support for the AUPTask Force's collaboration with the International Ethics Standards Board of Accountants (IESBA) to develop criteria for determining whether the practitioner is independent.

- While agreeing that the AUP standard should be sufficiently flexible to address various circumstances when an AUP engagement is performed, the Board directed the AUP Task Force to consider whether it is appropriate to elevate some of the application material to requirements; for example, actions to be taken if the practitioner becomes aware of fraud.

- That ISRS 4400, when revised, should reflect the circumstances where the practitioner may reach a preliminary agreement with the engaging party on procedures to be performed at the start of the engagement, and subsequently confirm the procedures that were actually performed at the end of the engagement.

- Other matters for the AUP Task Force's consideration, such as:

  o Further clarity for the phrase "findings are described objectively," as it is unclear whether the phrase means that the practitioner who describes the findings is objective;

  o Clarifying whether the phrase "subject matter" is intended to convey the same meaning as the phrase that is used in ISAE 3000 (Revised);[10]

  o Aligning the documentation requirements with those in ISAE 3000;

  o Clarifying the requirement for the date of the AUP report may because…; and

  o Providing examples of inappropriate terminology, which may be more useful than examples of appropriate terminology.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted the CAG's support for moving forward with the AUP project. On the issue of the use of the term 'finding,' Mr. Dalkin supported the use of the term 'finding' as the term is inherently factual. He also suggested further consideration of the relationships between professional judgment, independence and objective reporting.

PIOB OBSERVER REMARKS

Ms. Stothers acknowledged the progress being made and noted the PIOB interest in the issue of whether a practitioner performing an AUP engagement is required to be independent. She added that this issue has potential public interest implications on the credibility of the practitioner and the quality of the engagement.

WAY FORWARD

The AUP Task Force will further consider changes to the Working Draft of ISRS 4400, as well as actively monitor developments relating to ISQC 1[11] and the new revised IESBA *International Code of Ethics for*

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[10] International Standards on Assurance Engagements **(**ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

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

Professional Accountants (Including International Independence Standards) (Code of Ethics)*,* so that any changes in the draft of ISRS 4400 (Revised) align.

5.   Strategy and Work Plan 2020-2023

Mr. Waldron and Ms. Bahlmann introduced the topic, explaining the process to develop the IAASB's Strategy for 2020–2023 (the 'Strategy'), including a focus on outreach with stakeholders who did not traditionally respond to IAASB consultations. Prof. Schilder emphasized the need to be approach the development of the future Strategy in a broad and open way.

Board members were supportive of the approach, in particular the enhanced focus on outreach, and it was noted that wide-ranging input would help the Board make informed decisions about its work efforts and priorities. The Board emphasized the importance of understanding the future needs of all stakeholders in order to make progressive decisions about the future strategy. Some Board members urged that decisions about structures and resources, including how those resources are deployed, should be made once the Board has determined what its future work plan and priorities should be.

The Board acknowledged the difficulty of obtaining strategic input, in particular from stakeholder groups such as investors and preparers, and it was suggested that further consideration be given to engaging outside experts to assist. Nonetheless, Board members offered various suggestions about different groups to engage with, including preparer and investors groups, public sector representatives and audit committee members, and encouraged the organization of focus groups with these stakeholders to obtain more insightful input, principally in relation to strategic matters.

Board members also encouraged the Steering Committee to understand whether there is anything of relevance relating to the IAASB's Strategy in the responses to the Monitoring Group consultation.[12] Board members also highlighted the importance of understanding where relevant research may be helpful, and encouraged the Steering Committee to further consider how research could be used to help focus the Board on matters relevant to its future activities.

STAKEHOLDER SURVEY

In relation to the stakeholder survey, Board members generally agreed that this was still a good mechanism for obtaining input for the development of the consultation paper, in particular in relation to understanding views regarding the relative priorities ofand where the IAASB should focus its activities. The Steering Committee was encouraged to further consider how to focus stakeholders on the input needed by, for example, asking the questions in a different way or having specific questions for specific stakeholder groups, such as more technical questions for some stakeholders, with more strategic questions for other stakeholders.

OTHER STRATEGIC MATTERS

Strategic matters the Steering Committee was asked to consider in relation to the broader consultations about the IAASB's Strategy over the next few months included considerations about:

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[12]   In November 2017, the Monitoring Group released a Consultation Paper, *Strengthening the Governance and Oversight of the International Audit-related Standard-setting Boards in the Public Interest*.

- Audits of small- and medium-sized entities (SME) (or non-complex) entities, including understanding the need for implementation activities and considering whether these should be part of the IAASB's remit.

- The focus of the IAASB's activities, i.e., should the Board still be focused on standard-setting or is more needed in relation to implementation support.

- Technology, in particular how it was becoming more integral to the way that engagements are undertaken in light of the increasing pace of change in technology (for example, how Artificial Intelligence impacts the way engagements are undertaken).

- How concerns noted in the Monitoring Group consultation in relation to the IAASB's operations could be addressed.

- How to be more explicit about the balance between timeliness and due process.

- How the IAASB's agenda could better align with the agenda of the IESBA as the standard-setting Boards coordinate on their standard-setting activities.

- How to distinguish standard-setting from other IAASB activities, such as the development of implementation guidance.

- How to fully understand stakeholder expectations, in particular in relation to projects to revise ISAs that have already been highlighted to the IAASB previously, but have not yet been explicitly added to the Work Plan.

- Obtaining input on stakeholders' expectations related to the key relationships the IAASB has, or should have, in light of the evolving environment.

With regard to the Forward Agenda projection, the Steering Committee was encouraged to further consider how to depict this in a way that reflects how the projects complete and new projects commence in a more representative way. It was also noted that it was important to provide a realistic view of the current projects underway that would continue into 2020 and beyond (i.e., the Strategy period) so that unrealistic expectations of the IAASB's capacity at the start of the future strategy period arewas not created.

WORK PLAN FOR 2019

The Board agreed, based on the commitment to complete and progress key projects currently underway, to not further consult on the work plan for 2019 as the agenda is already at capacity with no new unplanned initiatives expected to start in 2019. However, it was emphasized that it is important to communicate this to the IAASB's stakeholders.

PIOB OBSERVER COMMENTS

Ms. Stothers highlighted the need to complete the key projects currently underway, as this would be in the public interest, before commencing new initiatives and projects. She also highlighted the need to obtain views from stakeholders who did not ordinarily respond to the traditional stakeholder survey, and welcomed the change to align the strategy period with the strategy period of the IESBA.

WAY FORWARD

It was agreed that the Steering Committee would develop a draft stakeholder survey for discussion with the Board on an IAASB teleconference in the second quarter of 2018, with a view to publishing the survey in

early May 2018. IAASB leadership and senior Staff would also commence activities relating to outreach, including exploring the use of outside experts to assist.

6.   Quality Control at the Firm Level –Proposed ISQC 1 (Revised)

Ms. French provided an overview of the proposals presented in the draft ED of ISQC 1 (Revised) set out in **Agenda Item 7–A.** The IAASB supported the overall direction of the standard.

In relation to the length of the standard, the IAASB:

- Noted that the standard addresses a complex topic and accordingly it may not be possible to develop a shorter standard. However, the Board encourged the Quality Control Task Force (QCTF) to further simplify the requirements and application material, including through:

    o   Simplification of the language used.

    o   Improving the signposting and referencing between the requirements across the standard.

    o   Critically analyzing what application material is needed. In this regard, the Board suggested that the QCTF analyze the application material by considering what material is needed to support the consistent application of the standard.

- Supported relocating the material in the appendix outside of the standard, however indicated that it would be useful to retain an appendix that describes the components, similar to how Appendix 3 of proposed ISA 315 (Revised) describes the components of internal control.

In relation to additional guidance supporting the standard, the IAASB:

- Supported the development of further guidance to address different sizes and complexity of firms.

- Suggested that the guidance accompany the explanatory memorandum andthe exposure draft, in order to seek feedback on its usefulness.

- Encouraged the QCTF to explore where the guidance would be located when the standard is finalized, however expressed mixed views about whether it should have the same authority as application material, or should merely be guidance material in nature.

The IAASB supported how the standard emphasizes the application of professional judgment by individuals in the firm in relation to its system of quality management, however suggested:

- Increasing the emphasis on the use of profesional judgement on areas where it is important

- Introducing a definition of professional judgment specifically for ISQC 1, given that the term has been defined in relation to the IAASB's engagement standards.

- Clarifying that professional judgement is applied by individuals in the firm in relation to the achievement of the objective of the standard.

- Explicitly addressing professional skepticism, noting that it would be from an internal perspective.

The IAASB also:

- Noted that paragraph 15 of extant ISQC 1 relating to the achievement of the objective of the standard has not been retained and suggested that it be reinserted, although adapted as necessary.

- Suggested further consideration of the paragraphs addressing the authority of ISQC 1, and whether it should reference ISQC 2.[13]

OBJECTIVE OF PROPOSED ISQC 1 (REVISED)

The IAASB supported the objective of the standard and suggested:

- Clarifying in the objective the scope of services to which the standard relates.

- Further clarifying that the objective is not merely to comply with the requirements of professional standards and applicable legal and regulatory requirements, but rather to comply with the spirit of what the requirements aim to achieve. However, in general, the IAASB did not support adding 'appropriately fulfill' to part (a) of the objective, as suggested by a member, and suggested that the introductory section explain the principle of complying with the spirit of the requirements.

COMPONENTS AND STRUCTURE OF PROPOSED ISQC 1 (REVISED)

The IAASB generally supported the eight components and the structure of the standard, and in general agreed with the location of the governance and leadership component. The IAASB recognized the concerns and suggestions of the CAG with respect to the complexity of the structure of the standard and encouraged the QCTF to further understand their views.

In relation to the descriptions of the components, the IAASB supported the description of the components and:

- Expressed mixed views about where they should be located, i.e., whether they should be described within paragraph 19 of proposed ISQC 1 (Revised).

- Suggested increasing the emphasis on the component descriptions within the components, given their importance to determining whether all quality risks have been identified.

In relation to the structure of the components and other general matters related to the components, the IAASB suggested:

- Creating a sub-category for the components that have characteristics similar to the 'control activities' component in proposed ISA 315 (Revised) and improve the linkage with the components in ISA 220, i.e., relevant ethical requirements, engagement acceptance and continunace, resources and engagement performance.

- Further refining and streamlining the references between the components.

- Applying the quality risk assessment process to the monitoring and remediation component and restructuring the component such that it has a similar structure to the other components.

- Improving the linkages with ISA 220[14] and including a direct requirement for the communication of expectations of what needs to be done at the engagement level.

- Clarifying whether the required quality objectives within each of the components are all inclusive or whether it is expected that firms identify additional or more granular quality objectives.

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[13] Proposed ISQC 2, *Engagement Quality Control Review*

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

- Reconsidering the required responses, as it was noted that some of the responses appear reptitive of the quality objectives.

DEFINITIONS AND OTHER TERMS

The IAASB noted the numerous definitions and therefore encouraged the QCTF to consider whether all of the definitions are needed. In addition to editorial suggestions regarding certain definitions, the IAASB:

- Did not indicate a preference for whether the term 'responses,' 'controls' or 'policies or procedures' should be used.

- Highlighted that the definition of quality risks is inaccurate, since a reasonable possibility of a quality risk causing the quality objective(s) not to be achieved is the same as a reasonable possibility of occurance (i.e., it is duplicated). The IAASB therefore suggested amendments to the definition to address the magnitude of the effect of a quality risk.

- Did not support the use of the term 'network services.' Furthermore, the IAASB noted that the manner in which the networks are described implies that many of the network services provided by the network are optional for the network firms, yet in practice it is common for the network to impose requirements on the network firms.

- Noted that the definition of deficiencies focuses only on responses and suggested that it also explain deficiencies in the context of a missing quality objective.

The IAASB also commented on the use of the term 'sufficient and appropriate' throughout the standard and in general supported how the term had been used in the standard.

GOVERNANCE AND LEADERSHIP

The IAASB supported how the QCTF had addressed the firm's public interest role in the introductory material of the standard.

The IAASB also, in general, supported the use of the term 'financial and operational' priorities instead of 'commercial considerations.'

QUALITY RISK ASSESSMENT PROCESS

The IAASB agreed that the name of the component needs to be changed, however had mixed views as to whether it should be 'risk assessment process' or 'quality risk management process.' Furthermore the IAASB:

- Suggested that the manner in which the risk identification and assessment has been described requires further refinement, in order that it appropriately reflects an assessment of the likelihood of occurrence and the magnitude of effect.

- Noted in some cases the identification and assessment of the quality risks may be undertaken simultaneously, however it is a two-step process.

- Emphasized the importance of developing application material to explain the scalability of the quality risk assessment process.

- Suggested moving the requirement to establish quality objectives in paragraph 25(a) to the governance and leadership component as doing so would help focus the title of the component (i.e., the component would be more focused on quality risks).

- Recommended building more proactivity into the requirement in paragraph 26 that requires the firm to respond to changes in the factors that affect the quality objectives, quality risks and responses.

INFORMATION AND COMMUNICATION

In relation to the proposals addressing communication with parties external to the firm, such as through transparency reports, the IAASB.

- Agreed that the requirement should strongly encourage firms to communicate externally about the firm's system of quality management, butand that it would be inappropriate to require such communication as there may be circumstances when it is not necessary, jurisdictions in which it would be unenforcable, or there are no suitable users of the information. However, the IAASB thought that the manner in which it was described in proposed ISQC 1 (Revised) was unclear and subject to varying interpretation and therefore suggested the QCTF further clarify this requirement.

- Recommended that more specificity is added to address communication with certain stakeholder groups, such as network firms and clients.

In relation to the other requirements addressing information and communication, the IAASB:

- Expressed mixed views as to whether the responses should be further streamlined and condensed, or whether doing so would blur the necessary distinction between communication and information.

- Recommended that the linkage between information and communication and the other components needs to be improved.

RELEVANT ETHICAL REQUIREMENTS, ENGAGEMENT ACCEPTANCE AND CONTINUANCE, RESOURCES AND ENGAGEMENT PERFORMANCE

In addition to various enhancements, the IAASB recommended that more specific responses should be developed to address relevant ethical requirements and engagement performance. The IAASB also encouraged the QCTF to improve the linkage in the engagement performance component with ISA 220.

MONITORING AND REMEDIATION

The IAASB:

- Encouraged the QCTF to further clarify the roleamphasize the use of in-process reviews in the context of as monitoring activities.

- Indicated that the framework for the identification of deficiencies should also address identifying deficiencies in relation to quality objectives and quality risks.

- Noted that the firm should undertake monitoring and remediation over the quality risk assessment process, i.e., that it cannot only be monitored indirectly through understanding the root causes of deficiencies.

- Suggested clarifying how frequently firm leadership should evaluate whether the system of quality management provides the firm with reasonable assurance in accordance with the objective of the standard.

NETWORKS AND THIRD PARTY SERVICE PROVIDERS

The IAASB noted the concerns raised by CAG in relation to the need for requirements for networks. The IAASB indicated that there appears to be misinformation in relation to how the networks operate in practice and further suggested:

- Engaging with the Forum of Firms to better understand ~~the various~~differing network structures and ~~how their~~related membership obligations ~~were developed~~.

- ~~Investigating~~Analyzing the various alternatives, ~~including clearly detailing the reasons~~and considdering wh~~ether~~y they are operable ~~an option can or cannot be considered in the standard~~. In this regard, the IAASB suggested various options that could be explored, including:

  o Bringing more prominence to the networks in each of the components.

  o Improving the requirements so that it is clear that the firm is expected to obtain the required information set out in the standard from the network.

  o Imposing requirements that the firm can only use the network services if certain conditions are met at the network level.

  o Improving the requirements so that they do not imply that the firm may choose to use the network services in all cases, i.e., the network may impose requirements on the network~~require the~~ firm~~s to use the services~~.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin encouraged further consideration of the alternative location for guidance supporting the application of the standard. Mr. Dalkin highlighted the CAG's concerns with how networks have been addressed in the standard, the difficulty that SMP's may experience in applying the standard and the overall structure of the standard. Mr. Dalkin also noted that commercial considerations are not relevant to the public sector.

PIOB OBSERVER REMARKS

Ms. Stothers noted her support for the paragraphs addressing the firm's public interest role, however was uncertain whether the term 'fulfill' in the objective of the standard would be sufficient to address the meaning it intends to convey in relation to quality. Ms. Stothers noted concern that the concept of applying professional judgment could be used as a basis for inappropriately reducing the work undertaken in an engagement quality control review. She also emphasized that all firms should undertake performance evaluations, irrespective of their size. Ms. Stothers highlighted the IAASB's discussion about communication with external stakeholders, and noted that this would be shared with the PIOB, as well as the reason for not explaining specific aspects of the IESBA Code in proposed ISQC 1 (Revised) She further noted the PIOB's views in relation to networks, i.e., that requirements for networks are needed.

WAY FORWARD

The QCTF will consider the matters raised by the IAASB' and will present further proposals addressing networks and monitoring and remediation at the June IAASB 2018. The QCTF will also undertake specific outreach with public sector representatives in order to make amendments in relation to public sector considerations as appropriate. A final read of the proposed ED of ISQC 1 (Revised) will be presented to the IAASB at the September 2018 IAASB meeting for approval.

7.   Emerging Forms of External Reporting (EER)

Mr. Grabowski presented an update on the recent work of the EER Task Force, as set out in **Agenda Item 8-A,** in the development of non-authoritative guidance that will be applicable across the broad spectrum of EER.

The IAASB was supportive of the approach to understand the conceptual and contextual background of EER reporting frameworks which are used today and provided helpful comments and feedback on the material presented, including:

- The suggestion that the EER Task Force continue to explore the qualitative characteristics of EER subject matter information; and

- Agreement that better understanding of reporting boundaries is important given that these are less clear for EER than financial reporting.

Mr Grabowski further summarized the discussions of the EER Task Force on materiality, highlighting what was different for EER compared to traditional financial reporting. The IAASB expressed support for the direction of the EER Task Force's work and provided suggestions for areas and matters the EER Task Force could explore further, including:

- How to balance the needs of different user groups;

- Whether the guidance (although aimed at assurance practitioners) would also be useful for preparers; and

- What can be learned from how assurance is being undertaken in practice (including by non-accountant practitioners).

WAY FORWARD

The EER Task Force will continue to progress matters for discussion with the IAASB at the June 2018 IAASB meeting. The EER Task Force will also continue with its outreach to obtain further relevant views on these matters. In addition, the Project Advisory Panel (PAP) has been established and is scheduled to meet via teleconference approximately monthly. For the June 2018 Board meeting, the EER Task Force will present the issues relating to challenges 2 (criteria), 3 (materiality), and 4 (assertions).

8.   Professional Skepticism

Ms. Provost provided the Board with an update on the activities of the IAASB Professional Skepticism Subgroup (Subgroup) including an overview of the proposed way forward, an update on the related activities of the IESBA and the International Accounting Education Standards Board (IAESB). She also provided a summary of the work done to date by the Subgroup on feedback from the ITC on professional skepticism.

INCONSISTENT VERSUS 'CONTRADICTORY'

The IAASB noted a variety of views on the use of the term 'inconsistent evidence' rather than 'contradictory evidence.' It was agreed that the auditor should not be biased to obtaining evidence from only corroborative sources. It was also noted that it may be useful to explore the idea that further sources of evidence be accessed when more persuasive evidence is needed.

A POTENTIAL REQUIREMENT TO SEEK OUT CONTRADICTORY OR INCONSISTENT EVIDENCE

The Board supported the Subgroup's recommendation to not add a requirement within the ISAs to seek contradictory or inconsistent evidence in all circumstances in an audit.

OTHER RECOMMENDATIONS

The IAASB also:

- Generally supported recognizing the important role of professional judgment when making decisions about when to seek evidence from other sources. The IAASB also discussed the work effort that should be applied when seeking such evidence, and how contradictory evidence ought to be dealt with in practice; and

- Noted the relationship between contradictory evidence and the upcoming project on audit evidence, in particular that part of the project should focus on the importance of the persuasiveness of evidence.

PIOB REMARKS

Ms. Stothers noted, in response to the discussions on the use of the term 'inconsistent' versus 'contradictory' evidence that the use of the term contradictory appeared to be more appropriate and well-understood within the ISAs.

WAY FORWARD

The IAASB supported the continued operation of the Subgroup and asked the Subgroup to continue to provide input on professional skepticism to the other current standard setting projects of the IAASB. The IAASB also supported the Subgroup exploring whether there are opportunities to communicate to stakeholders about the professional skepticism activities of the IAASB.

9. CAG Chair Remarks

Mr. Dalkin noted the CAG's recognition of the substantial progress made in relation to ISA 540 (Revised) and ISA 315 (Revised), however he further noted that there areis still further efforts needed in relation to ISQC 1. He also encouraged IAASB members and technical advisors to attend, wherever possible, the CAG meetings.

10. PIOB Observer Remarks

Ms. Stothers highlighted the PIOB's written comments to the Board on its public interest issues, noting that the PIOB would continue to provide feedback given on the various projects. She also acknowledged the open and balanced dialogue during the meeting.

Ms. Stothers noted the discussions about the coordination of the IAASB with the IESBA on its new restructured Code of Ethics, highlighting that this was a matter previously raised by the PIOB. Ms. Stothers further encouraged the Board to continue to explore matters relating to scalability, noting that it was in ethe public interest that the standards are scalable. She also emphasized the need for the Board to continue

making the standards more concise and understandable, including through the use of appendices and flowcharts as appropriate.

11. Closing

The minutes of the December 2017 IAASB meeting and teleconference of January 30, 2018 were approved as presented.

Prof. Schilder thanked the PIOB for their encouragement and observations across all of the projects. Prof. Schilder thanked the IAASB members, technical advisors and IAASB staff and closed the meeting.

12. Next Meeting

It was noted that an additional Board Teleconference would be scheduled to discuss the Stakeholder Survey as part of the development of the 2020–2023 IAASB Strategy. It was also noted that the two planned teleconferences for the second quarter of 2018 were confirmed, with the topics being aspects of ISA 540 (Revised) and ISA 315 (Revised) respectively. The next IAASB physical meeting will be held in New York, United States of America, from June 18–23, 2018.