

**Minutes of the 98<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)  
Held on September 17–21, 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 (September 17-19 and via  
teleconference September 20-21)  
Lyn Provost  
Fernando Ruiz Monroy  
Ron Salole  
Rich Sharko  
Isabelle Tracq-Sengeissen  
Imran Vanker

**Technical Advisors (TA)**

Sara Ashton (Ms. French)  
Vivienne Bauer (Mr. Monroy)  
Nicolette Bester (Mr. Vanker)  
Wolf Böhm (Prof. Marten)  
Melissa Bonsall (Ms. Zietsman)  
Andrew Gambier (Mr. Chiew)  
Ahava Goldman (Mr. Dohrer) (Except  
September 19)  
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)  
Denise Weber (Ms. Campbell)

Apology

Sanjay Vasudeva (Mr. Bandyopadhyay)

**Non-Voting Observers**

Present: Jim Dalkin (IAASB Consultative Advisory Group (CAG) Chair), Yoshiharo Kawada  
(Japanese Financial Services Authority)

Apology: Juan Maria Arteagoitia (European Commission)

**Public Interest Oversight Board (PIOB) Observer**

Present: Prof. Karel van Hulle

## IAASB Technical Staff

Present: James Gunn (Managing Director, Professional Standards) (September 17 and 19), 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-20>. These minutes are a summary of the decisions made at the September 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,<sup>1</sup> including IAASB Members, Technical Advisors, Staff and Observers. Prof. Schilder specifically welcomed Mr. Martin Baumann, who was appointed his successor as Chair of the IAASB from January 2019.

### 2. Quality Control at the Firm Level – Proposed ISQC 1 (Revised)<sup>2</sup>

Ms. French provided an overview of the proposals presented in the draft ED of proposed ISQC 1 (Revised). The IAASB:

- Noted the overall improvement since the previous draft, including with respect to scalability, and supported the general direction of the standard;
- Further encouraged the Quality Control Task Force (QCTF) to continue to simplify the standard, where possible, including simplifying the various explanations regarding the interrelationships of the components; and
- Encouraged the QCTF to continue to consider scalability as the standard is finalized, for example, examples for smaller firms, an appendix in the explanatory memorandum that highlights the scalability of the standard or videos or webcasts for small- and medium-sized practitioners (SMPs).

With respect to the proposed diagrams depicting the components of the system of quality management, the IAASB supported the 'house diagram.'

The IAASB discussed the draft ED of proposed ISQC 1 (Revised), as set out in **Agenda Item 2–A**, and an updated version of certain sections was presented to the IAASB later in the week to respond to the IAASB's comments from earlier in the week, as set out in **Agenda Items 2–A.1 and 2–A.2**. The sections that were

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<sup>1</sup> It is noted that Board member Mr. Zhang, and his technical advisor, are no longer attending IAASB meetings from September 2018

<sup>2</sup> 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*

updated included the introduction, definitions, the firm's risk assessment process, information and communication, monitoring and remediation, and networks.

#### INTRODUCTION

The IAASB supported the QCTF's revisions to the introduction, as presented in **Agenda Items 2–A.1 and 2–A.2**, and suggested further clarification to the description in paragraph 3 regarding “quality engagements.”

With respect to professional skepticism, the IAASB:

- Supported the QCTF's conclusions regarding the exercise of professional skepticism in the context of judgments related to the system of quality management and encouraged the QCTF to continue its coordination with the International Ethics Standards Board for Accountants (IESBA) regarding the applicability of the concept of professional skepticism to all professional accountants.
- Suggested referencing to the material in proposed ISA 220 (Revised)<sup>3</sup> that addresses professional skepticism at the engagement level.

#### AUTHORITY

The IAASB in general supported the inclusion of an authority section in each of the ISQCs.

#### OBJECTIVE OF THE STANDARD

The IAASB supported the objective of the standard, but suggested that the explanatory memorandum seek the views of respondents as to whether a more explicit reference to the public interest should be included in the objective.

#### DEFINITIONS

The IAASB discussed the various definitions (in particular the definitions for deficiencies, relevant ethical requirements, quality objectives, quality risks and the system of quality management). The IAASB had varying views regarding the proposed definition of deficiencies, as presented to the IAASB in **Agenda Item 2–A.1**, and recommended that the QCTF further develop this definition given the varying views.

#### GOVERNANCE AND LEADERSHIP

The IAASB provided various suggestions to clarify the requirements relating to governance and leadership and:

- Encouraged the QCTF to further consider the reference to ‘public interest’ in the quality objective, taking into account the various comments about, and changes made to, the reference to public interest in the introductory section of the standard.
- Questioned whether operational responsibility for independence should instead be operational responsibility for relevant ethical requirements.

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<sup>3</sup> Proposed International Standards on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*

#### FIRM'S RISK ASSESSMENT PROCESS

The IAASB supported the QCTF's revisions to the firm's risk assessment process, as presented in **Agenda Items 2–A.1 and 2–A.2**, and recommended:

- Clarifying that in some instances the identification and assessment of quality risks may be undertaken simultaneously;
- Simplifying the requirements in paragraphs 33 and 34;
- Further considering the requirement for the firm to identify additional quality objectives, for example, whether it should be a more direct requirement for the firm to determine whether additional quality objectives are needed; and
- A more direct requirement for the firm to establish policies or procedures to identify changes in the factors affecting the firm's system of quality management.

The IAASB also agreed that quality risks with a high magnitude of effect on the achievement of a quality objective but a low likelihood of occurrence would be included in the scope of "identified quality risks," consistent with the approach in the exposure draft of ISA 315 (Revised).<sup>4</sup>

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

The IAASB provided various suggestions to further clarify the components addressing relevant ethical requirements, acceptance and continuance of client relationships and engagements and engagement performance. The IAASB indicated that the component for relevant ethical requirements should also take into account others outside of the firm, i.e., service providers, who may also have a responsibility to fulfill relevant ethical requirements in the context of the services they provide to the firm.

#### RESOURCES

In addition to various suggestions for clarification and improvement, the IAASB suggested:

- Moving this component before information and communication, given that it is of the same nature as information and communication; and
- Coordinating with the Data Analytics Working Group on the use of information technology.

#### INFORMATION AND COMMUNICATION

The IAASB considered the QCTF's revisions to the information and communication component, as presented in **Agenda Items 2–A.1 and 2–A.2**. The IAASB:

- Encouraged the QCTF to include a more direct reference to transparency reports in the requirement;
- Requested the QCTF to specifically refer to the firm in determining when it would otherwise be appropriate to communicate externally, as required by paragraph 44(e); and
- Raised concern that the population of stakeholders suggested in the application material in paragraph A123 is too broad, given the reference to future stakeholders.

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<sup>4</sup> Proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

#### MONITORING AND REMEDIATION

The IAASB considered the QCTF's revisions to the monitoring and remediation component, as presented in **Agenda Items 2–A.1 and 2–A.2**, and suggested:

- A more explicit reference to in-process reviews in the requirement of paragraph 49; and
- Revisions to the requirement and application material addressing the cyclical inspection of completed engagements, such that more focus is placed on selecting engagement partners or engagements for inspection based on risk.

#### NETWORKS

The IAASB supported the QCTF's revisions for network requirements and services, as presented in **Agenda Items 2–A.1 and 2–A.2**, in particular the revisions to differentiate between aspects of the system of quality management that are required by the network versus those that the firm may choose to use in its system of quality management.

Given the various concerns raised by stakeholders regarding the evolution of networks and their influence on firms, the IAASB suggested undertaking a research project to find out more about networks and their structures, and noted this could be considered as part of the IAASB's strategy and work plan.

#### SERVICE PROVIDERS

The IAASB suggested clarifying the scope of service providers in the context of the use of information technology from service providers.

#### TITLE OF THE ISQCS

The IAASB agreed to amend the title of the quality control standards from "International Standards on Quality Control" (ISQC) to "International Standards on Quality Management" (ISQM) and recommended exploring the effect of the change on jurisdictions through an explicit question in the explanatory memorandum to the ED.

#### ADDITIONAL PUBLICATIONS

The IAASB supported the QCTF's proposals to develop additional publications to accompany the ED that further explain the application of the standard to firms of varying size or complexity and provided various further suggestions. The IAASB recommended that the proposed publications be issued after the publication of the ED in order that the IAASB's resources are appropriately focused on the finalization of the ED.

#### OTHER MATTERS RELATED TO THE ED

The IAASB noted the length of the three quality control standards and encouraged the QCTF to collaborate with the ISA 220 Task Force and ISQC 2<sup>5</sup> Task Force in presenting the three EDs in a manner that is simple to understand.

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<sup>5</sup> Proposed ISQC 2, *Engagement Quality Reviews*

#### IAASB CAG CHAIR'S REMARKS

Mr. Dalkin highlighted that the CAG had noted the improvement to the standard and that it is much clearer than previous drafts, although the CAG continues to have concerns regarding the length of the standard, particularly for SMPs. Mr. Dalkin also noted the CAG's support for how the reference to the public interest had been addressed in the standard. He added that the CAG had discussed the broader issue of the public interest concept in the context of the profession, and how this is being addressed.

#### PIOB REMARKS

Prof. van Hulle supported the references to public interest throughout the standard, but raised concern that it is not included in the objective of the standard. In relation to the requirements addressing communication with external parties, Prof. van Hulle:

- Encouraged the explicit use of the term "transparency reports."
- Questioned the references to "when required by law or regulation," since law or regulation already requires the communication.

Prof. van Hulle noted that the standard addresses the effect of the firm's business model on quality, but sought a reference to 'commercial considerations' in the requirements. He also suggested including a reference to the size of the firm when referring to the nature and circumstances of the firm.

#### WAY FORWARD

The QCTF will consider the matters raised by the IAASB and will present the draft ED of the now proposed ISQM 1 to the IAASB in December 2018 for approval.

### **3. Strategy and Work Plan 2020-2023**

Mr. Montgomery and Ms. Bahlmann provided an overview of the feedback from the Stakeholder Survey on the IAASB's future strategy and work plans, and the proposed directional recommendations for the development of the Consultation Paper on the IAASB's Strategy for 2020–2023, and related Work Plan for 2020–2021, as presented in **Agenda Items 3 and 3-A**.

The Board discussed the proposed strategic direction and generally supported the proposed way forward. In particular, the Board supported the use of structured activity streams informed by robust research and outreach, but had several suggestions for further consideration when developing the Consultation Paper. In particular, the Board was supportive of more robust activities related to information gathering and research prior to commencing a project, as well as enhanced implementation activities, which could be seen to help address part of the 'performance gap.'

The Board emphasized the need to be nimble and responsive, while continuing to have robust due process procedures for its activities. Among other matters, the Board asked the Steering Committee to further:

- Consider whether a moratorium in standard-setting is needed following the completion of the projects in the current work plan, to enable a period for transition and implementation activities. Board members also recognized the need to continue standard-setting, and were supportive that the balance in the Board's activities indicated a shift to more time for implementation activities.
- Elaborate further on what would be included within the various structured activities, in particular the research and implementation phases. It was noted that, particularly in the research phase, a decision

making process would need to feature prominently to provide transparency about the Board's decisions. The Board noted that the research phase would help with understanding the root causes of the issues, which would help determine whether standard-setting would be the most appropriate action or whether another action would be more appropriate to address the issues.

- Consider the need for a mechanism to rapidly address issues by making limited scope amendments to standards. It was noted that this would likely need a different due process.
- Consider whether the current operational model is still appropriate or whether more structural changes are needed. For example, it was suggested that the Board should be more strategic in its plenary discussions, with further consideration about whether to establish different groups that may be used for a different purpose (such as the International Financial Reporting Standards Interpretations Committee, which provides guidance on how to apply specific aspects of the International Financial Reporting Standards where implementation is unclear).
- Look beyond the four years covered by the Strategy period to identify areas where IAASB actions might be needed in the future. It was noted that having a longer horizon may help the IAASB to respond to trends on a more timely basis.
- Consider how 'measures of success' could be presented. It was emphasized that any metrics considered should include whether the revised strategic objectives have been met, and whether goals set have been achieved.
- Elaborate on what resources, both Board and Staff, will be needed in view of current and future projects and activities. In addition, the Board highlighted the importance of working more closely with other stakeholders, such as national auditing standard setters.
- Focus on what actions are needed in relation to non-financial information to enhance the relevance of the audit.

The Board also highlighted the importance of continuing outreach with stakeholders who did not respond to the Strategy Survey, especially investors and those charged with governance. Board members also emphasized that it is important to continue to understand the needs of the Board's stakeholders to stay relevant in a rapidly evolving world.

#### IAASB CAG CHAIR'S REMARKS

Mr. Dalkin supported the direction of the IAASB's future strategy, and encouraged the Board to further consider how technology could be used to increase the productivity of the Board (for example, videoconferencing may reduce the need to travel).

#### PIOB REMARKS

Prof. van Hulle generally supported the recommendations for strategic direction and suggested that the Board understand how international regulator groups approach their activities, as they faced similar issues. He highlighted the importance of the research phase to determine whether standard setting is needed or whether other actions may be more appropriate. He also noted the importance of continuing outreach to stakeholders, including Monitoring Group members, given the limited number of responses received to the strategy survey. He also highlighted the importance of addressing issues, such as fraud, that enhance the relevance of the audit.

## WAY FORWARD

The Board will discuss a draft of the Consultation Paper on the Strategy for 2020–2023 and Work Plan for 2020–2021 at its December 2018 meeting, and issuance of the Consultation Paper is expected in late January 2019.

### **4. Quality Control at the Engagement Level – ISA 220 (Revised)**

Ms. Zietsman provided an update on the project and presented a revised draft of proposed ISA 220 (Revised). The Board expressed support for the direction of the proposed changes to ISA 220, and noted various areas for consideration by the ISA 220 Task Force mentioned below. She noted that further coordination was planned to fully align the various quality control projects, including the project to revise ISA 220.

## OVERALL COMMENTS

The ISA 220 Task Force was asked to consider whether phrases such as “the engagement partner shall be satisfied” are sufficiently robust to drive improved quality, or whether a more action-oriented verbs such as ‘determine’ or ‘conclude’ may be more appropriate. Ms. Zietsman noted that the verb ‘be satisfied’ was used deliberately when an action is needed at the firm level, and the engagement partner needs to be satisfied that the action was undertaken, and that the ISA 220 Task Force would reevaluate the use of ‘be satisfied’ to determine that it is used appropriately.

## SPECIFIC COMMENTS

The Board discussed whether it was appropriate to use the phrase “sufficiently and appropriately” as it relates to the engagement partner’s involvement throughout the audit engagement given that terms “sufficient and appropriate” are defined in the Glossary in the context of audit evidence. The Board discussed the matter and concluded that the phrase should be retained in proposed revisions to ISA 220. The Task Force was also asked to consider whether additional application material would be helpful.

In addition to other comments, including minor suggestions and clarifications, the Board asked the Task Force to consider the following:

- In relation to references in requirements to the firm’s policies or procedures, and noting the Board’s support for the overall approach to dealing with firm policies or procedures in the requirements and related application material of proposed ISA 220 (Revised), to consider whether a matching requirement was needed in ISQC 1 (Revised) to require engagement teams to comply with the firm’s policies or procedures. The Task Force was also asked to provide guidance on whether, and if so, the degree to which the engagement partner can depend on the firm’s policies or procedures.
- Whether the statement about audits of financial statements being performed in the public interest and the engagement partner and engagement team’s responsibilities could be clarified as it is the standards that are set in the public interest and audits are performed in accordance with those standards that are in the public interest.
- In relation to the objective, whether:
  - To reference ‘public interest’ in the objective;
  - To remove the direct reference to managing quality, as a quality audit engagement is the result of fulfilling paragraph 6(a) and (b).



- In relation to the definitions, whether:
  - The proposed changes would inadvertently cause various parties to be included in the definition of 'engagement team,' including component auditors and experts. It was agreed that specific references to component auditors would be removed from the application material, and that application of the definition to group audits would be dealt with by the ISA 600<sup>6</sup> Task Force as part of the Group Audits project.
  - Additional guidance on the need for judgment when determining whether a procedure is an audit procedure should be provided.
- In relation to engagement resources, whether guidance should be provided on engagement teams' use of specialists or other resources (technology) that have not been sanctioned by the firm.
- In relation to paragraph 17A, whether the engagement partner should be required to review the audit documentation regarding the rationale for the conclusions.
- Whether the requirement to review the 'final' draft of the financial statements and the auditor's report may be overly onerous, especially when final drafts may only contain minor or editorial changes.
- Whether the application material related to consultations would lead to too many consultations being required, specifically those in regard to significant risks.
- Whether more guidance needs to be provided on the implication at the engagement level if one or more components of the system of quality management are not effective.
- Whether guidance can be provided on how the engagement partner can make the determination that the engagement partner's involvement has been sufficient and appropriate.

#### IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted that, similar to the Board discussions, support was expressed for the proposals, highlighting that there was a general sense from CAG Representatives that the standard was sufficiently scalable

#### PIOB REMARKS

In relation to the discussion on the use of "sufficiently and appropriately" as it relates to the engagement partner's involvement in the audit engagement, Prof. Van Hulle suggested that this phrase be removed entirely because the engagement partner always needs to be involved.

#### NEXT STEPS

The ISA 220 Task Force will consider the matters raised by the IAASB and present a revised draft of the ED of proposed ISA 220 (Revised) for approval at the December 2018 IAASB meeting.

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<sup>6</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

## 5. Agreed-Upon Procedures (AUP) – ISRS 4400<sup>7</sup>

Mr. Salole provided an overview of proposed changes to the Exposure Draft of ISRS 4400 (Revised) (ED-4400) as presented in **Agenda Items 5-A and 5-B**.

The Board supported many of the revisions made to the standard. 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-4400. The Board agreed to:

- Not require independence for AUP engagements. To enhance transparency, the AUP report would include:
  - If required to be independent by relevant ethical requirements, terms of the engagement, or other reasons, a statement that the practitioner is independent and the basis therefor; or
  - If not required to be independent by relevant ethical requirements, terms of the engagement, or other reasons, either:
    - A statement that the practitioner is not required to be independent; or,
    - If a determination has been made that the practitioner is independent, a statement to that effect and the basis therefor.
  - When it is known that the practitioner is not independent, a statement to that effect.

The Board further emphasized that stakeholder views on the proposed requirements and application material on independence is important.

- Replicate the corresponding requirements and application material relating to ISQC 1 in ISRS 4410 (Revised)<sup>8</sup>, and include an explanation in the Explanatory Memorandum that these materials will need to be updated pending the finalization of the ISQM 1 project.
- Clarify the scope to address financial and non-financial subject matters.
- Base the effective date on when the terms of engagement is agreed.
- Develop definitions for professional judgment and the practitioner's expert.
- Use the term 'findings' instead of 'factual findings', and to include an acknowledgement that in some jurisdictions, the term 'findings' and 'factual findings' may have different meanings, and include in the application material that the term 'findings' may be replaced with "factual findings."
- Require the practitioner to apply professional judgment in conducting an AUP engagement, taking into account the circumstances of the engagement.
- Require the practitioner, when using the work of a practitioner's expert, to determine whether the practitioner will be able to be involved in the work of the expert to an extent that is sufficient to take responsibility for the findings included in the AUP report.

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<sup>7</sup> International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

<sup>8</sup> ISRS 4410 (Revised), *Compilation Engagements*

#### EFFECTIVE DATE

The IAASB agreed that an appropriate proposed effective date for the standard would be for terms of engagement agreed approximately 18–24 months after the approval of the final ISRS. Earlier adoption would be permitted and encouraged.

#### IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted the CAG's strong support for the project and that AUP engagements are important to the public sector. On the issue of independence, Mr. Dalkin indicated that it would be a disservice to the public if the practitioner's independence (or lack thereof) is not disclosed.

#### PIOB OBSERVER REMARKS

Prof. Van Hulle indicated that transparency on the practitioner's independence is an important public interest issue.

#### EXPLANATORY MEMORANDUM

The IAASB agreed with the AUP 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.

#### APPROVAL

After agreeing on specific changes, the IAASB approved proposed ED-4400 for exposure, with 16 affirmative votes out of the 17 IAASB members present. One member voted against proposed ED-4400. The member indicated that when the practitioner is not required to be independent by relevant ethical requirements and has not determined whether the practitioner is independent, it is in the public interest that the AUP report should include a statement to that regard. The Exposure Draft is expected to be issued in November 2018 with an approximately 120-day comment period.

### **6. Engagement Quality Reviews – Proposed ISQC 2<sup>9</sup>**

Mr. Vanker introduced the topic by noting that the Task Force had been reconstituted in June 2018. He provided an overview of the project's history to remind Board members about previous discussions on the proposed standard, the Task Force's effort to be timely in its development,, and highlighted recent outreach activities.

#### LINKAGES BETWEEN PROPOSED ISQC 1 (REVISED) AND PROPOSED ISQC 2

In discussing **Agenda Item 6-A**, Board members noted concerns with the linkages between proposed ISQC 2 and proposed ISQC 1 (Revised), including the clarity of the firm-level versus engagement quality reviewer requirements in proposed ISQC 2. Board members also expressed concern about the extent of material related to engagement quality reviews (EQR) included in proposed ISQC 1 (Revised). In discussing revised **Agenda Item 6, Supplements A and B** later in the week, the Board expressed a clear preference for restructuring the requirements in proposed ISQC 1 (Revised) to include a requirement for the firm to establish policies or procedures addressing engagements for which an EQR would be required (in addition to the scope requirements already in proposed ISQC 1 (Revised)), and for proposed ISQC 2 to focus on

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<sup>9</sup> ISQC 2, *Engagement Quality Reviews*

the requirements regarding the eligibility of the engagement quality reviewer and related performance requirements.

#### ENGAGEMENTS SUBJECT TO AN ENGAGEMENT QUALITY REVIEW

The Board discussed the scope of engagements that should be subject to an EQR in **Agenda Item 6-B**. Mr. Vanker highlighted that the Task Force was asked to consider extending the requirement for EQRs to more engagements than under the extant requirements. The Board discussed the requirement that an EQR be performed for audits of financial statements of entities that are of “significant public interest.” The Board agreed that the firm, through its system of quality management, should determine whether an entity is of significant public interest, discussed the criteria in the application material for making this determination and agreed to discuss the issue of entities subject to engagement quality review further on the October 2018 Board teleconference.

#### DEFINITIONS

The Board supported the change in terminology from “engagement quality control review/reviewer” to “engagement quality review/reviewer” to better align with proposed ISQC 1 (Revised).

Board members suggested that the definition of relevant ethical requirements in proposed ISQC 2 be reconsidered because the definition in proposed ISQC 1 (Revised) would cover the engagement quality reviewer as one of the firm’s personnel. A Member also suggested that a single definition of engagement quality reviewer should be developed and included in the Glossary to avoid repeating it in each standard, and that clarifications could be provided in application material.

#### ELIGIBILITY CRITERIA

With respect to the eligibility criteria for engagement quality reviewers, Mr. Vanker highlighted the supplemental paper of the Joint Working Group (JWG) of the IAASB and IESBA addressing threats to the engagement quality reviewer’s objectivity, and specifically the JWG’s proposed approach for addressing the ‘cooling-off’ period. Mr. Vanker noted that the proposals in the JWG paper had been reflected in **Agenda Item 6-A** and **Agenda Item 6-B**. The Board was supportive of the JWG proposals, and members asked the Task Force to further consider the following regarding the eligibility criteria:

- The potential difficulty in practice for SMPs to identify an individual responsible for the appointment of the engagement quality reviewer who is not a member of the engagement team subject to the EQR.
- Whether the example of a two-year cooling-off period for audits of listed entities in the application material was too definitive and could become a *de facto* requirement in some jurisdictions.

#### PERFORMANCE OF THE ENGAGEMENT QUALITY REVIEW

The Board discussed the requirements related to the nature, timing and extent of the engagement quality reviewer’s procedures.

With respect to significant judgments and significant matters, Board members noted that the focus should be on significant judgments. It was also noted that consideration should be given to the content regarding significant judgments in proposed ISA 220 (Revised), and also that the guidance on significant judgments in proposed ISQC 2 should be separated between audits and other types of engagements.

With respect to timing of the EQR, Board members noted that:

- The engagement quality reviewer's involvement throughout the engagement was important to give the reviewer sufficient time to complete the required procedures before the engagement report is dated.
- The requirement for completion of the review needed to be explicit; and
- There should be firm policies or procedures for resolving differences of opinion between the engagement quality reviewer and the engagement team, and for the engagement quality reviewer to report situations when matters the engagement quality reviewer raises are not resolved by the engagement team in a reasonable period of time.

#### DOCUMENTATION

Board members were generally supportive of not including specific firm-level documentation requirements related to EQRs. They also noted that the proposed documentation requirements for EQRs in proposed ISQC 2 were less robust than extant requirements and needed to be strengthened. Board members also suggested specific changes to clarify certain matters related to documentation (e.g., where EQR documentation should be retained).

#### IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted the CAG's support for the ISQC 2 project. He highlighted the following issues raised by CAG Representatives:

- He cautioned that although the CAG was generally supportive of requiring EQRs for "entities that are of significant public interest," all public sector entities might be viewed to be of significant public interest. He supported the revised wording related to public sector entities presented in the supplemental material subsequently discussed by the Board.
- The potential threat to the engagement quality reviewer's objectivity if the timing of the EQR is too aligned with the engagement such that the engagement quality reviewer becomes, in essence, part of the engagement team.
- The timing of the completion of the EQR in relation to report issuance.

#### PIOB OBSERVER REMARKS

Prof. van Hulle noted, in reference to the timing of the EQR, that it was important for the engagement quality reviewer to be involved at the appropriate times during the engagement to allow for continuous improvements during the audit.

Prof. van Hulle was supportive of extending the engagements subject to EQR to include entities beyond listed entities, but was not supportive of the proposal that would allow firms to determine which entities were of significant public interest. He noted that the public interest would be better served by providing clear direction that would lead to more engagements being subject to EQRs.

## WAY FORWARD

The ISQC 2 Task Force will take into consideration the above from the IAASB and will present specific issues at a Board teleconference in October 2018 and an Exposure Draft of the now proposed ISQM 2 for approval at the December 2018 IAASB meeting.

### 7. Emerging Forms of External Reporting (EER)

Mr. Grabowski presented an issues paper (**Agenda Item 7**) addressing the remaining phase 1 'issues' not presented to the IAASB in June 2018, which included the maturity in governance and internal control of EER preparers, as well as obtaining assurance over narrative and future-oriented information. He also presented a first draft of the phase 1 guidance (**Agenda Item 7-A**).

The IAASB noted the progress made by the EER Task Force, but the reactions to the draft guidance varied between those with a 'technical' assurance background and those undertaking assurance engagements day-to-day, with the latter generally finding it helpful in addressing the issues faced by practitioners. The IAASB highlighted the following matters in relation to the draft guidance for further EER Task Force consideration:

- The guidance needs further review to align with IAASB drafting conventions for guidance.
- Given the length of the document it could be made more accessible to its intended audience of practitioners by publishing it in smaller 'chunks.' Consideration of innovative ways of publishing the guidance, including in digital formats, was also suggested.
- The EER Task Force was further encouraged to consider whether accessibility and use of the guidance by practitioners could be improved by more clearly relating the draft guidance to the structure of ISAE 3000 (Revised),<sup>10</sup> rather than to the Ten Key Challenges.
- The extent to which it is appropriate for the guidance to cover matters not explicitly addressed in the ISAE 3000 (Revised) requirements and application material was discussed. A risk was noted that practitioners could consider such aspects of the non-authoritative guidance to be introducing implied new requirements. However, it was also noted that addressing such matters may be important in providing useful guidance to practitioners in addressing the identified challenges, so long as such guidance did not conflict with the requirements of ISAE 3000 (Revised). It was suggested that stakeholders could be asked for their views on areas where this had been considered useful in developing the phase 1 guidance in responding to the public comment on the guidance.
- A concern was expressed that the draft guidance could in places be understood to be inconsistent with ISAE 3000 (Revised). An example raised was whether the relationship between materiality and the characteristics of suitable criteria had been appropriately described.
- A risk was noted that the draft guidance could be misconstrued as suggesting there might be ways to 'get around' the pre-condition that there should be suitable criteria. This risk was related to concerns about undertaking assurance engagements when the criteria are entity-developed rather than established particularly when they would result in subjective information. However, it was also noted that some degree of subjectivity in reported information was envisaged in the definition of the 'reliable' characteristic of suitable criteria. It was suggested that the EER Task Force could consider

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<sup>10</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

further how the term “reasonably consistent measurement or evaluation” in that definition should be interpreted.

- Mixed views were expressed in relation to the inclusion of guidance on assurance readiness engagements, with it being noted that these exist in practice and can contribute to enhance EER reporting and effective future assurance engagements. However, it was also noted that addressing them within the guidance on applying ISAE 3000 (Revised) might be misconstrued as suggesting that they were assurance engagements, and that there were potential ethical issues to be considered.
- The discussion of fair presentation and compliance frameworks needs further explanation if considered by the EER Task Force to be a necessary part of the draft guidance.
- Suggestions of a new term for ‘EER’ were given, with ‘extended external reporting’ receiving strong support. It was also noted that continued use of the term ‘challenges’ might be re-considered by the EER Task Force to focus on the guidance being practical help to practitioners rather than on the underlying challenges it addressed.

#### IAASB CAG CHAIR REMARKS

Mr. Dalkin noted the CAG strongly supported the IAASB moving forward in this area. He expressed the need to be clear where this guidance fits into the bigger picture of assurance for the benefit of non-practitioners. He noted that a significant challenge for some practitioners was moving away from the financial audit mentality of working in quantitative terms to making more qualitative judgments.

#### PIOB REMARKS

Prof. Van Hulle noted the need to focus the guidance on the expected needs of practitioners of the future, and the opportunity for the IAASB to demonstrate it was responding to this evolving environment. He further noted the need for the guidance to explain clearly who should be using the document, and encouraged the EER Task Force to consider whether breaking it up to reduce its length may make it more accessible.

#### WAY FORWARD

The EER Task Force will present an updated draft of the phase 1 guidance for IAASB discussion in December 2018, with agreement for the issuance of the draft guidance for public comment at a teleconference in January 2019. Further feedback and input from the Project Advisory Panel and the global series of discussion events in October and November will also be presented to the Board in December 2018.

### **8. Audits of Less Complex Entities**

Mr. Salole introduced the topic, explaining the purpose of the project proposal and setting out the work to be done by the Audits of Less Complex Entities (LCE) Working Group in developing the Discussion Paper.

Board members were supportive of a project to further explore these matters, in particular in light of developments globally for different solutions in relation to audits of smaller entities, as well as the increasing complexity of the ISAs. In particular, Board members were very supportive of further understanding the root causes of the issues so that an appropriate solution to address the issues can be explored, and encouraged the LCE Working Group to aim to obtain regional perspectives.

Some caution was expressed about another paper for discussion, in light of the time since the initial global public discussions in 2016. In addition, it was noted that the LCE Working Group had to be very clear about what is going to be achieved, in particular in relation to the next stages of this project. The Working Group was encouraged to develop the paper to solicit information that has not been heard before, in particular the barriers to efficient use of the ISAs. It was also noted that it would be important to capture the diversity of views in the consultation paper.

Board members also offered suggestions about matters that should be analyzed further as part of the development of the Discussion Paper including:

- Specificity about the types of entities that are being addressed by this project, so stakeholders are clear what is being addressed. It was noted that this could be done by describing what it didn't apply to. It was noted that this is important as 'complexity' may have different meanings in different jurisdictions.
- Decision-making information, such as an impact analysis of various alternatives and the public interest benefits of alternatives courses of action (for example a separate set of standards versus guidance).
- What the impact on the IAASB current projects would be by different courses of action.
- Whether the challenges are only driven by audit, or whether ethics or education also play a role in driving practice.
- Whether software would offer any possible solutions.
- The impact of a separate set of standards for audits of less complex entities, especially in light of the desire to maintain the same level of assurance.

In addition, several Board members emphasized the need to reach out to legislators to understand why decisions regarding when an audit is required are being made. This may also help inform what possible solutions are feasible.

Board members also cautioned about the proposed timing, and noted that the Board should have sufficient time to fully discuss these issues before any decisions are made. The board also encouraged the LCE Working Group to leverage the NSS in obtaining some of this information.

#### IAASB CAG CHAIR'S REMARKS

Mr. Dalkin strongly supported the IAASB's efforts on this initiative, emphasizing the need to make this project about the complexity of the entities being audited.

#### PIOB REMARKS

Prof. van Hulle notes that it is important to think more about scalability of the standards, and welcomes the Board's proposals to think about what more can be done in relation to scalability. He cautioned the Board about broadening the scope too much and encouraged the Board to continue to focus on its core ISA projects, which would be the focus of the Monitoring Group members.

#### WAY FORWARD

It was agreed that the LCE Working Group would make adjustments to the project proposal to reflect the Board's comments and that the Steering Committee will approve changes to the final project proposal. The



LCE Working Group would continue developing the Discussion Paper for discussion with the IAASB at its March 2019 meeting.

## **9. Professional Skepticism**

Ms. Provost provided the Board with an update on the activities of the IAASB Professional Skepticism Subgroup since March 2018. Ms. Provost also presented a draft publication highlighting the IAASB's efforts to give greater emphasis on professional skepticism in the IAASB standards, and highlighting other news and information related to professional skepticism. The Board supported the issuance of the publication and future publications of this nature and variously commented that:

- It would be helpful to coordinate with national standard setters on professional skepticism,
- Potential topics to be covered in later publications could include what it means to be skeptical (e.g., what are the behaviors), and the difference between professional skepticism exercised by an auditor versus the expectation for professional accountants to be skeptical.

### **WAY FORWARD**

The IAASB Professional Skepticism Subgroup will finalize and issue the publication shortly after the September 2018 Board meeting, and will continue to support the current projects of the IAASB, as well as remain coordinated with the IESBA and International Accounting Education Standards Board (IAESB).

## **10. CAG Chair Remarks**

Mr. Dalkin thanked the Board for its consideration of the comments from CAG Representatives in the various discussions during the week. He further noted his appreciation for the involvement of number of the task force chairs in the CAG discussions with the CAG Representatives at the CAG meeting.

## **11. Closing**

The minutes of the June 2018 IAASB meeting and teleconferences of July 17 and August 7, 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.

## **12. Next Meeting**

The planned Board teleconference on October 16, 2018 was confirmed, with the topic being related to proposed ISQM 2. The next IAASB physical meeting will be held in New York, United States of America, from December 10–14, 2018.