

Agenda Item

Meeting: IESBA/
Meeting Location: New York
Meeting Date: March 12-14, 2018

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**Draft Minutes¹ of the Joint Public Session of the Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD'S CONSULATIVE
ADVISORY GROUP (IAASB CAG) AND INTERNATIONAL ETHICS STANDARDS BOARD FOR
ACCOUNTANTS' CONSULATIVE ADVISORY GROUP (IESBA CAG)**

**Held on September 12, 2017
Madrid, Spain**

PRESENT

Jim Dalkin (IAASB CAG Chair)

Kristian Koktvedgaard (IESBA CAG Chair)

Vânia Borgerth

Myles Thompson

Noémi Robert

Nicolaas van der Ende

Mohini Singh

James Milholland

Conchita Manabat

Jean-Jacques Dussutour

Atsushi Iinuma

Huseyin Yurdakul

Gregg Ruthman

Member Organizations

International Organization of Supreme Audit Institutions
(INTOSAI)

BusinessEurope

Associação Brasileira d'Instituições Financeiras de
Desenvolvimento

Accountancy Europe

Accountancy Europe

Basel Committee on Banking Supervision (Basel
Committee)

CFA Institute

International Actuarial Association

International Association of Financial Executives Institutes
– Europe, Middle East, and Africa Region (IAFEI-EMEA)

International Association of Insurance Supervisors

International Organization of Securities Commissions
(IOSCO)

IOSCO

International Organization of Supreme Audit Institutions
(INTOSAI)

¹ The IESBA CAG and IAASB CAG will consider these minutes for approval at their joint March 2018 meeting.

Mauro Bini	International Valuation Standards Council (IVSC)
Kazuhiro Yoshii	Japan Securities Dealers Association (JSDA)
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Martin Baumann	U.S. Public Company Accounting Oversight Board (PCAOB)
Henri Fortin	World Bank (WB)
Wei Meng	World Federation of Exchanges (WFE)

Observer Organizations

David Simko – via teleconference	International Accounting Education Standards Board (IAESB)
Dawn McGeachy-Colby	IFAC Small and Medium Practices (SMP) Committee
Simon Bradbury	International Monetary Fund (IMF)

IAASB and IESBA Members and Staff

Prof. Arnold Schilder	IAASB Chairman
Dr. Stavros Thomadakis	IESBA Chairman
Megan Zietsman	IAASB Deputy Chair
Richard Fleck	IESBA Deputy Chair
Annette Kohler – via teleconference	IAASB Member
Chuck Landes – via teleconference	IAASB Member
Sylvie Soulier	IESBA Member
Gary Hannaford	IESBA Member
James Gunn	Managing Director, Professional Standards
Matt Waldron	IAASB Technical Director
Ken Siong	IESBA Technical Director
Diane Jules	IESBA Deputy Director
Jasper van den Hout	IAASB Principal, Standards Development and Technical Projects
Geoff Kwan	IESBA Manager, Standards Development and Technical Projects
John Morrow	IESBA Manager, Standards Development and Technical Projects

Public Interest Oversight Board (PIOB)	Michael Holm
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APOLOGIES

Marie Lang

Erik Bradbury

Dr. Obaid Saif Hamad Ali Al Zaabi

John Kuyers

Anne Molyneux

Patricia Miller

Francis Nicholson

Michael Stewart

William Hines

Sanders Shaffer

David Rockwell

Nigel James

Jaseem Ahmed

Sherif Ayoub

Lucy Elliott

Anusha Mohotti

Norio Igarashi

Member Organizations

European Federation of Accountants and Auditors for SMEs (EFAA)

Financial Executives International (FEI)

Gulf States Regulatory Authorities (GSRA)

Information Systems Audit and Control Association (ISACA)

International Corporate Governance Network (ICGN)

Institute of Internal Auditors (IIA)

IIA

International Accounting Standards Board (IASB)

International Actuarial Association (IAA)

International Association of Insurance Supervisors (IAIS)

International Bar Association (IBA)

IOSCO

Islamic Financial Services Board (IFSB)

IFSB

Organisation for Economic Cooperation and Development (OECD)

Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)

Observer Organization

Japanese Financial Services Agency (JFSA)

Welcome Remarks

Messrs. Koktvedgaard and Dalkin welcomed the Representatives and Observers to this second joint meeting of the Consultative Advisory Groups (CAGs) of the two boards.

J1. Professional Skepticism

- To note the report-back on the September 2016 joint IAASB/IESBA Consultative Advisory Group (CAG) discussion; and
- To *RECEIVE AN UPDATE* on the activities of the tripartite IAASB-IESBA-IAESB Professional Skepticism Working Group (PSWG) and of each of the standard-setting Boards (SSBs) relating to professional skepticism, including an overview of the recently released PSWG publication.

Prof. Köhler introduced the topic by reporting on the PSWG's release of its publication "Toward Enhanced Professional Skepticism" the previous month. She noted that PSWG included representatives from the IAESB, in addition to those from the IAASB and IESBA. With respect to the publication, Prof. Köhler highlighted the following:

- The goal was to highlight the importance of professional skepticism and the various activities on the topic underway within each of the three SSBs.
- It identifies seven key observations, of which six relate to auditing. She reported that the PSWG agreed these key observations are made in the context of an audit engagement.
- It raises the question as to whether aspects of professional skepticism have relevance to the broader accountancy profession.

Prof. Köhler updated the joint CAGs on conclusions reached by the IAASB about recurring themes relating to professional skepticism in responses to the IAASB's December 2015 Invitation to Comment (ITC) *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*, including the following:

- The IAASB will not introduce different levels of professional skepticism into the ISAs.
- Each of the current IAASB projects should seek to incorporate and strengthen the exercise of professional skepticism in planned revisions to the standards, and demonstrate what the "appropriate exercise of professional skepticism" means in different situations.
- Other IAASB workstreams will consider how to orient the auditor from engaging a "questioning mindset" to engaging a "more challenging mindset" by seeking out contradictory evidence.

Mr. Landes reported that the IAASB is reviewing:

- How auditors exercise professional skepticism in assessing risk, particularly relating to fraud and error.
- How auditors exercise professional skepticism in auditing estimates, including addressing bias.
- Whether professional skepticism can be further emphasized in the quality control and group audits projects.

He emphasized that inserting the exercise of professional skepticism throughout the standards does not change behavior; rather, the evidence standard would need to be re-tooled to focus on the need for

persuasive evidence. He also commented on introducing data analytics into the mix which will raise questions about the persuasiveness of evidence.

Mr. Fleck reported on the IESBA's progress with its short-term effort to clarify how compliance with the fundamental principles in the Code supports the exercise of professional skepticism in an audit and assurance context. He noted that almost half of the respondents to the IESBA's May 2017 Exposure Draft, *Proposed Application Material Relating to: (a) Professional Skepticism – Linkage with the Fundamental Principles; and (b) Professional Judgment – Emphasis on Understanding Facts and Circumstances*, had expressed views on whether professional accountants other than auditors should exercise professional skepticism (many of these respondents believed that these other professional accountants should also exercise professional skepticism). He indicated this is the topic for the IESBA's longer-term project.

Mr. Simko pointed out that there are skills critical to exercising professional skepticism, and supplemental research is already underway. He also commented that the IAESB CAG Chair supports the exercise of professional skepticism by all professional accountants, not just auditors.

Among other matters, the following were raised by participants:

- Mr. Dalkin concurred with the idea of elevating professional skepticism, noting his support for “challenging mindset” as an operative term. He pointed out that as an auditor he views reports with more skepticism when received from his auditee, versus when he receives a report internal to his organization.
- Mr. Milholland commented on the critical nature of the project. He supported the positive comments he had heard on the need to change behavior, including a change from a “questioning” mindset to a “challenging” mindset. He noted the difficulty of overcoming cultural bias, adding that he was concerned that it would be a very high hurdle for auditors to seek “contradictory” evidence. He noted that he would be more comfortable framing the discussion in terms of “persuasive” evidence.
- Mr. Koktvedgaard questioned if there is a timeline for the IESBA's longer term project. Mr. Gunn responded that the IESBA will be better prepared to articulate the timeline in due course.
- Prof. Köhler expressed the view that there is a fundamental difference in how professional skepticism is exercised in an external audit context versus in an internal management context. She pointed to the need for clear communication about what professional skepticism means in different contexts and engagements. Finally, she suggested the need for additional time on the IESBA's longer-term project to coordinate activities between the IAASB and IESBA.
- Mr. Holm commented that the PIOB had not discussed “levels” of professional skepticism, but retained the view that the concept of professional skepticism is relevant to all professional accountants, including those who prepare financial statements.

J2. IAASB and IESBA Coordination

To *RECEIVE AN UPDATE* on discussions relating to IAASB and IESBA coordination.

Dr. Thomadakis and Prof. Schilder opened this portion of the meeting, noting the opportunity and need for a more systematic approach to coordination between the two boards as a strategically important matter.

Mr. Gunn then highlighted the following, among other matters:

- The IAASB Steering Committee and IESBA Planning Committees had met together in June to discuss coordination matters, and to plan for a joint meeting of the two full boards in September 2017. That meeting would be observed by the IAESB Chair and Deputy Chair.
- Items on the joint September 2017 IAASB-IESBA meeting include:
 - Areas requiring coordination, and a proposed approach to coordination
 - Objectivity of the engagement quality control reviewer (EQCR)
 - Future strategies and work plans of the two boards
- A member of each board had been appointed as a liaison to the other board: Megan Zeitsman as IAASB liaison to IESBA, and Slyvie Soulier as IESBA liaison to IAASB. The role of the two liaisons would include representing their respective board to the other board on matters of mutual interest, and reporting to their respective board on the activities of the other.
- The staffs of the two boards are looking at areas of mutual interest and planning coordination efforts. Current items of mutual interest include:
 - The IESBA's projects on safeguards, long association and Part C.
 - The IAASB's projects on quality control and agreed-upon procedures engagements.

Dr. Thomadakis outlined the general principles and criteria for coordination, noting as an illustration that data analytics is an initiative on the IAASB's agenda that may have ethical implications and therefore require coordination between the two boards.

Messrs. Koktvedgaard and Dalkin then opened the floor for discussion. The following matters were raised, among others:

- Mr. Inuma reiterated IOSCO's concern about the SSBs making specific and concrete progress on professional skepticism given that the SSBs have already had lengthy discussions on the topic. Prof. Schilder noted that the topic will be further discussed with the CAG later on the agenda, under Agenda Item J1.
- Mr. van der Ende expressed support for the coordination effort, adding that he welcomed the idea of aligning strategy periods between the two boards. He recognized the importance of agreeing a coordination approach between the boards, but wondered how an issue would be resolved if there are disagreements between them. He noted that it is healthy for the two boards to have different views on some issues given their different remits, but questioned if they can become "too" independent in the event of difficulties.
 - Professor Schilder acknowledged that there has been some tension between the boards on the NOCLAR project and professional skepticism initiative, notwithstanding the need to respect the independence of the boards, but that the lessons learned had been reflected in the proposed principles for coordination going forward.
 - Dr. Thomadakis commented that the coordination initiative is aimed at improving communication between the two boards and encouraging coordination especially on topics such as professional skepticism. He indicated that he would be concerned if one board were to move ahead on a matter requiring coordination without the support of the other.

- Mr. Bauman congratulated the two boards on the increased coordination. He noted that auditors are required to comply with both independence and auditing standards and that these go hand in hand. Regarding the statement in the agenda material to the effect that coordination would allow for the possibility of differences, he believed that there should not be any conflicts between independence and auditing standards as auditors should not have to reconcile such conflicts. He emphasized that there must be a mechanism to resolve conflicts between the two boards.
 - Dr. Thomadakis concurred with Mr. Baumann, noting that definitions need to be consistent at their core to avoid such situations.
 - Prof. Schilder noted that the two boards would discuss the matter of how to resolve conflicts at their joint meeting the following week, adding that they must work hard to resolve differences of views. Nevertheless, he emphasized the need to respect each board's independence.
- Mr. Holm commented that the PIOB encourages coordination between the boards and asked how the PIOB could help facilitate this, noting that the PIOB must approve the strategy and work plan of each board. Dr. Thomadakis noted that the SSBs are an early stage of developing their future strategies and work plans but that the PIOB could be involved in finding a constructive solution to coordinating the boards' strategy periods.
- Mr. Bradbury suggested that the boards could eliminate the coordination problem by merging into one board. Prof. Schilder noted that the matters addressed by each board are so complex that one board could not do it all given the need for expertise. He also commented that there would be a need for outreach to stakeholders and therefore a need for both boards' resources. Dr. Thomadakis offered that there is an important difference in scope between the two boards, and they operate in different universes.
- Mr. Fortin commended the IAASB and IESBA for their efforts in achieving more effective coordination. He wondered whether it would be too early to also bring the IAESB into the discussions, noting that the model for coordination could perhaps be tested first with the IAASB and IESBA.

Closing Remarks

Messrs. Koktvedgaard and Dalkin thanked the Representatives for their high level of participation and contributions to the discussions. They then closed the meeting.