

**Minutes of the 8<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD  
Held on December 8-12, 2003  
At the Hilton Hotel, Berlin, Germany**

	<b>Members</b>	<b>Technical Advisors</b>
<i>Present:</i>	Dietz Mertin (Chair)	Bernard Agulhas (Mr Kana)
	Denise Esdon (Vice Chair)	Wolfgang Böhm (Mr Mertin)
	John Archambault	John Fogarty (except for the morning of December 8)
	Philip Ashton	Cédric Gélard (Mr Trémolière)
	Roger Dassen	Jon Grant (Mr Plaistowe)
	Denis Desautels	Diana Hillier (Mr Ashton)
	Ana Maria Elorrieta (except for the morning of December 8)	Susan Jones (Mr Noonan)
	Jan Bo Hansen (except for the afternoon of December 12)	Paul Lohnes (Mr Desautels)
	Gen Ikegami	Richard Mifsud (Mr McPhee)
	Suresh Kana	Emilio Palma (except for the morning of December 8)(Mr Tizzano)
	John Kellas	Sylvia Smith (Mr Kellas)
	Ian McPhee	George Tucker (Mrs Esdon)
	Edmund Noonan (except for the afternoon of December 12)	Hans Verkruijsse (Mr Dassen)
	Ian Plaistowe	Yuichi Yamamoto (Mr Ikegami)
	Roger Simnett	Xi Wu (Mr Yang)
	Roberto Tizzano (except for the morning of December 8)	
	Gérard Trémolière	
	Zhiguo Yang	

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**IFAC Technical Staff**

<i>Present:</i>	Jim Sylph (Technical Director)
	James Gunn
	Alta Prinsloo
	Sylvia Barrett
	Jan Munro
	Michael Nugent
	Ken Siong

## **1. Opening Remarks and Minutes**

Mr Mertin opened the meeting to the public.

The minutes of the public session of the meeting held on October 12-17, 2003 in Tokyo were approved as presented.

## **2. Auditor's Report**

Mr Ashton provided a summary of activities undertaken by the Task Force since the October IAASB meeting. He noted that constructive feedback was received from the CAG in November as well as from members of the IAASB during the period after the October meeting. Mr Ashton summarized the main changes to the documents from the last meeting of the IAASB, and led members through a detailed review of the proposed exposure draft.

PROPOSED ISA 700

### **The Auditor's Opinion on Financial Statements**

The IAASB deliberated whether, when describing the terms "true and fair view" or "presents fairly, in all material respects," the proposed standard should explicitly recognized that law or regulation in some jurisdictions may require the auditor to use different words to express the auditor's opinion on a complete set of general purpose financial statements. The IAASB concluded that the proposed standard should require the use of "true and fair view" or "presents fairly, in all material respects," and, accordingly, no change should be made to the proposed draft.

### **Elements of the Auditor's Report**

The IAASB deliberated the proposed description of the auditor's responsibilities regarding internal control. After due consideration, the IAASB concluded that the proposed standard should not establish the auditor's responsibility to communicate material weaknesses in internal control to management and those charged with governance as a separate element in the auditor's report.

The IAASB deliberated whether the grouping of the terms fraud or error in the auditor's report is appropriate, and whether the terms should be excluded from the element of the report covering the responsibilities of the auditor. After due consideration, the IAASB concluded that these terms should be retained within the auditor's report.

The IAASB agreed that the requirement for the auditor to state whether the audit has provided a reasonable basis to express an opinion should be revised and clarified to reflect the fact that it is the sufficiency and appropriateness of the evidence obtained that provides the reasonable basis for the auditor's opinion.

The IAASB debated whether the description of the auditor's responsibilities for internal control be amended to state that an audit 'does not provide a sufficient basis for expressing an opinion' on the effectiveness of internal control, rather than the present wording that an audit 'is not for the purposes of expressing an opinion' on the effectiveness of internal control. After due consideration, the IAASB concluded that the draft standard should remain unchanged; however, the IAASB agreed to combine the description of an audit in relation to internal controls with the description of the auditor's assessment of the risk of material misstatement in the financial statements.

The IAASB agreed that the proposed bold type lettering on the auditor's signature should be revised to simply state that the auditor signs the auditor's report, and that the remaining text be retained and presented as explanatory material.

#### *Example Auditor's Report*

The IAASB agreed that there should be separate headings clearly identifying and distinguishing the difference between the report on the financial statement and the report on other legal and regulatory requirements, indicating that the headings are needed only when there is one or more additional reporting responsibilities.

#### *Title and Other Matters*

The IAASB agreed to change the title of the standard to "The Auditor's Report on a Complete Set of General Purpose Financial Statements." Various other editorial and structural changes were suggested and agreed.

#### *PROPOSED AMENDED ISA 200*

Mr Ashton summarized the reason for, and the implications of, the proposed changes that clarify the split between ISA 800 and ISA 700. He noted that the proposed split does not result in significant change in current practice for those reporting under ISA 800.

#### *Objective of an Audit*

The IAASB agreed that the guidance on the objective of an audit should explain that an audit is an assurance engagement, provide the definition of an assurance engagement (including the requirement for suitable criteria to exist) and contain an explicit reference to the approved Assurance Framework.

#### *Reasonable Assurance*

The IAASB debated whether the standard should provide a brief discussion of the issue of the trade-off between the cost and the benefit of obtaining audit evidence, and that the document should expand on the nature of the inherent limitations of internal controls. After due consideration, the IAASB concluded that it is unnecessary to address cost/benefit considerations in this amendment as guidance on this concept is appropriately provided elsewhere in IAASB Standards, and that no change should be made to the description of the inherent limitation of internal control until further work is completed on the IAASB project studying the subject of reasonable assurance.

#### *Applicable Financial Reporting Framework*

The IAASB agreed that the section addressing the applicable financial reporting framework should:

- Clarify that an applicable financial reporting framework is a framework identified by management that is acceptable in view of the nature of the entity and the objective of the financial statements.
- Introduce a new bold type requirement that clarifies the auditor's responsibility to determine whether the financial reporting framework identified by management is acceptable.
- Clarify that it is the information needs of 'specific users', rather than 'specifically identified users', that will determine the applicable financial reporting framework.
- Recognize the fact that management may prepare more than one set of financial statements to meet the needs of different users.

- Clarify that the applicable financial reporting frameworks that are presumed to be acceptable for general purpose financial statements are those frameworks established by international or national standard setting organizations that are authorized or recognized to promulgate standards to be used by certain types of entities.

Various other editorial, structural and conforming changes were suggested and agreed.

#### PROPOSED AMENDED ISA 210

The IAASB agreed that the explanatory material providing guidance about obtaining an agreement on the applicable financial reporting framework should emphasize the auditor's responsibility to consider the acceptability of the identified financial reporting framework and whether it exhibits the characteristics of suitable criteria. It was also agreed that the document should explain that the auditor refers to the change in a financial reporting framework in the engagement letter.

The proposed revised example engagement letter was conformed to the agreed changes to ISA 700 and 200. The IAASB also agreed to delete the extant sentence suggesting that practitioners may wish to continue with an existing engagement letter until termination of the arrangement (and not renewing the engagement letter each year) as this is not best practice in firms today.

#### PROPOSED CONFORMED ISA 800, 701 AND 560

The IAASB supported the proposed revisions to ISA 800, 701 and 560 as presented, including various editorial and conforming changes arising from changes to ISA 700 and 200.

#### EXPOSURE PERIOD AND EFFECTIVE DATE

The IAASB agreed that the exposure drafts should be exposed for a 90 day period ending March 31, 2004. The IAASB agreed that ISA 700 should be effective for audit reports dated on or after December 31, 2005, but early application would be permissible. Amended ISA 200 and ISA 210 should be effective for audits of financial statements for periods beginning on or after December 15, 2004 (consistent with the Audit Risk ISAs). The effective date for new ISA 701 should be that for the existing ISA 700. The conforming amendments to ISA 560 and 800 should have the same effective date as that for the new ISA 700.

#### EXPLANATORY MEMORANDUM

Members suggested that the following matters, in addition to those proposed by the Task Force, should be communicated in the explanatory memorandum that will accompany the proposed exposure draft:

- A statement that the revised report expands significantly on auditors and managements responsibilities in certain areas. While it was suggested that a specific question should be added addressing the appropriateness of excluding, as an element of the report, the auditor's communication of an identified material weakness in internal control, the majority of IAASB members did not support giving particular emphasis to this suggestion in the explanatory memorandum;
- Explanation of IAASB's intention to undertake projects on a priority basis to revise ISA 701 and 800.

IAASB also agreed that during the exposure period, national standard setters should be encouraged to consider prototyping example auditor's reports applicable to their jurisdictions in order to begin thinking about how to structure the report with respect to other reporting

responsibilities. Mr Kellas agreed to raise this matter at the next IAASB meeting with national standard setters early in 2004.

#### APPROVAL

The IAASB approved the issuance of proposed revised ISA 700. Two members expressed dissenting views, as follows:

- Mr. Mertin voted against the issuance of revised ISA 700 as an exposure draft because of the proposed requirement to use either the terms “present fairly, in all material respects” or “give a true and fair view” in the expression of an opinion on a complete set of general purpose financial statements. In his view, the objectives of financial reporting frameworks governing the preparation of general purpose financial statements in some jurisdictions may not be fair presentation, and therefore, by prescribing the language to be used in expressing an opinion, the IAASB is usurping the role of accounting standards setters.
- Mr. Noonan voted against issuance of revised ISA 700 as an exposure draft as he believes that the elements in the auditor’s report describing the auditor’s responsibilities are incomplete without a description of the auditor’s responsibility for communicating material weaknesses to management and those charged with governance. Consequently, he believes that users of the auditor’s report may misunderstand the limitations of the auditor’s responsibility for internal control in an audit of financial statements.

The IAASB unanimously approved the issuance of the proposed revised amendments to ISA 200 and 210, and the proposed revised conforming amendments to ISA 701, 560 and 800.

### 3. Assurance

Mr Dassen provided a summary of activities undertaken by the Task Force since the October IAASB meeting. He noted that constructive feedback was received from the CAG in November and that the feedback from the ‘plain English’ review of the documents was excellent. Mr Dassen summarized the main changes to the documents from the last meeting of the IAASB, and led members through a paragraph review of the proposed exposure draft. He repeated this process for revised versions tabled during the meeting.

#### ASSURANCE FRAMEWORK

##### *Definition and Objective of an Assurance Engagement*

The IAASB asked for greater clarity in the Framework about whether the definition and objective of an assurance engagement relates to the information that is the outcome of the process of evaluation or measurement of a subject matter against criteria, or the process itself. In a revised draft, the Task Force introduced the term “subject matter information”, and the IAASB discussed the relationship between “subject matter”, “subject matter information” and criteria, how that relationship is represented in the conclusion expressed, and how these concepts would apply to assertion-based and direct reporting engagements. After extensive debate, the IAASB agreed that the Framework should be clarified to reflect:

- The intention to focus on the information that is the output of the process.
- The intended meaning of the term “subject matter” and that the term “subject matter information” will be used to mean the outcome of the evaluation or measurement of a subject matter.
- It is the subject matter information (the outcome) about which the practitioner gathers sufficient appropriate evidence.

The IAASB also agreed that additional guidance be included within this section of the document to further clarify these concepts and to explain how they would apply in the context of assertion-based engagements and direct reporting engagements.

The IAASB deliberated whether the Framework and the proposed ISAE 2000 should provide guidance as to what procedures would be expected to be performed in order to provide a conclusion in a limited assurance engagement. Concern was expressed that, without such guidance, it might open the door for practitioners to do very little work and yet still be able to issue an opinion and, consequently, introduce inconsistent levels of effort in practice for the same type of opinion. After due consideration, the IAASB concluded that the proposed documents provide sufficient safeguards through the required elements and reporting considerations which minimize this risk.

#### *Scope of the Framework*

The IAASB agreed that the Framework should not necessarily exclude the application of the Framework to engagements to testify in legal proceeding, but rather clarify that such engagements (which may meet the definition of an assurance engagement) need not be performed in accordance with the Framework.

#### *Elements of an Assurance Engagement*

The IAASB agreed that:

- The Framework should provide additional guidance around the ethical requirement regarding professional competence. The IAASB noted that this requirement could be satisfied by the practitioner using the work of experts. The IAASB also agreed that the requirement for those persons carrying out the engagement to collectively possess the requisite skills and knowledge should be expanded to also require the practitioner to have an adequate level of involvement in the engagement and understanding of the work for which any expert is used.
- The guidance on the responsible party of an assurance engagement should be expanded to distinguish and clarify the responsible party in the case of a direct reporting engagement and in the case of an assertion-based engagement. The IAASB also agreed that examples should be included to help illustrate the distinguishing characteristics.
- The Framework should note that the assurance report, whenever practical, is to be addressed to all the intended users, but that there may be other intended users in some cases.
- The Framework should include guidance that states that, whenever practical, intended users be involved with the practitioner and the responsible party in determining the requirements of the engagement. This guidance should also highlight that, in contrast to an agreed-upon procedures engagement, the practitioner is responsible for determining the nature, timing and extent of procedures regardless of the involvement of others and that the practitioner retains is required to pursue any matter the practitioner deems necessary in able to form a conclusion.

The IAASB discussed whether the approach of separately evaluating the appropriateness of subject matter and the suitability of criteria reflects current thinking, and whether an alternative, perhaps more contemporary approach should be included. Noting the need for consistency in practice, that there were no similar concerns expressed by most respondents to the exposure draft, and that the current approach is currently applied, successfully, in practice, the IAASB agreed to retain the approach as presented during exposure. The IAASB also agreed to make minor

amendments to clarify the definition of the characteristics of neutrality and understandability criteria components.

#### *Assurance Engagement Risk*

The IAASB re-deliberated whether the lower threshold for limited assurance engagements (i.e., the ‘floor-level’ of assurance) as being the ability to obtain a meaning level of assurance, is appropriate. The IAASB concluded that the proposed definition is suitable in the context of the framework and when taken in combination with the safeguards of the need for suitable criteria, engagement acceptance consideration, and the need to elaborate on the procedures performed and limitations thereof in the assurance report. Accordingly, no change was made to the material presented in that regard.

#### *Assurance Report*

The IAASB agreed to incorporate the concept of pervasiveness into the description of factors used in determining the nature of a qualification or modification to the report.

For the examples of conclusions in an assertion-based and direct reporting engagement, the IAASB agreed to be more explicit by using an engagement on internal control as the example, rather than the generic language presented.

#### *Effective Date*

The IAASB agreed that an effective date for the framework is unnecessary and therefore excluded from the proposed revised Framework.

### INTERNATIONAL STANDARD ON ASSURANCE ENGAGEMENTS (ISAE) 2000

The IAASB agreed that:

- The introductory section of the standard should exclude the statement that the standard is to be used where no specific ISAE(s) exists.
- In the section of the proposed standard dealing with obtaining evidence, a statement should be added to the effect that subject matter specific ISAES are expected to provide guidance as to the procedures that would need to be conducted in order to obtain limited assurance for specific subject matters.
- A description, where appropriate, of any significant, inherent limitations associated with the evaluation or measurement of the subject against the criteria should be established as a separate element in the assurance report. The IAASB also agreed that the related explanatory guidance should provide an explicit example to help illustrate the intended application of this element.
- With respect to the element of the assurance report that requires a statement that the engagement was performed in accordance with ISAES, the related explanatory material should address the circumstances where a subject matter specific ISAE exists, and to recognize that the subject matter specific ISAE may require the assurance report to refer specifically to it.

The IAASB agreed to other editorial, structural and conforming changes arising from changes to the Framework.

### APPROVAL

The IAASB agreed that, based on the nature of the changes to the proposed Framework and standard made subsequent to exposure, there is no need to re-expose the document.

For purposes of final voting, the Task Force agreed to send a mark up copy to the IAASB by December 17<sup>th</sup> with members providing ballot vote back to staff by December 31<sup>st</sup>. Mr Plaistowe wished it be recorded that he does not think the Framework is clear, concise or understandable. He indicated that he is willing to vote in favor of the documents since it does provide some sort of a framework and that practitioners will not need to refer to compliance to it. He does however think that the IAASB should be ready to attempt to write it in a manner that is clear, concise and easily understandable when it comes to revise this document in the future.

#### **4. Audit of Group Financial Statements**

Mr Kana presented a proposed revised ISA 600, “The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements,” a proposed IAPS on “The Audit of Group Financial Statements,” and an explanatory memorandum for approval to be issued as an exposure draft. Mr Kana explained how the task force has addressed the comments raised by the IAASB in October 2003. The proposed documents were reviewed by paragraph.

The IAASB agreed to the following:

##### **PROPOSED ISA 600**

- The reference to “division of responsibility” in the introduction should indicate that the auditor “decides” whether or not to apply division of responsibility.
- The definitions of “related auditor” and “network firm” should be amended to reflect the fact that, in the context of an audit of group financial statements, the focus is on firms operating under common quality control policies and procedures.
- The group auditor’s acceptance and continuance considerations should include whether the auditor will have access to those charged with governance of the group, and an understanding of management’s rationale for engaging other auditors to audit components’ financial statements.
- The guidance addressing the group auditor’s consideration of the other auditor’s quality control process should clarify that it relates to the quality control process at the firm level.
- The guidance addressing access to information should clarify that the group auditor cannot expect to have greater access to component management and component information than group management.
- The guidance addressing the scope of work to be performed on the components’ financial information should be expanded to deal with components that, although insignificant, in the aggregate could cause the financial statements to be materially misstated. It should also deal with the fact that the group auditor may decide to use the audit evidence obtained as part of an audit of a component that is required by statute or management.
- The guidance addressing the group auditor’s review of the other auditor’s working paper should clarify that the group auditor could also arrange with a related auditor to perform the review.
- With regard to division of responsibility, the guidance should indicate that the group auditor communicates his/her decision to divide responsibility to those charged with governance of the group. In addition, the related documentation guidance should be expanded to indicate that, where applicable, any communications made by the group auditor to those charged with governance of the group that are based on information obtained from the other auditor should be documented by the group auditor.



**IAPS**

- The guidance addressing the group auditor's communication to the related/other auditor regarding the nature, timing and extent of the work to be performed by internal audit should clarify that the communication takes place where internal audit is part of group-wide controls and the group auditor decides to use internal audit on a group-wide basis.
- With regard to the guidance on materiality, the proposed reference to the determination of a lower group planning materiality in order to allow for the aggregation of misstatements should be deleted. In addition, the paragraph suggesting allocation of materiality should be amended to indicate that planning materiality for a component does not exceed group planning materiality and in practice is sometimes lower than group planning materiality.
- The proposed guidance suggesting that the group auditor should prepare a comparison of the accounting and auditing frameworks applicable to the group financial statements and international accounting and auditing standards should be revised, as the proposed revised ISA and IAPS are based on an audit in accordance with ISAs of financial statements prepared in accordance with the international accounting standards.
- The guidance addressing the scoping of the work to be performed on the components' financial information should clarify that the category of components that, although insignificant, in the aggregate could cause material misstatement of the group financial statements includes insignificant components that in the aggregate could give rise to significant risks of material misstatement and insignificant components that in the aggregate are of financial significance. In addition, this guidance should indicate that the group auditor's decision as to the work to be performed is a matter of professional judgment. The proposal that the work could be performed on a cyclical basis should be deleted.
- The examples of matters to be included in the group auditor's letter of instruction should include general documentation requirements.

The proposed revised ISA 600 and the proposed IAPS were approved unanimously, subject to agreed editorial changes being processed.

**5. Improving the Clarity of IAASB Standards**

Mr Gunn summarized the major changes made by the Task Force to the proposals presented to the IAASB in October 2003. He indicated that the Task Force also presented a summary of the proposed changes to the CAG in November, and that the CAG was supportive of the nature of those changes. Mr Kellas noted that representatives of the Task Force also attended a conference call with representative of the IOSCO Audit Working Party in early December to discuss the agenda material on improving the clarity of IAASB standards. He apprised the IAASB of relevant points raised by IOSCO representatives during that meeting, and indicated that they were also supportive of the direction the project is taking.

Mr Mertin led the IAASB through a paragraph review of the proposed Policy Statement. In addition to editorial considerations, the IAASB made the following recommendations:

- The term 'equal authority' should be further clarified by stating that 'equal authority' means that there is no difference in the level of authority between the different paragraphs within a standard.
- The term "unconditional requirement" should be changed to "mandatory requirements" in order to better align it with the description and nature of the related professional requirements. In addition, only the term "shall" should be used to identify "mandatory requirements".

- The description of the category “presumptively mandatory requirements” should be revised as the present wording appears to impose an undue level of obligation on practitioners, and that the description is not sufficiently clear in distinguishing this category of professional responsibility from the professional responsibilities imposed by the category of “mandatory requirements.”
- Other procedures and actions included as a part of explanatory material should be characterized as ‘suggested’ or ‘optional’ procedures in order to better convey the intended nature of such guidance. In addition, the description of explanatory material should be further expanded to explain the link between explanatory material and the principles and professional requirements to which it relates, and to explain that the nature and extent of explanatory material will vary depending on the circumstances and the nature of the standard.
- Practice Statements should only include additional professional requirements to the extent that are derived from principles or existing professional requirements contained in related standard(s).
- Greater flexibility should be allowed for in the way in which explanatory material may be written, depending on the circumstance.
- The proposed appendix describing and defining other words and phrases used in IAASB Standards should be deleted.

While members generally supported the proposed Policy Statement in terms of its goal to improve the clarity of the conventions used in IAASB standards and in clarifying professional requirements, the IAASB did not agree to approve the proposed policy statement for exposure. Messrs McPhee, Trémoilière, Plaistowe, Simnett, Ashton and Tizzano shared the following concerns:

- The proposals represent substantial change to the way in which IAASB standards are to be drafted and there may be enormous unforeseen consequences. Before the Policy Statement could be approved, there is a need to apply and test the proposals to a specific standard in order to gain a full understanding of: i) how the proposal would actually be applied in the drafting of a standard; ii) how principles, professional requirements and the explanatory material would be used and how they would interrelate; iii) whether there is a need for a more expansive definition of principles and a related framework for their application; and iv) how many new mandatory or presumptively mandatory requirements might be introduced.
- The Policy Statement addresses only one, and not all, aspects of clarity and it might be more appropriate to broaden the scope of the project so that all aspects could be addressed at the same time. In particular, improving the clarity of IAASB standards should also address the way in which standards are structured, their length and complexity (and particularly in relation to the needs of small-and-medium practitioners), and the manner in which explanatory material and related implementation guidance is established and communicated.
- There is a need to further clarify and streamline how explanatory material is to be used in the various pronouncements issued by the IAASB.
- The impact of the proposals on the requirements for documentation by practitioners needs to be reconsidered, particularly in light of the documentation requirements being proposed by the PCAOB.

Ms Elorrieta expressed concern over the impact that the proposals may have on translation activities. Mr Ikegami abstained from voting on the document due to concerns over the possible

implication of the proposals on international convergence. He expressed his desire to await the outcome of the discussions at the forthcoming meeting of the national auditing standard setters.

To move the project forward, the Task Force agreed to:

- address the issues raised by the IAASB at the next meeting of the national auditing standard setters scheduled in January 2004, and to report back on the outcome of the discussions held thereon and on the recommendations included in the discussion paper to be presented by Mr Grant and Mr Trémolière at that meeting;
- reconsider how the scope of the project might be expanded based on the concerns raised by the IAASB and on the recommendations arising from the meeting of the national standard setters; and
- test the application of the proposed drafting convention to the three audit risk standards and to provide feedback to the IAASB in terms of the implications of the proposals on the drafting process, including how principles are to be identified and communicated and the impact on the nature and extent of professional requirements within a standard.

## 6. Quality Control

Ms Elorrieta presented a summary of the issues arising from the exposure of the proposed ISQC 1 and revised ISA 220 and the results of the Task Force's deliberation thereon.

### *Interaction with the IFAC Code of Ethics (the "Code")*

Ms Elorrieta noted that IFAC's Ethics Committee and a number of respondents had expressed concern that the exposure drafts appeared to expand the ethical responsibilities set out in the Code. She indicated that the intent was to operationalize the existing provisions in the Code and that the Task Force believed most inadvertent inconsistencies had been eliminated. Ms Elorrieta noted that the Task Force had not had an opportunity yet to address a further comment letter submitted by the Committee outlining remaining concerns with the latest draft documents, but highlighted the two main remaining issues from the Committee, namely that the Independence section in the ISQC was too detailed and that there was a risk that ISQC 1 would need to be updated every time the independence section in the Code is changed.

The IAASB did not generally agree with the Ethics Committee's comments and recommended that the Task Force revisit the areas of differences with the Ethics Committee. Mr Sylph indicated that discussions with the IFAC Officers, with representation from Mr. Kellas and Ms. Pendergast as Chairs of the IAASB and Ethics Committee respectively, could be held should differences remain.

### *Definition of Reasonable Assurance*

Ms Elorrieta noted that a number of respondents had requested a definition or explanation of "reasonable assurance" as used in both exposure drafts. The IAASB did not agree with the Task Force's proposed definition, noting as well that it might be premature to attempt to provide a definition since this would pre-judge the outcome of the IAASB's project on reasonable assurance. The IAASB agreed to that the term "reasonable assurance" should be retained, but without definition, and that the subject of "reasonable assurance" should be discussed further at the forthcoming meeting of national standard setters.

### *Definition of Network Firm*

The IAASB discussed the different definitions of "network firm" in the Quality Control exposure drafts, the proposed Group Audits exposure drafts and the Code. A number of members noted

that the current definition of “network firm” in the Code did not seem to apply to any firms in practice. The IAASB agreed that a group of individuals representing the Quality Control Task Force, the Group Audits Task Force and the Ethics Committee should discuss how to resolve the differences in the definition.

#### *Differences of Opinion*

In relation to the proposed guidance on differences of opinion, Ms Elorrieta indicated that the Task Force had amended the guidance such that where a difference remained at the end of the consultation process, the firm’s policies would determine the person(s) responsible for final resolution of the issue. Such person(s) would not include the engagement partner. After due consideration, the IAASB concluded that the guidance should strike the right balance between not allowing inappropriate override of technical advice and giving recognition to the fact that the signing partner must agree with technical advice before signing the report. Consequently, the Task Force was asked to redraft the relevant paragraph accordingly.

#### *Small and Medium Practices*

In response to requests from respondents for additional guidance for small-and-medium practices, the Task Force recommended that this be addressed by IFAC, possibly through the SMP Task Force. Mr Sylph indicated that under its current terms of reference, the SMP Task Force does not have the authority to develop such a document. However, the possibility of working together with other national standard setters to develop SMP guidance will be discussed at the national standards setters meeting in January 2004.

#### *Other Matters:*

- Ms Elorrieta highlighted the need to put through a conforming change to ISA 620, “Using the Work of an Expert”, which contains a reference to ISA 220.
- In relation to mandating rotation of senior personnel on listed engagements, the IAASB acknowledged that the Code already deals with this topic and, consequently, may provide a suitable hook that would permit the ISQC to address this subject.
- In relation to requiring a cooling-off period before the engagement quality control reviewer could act as the engagement partner, and rotation of the engagement quality control reviewer, the IAASB recommended that the ISQC should introduce this issue, and then leave the Ethics Committee to address it further through the Code.
- In relation to the requirement to review key working papers as part of the engagement quality control review, the IAASB agreed that the Standard should focus on significant judgments and discussions, and not merely on reviewing working papers as an objective.
- The IAASB recommended the Task Force emphasize the two-way aspect of communications as part of the firm’s internal culture instead of focusing on a top-down approach.
- On documentation of the engagement quality control review, the IAASB recommended that the Task Force re-consider the impact of proposed changes to ISQC 1 on those jurisdictions that use negative assurance language in preparing such documentation.
- The IAASB noted that the public sector perspective includes a limitation in scope to “significant public sector entities” and that “significant” is defined in terms of “public interest”. It was noted that this could potentially cover a wide range of entities. Consequently, the IAASB instructed the Task Force and the Public Sector Committee to give further consideration to the implication of this paragraph.

#### *Effective Date*

The IAASB agreed to change the effective date for ISQC 1 from January 1, 2005 to December 15, 2004. The effective date for ISA 220 would also change to apply to audits of financial statements for periods commencing on or after December 15, 2004.

#### *Way Forward*

The Task Force agreed to present final drafts to the IAASB for approval in February 2004.

### **7. Audit Risk Conforming Changes**

Mr Kellas provided an overview of the proposed conforming changes arising from the audit risk standards and the process followed by the Task Force in determining the nature and extent of conforming changes. He noted that this process contained sufficient checks and balances to ensure consistency in the conforming changes, as follows:

- The changes had originally been drafted following approval of the exposure drafts. At this stage, each conformed draft had been reviewed in detail by at least one task force member, and the task force as a whole had discussed the outcome of these reviews. The drafts had then been made available to the Board.
- On the finalization of the audit risk ISAs, staff had proposed further conforming changes, though these were limited in number.
- Mr Kellas had reviewed all conforming changes proposed by Staff, and there was a secondary review by each Task Force member of at least one of the conformed standards as a quality check on the more significant changes. Again the conformed standards were made available to Board members so that they could review and comment.

Mr Kellas noted that some structural changes make the proposed changes look more extensive than they actually are, and that there is no change in the substance of the standards. He presented three conformed standards to the IAASB to illustrate the nature and extent of the conforming changes, and requested comments.

The IAASB agreed on various editorial changes to the three standards presented in the agenda material as well as on certain of the other standards subject to conforming changes.

The IAASB deliberated whether the conforming changes should be exposed for public comment before they are approved. The IAASB agreed that this was not necessary, but that the appropriate due process for these conforming changes, beyond that which has already been undertaken, should include member submission of any significant comments by December 24<sup>th</sup>. Subject to any resultant changes, the conforming changes will be made available on the IAASB website.

### **8. Next Meeting**

Arrangements for the February 16-19, 2004 meeting in New York were discussed. It was noted that the meeting is planned to close no later than 16:00 pm on February 19<sup>th</sup>, and that members will be advised if there is a change in the close of the meeting from February 19<sup>th</sup> to February 18<sup>th</sup>.

### **9. Closing Remarks**

Mr Mertin thanked the IDW for hosting the meeting and with assisting with the necessary arrangements. Mr Mertin thanked IAASB members for their cooperation and enormous support, and wished the IAASB every success in the future. He also noted the Mr Kellas will

be succeeding him as the new Chair of the IAASB in 2004 and wished him every success during his term.

On behalf of the IAASB, Mr Kellas thanked Mr Mertin for all that he has done in supporting the profession through his years of service on the IAPC and in the last three years in leading the IAASB as Chair.

Mr Mertin closed the meeting.