

**Minutes of the 95th Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)
Held on June 18–23, 2018 in New York, United States of America**

Voting Members

Present: Prof. Arnold Schilder (Chairman)
Megan Zietsman (Deputy Chair)
Abhijit Bandyopadhyay
Fiona Campbell
Chun Wee Chiew
Robert Dohrer
Karin French
Marek Grabowski
Len Jui
Prof. Kai-Uwe Marten
Chuck Landes
Lyn Provost
Fernando Ruiz Monroy
Ron Salole
Rich Sharko
Isabelle Tracq-Sengeissen
Imran Vanker
Ge Zhang

Technical Advisors (TA)

Sara Ashton (Ms. French)
Vivienne Bauer (Mr. Monroy)
Nicolette Bester (Mr. Vanker)
Wolf Böhm (Prof. Marten)
Melissa Bonsall (Ms. Zietsman)
Shu Duan (Mr. Zhang)
Andrew Gambier (Mr. Chiew)
Ahava Goldman (Mr. Dohrer) (June 18
– 22)
Hiram Hasty (Mr. Landes)
Josephine Jackson (Mr. Grabowski)
Susan Jones (Mr. Jui)
Sachiko Kai (Ms. Tracq-Sengeissen)
Jamie Shannon (Mr. Sharko)
Eric Turner (Mr. Salole)
Sylvia Van Dyk (Ms. Provost)
Sanjay Vasudeva (Mr. Bandyopadhyay)
(June 20 – 23)
Denise Weber (Ms. Campbell)

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)

Public Interest Oversight Board (PIOB) Observer

Present: Prof. Karel van Hulle (June 18 – 22)

IAASB Technical Staff

Present: James Gunn (Managing Director, Professional Standards) (June 18, 20 – 23), Dan Montgomery (Interim Technical Director), Beverley Bahlmann, Brett James, Natalie Klonaridis, Jasper van den Hout, Joy Thurgood, Schuyler Simms, Phil Minnaar, Armand Kotze.

IAASB agenda materials referred to in these minutes can be accessed at <http://www.iaasb.org/meetings/new-york-usa-19>. These minutes are a summary of the decisions made at the June 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 in New York, USA, including IAASB Members, Technical Advisors, Staff and Observers. Prof. Schilder specifically welcomed Ms. Melissa Bonsall, who is replacing Ms. Dora Burzenski as TA to Ms. Zietsman. Prof. Schilder reminded participants that the IAASB Strategy Survey is open and available online. It was noted that an outreach package about the IAASB's future strategy would be made available for soliciting input from stakeholders who have not traditionally responded to the IAASB's online survey, and members and TA's were encouraged to perform targeted outreach in their jurisdictions.

2. ISA 540 (Revised)¹

Messrs. Sharko and Grabowski introduced the topic, noting that proposed ISA 540 (Revised) had been updated in response to the comments made by the Board in its March 2018 meeting and April 2018 teleconference. In addition to various editorial and minor comments, the Board highlighted the matters below.

In finalizing the proposed changes to ISA 540 (Revised), the Board agreed to make the following changes to **Agenda Item 3-A**:

INTRODUCTION, OBJECTIVE AND DEFINITIONS

- Add a paragraph highlighting the scalability of ISA 540 (Revised) by stating that the nature, timing and extent of the risk assessment and further audit procedures required by this ISA will vary in relation to the estimation uncertainty and the assessment of the related risks of material misstatement.
- Emphasize how the exercise of professional skepticism is affected by the auditor's consideration of inherent risk factors.

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

RISK ASSESSMENT PROCEDURES AND RELATED ACTIVITIES

- Clarify in paragraph 12(b) that obtaining an understanding of the requirements of the applicable financial reporting framework related to accounting estimates includes how they apply in the context of the nature and circumstances of the entity and its environment, including how events or conditions are subject to, or affected by, the inherent risk factors.
- Make several changes to the application material to further align with ISA 315 (Revised)² and to improve the clarity and readability of the application material.

IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

- Further aligning the application material with ISA 315 (Revised), clarifying examples about how complexity influences the selection and application of data, and clarifying the application material by deleting matters that could be interpreted as relating to control risk rather than inherent risk.

RESPONSES TO THE ASSESSED RISKS OF MATERIAL MISSTATEMENT

- Further aligning the wording in paragraphs 17, 18 and 19 of and related application material, with ISA 330,³ as well as making changes to improve the readability and clarity of the requirements and application material.
- Clarifying the application material related to paragraph 18 by including new examples, as well as a new paragraph explaining how paragraph 21 of ISA 330 applies to accounting estimates.
- Make further enhancements to the last sentence of paragraph 17, and the related application material, to better explain that the further audit procedures shall be performed in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory.
- Explain that, when obtaining audit evidence from events occurring up to the date of the auditor's report, the auditor needs to take into account that changes in circumstances and other relevant conditions between the event and the measurement date may affect the relevance of such audit evidence in the context of the applicable financial reporting framework.
- Clarifying the linkage to paragraph 21 by adding a reference to paragraph 21 in paragraphs 22, 23 and 24.
- Clarifying paragraph 26(b) by emphasizing in application material that, in considering whether it is practicable to develop an auditor's point estimate or range, when management has not taken appropriate steps to understand and address estimating uncertainty, the auditor may need to take into account whether the auditor could do so without compromising independence requirements.
- Enhancing paragraph 29 and related application material by explaining the relationship between ISA 540 (Revised) and ISA 500⁴ when the auditor uses the work of a management's expert or an external

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

³ ISA 330, *The Auditor's Responses to Assessed Risks*

⁴ ISA 500, *Audit Evidence*

information source, and between ISA 540 (Revised) and ISA 402⁵ when the auditor uses a service organization.

OTHER MATTERS

- Clarify that paragraph 30 of **Agenda Item 3-A**:
 - Only relates to disclosures other than disclosures related to estimation uncertainty, as disclosures' related to estimation uncertainty are covered by paragraphs 25(a) and 28(b).
 - Does not address the reasonableness of disclosures, as this is covered by paragraph 34.
- Add a paragraph to the application material to clarify that the auditor is not required to document how each individual risk factor was taken into account in identifying and assessing the risks of material misstatement.

EFFECTIVE DATE

The Board agreed that ISA 540 (Revised) will be effective for audits of financial statements for periods beginning on or after December 15, 2019, and that early implementation should be permitted and encouraged. To facilitate early adoption, the IAASB agreed, with the support of the PIOB, to make the final IAASB approved wording available on the IAASB's website ahead of the PIOB's expected approval of due process.

CONFORMING AND CONSEQUENTIAL AMENDMENTS

The Board supported the conforming and consequential amendments to ISA 200,⁶ ISA 230,⁷ ISA 240,⁸ ISA 260 (Revised),⁹ ISA 500, ISA 580¹⁰ and ISA 701,¹¹ subject to various editorial changes.

PIOB OBSERVER REMARKS

Prof. van Hulle suggested noting in the requirement on communication with those charged with governance, management, or other relevant parties that, in certain circumstances, the auditor is required by law and regulations to communicate certain matters with other relevant parties, such as regulators and prudential supervisors. He also suggested clarifying paragraph 12(b) by noting that obtaining an understanding of regulatory factors relevant to the entity's accounting estimates includes regulatory frameworks related to prudential supervision.

With respect to the effective date, Prof. van Hulle noted that the PIOB supported an effective date for periods beginning on or after December 15, 2018 given that the standard is urgently needed by the supervisory community. He was also of the view that early implementation should be permitted and

⁵ ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

⁶ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

⁷ ISA 230, *Audit Documentation*

⁸ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁹ ISA 260 (Revised), *Communication with Those Charged with Governance*

¹⁰ ISA 580, *Written Representations*

¹¹ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

encouraged. In case the Board would vote for an effective date of periods beginning on or after December 15, 2019, he suggested the Board signal how it will address the concerns of the supervisory community.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin supported the addition of the paragraph in the Introduction section highlighting the scalability of ISA 540 (Revised) given the diverse views of the CAG on how to make the standard scalable for both simple and complex accounting estimates. He also highlighted that, from a governmental perspective, the documentation requirement could be seen as having an extensive impact.

With respect to the effective date, Mr. Dalkin noted support for an effective date for periods beginning on or after December 15, 2019 to give national auditing standard-setters sufficient time to translate the standard. He also noted that many governmental organizations have unique year ends and therefore these stakeholders would need sufficient time to implement the standard.

DUE PROCESS CONSIDERATIONS

Messrs. Sharko and Grabowski confirmed that the ISA 540 Task Force had raised all significant issues with the IAASB, noting that these had been deliberated, and noted that the ISA 540 Task Force had the view that no further consultation (such as roundtables or further consultation with particular stakeholder groups) or field testing was needed. The IAASB agreed that there were no issues raised by respondents to the Exposure Draft that should have been discussed in addition to those summarized by the ISA 540 Task Force. Mr. Montgomery advised the IAASB that it had adhered to its stated due process in finalizing the revised standard and related conforming and consequential amendments.

APPROVAL

After agreeing all necessary changes, the IAASB approved ISA 540 (Revised) and related conforming and consequential amendments, with 17 affirmative votes out of the 18 Board members present. One member abstained from voting.

Mr. Marten thanked the Board and the Task Force for their efforts to accommodate his views on the scalability of the ISA. Mr. Marten explained that he abstained from voting on ISA 540 (Revised) because he believes that the standard is not adequately scalable in practice for, and for inspections of, simple accounting estimates with insignificant measurement uncertainty. For this reason, he was not convinced that, in relation to this one crucial issue, the standard is in the public interest. He also explained that he chose not to vote against the standard because he was otherwise satisfied with it.

Prof. van Hulle congratulated the Board on the approval of ISA 540 (Revised) and encouraged the Board to develop materials to support an effective implementation of the revised standard.

CONSIDERATION OF THE NEED FOR RE-EXPOSURE

Messrs. Sharko and Grabowski presented the Task Force's consideration of the need for re-exposure. Board members expressed various views in support of, and against, re-exposure.

Those board members in favor of re-exposure noted that some of the changes from the exposure draft were more substantive in nature. Areas that were highlighted in that respect included the separate assessment of inherent and control risk, the inclusion of the spectrum of risk, and the relationship between ISA 500 and ISA 540 (Revised). Board members in favor of re-exposure also emphasized that the outreach performed by the ISA 540 Task Force in developing the standard, and the formation of an implementation

support working group, is not a substitute for re-exposure and that, by re-exposing the standard, the Board would have the opportunity to align ISA 540 (Revised) and ISA 315 (Revised).

Board members who were against re-exposure noted that the changes made since exposure were more about the structure of the standard, or were in response to comments received on exposure. They highlighted that the public interest would not be served by re-exposure as this would delay the important improvements to the auditing of accounting estimates and related disclosures.

With respect to re-exposure, Prof. van Hulle noted that the PIOB is not in favor of re-exposure because, in their view, the changes made were not changes of substance sufficient to warrant re-exposure. He also noted that re-exposure is not in the public interest given that it would further delay the adoption of a standard that is urgently needed.

With respect to re-exposure, Mr. Dalkin noted that the CAG had mixed views on this topic but that, on balance, the CAG tilted towards not re-exposing the standard.

The IAASB voted against re-exposure, with 15 Board members voting against re-exposure out of the 18 Board members present.

3. ISA 315 (Revised)

Ms. Campbell provided an overview of proposed changes to ISA 315 (Revised) Exposure Draft (ED-315) as presented in **Agenda Items 3-A and 3-B**, as well as the proposed conforming amendments arising from the proposed ED-315 as discussed and presented in **Agenda Items 3 and 3-C**, respectively.

The Board strongly supported the overall modernization of the standard, in particular with reference to the enhancements in relation to the IT environment and the understanding of general IT and application controls, as well as the introduction and presentation of the evolving use of automated tools and techniques (or data analytics) within in the application material. The Board also supported the manner and extent to which the consideration of fraud was incorporated and presented in the risk assessment process.

Although the Board noted support for the work that had been done in in relation to scalability, continued concern was expressed about the complexity of the standard and some Board members questioned whether the revisions or new concepts introduced by ED-315 can be effectively applied to smaller and less complex entities. The Board acknowledged the importance of the flowcharts presented to assist with understanding the overall flow of the standard. The Board further agreed that the tables included in **Appendix 4 of Agenda Item 3** (in relation to scalability, fraud, public sector, data analytics and professional skepticism) would be useful to practitioners and supported the inclusion thereof in the Explanatory Memorandum.

In addition to editorial changes suggested by Board members, the following sets out the more substantive comments for which changes were made before finalization of ED-315.

INTRODUCTORY PARAGRAPHS

Although broadly supportive of the proposed changes to help understand the overall standard, the Board agreed to:

- Better align the wording used in the introductory paragraphs to describe 'key concepts' with the way that the relevant concepts are described in ISA 200, to the extent they were viewed as inconsistent.

- Revise how scalability is described in the introductory paragraphs. Some Board members suggested that the description of '*smaller and less complex*' may be too narrow, as it appeared to not include medium-sized entities that may not be complex. To address this, the Board agreed to make clear that:
 - Some smaller entities may be complex and some larger entities may be less complex, and
 - Some of the considerations may be useful in audits of larger and less complex entities.
- It was agreed that a specific question would be asked in the Explanatory Memorandum regarding the description of smaller and less complex entities.
- Include an overarching narrative to describe the flow of the standard, taking into account the iterative and dynamic nature of the risk assessment process.
 - Recognize the importance of professional skepticism and professional judgement when considering the key concepts of the risk assessment process.

DEFINITIONS

In relation to the proposed changes to the definitions, the Board supported the further changes that had been proposed to address previous concerns raised by Board members. The Board also agreed to:

- Modify the definition of '*application controls*,' noting that
 - As some Board members questioned whether application controls include manual controls, it was agreed to remove the wording '*manual or automated*' in order to keep the definition neutral and not prescriptive. It was agreed to carry through this change to references to '*application controls*' in the application material where relevant.
 - The objectives of application controls as presented were limited to '*completeness and accuracy*,' and these objectives were considered too narrow. It was agreed to rather use '*reliability*' as this would broaden the scope to also include other control objectives, such as validity.
- Move the terms '*data warehouses*' and '*report writers*,' as included in the definition of the *IT environment*, to the application material. The Board expressed concern that these descriptions may become obsolete in the near future and this may cause the requirements to be outdated.
- Clarify the definition of '*relevant assertions*' by explaining in the application material that there could be one or more risks of material misstatement that relate to a relevant assertion. In addition, one Board member continued to have the view that further clarification was needed to explain that the threshold of '*more than remote*' was not different from '*reasonably possible*' as it may be interpreted as meaning different things. In response, the Board recommended that this concern be highlighted in the Explanatory Memorandum to obtain stakeholder views.
- Refrain from making any changes to the proposed definition of '*assertions*' or the related application material. Initially, the Board considered adding application material to recognize that in some jurisdictions, local laws and regulations may require explicit representations by management within the financial statements, and that such representations are excluded from the definition. However, on balance, the Board agreed not to make any changes due to concerns that this may have unintended consequences.

RISK ASSESSMENT PROCEDURES

Although supportive of the further changes that had been proposed, the Board discussed the use of the term '*sufficient appropriate audit evidence*' in paragraph 17 of ED-315. Some Board members continued to question whether this concept is relevant during the performance of risk assessment procedures. On balance, the Board agreed that the proposed wording is important in the context of why the risk assessment procedures are performed, and acknowledged that performing risk assessment procedures provides audit evidence. In addition, it was noted that the introduction of this term could also be seen to be encouraging the auditor to exercise professional skepticism when performing risk assessment procedures.

UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

Subject to minor editorial changes, the Board supported the further changes that had been proposed.

OBTAINING AN UNDERSTANDING OF THE SYSTEM OF INTERNAL CONTROL

There was support for the proposals relating to the further proposed changes made for the auditor's understanding of the entity's system of internal control, but the Board further discussed and agreed to:

- Clarify in the application material that '*internal control relevant to financial reporting*' means internal control relevant to the preparation of the financial statements in accordance with the requirements of the applicable financial reporting framework. This change was made to respond to concerns that '*relevant to financial reporting*' may be interpreted to include matters that go beyond the preparation of financial statements, such as how financial statements are published or made publicly available.
- Make changes in relation to the understanding of the entity's risk assessment process and the entity's process to monitor the system of internal control:¹² One Board member questioned whether '*inquiries*' are sufficient to achieve the necessary understanding of the requirements for each of these components. On further reflection, the Board decided that inquiries may not be adequate, and agreed to revert back to the extant wording of '*obtain an understanding*.'
- Clarify that when the auditor identifies IT applications relevant to the audit,¹³ this may include '*controls relevant to the audit*' as identified in accordance with paragraph 39 of ED-315.
- Clarify the meaning of the requirement to evaluate the '*design of the information system*,'¹⁴ by placing emphasis on the information system controls relevant to matters in paragraph 35(a)–(d) of ED-315, and thereby distinguishing this evaluation from the evaluation required in relation to the control activities component.

IDENTIFICATION AND ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Given the iterative nature of the process to identify and assess risks of material misstatement, the Board continued to caution against the complexity of this section. In light of this, the Board agreed to:

- Reorganize the sequential order of specific requirements of the risk identification and assessment process:

¹² ED-315, paragraphs 29 and 32

¹³ ED-315, paragraph 40

¹⁴ ED-315, paragraph 36

- As the requirement to ‘*determine significant classes of transactions, account balances and disclosures, and their relevant assertions*’¹⁵ intuitively follows the identification of risks of material misstatement, this requirement was elevated to directly follow the requirement to identify risks of material misstatement.¹⁶
- To keep the requirements in relation to the identification and assessment of risks of material misstatement separate and distinct, the requirement to determine ‘*risks for which substantive procedures alone cannot provide sufficient appropriate evidence*’ was moved to directly follow the requirements to assess inherent and control risk.
- Clarify, in the application material, the relationship of the threshold ‘*reasonable possibility*’ of the risk of a material misstatement with the risk of material misstatement at the assertion level, by explaining that:
 - Significant classes of transactions, account balances and disclosures are determined when there are one or more risks of material misstatement related to the assertions for classes of transactions, account balances and disclosures expected in the financial statements – this occurs when there is a reasonable possibility of a misstatement that is material, individually or in combination with other misstatements.
 - When there is a remote possibility of a material misstatement with respect to an assertion, there are no identified risks of material misstatement and the assertion is not relevant.
- Retain both the stand-back requirement and paragraph 18 of ISA 330, based on the mixed views expressed by the Board in relation to these paragraphs. The Board further agreed to include a specific question about the appropriateness of the stand-back requirement and paragraph 18 of ISA 330 in the Explanatory Memorandum to obtain stakeholder views on whether either or both requirements should be retained.

DOCUMENTATION

Although implicitly required by ISA 230, the Board agreed to strengthen the requirement to document the identified and assessed risks of material misstatement at the financial statement level and at the assertion level, by explicitly including all the requirements that relate to the identification and assessment of risks of material misstatement.¹⁷

APPENDICES

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

CONFORMING AMENDMENTS

The Board supported the conforming amendments as presented in **Agenda Item 3-C** (including the supplement), noting that the conforming amendments to ISA 540 (Revised) and paragraph A42 of ISA 200 would be considered by the Board on the teleconference in mid-July 2018.

¹⁵ ED-315, paragraph 46

¹⁶ ED-315, paragraph 45

¹⁷ ED-315 paragraph 54(d)

EFFECTIVE DATE

Given the extent of the revisions to the extant standard, the IAASB agreed that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after the approval of a final ISA. Earlier application would be permitted and encouraged.

IAASB CAG CHAIR REMARKS

Mr. Dalkin noted continuing support for the proposed Exposure Draft. Particular support was expressed in relation to the flowcharts and the manner in which the susceptibility to misstatement due to fraud was incorporated into the inherent risk factors.

PIOB REMARKS

Prof. van Hulle continued to support the proposed changes, specifically supporting and acknowledging that the proposed exposure period of slightly less than 120 days would serve the public interest. In addition, Prof. van Hulle encouraged the Board to specifically include a question in the Explanatory Memorandum on whether the approach taken on automated tools and techniques, including data analytics, is appropriate.

EXPLANATORY MEMORANDUM

The IAASB agreed with the ISA 315 Task Force regarding the matters on which to seek respondents' views on exposure, as well as noting specific issues to highlight in the Explanatory Memorandum. In addition, it was noted that there would be further opportunity to comment on matters for the Explanatory Memorandum when it was circulated to the Board before finalization.

APPROVAL

After agreeing on specific changes, the IAASB approved proposed ED-315, together with the proposed conforming amendments to other ISAs (with the exception of ISA 540 (Revised) and paragraph A42 of ISA 200 as noted), for exposure, with 18 affirmative votes out of the 18 IAASB members present. The Board agreed that the Exposure Draft would remain open for comment until November 2, 2018. Although the time for exposure was slightly shorter than the 120 days ordinarily given for an exposure period, the Board recognized the importance of a comment deadline that would facilitate the plan to finalize this standard in June 2019, particularly in light of the approval of ISA 540 (Revised)) and the related tight timelines to achieve this.

4. Emerging Forms of External Reporting (EER)

Mr. Grabowski presented an issues paper (**Agenda Item 4**) summarizing the work of the EER Task Force to date, including issues relating to three of the Ten Key Challenges in undertaking assurance engagements over EER.

FORM OF THE GUIDANCE

The Board agreed with the EER Task Force's suggestion that publishing the non-authoritative guidance in the form of an International Assurance Engagements Practice Note (IAEPN), with two separate sections incorporating practitioner guidance and contextual information, is appropriate.

GENERALIZED CONSTRUCT OF AN EER REPORT AND ITS RELATIONSHIP TO ASSURANCE CONCEPTS

The IAASB expressed broad support for the approach being taken by the EER Task Force in considering the 'generalized construct' of an EER report, as this is important context for developing guidance for assurance engagements. The Board supported the EER Task Force's visualization of the composition of underlying subject matter (as presented in the diagram in paragraph 10 of **Agenda Item 4**, and noted comments and feedback for further EER Task Force consideration, including:

- How to more clearly show in the guidance how the concepts and terminology reconcile to widely used reporting frameworks, including traditional financial reporting, in order for practitioners to be able to apply the guidance easily to their circumstances;
- Whether there is a better alternative to the term 'resources' as proposed by the EER Task Force to describe underlying subject matter elements, especially given that it is intended to include elements such as an entity's strategy or governance; and
- Whether use of the term 'EER report' will continue to be appropriate in the guidance when it would apply to forms of reporting that are established and no longer emerging.

CHALLENGE 3: ADDRESSING MATERIALITY FOR DIVERSE INFORMATION WITH LITTLE GUIDANCE IN EER FRAMEWORKS

The IAASB supported the EER Task Force's work in this area, noting that the approach to making materiality decisions proposed by the EER Task Force was consistent with general practice in countries where this type of reporting is more established. The IAASB supported a clear separation of contextual information about the role of the report preparer from guidance for the assurance practitioner in applying ISAE 3000 (Revised),¹⁸ noting that the focus in the practitioner guidance section of the IAEPN should be on the latter. The IAASB noted the following matters for further Task Force consideration:

- To clarify the roles of criteria and materiality considerations in determining what is included in the report, and to explain the link between criteria and materiality;
- To further explain how something could be considered material in some circumstances even although there is little evidence of interest by the intended users of the report, in the context of the diagram in paragraph 44 of **Agenda Item 4**; and
- That further detail is required as to whether accumulated misstatements would be material in the context of the report as a whole.

CHALLENGE 2: EVALUATING THE SUITABILITY OF CRITERIA IN A CONSISTENT MANNER

Board members noted the following for further Task Force consideration:

- Whether there is a need to explain further how criteria can be suitable, including displaying the characteristics required by ISAE 3000 (Revised), without stifling innovation in EER;
- Whether to include a brief introduction to each of the key challenges being addressed would be a valuable addition to the guidance, and that the EER Task Force could also consider use of 'Q&A' in the guidance to address common concerns of practitioners;

¹⁸ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

- Whether further guidance is needed to address the challenges associated with the scope of an assurance engagement covering only part of an EER report, including the risk that information not subject to assurance may obscure material information which has been subject to assurance; and
- Whether more was needed in light of the importance of a practitioner applying professional skepticism when assessing the suitability of criteria, as well as wider ethical considerations relating to EER assurance engagements including the need for practitioners to have the appropriate skills.

CHALLENGE 4: BUILDING ASSERTIONS FOR SUBJECT MATTER INFORMATION OF A DIVERSE NATURE

Board members expressed support for the initial work of the EER Task Force in relation to building assertions, including agreeing with the EER Task Force that further consideration of reporting under compliance frameworks is required. The IAASB also suggested that further consideration be given to whether the guidance should be clearer about what is meant by assertions, to avoid confusion with written representations by management, and more clearly describe the challenge that the guidance is seeking to address.

IAASB CAG CHAIR REMARKS

Mr. Dalkin noted the challenge of dealing with a wide variety of subject matter and criteria in EER and for an assurance practitioner to reach a single overall conclusion. He also described service performance audits in the public sector and encouraged the EER Task Force to consider further perspectives from the public sector when developing the guidance.

PIOB REMARKS

Prof. Van Hulle noted that this was a very important topic and asked how the IAASB planned to monitor the use of the guidance after it was published. He encouraged the EER Task Force to consider the legal aspects of undertaking assurance engagements in this area, and expressed caution about focusing too much on reporting frameworks when many reports are not prepared under an established framework.

WAY FORWARD

The EER Task Force will present matters relating to aspects of the remaining challenges allocated to phase 1 of the project (maturity in governance and internal control and addressing narrative & forward-looking information), as well as first draft of the guidance relating to all the phase 1 challenges, for IAASB discussion in September 2018. The Project Advisory Panel (PAP) continues to meet via web conference approximately monthly, and the global series of discussion events are planned for October and November 2018.

5. Quality Control at the Firm Level – Proposed ISQC 1 (Revised)¹⁹

Ms. French provided an overview of the proposals relating to the overall structure of ISQC 1 (Revised), including the sections of the introduction describing the structure, and the proposed requirements for the components ‘the firm’s risk assessment process’ and ‘monitoring and remediation,’ as set out in **Agenda Item 5-A**.

¹⁹ Proposed International Standards on Quality Control (ISQC) 1 (Revised), *Quality Control for Firms that Performs Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

Ms. French further explained that given the extent of possible changes to the standard, and the time lapse since the IAASB would have last seen a full draft of proposed ISQC 1 (Revised), additional time may be needed for the IAASB to properly consider the draft of proposed ISQC 1 (Revised). Accordingly, although it was originally planned that the exposure draft would be presented for approval at the September 2018 meeting, it would instead be presented for approval at the December 2018 meeting.

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

- In general suggested locating governance and leadership as the first component in the standard because of the importance of this component to the firm's system overall, and the need for it to have appropriate prominence. The IAASB had varying views about the location of the remaining components.
- Noted that the relationships between the components and their interconnectedness is not clear, including between the firm's risk assessment process and the other components. The IAASB suggested further clarifying the relationships and interrelatedness, including through the use of examples in the appendix.
- Expressed mixed views about whether the sections of the introduction explaining the structure of the standard and the firm's risk assessment process should be located in the introduction or in the appendix. The IAASB noted that these explanations were difficult to understand, and provided various recommendations about how they could be improved.
- Supported the proposed appendix explaining the components of the system of quality management.

In relation to the requirements addressing the identification and assessment of quality risks in the firm's risk assessment process, the IAASB:

- Indicated that the identification and assessment of the quality risks should be two discrete steps, similar to ISA 315 (Revised).
- Encouraged the Quality Control Task Force (QCTF) to reflect that in identifying and assessing quality risks, the firm takes into consideration the effect on the achievement of the quality objectives (i.e., instead of a binary consideration of whether the risk would result in the non-achievement of the quality objective, as proposed in **Agenda Item 5–A**).
- Expressed mixed views on the threshold for the identification of quality risks, including the appropriateness of:
 - The threshold of a "reasonable possibility" of occurrence; and
 - Excluding quality risks that have a high magnitude of effect on the achievement of the quality objectives and low likelihood of occurrence.

In relation to the prescribed responses in proposed ISQC 1 (Revised), the IAASB supported the approach that all responses address quality risks, including responses that are required by the standard. The IAASB provided various suggestions for demonstrating that the required responses address quality risks, noting that the reasons for the identified quality risks and the assessment of the quality risks affect how the firm designs and implements the required responses. The IAASB also:

- Sought clarity on what is meant by the 'adaptability' of the required responses in paragraph 19C(b) of **Agenda Item 5-A**.

- Recognized the need to retain the robustness of the standard, but noted that many required responses are contradictory to a risk-based approach. Accordingly, the IAASB encouraged the QCTF to keep the required responses to a minimum.

The IAASB commented variously on the proposals relating to monitoring and remediation. The IAASB noted the importance of retaining the concept of inspection of completed engagements, but recommended improving the focus on reviews of engagements while they are in progress.

PIOB OBSERVER REMARKS

Prof. van Hulle noted the importance of governance and leadership and supported the location of governance and leadership as the first component in the standard. He further added the need to emphasize that the audit is in the public interest, and that the firm's business model should reflect this.

WAY FORWARD

The QCTF will consider the matters raised by the IAASB and will present a full draft of proposed ISQC 1 (Revised) for IAASB discussion in September 2018.

6. Quality Control – Engagement Level

Ms. Zietsman provided an update on the project and presented a first read of the draft Exposure Draft of ISA 220 (Revised).²⁰ She noted that the Task Force would continue to align the language in the standard with proposed ISQC 1 (Revised) and Proposed ISQC 2.²¹

INTRODUCTION, OBJECTIVE, AND DEFINITIONS

In relation to the introductory paragraphs, Board members variously requested the ISA 220 Task Force to further consider:

- Clarifying how “designing and implementing additional responses” that is referred to in the introductory paragraphs is achieved through complying with the requirements of the ISA;
- Whether to amend the objective to indicate that the auditor's responsibilities should be “appropriately” fulfilled with the view that such addition would enhance the measurability of the objective;
- Whether the introduction should make it clearer that the firm's system of quality management is the responsibility of the firm
- Whether the material on professional skepticism and professional judgment should be relocated to ISA 200; and
- Whether there is a need to clarify that the definition of engagement team does not include the engagement quality control reviewer and others within the firm who perform consultations.

²⁰ Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

²¹ Proposed ISQC 2, *Engagement Quality Control Reviews*

LEADERSHIP RESPONSIBILITIES FOR ACHIEVING QUALITY ON AUDITS

Board members continued to support the strengthening of the engagement partner's overall responsibility for the audit engagement proposed by the ISA 220 Task Force. The Board asked that further consideration be given to:

- Whether further context is needed to explain how proposed ISA 220 (Revised) aligns with proposed ISQC 1 (Revised);
- Whether the term 'delegates' should be used rather than 'assigns' as it may be seen that 'assignment' may imply a transfer of responsibility and accountability, which is not appropriate because the engagement partner needs to be fully accountable, whereas 'delegation' may imply transfer of responsibility and authority, but not accountability; and
- Including the concept of "tone at the middle" in the application material.

RELEVANT ETHICAL REQUIREMENTS, INCLUDING INDEPENDENCE

Board members supported the alignment in this section with proposed ISQC 1 (Revised), but noted the following for the ISA 220 Task Force's further consideration:

- Whether the extant requirements relating to obtaining relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to compliance with relevant ethical requirements need to be included;
- How the engagement partner's 'sufficient understanding' of relevant ethical requirements would be documented;
- To what extent the engagement partner can rely on the firm's system of quality management in addressing the requirements in this section; and
- Including linkage to the requirement in ISA 700 (Revised)²² to include a statement regarding the fulfillment of relevant ethical requirements in the auditor's report.

ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND AUDIT ENGAGEMENTS

The Task Force was asked to consider:

- Reordering the requirements in paragraphs 13 and 13A to acknowledge that the information related to the conclusions reached in relation to acceptance and continuance is obtained before the assessment of whether those conclusions are appropriate; and
- Whether the material included in paragraph A9 for considerations specific to public sector auditors is accurate given that public sector auditors may have some acceptance and continuance procedures.

ENGAGEMENT RESOURCES

The IAASB continued to support the direction of proposed changes to this section, specifically noting that the application material related to project management is very helpful, and suggested the following for consideration by the ISA 220 Task Force:

²² ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

- Whether there is an appropriate focus on the fact that resource needs may evolve during the course of the engagement, i.e., not just focusing on the assignment of resources at the beginning of the engagement;
- Whether the application material related to the engagement partner's actions when insufficient resources are available to the engagement should be elevated to a requirement; and
- Various comments regarding the application material, including consideration of areas where it can be streamlined and whether the material related to commercial considerations (e.g., low audit fees) can be made more explicit.

ENGAGEMENT PERFORMANCE

Board members suggested the following for consideration by the ISA 220 Task Force:

- Consider separating the requirements on direction, supervision, and review from the engagement performance section in order to make it clear that they apply to each of the areas in proposed ISA 220 (Revised);
- Reconsider the use of 'review' in the requirement in paragraph 17B in this section, as 'review' may be incorrectly understood as a "review" in accordance with ISRE 2400 (Revised);²³ and
- Consider how best to indicate that the engagement partner should review the matters listed in paragraph 17A as a minimum.

TAKING OVERALL RESPONSIBILITY FOR ACHIEVING QUALITY

Board members variously commented and expressed support for the stand-back requirement in paragraph 23A. The Task Force was asked to consider whether the stand-back provision could be more closely linked to the obligation to implement responses at the engagement level.

DOCUMENTATION

As it relates to documentation, the ISA 220 Task Force was asked to consider:

- Whether a concurring review that is not an engagement quality control review would be required to be documented under proposed ISA 220 (Revised);
- Whether documentation requirements specifically related to instances where proposed ISQC 1 (Revised) requires a response be implemented at the engagement level are necessary; and
- Whether there should be specific documentation requirements related to the engagement quality control review or differences of opinion.

OTHER SECTIONS OF PROPOSED ISA 220 (REVISED)

In relation to the other sections of proposed ISA 220 (Revised) (Consultation, Engagement Quality Control Review, Differences of Opinion, and Monitoring and Remediation), the ISA 220 Task Force was asked to consider:

²³ International Standards on Review Engagements (ISRE) 2400 (Revised), *Engagement to Review Historical Financial Statements*

- In the section on the engagement quality control review, elevating the application material that states the engagement team should cooperate with the engagement quality control reviewer to a requirement; and
- In the section on monitoring and remediation, how the engagement partner could determine that the engagement team has a sufficient understanding of the firm's process for monitoring and remediation.

WHEN AN INDIVIDUAL OTHER THAN THE ENGAGEMENT PARTNER SIGNS THE AUDITOR'S REPORT

The Board also discussed the circumstance when there is an individual other than the engagement partner who signs the auditor's report, either instead of, or in addition to, the engagement partner. The Board concluded that this needed to be further explored before any further actions are discussed or taken.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted that there is variation in how public sector auditors are structured and the application material should accommodate this. He also asked the ISA 220 Task Force to consider whether the references to the engagement partner's review of key audit matters in paragraph 17B could be simplified.

PIOB REMARKS

Prof. Van Hulle commented that proposed ISA 220 (Revised) should emphasize the importance of serving the public interest in several areas in particular, the scope, objective, and the "Leadership Responsibilities for Achieving Quality on Audits" section. He also suggested that the application material related to the scope of the revised standard should specifically reference the relevant ethical requirements.

NEXT STEPS

The ISA 220 Task Force will present a revised draft of proposed ISA 220 (Revised) for discussion at the September 2018 IAASB meeting.

7. **Audit Evidence**

AICPA AUDIT EVIDENCE PROJECT

Mr. Dohrer updated the IAASB on the American Institute of CPAs (AICPA) Auditing Standards Board's (ASB) project with regard to AU-C 500, *Audit Evidence*. He noted that the ASB project is focused on revisions arising from the evolving environment and the changing nature of audit evidence. He explained that the ASB is considering a framework to enable a more principles-based approach to evidence. The IAASB members and technical advisors involved in that project will continue to monitor and provide feedback to the IAASB as necessary.

DATA ANALYTICS

The IAASB discussed and provided high-level views about the work of the Data Analytics Working Group (DAWG), as well as the outputs that should be considered, specifically noting that:

- Guidance from the IAASB, whether authoritative or non-authoritative, is needed. It was highlighted that the Board needs to further consider how to advance its work relating to data analytics in a timely manner.

- Efficient use of existing staff resources will be important as well as assessing whether leveraging ongoing work by National Standards Setters would be appropriate.
- The DAWG should continue to interact with the Task Forces of the current ongoing projects and provide input relating to data analytics into the revisions currently being made.

Mr. Dohrer thanked the Board members for their thoughts and noted that he will take the feedback to the DAWG on the way forward.

8. CAG Chair Remarks

Mr. Dalkin acknowledged that the comments made by CAG representatives had been properly reflected in the Board's discussions. He further noted that the CAG Representative's views on ISA 540 (Revised) and ED-315 were not unanimous in relation to a number of issues; however, he had the view that most issues has been appropriately addressed in the Board's discussions. Mr. Dalkin highlighted the CAG's discussions in relation to networks in the project to revise ISQC 1, and emphasized the importance of the CAG's input to this project.

9. Closing

The minutes of the March 2018 IAASB meeting and teleconferences of April 18, 24 and May 22, 2018 were approved as presented.

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

10. Next Meeting

The two planned teleconferences for the third quarter of 2018 were confirmed, with the topics being conforming and consequential amendments to ISA 540 (Revised) arising from ED-315 and certain matters related to agreed-upon procedures, respectively. The next IAASB physical meeting will be held in New York, United States of America, from September 17–21, 2018.