

**Minutes of the Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD**

**Held on September 23–27, 2002
At the Village at Spier Hotel, Cape Town**

	Members	Technical Advisors
<i>Present:</i>	Dietz Martin (Germany, Chair)	Wolfgang Böhm (Mr Martin)
	L Denise Esdon (Vice Chair)	John Fogarty (Mr Hansen)
	Philip Ashton	Cédric Gélard (Mr Trémolière)
	John Archambault	Hans Gortemaker (except Sept 26 pm and Sept 27) (Mr Dassen)
	Roger Dassen	Jon Grant (Mr Plaistowe)
	Denis Desautels	Dianna Hillier (Mr Ashton)
	Ana Maria Elorrieta	Susan Jones (Mr Noonan)
	Jan Bo Hansen	Christine Jubb (Mr McPhee)
	Gen Ikegami	Karen Lauf (Mr Kana)
	Suresh Kana	Paul Lohnes (Mr Desautels)
	John Kellas	Emilio Palma (except Sept 27) (Mr Tizzano)
	Ian McPhee	Sylvia Smith (Mr Kellas)
	Edmund R Noonan	George H Tucker (Ms Esdon)
	Ian Plaistowe (except Sept 26-27)	Yuichi Yamamoto (Mr Ikegami)
	Roger Simmet	Qin Zhang (Mr Zhiguo)
	Roberto Tizzano	
	Gérard Trémolière	
	Yang Zhiguo	
	IFAC Secretariat	Guest
	James Sylph (Technical Director)	Aki Fujinuma,
	Richard Regal	President IFAC (Sept 26)
	James Gunn	
	Alta Prinsloo	
	Sylvia Barrett	
	Ashley Carpenter	
	Jan Munro	
	Michael Nugent	
	Gill Spaul	

1. Chair's Greeting and Opening Remarks

Mr Mertin opened the meeting and thanked the South African Institute of Chartered Accountants and the Public Accountants' and Auditors' Board for its tremendous hospitality and help in arranging the meeting. He introduced Mr Ashton as a new member of the Board, and welcomed the newly appointed technical advisors and the new staff of the IAASB Secretariat to the meeting.

Mr Mertin noted the right and privilege of the Chair to attend individual Task Force meetings at his discretion and extended that privilege to the Vice-Chair.

The minutes of the previous meeting of the IAASB in Mexico City were approved.

Mr Mertin closed the meeting to the public for executive sessions of the Board on the mornings of Monday 23rd and Thursday 26th, 2002.

2. AICPA Update on U.S. Sarbanes-Oxley Act and Reporting on Internal Control

Ms Jones provided a brief update on the activities of the AICPA in response to the U.S. Sarbanes-Oxley Act. She advised that the AICPA has established a Task Force to develop a revised Standard on reporting on internal control by third quarter 2003. Ms Jones highlighted matters that the Task Force may address as the project is further developed, including consideration of the scope of internal controls that will be covered by the standard (i.e., internal controls over financial disclosure, internal control over financial reporting, or all internal controls), reporting issues and the interrelation of the work performed under this Standard to the work performed on internal controls during the financial statement audit.

Mr Fogarty noted that any new requirements arising from the U.S. Sarbanes-Oxley Act will likely be additional to the foundation provided in the proposed audit risk model requirements pertaining to internal control.

Ms Jones noted that an observer position to the Task Force is available to the IAASB and welcomed its participation.

3. Audit Risk

Mr Kellas provided a brief summary of the Joint Risk Assessments Task Force's approach to the project. Mr Fogarty also provided a brief summary of the status of the corresponding U.S. Auditing Standards Board (ASB) documents.

Mr Kellas opened the discussion by identifying three issues associated with the draft Standards:

- Whether the proposed standards appropriately take into account the needs and concerns of small and medium-sized practices (SMPs).

- The length and readability of the document.
- The extent of detailed guidance in the documents, balancing the need to provide sufficient explanatory guidance against the need to maintain a “principles-based” approach.

With respect to additional guidance for SMP matters, the Board agreed that for all new ISAs, whenever necessary, SMP considerations will be included in the body of those ISAs, and that IAPS 1005 will be eliminated over time. It was agreed however that IAPS 1005 should be updated to take into account all ISAs issued subsequent to its publication in March 1999. For purposes of the draft audit risk documents, comments arising from public exposure that recommend additional guidance with respect to SMPs, beyond that which is already included in the draft Standards, would be considered for inclusion either within the body of the Standards or as an appendix.

The Board agreed that the documents as constructed would appropriately drive behavior and add the necessary credibility and rigor to the Standards, and that the steps undertaken by the Task Force to increase the readability of the document appear satisfactory. As a result, no substantive changes were made to reduce the length or level of detail in the draft Standards.

The Board then discussed in detail the three draft Standards, the proposed amendments to ISA 200 and the related explanatory memorandum included within the agenda papers. The Board provided comments to the Task Force on each of the five documents. The Task Force considered the comments received and prepared revised drafts of the documents. None of the changes in the revised drafts represented fundamental differences from the agenda papers.

Subject to editorial changes, the Board unanimously approved the four proposed ISAs and explanatory memorandum for public exposure.

The Board agreed that the IAASB would issue the documents for exposure prior to the end of October 2002 with a deadline for public comment of March 31, 2003. It concluded that exposure of these documents should occur immediately rather than to delay issuance until the U.S. ASB is ready to expose their documents. The Board also decided that specific questions should be included in the ED document to which commentators are asked to respond, and provided guidance to the nature of such questions.

Mr Mertin thanked the members and staff of the Joint Risk Assessments Task Force and fellow Members of the Board for their extraordinary efforts and support in this project. Mr Kellas expressed his thanks for the hard work and dedication to the project by IFAC staff, members of the IAASB Task Force and those of the U.S. ASB. Mr Fogarty thanked Mr Kellas for his leadership and expressed that it has been an excellent experience for all involved.

4. Group Audits

Mr Kana provided a brief overview of the project background, objectives and Task Force activities to date. The Board discussed the issues outlined in the agenda papers, and made the following decisions:

- The new standards and guidance relating to using the work of another auditor should take the form of a revised ISA 600, *Using the Work of Another Auditor*, and that the revised standard will retain its current title. In addition, an IAPS providing guidance on the application of ISAs to the audit of group financial statements should be prepared.
- The revised ISA will not address standards and guidance for joint audits. The subject of joint audits will be addressed under a separate project, with the Task Force to prepare a new project proposal on this subject for consideration at a future meeting.
- Matters relating to multi-location audits should be dealt with in the new IAPS. The IAPS scope is to relate directly to matters pertaining to the reporting on consolidated/composite financial statements and, as applicable, to holding companies within the applicable financial reporting framework.
- The IAPS should follow the components of the proposed audit risk model and state that risk assessment procedures are to be performed at the broadest level, including identifying risks relating to the existence and completeness of business empires, related parties and components. As the concept of business empires is considered a related parties issue, the new IAPS *inter alia* is to provide guidance on the application of ISA 550, *Related Parties*, to related party relationships and transactions identified as part of the risk assessment procedures.
- The IAPS should address investments in associated companies, providing guidance on difficulties relating to the principal auditor's access to financial information of those companies.
- As part of the communication process with other auditors, the primary auditor should be required to communicate instructions to the other auditor, whose work is to be used by the principal auditor, to conduct all audit work in accordance with ISAs and to comply with IFAC Code of Ethics and Quality Control standards.
- Guidance on the application of the standards relating to materiality in the context of group audits should be provided in the IAPS. The Group Audits Task Force will be responsible for drafting this guidance in consultation with the Materiality Task Force.
- As a result of the legal frameworks of certain countries, it was agreed that the division of responsibility provision in the existing ISA 600 should be retained.

The Board then reviewed in detail the preliminary black letter sentences of the proposed revised ISA 600 and structure for the proposed IAPS. The Task Force agreed to consider the following comments provided by the Board:

- Written confirmation from the other auditor should address matters pertinent to those charged with governance, including uncorrected

misstatements.

- The Task Force should carefully consider whether the proposed revised ISA 600 will appropriately require the auditor to undertake specific procedures to review the work of other auditors when relying on such work, especially in the situation where such reliance is not transparent to the readers of the principal auditor's report.
- Black letter pronouncement outlining specific documentation requirements should be considered in the new ISA.

The Task Force agreed to submit a first draft of the revised ISA 600 and the new IAPS to the IAASB at its December 2002 meeting.

5. Review of Interim Financial Statements

Ms Esdon briefed the Board about the proposed scope of the new ISA. She proposed that the scope would be restricted to the review of interim financial information of listed audit clients as required by regulation or legislation, that audit-level knowledge of the client and internal controls would be required of the auditor, and that both oral and written reporting formats would be permitted.

Board debate focused primarily on whether it is appropriate to restrict the scope to listed entities, and whether oral reporting is appropriate. Concern was also expressed whether the term regulatory or statutory can be expanded to permit other equivalent authorities.

The Board agreed that a regulatory or legislative framework, and the corresponding reporting regime, is a necessary precursor in allowing reporting on interim financial information. The Board decided that the scope of the new ISA should be expanded to allow auditors to report on interim financial information required or allowed by legislation or regulation or equivalent authority provided the existence of an appropriate accounting and reporting framework.

On the issue of reporting format, the Board agreed, subject to further review, that oral reporting would be allowed only in very specific circumstances, and that a specific recommendation or preference for written communication be included in the new ISA.

6. Compliance with International Financial Reporting Standards (IFRS)

The Board discussed the proposed IAPS included within the agenda papers. Board debate focused on the issue of whether a reservation of opinion or an emphasis of matter paragraph containing a qualification is the most suitable approach in the circumstance of a materially inaccurate statement about compliance with IFRSs.

The Board decided that the option of using an emphasis of matter paragraph

would be deleted. The Board also decided that an effective date will not be included and that the IAPS would be applicable upon final issuance.

Subject to editorial changes, the Board approved the proposed IAPS for exposure. Dissenting votes were as follows:

- Mr Desautels – as the IAPS as presented did not appear complete with respect to other situations that may arise in practice;
- Mr Kana – in addition to the concern expressed by Mr Desautels, Mr Kana was concerned that the extreme approach taken in the document may discourage any voluntary disclosure on convergence with IFRS;
- Mr McPhee – as the implication in paragraph 9 (clause (b) and the illustration) that an audit opinion be qualified, for an optional and materially correct statement regarding compliance with IFRS, is inappropriate; and
- Ms Esdon – with respect to the proposed wording of the qualification in the auditor's report.

7. IAASB Terms of Reference, Preface, and Policy Statements

Mr Fujinuma joined the meeting for this agenda item.

The Board discussed the draft IAASB Terms of Reference, Preface document, and Policy Statements 1-3. The Board made the following recommendations to the IFAC Board:

IAASB Terms of Reference:

- Member voting requirements will require the member to be present in person or by proxy or by concurrent telecommunication link.
- The minimum number of votes required for approval of a Standard or Statement is to be changed from 10 to 12.
- The Terms of Reference should not include a reference to the process for dealing with dissenting votes.

The Board made the following decisions:

Preface

- With respect to significant changes made to a Standard or Statement after exposure, the Board agreed to permit re-exposure at the option of the IAASB. The Board agreed to investigate, in the near future, what criteria should be applied in making such determinations.
- With respect to departure by a professional accountant from an ISA, it was agreed that the professional accountant should be prepared to justify such a departure. However, the requirement for such justification to be in writing is to be excluded from the Preface.
- Amendment to the proposed document, as well as required conforming changes to the preface of existing ISAs, should be made to remove the term "adapted as necessary" when providing the requirement to comply with ISAs, ISRSs and ISAEs.
- The Board reconfirmed its previous decision that the IAASB retain the

right to issue IAPs without public exposure for the purposes of being able to expedite the issuance of guidance when in the best interest of the public to do so. It was agreed however that this practice would ordinary only occur in rare circumstances.

- The Board also agreed to include within the document a description of the IAASB process with respect to project proposals and consultation with CAG.

Policy Statements

- The title “Operations Policy” is preferred over “Policy Statement” for identification and classification of the guidance proposed.
- Policy Statement (#1) addressing the Terms of Reference for CAG should be presented to CAG at its October 2002 meeting for review and comment.
- Policy Statement (#2) pertaining to the use of specific terminology should be retained as an internal reference document and to act as a guide to Staff and the Board in drafting process, but is not to be issued for public exposure.
- Policy Statement (#3) pertaining to the concept and use of blacklettering should include guidance on the use of the term “should”.

For the Terms of Reference, Preface and Policy Statement #3 on blacklettering, the Task Force made the recommended changes and resubmitted the documents for Board approval.

Subject to editorial changes, the Board approved the proposed Terms of Reference for recommendation to the IFAC Board.

The Board also approved the Preface document for public exposure with a three month public comment period. Mssrs McPhee and Simnet voted against the document since they believed that the Preface should require practitioners to justify a departure from an ISA in writing.

The Board also approved Policy Statement #3 with a public exposure period of three months. Mr Simnet voted against the standard as a result of the exclusion of the requirement for practitioners to document a departure from an ISA.

8. IPO and Continuous Audit

Mr Trémolière provided a brief update on the status of the IPO project. He indicated that preliminary work has been completed and that a revised project proposal will be presented to the IAASB in December 2002. Mr Trémolière noted that the project is a joint project with France, US, UK, Japan, Netherlands and Germany, with the IAASB to determine its involvement after being presented with the revised project proposal.

Mr Plaistowe indicated strong support for IAASB involvement in this project in order to assist its constituencies with issues pertaining to cross-border filings and prospectus assignments.

Ms Munro provided a brief update on the status of work being done with respect to continuous audit. She indicated that the IAASB Secretariat will continue a watching-brief on the activities of the work being undertaken by the Center for Continuous Auditing at Texas A&M University. After further development of the project, the IAASB will then determine whether it will participate in the project.

9. Acknowledgements and Closing

Mr Mertin noted Mr Regal will be leaving the IAASB Secretariat and thanked him for all his hard work over the past five years. He also thanked and acknowledged the extraordinary support and hospitality of the South African Institute of Chartered Accountants and the Public Accountants' and Auditors' Board and their staff, and Mr Kana and Ms Lauf in assisting with the organization of the meeting. Mr Mertin thanked the members and staff for their efforts and the meeting was adjourned.