

**Draft Minutes of the 105th Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)
Held on June 17–21, 2019 in New York, United States of America**

Voting Members

Present: Prof. Arnold Schilder (Chairman)
(June 19-21)

Fiona Campbell (Deputy Chair)
(Acting Chair 17-18 June 2019)

Chun Wee Chiew¹

Julie Corden

Robert Dohrer

Karin French (June 18-21)

Marek Grabowski

Kai Morten Hagen

Len Jui

Sachiko Kai

Prof. Kai-Uwe Marten

Lyn Provost

Fernando Ruiz Monroy

Rich Sharko

Roger Simnett

Isabelle Tracq-Sengeissen

Eric Turner

Imran Vanker

Apology: *None*

Non-Voting Observers

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

Apology: Juan Maria Arteagoitia (European Commission)

Technical Advisors (TA)

Sara Ashton (Ms. French)

Vivienne Bauer (Mr. Monroy)

Nicolette Bester (Mr. Vanker)

Wolf Böhm (Prof. Marten)

Melissa Bonsall (Ms. Corden)

Fabien Cerutti (Ms. Tracq-Sengeissen)

Johanna Field (Mr. Turner)

Hiram Hasty (Mr. Dohrer)

Josephine Jackson (Mr. Grabowski)

Susan Jones (Mr. Jui)

Kohei Yoshimura (Ms. Kai)

Jamie Shannon (Mr. Sharko)

Sylvia Van Dyk (Ms. Provost)

Denise Weber (Ms. Campbell)

Matthew Zappulla (Mr. Simnett)

Helene Agélii (Mr. Hagen)

¹ Mr. Chiew was not supported by a Technical Advisor at the June 2019 IAASB Meeting.

Public Interest Oversight Board (PIOB) Observer

Present: Prof. Karel van Hulle (June 17 – 20)

IAASB Technical Staff

Present: James Gunn (Managing Director, Professional Standards) (June 20), Willie Botha (Technical Director), Beverley Bahlmann, Yvonne Chan, Brett James, Natalie Klonaridis, Armand Kotze (via teleconference), Phil Minnaar, Hanken Jane Talatala, Joy Thurgood, Jasper van den Hout.

Dan Montgomery (Senior Advisor – Technical projects)

IAASB agenda materials referred to in these minutes can be accessed at <https://www.iaasb.org/meetings/iaasb-board-meeting-new-york-usa>. These minutes are a summary of the decisions made at the June 2019 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

Ms. Campbell, standing in for Prof. Schilder on Monday June 17 and Tuesday June 18, 2019,² welcomed all participants to the meeting held in New York, United States of America. Ms. Campbell specifically welcomed the incoming IAASB Chair, Tom Seidenstein, who was attending the June 2019 meeting to observe proceedings before he officially took up the IAASB Chair position on July 1, 2019. Ms. Campbell further noted that the Small- and Medium Practice Committee (SMP Committee) meeting would only take place the week after and therefore no letter from the SMPC was sent to the IAASB prior to the meeting, but she noted that feedback on the projects discussed at the June 2019 meeting would be provided at the ~~meeting the~~ SMP Committee meeting the following week.

2. Identifying and Assessing Risk of Material Misstatement – Proposed ISA 315 (Revised)³

BACKGROUND

Ms. Campbell presented the issues paper (**Agenda Item 2**) and walked through a full version of the standard, including the application material (**Agenda Item 2–F**), which was prepared using the 'drafting approach' that was agreed to by the Board at the March 2019 IAASB meeting (at its meeting in March 2019, the Board noted that a full version of the standard was necessary to fully assess or evaluate the consequences such approach).

² Because Ms. Campbell is also the Chair of the ISA 315 Task Force and had to lead the discussion on Monday, Mr. Grabowski assisted Ms. Campbell in running the meeting on June 17, 2019

³ Proposed International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement* (ED-315)

OVERALL REACTIONS TO THE DRAFTING APPROACH

The Board broadly supported the overall redrafting of the standard, as presented in **Agenda Item 2–F**, and in particular regarding the efforts to:

- Make the standard more understandable (and easier to read, in particular the shorter, more focused requirements);
- Enhance the application material, noting that the introduction of the “why” was very helpful, as well as separately signposting the examples, the scalability and automated tools and techniques paragraphs; and
- Enhance and revise the appendices.

Notwithstanding the support for the broader changes, Board members expressed concern with the way that some of the new definitions had been presented, specifically noting that there may be challenges in navigating efficiently through the standard when considering related matters or material, in particular for non-native English speakers. Although it was recognized that technology may be a solution to improve navigation, the Board agreed that this would unlikely be an achievable solution considering the stage of completion of the project. In addition, some Board members expressed concern about the authority of the new definitions, noting that this may have unintended consequences, as key criteria would now be excluded from the ‘*requirements*’ section of the standard and may not be seen to form an integral part of the relevant requirement as intended. Concern was also expressed about the way that some of these new definitions were articulated, in particular the introduction of ‘*relevant aspects*’ to be understood.

Concern was also expressed that the flow of the standard still made it complex to understand, and the ISA 315 Task Force were encouraged to further consider the flow, as well as how the standard could be shortened (although some Board members noted that the standard should be as long as it needs to be).

With regard to the application material:

- One Board member expressed concern that some of the ‘why’s were obvious and therefore were not needed.
- Comments were raised about some of the specific examples, while there were also concerns expressed about how some of the examples were relevant today but may ‘date’ the standard.

In considering revisions⁴ (**Agenda Item 2–F Updated**) to ‘reconnect’ the definitions to the requirements, the Board generally supported the reincorporation of the matters moved to definitions back into the body of the requirement, and also, in particular, the revised presentation in a 2-column table. It was highlighted that this presentation made it clearer what was required to be understood in relation to each component of the system of internal control (i.e., that certain matters were required to be understood and, where relevant, evaluated in context of that understanding).

In progressing the requirements to finalization, the Board agreed to the further development and implementation of this approach by the ISA 315 Task Force.

In relation to the new aspects of the presentation of the application material, the Board agreed to the principles and approach taken as set out in **Agenda Item 2–C**, but asked the ISA 315 Task Force to further consider the use of present tense in places.

⁴ The revised proposals focused on changes mainly in relation to the understanding of the system of internal control

It was also recognized by the Board that the new drafting approach to ISA 315 (Revised) would need to be considered for other standards being revised, and maybe the ISAs more broadly, but that this was not part of the ISA 315 (Revised) project and should therefore not hold up the approval of ISA 315 (Revised) in any way.

DEFINITIONS

One Board member expressed concern about how some aspects of the changes to the definitions would be documented. In addition, the Board:

- Continued to express mixed views whether or how to include '*fraud*' into the definition of the inherent risk factors. On balance, the Board supported a proposal to specifically include a reference to the '*fraud risk factors*⁵ insofar as they affect inherent risk.'
- Requested the ISA 315 Task Force to further consider the following aspects of the definition of '*assertions*:'
 - How this definition distinguishes between assertions used in preparing the financial statements made by management and the assertions used by the auditor.
 - Aligning the application material (assertions used as a tool by auditors) with the proposed definition (assertions that are used in context of the applicable financial reporting framework).

RISK ASSESSMENT PROCEDURES

Although broadly supportive of the proposals, the ISA 315 Task Force was asked to further consider:

- The enhancement to paragraph 17 that requires the auditor to perform risk assessment procedures that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. Some Board members questioned why there was a focus on '*bias*,' noting that the scope should be broader and include, for example, the overall mindset of the auditor. A few Board members, however, did not agree with this addition for this stage of the risk assessment process.
- Whether it is appropriate to move the extant requirement in relation to inquiries with internal audit to the application material, recognizing that application material is non-authoritative.

UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT AND THE APPLICABLE FINANCIAL REPORTING FRAMEWORK

Although the Board supported the presentation of this requirement in the new 2-column drafting format (as set out in **Agenda 2-F Updated**), it was questioned whether the proposed lead-in was appropriate for both columns. In addition:

- A Board member questioned whether risks are affected by the inherent risk factors rather than '*events and conditions*,' while another Board member encouraged the ISA 315 Task Force to consider which aspects of the understanding are affected by the inherent risk factors and to make that clear in the requirement.
- It was agreed to re-instate the wording '*perform risk assessment procedures*' in the lead-in to this requirement, as it provides appropriate context on how to obtain the overall understanding. For

⁵ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs A24–A27

consistency purposes, it was agreed to also include this wording when obtaining the understanding of each component of the system of internal control.

UNDERSTANDING THE ENTITY'S SYSTEM OF INTERNAL CONTROL

In addition to the comments about the revised presentation for the auditor's understanding of the system of internal control, the Board also asked the ISA 315 Task Force to further consider:

- Clarifying the meaning of what an '*appropriate*' understanding is in the context of the entity's risk assessment process and the entity's process to monitor the system of internal control. In doing so, the Board agreed that it may be helpful to reintroduce the wording '*to the entity's circumstances considering the nature and size of the entity*' (as included in ED-315).
- In the control activities component, the wording of the 'catch-all' or requirement (i.e., paragraph 39(c) of **Agenda Item 2-A**) to identify controls that will assist the auditor in achieving the objectives of risk assessment procedures, a concern continued to be expressed about how this aspect of the requirement may be interpreted. Although generally supportive of the application material, some Board members expressed concern that the wording included in the requirement of 'controls that are *necessary*' may be interpreted too widely and does not reconcile with the guidance included in the application material (which was noted to be clearer as to what these controls may be).
- The wording used to describe the scope of the understanding of the information system ('*policies that define significant classes of transactions, account balances and disclosures*'), as this may be interpreted as a 'deep dive' understanding that may go beyond the intended required understanding.
- Specific aspects of the requirement to evaluate the design of a control and determining whether it has been implemented (D&I procedures):
 - One Board member questioned whether the use of the term '*effectively*' is appropriate in the context of evaluating whether a control is '*designed effectively*' (paragraph 42(a) of **Agenda Item 2-A**). The concern was expressed that the concept of the '*effectiveness of controls*' falls within the scope of ISA 330,⁶ and not ISA 315 (Revised). The Board member suggested that it may be more appropriate to use the word '*appropriately*.'
 - Whether '*inquiry*' is always required in addition to other procedures.

IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

In progressing other proposed changes, the Board requested that the ISA 315 Task Force further consider:

- How to describe and distinguish the 'threshold' when *identifying* a risk of material misstatement (in ISA 200,⁷ proposed paragraph A15a). Some Board members also continued to express concern about the explicit use of the term '*reasonable possibility*' in the proposed new paragraph. In addition, it was questioned whether the material related to the 'threshold' should rather be located in ISA 315 (Revised) rather than ISA 200.

⁶ ISA 330, *The Auditor's Responses to Assessed Risks*

⁷ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

- How to better incorporate the consideration of the inherent risk factors in the requirement to assess inherent risk at the assertion level, as there may be circularity.
- How the iterative nature of the standard is emphasized upfront. Although there is a recognition that the standard is not a linear process, Board members noted the need for more prominent explanatory material, including in the introductory paragraphs and the 'Basis for Conclusions' document.
- Clarifying in the application material that if there is no intent or requirement to test the operating effectiveness of controls, and the auditor chooses not to test the operating effectiveness of controls, that this decision or course of action in itself represents an 'implicit' assessment of control risk.

Board members also expressed concern about the interaction of the definition of significant risk and the requirement to determine significant risks, noting that it was still not clear where on the spectrum of inherent risk an identified risk may be determined to be a significant risk. The ISA 315 Task Force revised the definition of significant risk (**Agenda Item 2-F Updated**) to more clearly articulate that it was the *combination* of the likelihood of a misstatement and the magnitude of that misstatement that would help the auditor determine whether an identified risk is a significant risk.

DOCUMENTATION

The Board supported the proposed changes to the documentation requirements.

APPENDICES

Subject to minor editorial suggestions, the Board expressed their general support for the appendices as included in **Agenda Item 2-D**.

GUIDANCE

The Board expressed its support for the ISA 315 Task Force's initial views about the development of implementation guidance relating to ISA 315 (Revised), as set out in **Agenda Item 2-E**. The Board strongly supported the revised flowchart, with some Board members continuing to encourage consideration of adding the flowchart to the standard.

IAASB CAG CHAIR REMARKS

Mr. Dalkin noted the CAG's continuing support for the proposals, with particular reference to the efforts by the ISA 315 Task Force to address overarching concerns in relation to the length and complexity of the standard.

PIOB OBSERVER REMARKS

Subject to the inclusion of all needed requirements, Prof. van Hulle expressed strong support for the new drafting approach as agreed to by the Board. Prof. van Hulle further encouraged the ISA 315 Task Force to introduce the term 'scalability' explicitly within the body of the requirements. However, recognizing that the requirements are intended to be principles based, the ISA 315 Task Force Chair cautioned that this term may be better described to the introductory paragraphs. In considering the definition of the inherent risk factors, Prof. van Hulle supported the proposed revision which explicitly refers to the consideration of *'the fraud risk factors insofar as they affect inherent risk.'*

WAY FORWARD

The ISA 315 Task Force will work towards finalizing the standard for approval at the September 2019 IAASB meeting, including draft implementation guidance materials and the conforming amendments for approval. The ISA 315 Task Force will undertake specific outreach with International Forum of Independent Audit Regulators (IFIAR) Standards Coordination Working Group and the CAG, recognizing the expected approval of the final standard in September 2019.

The ISA 315 Task Force will present conforming and consequential amendments, based on the changes to ISA 315 (Revised) already discussed with the Board at the March and June 2019 IAASB meetings at a Board teleconference in August 2019. Other conforming amendments arising from new changes to ISA 315 (Revised) to respond to Board comments from June 2019 will be presented for discussion at the September 2019 IAASB meeting.

3. Agreed-Upon Procedures (AUP) Engagements – Proposed ISRS 4400 (Revised)⁸

Mr. Turner, Chair of the AUP Task Force, provided an overview of the responses to Exposure Draft ISRS 4400 (Revised) (ED-4400). In response to the comments received from respondents, and the AUP Task Force's initial proposals for moving forward the Board made the following observations.

PROFESSIONAL JUDGEMENT

Although the Board agreed that no professional judgment is exercised when performing or executing the actual 'agreed-upon procedures,' the Board emphasized that the Standard should acknowledge that the practitioner still applies relevant training, knowledge and experience throughout the engagement.

The Board cautioned against introducing extensive introductory paragraphs to explain the differences between AUP engagements and assurance engagements. Concerns were expressed that such introductory paragraphs may create confusion for practitioners who do not perform assurance engagements.

INDEPENDENCE

Subject to local laws, regulations or ethical requirements that may be more restrictive, the Board agreed to not include a precondition for the practitioner to be independent when performing AUP engagements. The Board also agreed to not require the practitioner to determine independence, considering that there is not a recognized framework to measure independence in the context of ISRS engagements. In reaching its decisions:

- The Board discussed alternatives for disclosures about independence in the AUP report. While Board views were mixed, the balance of views supported simplified or limited disclosures where the practitioner is not required to be independent and has therefore not made an evaluation of independence. Under these circumstances, the same disclosures would apply irrespective of whether the practitioner knows or does not know whether the practitioner is independent.
- The Board supported the proposal to explore how transparency regarding the practitioner's objectivity could be enhanced in the AUP report. The Board noted that enhanced transparency on objectivity

⁸ International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*

may help mitigate the 'expectation gap' resulting from intended users expecting the practitioner to be independent.

FINDINGS

The Board agreed with the AUP Task Force's proposal to retain the use of the term 'findings' and to require an explanation of this term in the engagement letter and the AUP report.

ENGAGEMENT ACCEPTANCE AND CONTINUANCE

The Board agreed that the engagement acceptance and continuance conditions should include consideration of how the concept of 'rational purpose' included in ISAE 3000 (Revised)⁹ might be adapted for AUP engagements, such as whether the procedures are 'neutral' – i.e., the procedures selected are free from bias.

On emphasizing the iterative process of agreeing and performing the procedures, a member suggested that the practitioner should be required to obtain the engaging party's acknowledgement that the procedures to be performed are appropriate prior to the completion of the engagement.

PRACTITIONER'S EXPERT

The Board agreed with the AUP Task Force's proposal on neither requiring nor prohibiting a reference to the use of the practitioner's expert in the AUP report.

AUP REPORT

The Board supported the proposal to not require the practitioner to include a 'restriction of use' paragraph in the AUP report. However, a few members suggested that the AUP Task Force should consider including guidance on when the practitioner may wish to restrict the AUP report (for example, if the AUP report contains confidential information or if there is an elevated risk of users misinterpreting the findings).

OTHER MATTERS

Although the Board supported the proposal to require the practitioner to consider whether written representations should be requested, the Board disagreed with the suggestion to include application material to explain that 'written representations are not generally required' in AUP engagements, noting that this may appear to contradict the requirement.

The Board supported the proposal to enhance the linkages to the practitioner's responsibilities pertaining to fraud and non-compliance as set out in relevant ethical requirements. One member suggested that the standard should specifically require the practitioner to respond to fraud or non-compliance with laws or regulations during the AUP engagement.

EFFECTIVE DATE

The Board expressed mixed views in discussing the merits of basing the effective date on either the AUP report date or the date when the engagement was agreed to. If based on the latter, some Board members expressed concern that there may be a significant delay in implementing the new standard when the terms

⁹ International Standards on Assurance Engagements (ISRE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

of an existing engagement cover multiple periods. Accordingly, in further considering the basis of the effective date, the Board agreed that the application material should provide guidance on transitional requirements to avoid an unreasonable delay in implementing the standard.

IAASB CAG CHAIR REMARKS

Mr. Dalkin noted his continuing support for the project and the proposals by the AUP Task Force. In relation to independence, Mr. Dalkin noted the importance of independence from a public sector perspective, and accordingly, he supported independence disclosures in the AUP report.

PIOB OBSERVER REMARKS

Prof. Van Hulle noted that it is reasonable to conclude that some form of 'judgment' would be exercised during an AUP engagement. Therefore, if the IAASB retains the view that no professional judgment is exercised during the performance of agreed upon procedures, the standard should explain what this means.

On the issue of independence, Prof. Van Hulle emphasized the importance of independence disclosures in the AUP report from a transparency and public interest perspective.

4. International Accounting Standards Board (IASB) Update

Ms. Campbell welcomed IASB Member, Ms. Tokar, via teleconference to give the Board an update on the IASB work program and some of the current projects that the IASB is focused on that may impact the work of an auditor. Ms. Tokar updated the Board on the three major IASB projects that include the IASB's disclosure initiative, primary financial statements and management commentary practice statements/ broader financial reporting projects. Further to the projects mentioned above, Ms. Tokar also updated the board on the IASB project that addresses International Financial Reporting Standards (IFRS) for Small- and Medium Entities (SMEs).

Ms. Tokar also updated the Board on some other activities the IASB is currently working on that include post-implementation review of IFRS 17, *Insurance Contracts*, interbank offer rates reform, goodwill and impairment project, and proposed amendments to accounting policies and estimates. Ms. Tokar ended off the session by presenting a short snapshot of the IASB workplan.

5. Auditor Reporting Post-Implementation Review (PIR)

Mr. Montgomery highlighted the main trends and issues that the Auditor Reporting Implementation Working Group (ARIWG) has noted through their information gathering and research activities. The Board variously commented on their observations in their jurisdictions about the number of key audit matters (KAM) communicated in auditor's reports and trends across industries. The Board also:

- Highlighted the importance of ongoing awareness among users about the new and revised auditor's report. The Board also observed that in some jurisdictions users have not necessarily found the additional information in the auditor's reports incrementally useful. It was suggested that a further understanding is needed of why this is the case.
- Noted some concern that KAMs may become boilerplate after a few years. The Board also noted that the communication of KAMs is approached as a compliance exercise in some jurisdictions, rather than a means to enhanced communication.

- Noted that in some jurisdictions ISA 720 (Revised)¹⁰ has been the most challenging area for practitioners and that, in certain jurisdictions, the standard has generated extensive debate and discussion, and has not yet been adopted in some countries.
- Suggested exploring whether there has been any litigation or regulatory action arising from the communication of KAMs.

PIR

Mr. Montgomery provided an overview of the recommended objective, scope and approach to the PIR, noting that the information from the PIR will be important to enabling the ARIWG to provide recommendations to the Board on further actions, if any. The Board supported the revised objective and scope of the PIR and agreed with the ARIWG's view that the information gathering and research activities have not indicated the need for immediate action.

The Board encouraged the ARIWG to leverage the work already undertaken by National Standard Setters (NSS) as part of the PIR and engage with academics on undertaking research or compiling a compendium of research already undertaken. The Board also provided various suggestions of matters to be considered as part of the PIR, including:

- What questions need to be answered through the PIR to understand whether the purpose of the new and revised auditor's report has been achieved.
- Whether users' information needs have evolved in the current environment, and therefore whether the new and revised auditor's report remains relevant.
- How the new and revised auditor's report is being used by regulators, and regulator's findings related to the reports.
- The reasons why certain jurisdictions have not adopted the new and revised auditor reporting standards, or aspects thereof, as this may be indicative of certain challenges.
- Whether additional disclosures required by certain jurisdictions have been beneficial, including those related to the involvement of other auditors and matters related to independence.
- Whether there has been any impact on audit quality as a result of the implementation of the new and revised auditor reporting standards.
- With respect to ISA 720 (Revised):
 - Whether it is being implemented in the intended manner.
 - How jurisdictions have overcome implementation challenges, if any.
- If feasible to do, the cost of implementation versus the benefits.
- The need for interim review reports to include aspects of the new and revised auditor's report, such as KAMs.

The Board in general agreed that there is a need for external communication from the IAASB about auditor reporting, such as a project update, but cautioned against a more comprehensive feedback statement that

¹⁰ ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

outlines global trends at this stage. The Board also suggested that the ARIWG consider frequently asked questions published by NSS and whether these would be useful to include in the IAASB's support material.

IAASB CAG CHAIR REMARKS

Mr. Dalkin suggested further exploring whether the auditor's reports in accordance with the new and revised auditor reporting standards contain boilerplate language. He also suggested:

- Considering whether the new auditor's report has achieved the original objective of the project; and
- In circumstances when there have been corporate failures, understanding whether the KAMs addressed the matters that may be related to the failures.

PIOB OBSERVER REMARKS

Prof. van Hulle encouraged the ARIWG to consider the way in which the IASB conducts its PIRs. He suggested that academics be involved in the PIR and that the PIR focus on implementation experiences and future challenges, as well as consider how regulators and supervisors consider KAMs. He also supported the suggestion to explore whether there has been any litigation or regulatory action arising from the communication of KAMs.

Prof. van Hulle noted that issues on going concern have evolved since the topic was last considered by the IAASB and encouraged that this be further considered as part of this initiative. He also noted the need to explore sustainability of the business as it relates to going concern. He encouraged the IAASB to coordinate with the International Ethics Standards Board for Accountants (IESBA) on disclosure of audit fees and non-assurance services in the auditor's report.

WAY FORWARD

The ARIWG plans to publish a project update about the auditor reporting project and will also consider whether any of the NSS publications contain information that may be appropriate for inclusion in the IAASB's support material. The ARIWG will also coordinate with the IESBA on matters relating to the auditor's report.

With respect to the PIR, the ARIWG plans to develop a PIR plan based on the input received from the Board, and that will include any planned research activities, the nature and timing of outreach with certain stakeholders, and the information that will be sought from stakeholders as part of the focused information gathering for the PIR.

6. Group Audits – ISA 600¹¹

Mr. Jui updated the Board on the work performed by the ISA 600 Task Force since the March 2019 meeting, as presented in **Agenda Item 6**, **Agenda Item 6-A** and **Agenda Item 6-B**. In addition, he further explained how the risk-based approach to planning and performing a group audit would work in different situations. The following sets out the more substantive comments from the Board.

¹¹ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

PUBLIC INTEREST ISSUES

The Board supported the key public interest issues as set out by the ISA 600 Task Force in section I of **Agenda Item 6**. With respect to the public interest issues, the Board asked the ISA 600 Task Force to further consider:

- Breaking up the two key public interest issues identified into several, more specific, public interest issues.
- Including the risk that insufficient and inappropriate resources are allocated to perform the engagement.
- With respect to access to the component auditor's working papers and the component auditor, highlighting that the IAASB can't enforce access to people and information, but that it can help by developing guidance for situations where access to people or information is restricted.

RISK BASED APPROACH TO PLANNING AND PERFORMING A GROUP AUDIT

The Board supported the risk-based approach to planning and performing a group audit (the 'risk-based approach') as set out by the ISA 600 Task Force in section II of **Agenda Item 6**. With respect to the risk-based approach, the Board asked the ISA 600 Task Force to further consider:

- Clarifying the important role that component auditors play in risk identification as a component auditor may be better placed to perform the risk identification and assessment than the group engagement team.
- Clarifying in which instances it may be useful to identify components that are significant. It was suggested that the ISA 600 Task Force reach out to practitioners and obtain their views on this matter.
- When a statutory audit engagement is performed on a component, explain how the component auditor can leverage of the work performed for the statutory audit.

On the preliminary drafting, as set out by the ISA 600 Task Force in **Agenda Item 6-A**, the Board asked the ISA 600 Task Force to further consider:

- Making the drafting more specific to group audit engagements as the requirements seem to repeat the requirements in the relevant foundational standard. It was suggested that the special considerations specific to an audit of group financial statements in respect of those standards are identified and draft requirements that address those special considerations.
- Highlighting the differences in the auditor's understanding of the control environment between a single entity audit and a group audit.

SPECIAL CONSIDERATIONS IN AN AUDIT OF GROUP FINANCIAL STATEMENTS

With respect to the special considerations in an audit of group financial statements, as presented in section III of **Agenda Item 6**, the Board asked the ISA 600 Task Force to consider:

- Identifying the special considerations in an audit of group financial statements. It was suggested to have requirements for each special consideration and clarify that these requirements only apply when the special consideration is present.
- Further clarifying the scope of the standard.

- With respect to the definition of group financial statements, whether ‘aggregate’ should be replaced by ‘consolidate.’
- With respect to the communication with component auditors:
 - Emphasizing the importance of robust communications from the component auditor to the group engagement team.
 - Clarifying that when the group engagement team also audits a component there is no need for to send instructions and report back to itself;
 - Clarifying the relationship between the direction, supervision and review, and the communication with component auditors, to avoid unnecessary communications.

The Board generally supported the preliminary drafting of the special considerations related to ISA 220 (Revised)¹² as set out by the ISA 600 Task Force in **Agenda Item 6-B**. With respect to the drafting, the Board asked the ISA 600 Task Force to consider:

- Including guidance to address the situation when a component auditor oversees another component auditor.
- Streamlining the drafting as some paragraphs seem to overlap each other.
- With respect to paragraph 13A(e), whether it is practically possible for the group engagement partner to determine that sufficient and appropriate resources are assigned or made available by the component auditor’s firm.

OTHER ISSUES

In addition to the topics discussed above, the Board asked the ISA 600 Task Force to:

- Liaise with the ISA 220 Task Force and the International Ethics Standards Board for Accountants on the definition of engagement team.
- Reach out to a broad range of stakeholders including the International Organisation of Supreme Audit Institutions (INTOSAI), the Global Public Policy Committee, the Forum of Firms and the International Federation of Accountants’ SMP Committee.

The Board also discussed whether ISA 600 should include guidance related to joint audits and concluded that this topic was not included in the Project Proposal and that it would be better placed elsewhere, as group audits and joint audits are in some respect similar but in other aspects very different. Given the growing importance of this topic it was suggested to include it in the considerations by the Board as it develops its future strategy and work plan.

IAASB CAG CHAIR REMARKS

Mr. Dalkin highlighted the importance of a principle-based standard that is adaptable and scalable, which would make the application of the standard easier for a wide range of users. He also supported reaching out to INTOSAI.

¹² ISA 220, *Quality Control for an Audit of Financial Statements*

PIOB OBSERVER REMARKS

Prof. van Hulle noted that, from a public interest perspective, the project to revise ISA 600 is important as almost all systemically significant entities globally are group audits and addressing the issues identified is critical. He therefore questioned why there were only two key public interest issues identified. He highlighted the important role that the group engagement team plays in a group audit and asked the ISA 600 Task Force to further clarify this role in the revision of ISA 600. Prof. van Hulle also noted that it needs to be clear that ISA 600 is not a standalone standard – i.e., all other ISAs also apply when auditing a group.

WAY FORWARD

The ISA 600 Task Force will further develop the drafting, including application material, related to the introduction section, the requirements on engagement acceptance and continuance and the risk-based approach. The ISA 600 Task Force will also discuss other matters that have not been discussed with the Board to date, such as materiality considerations, and present these to the Board at its September 2019 meeting.

7. Audit Evidence

Mr. Dohrer explained the activities undertaken by the Audit Evidence Working Group (AEWG) in responding to the feedback from the IAASB's March 2019 meeting and further discussions by the Steering Committee. Mr. Dohrer noted the coordination activities undertaken with the Technology Working Group (TWG) and the Professional Skepticism Working Group (PSWG). Ms. Provost emphasized the importance of continued coordination between the AEWG and PSWG. She also explained the key areas of focus for the PSWG based on its most recent discussions, some of which may be addressed through the proposed actions related to audit evidence and technology.

ISSUES RELATED TO AUDIT EVIDENCE AND TECHNOLOGY

The Board agreed that the issues related to audit evidence, as primarily driven by technology, professional skepticism and sources of information, outlined in **Appendix 2 of Agenda Item 7** were comprehensive and indicated that the work undertaken to develop these issues is an important step in the information-gathering and research process. The Board recommended that the issues be prioritized. The Board also commented on particular issues that are more significant and provided suggestions for other actions that could be considered for certain issues.

The Board noted that technology may provide an opportunity to obtain more relevant and reliable audit evidence related to going concern, related parties and fraud. The Board therefore noted that the use of technology may positively affect the persuasiveness of audit evidence.

ACTIONS TO ADDRESS THE ISSUES RELATED TO AUDIT EVIDENCE AND TECHNOLOGY

Mr. Dohrer outlined the AEWG's recommendations for the proposed actions to be undertaken to address the issues related to audit evidence and technology. In relation to audit evidence, the Board did not support the development of a project proposal at this time, because, on balance, there was the view that further information-gathering and research activities are necessary to further understand:

- The issues outlined in **Appendix 2 of Agenda Item 7**, including whether, and the extent to which, the issues, are creating difficulties in practice (and the reasons for this);

- How individual issues may be best addressed (i.e., whether this could be done through standard-setting or some other action); and
- Whether there are any other issues that need to be considered.

The Board also recommended that the actions to address the issues related to technology and audit evidence be considered separately and addressed through a ‘two-track’ approach:

- Immediately initiating activities to develop non-authoritative guidance to address the effect of technology when applying certain aspects of the ISAs. The Board emphasized the urgency and importance of this guidance, and the need for it to be developed in an expedient manner.
- Undertaking further information-gathering and research activities on the issues related to audit evidence. The Board emphasized that such information would be important in determining if standards need to be revised or whether other actions would be more appropriate. As part of the further information-gathering and research activities, the Board encouraged the AEWG to undertake outreach with stakeholders.

The Board further recommended establishing workstream plans that broadly outline the planned activities:

- In relation to non-authoritative guidance on technology, the Board recommended that the workstream plan include an outline of the issues to be addressed in the guidance, the form of guidance and the process for developing the guidance, including how Board input will be solicited, if any.
- In relation to audit evidence, the Board recommended that the workstream plan outline what further information-gathering and research activities are needed and the timeline for these activities, in order to further progress the activities on a timely basis. The Board also acknowledged that this approach to research and information gathering is in line with the new Framework for Activities proposed in the IAASB’s ‘*Proposed Strategy for 2020–2023 and Work Plan for 2020–2021*.’

PROCESS FOR DEVELOPING GUIDANCE RELATED TO TECHNOLOGY

The Board highlighted the importance of the non-authoritative guidance being developed in a timely manner and therefore emphasized the need for agility. However, the Board expressed mixed views about the extent to which the Board should provide input to the non-authoritative guidance. The Board also noted the need to consider Staff and Board resources to progress such guidance, recognizing the urgency of the guidance and limitations on available time for the Board to consider the guidance.

OTHER MATTERS

The Board suggested identifying appropriate terminology to describe technology that is not associated with a specific type of technology, and can be adapted to future technologies, such as “automated tools and techniques” that was used in the revision of ISA 315 (Revised).

The Board encouraged more clarity in differentiating between the activities of the TWG, and those of the AEWG, however noted the need for close coordination between the two working groups in considering the issues given the close overlap of the issues. The Board also noted that there may be a need to involve specialists in dealing with the issues related to technology.

IAASB CAG CHAIR REMARKS

Mr. Dalkin noted that the CAG has a keen interest in technology. He also noted that the CAG was supportive of the proposals by the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) regarding the attributes and factors used to evaluate information to be used as audit evidence.

PIOB OBSERVER REMARKS

Prof. van Hulle supported the two-track approach to the work on technology and audit evidence and emphasized the need for guidance in relation to technology. He encouraged the Board to be innovative in how to develop guidance that does not need to be subject to formal due process.

Prof. van Hulle also supported undertaking further information gathering and research related to audit evidence, but urged the Board to develop a timeline so there is clarity regarding how the information-gathering and research will progress, and to give transparency to the work that the Board is undertaking in these areas.

WAY FORWARD

The AEWG and TWG will consider the input provided by the IAASB to differentiate their respective workstreams. The AEWG will also consider the input provided as it commences activities to further understand the key issues and identify areas of focus in scoping the activities for future work in relation to audit evidence.

8. Extended External Reporting (EER) Assurance

OVERVIEW

Mr. Grabowski introduced the session by thanking his EER Task Force members for their work to date on the Phase 2 challenges. He noted that Pauline Irwin had replaced Alastair Neilson on the EER project and thanked her for her work since joining the project.

Mr. Grabowski proceeded to give a brief recap on the March 2019 IAASB meeting, noting that useful feedback had been received during the breakout sessions. Since the March meeting, the EER Task Force had held a second meeting from 8-10 May 2019 to develop their thinking and to consider appropriate responses in relation to each of the challenges identified for inclusion in the Phase 2 guidance. Mr. Grabowski noted that it was important to recognize that the material in the June Board Issues Paper was not a first draft of the guidance, but represented the EER Task Force's initial thinking, from which the draft Phase 2 guidance would be developed.

KEY CHALLENGES

Mr. Grabowski presented the EER Task Force's preliminary views on addressing the five key challenges assigned to Phase 2 of the project: determining the scope of an EER engagement, the evidence implications of narrative and future-oriented information; the role of professional judgement and professional skepticism; the competence needed in an EER assurance engagement; and the communication in the assurance report. Mr. Grabowski indicated that the IAASB's views would be sought during the breakout sessions.

Board Members and Technical Advisors formed breakout groups to discuss the EER Task Force's analysis and preliminary views on the Phase 2 challenges in more depth and reported back to the Board on the

results of the discussions. The floor was opened for any further comments arising in relation to each of challenges presented.

IAASB CHAIR COMMENT

Prof. Schilder noted that it may be useful for the EER Task Force to consider developing a case study that could be built upon and which could run throughout the guidance.

BOARD MEMBER ADDITIONAL COMMENTS

A Board Member made a general request for example reports that could be used in relation to the challenge on communication in the assurance report.

A board member also queried how the project on Management Commentary fitted with this EER project, whether there was opportunity for the Board to consider greater integration, or whether it was envisaged that an EER report would be a separate report with separate assurance. Mr. Grabowski indicated that, although there were areas of overlap, particularly in relation to key performance indicators, at this stage, much of the content of an EER report may not always be seen as a critical part of the annual report and, therefore, it was envisaged that there would generally be separate reporting and assurance of EER subject matters.

NEXT STEPS

Mr. Grabowski expressed the EER Task Force's thanks for the feedback received, and indicated that the EER Task Force would consider it further as they developed the phase 2 guidance. He noted that a first draft of the Phase 2 guidance would be presented at the September 2019 IAASB meeting, along with the feedback from the Phase 1 Consultation Paper, and the major consequences of that feedback for the guidance.

Although it is recognized that the work plan is ambitious, an ED of the combined Phase 1 and Phase 2 guidance is planned for approval at the December 2019 IAASB meeting.

9. IAASB CAG Chair Closing Remarks

Mr. Dalkin thanked Prof. Schilder for his time on the IAASB Board on behalf of the CAG and noted that he looks forward to the discussions on proposed ISA 315 (Revised) at the September 2019 CAG meeting as the standard is finalized.

10. PIOB Observer Closing Remarks

Prof. van Hulle thanked the Board, Task Forces and the Staff for their hard work in preparing for the June 2019 meeting and further noted that several important topics had been covered during the week. He further noted that he was pleased to hear about the increased coordination efforts with IESBA, and further encouraged the coordination of the two Boards as a standing feature on the IAASB's meeting agenda.

Prof. van Hulle noted that he also reflected on discussion during the week and it is important for the Board to remember that ~~recourses-resources~~ are limited, ~~and that a~~ flexible work approach is sometimes needed but should not mean lesser quality of work to be produced but may just mean a different way of working.

Prof. van Hulle closed by thanking Prof. Schilder for his dedication to the IAASB and elevating the quality of the Board during his time as the Chair of the IAASB. He further wished Prof. Schilder well in his future endeavors.

11. Closing

The minutes of the March 2019 IAASB meeting and the teleconference held on April 10, 2019 were approved as presented.

Prof. Schilder thanked the IAASB members, technical advisors and IAASB Staff and closed the public session of the meeting.

12. Next Meeting

The planned Board teleconferences on August 1 and August 27 were confirmed, with the topics being conforming amendments related to ISA 315 (Revised) and AUP respectively. The next physical IAASB meeting will be held in New York, United States of America, from September 16–20, 2019.