

**Approved Minutes of the 61th Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD**

Held on March 17–21, 2014 in New York, USA

Voting Members

Present: Arnold Schilder (Chairman)
Dan Montgomery (Deputy Chair)
Jean Blascos
Valdir Coscodai
Karin French
Cédric Gélard
Marek Grabowski
Jonas Hällström
Merran Kelsall
Annette Köhler
Charles Landes
Brendan Murtagh
Marc Pickeur
Tomokazu Sekiguchi
Jianhua Tang
John Wiersema
Bruce Winter
Megan Zietsman

Technical Advisors

Sue Almond (Mr. Murtagh)
Wolf Böhm (Ms. Köhler)
Jennifer Burns (Ms. Zietsman)
Alejandro Gonzalez (Mr. Coscodai)
Hiram Hasty (Mr. Landes)
Susan Jones (Mr. Blascos)
Len Jui (Mr. Tang) (March 17–20)
Sachiko Kai (Mr. Sekiguchi)
Maria Manasses (Ms. French)
Richard Mifsud (Ms. Kelsall)
Alexandra Popovic (Mr. Hällström)
Jon Rowden (Mr. Winter)
Greg Shields (Mr. Wiersema)
Isabelle Tracq-Sengeissen (Mr. Gélard)
Jacques Vandernoot (Mr. Pickeur)
Denise Weber (Mr. Montgomery)

Non-Voting Observers

Present: Linda de Beer, Norio Igarashi
Apology: Juan Maria Arteagoitia

Public Interest Oversight Board (PIOB) Observer

Present: Nicolaas van der Ende

IAASB Technical Staff

Present: James Gunn (Technical Director), Sara Ashton, Beverley Bahlmann, Kathleen Healy, Jasper van den Hout, Brett James, Diane Jules, Nancy Kamp-Roelands
Apology: Jim Sylph (IFAC Executive Director)

1. Welcome and Approval of Previous Minutes

Prof. Schilder welcomed all participants to the meeting. The minutes of the December 2013 IAASB physical meeting and the February 2014 IAASB teleconference were approved as presented.

2. Comments from the IAASB Consultative Advisory Group (CAG)

Comments from the IAASB CAG meeting held March 10–11, 2014 were reported to the Board in the discussion of the relevant agenda items as noted below. Ms. de Beer noted that the Task Force chairs, throughout the discussion of the various agenda items, gave a comprehensive reflection of the CAG comments raised at the meeting of the previous week. She also invited Board members, especially new Board members, to attend a future CAG meeting and experience the discussions and dynamics of the CAG.

3. ISA 720, *The Auditor's Responsibilities Relating to Other Information*

The Board considered recommendations from the ISA 720 Task Force in light of feedback from members at the December 2013 IAASB meeting and February 2014 IAASB teleconference, and the March 2014 IAASB CAG meeting.

Objectives and Work Effort

Ms. de Beer noted the most significant comments raised at the CAG meeting were:

- With regard to the objective, there was a concern that it was possibly too auditor-focused with not enough focus on the user, with a suggestion that user needs should be brought into the objective and a stronger link back to the financial statements made.
- With regard to the work effort, some CAG Representatives commented that limited procedures should be linked to the work effort and that application material would be needed to address material inconsistencies.

Board members broadly supported the Task Force's recommendations for the objectives and work effort as set out in Agenda Item 2-A. Other decisions made included:

- Removal of the term "apparent" from the objectives and the remainder of the ISA, but the IAASB agreed to use the phrase "appears to exist" in both the objectives and in the requirement for the auditor to respond when a material misstatement "appears to exist".
- While the objectives were appropriate (subject to minor amendments), the Board agreed the introductory paragraphs should note that the objectives of ISA 720 (Revised) are to be understood in the context of the overall objectives of the auditor as stated in paragraph 11 of ISA 200.¹ The Board also requested that the introductory paragraphs note that the auditor's opinion on the financial statements does not cover the other information, nor does ISA 720 (Revised) require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements.
- The phrase "other information [that is] materially misstated" should be used in place of "other information [that is] apparently materially incorrectly stated or is otherwise misleading", as "material

¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

misstatement” was seen to provide a clearer reference to the whole of the definition of a material misstatement, rather than the previous reference to only part of the definition of a material misstatement.

Reporting

Ms.de Beer noted the CAG commented that it was important to clarify what documents are being reported on and what documents are outside the scope of the work done by the auditor. Such identification is also extremely important insofar as information obtained after the date of the auditor’s report is concerned.

The Board broadly supported the Task Force’s recommended illustrative statement in the auditor’s report, but agreed that the illustrative statement should more clearly identify the other information read prior to the date of the auditor’s report and specifically reference the auditor’s obligation to remain alert for other indications that the other information appears to be materially misstated.

In relation to reporting on other information obtained after the date of the auditor’s report, a majority of the Board supported the Task Force’s proposal (based on the view of a majority of the Task Force members) that ISA 720 (Revised) continue to require the auditor to read and consider such other information, but would neither require identification of it in the auditor’s report, nor provide a description of the action(s) the auditor would take regarding such other information if the auditor were to determine subsequently that there is a material misstatement of that other information. In making this decision, the Board noted that reference to any future actions to be taken would be inconsistent with the current focus on the auditor’s report on the actions the auditor has taken up to the date of the auditor’s report. The Board also noted the practical difficulties that would be encountered by auditors and users in communicating about the auditor’s responsibilities for other information obtained after the date of the auditor’s report, due to the inconsistencies in rights and obligations of auditors across jurisdictions.

Conforming Amendments

The Board supported the Task Force’s proposed conforming and consequential amendments to a number of ISAs as set forth in Agenda Item 2-E. The Board agreed to also propose a consequential amendment to ISA 500² to amend the definition of audit evidence to make clear that the reference to “other information” in that definition is not related to “other information” as defined in proposed ISA 720 (Revised).

Approval and Re-Exposure

Seventeen out of 18 Board members approved the revised text of proposed ISA 720 (Revised). One member voted against the approval, as he believed the proposed standard would essentially require an auditor to perform the same level of procedures on other information when a material inconsistency or a material misstatement of other information appears to exist. This member thought that such situations would not be rare, especially when the auditor reads qualitative descriptions (which may be of a subjective nature) in other information. Accordingly, this member was of the view that paragraph 16(a) should be read as “*an apparent* material misstatement of other information exists”, such that the standard clearly distinguishes the different nature of auditor’s responsibilities regarding the audit of the financial statements and responsibilities regarding other information (which is outside the scope of the financial

² ISA 500, *Audit Evidence*

statement audit). This member noted that the term “apparent” is already used in the extant ISA 720, where it refers to an auditor’s responsibilities when reading other information.

The Board agreed that the revised ISA results in a substantively improved, but different, approach to fulfilling the aims of the revision of ISA 720, on which respondents to the 2012 Exposure Draft (ED) have not had the opportunity to comment. Accordingly, the Board unanimously agreed to re-expose the standard for comment for a period of 90 days.

4. Disclosures

Proposed Changes to the ISAs

Ms. de Beer conveyed the most pertinent comments from the CAG, including that:

- The CAG strongly supported the proposed enhancements to the various standards and was of the view that these should not be held back in anticipation of supplementary guidance.
- The CAG encouraged the Task Force to consider whether some matters addressed in application material should be elevated to requirements. To this end, a concern was raised about that fact that most of these enhancements are in the application material, which could create the impression that certain work that was previously done by auditors might not be necessary due to the use of “may” terminology used in application material. It was suggested that the Explanatory Memorandum (EM) accompanying the ED should include a specific question in this regard.
- The language used in the proposed changes was quite sophisticated and a European CAG Representative encouraged the Task Force to consider the possible translation difficulties thereof.

The Board generally agreed with recommendations from the Task Force as set out in Agenda Items 3-A and 3-B, including the revisions to the assertions relating to disclosures. In addition to various editorial and other less substantive amendments to the proposed changes, the Board agreed:

- To simplify the revised definition for “financial statements” in ISA 200, as it adequately provided more detail about disclosures within the definition, in particular the three places they could be found (i.e., on the face of the financial statements, in the notes to the financial statements or, when permitted by the applicable financial reporting framework, incorporated by cross-reference).
- To make clear in the changes to ISA 210 that management is responsible for the information relevant to the preparation of the financial statements and to include a footnote regarding possible consideration for inclusion in the engagement letter of this and other management responsibilities, as set out in paragraph A23 of ISA 210. The Board also agreed to revert to the wording in the Auditor Reporting ED in relation to changes to the illustrative auditor’s report.
- To include in the engagement team discussion relating to fraud (i) all disclosures when considering the risks of material misstatement arising from fraud,³ not only those required by the applicable financial reporting framework; and (ii) the fact that management may attempt to obscure information by presenting disclosures that are not clear and understandable.

³ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph A11

- To supplement proposed guidance in paragraph A12 of ISA 260 relating to matters to be communicated to management by the auditor to also include changes to the entity's environment or financial condition, which may also impact disclosures.⁴
- To separate the guidance in respect of disclosures not directly related to recorded classes of transactions, events or account balances from the descriptions of the assertions in paragraph A124 of ISA 315 (Revised),⁵ and combine with the additional proposed paragraph setting out further guidance.
- To make a corresponding change to the documentation requirement in paragraph 30 of ISA 330⁶ to also specifically include disclosures, to align with the revised requirement to agree or reconcile the financial statements, including disclosures, in paragraph 20 of ISA 330.
- To revise wording of the application material to support the requirements relating to the evaluation of the financial statements in ISA 700,⁷ including whether the financial statements achieve a fair presentation. In particular, the Board agreed that clarification was needed about the types of procedures that would always be expected.

The Board also considered a proposed new requirement in ISA 320⁸ to make a preliminary determination of those non-quantitative disclosures for which misstatement thereof reasonably could be expected to influence the economic decisions of users taken on the basis of the financial statements. However, the Board was of the view that guidance relating to these considerations was better placed in ISA 315, and agreed that the requirements in paragraphs 25–26 of ISA 315 (Revised) relating to identifying and assessing the risks of material misstatement were sufficiently robust, and addressed both quantitative and non-quantitative disclosures. Accordingly, the Board agreed that the application material previously proposed for ISA 320 would be most appropriately placed in the application material for these paragraphs in ISA 315 (Revised) and that the proposed new requirement in ISA 320 was not needed. While agreeing limited changes to the application material in ISA 320, the IAASB agreed that a more holistic review of the topic of the application of materiality to disclosures may be warranted as it evaluates necessary actions on its future work programs.

Additional Educational Material

The IAASB agreed the proposed guidance included in Agenda Item 3-C is useful as background to explain how the ISAs and the proposed changes approach disclosures, and could be published as a preliminary draft staff document on the IAASB's website to accompany the ED, and would be finalized at such time as the changes to the ISAs are finalized. The Board also agreed, through feedback from the ED, to assess the need for further guidance, particularly in respect of sufficient appropriate audit evidence for disclosures.

⁴ This change has been replicated in other instances where changes in the entity's environment or financial condition may also impact disclosures (including ISA 300, *Planning an Audit of Financial Statements*, Paragraph A12b and ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, Paragraph A21a;

⁵ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph A99a

⁶ ISA 330, *The Auditor's Responses to Assessed Risks*

⁷ ISA 700, *Forming an Opinion and Reporting on Financial Statements*

⁸ ISA 320, *Materiality in Planning and Performing an Audit*, paragraph 6

Approval and Way Forward

Seventeen out of 17 voting Board members present approved the text of the ED to address disclosures in the audit of financial statements. One member was absent. The Board also agreed that the EM to the ED should specifically ask for views about the need for any additional requirements to the ISAs to address the issues that had been raised in the responses to the January 2011 Discussion Paper. The ED will be issued for comment for a period of 120 days.

5. Auditor Reporting

Matters Relating to the Revision of ISA 700

Statement of Independence and Other Relevant Ethical Requirements

Ms. de Beer noted that the CAG commented that there was sympathy for the difficulties around the disclosure of sources of ethical requirements, which might not have an incremental value. However, users seemed not to be too worried about the length of the auditor's report and would rather have such information provided. Board members expressed mixed views about the Drafting Team's recommendation set out in Agenda Item 4-A to retain the proposed requirement in ISA 700 for the auditor to make an explicit statement about independence and other relevant ethical requirements in the auditor's report, but not require the auditor to provide a listing of sources of those requirements.

- The Board generally supported requiring an explicit statement about independence and other relevant ethical requirements in the auditor's report.
- While recognizing the challenges of requiring a listing of sources, the Board encouraged the Drafting Team to continue to pursue opportunities for further transparency about the sources of independence and other ethical requirements in the auditor's report, consistent with comments from the IAASB CAG. Suggestions raised included a reference to the independence requirements of the group auditor, limiting specific identification in the auditor's report to principal requirements that applied to the audit team, listing of the requirements that applied in the country or jurisdiction in which the audit was performed, or listing of the applicable requirements established by the firm. On the latter point, it was noted that the accounting firms in the Forum of Firms develop requirements to comply, at a minimum, with the International Ethics Standards Board for Accountants (IESBA) *Code of Ethics for Professional Accountants*.
- The Drafting Team was also asked to consider whether it would be appropriate to reinstate reference to the auditor being independent "of the entity" in the requirement and illustrative statement.

The Board did not reach a decision on the matter and will continue to deliberate the proposed requirement at its June 2014 meeting.

Disclosure of the Engagement Partner's Name

Ms. de Beer noted that the CAG, as before, strongly supported disclosure of the name of the engagement partner and was of the view that "identification" by other means (e.g., through a practice number) would not be an acceptable option. The CAG was not comfortable with the proposed "harm's way exemption" as proposed, as felt it needed to be tightened significantly to avoid creating a "back door" for auditors to not disclose the engagement partner's name.

Board members expressed mixed views about the Drafting Team's recommendation set out in Agenda Item 4-A to require auditors to identify (rather than disclose) the name of the engagement partner in the auditor's report for audits of financial statements of listed entities.

- While the requirement to explicitly name the engagement partner is in place in many jurisdictions worldwide, developing a requirement that could be implemented in those jurisdictions where this was not currently required, having regard to the potential liability implications and the implementation challenges, needs to be taken into account.
- As the purpose of the disclosure would be to provide additional transparency in response to investor demands, some members, as well as the IAASB CAG, questioned whether identifying rather than naming the engagement partner achieved that aim, in particular if the name was not easily accessible via the identification. Views were also expressed that, in some cases, both the name and a further identifier may be necessary in order to clearly identify the engagement partner.

Upon further deliberation and consideration of additional alternatives, the IAASB agreed to:

- Require auditors to disclose the name of the engagement partner in the auditor's report for audits of financial statements of listed entities, with additional application material to be provided to explain that law, regulation or national auditing standards may require the auditor to include additional information to assist in identifying the engagement partner or the auditor may consider it useful to do so; and
- Retain the inclusion of a harm's way exemption, provided that ISA 700 appropriately explained the expectation that the use of such an exemption would be rare.

Other Recommendations Set Out in Agenda Item 4-A

- The Board tentatively agreed with the Drafting Team's recommendations to require an enhanced description of the auditor's responsibilities and to allow for such description to be included in either the auditor's report or an Appendix thereto or, where permitted by law, regulation or national auditing standard setters, to refer to a description on a website of an appropriate authority.
- The Board tentatively agreed with the Drafting Team's recommendation to establish a new requirement to mandate that the Opinion section always be presented first in the auditor's report and to revise the presentation in the illustrative auditor's report.
- The Board tentatively agreed with the recommendation to clarify the requirement addressing the presentation of "Other Reporting Responsibilities" in the auditor's report.

Key Audit Matters (KAM)

Ms. de Beer noted there was general support at the CAG for the proposals, and the CAG agreed that auditors should be making the judgment decision as to what information relating to the audit they believe would be of most relevance to investors.

The CAG also advised that focus on entity-specific matters is extremely important to avoid KAM becoming industry boilerplate language.

The Board tentatively agreed with the Drafting Team's recommendations set out in Agenda Item 4-B as follows:

- Developing new and revised requirements for determining KAM. The Board acknowledged the importance of robust application material to further support the decision-making framework and, among other matters, encouraged the Drafting Team to explore how best to clarify the concept of significant auditor attention and explain how the factors to be considered may relate to one another, particularly in light of the definition of significant risks, and to form a view as to what documentation would be necessary to support the auditor's judgments.
- Retaining the requirement for the auditor to determine whether, in describing a key audit matter, it is necessary to communicate how such matter was addressed in the audit, rather than requiring this in all cases. The Board was of the view that such flexibility would enable auditors to reflect on how to make the description most meaningful to users and respond to concerns that excessive prescription in the standard may restrict innovation and relevance to users. However, the Board also agreed it would be appropriate to further consider how to encourage such disclosures, for example by developing application material in proposed ISA 701⁹ to be more definitive in explaining circumstances in which it may be appropriate for the auditor to comment on how a matter was addressed in the audit and to explain how the auditor might go about describing audit procedures at a high level and the outcome of the auditor's work, and why this information may be relevant to users.

The Board also considered the topic of sensitive matters and tentatively agreed that it is necessary within proposed ISA 701 to establish a requirement addressing the auditor's actions when such matters are determined to be KAM, to acknowledge that, in certain cases, a matter might not be communicated in the auditor's report. IAASB members generally supported the view of some IAASB CAG Representatives that the standard should not be overly permissive in this regard or prohibit the communication of certain types of sensitive matters in the auditor's report. Rather, the Board encouraged the Drafting Team to explore an appropriate balance between auditors providing useful information about the most significant matters in the audit that was performed, while at the same time respecting the important concept of client confidentiality, often addressed in law, regulation and relevant ethical requirements. The Board also noted the initial views of the IESBA Planning Committee that communication of KAM would not be prohibited by the IESBA Code, because the duty of confidentiality under the IESBA Code would not override a professional duty to disclose client information to comply with technical standards (e.g., the ISAs).

Going Concern

Ms. de Beer noted that the CAG expressed disappointment with a move back to exception-based reporting, as this was a grave concern in the financial crisis. The CAG encouraged the Task Force to

⁹ Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

further explore disjoining the basis of accounting from material uncertainties in an attempt for auditors to at least report on the latter.

Board members generally expressed support for the recommendations made by the Drafting Team as set out in Agenda Item 4-C to revert to exception-based reporting on going concern matters, and to include additional responsibilities in the management's responsibilities and auditor's responsibilities sections of the auditor's report, based on the additional statements originally proposed in the ED.

- Disappointment was expressed by some Board members at what appears to be taking a step back by reverting to exception-based reporting, but the challenge of moving forward with the auditing standard on going concern, absent changes to accounting standards, was recognized. Similar views were expressed by some IAASB CAG Representatives.
- The Board generally supported statements describing both management's and the auditor's responsibilities with respect to management's use of the going concern basis of accounting, and also the auditor's responsibilities in relation to material uncertainties. The Board largely agreed that such statements would have educational value to users, but concern was also expressed about the additional of what could be seen as more "boilerplate" language.
- The Board expressed mixed views on the inclusion of a statement in the auditor's responsibilities section of the auditor's report that the auditor cannot guarantee the entity's ability to continue as a going concern. Members noted that if the Drafting Team were to proceed with the inclusion of such a statement, alternative wording should be explored to avoid use of the word "guarantee".
- The Board encouraged the Drafting Team to consider in its future going concern deliberations the outcome of the upcoming planned International Financial Reporting Interpretations Committee (IFRIC) discussions in respect of the applicability of an existing IFRS requirement to disclose significant management judgments in applying the entity's accounting policies, and how that relates to going concern judgments.
- The Board also encouraged the Drafting Team to consider actions that can be taken to drive behavioral changes in the way that both management and auditors approach the consideration and assessment of going concern.
- The Board encouraged the Drafting Team to further deliberate, in conjunction with ISA 701 Drafting Team, the interaction between KAM and going concern "close call" situations.

Way Forward

The Board will further consider issues and revised drafts of the proposed Auditor Reporting standards at its June 2014 meeting.

6. Innovation, Needs and Future Opportunities (INFO) Working Group (WG), Including Integrated Reporting

Ms. de Beer noted the CAG was very supportive of this initiative, as it aligns with the role of the CAG to explore strategic matters. The CAG supported the proposed focus areas of integrated reporting and considering the need for various other assurance services, as well as the Board considering developments in the technology sector insofar as it impacts audits, such as big data, cloud computing and XBRL.

The Board received updates on the INFO WG and the current status of integrated reporting. Board members generally supported that monitoring of integrated reporting should be a priority, in light of the time it may take to develop a standard-setting response if considered necessary. The Board also asked the WG to consider the following:

- The need to first explore market demand for assurance (including the underlying subject matter and the type of assurance being requested) in order to inform the IAASB's consideration of whether and, if so, when work on a particular topic is necessary.
- Collaborating with other organizations, in particular those that set the criteria for the subject matter (e.g., International Integrated Reporting Council (IIRC), Committee of Sponsoring Organizations (COSO), etc). As an initial step to the INFO WG's efforts, it was suggested that mapping relevant organizations that work on standards, frameworks or guidance relating to the subject matter would be useful.
- How national auditing standard setters (NSS) could be engaged on topics of interest to the INFO WG, and how any relevant NSS efforts could potentially be leveraged going forward.
- How the efforts of the INFO WG could be more balanced to give focus to developments that would be relevant in the public sector, such as accountability reporting.

Way Forward

The Board's input will be taken into account in future INFO WG discussions and further inform its work, as will feedback from the Board's consultation on its future strategy and work program.

7. Efficiencies Report Back

The Board received an update on the efficiencies break-out sessions that were held during the December 2013 Board meeting, and generally supported the identified opportunities to be addressed in the short-term, in particular further exploration of how Technical Advisors and NSS could be used to a greater extent to progress new initiatives. It was also suggested that, in addition to continuous improvement, a more fundamental review of the Board's processes (e.g., through the involvement of an external consultant or benchmarking against others) may be necessary.

Way Forward

Further considerations relevant to enhancing the efficiencies of the Board will be taken into account in connection with the planned June 2014 discussion on the Board's future strategy and work program.

8. PIOB's Observer's Remarks

Mr. van der Ende thanked the Board for the warm welcome and the Staff and Board for their work efforts on the various projects.

Mr. van der Ende provided his views on the processes during the meeting and noted that one of the main topics on the PIOB's agenda is how to find a balance between the views of different stakeholders. He made a reference to the PIOB's 9th Public report: "How to respond to changing stakeholder's expectations". With this theme in mind, Mr. van der Ende noted that he was pleased to witness the openness and quality of discussions in the Board meeting. He noted that he observed some good examples how the Board balances input from stakeholders in and outside the Board. Mr. van der Ende also highlighted the importance of outreach activities to get views from outside the Board.

Mr. van der Ende further noted that he was impressed with the quality of the approved EDs on ISA 720 and Disclosures and congratulated the Board on these approvals.

9. Next Meeting

The next meeting of the IAASB is scheduled for June 16–20, 2014 in New York, USA.

10. Closing

Prof. Schilder thanked the IAASB members, technical advisors, observers and staff for their contributions to the meeting. He then closed the meeting.