International Auditing
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Standards Board

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Meeting:	IAASB Consultative Advisory Group	**Agenda Item**
Meeting Location:	New York	**B**
Meeting Date:	September 8–9, 2014	

Draft Minutes of the Public Session of the Meeting of the

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD CONSULTATIVE ADVISORY GROUP (CAG)

Held on March 11–12, 2014
New York, U.S.A.

[Approved]

PRESENT

Members

Linda de Beer	Chairman
Vãnia Borgerth	Associação Brasileira de Instituições Financeiras de Desenvolviment
Kristian Koktvedgaard*	BUSINESSEUROPE
Matthew Waldron	CFA Institute
Juan Maria Arteagotia	European Commission (EC)
Marie Lang	European Federation of Accountants and Auditors for SMEs (EFAA)
Hilde Blomme	Fédération des Experts Comptables Européens (FEE)
Myles Thompson	FEE
John Kuyers (March 11)	Information Systems Audit and Control Association (ISACA)
Michael Stewart**	International Accounting Standards Board (IASB)
William Hines	International Actuarial Association (IAA)
Tom Finnell, Jr.	International Association of Insurance Supervisors (IAIS)
George White	International Bar Association (IBA)
Seiya Fukushima	International Organization of Securities Commissions (IOSCO)
Nigel James	IOSCO
Jim Dalkin	International Organization of Supreme Audit Institutions (INTOSAI)

* During the meeting, Mr. Koktvedgaard participated in the capacity of both an IAASB CAG member and the International Ethics Standards Board for Accountants (IESBA) CAG Chair.

** Views expressed by the IASB Representatives represent his views and do not necessarily reflect the view of the IASB.

Frank Bollmann	International Valuation Standards Council (IVSC)
Hayanari Uchino	Japan Securities Dealers Association (JSDA)
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Marie Hollein	North American Financial Executives Institutes (NAFEI)
Gayani Lalanika Perera	Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)
Irina Lopez	World Bank (WB)
Xiaoma Lu	World Federation of Exchanges (WFE)

Observers

Pat Sucher	Basel Committee on Banking Supervision (Basel Committee)
Martin Baumann***	U.S. Public Company Accounting Oversight Board (PCAOB)
Brian Bluhm	IFAC Small and Medium Practices Committee, Deputy Chair (SMPC)

IAASB

Prof. Arnold Schilder	IAASB Chairman
Dan Montgomery	IAASB Deputy Chair and Task Force (TF) Chair
Cédric Gélard (Agenda Item B)	IAASB TF Chair
Marek Grabowski (Agenda Item H)	IAASB TF Chair
Merran Kelsall **** (Agenda Item D)	IAASB INFO Working Group (WG) Member / Integrated Reporting Liaison
Chuck Landes (Agenda Item C.2)	IAASB TF Chair
Bruce Winter (Agenda Item C.3)	IAASB TF Chair
Jim Sylph (March 11)	IFAC Executive Director, Professional Standards and External Relations
James Gunn	IAASB Technical Director
Kathleen Healy	IAASB Deputy Director
Diane Jules	IAASB Technical Manager
Nancy Kamp (Agenda Items D and E)	IAASB Deputy Director
Brett James**** (Agenda Item B)	IAASB Senior Technical Manager

*** Views expressed by PCAOB Representatives represent their views and do not necessarily reflect the view of the PCAOB Board or other Board members or staff.

**** Via teleconference

Beverley Bahlmann**** (Agenda Items H and J)	IAASB Senior Technical Manager
Sara Ashton (Agenda Item C.2)	IAASB Senior Technical Manager
Jasper van den Hout (Agenda Item C.1)	IAASB Technical Manager
Public Interest Oversight Board	Chandrashekhar Bhave

APOLOGIES

Members

Conchita Manabat	Asian Financial Executives Institutes (AFEI)
Fang Han	AFEI
Federico Diomeda	EFAA
Dr. Obaid Saif Hamad Ali Al Zaabi	Gulf States Regulatory Authorities (GSRA)
Anne Molyneux	International Corporate Governance Network (ICGN)
Abdelilah Belatik	Islamic Financial Services Board (IFSB)
Jaseem Ahmed	IFSB
Lucy Elliott	Organisation for Economic Cooperation and Development (OECD)

Observers

Norio Igarashi	Japanese Financial Services Agency (JFSA)
Chris Hemus	International Monetary Fund (IMF)

March 11, 2014[1]

Welcome and Approval of Minutes of Previous Meeting (Item A)

To *APPROVE* the minutes of the September 2013 CAG public session.

OPENING REMARKS

Ms. de Beer welcomed the Representatives and Observers, including new representatives Ms. Marie Hollein (NAFEI – replacing Mr. David Morris) and Ms. Gayani Lalanika Perera (SLAASMB – replacing Mr. Ajith S. Ratnayake). She also welcomed Ms. Pat Sucher, observing on behalf of the Basel Committee, which is in process of finding a replacement for Mr. Markus Grund.

She also welcomed the public observers to the CAG, including Mr. Chandrashekhar Bhave from the PIOB, and the IAASB Chair and Deputy Chair, the IAASB TF Chairs, and staff.

Ms. de Beer noted that Mr. Jean-Luc Peyret has rotated off as representative of the European Financial Executives Institutes, and that Mr. Glenn Darinzo from the Institute of Internal Auditors had to resign from the CAG due to illness. She acknowledged their contributions, as well as that of Mr. Grund, and noted that she was working with these CAG Member Organizations to identify suitable replacements.

MINUTES OF THE PREVIOUS MEETING

The minutes of the September 2013 meeting were approved as presented.

ISA 720 – Other Information (Item B)

To *REPORT BACK and DISCUSS* the TF's proposed revisions to the ISA 720[2] exposure draft (ED) in light of the feedback received from respondents

Mr. Gélard introduced the topic, and noted the focus of the session will be on the revised draft of proposed ISA 720 (Revised). Mr. Gélard explained that the TF has clarified and simplified the work effort, scope, and treatment of other information received after the date of the auditor's report based on feedback received on exposure and previous CAG and IAASB discussions. Mr. Gélard noted that, as a result of the substantive changes since the ED, the TF is recommending that the draft ISA be re-exposed.

OBJECTIVES

Mr. Gélard drew the CAG's attention to the revised objectives of the ISA and noted that the revisions were intended to reflect the changes in the work effort and respond to concerns expressed by some IAASB members. For example, some IAASB members were of a view that the objectives as previously drafted could be read as focusing on improving the quality of the other information in its own right, which is beyond the scope of an audit of financial statements. Others thought that the objectives were too complex and did not provide sufficient linkage to the auditor's ethical obligations.

The Representatives and Observers commented on the revisions to the proposed objectives as follows:

- Ms. Sucher was of the view that the objectives, in terms of how ISAs are usually written, should not make reference to the specific procedures, but rather the auditor's objective of doing the work. She

[1] The minutes present the discussions in the order that they were taken. This may not be the same as that indicated on the agenda.

[2] ISA 720, *The Auditor's Responsibilities Relating to Other Information*

suggested instead that those procedures be referenced in the requirements addressing the work effort. Mr. Gélard responded that the procedures were incorporated as part of the objectives to address concerns about the scope of the standard being too broad. Mr. Gunn agreed with Mr. Gélard, noting that that the proposed objectives parallel the construction of those in ISA 250,[3] where the objectives also give some sense as to the work effort required.

- Mr. Hansen also expressed concern with including the wording "performing limited procedures" in the objectives. He noted that this could be interpreted as setting a negative tone.
- Mr. Waldron was of a view that the revised objectives were more auditor focused rather user focused and suggested that the TF delete the word "apparent" as in the sentence that read "…to consider whether there is an apparent material inconsistency between the other information and the auditor's knowledge gained during the course of the audit." Messrs. Bluhm and Hansen and Mmes. Blomme and Sucher agreed. Ms. Sucher added that there is a public interest element that should be factored into developing objectives for auditors. Mr. Gélard explained that the objectives were intended to direct the auditor, but also to enable the auditor to serve users in the public interest. Regarding the use of the word "apparent," Mr. Gélard noted that the TF intended for the word to convey the need for a certain degree of filtering by auditors as part of their consideration, thus the auditor's focus would be on those material inconsistencies that are most "apparent" or "obvious". Ms. Blomme suggested that the Mr. Gélald's explanation be incorporated in the ISA because the concept as explained was not clearly communicated in the ISA as drafted.
- Mr. Bluhm suggested that, given the revised focus of the objectives, the IAASB should give consideration to further explain what is meant by the term "material inconsistency," through additional application material. Ms. Blomme agreed and further suggested that the objectives should have a close linkage to the audit of the financial statements, as the current reference to the auditor's knowledge is very broad.
- Ms. Lang inquired about the TF's rationale for using the word "consider" versus "evaluate" in the ISA, noting that she would have expected to see the word "evaluate" used in the objectives. Mr. Gélard explained that the word "consider" is used in the ISA when the auditor is expected to reflect upon a matter, and the word "evaluate" is used when it is expected that the auditor performs procedures. Therefore, he noted that the word "consider" in the objectives is appropriate in light of the proposed work effort in paragraph 12 of Agenda Item B-1.

Work Effort

Mr. Gélard explained that the revised work effort paragraphs within the ISA were intended to clarify the procedures that were expected of auditors with respect to other information as part of an audit of financial statements. He explained that the revised requirements are more closely aligned to the objectives of the ISA and require the auditor to perform three clear and specific types of work effort: (i) a consistency check with the financial statements; (ii) a consistency check with the auditor's knowledge gained during the course of the audit; and (iii) remaining alert for other indications that the other information is apparently materially incorrectly stated or otherwise misleading.

[3] ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

The Representatives and Observers commented on the clarity and appropriateness of the proposed requirements relating the auditor's work effort as follows:

- Mr. Koktvedgaard expressed support for the revisions to the requirements to the auditor's work effort, but suggested that the requirement to perform limited procedures be revised to provide a closer linkage to the preceding requirement for the auditor "to read the other information to consider whether there is an apparent material inconsistency between the other information and the financial statements." Ms. de Beer agreed, and further suggested that the linkage should also be made to the objectives of the ISA.
- Mr. Baumann suggested that the requirement for the auditor to "read the other information and consider whether there is an apparent material inconsistency between the other information and the auditor's knowledge gained during the course of the audit" be amended to include the words "for purposes of assessing whether information is either materially misstated or misleading" after the word "audit." He was of a view that these additional words would anchor the other information to the audit of financial statements. Mr. Stewart also suggested that this requirement be revised to better describe that the auditor's focus should be on identifying inconsistencies as they relate to the financial statements. Mr. Gélard explained that the TF was of a view that the concept of "material misstatement" encompassed situations where the auditor identified either "inconsistencies" or "misleading information." Mr. Gélard also noted that, if the auditor identifies a material inconsistency between the other information and the financial statements, the auditor needs to determine whether the financial statements or the other information is wrong.

REPORTING

Mr. Gélard noted that revisions to the ISA are responsive to comments received on the ED and previous IAASB and CAG discussions about auditor reporting on other information. The revised reporting is intended to identify all the other information read by the auditor up to the date of the auditor's report, and state the auditor's responsibilities for the other information, while clarifying that no assurance has been obtained on the other information. With respect to reporting on other information after the date of the auditor's report, Mr. Gélard drew the Representatives' attention to three possible options for reporting on other information obtained after the date of the auditor's report included in Agenda Item B.

The Representatives and Observers commented as follows.

Illustrative Wording for the Auditor's Report

- Messrs. Baumann and Koktvedgaard were of the view the illustrative statement about other information to be included in the auditor's report was not user-friendly. Mr. Baumann also suggested that the first two sentences be redrafted to clarify the linkage between them. Mr. Gélard indicated that the TF considered whether the illustrative report could better convey that any problem noted as a result of the work effort could indicate the existence of a material misstatement in the financial statements.
- Mr. Fukushima was of a view that the illustrative statement would increase the expectations gap because it did not prominently describe what other information that the auditor read. Mr. Fukushima also suggested that the TF consider including the responsibilities of management, as these are equally important. Mr. Gélard responded that the second paragraph was intended to be an identification of what the other information is.

- Ms. Lang described the second paragraph within the illustrative statement that reads "The annual report contains the financial statements, this auditor's report thereon, and other information" as superfluous.
- Ms. Lang and Mr. Thompson noted that the part of the statement that reads "…and remain alert for other indications that the other information is apparently materially incorrectly stated or otherwise misleading" could be improved by stating for how long the auditor remains alert. Ms. de Beer agreed and suggested that the TF should consider clarifying what is meant by the term "remain alert", possibly only when reading the other information. Mr. Gélard noted that the term "remain alert" is used in the ISA and is intended to convey the auditor is not obtaining assurance on the other information in contrast to the financial statements.
- Mr. James questioned the usefulness of including the statement that reads "We have nothing to report in this regard."
- Mr. White, though supportive of the illustrative statement, suggested it would be more meaningful if the ordering of paragraphs two and three were reversed.

Reporting on Other Information Obtained after the Date of the Auditor's Report

- Ms. de Beer noted that this was a good example of where the Board should start at what it considered to be the best or ideal option in the public interest, but then make some adjustments in order to recognize the general difficulties with that best option over a broad range of jurisdictions, e.g. an inability by law to hold back or reissue the auditor's report,
- Messrs. Koktvedgaard and Waldron and Ms. Sucher expressed a preference for Option 1. Mr. Waldron indicated that certain aspects of Option 2 were also favorable, particularly in those jurisdictions where dual dating of the auditor's report is prohibited.
- Mr. Thompson questioned whether, in a situation where the auditor is aware that other information is coming, it would be preferable and practical to wait to issue the auditor's report. Messrs. Waldron and White agreed, but noted that the timing of the financial reporting filings is based on corporate law, and it is not always feasible or possible to wait. Mr. Gunn noted that reviewing other information is not part of issuing the financial statements and was not intended to be. He further explained that some jurisdictions permit the finalization of annual reports up to six months after issuance of the financial statements.
- Mr. Bluhm cautioned against reporting when part or all other information is obtained after the date of the auditor's report, as he believed it could potentially expand the scope of the ISA. Mr. Gélard explained that the last paragraph was inspired by current practice in Australia and that the illustrative wording would need to be tailored to adjust for timing differences in the release of auditor's reports.
- Mr. Hansen suggested that it was important to identify the other information that has not been reviewed and that it was also important not to change the date of the auditor's report. He also suggested that the TF consider having this information reported in a separate report, as is the case with auditor reporting on internal control over financial reporting, noting that such an approach would provide a bit more flexibility. Mr. Gélard responded that having a separate report would give the perception that the auditor had conducted a separate engagement with respect to other information, and that the auditor's work effort was not a derivative of the audit of the financial statements which could potentially increase the expectations gap.

- Mr. Lu was of a view that requiring the auditor to report again when the outstanding part of the other information is obtained after the date of the auditor's report would cause the auditor's report to be more complicated and confusing to the users. Ms. de Beer agreed, adding that the illustrative statement to be included in the auditor's report needs to be clear and sensible as to what information is or is not included.
- Mr. Dalkin explained that within the public sector Option 3 works best. Ms. de Beer noted that because the ISAs are applicable to public sector audits, it would be important for the TF to ensure that the option selected is workable for public sector auditors.

Prof. Schilder acknowledged the diverse views. He expressed a preference for Option 1 because of its specific and prominent identification of the other information. However, he noted that the complexity introduced by diverse approaches across jurisdictions limits what the IAASB can require to be included in the auditor's report.

REPORT BACK AND OTHER MATTERS

Mr. Gélard asked for views on any other comments that the Representatives believe may be relevant to the IAASB with respect to proposed ISA 720 (Revised), in particular the TF's proposal that the revised ISA be re-exposed. Ms. de Beer also asked for comments or corrections on the Report Back section of the CAG paper.[4]

- Mr. Koktvedgaard noted that the definition of other information was not always linked to the annual report. Mr. Gélard explained that the term "annual report" could refer to one document or a series of documents that are intended to serve a particular purpose.
- Mr. Fukushima suggested that more guidance be included in the ISA to describe the term "annual report." Using Japan as an example, he explained that there are many types of annual reports, for example, some annual reports are focused to the needs of management while others are focused on the needs of regulators or the public. Mr. Fukushima explained that, despite the fact that the content and audience of the annual reports are similar, their purposes are very different. Ms. de Beer suggested that the application material in the ISA be expanded to acknowledge the varied meanings of the term annual report.
- Mr. Dalkin and Ms. Sucher expressed strong support for re-exposing the ISA for public comment in light of the extent of changes being proposed. Ms. de Beer asked whether there were any Representatives who objected. None did.

Prof. Schilder noted that the IAASB has struggled with this ISA and emphasized the importance of having the Representatives' fresh perspective. Prof. Schilder further explained that the IAASB was of a view that a greater linkage between the objectives of the ISA to the procedures that the auditor is expected to perform would help clarify the ISA.

Mr. Gélard thanked the Representatives for their feedback.

[4] See also section E for Ms. de Beer's general comments on report backs.

Auditor Reporting (Item C)

To *RECEIVE* a summary of feedback received on July 2013 ED and to *DISCUSS* issues identified and Drafting Team's proposals for a way forward relating to key audit matters, going concern and other suggested improvements to the auditor's report.

OVERVIEW (AGENDA ITEM C)

Mr. Montgomery introduced the topic, noting that significant progress had been made by the auditor reporting drafting teams (DTs) in considering the 139 responses to the July 2013 auditor reporting ED. Mr. Montgomery noted the continued global interest in the auditor reporting project and the broad support for the overall direction of the proposals. However, he explained that respondents had concerns with some aspects of the proposals and calls for additional guidance in some areas to support the principles-based requirements. Mr. Montgomery also noted the strong calls for activities to support the effective implementation of the final standards as well as the need for ongoing attention to the developments of the PCAOB, the EC work on audit reports and the implementation of the UK Financial Reporting Council's (FRC) changes to ISA 700.[5] He noted that new auditor's reports were emerging in the UK, which would be valuable to the IAASB in moving forward.

Mr. Montgomery noted the IAASB's commitment to finalize the auditor reporting project in 2014 and explained the roles and responsibilities of the three DTs, including the new DT-570, which will address the topic of going concern (GC). Mr. Montgomery further explained the manner in which the key issues and revisions to the proposed standards would be addressed at upcoming Board and CAG meetings.

The Representatives and Observers commented as follows:

- Mr. Koktvedgaard, speaking on behalf of the CAG WG on Auditor Reporting, congratulated the DTs on the significant progress made as well as the extensive outreach and responses to the ED. He recognized that the IAASB had not yet considered the feedback to the ED and welcomed the opportunities for the CAG to further discuss the topic in September 2014, before the standards are finalized.
- Ms. de Beer noted that the IAASB would be discussing the same papers at its meeting the following week, and that the CAG's input in advance of the meeting would be valuable to the TF in considering an appropriate way forward.
- Mr. Baumann questioned a significantly higher response rate on the PCAOB's proposals from preparers and those charged with governance (TCWG) (54% of responses were from preparers versus the 7% on the IAASB's ED). He noted that the views of these groups differ significantly from those of investors and auditors, which will be challenging for the PCAOB to resolve. Mr. Montgomery explained that historically the IAASB has had difficulty in obtaining direct input from preparers and TCWG through the exposure process, as there are not many global bodies that represent those stakeholders. He noted it was therefore critical for the IAASB to get views from those stakeholders through some of the other outreach activities, including roundtables in which the IAASB participated and one-on-one meetings. Prof. Schilder further explained that some national standard setters (NSS) and regulators conducted outreach activities on a national level with TCWG and preparers, and

[5] ISA 700, *Forming an Opinion and Reporting on Financial Statements*

included their view in the NSS' response letters. He also noted the European audit reform proposals and the UK developments, in light of their status, as positively influencing the views of stakeholders.

- Mr. Uchino questioned how the IAASB might seek to educate investors. Mr. Montgomery explained that, while there is no specific plan yet, educational material for investors and other groups may be useful. Mr. Gunn noted such efforts will be critical to the success of the changes in auditor reporting as investors do not typically visit the IAASB's website. He noted that CAG Member Organizations have a critical role to play in assisting the IAASB in efforts to inform stakeholders about the intent of the changes to the auditor's report. Ms. de Beer agreed, noting organizations like the WFE have a more direct link with investors that could be leveraged.
- Ms. de Beer noted that users often encourage the IAASB to seek to align its proposals, to the extent practicable, with proposals from others such as the PCAOB, European Union (EU) and the FRC. Mr. Montgomery explained that monitoring developments of other standard setters is an important component of the DTs' and Staff's work, in order to ensure the IAASB is considering key aspects of those developments in its work. He also referred to more proactive outreach that had been undertaken on a regular basis with the PCAOB as well as representatives of the EC, the Presidency of the Council, and the Rapporteur for the European Parliament (EP). Doing so enables the IAASB to also provide input to those proposals in light of feedback the IAASB has received in an attempt to try to seek alignment with them.
- Mr. Sylph inquired as to the expected effective date for the new and revised auditor reporting standards. Mr. Montgomery explained that, assuming the project is completed by the end of 2014, the effective date would most likely be for 2016 audits (i.e. annual periods beginning on or after December 15, 2015), as this would allow sufficient time for PIOB consideration of due process as well as a sufficient implementation period for translation and education. Mr. Waldron commented that the IAASB should consider the time necessary to arrive at the "right answer".

REPORT BACK (AGENDA ITEM C)

Mr. Montgomery drew the CAG's attention to the Report Back and the listing of outreach activities since the July 2013 ED included in Agenda Item C. Mr. Koktvedgaard noted the WG found the report back to be useful for the discussion. No other comments were received on the Report Back.

KEY AUDIT MATTERS (KAM) (AGENDA ITEM C.1)

Mr. Montgomery introduced the topic, noting overall support for the inclusion of Key Audit Matters (KAM) in the auditor's report for audits of financial statements of listed entities, as well as strong support that KAM are based on those matters communicated with TCWG that required significant auditor attention. However, he noted that there were concerns about the auditor being the provider of "original information", including disclosing "sensitive matters" in the auditor's report. Mr. Montgomery also explained that there were mixed views whether proposed ISA 701[6] would promote consistency in how auditors determine and communicate KAM and whether such consistency is necessary.

Determining KAM

Mr. Montgomery highlighted feedback received on the ED in relation to the proposed requirement addressing how KAM are determined. He explained that DT-701 was proposing a revised requirement as

[6] Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

well as introducing a new requirement to respond to comments received and the results of firms' field testing, in particular to better articulate the thought process of the auditor to consider "drivers" of areas of significant auditor attention. He also noted the revised "criteria" for determining KAM are more closely linked to matters likely to be disclosed in the financial statements. However, continued reference to the overarching concept of "significant auditor attention" is intended to allow for the possibility that KAM are not limited to matters disclosed in the financial statements.

The Representatives and Observers commented as follows:

- Mr. Thompson, supported by Messrs. Baumann and Hansen, was of the view that the revised requirements were much clearer and were a significant improvement from the ED in terms of the likelihood of increasing consistency in the judgments in determining KAM.
- Mr. Hansen and Ms. de Beer questioned when matters are to be deemed to be "of most significance" (i.e., are these matters identified in the planning or completion phase of the audit?). Mr. Montgomery explained that a KAM is an outcome-based measurement of significance. While an auditor might have a view at the planning stage of the audit on the greatest risks of material misstatement and where the auditor might expect to spend the most time and attention, the determination of KAM is intended to taken into account where the auditor ultimately focused the most attention and which matters involved the most significant discussion with TCWG, based on the audit that was performed. Mr. Baumann noted that, while the PCAOB has not yet re-deliberated comments it has received on its proposals, he would support Mr. Montgomery's explanation and suggested this could be clarified in the application material. Ms. de Beer noted that a focus on the outcome of the audit would also likely address concerns expressed by some that KAM should be entity-specific, and hence avoid the risk of boilerplate industry-related KAM due to common industry risks.
- Mr. Dalkin noted that the duty for the auditor to consider significant events or transactions that occurred during the year in determining areas of significant auditor attention was fairly broad and questioned whether there are any parameters to clarify what exactly was intended. Ms. Healy explained that the concept of significant events and transactions is explained in some detail in ISA 315 (Revised)[7] and that DT-701 will provide further guidance in the application material in ISA 701, in particular to assist the auditor in determining which significant events or transactions, if any, are of most significance in the audit and therefore KAM.
- Mr. Waldron cautioned about narrowing the process to determine KAM as, in his view, it is important that the requirement to determine KAM should be broad enough to result in the auditor describing significant matters from the audit. Mr. Montgomery agreed, explaining that the intent of the use of the word "narrowing" in the agenda material was not to narrow the scope of what could be a KAM, but rather to assist the auditor in considering a broad list of matters that had been communicated with TCWG and determining which of those were of most significance. Mr. Montgomery noted that, while respondents to the ED have commented that it is difficult to envisage many circumstances in which a matter determined to be KAM would not be linked to the financial statements, DT-701 was of the view that the requirement to determine KAM should not exclude the possibility that a matter not disclosed in the financial statements could be a KAM if it was an area of significant auditor attention. Ms. Sucher agreed that the factors to be considered by the auditor should not be the only matters that could be determined to be KAM.

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

- Mr. James noted that there is no definition of “significant auditor attention” in the ED and suggested more could be done to clarify the intent of the term. Mr. Montgomery explained that further guidance will be included in the application material.
- Mr. James also drew attention to the potential difficulty for auditors to determine matters of most significance, in light of his view that the factors considered in determining areas of significant auditor attention (i.e., indicators of what may be a KAM) are not comparable. He also suggested that a fourth factor be added to clarify that matters other than those disclosed in the financial statements that would be of interest to users may be areas of significant auditor attention and possible KAM, if they are determined to be matters of most significance. Mr. Montgomery explained that the first sentence of the revised requirement in paragraph 8 is intended to address Mr. James’ suggestion, as the auditor shall determine, from the matters communicated to TCWG, those matters that required significant auditor attention in performing the audit, which are not limited to those disclosed in the financial statements. He further noted that the additional factors in paragraphs 8(a)–(c) are intended to be minimum considerations for the auditor in determining matters of significant auditor attention, based on feedback from the ED and firms’ field testing, bearing in mind the linkage to matters of interest to users.
- Mr. Stewart and Ms. de Beer questioned how the revised requirements were intended to focus on what is of most interest to users. Mr. Stewart asked whether there should be another filter to explicitly require the auditor to consider users in determining KAM. Mr. Montgomery explained that feedback from the Invitation to Comment (ITC) had suggested it may be difficult for auditors to determine what would be of interest to users, as many users may have different interests. However, he noted that the move to focus on areas of complexity or significant management judgment as a consideration to determine KAM is consistent with what users have highlighted as of interest to them. Mr. Hines agreed, noting that users have very different points of view and suggested it would be more appropriate to focus the auditor’s judgments in determining KAM to those areas on which the auditor spent a significant amount of attention. Mr. Baumann noted that similar comments had been received on the PCAOB’s proposals. He was of the view that it is for the standard setters to determine reporting requirements based on what they believe are most relevant and useful to investors, rather than leave this to the judgment of individual auditors, as auditors are not trained in determining what is of most interest to users. He therefore did not support adding another filter, but rather let investors determine which KAM were of most interest to them. Mr. Montgomery further suggested that more application material explaining the linkage between the revised requirement and matters of interest to users may be helpful.
- Mr. Stewart asked Mr. Baumann for clarification about his view that auditors are not able to judge users’ needs in light of the objective of setting materiality in financial reporting based on what would be relevant to users’ decision-making. Mr. Baumann expressed his personal view that financial statements must meet the requirements of the applicable financial reporting framework and the auditor has to make the determination that the preparer has met the requirements of such framework and assess in cases where the omission of a disclosure or an unadjusted error may be material to an investor. In his view, this exercise focuses on the mix of information provided to investors, which is very different to looking at the total body of the financial statements and selecting which of those various elements may be most important to an investor.
- Mr. Koktvedgaard questioned whether the proposed changes to the requirement to determine KAM would have any impact on the illustrative examples included in the ED. Mr. Montgomery explained

that those matters would likely continue to meet the criteria for a KAM under the revised requirements, but that DT-701 plans to assess the appropriateness of the examples, potential revisions, and the number of examples to be included in the final standard based on the comments received on the ED and changes to the requirements to determine and communicate KAM.

Addressing Sensitive Matters

Mr. Montgomery introduced the topic and gave examples of matters that respondents to the ED had highlighted as being sensitive. He noted that DT-701 had identified a need for a new requirement to address the concerns raised by respondents to the ED when such matters are determined to be KAM. While DT-701 has not yet agreed on the wording of such a requirement, DT-701 did not believe it would be appropriate for ISA 701 to restrict the auditor from communicating certain matters.

The Representatives and Observers commented as follows:

- Ms. de Beer was of the view that it is important that ISA 701 does not create too much flexibility for the auditor to opt out of disclosing a KAM by having a broad concept of sensitive matters, in particular because a preparer could then put pressure on the auditor not to disclose a KAM. Ms. Sucher and Mr. Dalkin noted that there could be a list of matters which the auditor does not have to report. However, they noted that a list will likely not improve the position of the auditor as TCWG could still put pressure on the auditor. Mr. Thompson agreed.
- Mr. Bollman was of the view that a fine balance needed to be struck – KAM should be determined by the auditor, but the auditor should have the option to discuss with TCWG whether or not to disclose a KAM, as TCWG can provide insight. However, there should be a very high threshold not to disclose a KAM, with the position in the ISA to err on the side of disclosure of a KAM in light of the interest in transparency for investors, unless there are important reasons not to disclose such information. Mr. Bluhm was of the view that the determination of KAM is the responsibility of the auditor and communication about a KAM should not be a joint decision between the auditor and TCWG. Instead, the auditor should simply obtain input from TCWG that is taken into account in determining whether to communicate a matter. Mr. Waldron agreed and noted that investors should hear the auditor's view and not that of TCWG.
- Ms. Sucher noted banking regulators had expressed concern about disclosures on "close calls" related to GC, in fear of such disclosures becoming a self-fulfilling prophecy. However, she cautioned that allowing for too much flexibility to not disclose particular matters could undermine the overall objective of requiring auditors to determine and communicate KAM. Mr. Thompson agreed, noting it would be helpful for the standard to presume that non-disclosure was only possible in certain extreme cases and that management should be encouraged to add disclosures in the financial statements to address matters determined to be KAM to avoid the auditor providing original information. Mr. Dalkin commented that, without appropriate parameters in ISA 701, any list of sensitive matters is likely to be viewed as exemptions from disclosure.
- Mr. White suggested as an alternative approach that the auditor should look at the related financial reporting framework. Some financial reporting frameworks allow for the possibility of certain matters not being disclosed in the financial statements. The auditor could consider why the particular matter had not been disclosed (e.g., if doing so would have been problematic for the preparer). Ms. Healy noted that this was also acknowledged in discussions with the IESBA Planning Committee. Mr. Stewart noted that this disclosure exemption in International Financial Reporting Standards (IFRSs)

is addressed in one of the older standards. Mr. Montgomery agreed that DT-701 will give further thought to this option.

- Mr. Hansen noted that, in addition to considering whether disclosure of a matter might result in potential harm to the entity, the auditor should also consider the potential harm to the public or investors if such a matter is, or is not, disclosed. He suggested there are multiple considerations that should be taken into account in determining whether something rises to the level of a sensitive matter for which disclosure should be precluded.
- Mr. James noted that the list of matters identified by respondents as sensitive varied with respect to the impact that disclosure may have. For example, IOSCO is of the view that breaches of independence requirements should always be reported unless the auditor is prohibited from doing so by law and regulation, as this is important information for investors, provided that such disclosure is presented in such a way that does not confuse the final conclusion that the auditor remained objective. He compared this to disclosure on a regulatory investigation or tax strategy and agreed with the suggestion to link the option to not disclose a KAM to the accounting framework and regulatory environment. Ms. de Beer agreed, noting that taking the position that the auditor is only permitted to not disclose a KAM if law, regulation or the accounting framework precludes the auditor from doing so would serve to highlight the exceptional circumstances in which this may be appropriate.
- Mr. Stewart noted that, while there may be some concern that requiring auditors to disclose matters that had not been disclosed by management is not appropriate, the most important aspect is that disclosures by both preparers and auditors (in communicating KAM) should be relevant. In this respect he noted he was less concerned about auditors adding additional disclosure on matters that met the threshold of most significance to the audit.
- Mr. James suggested that perhaps the results of field testing could be useful in informing the Board about the problems that were encountered by the firms to arrive at a reasonable solution. Mr. Montgomery explained that the firms did not share examples of KAM that had been developed in field testing, but rather used those results to inform their comment letters and shared the internal processes that had been followed, raising the question of how sensitive matters should be addressed.
- Mr. Dalkin suggested this would be a useful area to explore with the PCAOB and the FRC and did not support providing a list of examples of sensitive matters. He further suggested some documentation requirements in this regard. Ms. Sucher noted that it may be less of an issue in the UK due to the correlation between the auditor's report and matters already addressed in the Audit Committee report.
- Mr. Montgomery also drew the attention of the Representatives and Observers to paragraph 37 of Agenda Item C.1 and explained that IAASB Staff had preliminary discussions with the IESBA Planning Committee to firstly understand how the proposed requirements in ISA 701 would be viewed in light of relevant ethical requirements related to confidentiality, in particular including the *Code of Ethics for Professional Accountants* (IESBA Code). He noted that the IESBA Planning Committee was unanimous that the confidentiality provisions of the IESBA Code would not stand in the way of disclosing KAM as required by proposed ISA 701 (in order to comply with the technical standard), if not prohibited by law or regulation.
- Mr. Montgomery noted that DT-701 would give further consideration to the topic of sensitive matters and that the view of the CAG seemed to be that the wording in the standard would need to be carefully

crafted to make it clear that non-disclosure is an exception rather than a rule and is at a very high threshold. He reiterated that preparers, who did not support KAM in general, were particularly concerned about pressure from auditors to disclose matters that were not required to be disclosed in accordance with the applicable financial reporting framework.

Communicating KAM

Mr. Montgomery introduced the topic, noting much support for the flexibility in proposed ISA 701 for the auditor to determine whether it is necessary to communicate "the effect on the audit". Of the respondents who explicitly commented, 20% had a strong view that the auditor should always disclose procedures and an outcome and 20% strongly opposed requiring the auditor to do so in all cases. Many respondents called for clarification of the concept of the effect on the audit. Based on the responses received on the ED, DT-701 is proposing only modest changes to the requirement addressing the description of an individual KAM (paragraph 10 of proposed ISA 701).

The Representatives and Observers commented as follows:

- Mr. Fukushima, supported by Mr. James, questioned the incremental value that communicating KAM will have, and whether the costs will outweigh the benefits, as he was of the view that individual descriptions of KAM could duplicate disclosures in financial statements in light of the factors now proposed in determining KAM. In this regard, Mr. Fukushima also suggested it will be necessary for the IAASB to further clarify the relationship between KAM and Emphasis of Matter (EOM) paragraphs. Mr. Montgomery explained that this depends on the level of detail that investors want to have included in the description of a KAM. Ms. de Beer noted that preparers had expressed similar concerns but, in her view, if a matter had been disclosed by an entity in great detail, the auditor could cross-refer to the disclosures and make more brief comments about why the matter was determined to be a KAM.
- Ms. Sucher was of the view that the objective of this project is to meet investors' needs and that investors would like to see procedures and an outcome in the description of the KAM. She was not convinced that the arguments against requiring the auditor to do so in all cases were sufficiently robust. Ms. Sucher specifically noted that there were some excellent examples in the UK that have shown that the auditor can add value by describing procedures and the outcome of the auditor's work. Messrs. James, Thompson, and Waldron agreed. Mr. James suggested reaching out to certain engagement teams in the UK who have prepared auditor's reports under the new regime. This could assist in determining additional refinements needed to the requirements and guidance in ISA 701 in order to ensure reports of similar value would result. Mr. Montgomery, supported by Ms. de Beer and Mr. Waldron, agreed that investors indicated they would like to understand, at a high level, how the auditor addressed the KAM in the audit, rather than a detailed description of procedures.
- Mr. Montgomery further noted that auditors had highlighted difficulty in developing a succinct description of the procedures performed on complex audit matters as well as concerns over descriptions of KAM being viewed as piecemeal opinions. Mr. Waldron was of the view that auditors could provide a description of the outcome in such a way that it could be clear it was not intended to be an opinion on an individual matter. Mr. Montgomery suggested that the most appropriate focus might be on describing those aspects of the audit that were unique in so far as requiring additional auditor attention or communication with TCWG. He explained that DT-701 intended to give further consideration to how application material could guide the auditor in writing meaningful descriptions of KAM by also further considering UK examples.

- Mr. Koktvedgaard was of the view that there is a risk that auditors would add a lengthy list of KAM, including detailed procedures, in the auditor's report in order to avoid future negative action if relevant information was seen to be omitted. He did not believe that this would be of value to investors. Ms. Borgerth expressed similar concerns about the potential increased length of the auditor's report. Mr. Waldron noted that he does not see the risk of a lengthy auditor's report, because those users who are interested only in the pass/fail nature of the report could clearly refer to the auditor's opinion at the beginning of the report, and those interested in knowing more could refer to the KAM section.
- Mr. Finnell was of the view that the decision whether to include a description of audit procedures KAM should be left to auditor judgment, as describing procedures in key areas may be particularly sensitive and the intent of doing so is not for users to determine whether the auditor had performed sufficient procedures.
- In relation to the question of consistency in communicating KAM, Ms. Lang noted that if the IAASB is too prescriptive in ISA 701, the innovation which can currently be seen in auditor's reports in the UK may be lost. Ms. de Beer noted that, based on her outreach activities, audit committee members commented that there is a significant risk that over time industry-specific KAM would evolve using boilerplate language.
- Mr. Koktvedgaard encouraged DT-701 to test its proposals against the UK auditor's reports that had been issued and consider whether the application of the IAASB's proposals would result in a similar level of detail.

GOING CONCERN (GC) (AGENDA ITEM C.2)

Mr. Landes introduced the topic and highlighted the feedback received on the IAASB's proposals to require two statements related to the GC in all auditor's reports, namely one on the GC basis of accounting and the other on material uncertainties (MU). He noted the IAASB received significant feedback that the Board needs to work with the accounting standard-setters to deliver a holistic approach to enhance the information provided to users on GC. Mr. Landes noted that, while the IAASB continues to have fruitful discussions with accounting standard-setters, in particular the IASB, many respondents to the ED were of the view that the IAASB's proposals should be aligned with and, in some instances, subsequent to, actions they believe are needed by the accounting standard-setters. Mr. Landes further noted that respondents had expressed views that any changes that may be made to the auditor's report should not be open to misinterpretation and that they should not increase the expectations gap, especially if there will be no corresponding changes to accounting standards. Further, he noted concerns from some respondents that the proposals would merely add more boilerplate language to the auditor's report and could desensitizes users in the sense that, when there is an issue related to GC, the appropriate emphasis could be lost. In light of these comments, DT-570 was of the view that it was necessary to take a step back and reconsider an appropriate way forward to address the important topic of GC.

Mr. Landes specifically explained that DT-570 had evaluated comments received from respondents to the ED that supported retaining exception-based reporting (the approach under extant ISA 570),[8] including the reasons why the exception-based reporting model was supported. He noted that, as a result of the global financial crisis, users had indicated the need for more "early warnings" about GC issues, and that DT-570 was exploring whether more could be done in ISA 570 to enhance the auditor's work around disclosures relating to GC and how GC may be considered in the context of KAM.

[8] ISA 570, *Going Concern*

IASB Update

The Representatives and Observers commented as follows:

- Mr. Stewart provided an update on the IASB's work and the reason for its actions on GC, noting that the IASB had considered proposals for new requirements for preparers to disclose events and conditions that may cast significant doubt on an entity's ability to continue as a GC on a gross basis (i.e. before considering management's plans for mitigation). However, the IASB agreed not to proceed with the proposal, as its members were split 8-8. Those IASB members who did not support the proposal were concerned that there would be too many general business risks being identified, which would lead to boilerplate disclosures in the financial statements.

  In relation to the meeting between IASB and the IAASB, as noted in Agenda Item C.2, the IFRS Interpretations Committee (IFRIC) had agreed to consider whether there was something that could be done at an interpretations level with respect to GC. He noted that IFRIC has plans to consider whether to issue an agenda decision to draw on previous discussions related to GC at its March 2014 meeting. The agenda decision could highlight the existing disclosure requirement in IFRSs relating to significant judgments made by management in preparing the financial statements.[9] Mr. Stewart noted that, in his view, the requirement in IAS 1 can be applied to GC judgments and could be relevant in situations of close calls where management uses a significant amount of judgment in its determination of whether a MU exists. Such an agenda decision paper would not change requirements in IFRSs, but rather remind preparers of existing requirements, which auditors could draw upon to promote better disclosures.

- Mr. Landes noted the importance of Mr. Stewart's comments, and agreed that paragraph 122 in IAS 1 could be used as the hook in the accounting standards to enable the auditor to drive better disclosures by management about GC even when management has not identified a MU. He noted that it was difficult for auditors to insist on such disclosures in the absence of a requirement in the accounting standards and that, if management was required by IFRSs to make disclosures, some progress could be made to provide investors with what they want to know about GC considerations and respond to calls for earlier disclosures. Prof. Schilder noted that he was pleased with the existing mechanism in IAS 1 and IFRIC's plans to clarify this and point to this linkage. He noted that, if made clearer from the IASB side, the IAASB may be able to build on it. Ms. de Beer agreed that it would be useful for IFRIC to clarify the matter and very important for the IAASB to exploring this approach in getting auditors to do more regarding GC.

- Mr. Baumann asked Mr. Stewart if his interpretation of IAS 1 was to require disclosures of risks and uncertainties, including those around liquidity concerns. Mr. Stewart responded that IFRS 7[10] contained the disclosure requirements of such risks. Mr. Stewart noted that he was referring to the significant judgments made by management in relation to the application of accounting policies and the requirements to disclose such judgments. Mr. Stewart further noted that the purpose of the potential IFRIC agenda decision would be to remind preparers of the particular requirement in IAS 1 and not those specific to risks and uncertainties. Mr. Baumann expressed the opinion that he was

[9] IAS 1, *Presentation of Financial Statements,* paragraph 122 states: "An entity must disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements."

[10] IFRS 7, *Financial Instruments: Disclosures*

unsure whether the disclosure requirement in IAS 1 was relevant, if it relates to accounting policies, in so far as the use of the GC basis of accounting is concerned. Instances when it is not appropriate were so rare that it seemed that the accounting standard setters would still have to do something on the subject of GC for the purpose of encouraging earlier disclosures. He highlighted the US Financial Accounting Standards Board (FASB) project, which had suggested an earlier threshold of "more likely than not" in relation to uncertainties about GC. Mr. Baumann noted that a number of issues were raised around the threshold of reporting on GC as a result of the FASB's ED, and therefore the FASB had decided to re-deliberate the proposals. He asked if the IASB was working with FASB on this topic and why this was not on the list of joint projects. Mr. Stewart noted that the IASB staff was monitoring what FASB was doing, but that this was not a joint project. He further noted that the IASB already has certain disclosure requirements related to GC, while the US currently does not. Mr. Baumann noted that currently the disclosures required by IFRSs in relation to MU were exception-based disclosures, to which Mr. Stewart agreed. Mr. Stewart noted that the required disclosure relates more to judgments made by management in applying its accounting policies.

- Mr. Stewart agreed that the auditing and accounting standards needed to be in alignment with one other and supported the feedback that the auditing standards should not go beyond disclosures that are required by the accounting standards. He acknowledged that some of the comments to the ED were premised on the IASB completing a project on GC and that perhaps these comments could be viewed differently given the IASB's decision not to proceed with GC. However, he was of the view that the consequences of IASB's decision would not affect the statements proposed by the IAASB in the ED, in particular because the IASB had not considered the need for a positive statement by management about the appropriateness of the use of the GC basis of accounting in the preparation of the financial statements. Mr. Stewart thought it was important not to link the IASB's conclusions to the IAASB's proposals and that in his opinion the IAASB's proposals are not reliant on IASB changing IAS 1.
- Ms. de Beer questioned whether DT-570 has considered delinking the two requirements, as Mr. Stewart's feedback indicated that it might be difficult for auditors to comment about the appropriateness of management's use of the GC basis of accounting in the preparation of the financial statements. However, the proposed auditor statement on whether a MU had been identified was less closely linked to the IASB completing its project and to this end the IAASB could deal with this part of GC in its project by adding an additional requirement for auditors.

Feedback on DT-570's Recommendation to Revert to Exception-Based Reporting

Mr. Landes highlighted DT-570's recommendations to move forward as described in Agenda Item C.2.

The Representatives and Observers commented as follows:

- Mr. Hansen commented that he personally agreed with exception-based reporting for GC and that accounting standards should be driving disclosures. Similar to any other contingency, Mr. Hansen was of the view that matters related to GC should be disclosed and reported in the financial statements. However, he noted investors and the public supported the changes from the IAASB's previous proposals, as they have spoken loudly that they wanted to know more about GC, so even if theoretically the disclosures should be in financial statements, he questioned whether investors would find exception-based reporting by auditors sufficient, given the demand for discussion on GC in the auditor's report.

- Mr. Dalkin noted that, for the public sector, the element of fiscal sustainability was very important and that the public sector generally prefers reporting on an exception basis. He further noted that a requirement to report on GC on an ongoing basis would create difficulties. Mr. Landes noted that ISA 570 explains that the concept of GC is relevant to the public sector, but noted Mr. Dalkin's support for exception-based reporting and the additional reporting responsibilities in the public sector.

- Ms. Sucher noted her disappointment with the proposals, as GC was one of the biggest areas of concern during the financial crisis. She noted that one of biggest areas of misunderstanding by users was the area of GC and what it actually meant, as well as the auditor's responsibilities for GC. She noted that education of users was important and that preparers could also provide better disclosures. While she understood DT-570's rationale for its proposed course of action, she expressed disappointment that more could not be done by auditors. Ms. Sucher noted that, given the fact that users still do not understand what GC means, she would encourage the IAASB to keep up pressure to achieve a holistic approach and discuss whether, within the current scope of IAS 1, preparers could do more in respect of disclosures and whether auditors could also encourage the preparers to do more. She noted that there is scope for auditors to do more work on GC, but whether this is captured by the auditor's report is a different issue.

- Ms. Lang referred to a survey of small- and medium-sized entities (SMEs) that indicated support for the IAASB's proposals in the ED in GC, with this support coming from users and investors but not from preparers. Mr. Waldron noted that the CFA Institute considers GC to be a matter of great importance and believes that exception-based reporting will not provide the requested information on GC.

- Ms. Lang questioned which stakeholders found a holistic approach to be necessary, and whether any respondents who explicitly supported the IAASB's approach without noting the need for a holistic approach would be satisfied with DT-570's recommendations, in particular investors. Ms. Healy noted that investors had highlighted the need for early warnings in relation to GC within the financial statements and, like the IAASB and other respondents, were of the view that the auditing requirements were closely linked to the accounting standards, with 30% of all respondents looking for changes in accounting standards to address the GC issue. She further noted comments from investors and other respondents that indicated that a specific statement on basis of accounting was not a valuable statement, as it is relatively rare for the GC basis of accounting not to be appropriate, even if a MU has been identified. Ms. Healy also noted that some respondents had identified a risk that such a statement could be viewed as a "sign off" on the financial health or viability of an entity when another basis of accounting was not really likely. She also noted that, with respect to the statement on MU, investors identified concerns about the potential for boilerplate language and more assurance to be taken from the statement than that intended. Ms. Healy further noted that some investors did not mention the topic of GC at all and, as such, it is difficult to judge their views. Ms. Lang noted that it was interesting that there was a divergence of views and, as such, a holistic approach might help solve issues. She further noted that the EFAA had expressed its support and had sympathy for what IAASB was trying to do with ISA 570, but also had to consider the implication of application to SMEs.

- Mr. Koktvedgaard noted support for the move away from reporting on GC in all auditor's reports, and questioned whether a separate section on GC was necessary at all. In his view, the inclusion of KAM in the auditor's report provided the opportunity for auditors to highlight when GC was an issue and an area of significant auditor attention in the audit. If issues relating to GC did not meet the threshold of a KAM, Mr. Koktvedgaard questioned whether any disclosures by the auditor about GC would be necessary. Ms. de Beer asked Mr. Koktvedgaard if he then supported the inclusion of KAM for all entities and not just listed entities. Mr. Koktvedgaard responded that he did not necessarily support the inclusion of KAM for all entities, but that the same language could be applied to both. He noted that the vehicles already put in place (e.g., KAM or EOM paragraphs) should be used, rather than inventing a new one for a specific topic. Mr. Montgomery responded that some respondents to the ED supported Mr. Koktvedgaard's view that, if auditors were focusing on GC, that this should be reported through KAM. He noted that there could be circumstances in which a lot of audit time and effort was spent on GC and the auditor concluded that there was a MU. If this was the case, auditor disclosure is already required through an extant EOM paragraph or in accordance with DT-570's recommendations for a separate section to be included in the auditor's report. On the other hand, if a lot of time and effort was spent in the area of GC but the auditor concluded that no MU existed (i.e., a "close call"), there is a conundrum in how the auditor can describe such circumstances without a corresponding management disclosure, and not be the provider of original information. Mr. Montgomery reiterated the point that a strong majority of respondents had stated that a holistic approach was needed and, citing various reasons, that the auditor should never make disclosures about GC without management making the appropriate underlying disclosures. Mr. Montgomery further noted that DT-570's proposal was a compromise approach and represented what could reasonably be achieved, given the limited developments of the IASB, to address those looking for a holistic approach. He noted that the proposal at least described what the responsibilities are in respect of GC. He noted that the IAASB, while supportive of statements in the auditor's report based on the work effort in ISA 570, is caught in the middle without an obvious effective solution, and DT-570 believes that it is not possible to fully address GC without a corresponding accounting standard solution. Mr. Thompson agreed, but thought that requiring the auditor to include a KAM in the auditor's report will also help to encourage management to make similar disclosures.

- Mr. Hansen noted that the US Advisory Committee on the Auditing Profession had made an explicit call for more disclosure in the auditor's report with respect to GC in response to feedback from investors. He noted that he understood the conundrum described by Mr. Montgomery but had hoped that the project would go further in its proposals.

- Mr. Arteagoitia disagreed with DT-570's approach and was of the view that it weakened the proposals. Referring to paragraph 14 of Agenda Item C.2, he stated that the EC did not make interpretations of European law. Prof. Schilder noted that he understood that the EC staff did not interpret European law and that the intention of the reference in the agenda material was not to suggest that the staff did so, but rather to highlight that the European audit reform proposals now required only a statement about any MU that had been identified, which was akin to exception-based reporting. Mr. Arteagoita agreed.

- Ms. Blomme acknowledged the view that auditors could say more in the auditor's report in relation to GC and the need for a holistic approach to the topic of GC. She commented that the EC's latest accounting directives do not contain requirements for preparers to discuss GC in the financial statements. However, she was of the view that they would have been ready in Europe to implement, should the directives have gone further in relation to GC, as was expected. She noted, therefore, that some may view exception-based reporting as a step back, but it is in line with the European audit reform proposals and, as such, FEE supports it. She was also of the view that the link between GC and KAM could be further explained.

Description of Management's and Auditor's Responsibilities for GC

Mr. Landes explained that DT-570 was recommending enhanced wording for both the description of management's and the auditor's responsibilities with respect to GC, but had not yet finalized the proposed wording. The intent of this wording is to provide more emphasis on GC in the auditor's report and retain important aspects of the wording previously included in the two proposed statements in the ED.

The Representatives and Observers comments as follows:

- Ms. Sucher and Mr. Hansen supported the inclusion of the statements in the Management's Responsibilities and Auditor's Responsibilities sections of the auditor's report. Mr. Hansen noted that, if the purpose is to educate users on management's and auditor's responsibilities, he is not against inclusion, subject to finding the appropriate wording. However, he questioned whether auditors should be specifying management's responsibilities, and that further input from preparers may be useful. He also suggested the need for addressing this matter through the management representation letter.
- Mr. Koktvedgaard noted that, instead of adding a sentence to describe management's responsibilities in the auditor's report, the statement could be part of the management report. He was of the view that, while auditing standard setters do not prescribe what is required in a management report, if management does put such a statement in its report, this does not need to be repeated in auditor's report. Mr. Landes agreed, and noted DT-570 could consider how to address this in the standard.
- Ms. Sucher questioned whether this change would require re-exposure, and suggested that DT-570 further consider this.
- Ms. Sucher did not support inclusion of the statement about the auditor's inability to guarantee an entity's ability to continue as a GC, as she viewed it as undermining the work performed by the auditor. Mr. James agreed, as it states the obvious. Mr. Hansen had a similar adverse reaction, as there are other areas in the audit, such as impairment, which are equally not guaranteed. Ms. Sucher noted that, if a disclaimer were to be included, the wording needs to be clearer and less defensive. Mr. Landes noted that he understood the point on guarantee statements and that there had been strong discussion among DT-570 about this statement. He noted that DT-570 had included the statement in the illustration in order to obtain views from CAG Representatives and the IAASB members.

Ms. de Beer summarized that the CAG Representatives had provided some level of indication that they would have liked DT-570's proposals to go further, even in light of the calls for a holistic approach to GC.

OTHER SUGGESTED IMPROVEMENTS TO THE AUDITOR'S REPORT (AGENDA ITEM C.3)

Mr. Winter introduced the topic, noting that the objective of the session was to obtain input on the DT's recommended revisions to proposed ISA 700 (Revised).

Independence and Ethical Requirements

Mr. Winter noted that DT-700 was of the view that the statement about independence and ethical requirements should be retained, with some clarifications to the wording to address respondents' concerns, and that the requirement to disclose sources of independence should be withdrawn in light of the practical challenges cited by some respondents. Mr. Winter also noted that IAASB staff received input on DT-700's recommendation from the IESBA Planning Committee which, while supportive of DT-700's decision to retain the statement, was of the view that the statement was weakened without a reference to a source of independence and ethical requirements. DT-700 plans to seek further input from the IESBA at its April 2014 meeting.

The Representatives and Observers commented as follows:

- Mr. Koktvedgaard supported DT-700's recommendation to retain the statement about independence but echoed the views of the IESBA Planning Committee, expressing concern about losing a reference to a framework of independence and ethical requirements. Messrs. Hines, Waldron and White and Ms. Blomme agreed, as did Ms. Sucher, who expressed a personal view. Mr. Koktvedgaard reiterated that having an explicit reference to the source of independence requirements adds transparency to the auditor's report so that users understand under which regime the auditor is confirming independence, which is in the public interest. Mr. Koktvedgaard noted this was particularly important in the context of multi-jurisdictional audits, as the requirements applicable to the group auditor cannot necessarily be exported to the component auditor. However, Ms. Sucher, supported by Mr. Bluhm, acknowledged that merely listing the sources in a complex group audit does not allow for users to understand the potential implications of the differences between the various ethical frameworks.
- Mr. Koktvedgaard acknowledged the practical challenges of listing all sources and suggested that, as a possible way forward, DT-700 consider a reference to the IESBA Code as a source in the auditor's report. Mr. Koktvedgaard also noted that jurisdictions in which there are multiple sources of independence requirements would likely make reference to a national set of standards, which would be understood to apply in that country. Mr. White suggested that disclosing the list of sources would clarify to users that the same level of convergence in relation to independence and ethical standards does not exist as is the case with accounting and auditing standards.
- Mr. Waldron suggested that there is some merit for users in knowing the sources and added that, although listing sources of independence and ethical requirements may result in an even longer auditor's report, such a reference would signal a stronger message about auditor independence.
- Ms. Blomme suggested that DT-700 consider requiring a more generic reference to sources of independence requirements in the auditor's report and that the ISA allow for reference to more detailed disclosure on the applicable sources by way of reference to a website.
- Mr. Dalkin supported DT-700's recommendation, noting that listing sources would be a cumbersome disclosure that would not be very meaningful to readers, in particular given that individual auditors on an engagement may be subject to requirements from a wide variety of sources. Messrs. Bluhm, Fukushima, Hansen and James agreed. Mr. Fukushima added that there was not much incremental value to be derived from having the statement about independence in the auditor's report, because the title of the auditor's report already conveyed the appropriate message about auditor independence. Mr. Hansen suggested that comments from investors broadly acknowledged the value of the statement, but some investors did not seem to support disclosure about the sources of independence requirements. He personally was hesitant to list the sources.
- Mr. Hines acknowledged that actuaries face the same tensions described by Mr. Dalkin in terms of disclosing a lengthy list of applicable sources of standards. However, he was of the view that, when there is a potential for work to be done under different sets of standards, it is critical to identify which set of standards applied to the engagement.
- Rather than including a list of sources of independence requirements in the auditor's report, Mr. Fukushima noted that IOSCO supported requiring the auditor to communicate breaches of

independence requirements in the auditor's report; as such matters could meet the definition of KAM. He suggested the IAASB could clarify how such reporting may be done.

- Mr. James suggested that DT-700 consider reinstating wording from the ED to explicitly state from whom the auditor is independent, namely, the entity.

Disclosure of the Engagement Partner's (EP) Name

Mr. Winter noted that DT-700's recommendation to the IAASB would retain a requirement for disclosure of the name of the EP in the auditor's report for listed entities, as well as the possibility of a harm's way exemption. He explained that the wording of the requirement would be revised to focus more on the *identification* rather than the *naming* of the EP in the auditor's report. Mr. Winter noted that DT-700 was of the view that a focus on *identification* rather than *naming* the EP would provide transparency in a manner that allows jurisdictions the flexibility to tailor their auditor reporting requirements based on law, regulation or national auditing standards, in a manner that best suits the needs of their legal and regulatory framework.

The Representatives and Observers commented as follows:

- Ms. de Beer noted that the CAG previously had given a very strong steer towards having a requirement to name the EP in the auditor's report.
- Mr. Waldron was not supportive of the proposal to identify the EP and was of the view that the requirement should explicitly require the EP to be named in the auditor's report. He challenged DT-700's interpretation of the feedback received and suggested that further consideration be given to those commenters who responded positively to the ITC, but did not respond to the ED. Mr. Waldron was of the view that DT-700's recommendation was not dissimilar to a previously proposed option of only naming the EP in the auditor's report in circumstances when the name of the EP is not otherwise publicly available. Mr. Waldron noted that DT-700's proposal, much like the "otherwise publicly available" approach, would not meet investors' need for transparency because it would not allow for easy access to the EP's name in the auditor's report. Messrs. Hansen (who also believed the EP's license number should be disclosed), Koktvedgaard, Lu, Stewart (who suggested that identification should be freely available without charge), Thompson, and Ms. Borgerth agreed. Mmes. Borgerth and Lopez and Messrs. Lu and Thompson added that the requirement to disclose the name of the EP in the auditor's report is already in practice in many jurisdictions, including Brazil, Europe, and many countries in Asia. Mr. Koktvedgaard expressed the view that naming the EP is directly linked to audit quality and the perception of personal accountability.
- Mr. Waldron further explained that he tested an instance of *identifying* the EP name, and he had to go through at least seven steps for a US audit engagement in order for the identification to be done.
- Mr. Waldron, supported by Mr. Koktvedgaard, suggested that the requirement for disclosing the name of the EP in the auditor's report be extended to all entities.
- Mr. Dalkin noted that the US Government Accountability Office requires the inclusion of the name of the EP in the auditor's report. However, Mr. Dalkin noted his personal view that there was not much value to including this information in the auditor's report.

Harm's Way Exemption

The Representatives and Observers commented as follows:

- Mr. James suggested that the DT-700 consider describing within the ISA what is meant by “significant threat” and the word “rare”, in order to establish appropriate thresholds for the invocation of the harm’s way exemption. Mr. Hansen agreed and also challenged the need for including the harm’s way exemption in the ISA, which he did not support. Mr. Hansen suggested that it may be helpful to indicate by way of example when it would be appropriate for the auditor to invoke such an exemption. Mr. Winter indicated that DT-700 would seek to develop application material with respect to the harm’s way exemption. Mr. Winter added that DT-700 had considered, but opted against, the idea of including types of entities or industries for which auditors may likely invoke the harm’s way exemption as examples, so as not to be seen to promote the use of the harm’s way exemption in those cases.
- Ms. Sucher expressed support for having a harm’s way exemption in the ISA and, in response to Mr. Hansen, noted that in some industries the threats to the auditor are very real, and it is pragmatic to allow an exemption for naming the EP in the auditor’s report for those rare situations. Mr. Winter added that the concept of having a harm’s way exemption is not new, as it already exists in certain jurisdictions.

Enhanced Description of the Auditor’s Responsibilities and Its Relocation to an Appendix or Website

Mr. Winter noted that DT-700 was of a view that it was important to move forward with the requirements for an enhanced description of the auditor’s responsibilities and key features of an audit (enhanced description), including the option to permit relocation of the enhanced description to an appendix to the auditor’s report or, where law, regulation or national auditing standards permit, for reference to be made to a website of an appropriate authority that includes such a description.

The Representatives and Observers commented as follows:

- Mr. Koktvedgaard expressed support for the DT’s proposal with respect to the enhanced description but suggested that DT-700 clarify in the ISA what is meant by the term “website of an appropriate authority” (i.e., state whether the website of the company, audit firm or other organization would be appropriate). Mr. Koktvedgaard also suggested that the DT should give consideration to the trend by which financial statements are accessed and read more broadly, referencing the presentation on the topic of integrated reporting (<IR>), and noting that annual reports and auditor’s reports are being read via electronic means (via mobile devices or computers). Mr. Koktvedgaard was of a view that the use of hyperlinks to direct users to the enhanced description within the auditor’s report would make it even more accessible than via a multi-page auditor’s report.
- Mr. Thompson and Ms. Lang supported DT-700’s proposal, including the option to relocate the description to an appendix or website, but expressed a preference for jurisdictions to decide who at a national level would be considered an appropriate authority. Mr. Thompson pointed out (by way of reference to a UK auditor’s report for RollsRoyce Holdings plc) that the auditor’s report also incorporated certain information that forms part of the enhanced description by reference to a website of an audit firm.
- Mr. Hansen expressed support for DT-700’s proposal with respect to the enhanced description, but did not support allowing the option for auditors to make reference to a website of an appropriate authority. If the IAASB determined it important to mandate an enhanced description, he was of a view that it should be included in all auditors’ reports. Ms. Sucher and Messrs. Bluhm and Waldron agreed.

Mr. Dalkin questioned whether allowing for such information to be moved to a website may be seen as signaling that the IAASB was adding information in the auditor's report that was not of value.

Structure and Format of the Auditor's Report

Mr. Winter explained that DT-700 was of the view that it would be useful to mandate the placement of the "Opinion" section first, followed by the "Basis for Opinion" section in the auditor's report, in light of feedback to the ED. However, he noted that it is proposed that ISA 700 continues to retain flexibility for alternate presentation of the auditor's report due to law, regulation or national auditing standards.

The Representatives and Observers commented as follows:

- Mr. Waldron expressed support for DT-700's proposal, noting that because investors favor the pass/fail model they would likely be very supportive of having the opinion first in all auditor's reports. Mr. James agreed, adding that IOSCO supported making the auditor's opinion prominent in the auditor's report, albeit not necessarily first. Mr. James noted that DT-700's recommendation had achieved the right balance because it allowed jurisdictions the flexibility to move away the required presentation of the auditor's opinion first when law, regulation or national auditing standards require otherwise.
- Mr. Koktvedgaard questioned whether placement of any EOM paragraphs would be mandated, suggesting that DT-700 consider mandating them to be placed in close proximity to the auditor's opinion. Ms. Healy responded that it would be difficult to mandate placement of an EOM paragraph in all cases, due to DT-570's proposals for a section describing any MU (which are akin to the extant EOM paragraph on GC), as the IAASB would essentially be determining which is relatively more important. Mr. Gunn noted that, much like the KAM section, an EOM paragraph does not modify the auditor's opinion but rather provides additional information, so the IAASB would need to be careful not to imply that specificity in placement is seen as affecting the auditor's opinion in some way.

WAY FORWARD

Messrs. Montgomery, Landes and Winter thanked the Representatives and Observers for their comments and noted the feedback would be very useful to the IAASB and the DTs as they further progress the proposals.

Innovation, Needs, and Future Opportunities (INFO) WG (Item D)

To *RECEIVE* an update on the current developments and activities of the International Integrated Reporting Council and to *OBTAIN* Representatives' views on the activities of the INFO WG, in particular its plans in relation to Integrated Reporting.

INTEGRATED REPORTING

Ms. de Beer thanked Mr. Druckman, CEO of the International Integrated Reporting Council (IIRC), for attending this session, considering a very busy diary and being based in London. Ms. de Beer reminded the CAG that in September 2011 the CAG had its first presentation on <IR>. At the time though, it was still a very theoretical concept for many. In the meantime the IIRC issued their <IR> Framework in December 2013. Ms. de Beer also noted that she had received numerous requests from CAG Representatives and others to receive an update on <IR> as it seems to be picking up momentum in some jurisdictions. She noted that it is important for the CAG to have an understanding of significant reporting matters in order to best advise the IAASB on the assurance related matters.

Ms. de Beer also welcomed Mr. Nugent, who is not a new face at the CAG. He has previously been involved as an IAASB technical staff member before being seconded to the IIRC. He was instrumental in the drafting of the <IR> Framework.

Mr. Druckman thanked the CAG for the opportunity to talk to them about the activities of the IIRC. He referred to Agenda Item D.2, which provides background information about the IIRC and its work to develop the Integrated Reporting <IR> Framework released in December 2013.

Assumptions about <IR>

Mr. Druckman started by asking why <IR> is needed. He explained that the key assumption behind <IR> is that reporting drives behavior. A cycle of integrated thinking and reporting should result in a more efficient and productive capital allocation. This in turn will act as a force for a more financially stable economy and sustainable world. Mr. Druckman further noted that the value creation by business is not just about profits, but about value in relation to different capitals over the short, medium and long term.

Mr. Druckman noted that a key feature of <IR> is entering the company "through the doorway of the strategy" rather than starting with the data, as has historically been the case. He described <IR> as a concise communication about an entity's value over time. The objective is meant to result in a communication that is readable. In other words there is enough data available about an entity, but the challenge is how to package and report on the date in a way that it can be interpreted intelligently.

Relevance of <IR>

Mr. Druckman provided several reasons for the relevance of <IR>. He started with good practice examples of companies (e.g. Unilever) and made reference to the example database on the IIRC website, which includes many more examples of companies that have developed integrated reports. Next, he made a reference to different developments at a policy level. He mentioned, among others, the example of Japan that is building long-term investment back into the economy; the developments within the IMF on new multilateralism and the fact that there were will be new and softer coalitions embedded in society; the developments in France by the Autorité des Marchés Financiers (AMF) that regulates products of French financial markets and its support for <IR>, which is seen as a first step towards <IR>; and finally the United Nations, which refers in its sustainable development goals to <IR>.

Mr. Druckman also noted developments in research, including efforts undertaken by the Harvard Business School and the Kohlberg Kravis Roberts (KKR) private investor house in the US, both of which identified the positive influence of entities demonstrating a long-term focus. He also noted that, at shareholder meetings, some entities are telling their shareholders not to invest if they do not agree with the entity's long-term focus.

Mr. Druckman noted that the Association of Certified Chartered Accountants (ACCA) and the Chartered Institute of Management Accountants (CIMA) have both now included <IR> in their curricula.

Mr. Druckman concluded that users will increasingly be looking at softer type of information and emphasized that <IR> is not the same as sustainability reporting, but that it is about demonstrating value creation, which includes goals about sustainability.

NEXT STEPS OF THE IIRC

Mr. Druckman noted that the next steps of the IIRC will be to increase the pace and scale of integrated reporters through early adopters, by industry sector; underpin the framework with robust technical guidance; engage further with policymakers and regulators; and see how efficiency and effectiveness of further work can be increased, where applicable, with other organizations.

QUESTIONS AND ANSWERS

The Representatives and Observers commented as follows:

- Ms. de Beer asked Mr. Druckman to comment on the progress in so far as assurance on <IR> is concerned and investors' expectations in this regard. Mr. Druckman noted that the IIRC acknowledges it is not the assurance standard setter but sees a role in stimulating the debate about assurance and explaining some of the issues and concerns about assurance, as well as the potential advantages of assurance on <IR>. He mentioned that Chief Financial Officers (CFOs), although not against assurance on this type of information, prefer not to have assurance practitioners involved, as they are afraid that <IR> will become too much of a compliance matter and that assurance will lead to more formal and potentially standardized reporting. CFOs see <IR> as a breakthrough in relevant reporting. Mr. Druckman noted that it is important to establish how <IR> will be assured. While different elements of the data are already assured on a piecemeal basis, assurance on <IR> in the long run would possibly not follow the same process as assurance on financial statements.
- Mr. Waldron noted that Mr. Druckman had worked with the CFA Institute to discuss <IR> from an investor perspective and commented that the topic had gained attention at a recent US Securities and Exchange Commission/PCAOB conference. The members of the CFA Institute are interested and are monitoring the process as it emerges. Mr. Waldron asked whether the IIRC can draw attention to good examples of integrated reports. Mr. Nugent referred to the IIRC website for partial examples and noted that there are no full examples as, in the IIRC's view, none of the reports has reached a perfect stage yet and there was a concern that full examples may be used as default integrated reports. He noted the IIRC plans to further populate its example database in the coming months, as pilot companies are now developing reports in accordance with the Framework released in December 2013. Mr. Druckman referred to some examples of companies such as SAP, Natura, Potash Canada, Sasol, Eskom, Vodacom and, for a not for profit entity, the Crown Estate.
- Mr. Bollman asked what the main obstacles were for entities to implement <IR>, what key efforts would be needed, whether entities obtained input from the valuation profession in preparing integrated reports and what the role of the auditor should be. Mr. Druckman noted obstacles, one being the missing methodology for measuring and valuing some of the capitals, including monetizing impact. Although much work is being done, consistent methodologies do not yet exist. Mr. Druckman also noted some entities are concerned about losing competitive advantage by discussing strategy in detail in its <IR>. Entities want to create competitive advantage and therefore do not want to share all information on value creation. Further, Mr. Druckman mentioned the liability obstacle: the more transparent, the more entities' perceived risk of liability. Mr. Druckman also noted the fear of the unknown, as <IR> cannot merely be replicated. It needs to be designed and tailor-made for the specific entity. He suggested there was also a role for the regulatory community to create an environment in which <IR> flourishers.

  Mr. Nugent added that assurance could be either an enabler or a barrier. He noted there is a demand for assurance on <IR> notably in jurisdictions such as South Africa. He questioned whether the auditing profession is ready to provide assurance and whether others would step into that gap. He noted that the IIRC is currently developing a discussion paper on assurance.

To that end Ms de Beer added that this is certainly her experience in South Africa. Assurance is not required, but many listed entities obtain assurance on elements of their <IR>. Ideally, ultimately a single opinion would be provided on the full report. Currently though, piecemeal assurance is provided on the financial information and separately on some of the other information, possibly only sustainability information in terms of the GRI's G3 or G4 guidelines. Many investors find the reporting under the AccountAbility (AA) standard more useful than that under ISAE 3000 (Revised).[11] Unfortunately, that results in work being taken up by non-auditors/non-practitioners, who have the flexibility in using AA standards.

- Ms. Hollein asked how many entities are actively pursuing <IR>, as preparers in the US do not seem to be engaged in the topic. Mr. Druckman agreed that, while there are some early US adopters in the IIRC's pilot program (such as Microsoft, Clorox and PepsiCo), there is not the same appetite or awareness as in the rest of the world. Mr. Druckman suggested that this could be a result of increased reporting due to regulatory requirements. He commented that entities in the US perceived <IR> as more reporting rather than a different way of reporting. He expressed concern that the nature of <IR> is perceived to be different in the US from what is intended , for example if it is viewed only as providing additional sustainability information in the Form 10-K.
- Mr. Koktvedgaard asked whether the original objective of <IR> (i.e. to reduce the amount of information by bringing it together) is still applicable, as the focus of the Framework now seems to focus much more on strategy. He also asked how an <IR> would be published, i.e., as part of the annual report in the management's report, or as a separate report. Further, he asked where most of the innovation was seen, noting that there is more innovation in financial statements in years in which new accounting standards come into effect. Mr. Druckman noted that there are many developments at a national level. He referred to the UK developments on the strategy report and the German developments on management reporting. He noted that, while both were still focused on financial statements, they are becoming more strategic. He noted that <IR> is not new; rather, it is about bringing together information in a concise package beyond financial information. He emphasized that less information does not mean less transparency.
- Mr. Koktvedgaard noted that he sees this as an opportunity to bring all individual initiatives together on a broader agenda. He noted that <IR> reports the most material information and, with the benefit of such focus, there may be less need for details. Mr. Druckman noted that it is important that different initiatives on reporting should align. He pointed to the recent initiative by the IIRC on the corporate reporting dialogue. This is an international group with the objective of identifying where there are overlaps in standards and guidance and what is unique to standards and guidance. He also noted that the focus of <IR> is on providers of financial capital, but that the user groups can be much broader.
- Ms. de Beer noted that <IR> has evolved over time, with the first attempts in South Africa being a collection of individual reports presented collectively. Now entities are realizing it is more than just layers of reporting on different topics, but instead to create a single story line that users want to know

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

to understand the entity from a strategic point of view

- Ms. Lang asked what the benefits could be for SMEs. Mr. Druckman noted that <IR> is beneficial for SMEs as focuses the minds of management on strategy. He noted that demands for information can come from banks, family members etc. Therefore SMEs also need to report. The principles of <IR> apply in a similar way to SMEs, such as the articulation of strategy. However, there is discussion on whether there is a need for a full <IR> version for SMEs, as the content elements for a small entity will be simpler.
- Mr. Lu noted that it is almost impossible to have a standard report for all types of entities. He gave the example that large entities may focus more on risks, while small entities focus on opportunities. Therefore, the applicability of the Framework to all types of companies might be more difficult. Mr. Druckman noted that it is a journey and that experience will further develop the applicability. He emphasized that the use of any template for <IR> must be avoided. He noted that the IIRC therefore described the content elements as questions.
- Ms. Borgerth noted that <IR> is very important for the investor and explained that it is not only important for large entities, but small entities, hence the support in Brazil for integrated thinking. She also noted that assurance on <IR> will not be new, as assurance for non-financial information is already there.

Mr. Druckman thanked the Representatives and Observers for the opportunity to speak to them and the interesting questions raised. Ms. De Beer thanked Mr. Druckman for his time and willingness to come to present to the CAG in person.

IAASB INFO WG

Mr. Montgomery presented on the IAASB INFO WG, with reference to Agenda Item D.1. He explained that the terms of reference were discussed at the April 2013 CAG meeting and were subsequently approved by IAASB. Mr. Montgomery further explained the objective of the WG, including its primary purpose of identifying emerging areas for the IAASB. He noted that the WG is of the view that it is important to identify criteria for classifying topics of importance for the IAASB. The criteria would consider potential threats, reputational or otherwise, to the IAASB, e.g. if other organizations develop assurance standards on emerging topics.

In relation to the topics to be considered by the WG, Mr. Montgomery mentioned that <IR> was already identified as a significant matter in the public interest and that Ms. Kelsall was appointed to lead work in this area. He noted that the demand for assurance on sustainability information is already there and that this will feed into <IR>. Mr. Montgomery also highlighted topics such as cloud computing, data analytics and cybersecurity as potentially having not only implications on assurance standards or other guidance, but also potentially affecting the ISAs. He noted that the same may be true for XBRL. Mr. Montgomery further explained how the topics were identified, and the possible actions the WG may propose to the IAASB.

The Representatives and Observers commented as follows:

- Mr. Fukushima noted IOSCO's concern with the growing use of outsourcing of audit procedures as a means of improving the efficiency of the audit. He suggested the IAASB should consider whether it could form a view as to which procedures could be assigned to offshore centers.
- Mr. Sylph noted that a number of PIOB members are quoted on the IIRC's website and that this

indicates support for <IR>. He also noted that, once the IAASB chooses to develop a topic-specific assurance standard, it will need to commit to not only the initial development, but also a process to potentially review and update the standard as the topics (e.g., <IR>) evolve.

- Mr. Waldron, as Rapporteur of the CAG's INFO WG, noted the WG's support for <IR> as well as for the IAASB exploring the implications of data analytics, cloud computing and internal control. He suggested that the IAASB considers factors such as global applicability, relevance and divergence in practice in determining whether to move forward on a particular topic.
- Ms. Blomme noted support for <IR> and mentioned that, while there is still a need for further evolution before assurance is widely demanded, the IAASB needs to bear in mind the time necessary to develop a standard, so that processes are in place by the time <IR> has evolved.
- Ms. Blomme also suggested the WG could further consider the needs of SMEs in light of the potential changes in Europe that the audit requirement for SMEs might be removed or scaled down. To this end there might be a demand for guidance or standards on other services, such as reviews and compilations.
- Ms. Blomme was of the view that the topic of cloud computing is currently being explored by the auditing firms and may be relevant for the IAASB, while topics such as conflict minerals and human rights may have greater implications for the auditor's ethical responsibilities rather than assurance.
- Mr. Hines suggested the IAASB should consider work already done on certain topics by other organizations (such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the IVSC), and consider how this work may input into any future work of the IAASB. Ms. de Beer agreed, noting the potential threat to the auditing profession if assurance is provided by non-practitioners using non-IAASB standards. She suggested that the IAASB seeks to collaborate with such organizations to come up with global solutions.
- Ms. Lopez mentioned that trigger points or criteria might be whether there is sufficient evidence that practice is emerging and whether there is already sufficient demand for assurance.
- Mr. Koktvedgaard noted that it is essential to identify in advance what type of assurance users are seeking. He cautioned against having too many topic-specific assurance standards and suggested a broader consideration as to what is necessary in relation to certain topics. For example, on the topic of cloud computing, he suggested to first identify the objective of the assurance required and how ISAE 3000 (Revised) may already address the matter in terms of reasonable and limited assurance, then to assess whether a new standard is necessary.
- Mr. Dalkin noted the topic of conflict minerals is very common in the US government audit environment because of US legislation and is conducted as a direct engagement (i.e. a performance audit). He suggested that a standard addressing direct engagements would allow for many types of assurance engagements to be performed.
- Mr. James asked for further attention to be paid to the requirements for joint audits.

Mr. Montgomery thanked Representatives and Observers for the valuable input. He explained the resource restrictions of the IAASB and staff and therefore the need for trigger points, including emerging demand, in order to inform the Board as to the reasons to pursue a project. Mr. Montgomery also noted that the time necessary to develop and issue consultation papers or organize roundtables cannot be under estimated. He noted that the WG will take the comments into account, but mentioned that the WG would be further informed by the responses to the IAASB's strategy consultation.

Ms. de Beer thanked Mr. Montgomery for his presentation.

Report Backs (Item E)

To *REPORT BACK* on the final ISAE 3000 (Revised) (approved in September 2013) and the final Audit Quality Framework (approved in December 2013).

Mr. Gunn drew the CAG's attention to the report backs included in Agenda Items E and E.1, noting that ISAE 3000 (Revised) was finalized and approved by the IAASB at its September 2013 meeting. Ms de Beer reminded the CAG that report backs, was an important, albeit not the only mechanism, for ensuring that the comments of the CAG are adequately considered by the various Task Forces and the IAASB. She emphasized that, in addition to this formal report back mechanism, comments were also made at the IAASB meeting by herself, the Chair, Deputy Chair and Technical Director of the IAASB as well as the Task Force Chairs, who all attend the CAG meetings to have a first-hand understanding of the CAG comments.

Mr. Gunn reported that the IAASB finalized its Audit Quality Framework (AQF) at its December 2013 meeting. He noted that, now that the AQF is released, the IAASB plans to undertake further work to engage and encourage stakeholders to use it. He then described some of the IAASB's short- medium- and longer-term actions to further engage stakeholders on the topic of audit quality. No comments were raised on the Report Backs.

Financial Statement Disclosures (Item H)

To *REPORT BACK* and *DISCUSS* proposed amendments to ISAs to enhance the auditor's responsibilities for financial statement disclosures, as well as proposed supplemental guidance (ED planned for March 2014).

Mr. Grabowski introduced the topic, providing an overview of the background of the project and the TFs approach to analyze how disclosures were addressed in the ISAs. He noted that the TF and IAASB had agreed there needed to be only limited amendments to certain requirements in the ISAs, but had identified areas for enhanced guidance to be provided in the form of new application material. He explained the TF and IAASB had been mindful to address key issues that were raised by respondents to the January 2011 Discussion Paper addressing disclosures. In response to a question from Ms. Blomme, Mr. Grabowski clarified that the issues referred to in Agenda Item H were taken from the Feedback Statement published by the IAASB to highlight feedback from the Discussion Paper.

PLANNING PHASE OF THE AUDIT

Mr. Grabowski outlined the proposed changes to address concerns that auditors should (i) address disclosures early in the audit; (ii) appropriately focus on disclosures that may contain information from systems and processes that are not part of the general ledger system; and (iii) build in sufficient time for audit procedures on disclosures. He also noted feedback that the ISAs are not clear on how to apply materiality to disclosures, particularly non-quantitative disclosures.

The Representatives and Observers commented as follows:

- Ms. de Beer noted the CAG's support throughout the project for taking steps to enhance the auditor's responsibilities with respect to auditing financial statement disclosures. She noted to the CAG that, at the most recent IAASB meeting, some Board members commented, considering that many smaller changes are made across an array of ISAs, whether the project would have a significant impact. She however noted that, even though these changes are not sitting in a single standard but are spread in small chunks across the ISAs, the ED would bring a very important message home to auditors in so far as the auditing of disclosures is concerned as the theme of auditing disclosures is becoming pervasive through these proposed changes.

- Mr. Stewart, as rapporteur of the Disclosures WG, noted that the Disclosures WG supported the IAASB's decision to reflect changes to individual ISAs, rather than develop a new ISA. Mmes. Blomme and Sucher and Mr. Hansen agreed, and were of the view that there was a significant amount of new guidance that would be useful to auditors. On the other hand, while supporting the extensive work that had been done, Mr. Koktvedgaard expressed the view that auditors should be doing the type of work addressed by the guidance and questioned whether the intent would therefore only be to raise the bar for those not already doing what is perceived to be done.
- Mr. Stewart specifically noted the WG's agreement that the proposed changes adequately address the issues and concerns raised relating to disclosures for the planning phase of the audit.
- Mr. Stewart cautioned against defining the concept of financial statements in the ISAs, as the concept is defined by accounting standard setters. He suggested it may be more appropriate to define what is being audited. Mr. Grabowski explained that a definition has historically been included in ISA 200[12] to form the basis for what is audited. He also agreed it was appropriate that the applicable financial reporting framework defines what is meant by a complete set of financial statements. Mr. Grabowski noted the TF and IAASB was of a strong view that changing the definition to be very clear that all disclosures were to be taken into account in the audit, beyond the previous reference to "related notes." Messrs. Hansen and White agreed, noting the changes made to the definition of financial statements were an appropriate means of underpinning the other changes that had been proposed throughout the ISAs.
- Mr. Stewart welcomed the acknowledgment in the definition of financial statements that certain financial reporting frameworks may permit disclosures to be incorporated by reference.
- Mr. Stewart asked for clarification about the TF's position on whether changes were needed to the ISAs to address information from systems or processes that are not part of the general ledger system. Mr. Grabowski noted the TF and IAASB had concluded that the extant requirement in ISA 315 (Revised) for the auditor to obtain an understanding of the information system should be viewed as incorporating the systems or processes used to generate disclosures, but had proposed further clarification in the application material to clarify this and to focus auditors on these other sources of information.
- Ms. Blomme suggested it was not entirely clear how the additions to ISA 210[13] relate to disclosures. Mr. Grabowski noted that the TF had concluded that more would be helpful in the audit engagement letter to address management's responsibility to provide relevant information relating to disclosures – including drawing specific attention to information from systems and processes that are outside of the general ledger system, but that the TF had determined that doing so without highlighting management's broader responsibility to provide all information necessary for the audit may

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

[13] ISA 210, *Agreeing the Terms of Audit Engagements*

unbalance the text. Mr. Stewart suggested that making reference to the expectation that management will provide supporting information, including access to original information to support disclosures in the financial statements, may be clearer.

- Ms. Blomme also questioned the proposed changes to paragraph A11 in ISA 240[14] in relation to the engagement team discussion about fraud, in particular the TF's decision to explicitly make reference beyond the financial statements to the disclosures required by the applicable financial reporting standards, as the definition of financial statements now clarifies that disclosures are included. She asked whether a similar change was anticipated at every mention of financial statements within the ISAs. In her view, since the TF had proposed changes to the definition of financial statements to explicitly note they included disclosures, such a change could be seen as redundant. Mr. Grabowski acknowledged that the definition of financial statements now included disclosures and noted that the TF had decided not to make reference to disclosures each time financial statements were referred to. However, the TF had given consideration to those circumstances in which giving additional emphasis to disclosures, by referring to "financial statements, including disclosures" might be appropriate. In the case of ISA 240, the TF was of the view that misstatements in disclosures could be a means by which management could cover up certain types of fraud. However, Mr. Grabowski noted the TF could consider whether another way to give prominence to the specific risk relating to disclosures, (e.g. by giving an example), may provide better clarity.
- While supporting the new guidance proposed in ISA 315 (Revised) to make reference to the engagement team discussion about the risk of material misstatement in relation to disclosures, Ms. Sucher suggested reference to "changed external circumstances" may also be appropriate (e.g. GC issues, challenges in the marketplace, or a financial crisis). Mr. Grabowski noted that the reference to "changes in the activities in the entity that may result in significant new or revised disclosures" was intending to cover such circumstances, but that the TF could consider whether a broader reference to changes in the environment in which the entity operates may be appropriate.
- Ms. Blomme, supported by Ms. Sucher, was of the view that there may be opportunities to simplify some of the drafting, in particular to assist translation. Mr. Grabowski welcomed any specific examples members of the CAG may be able to highlight, and noted that the IAASB typically seeks feedback on potential issues with translation through the ED.

ASSERTIONS

Mr. Grabowski explained the rationale for the proposed changes to the assertions in ISA 315 (Revised), in particular the decision to delete the separate assertion for "presentation and disclosure", to combine the assertions for "presentation" and "disclosure" with those for classes of transactions and events, and account balances, and to add additional application material in terms of applying those assertions to disclosures not specifically related to such classes of transactions and events, and account balances.

The Representatives and Observers commented as follows:

- Mr. Stewart noted the WG's support for the proposed changes to the assertions.
- Mr. Stewart suggested that further clarification may be needed to the guidance in relation to assertions about disclosures that are not directly related to recorded classes of transactions, events and account balances. Specifically, he questioned whether the guidance that noted that the other

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

assertions in ISA 315 (Revised) may also be used for such disclosures could be more firm as, in his view, it is difficult to envisage when these assertions could not be used. Mr. Grabowski explained that the TF was of the view that, as worded, it could be difficult for those assertions to be used in all cases without some level of adaptation, but noted the TF could consider whether the guidance could be clarified. Mr. Stewart suggested there could be an expectation established that the assertions would be used in relation to such disclosures, except to the extent they were not applicable.

PRESENTATION OF THE FINANCIAL STATEMENTS AND EVALUATING MISSTATEMENTS

Mr. Grabowski provided an overview of the changes proposed to ISA 450[15] and ISA 700. He noted the IAASB had initially considered additional changes to the requirements in ISA 700 to align with the proposed revisions to the assertions in ISA 315 (Revised), but had agreed that those changes considered were of a more fundamental nature than would be appropriate at this time. The TF is of the view that, while ISA 700 is intended to be framework-neutral, the requirements in paragraphs 13–14 of ISA 700 are consistent with IAS 1[16] and was generally robust. Notwithstanding this, the TF has proposed additional application material to support the auditor's evaluation of whether the financial statements achieve fair presentation, as it was of the view that this would be useful.

The Representatives and Observers commented as follows:

- Mr. Stewart noted the WG's support for the additional guidance included in ISA 450 relating to evaluation of misstatements in non-quantitative disclosures, given the importance of such information to users of the financial statements.
- Mr. Stewart noted that, if an accounting framework requires fair presentation, it may not define what specific disclosures are required to achieve fair presentation, but nevertheless broadly requires disclosures to achieve fair presentation. He suggested that the language in the application material may need clarification in this respect. Mr. Grabowski noted that the TF had sought to convey this concept in paragraph A4a of ISA 700, but agreed that further clarification that compliance with both the detailed requirements of the financial reporting framework as well as the overall requirement to achieve fair presentation is needed may be useful. Ms. de Beer agreed clarification could be helpful. Ms. de Beer also commented that the use of the word "framework" could be problematic. Under IFRSs, the disclosures are required by the financial reporting standards and not the conceptual framework. Thus, it might be useful to use "standards" instead, which would also avoid some of the perceived duplication, or circular reference in the current wording.
- Ms. Blomme expressed general support for the approach taken to the guidance in ISA 700 in light of the risk-based approach of the ISAs. She questioned whether more guidance within the ISAs before the completion phase of the audit may be necessary to address the concept of excessive disclosures, given that pressure is being placed on auditors to take steps to reduce disclosures. Ms. Hollein noted that "disclosure overload" is also a challenging issue for preparers. Mr. Grabowski noted the TF's approach focused on the need for the auditor to reflect on the overall presentation of the financial statements, including the relevance and understandability of the financial statements. He also drew attention to changes proposed to ISA 260[17] for the auditor to discuss the overall presentation,

[15] ISA 450, *Evaluation of Misstatements Identified during the Audit*

[16] IAS 1, paragraph 17(b), states "a fair presentation also requires an entity to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information".

[17] ISA 260, *Communication with Those Charged with Governance*

structure and content of the financial statements, including the relevance and understandability of disclosures, with TCWG.

- Ms. Sucher welcomed the additional guidance in ISA 700 related to fair presentation, but suggested that more guidance may be needed. She noted that, as viewed in the UK, the concept of fair presentation is dynamic. While in most circumstances the application of the requirements in the financial reporting framework result in financial statements that achieve fair presentation, the demands for information from users evolve over time and audit practice also evolves. Ms. de Beer noted that the concept of fair presentation also extends to whether key information has been omitted from the disclosures.
- Mr. Baumann noted a concern that the intent of the proposed changes to the ISAs to drive auditor behavior could potentially not be achieved as the application material to paragraph 14 now specifically identifies certain considerations, that he believes would be existing routine audit practice when considering disclosures through the use of the word "may" might infer these as possible considerations only. Therefore auditors might interpret the inclusion of these specific considerations in their audit as being optional. As an example, he expressed concern with the new guidance in paragraph A3b of ISA 700 in relation to evaluating the understandability of the financial statements. In Mr. Baumann's view, the use of the words "may consider" was not appropriate, because he would expect such matters to be routinely considered in complying with the requirement to evaluate whether the information presented in the financial statements is relevant, reliable, comparable and understandable. Mr. Grabowski noted the use of the word "may" was the IAASB's construct in its application material and, while the application material is therefore not mandatory, auditors are expected to consider application material and use it where appropriate. He noted the TF would reconsider whether such guidance would be more appropriately classified as a requirement. Mr. Baumann and Ms. Sucher suggested the TF review other aspects of the guidance to determine whether there were other circumstances that would be better placed as a requirement. Ms. de Beer noted it would be useful to ask a specific question in the ED as to whether any of the guidance should be elevated to requirements.
- Mr. Hansen suggested that further guidance on labeling of specific items in the financial statements and placement and connectivity of relevant information in the footnotes may be useful. He cited requirements by the US securities regulator to require more prominent placement of key information (e.g. in the accounting policies footnote), such as the assumptions used in valuing stock options. He noted there may be a tendency in practice for preparers to bury certain information. On the point of labeling, Mr. Grabowski noted that the TF believed these were aspects of disclosure but had not explicitly defined the term disclosures in the ISAs (preferring to rely on its broad natural meaning), but had sought to provide additional guidance on the different types of disclosures in the supplemental guidance. Ms. Healy noted there may be an opportunity to provide additional guidance on placement and connectivity in the guidance proposed in paragraph A3b of ISA 700.
- Mr. Fukushima noted the linkage between the disclosure and auditor reporting projects, as the value of the auditor's description of a KAM may be closely linked to the quality of the disclosures in the financial statements. In his view, an important consideration in including a KAM in the auditor's report is whether the disclosures to which the KAM refers provide relevant information to investors. Mr. Grabowski agreed that a focus on matters in the financial statements through reference in a KAM should have a beneficial effect on management's disclosures. However, he was uncertain whether more needed to be said in the ISAs in the context of the disclosures project, given that the

requirements and guidance already focus auditors on whether the information presented in the financial statements is relevant, reliable, comparable and understandable, and whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements. Ms. de Beer noted that proposed ISA 701 acknowledged the possibility that management may wish to enhance its disclosures in the financial statements as the result of the auditor determining a matter to be a KAM and communicating it in the auditor's report.

SUPPLEMENTAL GUIDANCE, INCLUDING IN RELATION TO SUFFICIENT APPROPRIATE AUDIT EVIDENCE FOR DISCLOSURES

Mr. Grabowski noted the TF's view that the matter of providing more guidance on sufficient appropriate audit evidence for disclosures would be best addressed in supplemental guidance. He noted that the purpose of the guidance included as Agenda Item H.2 is to bring together the requirements and guidance in the extant ISAs relevant to auditing disclosures with, the proposed revisions to the ISAs. It is meant to explain how the ISAs (as revised) would be applied holistically in the auditing of financial statement disclosures. He further noted that this non-authoritative guidance is intended to be a tool for auditors and others who want to understand how the ISAs address disclosures, and that the TF believes it is an important way of explaining the impact of the proposed changes to the ISAs.

Mr. Grabowski also explained that the TF recognizes that more comprehensive guidance could be useful, but has not yet fully explored what might be addressed in such guidance and what form it might take, which would require further research and potentially interaction with developments in accounting standards. In the TF's view, it is important to issue the ED to respond to calls for the IAASB to proceed with changes to the ISAs and hear directly from stakeholders about other areas where guidance may be needed.

- Ms. de Beer noted the CAG has historically been very supportive of guidance, provided it is not a substitute to changes to the ISAs when that would be necessary. She was of the view that the proposed changes to the standards are significant and should not be delayed in view of the possibility of providing additional guidance.
- Mr. Stewart noted the WG supported the concept of the preliminary staff guidance as a means of making initial guidance available, but was unclear whether more would be done to address the concept of sufficient appropriate audit evidence for disclosures. In the WG's view, reference to this in Agenda Item H.2 was of limited value as it merely referred to existing ISAs and did not provide additional useful material. He suggested the IAASB should further consider what form additional guidance could take, for example educational-type material.
- Mr. Bluhm suggested additional examples of the types of disclosures and the auditor's approach thereto would be useful, though he recognized the Board would need to consider its capacity to do so in light of other priorities. Ms. de Beer suggested a post-implementation review of how the proposed changes are being applied in practice could be useful in considering whether more guidance is needed.
- Mr. Bluhm noted that, while the proposed supplemental guidance was repetitive of application material, it could be useful to small and medium practices and others. However, he cautioned whether including the supplemental guidance with the ED could potentially detract people from providing feedback on the ISAs themselves. He suggested further thought could be given as to how best to provide this information.

REPORT BACK

Mr. Grabowski drew the CAG's attention to the report back included in Agenda Item H.

WAY FORWARD

Mr. Grabowski thanked the CAG for its comments and input, noting they would be useful to the IAASB in finalizing the ED at the upcoming meeting.

Open Session (Item I)

To *RECEIVE* a presentation titled "Latest Developments on the New EU Auditing Framework."

Mr. Arteagoitia thanked the Representatives and Observers for the opportunity to talk to them about the latest developments on EU audit reforms. Mr. Arteagoitia clarified that the proposed legislation was still in draft form and provided some background about the intermediate and final legislative processes. He noted that the process of finalizing the reform documents is expected to be very intense due to the extent of negotiations expected to be involved. He also noted that, once finalized, the new legislation will be published simultaneously in all EU official languages.

He then provided the CAG with some background leading up to the project and outlined its key objectives and provisions. He noted that the EU audit reforms would, among other things, have implications for reporting on the audit, namely trigger incremental reporting for audit committees and impose new rules for the auditor's reports for public interest entities (PIEs) and non-PIEs. He explained that the EU is of the view that listed entities and banks are PIEs, he added that one of the proposed rules would require banks to have full dialogue with supervisors. He also described other keys aspects of the proposed EU audit reforms, including the provisions for the EC to adopt the ISAs and mandatory audit firm rotation with, as a general rule, a maximum duration of ten years.

The Representatives and Observers commented as follows:

- Mr. Bauman asked whether the EU audit reforms addressed joint audits and whether the IAASB and the PCAOB should consider developing guidance for auditors who perform joint audits. Mr. James agreed. Mr. Arteagoitia explained that all over Europe, joint audits are allowed but that currently only France requires them. He added that the proposed legislation does go into detail as to how the mandatory audit firm rotation rules apply in the context of a joint audit. Ms. de Beer suggested that the IAASB's INFO WG should monitor the trends in the area of joint audits and periodically evaluate whether the development of an auditing standard or guidance is warranted.
- Mr. Hansen noted that he was pleased to observe that the ISAs were likely to be adopted by the EC, and questioned whether the IESBA Code was also considered and why it was not adopted in a similar manner. Mr. Arteagoitia indicated that the ethics rules in Europe are dealt with differently than the auditing standards and confirmed that the IESBA Code would not be adopted under the proposed legislation.

IAASB Proposed Strategy for 2015–2019 and Proposed Work Program for 2015–2016 (Item J)

To *REPORT BACK* and *DISCUSS* key aspects of the IAASB's December 2013 Consultation Paper on its proposed Strategy for 2015-2019 and proposed Work Program for 2015-2016.

Prof. Schilder reported that the IAASB had recently learned of the adoption of the clarified ISAs in a number of countries, bringing the total number of jurisdictions using, or committed to using, the clarified ISAs to 98. He also noted good progress being made in Russia, Latin America and Africa. Prof. Schilder noted ongoing discussions about adoption of the clarified ISAs for statutory audits in Europe in the context of the audit reform proposals (see Agenda Item I), acknowledging that most Member States had adopted them on a national basis. Finally, he noted that the IAASB's other recently revised assurance, review and related services standards are now being implemented.

Prof. Schilder explained the process of consulting on the future strategy and work program, referring to the important input gained from the ISA Implementation Monitoring project, the stakeholder survey, and ongoing outreach activities. He noted the proposed approach to initially focus on three key projects and complete them relatively quickly was driven in part by the Board's reflection on its experience with the auditor reporting project.

Prof. Schilder highlighted the key projects proposed to be addressed in the 2015–2016 Work Program – quality control, professional skepticism, and special audit considerations relating to financial institutions ("the FI project"). He further explained efforts would be placed on information gathering in relation to future work on ISA 600[18] and ISA 315, as well as monitoring of activities related to <IR>. Prof. Schilder also drew attention to the planned work to support the effective implementation of the new and revised auditor reporting standards and noted there is likely a role for the CAG to play in this regard. Finally he noted the Board's plans to further continue and build outreach, in particular with regulators, such as the International Forum of Independent Audit Regulators (IFIAR) and the European Audit Inspection Group (EAIG), as well as investors.

Overall Comments

The Representatives and Observers commented as follows:

- Ms. de Beer expressed support for the consultation paper, noting it reflected a significant amount of thought and planning and was very well done. Mr. Hansen and Mmes. Blomme and Sucher agreed. In particular, Mr. Hansen supported the IAASB's process to date and agreed that the projects that had been identified all merit consideration.
- Mr. Koktvedgaard was of the view that, from a strategic standpoint, exploring the effects of technology and emerging developments, such as cloud computing, offshoring and virtual audits, is critical to understanding whether the ISAs are "fit for purpose" or require adaptation. He suggested the Board should consider whether the auditing standards encourage innovation and efficiency in the audit profession, rather than unduly limiting it, while maintaining quality. Mr. Koktvedgaard expressed the view that the move from mandatory requirements for audits represents the view that the current standards are not fit for purpose for SMEs, and that doing so drove innovation in the market in terms of other services that could be provided. He therefore supported the post-implementation reviews planned for the IAASB's standards on reviews and compilations. Prof. Schilder noted the post-implementation reviews, such as the ISA Implementation Monitoring project, serve to highlight whether the ISAs and other standards have delivered what the IAASB had hoped to achieve in developing or revising them. He noted the IAASB appreciates both positive feedback, as well as suggestions for further enhancement.

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

- Mr. Koktvedgaard asked how the IAASB would define success in terms of what had been achieved by 2019 and suggested the Board consider criteria or targets, such as number of countries having adopted the clarified ISAs, as a basis for measurement. He also suggested it may be necessary to gauge how well emerging issues are being addressed. Prof. Schilder noted that the quantification of countries, while an important measure, can be a moving target. Mr. Gunn noted Staff had explored potential metrics and was of the view that quantitative measurements can become an arbitrary exercise. It is important for the IAASB to focus on the quality of its outputs and the CAG's satisfaction in its processes and outputs. Prof. Schilder also drew attention to page 15 of the proposed Strategy in relation to how the IAASB might measure its success in implementing the Strategy. He noted that one of the main aims of outreach is to understand emerging issues to which the IAASB may need to respond and areas where the IAASB can assist. The Board keeps an open mind as to what it is producing and whether it is delivering results. He also drew attention to the IAASB's plans to issue periodic public updates summarizing feedback obtained during its outreach on the progress and impact of the IAASB's standard-setting and other activities.
- Mr. James noted that IOSCO members are of the view that, while what is articulated as the IAASB's proposed strategic represent useful goals, they can be read as more of a mission statement, as they are likely to continue to be relevant past the five-year strategic period. He questioned whether a different approach would result in a different focus. Prof. Schilder acknowledged that the three areas could broadly be viewed as a mission statement, but they had been carefully constructed to result in a greater focus on audit, compared to assurance, than in previous periods.
- Mr. James drew attention to the reference to the Board recognizing the public interest importance of moving quickly on its auditor reporting project. In his view, external circumstances, in particular development in other regions placed significant external pressure on the Board to react in that way. He questioned whether the Board could work as quickly and effectively in the absence of external pressure to deliver on a topic. Prof. Schilder acknowledged that, while external developments played a role in the acceleration in 2012, the IAASB had commenced its work on auditor reporting in 2006 when it commissioned joint research on users' perceptions of the auditor's report. He noted that, in the time it took for the research findings to be available, the Board continued to monitor the level of demand and support for moving forward, taking into account the views of the CAG and other stakeholders during outreach. Mr. Gunn noted continued input from the CAG in relation to external pressures and rationale for suggested actions in terms of IAASB priorities would be useful.
- Mr. James also suggested the Board needed to factor time into the work program for the development of the work plan for 2016–2017 and the mid-period assessment of the five-year strategy. Prof. Schilder agreed it could be more explicitly addressed in the indicative timetable and factored into the analysis of Board and Staff resources.

VIEWS ON PRIORITY PROJECTS

The Representatives and Observers commented as follows:

- Mr. Hansen suggested the FI project as a high priority, and suggested that topics such as impairment and loan loss provisioning could be addressed. Mr. Stewart questioned whether an assessment had been made of the need for guidance to support auditors in light of new requirements in the accounting standards to promote more consistent accounting. Ms. Sucher referred to the recent work of the Basel Committee on guidance for the audits of banks, and therefore welcomed the focus on financial instruments in light of the financial crisis. She highlighted that the Basel Committee had provide the

IAASB with its initial thinking on how the ISAs could be enhanced to encourage high-quality audits of banks. Mr. Dalkin questioned whether it was prudent to focus on industry-specific matters and encouraged the IAASB to consider whether the issues to be addressed in the FI project were more broadly applicable. Prof. Schilder acknowledged the ongoing dialogue with the Basel Committee on its recently issued guidance, in light of the withdrawal of previous International Auditing Practice Statements (IAPSs) relevant to banks. He noted that the FI project contemplates a review of ISA 540[19] to consider how best to reflect relevant accounting developments as mentioned by Messrs. Hansen and Stewart, changes to which would likely be relevant beyond financial institutions (i.e. banking and insurance entities). Finally Prof. Schilder expressed the view that the IASB may in the future wish to comment more formally to the IAASB about areas where guidance for auditors might be useful.

- Mr. Hansen and Ms. Sucher also supported focus on quality control and professional skepticism, suggesting that issues had been commonly noted in practice in relation to these topics. Prof. Schilder noted it would be interesting to see the interrelationships between a number of projects, for example, the application of professional skepticism in auditing financial institutions.

VIEWS ON OTHER PROJECTS

- Mr. Waldron was of the view that the project on preliminary announcements should commence sooner than anticipated in Appendix 2 of the Work Program. Messrs. Hansen and Waldron noted the importance of preliminary announcements to the capital markets. Prof. Schilder explained that the IAASB had mentioned the topic as a previous project, with mixed views in terms of its relative importance given other priorities. He noted the IAASB would learn more from this consultation to determine a way forward. Mr. Gunn further explained that the possibility of academic research on the topic is being explored to understand demand and the feasibility of auditor involvement. He encouraged CAG member organizations to provide input as to how the topic of auditor involvement with preliminary announcements has been addressed nationally.
- Referring to the previous discussion on whether the IAASB needed to address the topic of joint audits in the ISAs, Ms. Blomme explained that joint audits are currently not prohibited in Europe but to date had only been utilized in France, and it is unclear whether other member states would use group audits. As a result, she suggested this may not be as high a priority for the IAASB as other topics. Prof. Schilder agreed, noting feedback from Denmark and, to an extent, France, had indicated mixed views on such engagements. He acknowledged that work on the topic would depend on how widely joint audits were anticipated to be used and respondents' views on other priorities.
- Mr. James noted a continued concern by IOSCO of how sample sizes were being addressed in practice. He suggested consideration be given as to whether work in this area is a priority. Prof. Schilder noted the work in ISA 315 in relation to technology and "big data" could potentially have an impact on sample sizes. Mr. Gunn noted that the topic had been captured as one that may be addressed in 2017 and beyond given the relative prioritization of other topics.

PIOB Remarks

Mr. Bhave congratulated the CAG on a productive meeting, adding the CAG Representatives and Observers seem to have been given adequate opportunities to comment and have shared their views on

[19] ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

wide range of issues related to the agenda items. He then apologized for having to miss part of the CAG meeting because of his travel conflict for the March 2014 PIOB meeting in Madrid.

He then acknowledged the IAASB's consideration and understanding of issues impacting the public interest and the Board's process to produce readable, clear and accessible standards, noting in particular that certain technical issues had been debated in a lively and robust manner, and that adequate consideration had been given to challenging matters of public interest. Mr. Bhave encouraged the IAASB TF Chairs to continue to place due emphasis on users' needs and consider their inputs on issues that are put forward in the public interest. Prof. Schilder noted he was pleased Mr. Bhave was satisfied with the quality of the CAG agenda material and the manner in which the arguments were set forth.

Specific to the IAASB's decision to re-expose ISA 720, Mr. Bhave suggested that the Board reflect on its activities and processes leading up to this decision to determine whether there are lessons to be learned for its future standard-setting activities, as re-exposure results in a considerable delay in completing projects. Prof. Schilder commented that it is important that the IAASB have as clear of a view as possible of what it is trying to achieve when commencing a new projects. In relation to ISA 720 specifically, he noted that the Board had listened to not only concerns from regulators, but also practitioners, about the specificity of the standard. Prof. Schilder explained that re-exposure is likely necessary in the public interest to ensure the IAASB is appropriately responding to those comments, and that the IAASB needs to produce standards that are in the public interest, that can be workable in practice.

Mr. Bhave further observed that the PIOB is concerned about the pushback on the question of naming the engagement partner in the auditor's report. The PIOB considers it in the public interest that the engagement partner should be named in the auditor's report.

Closing Remarks

Ms. de Beer thanked the CAG Representatives and Observers for their high level of preparation and participation and the quality of comments provided during the meeting. She also thanked the IAASB members and Staff for their contribution to making the meeting successful.

Prof. Schilder also thanked the Representatives and Observers for their comments, noting their comments would timely input to the IAASB meeting the following week.

Ms. de Beer closed the meeting.