

**Minutes of the 110th Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)
Held on December 9–13, 2019 in New York, United States of America**

Voting Members

Present: Tom Seidenstein (Chair)
Fiona Campbell (Deputy Chair)
Chun Wee Chiew
Julie Corden
Robert Dohrer
Karin French
Marek Grabowski
Kai Morten Hagen
Len Jui
Sachiko Kai
Prof. Kai-Uwe Marten
Lyn Provost
Fernando Ruiz Monroy
Rich Sharko
Roger Simnett
Isabelle Tracq-Sengeissen
Eric Turner
Imran Vanker¹

Technical Advisors (TA)

Helene Agélii (Mr. Hagen)
Sara Ashton (Ms. French)
Vivienne Bauer (Mr. Monroy)
Wolf Böhm (Prof. Marten)
Melissa Bonsall (Ms. Corden)
Fabien Cerutti (Ms. Tracq-Sengeissen)
Antonis Diolas (Mr. Chiew)
Johanna Field (Mr. Turner)
Hiram Hasty (Mr. Dohrer)
Rene Herman (Mr. Simnett)
Josephine Jackson (Mr. Grabowski)
Susan Jones (Mr. Jui)
Kohei Yoshimura (Ms. Kai)
Jamie Shannon (Mr. Sharko)
Sylvia Van Dyk (Ms. Provost)
Denise Weber (Ms. Campbell)

Apology: *None*

Non-Voting Observers

Present: Jim Dalkin (IAASB Consultative Advisory Group (CAG) Chair), Yosh'inao Matsomoto (Japanese Financial Services Authority)

Apology: Juan Maria Arteagoitia (European Commission)

Public Interest Oversight Board (PIOB) Observer

Present: Prof. Karel van Hulle

¹ It is noted that Mr. Vanker was not supported by a technical advisor during the December 2019 IAASB meeting

IAASB Technical Staff

Present: James Gunn (Managing Director, Professional Standards), Willie Botha (Technical Director), Beverley Bahlmann, Yvonne Chan, Brett James, Natalie Klonaridis, Armand Kotze, Phil Minnaar, Hanken Jane Talatala, Joy Thurgood, Jasper van den Hout
Dan Montgomery (Senior Advisor – Technical projects), Pauline Irwin (Principal on EER Assurance project) (December 10 and 13)

IAASB agenda materials referred to in these minutes can be accessed at <https://www.iaasb.org/meetings/iaasb-board-meeting-new-york-usa-1>. These minutes are a summary of the decisions made at the December 2019 IAASB meeting, in light of the issues and recommendations in the agenda material put forth by the Task Forces (TF), Working Groups, Drafting Teams and Staff supporting the individual projects. These recommendations are made taking into account feedback from respondents to the IAASB's public consultations, in particular Exposure Drafts (EDs) of the IAASB's proposals, consideration of previous discussions of the Board and its CAG, and feedback from stakeholders through outreach activities.

1. Welcome and Approval

Mr. Seidenstein welcomed all participants to the meeting. Mr. Seidenstein noted that Ms. Nicki Bester will no longer be serving Mr. Vanker as his TA due to other work responsibilities and thanked her for her valuable contributions to the IAASB.

Mr. Seidenstein updated the Board on outreach performed during the fourth quarter of 2019. Mr. Seidenstein also introduced Ms. Churikova (International Federation of Accountants) who gave a short presentation to the Board on the work done by the Nominating Committee and noted that the nominations are currently open for potential IAASB Board Members for 2021.

2. Group Audits – ISA 600 (Revised)²

Mr. Jui updated the Board on the work of the ISA 600 Task Force since the September 2019 Board meeting, including the outreach performed, as presented in **Agenda Items 2, 2-A, 2-B, 2-C and 2-D**. The following sets out the more significant comments from the Board in response to the ISA 600 Task Force's proposals.

SCOPE, OBJECTIVE AND DEFINITIONS

The Board asked the ISA 600 Task Force to consider:

- Enhancing the description of the relationship between proposed ISA 600 (Revised) and proposed ISA 220 (Revised).³
- Clarifying the difference between the 'engagement team' and the 'group engagement team' as this may not always be clear. It was further suggested clarifying how the standard would apply when the engagement team includes members from non-network firms.

² Proposed International Standards on Auditing (ISA) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

³ Proposed ISA 220 (Revised), *Quality Control for an Audit of Financial Statements*

- Clarifying the definition of component as it was believed to be too broad and therefore not helpful for auditors in planning and performing a group audit.
- Keeping the reference to joint auditors in the definition of the group engagement partner as the reference was deemed to be helpful in providing a link to jurisdictional guidance on joint audits.

LEADERSHIP RESPONSIBILITIES FOR MANAGING AND ACHIEVING QUALITY ON A GROUP AUDIT, AND ACCEPTANCE AND CONTINUANCE

In addition to various suggestions about how to enhance the application material, the Board asked the ISA 600 Task Force to consider:

- Revising paragraph 11B as it may not be possible for group management to provide the engagement team unrestricted access to persons within the group, for example because of local law or regulation.
- Combining paragraphs 11B and 11C as paragraph 11B on its own does not provide the auditor with the actions to take when the group engagement partner concludes that group management cannot provide the engagement team with unrestricted access to persons within the group due to restrictions that are outside the control of group management.
- Consistency in the terminology used (e.g., references to people and person).
- Reorganizing the structure of this section by, for example, changing the order of the application material and better linking application material to different requirements.

UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT, THE APPLICABLE REPORTING FRAMEWORK AND THE ENTITY'S SYSTEM OF INTERNAL CONTROL

The Board asked the ISA 600 Task Force to consider:

- With respect to the obtaining an understanding of the entity and its environment, the applicable reporting framework and the entity's system of internal control (paragraph 17), changing the structure of the sub-requirements. As presented, it was noted that paragraph 17 was not aligned with ISA 315 (Revised 2019)⁴ as the consolidation process used by the group is part of the group's information system.
- Including application material related to controls over the group's financial reporting system (referred to as group-wide controls in extant ISA 600) and entity-level controls.
- Enhancing the application material related to shared service centers and common controls.
- Including application material that explains that the group engagement team may assign risk assessment procedures to component auditors in some circumstances, and the factors that influence the group engagement team's decision about whether to do so.
- Combining paragraph 17A and paragraph 20A as they both relate to the identification and assessment of risks of material misstatement at the group financial statement and assertion levels.

MATERIALITY

The Board asked the ISA 600 Task Force to consider:

⁴ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

- Adding application material that links to ISA 320,⁵ paragraph 10, regarding the application of different materiality level or levels to particular classes of transactions, account balances or disclosures.
- Deleting the reference to '70%' in paragraph A29E, but retaining the concept of 'relative significance' of the component to the group as some auditors may use the percentage without any further consideration.

ASSESSING AND RESPONDING TO THE RISKS OF MATERIAL MISSTATEMENT

The Board asked the ISA 600 Task Force to consider:

- Changing the requirement in paragraph 20A to 'identify and assess the risks of material misstatement.' It was noted that only referring to assessing risks of material misstatement may be confusing given that the auditor needs to identify the risks of material misstatement before the risks can be assessed.
- Clarifying the interactions between the group engagement team and the component auditors. For example, clarifying that component auditors can assist the group engagement team in determining the nature, timing and extent of further audit procedures to be performed. In that regard, it was also noted that paragraph A30J seems to be inconsistent with paragraph 24 as paragraph A30J states that component auditors may assist the group engagement team in determining the nature, timing and extent of further audit procedures to be performed while paragraph 24 requires the group engagement team to determine the nature, timing and extent of further audit procedures to be performed.
- Given the changes in practice that are expected because of the change to a risk-based approach for a group audit, facilitating field testing of the proposals during the exposure period.
- Removing the first sentence of paragraph 24 as it is repeating ISA 330.⁶
- Including the option to assign further audit procedures to component auditors in the application material as was done in paragraph A30A in the draft that was presented to Board in September 2019. The Board was of the view that no reference should be made to an audit and therefore suggested replacing 'an audit of all financial information of the component' with 'design and perform further audit procedures on the entire financial information of the component.'
- Clarifying whether paragraph 24A applies when a statutory audit has already been completed or when the statutory audit is being performed concurrent with the group audit.
- Given that is covered by paragraph 33, deleting paragraph 34 relating to evaluating the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications, and evaluating whether any fraud risk factors or indicators of possible management bias exist.

QUALITY MANAGEMENT WHEN COMPONENT AUDITORS ARE INVOLVED

The Board asked the ISA 600 Task Force to consider:

- Clarifying what is meant by a 'regulatory environment that actively oversees auditors' in paragraph 37B(b). With respect to paragraph 37B(b), it was also noted that this information is often not available

⁵ ISA 320, *Materiality in Planning and Performing an Audit*

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

in many jurisdictions. The Board also questioned the purpose of the requirement and noted that it seems inconsistent with paragraph 37B(c).

- Clarifying what should be documented with respect to two-way communication between the group engagement team and the component auditor.

RELATED PARTIES, GOING CONCERN, SUBSEQUENT EVENTS

The Board asked the ISA 600 Task Force to consider:

- Placing the paragraphs on related parties, going concern and subsequent events elsewhere in the standard, for example, after the section 'Response to the Assessed Risk of Material Misstatement' or integrating these paragraphs in the section 'Two-way communication Between the Group Engagement Team and the Component Auditor.'
- Given that it is covered by paragraph 41B(a), deleting paragraph 41B(c) relating to identifying related parties not previously identified by group management or the group engagement team to component auditors.
- Adding application material that highlights the importance of exercising professional skepticism.

EVALUATING THE SUFFICIENCY AND APPROPRIATENESS OF AUDIT EVIDENCE OBTAINED, AUDITOR'S REPORT, COMMUNICATION WITH GROUP MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE OF THE GROUP AND DOCUMENTATION

The Board asked the ISA 600 Task Force to consider:

- Adding application material that highlights the importance of exercising professional skepticism when evaluating the sufficiency and appropriateness of the audit evidence obtained.
- Enhancing paragraph 50(a) to focus on access issues that affected the group audit. It was noted that some access issues disappear may be resolved during the audit because, for example, it becomes safe to travel to a certain location.
- Adding application material that explains that, with respect to audit documentation, there may be additional complexities or challenges depending the structure of the group.

CONFORMING AND CONSEQUENTIAL AMENDMENTS

The Board agreed with the proposed conforming and consequential amendments to ISA 300⁷ as a result of the proposed revisions to proposed ISA 600 (Revised).

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted that the public sector may have unique issues relating to the assessment of going concern in a group audit, noting that adding an example may be helpful.

PIOB OBSERVER REMARKS

Prof. van Hulle encouraged the IAASB to better clarify the role of component auditors in a group audit, and the interactions between component auditors and the group engagement team under the risk-based

⁷ ISA 300, *Planning an Audit of Financial Statements*

approach. He noted that the revised standard should clearly state that the group engagement team and component auditor should work together, and that the objective of the standard should reflect that. With respect to the documentation, Prof. van Hulle also noted that the group engagement team's documentation should reflect the group engagement team's direction, supervision and review of the work of component auditors, including any issues encountered in that regard.

WAY FORWARD

The ISA 600 Task Force will take the Board's comments on the proposed revised standard into account and will present an updated version for approval for public exposure at the March 2020 IAASB meeting. The ISA 600 Task Force will present the conforming amendments as a result of the proposed revisions to ISA 600, and the appendices to proposed ISA 600 (Revised), for discussion in the January 23, 2020 Board teleconference.

3. Strategy and Work Plan

Messrs. Seidenstein and Botha introduced the topic, broadly explaining the changes that had been made to the proposed Strategy for 2020–2023 (Strategy) and proposed Work Plan for 2020–2021 (Work Plan), and highlighted the further changes that would also be made to include a more active work effort in relation to the auditor's considerations in relation to fraud and going concern in 2020. Ms. Bahlmann explained the progress made with regard to the development of the Framework for Activities, noting that more work was needed with regard to various aspects and that this would be progressed during the course of 2020.

STRATEGY

Board members broadly supported the proposed Strategy. In addition to suggestions for various editorials and less substantive changes to the proposed Strategy, Board members:

- Questioned how performance against the proposed Strategy would be measured. Mr. Seidenstein acknowledged that this was a difficult area, but noted that as the Framework for Activities was developed further consideration would be given to how to measure the IAASB's performance in relation to its proposed strategic objectives.
- Encouraged that further consideration be given to how the IAASB's focus on audits of less complex entities was presented within the proposed Strategy.
- Noted that it was not clear how all of the strategic drivers flowed through to the identified strategic objectives and the planned work as set out in the Work Plan.

Changes were made in the revised proposed Strategy presented to the IAASB for approval to include a more active work effort in relation to the auditor's considerations of fraud and going concern as had been highlighted, and address Board member suggestions for changes. Board members broadly supported the changes that had been made, and highlighted that it would be important to work with others as the work in relation to going concern and fraud was commenced.

WORK PLAN

Board members broadly supported the proposed Work Plan, noting support for a more active work effort in relation to the auditor's considerations in relation to fraud and going concern. Concern was expressed in relation to the significant work commitment being agreed to. Mr. Botha explained that the planned projects and initiatives for 2020 and 2021 had been proposed based on careful consideration of time and capacity

of Board members and Staff. However, he acknowledged that this could be made clearer within the proposed Work Plan. It was also noted that it needed to be clearly explained what was driving the addition of work on fraud and going concern.

Changes were made in the revised proposed Work Plan to address the matters noted by Board members, as well as various editorials and less substantial changes submitted by Board members in the final Work Plan presented to the Board for approval. The changes were broadly supported by the Board.

FRAMEWORK FOR ACTIVITIES

The Board broadly supported the further development of the Framework for Activities in 2020. It was encouraged that further consideration be given to how the public interest is incorporated into the decisions made about the IAASB's future work.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin broadly supported the Strategy and Work Plan, noting that he was supportive of the addition of more active consideration of work in relation to fraud and going concern and highlighting that this had also been raised by CAG Representatives at the September 2019 CAG meeting. He noted that the diagram showing the links between the strategic drivers and strategic objectives was not consistent with the way it was described in the proposed Strategy in relation to the environment for less complex entities.

PIOB OBSERVER REMARKS

Prof. van Hulle generally supported the Strategy and Work Plan, acknowledging the IAASB's efforts to more actively pursue consideration of matters relating to fraud and going concern. However, he did express concern about:

- How those topics that had been on the Board's radar for a long time, but were not being actively pursued, were being considered. Mr. Seidenstein noted that the it was the intention of the Framework for Activities to provide transparency to the IAASB's decisions as to why certain topics were actively pursued and which ones weren't.
- The resources needed to undertake the projects and initiatives presented in the Work Plan, as it wasn't clear within the document about how time and available resources had been taken into account in planning the Board's future work.

DUE PROCESS CONSIDERATIONS

Mr. Botha confirmed that the Steering Committee had raised all significant matters relating to eth Strategy and Work Plan with the IAASB, noting that these had been deliberated. He further noted that the Steering Committee had the view that no further consultation (such as roundtables or further consultation with particular stakeholder groups) was needed. The IAASB agreed that there were no issues or matters raised by respondents to the IAASB's Consultation Paper on its proposed Strategy and Work Plan that should have been discussed in addition to those summarized by the Steering Committee. Mr. Botha advised the IAASB that it had adhered to its stated due process in finalizing the Strategy and Work Plan. It was agreed that there was no need to further consider re-exposure in light of the nature of the Strategy and Work Plan.

APPROVAL

After agreeing all necessary changes, the IAASB unanimously approved the Strategy and Work Plan. Mr. Seidenstein thanked the Board for its efforts in finalizing the Strategy and Work Plan.

WAY FORWARD

Mr. Botha noted that the Strategy and Work Plan would be presented to the PIOB for approval at its March 2020 meeting. He also added that Staff would continue to develop the Framework for Activities in 2020, and although not required to formally approve the Framework for Activities, relevant matters would be brought for IAASB discussion as appropriate during the course of 2020.

4. Agreed-Upon Procedures – ISRS 4400 (Revised)⁸

Mr. Turner introduced the topic, noting that ISRS 4400 (Revised) had been updated to respond to Board members' comments on the draft of ISRS 4400 (Revised), as provided offline to the Board in October 2019. The following views expressed by the Board regarding ISRS 4400 (Revised) included:

- Professional judgment – The Board broadly agreed with the proposals in the application material to clarify that professional judgment cannot be suspended or prohibited during an agreed-upon procedures engagement.
- Compliance with independence requirements – The Board reaffirmed its support to not require a precondition for independence for agreed-upon procedures engagements, or to require the practitioner to determine independence. In addition, unless required by law, regulation or otherwise, the Board agreed with how the ISRS 4400 Task Force's articulated the position where the practitioner may voluntarily comply with independence requirements (as opposed to being 'independent'), recognizing that there is no recognized framework or independence rules for agreed-upon procedures engagements in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants, *including Independence Standards* (IESBA Code). The Board provided suggestions on further clarifications with regard to when the practitioner may be required to comply with independence requirements (either by external requirements or by agreement in the terms of engagement), and the corresponding disclosures in the agreed-upon procedures report, depending on whether the practitioner is, or is not, required to comply with independence requirements.
- Effective date – The Board agreed to base the effective date of ISRS 4400 (Revised) on the date when the terms of engagement are agreed to. To address the concern that such an effective date may result in a delay in the implementation of ISRS 4400 (Revised) for multi-year engagements, the Board agreed to include application material to remind practitioners that they may wish to update the terms of engagement so that agreed-upon procedures engagements will be performed in accordance with the revised ISRS on or after the effective date.
- Findings – The Board agreed with the use of the term 'findings' in ISRS 4400 (Revised), and to include an explanation of 'findings' in the engagement letter and the agreed-upon procedures report. However, the Board expressed concern with including the statement that 'findings can be objectively verified' (wording that forms part of the definition of 'findings'), noting that it may be misinterpreted as an assurance procedure by the engaging party or other intended users. Accordingly, a proposed

⁸ Proposed International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*

requirement to include such a statement in the engagement letter and the agreed-upon procedures report was rejected by the Board.

- Summary of findings – A few members expressed concern that a ‘summary of findings’ in the engagement report may be misinterpreted by users, without due consideration of the detailed findings. To address this concern, the Board agreed to include a requirement for the summary to be described in a manner that is objective, in terms that are clear, not misleading, and not subject to varying interpretations.

In addition, the Board agreed to other changes to address less significant comments, editorial changes and changes to the Appendices to conform to the matters discussed.

EFFECTIVE DATE

The Board agreed that ISRS 4400 (Revised) will be for agreed-upon procedures engagements for which the terms of engagement are agreed on or after January 1, 2022.

IAASB CAG CHAIR’S REMARKS

Mr. Dalkin noted the support of the CAG for this project and expressed appreciation for the ISRS 4400 Task Force’s response to the CAG’s comments and concerns. He further highlighted support to the proposed approach on addressing the practitioner’s compliance with independence requirements. Mr. Dalkin expressed his support for the finalization of this standard.

PIOB OBSERVER REMARKS

Prof. Van Hulle noted his support for how the Board had addressed the two most important issues in finalizing ISRS 4400 (Revised) with regard to professional judgment and independence. Prof. Van Hulle also expressed his support for the finalization of the standard.

DUE PROCESS CONSIDERATIONS

Mr. Turner confirmed that the ISRS 4400 Task Force had raised all significant issues with the IAASB, noting that these had been deliberated, and noted that the ISRS 4400 Task Force had the view that no further consultation (such as roundtables or further consultation with particular stakeholder groups) was needed. The IAASB agreed that there were no issues raised by respondents to the Exposure Draft that should have been discussed in addition to those summarized by the ISRS 4400 Task Force. Mr. Botha advised the IAASB that it had adhered to its stated due process in finalizing the revised standard and related conforming and consequential amendments.

APPROVAL

After agreeing all necessary changes, the IAASB approved ISRS 4400 (Revised) with 17 affirmative votes out of the 18 Board members present. One member voted against the standard.

Mr. Grabowski thanked the Board and the ISRS 4400 Task Force for their efforts to address many of his comments. Mr. Grabowski explained that he voted against the standard because he believed that ISRS 4400 (Revised) would not sufficiently support public interest outcomes. The revised standard had lost links with some important assurance concepts that provided a common conceptual basis shared with other IAASB pronouncements. In his view, the revised standard does not, or does not adequately, address concepts such as professional skepticism (which he believes is relevant whenever professional judgment

is being exercised), rational purpose or the application of criteria to measure or evaluate an underlying subject matter; and does not adequately address possible diversity in the responsibilities of the different parties who may be involved in an AUP engagement. Mr. Grabowski also disagreed, in principle, with permitting a summary of findings in an AUP report and, despite the inclusion of application material to address his concerns about potential delay in the implementation of ISRS 4400 (Revised) for multi-year engagements, believed that the effective date should be based on the date of the report.

CONSIDERATION OF THE NEED FOR RE-EXPOSURE

Mr. Turner presented the ISRS 4400 Task Force's consideration of the need for re-exposure as presented in **Agenda Paper 4-C**. The Board agreed with the ISRS 4400 Task Force's conclusion that the changes made to the standard since the exposure draft did not necessitate re-exposure.

The IAASB voted against re-exposure, with 17 Board members voting against re-exposure out of the 18 Board members present. The member who voted against the standard abstained from the vote on re-exposure.

WAY FORWARD

Once the PIOB's confirmation that due process was followed is received (expected April 2020), the Board will formally release the standard.

5. Extended External Reporting (EER) Assurance

Mr. Grabowski presented an overview of the proposed changes to the combined restructured and redrafted guidance (presented as **Agenda Item 5-A**), and explained how the EER Task Force proposed publishing the guidance as a consultation to obtain wider stakeholder feedback. It was explained that, while the additional Supplement A: *Background and Contextual Information* and Supplement B: *Illustrative Examples* (presented as **Agenda Items 5-C** and **5-D**, respectively) had been provided for reference by Board members in considering the draft guidance, the focus during the December 2019 meeting was on the draft guidance document only; Board members would have the opportunity to provide written comments on the Supplements after the December 2019 meeting by January 10, 2020.

In finalizing the proposed changes to the draft guidance in **Agenda Item 5-A**, the Board agreed to further changes in the final draft of the guidance presented to the Board during the IAASB December 2019 meeting, which were made by the EER Task Force in response to comments received from Board members during the meeting, as noted in the discussion of member comments below, and to address various editorial and less significant written comments received from Board members.

INTRODUCTION TO AND STRUCTURE OF THE GUIDANCE

In respect to the introduction and the structure of the guidance, Board members:

- Expressed general support for renaming the first chapter as an unnumbered 'Introduction,' with consequent renumbering of the subsequent chapters, on the grounds that the material in the subsequent chapters comprises the guidance. In contrast, the Introduction explains the scope, purpose, intended audience of the guidance, its authority, and how to use it, rather than providing guidance on the key challenges practitioners face in performing an EER assurance engagement.
- Discussed the possibility of restructuring the guidance into two parts, the first part providing guidance on matters related to applying the assurance process, such as competence and capabilities, and the

second part providing guidance on applying the assurance process itself. It was agreed to retain the current structure of the guidance but to seek stakeholder feedback on this question on consultation.

- Supported removing the legend from the Introduction, but retaining in the Introduction and simplifying the explanation on the use of references in the guidance.
- Agreed with the clarification in the chapter on professional skepticism and professional judgment that, while these two topics are addressed throughout the guidance, the symbols to highlight their exercise are used only in the examples where there are specific illustrations, rather than also being used alongside the text of the guidance where professional skepticism and professional judgment are discussed.
- Discussed that the guidance is a good candidate for technology-assisted access by practitioners to those aspects of the guidance they are interested in. Agreed that, while this would not be done for the purposes of the public consultation, the explanatory memorandum would:
 - Explain, in principle, what technology-assistance is to be explored in finalising the Guidance post-consultation, including that Diagram 1, which is helpful in navigating the document, could have hyperlinks added to it, enabling a practitioner to use it as a 'window' into the electronic version of the guidance.
 - Ask questions about whether there is support for such a solution, and for other suggestions on how navigation of the guidance might be further enabled by the use of technology.

USE OF DIAGRAMS

The Board agreed to retain the diagrams in the guidance, despite some mixed views from Board members, and to seek stakeholder views on the usefulness and understandability of the diagrams on consultation.

CRITERIA

The Board supported the clarification that there are three possible scenarios in relation to considering the suitability of criteria:

- An engagement in which the criteria used by the preparer are framework criteria that are suitable, can be judged to be suitable, and are applied as they are without further development;
- An engagement in which the criteria are entirely entity developed; and
- The more common middle ground, in which there is a set of framework criteria, but those are supplemented by the entity, either by entity developed criteria or by selecting additional criteria from other frameworks.

EXAMPLE ASSURANCE REPORT WORDING

The Board agreed the revisions to the example in paragraph 349 of **Agenda Item 5-A** in order to avoid any inference that the wording previously used in this example was intended to convey an assurance conclusion.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted there was a need to highlight that ISAE 3000 (Revised)⁹ is the authoritative pronouncement to be followed by practitioners in performing EER engagements, and that, to avoid confusion as to its authority, it would be helpful to clarify that the non-authoritative guidance on EER assurance engagements is intended to be used by practitioners as a reference document, rather than as a comprehensive document that is required to be used in addition to, or instead of, ISAE 3000 (Revised).

Mr. Dalkin also questioned whether there was a need ensure that there were no inconsistencies between the guidance on competence in chapter 2 of **Agenda Item 5-A** and section 113 of the IESBA Code. Mr. Grabowski confirmed that there was no such inconsistency.

Mr. Dalkin noted that the CAG had not met since the changes to the guidance had been made but that, on the whole, the CAG was very supportive of the EER project and recognized its importance.

PIOB OBSERVER REMARKS

Prof. van Hulle highlighted the importance of explaining the project and guidance in layman's terms to make it accessible in the public interest, and to enable understanding of what the practitioner does, and how that adds credibility to EER reporting. It was agreed that the points raised by Prof. van Hulle would be addressed by the EER Task Force in the explanatory memorandum or in supplementary material prepared to support outreach related to the consultation.

Prof. van Hulle also suggested that the guidance could address fraud as, sometimes in EER reports, information may be intentionally presented to show the company more favorably than it really is. The EER Task Force agreed to add a number of paragraphs in chapter 10 of **Agenda Item 5-A**, which, on turnaround, were supported by the Board.

On turnaround of the guidance, Prof. van Hulle expressed the PIOB's strong support for the project, and was pleased to note the inclusion of the additional paragraphs on fraud considerations in chapter 10 of **Agenda Item 5-A**.

DUE PROCESS MATTERS

Several Board members asked for clarification of the process for approval of the draft guidance document for public consultation separate from Supplements A and B, particularly as there was an intention to provide links between the three documents, but the supplements were not yet finalized.

Mr. Botha clarified that the Board would vote on the guidance document, but not on the supplements. The supplements would follow the process for the development of non-authoritative material involving a 'no-objection' review by the Board before publication. He explained that the EER project is somewhat unique because normally it would have followed the non-authoritative guidance process, but the Board had agreed in the funding agreement with the World Business Council for Sustainable Development that the guidance would follow due process. Therefore, he added that due process had been followed for the non-authoritative guidance.

⁹ International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

Mr. Seidenstein confirmed the two-part process, noting that both the supplements, as well as the explanatory memorandum, would go through a 'no objection' process. In addition, Board members were invited to provide written comments on the supplements before January 10, 2020.

Mr. Grabowski confirmed that due process had been followed throughout this project with stakeholder input from an earlier consultation, substantial outreach and the benefit of an active project advisory panel. All input had been carefully considered by the EER Task Force, and the EER Task Force believed that it had been responsive to those comments. Mr. Grabowski also confirmed that all significant issues raised had been addressed during board meetings and that the EER Task Force did not believe that further round tables or outreach were needed before seeking consultation on the guidance.

APPROVAL

After agreeing on specific changes, the IAASB approved the proposed non-authoritative guidance for public consultation with 18 affirmative votes out of the 18 IAASB members present. The Board agreed the consultation period as 120 days from publication of the consultation paper.

WAY FORWARD

The EER Task Force will make the remaining amendments to the final draft guidance as agreed at the December 2019 meeting. The EER Task Force will continue to develop Supplements A and B, taking account of any written comments received from Board members by January 10, 2020. The EER Task Force will also develop the explanatory memorandum, which will be circulated electronically, together with the supplements, to the IAASB for fatal-flaw review.

6. Audits of Less Complex Entities (LCEs)

Prof. Roger Simnett, Chair of the LCE Working Group presented a summary of the respondents' feedback on the Discussion Paper (DP),¹⁰ and other related outreach, as included in **Agenda Items 6, 6-A and 6-B.1 – B.11**.

The following sets out the more substantive comments from the Board on the presented agenda items.

SUMMARY OF RESPONDENTS' FEEDBACK

The Board acknowledged the significant interest and support for the IAASB work in the area of LCEs, noting the substantial number of responses received from a broad range of stakeholders and from various regions and also acknowledged the thoroughness of the analysis of the respondents' feedback as provided in **Agenda Item 6**.

The Board broadly supported the LCE Working Group proposed direction for future work by the IAASB to respond to the input relating to audits of LCEs, including a workstream on audits of LCEs as well as a ISA focused workstream, and asked the LCE Working Group to further explore the possible activities under both workstreams as they continue further information gathering activities through June 2020. With respect to the respondents' feedback, the Board asked the LCE Working Group to consider:

- The scope of the entities that should form part of the LCE description, especially with regard to listed entities and entities with a degree of public accountability, as well as providing further thought on the risk-based factors that could be considered in the LCE description. Concern was expressed that

¹⁰ <https://www.iaasb.org/publications-resources/discussion-paper-audits-less-complex-entities>

should separate requirements for LCEs be further explored as a proposed action, then such requirements should not extend to listed and public interest entities.

- Further analyze the root causes related to the challenges with ISAs in audits of LCEs and especially in respect of the audit procedures deemed to add no or little value.
- Clarifying how technology can be utilized to address some of the challenges with ISAs in all audits, including audits of LCEs.
- Explore the feasibility of a “buildings block” approach to revising the ISAs and the relationship between such an approach relative to scalability issues within the ISAs as informed by respondents feedback to the DP.
- Revisit the role that IAASB could play while encouraging others to act on topics such as the value of audit, and the commercial considerations to audits of LCEs.

FEEDBACK STATEMENT

The IAASB agreed that it was important to keep stakeholders informed of its progress in relation to audits of LCEs. Accordingly, it was agreed that the Feedback Statement as presented in **Agenda Item 6-A** be published mid December 2019 detailing what the IAASB had heard from the consultation, subject to a few editorial and other Board comments.

IAASB CAG CHAIR’S REMARKS

Mr. Dalkin confirmed the support of the CAG Representatives for continued work in the area of LCEs and encouraged further exploration of the feedback received to date.

PIOB OBSERVER REMARKS

Prof. Van Hulle expressed the PIOB support for this IAASB activity and emphasized that it will be important to fully analyze and understand the root causes of the challenges with applying ISAs to audits of LCEs. Further, while the IAASB is developing solutions in this area, there should be close cooperation and coordination with National Standard Setters (NSS).

WAY FORWARD

The LCE Working Group will continue to analyze the feedback from stakeholders to help determine the way forward. Further information gathering activities will continue until June 2020, at which time it is anticipated that a decision about the way forward will be made.

7. Quality Management at the Firm Level –ISQM 1¹¹

Ms. French outlined respondents’ feedback on specific areas of the Exposure Draft of ISQM 1 (ED-ISQM 1), and emphasized that the ISQM 1 Task Force had continued to focus on the following key issues highlighted by respondents:

- The scalability of the standard and firms appropriately tailoring the system of quality management (SQM) for their circumstances;

¹¹ Proposed International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control (ISQC) 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

- The complexity and prescriptiveness of the requirements; and
- Developing a standard that can be applied in all circumstances.

Ms. French explained the ISQM 1 Task Force proposals to address the focus areas, as well as respondents' comments on the specific areas presented to the Board.

THE STRUCTURE OF PROPOSED ISQM 1

The IAASB supported:

- Moving the firm's risk assessment process before governance and leadership;
- Including essential application material in the section "System of Quality Management" to highlight the importance of governance and leadership.
- Locating the requirements dealing with the responsibilities of firm leadership in the section "System of Quality Management," although the Board noted that it adds more complexity because it is also a response in the "governance and leadership" component.
- Relocating the requirements dealing with the evaluation of the SOQM by firm leadership to a separate section.

However, the IAASB expressed mixed views about relocating all responses to a separate section "specified responses," with certain Board members noting that this approach creates a disconnect with the quality objectives. Recognizing that not all components have yet been considered, the IAASB encouraged the ISQM 1 Task Force to further explore the appropriate location of the responses and include an introduction to the specified responses that explains why they are important and included in the standard.

THE FIRM'S RISK ASSESSMENT PROCESS

The IAASB supported the principle of introducing quality risk considerations, noting that it improves the scalability of the standard. However, the IAASB provided further comments as follows:

- The relationship between the quality risk considerations, understanding the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the firm's quality objectives, and identifying and assessing the quality risks needs to be clarified. This includes considering whether the term "quality risk considerations" is the most appropriate term to use in the context of this relationship, and whether the definition of the term is needed.
- The completeness of the quality risk considerations or how to present them may need to be considered, as firms may incorrectly interpret that the quality risk considerations are complete.
- Additional quality risk considerations that may need to be considered include the design and operating characteristics of the firm, the firm's reputation, changes in the firm, commercial considerations, the financial position of the firm and the firm's information technology (IT) resources.
- The description of the nature and circumstances of engagements performed by the firm and the related application material needs to be refined, since the manner in which they are described covers all engagements and is open-ended. The Board also raised concern with the reference to "the expectations of stakeholders" in paragraph 22E(b)(ii)b. of **Agenda Item 7-A**.

The IAASB was generally of the view that the examples of quality risk considerations (paragraphs A24R, A35A, A112A and A159A of **Agenda Item 7-A**) should be located in guidance separate from the standard.

The IAASB emphasized that guidance will need to be available within a reasonable period following the finalization of the standard.

With respect to the proposed changes to paragraphs 22G and 22H of **Agenda Item 7-A**, the IAASB was generally supportive, although encouraged the ISQM 1 Task Force to consider:

- Further refining these paragraphs.
- Clarifying what is intended by modifying the quality objectives, given the robustness of the quality objectives in the standard.

With respect to the definitions related to the firm's risk assessment process, the IAASB suggested adding likelihood or probability to the definition of quality risks.

THE APPROACH TO QUALITY OBJECTIVES AND RESPONSES IN THE COMPONENTS

The IAASB in general supported how the quality objectives and responses had been adjusted and refined, as demonstrated in the governance and leadership component and engagement performance component. The IAASB further suggested that:

- Some of the quality objectives appear to be responses and need to be written in more of an outcome-based manner.
- In the basis for conclusions, it is explained how the revised approach is as rigorous as extant ISQC 1.

MONITORING AND REMEDIATION

The IAASB broadly agreed with the approach on how to embed risk in the monitoring activities (i.e., through directly stating the quality risk for monitoring activities) and generally supported the proposed quality risk for monitoring. However, the IAASB provided further additional comments as follows:

- The description of the quality risk for monitoring should be more proactive and preventative, as it currently appears backward-focused.
- The component has extensive requirements giving rise to continuing concerns about the scalability of this component.
- The link between monitoring and remediation and the evaluation of the SOQM needs to be clearer.

The IAASB also supported the requirements for engagement inspections, however expressed mixed views regarding the proposed removal of the reference to a three-year cycle in the application material. Further comments provided by the IAASB on this aspect of the standard included:

- Removing the reference to "completed engagements" in the first sentence of paragraph 45 of **Agenda Item 7-A**).
- More explicitly referring to the selection of engagement partners based on risk in paragraph 45(b) of **Agenda Item 7-A**.
- A suggestion to further explain in the application material how in-process engagement inspections may affect the selection of completed engagements for inspection.

The IAASB supported the definitions of "deficiency" and "finding," and the improvements to the framework for evaluating findings and identifying deficiencies, and further suggested:

- Removing the last part of the definition of finding (i.e., the reference to “which indicates that one or more deficiencies may exist”).
- Explaining in the application material that a firm’s SOQM may still be effective, despite having deficiencies.
- Exploring whether further clarification could be provided of how the firm determines that findings are deficiencies.

EVALUATION OF THE SOQM

The IAASB agreed with the intended purpose of the evaluation of the SOQM. The IAASB suggested that the evaluation of the SOQM should determine whether, at a point in time:

- Any identified deficiencies have been remediated, are in the process of being remediated or plans are in place to remediate the deficiency; and
- The effect of identified deficiencies have been appropriately corrected.

NETWORKS

The IAASB concurred with the ISQM 1 Task Force’s approach to address concerns raised by certain respondents about networks.

With respect to the changes in proposed ISQM 1 dealing with network requirements and network services, the IAASB variously:

- Questioned the need for different requirements for network requirements versus network services in paragraphs 59(b) and 59(c) of **Agenda Item 7-A**.
- Raised concern that paragraph 61(a) of **Agenda Item 7-A** creates a de facto requirement for the network.
- Highlighted the need for clarity on documentation expectations for the understanding of network requirements and network services.

OTHER MATTERS

The IAASB was generally supportive of the other areas of the standard presented in **Agenda Item 7-A**, including governance and leadership, engagement performance and other revisions to the introduction, appendix and application material that aimed to simplify the standard. Further comments provided by the IAASB included:

- In relation to the introduction, reinstating some of the explanations about the firm’s risk assessment process in paragraph 10 of ED-ISQM 1.
- In relation to culture, the IAASB suggested rephrasing this to “the firm commits and promotes a culture of quality.”
- In relation to leadership, the IAASB recommended placing more emphasis on leadership promoting a culture through behavior.
- In relation to engagement performance, the IAASB emphasized the impact of changes in this component on proposed ISA 220 (Revised) and ISA 600, and suggested reconsidering whether it is appropriate to relocate aspects of the requirements from ED-ISQM 1 to application material.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin highlighted that when the CAG Representatives discussed the inspection of completed engagements in leading up to ED-ISQM 1, the CAG Representatives was supportive of including the reference to a three-year cycle in the application material. Mr. Dalkin also emphasized the CAG Representatives' keen interest in networks.

PIOB OBSERVER REMARKS

Prof. van Hulle indicated support for the quality risk considerations and including the examples of quality risk considerations in the standard. Prof. van Hulle encouraged the ISQM 1 Task Force to consider:

- How the quality risk considerations interact with other aspects of the standard and affect the firm's SOQM in practice.
- Clarifying how the requirements addressing network requirements and network services are related to the quality risk considerations.
- Including the firm's business model as a quality risk consideration, including the combination of audit and non-audit services offered by the firm. In this regard, Prof. van Hulle urged the ISQM 1 Task Force to explain how the firm's business model may give rise to quality risks and may impact audit quality, such as through incentive structures and resource allocation across the firm.

Prof. van Hulle also indicated his support for the manner in which networks are being addressed, including supporting the proposal to undertake additional outreach, noting that the ISQM 1 Task Force has been responsive to the concerns. He added that networks are structured differently and therefore cannot be treated in a similar manner, however when networks attest to having consistent quality he emphasized that this needed to be demonstrated.

Prof. van Hulle also recommended that the reference to the culture of the firm indicate that "the firm commits to a culture of quality."

WAY FORWARD

The ISQM 1 Task Force will consider the matters raised by the IAASB and will present a full draft of proposed ISQM 1 to the IAASB in March 2020. This will include proposals to address comments from respondents that have not yet been presented to the IAASB.

8. Engagement Quality Reviews –ISQM 2¹²

Mr. Vanker presented the revised proposals to address the key issues noted in **Agenda Item 8**. The discussion also included a walkthrough of the complete draft of proposed ISQM 2.

SCOPE OF ENGAGEMENT SUBJECT TO AN EQ REVIEW

The Board generally supported the revised proposal on the scope of engagements subject to an EQ review. Some Board members suggested aligning the category based on the 'nature and circumstances of the engagement or the entity' with the quality risk considerations in proposed ISQM 1, and to further consider how this category differentiates from engagements for which an EQ review may be appropriate in response to an assessed quality risk.

¹² Proposed ISQM 2, *Engagement Quality Reviews*

OBJECTIVITY AND COOLING-OFF PERIOD

The Board generally supported the revised proposal to require a cooling-off period of two years, or longer if required by relevant ethical requirements, before an engagement partner can assume the role of EQ reviewer, and to apply such requirement to all engagements for which an EQ review is performed.

The Board also expressed its appreciation for the IESBA's recent proposals to address EQ reviewer objectivity in its conceptual framework (i.e., Section 120 of the IESBA Code), with some Board members still noting a preference for objectivity and a cooling-off period to be addressed in the IESBA Code.

OTHER MATTERS

The Board also provided input on the ISQM 2 Task Force's proposals on other matters, including the EQ reviewer's evaluation of the exercise of professional skepticism by the engagement team, and considerations when performing an EQ review for a group audit engagement.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted that CAG Representatives were generally supportive of the revised proposals on objectivity, including a cooling-off period.

PIOB OBSERVER REMARKS

Prof. van Hulle strongly supported the revised proposal on objectivity and cooling-off period and noted that the objectivity of the EQ reviewer is an important aspect of an EQ review.

WAY FORWARD

The ISQM 2 Task Force will consider the comments received in preparing a revised full draft of proposed ISQM 2 for discussion at the March 2020 IAASB meeting.

9. Quality Control at the Engagement Level –ISA 220 (Revised)

Mrs. Provost provided an overview of the remaining significant issues raised in comment letters in response to the ED of proposed ISA 220 (Revised) (ED-220). She also described the ISA 220 Task Force's proposals to address the IAASB's comments on the significant issues discussed at the September meeting.

OBJECTIVE

The IAASB agreed that the objective of proposed ISA 220 (Revised) presented in ED-220 was appropriate. However, the Board noted the importance of coordinating with the ISQM 1 Task Force on any changes it may propose to the objective of proposed ISQM 1.

PROFESSIONAL SKEPTICISM

The IAASB generally supported the ISA 220 Task Force's proposed amendments to ED-220 to address respondents' comments regarding professional skepticism. The Board asked the ISA 220 Task Force to consider aligning the list of biases in proposed ISA 220 (Revised) with the IESBA's Role and Mindset project. The ISA 220 Task Force was also asked to consider whether to include a reference to corroborative and contradictory evidence.

MODERN AUDITING ENVIRONMENT

The IAASB generally supported the ISA 220 Task Force's proposals to address respondents' comments on technology. It was suggested that additional clarification be provided regarding data handling and security.

DEPENDING ON THE FIRM'S SYSTEM OF QUALITY MANAGEMENT

The IAASB generally supported the amendments to ED-220 to clarify the ability to depend on a firm's system of quality management to address respondents' comments. However, the ISA 220 Task Force was asked to consider whether the proposed new reference to "ordinarily" in para. A10A creates an implied obligation.

STAND-BACK PROVISION

The IAASB generally supported the proposed amendments to ED-220 to clarify the stand-back provision. An IAASB member questioned whether it was possible for an engagement partner to critically assess their own performance (i.e., would an engagement partner ever conclude that he or she had not been sufficiently and appropriately involved in the audit). Mrs. Provost noted that the stand-back provision requires the engagement partner to reflect on their involvement and to take appropriate steps to remediate any deficiency.

DOCUMENTATION

The IAASB generally agreed with the ISA 220 Task Force's proposals to address respondents' comments on documentation. It was noted that it may be necessary to understand the scope of the planned implementation support material on documentation before concluding on the documentation material in proposed ISA 220.

ENGAGEMENT TEAM DEFINITION

Based on the IAASB's support at its September 2019 meeting for retaining the definition proposed in ED-220, Mrs. Provost highlighted the main features of the ISA 220 Task Force's proposed revised guidance regarding the inclusion of component auditors in the engagement team definition. She noted that the guidance was based on coordination with the ISA 600 Task Force and the IESBA since the September 2019 IAASB meeting.

The IAASB generally supported the proposed changes to clarify the engagement team definition, but suggested certain matters for the ISA 220 Task Force to further consider, including further clarifying that performing audit procedures does not include all individuals who provide information that is the subject of audit procedures and whether paragraphs A32A–A32C were appropriately positioned with relevant ethical requirements in proposed ISA 220 (Revised).

The IAASB highlighted the importance of continued coordination with the ISA 600 Task Force and the IESBA on matters related to the engagement team definition.

SCALABILITY

The IAASB generally agreed that scalability had been appropriately addressed both for LCEs and entities whose nature and circumstances are more complex. Board members suggested that the ISA 220 Task Force consider developing examples to illustrate upward scalability, particularly for paragraphs 23 and 24

related to engagement resources and paragraph 27A related to direction, supervision and review.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin supported reference to "perform audit procedures" in the engagement team definition. He suggested deleting the reference to individuals with expertise in information technology in paragraph A17A as such individuals are often members of the engagement team.

PIOB OBSERVER REMARKS

Prof. van Hulle suggested adding a reference to quality management in the public interest to the objective, as the public interest may require the auditor to do more than just applying standards, laws and regulations. Mrs. Provost noted that objectives of ISAs cannot be aspirational as the auditor is required to achieve the objectives of each ISA.

OTHER MATTERS

In addition to minor changes, the ISA 220 Task Force was asked to consider the format relating to examples used in ISA 315 (Revised 2019), to clearly highlight examples that illustrate scalability.

WAY FORWARD

The ISA 220 Task Force will present its proposals to respond to the Board's comments at the March 2020 IAASB meeting.

10. Closing

The minutes of the September 2019 IAASB meeting and the teleconference held on November 7, 2019 were approved as presented.

Mr. Seidenstein thanked the outgoing Board Members for their contributions to the IAASB throughout their tenure. He then thanked the IAASB members, technical advisors and IAASB Staff and closed the public session of the meeting.

11. Next Meeting

The planned Board teleconference on January 23, 2020 and February 11, 2020 were noted as confirmed, with the topics being the ISA 600 (Revised) appendices and conforming consequential amendments due to the revised ISA 600 (Revised) for the January call, and the conforming amendments to the ISAs due to the revised IESBA Code for the February call. The next physical IAASB meeting will be held in New York, United States of America, from March 16–22, 2020.