Meeting: IESBA/IAASB CAG Joint Session
Meeting Location: New York, USA
Meeting Date: March 6, 2018

Draft Minutes¹ of the Joint Public Session of the Meeting of the INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD’s CONSULTATIVE ADVISORY GROUP (IAASB CAG) AND INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS’ CONSULTATIVE 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 linuma
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)

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

APOLOGIES  
Member Organizations
<table>
<thead>
<tr>
<th>Name</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marie Lang</td>
<td>European Federation of Accountants and Auditors for SMEs (EFAA)</td>
</tr>
<tr>
<td>Erik Bradbury</td>
<td>Financial Executives International (FEI)</td>
</tr>
<tr>
<td>Dr. Obaid Saif Hamad Ali Al Zaabi</td>
<td>Gulf States Regulatory Authorities (GSRA)</td>
</tr>
<tr>
<td>John Kuyers</td>
<td>Information Systems Audit and Control Association (ISACA)</td>
</tr>
<tr>
<td>Anne Molyneux</td>
<td>International Corporate Governance Network (ICGN)</td>
</tr>
<tr>
<td>Patricia Miller</td>
<td>Institute of Internal Auditors (IIA)</td>
</tr>
<tr>
<td>Francis Nicholson</td>
<td>IIA</td>
</tr>
<tr>
<td>Michael Stewart</td>
<td>International Accounting Standards Board (IASB)</td>
</tr>
<tr>
<td>William Hines</td>
<td>International Actuarial Association (IAA)</td>
</tr>
<tr>
<td>Sanders Shaffer</td>
<td>International Association of Insurance Supervisors (IAIS)</td>
</tr>
<tr>
<td>David Rockwell</td>
<td>International Bar Association (IBA)</td>
</tr>
<tr>
<td>Nigel James</td>
<td>IOSCO</td>
</tr>
<tr>
<td>Jaseem Ahmed</td>
<td>Islamic Financial Services Board (IFSB)</td>
</tr>
<tr>
<td>Sherif Ayoub</td>
<td>IFSB</td>
</tr>
<tr>
<td>Lucy Elliott</td>
<td>Organisation for Economic Cooperation and Development (OECD)</td>
</tr>
<tr>
<td>Anusha Mohotti</td>
<td>Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)</td>
</tr>
<tr>
<td>Norio Igarashi</td>
<td>Japanese Financial Services Agency (JFSA)</td>
</tr>
</tbody>
</table>

**Observer Organization**


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 retooled 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. Ilnuma 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. Koltvedgaard and Dalkin thanked the Representatives for their high level of participation and contributions to the discussions. They then closed the meeting.