

Minutes of the Meeting of the**INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD****Held on May 11-13, 2003****At the AICPA, 1211 Avenue of the Americas, New York City****Members***Present:*

Dietz Mertin (Chair)

Denise Esdon (Vice Chair)

Philip Ashton

Roger Dassen (May 12-13)

Denis Desautels

Ana Maria Elorrieta

Jan Bo Hansen

Gen Ikegami

Suresh Kana

John Kellas

Edmund Noonan

Ian Plaistowe (May 11-12)

Roger Simnett

Roberto Tizzano

Gérard Trémolière (May 11-12)

Absent:

John Archambault

Ian McPhee

Zhiguo Yang

IFAC Technical Staff*Present:*

Jim Sylph (Technical Director)

Ashley Carpenter (May 12-13)

James Gunn

Jan Munro

Michael Nugent

Alta Prinsloo

Ken Siong

Technical Advisors

Wolfgang Böhm (Mr Mertin)

John Fogarty (Mr Hansen) (May 12-13 only)

Cédric Gélard (Mr Trémolière)

Jon Grant (Mr Plaistowe)

Diana Hillier (Mr Ashton)

Susan Jones (Mr Noonan)

Richard Mifsud (Mr McPhee)

Emilio Palma (Mr Tizzano)

Sylvia Smith (Mr Kellas)

George Tucker (Ms Esdon)

Hans Verkruijsse (Mr Dassen) (May 11-12)

Yuichi Yamamoto (Mr Ikegami)

Paul Lohnes (Mr Desautels)

Xi Wu (Mr Zhiguo)

1. Opening

Mr Mertin opened the meeting to the public.

2. Review of Interim Financial Information Performed by the Auditor of the Entity

Ms Esdon provided an update on the project:

- Additional explanatory material has been added to explain the difference between those engagements conducted in accordance with the proposed new ISA and those conducted in accordance with ISA 910. Most significant is the fact that under the proposed ISA, the practitioner, as auditor of the entity, possesses audit-based knowledge of the entity.
- The title has been changed to Review of Interim financial Information Performed by the Auditor of the Entity.
- Changes have been made to align the proposed ISA with the proposed Framework for Assurance Engagements and ISAE 2000, Assurance Engagements on Subject Matters Other Than Historical Financial Information.
- Additional bold lettered requirements have been added as follows:
 - Inquiries of management about its assessment of the going concern assumption.
 - Responsibilities when the auditor is unable to complete the review.
- Additional paragraph providing for the auditor to modify the review report by adding an emphasis of matter paragraph has been added.
- The example review report has been changed to emphasize the fact that it is the entity's independent auditor that is performing the review and to explain clearly the level of assurance provided.

The scope of the proposed ISA was debated. It was noted that the proposed ISA applies to engagements to review interim financial information when four criteria are met. It was agreed that for exposure there would be no change in the scope of draft but the request for comment would solicit views as to whether the scope was appropriate

It was agreed that the proposed ISA would deal with interim financial information that is comprised of a complete or a condensed set of financial statements. It was also agreed that example reports would be provided for both types of interim financial information. The example report for a complete set of financial statements would refer whether the interim financial information gives a true and fair view (or presents fairly) while the example report for condensed set of financial statements would refer to whether the interim financial information was in accordance with an identified financial reporting framework.

In addition to certain structural and editorial suggestions it was agreed that:

- The first sentence of paragraph 15, dealing with initial engagements should be bold lettered.
- Paragraphs 34 and 35, dealing with an auditor's inability to complete a review, should state that the auditor should not accept an engagement to review interim financial information where the auditor may not be able to issue a report. In addition, the paragraphs should indicate that the auditor should issue a review report, stating that the auditor was unable to complete the review and providing the reasons.
- Paragraph 45, dealing with emphasis of matter paragraphs, should contain bold lettered text, requiring the auditor to include an emphasis of matter paragraph when a going

concern situation highlighted in the auditor's report on the annual financial statements has not been resolved, or when it has arisen in the interim period.

- The exposure draft should be approved by written ballot. If the response is not positive, the exposure draft should be submitted for consideration and approval at the July 2003 IAASB meeting.
- The exposure period should be three months.

3. Group Audits

Mr Kana provided an update on the project, which consists of two documents, i.e. a revision to ISA 600, *Considering the Work of Other Auditors*, which establishes basic principles and essential procedures and provides guidance when a group auditor considers the work of other auditors in an audit of group financial statements; and a proposed IAPS on *The Audit of Group Financial Statements*, which provides guidance on the application of ISAs to the audit of group financial statements.

The following points were raised:

- Although both pronouncements are written in the context of an audit of group financial statements, they also apply to combined financial information.
- At the December 2002 IAASB meeting it was agreed to retain "division of responsibility." It was also agreed that joint audits would be the subject of a separate project in the future.
- The majority of the definitions are included in the proposed revised ISA 600. The definition of "other auditor" has been expanded to include an auditor from the group auditor's office and from another office of the group auditor's firm.
- The revision of the proposed revised ISA 600 was based on the principle that the group auditor has to obtain sufficient appropriate audit evidence on which to base his/her opinion on the group financial statements. Part of the audit evidence could be provided by an other auditor. The nature, timing and extent of the group auditor's procedures in relation to the work of the other auditor are impacted by the other auditor's competence and quality control processes, risks of material misstatement of the group financial statements and whether or not the group auditor's report refers to a division of responsibility.
- The proposed IAPS was aligned with the proposed Audit Risk Model and provides guidance on the categorization of components (based on the group auditor's risk assessment), matters the group auditor considers in determining the scope of work to be performed at each component, and the range of options available to the group auditor to obtain sufficient appropriate audit evidence in relation to component financial information.
- The proposed IAPS refers the reader to ISA 320, *Audit Materiality*, indicating that materiality levels are based on group financial statements, but that the group auditor ordinarily communicates lower materiality levels to the other auditors. This section of the IAPS is developed in consultation with the Audit Materiality Task Force.

PROPOSED REVISED ISA 600

The use of the term "group auditor" in stead of "principal auditor" was debated. It was noted that the group auditor (i.e. auditor of the parent) may not necessarily be the principal auditor (i.e. auditor that audits largest part of the group) and, as a result, the term "group auditor" is more appropriate.

The proposed ISA (and IAPS) should take account of the fact that the work to be performed at a component may not be an audit, as it can be limited, for example, to a review or agreed-upon procedures.

The “division of responsibility” concept was debated. Some members were of the opinion that, although used in a limited number of countries (reference was made to the US, Brazil and Italy), it is a valid and acceptable concept that can be applied elsewhere in the world and, therefore, should be given equal prominence in the proposed revised ISA. Other members were of the opinion that the proposed revised ISA should provide for both alternatives, but clearly indicate the preferred alternative, i.e. the group auditor takes full responsibility for his/her report on the group financial statements and does not refer to other auditors in the report. A minority of members were of the opinion that the proposed revised ISAs should not provide for division of responsibility. After extensive debate of the matter, it was agreed to refer to the fact that division of responsibility is permitted in certain jurisdictions and to expand the guidance in paragraphs 39 and 40 to provide conceptual support for this option.

In addition to structural and editorial changes, it was recommended that:

- The use of the term “consider” in the basic principle and essential procedure paragraphs should be reconsidered.
- The definition of “other auditor” and, in particular, sub-paragraphs 9(a) and (b) should be reconsidered. In addition, the proposed revised ISA should reflect the concepts in the framework on which the revision was based and should be linked to the proposed Quality Control Standards (e.g. paragraph 89 of ISQC 1).
- The definition of “group financial statements” as the financial statements of a group presented as those of a *single enterprise* is not correct, as it may include the financial information of an associate.
- Paragraph 16, dealing with acceptance and continuance as group auditor, should include consideration of access to those charged with governance.
- The last sentence of paragraph 19, dealing with access to information, should be considered a basic principle.
- The section on The Group Auditor’s Procedures in Relation to the Other Auditor’s Work and Report should be restructured. For example, the auditor should first obtain information about the competence and quality control processes of the other auditor, evaluate the information and then consider the impact thereof on the nature, timing and extent of his/her procedures.
- Paragraph 26, dealing with the group auditor’s participation in the work performed on a component, should be considered a basic principle and the reference to “*significant risks*” should be reconsidered.
- Consideration should be given moving paragraph 31, dealing with matters to be included in a letter of instruction, either to an appendix or to the proposed IAPS.
- Paragraph 31(o), dealing with related parties, should be expanded to include an indication of “the types of related party transaction.”
- Paragraph 31(p), dealing with the other auditor’s compliance with the IFAC Code of Ethics for Professional Accountants, should be considered a basic principle.
- Paragraphs 33 and 34, dealing with the group auditor’s consideration of the other auditor’s work and report, should be combined and should include the scope of the other auditor’s work and his/her findings, and the group auditor’s participation in the other auditor’s closing meeting. The bullets following paragraph 33(e) should be build into

paragraph 31. The guidance should be expanded to support the restructured basic principle.

- Paragraph 38, dealing with a modified auditor's report, should indicate that the communication from the other auditor may not be in the form of a report. (However, in the case of a division of responsibility, the group auditor has to obtain a report from the other auditor.)
- Paragraph 41(f), dealing with documentation, should not be limited to meetings with component management, but should also include meetings with parent management, and should cover other means of communication, such as telephone conversations.

PROPOSED IAPS

The IAASB was requested to identify any omissions that should be covered under the subject matter. None were identified.

Referring to the detailed text, it was recommended that:

- The guidance on "uniform accounting policies" should be reconsidered, as not all financial reporting frameworks require the use of uniform policies, but provide for disclosure of inconsistent policies.
- The reference to "division of responsibility" in paragraph 10 should be deleted.
- The structure and wording of the Materiality section should be reconsidered, as it appears as though planning materiality and materiality used for evaluating misstatements are being confused.
- The structure and wording of the section on Understanding the Parent and its Components should be reconsidered to ensure that the reader understands that the matters referred to in paragraph 20 are not the only understanding to be obtained. The examples should be in line with those in the appendices to the proposed Audit Risk Standards.
- Paragraphs 21 and 25 should be changed to indicate that the group auditor may consider the work of an other auditor; however, his/her understanding of the parent and its components should be sufficient to enable him/her to identify areas where risks of material misstatement are likely to arise.
- The guidance in paragraph 28, dealing with the parent's risk assessment process should be expanded.
- The Fraud section should be expanded. The task force was asked to consider related guidance provided in the US SAS 99, Consideration of Fraud in a Financial Statement Audit.
- The section on Auditing the Consolidation should make it clear that the guidance covers associates and joint ventures that have been included in the group financial statements by way of equity accounting, and additional guidance should be provided where necessary.
- Guidance should be provided on the audit of the consolidation process.
- Paragraph 61, dealing with situations where the minority interest has a binding obligation to make good losses, should provide guidance on the matters the auditor should consider in relation to the obligation.
- The Goodwill section should reflect the fact that not all jurisdictions provide for amortization of goodwill.
- Financial reporting framework requirements and guidance with regard to components with different financial year-ends should be considered and the guidance in paragraphs 65 and 66 expanded as necessary.
- The Going Concern section should be expanded with regard to the impact that a going concern problem in a component may have on the group financial statements.

- The Reporting Considerations section should be expanded to deal with the fact that reporting packages are not financial statements and, therefore, are not fairly presented in accordance with a financial reporting framework.
- The Auditor's Report Task Force deliberations with the IASB with regard to parent-only financial statements should be monitored – it may be necessary to provide additional guidance in the proposed IAPS.
- The reference to “reason to doubt the quality of other auditors’ work and reports” in the third bullet of paragraph 79, providing for communications to those charged with governance, should be reconsidered, as the group auditor professionally may not be permitted to communicate as such.
- Consideration should be given to shortening the example auditor’s report in the appendices, as it is not necessary to describe the audit and the audit process when the communication is between auditors. Short examples could be included in paragraphs 76 and 77 and the appendices should be deleted.
- The conclusion paragraph of the example auditor’s report should be reconsidered.
- Consideration should be given to expanding the appendices to provide examples of communications on competence, quality control processes, compliance with the IFAC Code of Ethics and ISAs.

It is envisaged that an exposure draft of both proposed pronouncements will be brought to the July 2003 IAASB meeting for approval as exposure drafts.

4. IFAC Response to PCAOB Proposals

Members were requested to review and comment on the proposed IFAC response to PCAOB Release No. 2003-005, Statement Regarding the Establishment of Auditing and Other Professional Standards. The IAASB suggested that the President and Chief Executive of IFAC consider the following:

- The response should reflect the urgency of global convergence with ISAs and the impact thereof on the functioning of international capital markets.
- The response should cover the benefits for both the PCAOB and IAASB of adoption of ISAs.
- Reference should be made to the proposed Quality Control Standards to be approved at this IAASB meeting.
- The response should not use the term “ISA+.”
- The response should stress IAASB’s willingness to work with the PCAOB.

5. Quality Control

Ms Elorrieta provided an update of the project and requested the IAASB to consider the following:

- Changes to the paragraph in ISQC 1 dealing with engagement partner rotation to refer to the seven-year period provided for in the IFAC Code of Ethics for Professional Accountants, noting that national requirements may establish shorter rotation periods, and deleting paragraph 35 of the draft previously considered by the IAASB. The task force suggested that the IAASB request the IFAC Ethics Committee to consider changing the seven-year rotation period to five years and to make it less easy to avoid mandatory rotation. After debate, the members agreed to the proposed wording regarding engagement partner rotation in ISQC 1 and to bring the matter of length of the rotation period to the attention of the IFAC Ethics Committee.

- The proposed revised definition of “professional standards,” which includes reference to national ethical requirements. The members were in agreement with the proposed definition.
- The application of the proposed standards by SMPs. The task force suggested that the IAASB request the IFAC SMP Task Force to consider developing material, i.e. practice aids, for SMPs to assist them in implementing the proposed ISQC 1. However, it was agreed that the IFAC SMP Task Force would have the opportunity to provide comments to the IAASB during the exposure period.
- A new section on complaints and allegations. The members were in agreement with the concept, but suggested that it be covered within the monitoring section.
- An effective date of January 1, 2005. The members were in agreement with the proposed effective date, but suggested that the IFAC Ethics Committee be requested to clarify the transitional provisions with regard to engagement partner rotation.

A member enquired about the status of the proposed Statement of Membership Obligations (SMO) 1, dealing with Member Bodies’ responsibilities with regard to quality control. Mr Sylph indicated that the proposed SMO 1 will be submitted for approval at the July 2003 IFAC Board meeting, but that the proposed Quality Control Standards will be issued as an exposure draft upon their approval.

PROPOSED ISQC 1

In addition to structural and editorial changes, it was suggested that:

- The definitions should include a definition of “partner.”
- Paragraph 15 in the Ethical Requirements section should clarify the fact that the practitioner should follow the IFAC Code of Ethics or national requirements where these are more restrictive.
- Reference to “peers” in the last bullet of paragraph 37, dealing with methods to develop competencies, should be replaced with “more experienced staff.”
- Paragraph 45, dealing with the engagement team members’ understanding of the objectives of the work they are to perform, should be repeated in the proposed revised ISA 220.
- Sub-paragraph 57(d), dealing with engagement quality control review, should be expanded to provide for following of procedures for resolving differences of opinion, if necessary. In addition, sub-paragraph 57(e) should be repositioned as grey lettered text.
- Paragraphs 59 to 61, dealing with the nature and extent of the engagement quality control review, should be repeated in the proposed revised ISA 220. In the proposed revised ISA 220, these paragraphs should be changed to be at the audit engagement level.
- Paragraphs 69 and 70, dealing with the timing of the engagement quality control review, should be repositioned to the section dealing with the nature and extent of the engagement quality control review.
- Paragraph 71, dealing with documentation of the engagement quality control review, should be considered a basic principle.
- Paragraphs 72 to 74, dealing with complaints and allegations, should be repositioned as agreed. Paragraph 72 should be changed to refer to “*formal* complaints” and “compliance with professional standards and applicable regulatory and legal requirements.” Paragraph 74 should be expanded to propose the involvement of legal counsel.

PROPOSED REVISED ISA 220

In addition to structural and editorial changes, it was suggested that:

- The definitions should include a definition of “partner.”
- Paragraph 8, dealing with ethical requirements, should be changed to indicate that the “engagement partner should obtain an understanding of whether there are ...,” and sub-paragraph 12(b) should be deleted accordingly.
- Sub-paragraph 15(c), dealing with actions to eliminate threats to independence, should indicate that if appropriate action is not possible, the engagement partner should withdraw from the engagement.
- The reference to “effectiveness” in paragraph 17, dealing with deficiencies in the policies or procedures regarding independence, should be deleted and reference should be made to the results of the firm’s monitoring process.
- Paragraph 18, dealing with a threat to independence that could not be eliminated or reduced, should be changed as follows: “... for which it *might* not be possible ...”
- Paragraph 21, dealing with acceptance and continuance of client relationships, should be expanded to include consideration of the use of other auditors’ work. In addition, Mr Sylph should remind the IFAC Ethics Committee of the matters relating to communication with previous auditors that were brought to the Committee’s attention when ISA 240, The Consideration of Fraud and Error in the Audit of Financial Statements, was revised.
- Paragraph 29, dealing with the engagement partner’s review of working papers, should indicate that the engagement partner should review the working papers to the extent necessary to be satisfied that the working papers demonstrate that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued.
- The Monitoring section should deal with formal complaints and allegations.

The IAASB considered the revised proposed Quality Control Standards and all the members present in person and by proxy voted in favor of the exposure drafts. It was agreed that the comment period should close August 31, 2003.

The IAASB requested the task force to submit a report dealing with the main comments received on the exposure draft for consideration at the October 2003 IAASB meeting.

6. The Auditor’s Report on Financial Statements

Mr Ashton provided an update on the project. He also provided feedback on discussions at the May 8-9, 2003 CAG meeting.

PARENT-ONLY FINANCIAL STATEMENTS

Task force representatives met with the IASB to discuss parent-only financial statements. The IASB indicated that the proposed revised IAS 1, Presentation of Financial Statements, and IAS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries, recognize separate parent-only financial statements prepared in addition to consolidated financial statements. IASB is of the view that both the parent-only and consolidated financial statements comply with International Financial Reporting Standards (IFRSs); however, a cross reference is necessary. Task Force representatives are planning to have a further meeting with the IASB.

FINANCIAL REPORTING FRAMEWORK

The task force proposed that the revised ISA 700 should focus on the auditor’s report on financial statements, which address common information needs of a wide range of users. These needs are normally addressed by financial statements that provide information about the entity’s financial

position, performance and changes in financial position. Auditor's reports to be issued in special circumstances or on financial information that serve specific users' needs are dealt with in ISA 800, The Auditor's Report on Special Purpose Audit Engagements.

The task force proposed that the financial reporting framework for financial statements, which address common information needs, should be either IFRSs or national accounting standards. National accounting standards are those promulgated by national organizations authorized to establish standards or, for jurisdictions that do not have authorized national organizations, other standards, provided they (1) are designed to provide information about an entity's financial position, performance and changes in financial position, (2) represent prevalent practice in a jurisdiction or industry, and (3) are developed by reference to sound accounting concepts and principles, which are internally consistent, and give appropriate consideration to the concept of full disclosure. It was suggested that the reference to "*national* accounting standards" is reconsidered, as the standards may be developed by an international group, such as the IFAC Public Sector Committee. It was also noted that it may be difficult for the auditor to determine the suitability of accounting standards of jurisdictions that do not have authorized national organizations. Reference was made to "suitable criteria" as explained in the proposed Framework for Assurance Engagements.

The task force proposed that the audit opinion should identify the applicable financial reporting framework and, where the financial reporting framework is not IFRS or national accounting standards, the opinion should not refer to "true and fair" / "fairly present," and should state whether the financial statements have been prepared in accordance with the basis of accounting described in the notes. In addition, an emphasis of matter paragraph should be added, indicating that the basis of accounting is not widely recognized as meeting the common information needs of a wide range of users. It was noted that, at present, the example auditor's opinion in ISA 800 refers to "true and fair" / "fairly present," even though the financial information might not have been prepared in accordance with IFRSs or national accounting standards. This will lead to an inconsistency between the proposed revised ISA 700 and ISA 800. It was also indicated that, at the previous IAASB meeting, it had been agreed not to include the proposed emphasis of matter paragraph; however, the majority of members now supported the inclusion thereof.

WORDING OF THE AUDITOR'S REPORT

The task force requested the IAASB to consider alternative wording for the proposed introductory paragraph, descriptions of the responsibilities of management and of the auditor, and descriptions of an audit and of the audit process. Reference was made to comments received from CAG on the proposed wording. Members debated the proposed wording and provided suggestions for consideration by the task force. Suggestions included consideration of whether or not the description of the audit process should include reference to the fact that the auditor obtained an understanding of the entity and its environment, including its internal control.

DATE OF THE AUDITOR'S REPORT

The task force proposed that the date of the auditor's report should be focused on the point when the auditor has obtained sufficient appropriate evidence to support the audit opinion. This avoids having to define when the audit is completed and would accommodate the concept of dual-dating if the IAASB, in future, decides to allow dual-dating, i.e. when revising ISA 560, Subsequent Events.

REPORTING ON SUPPLEMENTARY INFORMATION

Ms Hillier indicated that the task force had received good suggestions from the IAASB with regard to reporting on supplementary information, and is of the opinion that it could establish a reasonable framework on which future guidance could be built. It was suggested that the task force continue to consult with the IAASB between meetings in order to draft wording for consideration at the July 2003 IAASB meeting.

STATUS REPORT ON PROJECT ISSUES

The task force provided the following status report on the ten project issues:

1. Reference to ISAs	Issue has been clarified sufficiently to enable drafting of relevant requirements and guidance
2. Other reporting responsibilities	Issue has been clarified sufficiently to enable drafting of relevant requirements and guidance
3. Date of the auditor's report	Issue still under consideration
4. Parent-only financial statements	Issue still under consideration
5. Framework that differs from IFRS	Issue has been clarified sufficiently to enable drafting of relevant requirements and guidance
6. Definition of financial reporting framework	Issue still to be resolved
7. Description of auditor's responsibilities	Issue still to be resolved
8. References to IAS/IFRS	IAPS 1014 approved in March 2003
9. Reference to the financial statements	Issue has been clarified sufficiently to enable drafting of relevant requirements and guidance
10. Including more financial information than required	Issue still under consideration

WAY FORWARD

It is envisaged that an exposure draft of the following proposed pronouncements will be presented for approval at the October 2003 IAASB meeting:

- Conforming changes to ISA 200, Objective and General Principles Governing an Audit of Financial Statements
- ISA 700 (Revised)
- ISA 701 (New), containing the paragraphs in the existing ISA 700 dealing with modified auditor's reports, reflecting conforming changes only
- Conforming changes to ISA 560, Subsequent Events
- Conforming changes to ISA 580, Management Representations.

7. Audit Materiality

Mr Grant provided an update of the project. Members were requested to consider the proposed definition of "materiality" and the description of users. It was noted that the description of users in the IASB Framework is too broad and that, for purposes of the auditor's report, the task force attempted to narrow the description by referring to (1) the intended users of the auditor's report (as described in the proposed Framework for Assurance Engagements), and (2) other users to whom the auditor has a duty of care. It was debated whether users could be limited to those described in (1), and it was agreed that it might not be appropriate to do so. However, care should be taken when incorporating the legal concept reflected in (2) in the proposed revised ISA. Reference was made to paragraph 10 of the IASB Framework, which states that "(a)s investors

are providers of risk capital to the enterprise, the provision of financial statements that meet their needs will also meet most of the needs of other users that financial statement can satisfy.”

It was suggested that the task force should consider the following:

- IAASB’s concern that the description of users might be too specific.
- The implications of determining materiality levels based on the needs of users (including the needs of user the auditor might not be familiar with).
- The reference to “investors” in paragraph 10 of the IASB Framework.
- How the concept of “duty of care” has been handled in the proposed Framework for Assurance Engagements (footnote 10).

It is envisaged that an exposure draft of the proposed revised ISA 320 will be presented for approval at the October 2003 IAASB meeting.

8. Accounting Estimates

Members noted the task force’s presentation to CAG. Mr Ashton indicated that, at this time, no guidance is sought from the IAASB.

9. Preface, Bold Lettering and IAASB Terms of Reference

Mr Gunn noted that the comment period closed on February 28, 2003 and that 23 comment letters were received.

BOLD LETTERING

Six of the respondents urged for a statement that bold and grey lettering have equal authority.

The arguments for equal authority included the following: (1) Eliminates ambiguity; (2) Eliminates confusion; (3) Already used by the IASB; and (4) Permits readers to more clearly ascertain what procedures are mandatory. Arguments against equal authority included the following: (1) Creates unwieldy rule book approach to auditing and eliminates use of judgment; and (2) Detracts from clarity of practical application of ISAs. Implications of change to equal authority are as follows: (1) Extent of changes to existing ISAs (whether changes can be made without exposing ISAs for public comment); (2) Adoption timetable; and (3) Implementation of change (IASB implemented its change to equal authority retroactively, which may not be possible with ISAs).

Mr Gunn provided feedback on discussions at the May 8-9, 2003 CAG meeting. The EU indicated that it was in favor of the current practice. IOSCO noted that the focus should not be on whether or not to use bold and grey lettering, but on the drafting of standards that are clear, comprehensive and capable of consistent application by all auditors.

Mr Mertin indicated that members were not asked to make a decision with regard to bold/grey lettering, but to provide direction to a small group of IAASB representatives (i.e., Mr Mertin, Ms Esdon and Mr Sylph), who will be meeting with IOSCO representatives to further discuss the matter. In addition, Mr Mertin will also discuss the matter at the July 4, 2003 meeting with regulators and with the IFAC Board.

Members debated the implications of equal authority, whether only basic principles (and not essential procedures) should be bold lettered, the use of “should” and present tense (which may

be read as though it is mandatory), the impact on translations of IAASB pronouncements, and implementation and transition issues should bold and grey lettered text have equal authority.

There was general consensus that ISAs should be clear, concise and able of consistent application, and that respondents' suggestion to move to equal authority should be considered carefully. While no conclusion was reached, it was noted that a move to equal authority would be a large project, which would include consideration of the grey lettered text of all existing ISAs to ensure that the wording reflects the original intention of the drafters. Members did not believe that the IASB's decision to apply equal authority retrospectively, i.e. without re-consideration of existing ISAs, would be possible.

It was agreed that:

- IAASB representatives should meet with IOSCO to clarify IOSCO's request for clear and concise standards.
- IAASB staff should further explore the consequences of moving to equal authority and submit a proposal for consideration at the July 2003 IAASB meeting. The proposal should include ways in which equal authority could be achieved, as well as recommendations on how the change could be implemented.
- The proposed Preface should not be held back until the bold/grey lettering issue has been resolved. The Preface should be independent from this issue and should be finalized at the next IAASB meeting.

VOTING

The proposed Preface and IAASB Terms of Reference indicate that "the affirmative votes of at least two-thirds of members present at a meeting in person or by proxy or by simultaneous telecommunications link, but not less than twelve" is required to approve exposure drafts, ISAs and IAPSSs. Three respondents strongly disagreed with the change in voting majority from three fourths to two thirds.

IAASB staff proposed that the two-thirds voting majority should be retained in the light of the general acceptance by the majority of the respondents. The proposed change enhances the effectiveness of the IAASB by accelerating the standard setting process at a time where timely issuance of ISAs is necessary. Based on the IFAC Proposals for Reform, which suggests an increase in members representing the public, and referring to the voting majorities of national standard setters, members agreed to retain the proposed two-thirds voting majority.

The use of proxies was debated and some Members indicated that they are not in favor of proxies, as members have to base their votes on their own professional views. Mr Mertin responded that proxies provided a practical solution given the membership of the IAASB. It was suggested that:

- A prescribed form should be used to notify the Chair of proxies in advance of meetings.
- Proxies should be noted at the start of a meeting.
- The proposed Preface should be changed to provide for a quorum of 12 members to be present in person.
- The proposed Preface should be changed to indicate that the preference is that members should be present in person, then by way of telephone link and lastly by way of proxy.

HANDBOOK RESTRUCTURING

It was agreed that the proposed Handbook Restructuring should be discussed at the July 2003 IAASB meeting.

10. Auditor's Responsibility to Consider Fraud

Ms Esdon provided an update on the project, and referred to the decisions made at the December 2002 and March 2003 IAASB meetings. She noted that the following issues were discussed and agreed by the task force:

- The concept of reasonable assurance as it relates to fraud, particularly management fraud, will not be debated.
- Emphasis will be place on circumstances that could lead to aggressive earnings management, rather than to provide a definition that may not be universally accepted in practice.
- The exposure draft will include mandatory audit procedures in response to the risk of management override of controls.
- Communication with successor auditors is appropriately dealt with in the IFAC Code of Ethics for Professional Accountants and will not be dealt with in the proposed revised ISA 240.
- Paragraphs dealing with error in the existing ISA 240 will be included in other existing ISAs. (The task force has identified the bold lettered paragraphs to be repositioned.)

Communication with those charged with governance, documentation and the appendices to the proposed revised ISA 240 have not yet been considered in detail by the task force.

A member was of the opinion that the IFAC Code should be amended to require a predecessor auditor to communicate fraud or suspected fraud to the successor auditor, and suggested that the IAASB chair should write to the IFAC Ethics Committee in this regard. Another member noted that this will become an important issue in the light of auditor rotation.

Members were requested to consider a first draft of a proposed revised ISA 240 with a particular focus on the black lettered paragraphs. Members suggested that the task force should consider the following:

- Including a footnote indicating that the proposed revised ISA flows from the proposed Audit Risk Standards and that it deals with additional requirements relating to the auditor's consideration of fraud.
- Moving the examples of earnings management (paragraphs 55 and 56) to the discussion of earnings management under the Characteristics of Fraud section, and expanding the text to provide an indication of the circumstances in which earnings management may arise.
- Expanding the section on Responsibilities of Those Charged With Governance and of Management by including more of the text contained in the exhibit to the US SAS 99.
- Aligning paragraph 27(c) with the proposed Audit Risk Standards, indicating that the auditor should obtain audit evidence about the design and implementation of the internal controls.
- Aligning paragraph 49 with the proposed Audit Risk Standards and repositioning paragraphs 49 and 51 to be within the context of the risk assessment.
- Bold lettering paragraph 68, which deals with the incorporation of an element of unpredictability in the selection of auditing procedures.

- Limiting frauds or suspected frauds to be disclosed in accordance with paragraph 73(b) to those that are material to the financial statements.
- Changing paragraph 73(c) to acknowledge that management's risk assessment may be formal or informal (as per paragraph 28).
- Expanding the section on Auditor Unable to Continue the Engagement either to deal with the impact on the auditor's report or to provide a link to ISA 700.
- Expanding the requirements and guidance on audit team discussions to cover the concept of "whistle blowing."
- Obtaining examples of management representation letters used by accounting firms that have implemented the US SAS 99.

It was also suggested that Mr Sylph should follow up on the possibility of IFAC publishing the exhibit to the US SAS 99 as a separate IFAC document.

11. Project Proposal

Mr Sylph noted that the following project proposal had been considered by the Planning Committee, and that the IAASB's approval was sought in this regard:

- Communication of Audit Matters With Those Charged With Governance
- Related Parties
- Using the Work of an Expert (Revised)
- Modifications to the Auditor's Report.

The Australian Auditing Standards Board has indicated an interest to assist the IAASB with the Communications project. Mr McPhee has agreed to chair the joint task force. Mr Grant noted that the UK auditing standard is more detailed. He also noted that the results of a research of existing communication practices will soon be available. Mr Böhm suggested that reference is made to the long form auditor's reporting standard in Germany.

Mr Grant noted that the results of a UK research project on business empires may be relevant to the Related Parties project.

It was suggested that the Expert project should cover consideration of when to involve an expert.

It was indicated that the Modified Auditor's Report project will not be conducted by the existing Auditor's Report Task Team, but that Mr Ashton and project staff will provide input to the project.

Members approved the project proposals. Members were invited to indicate their interest to participate in a project or projects to Messrs Mertin or Sylph.

12. Next CAG Meeting

Mr Mertin noted that the next CAG meeting has been scheduled for November 6-7, 2003 in Brussels, and that he and Mr Sylph will contact IAASB members to present at the meeting once the agenda has been finalized. In the meantime, it would be helpful if members could keep these dates free.

13. Closing

Mr Mertin thanked the members, technical advisors and staff for their input and closed the meeting.