

**Minutes of the 11th Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
Held on June 14-17, 2004**

At the Hotel Skt. Petri, Krystalgade 22, Copenhagen

Voting Members

Present:

John Kellas (Chairman)
Denise Esdon (Vice Chair)
John Archambault
Philip Ashton
Roger Dassen
Denis Desautels
Sukanta Dutt
Josef Ferlings
John Fogarty
Jan Bo Hansen
Gen Ikegami
Ian McPhee
Ian Plaistowe
Roger Simnett
Roberto Tizzano
Gérard Trémolière
Mowafak Al Yafi

Technical Advisors

Wolfgang Böhm (Mr Ferlings)
Cédric Gélard (Mr Trémolière)
Jon Grant (Mr Plaistowe)
Leila Hammoud (Dr Al Yafi)
Diana Hillier (Mr Ashton)
Susan Jones (Mr Fogarty)
Richard Mifsud (Mr McPhee)
Keith Newton (Mr. Archambault)
Emilio Palma (Mr Tizzano)
Greg Shields (Mr Desautels)
Tan Shook Kheng (Mr Dutt)
Sylvia Smith (Mr Kellas)
George Tucker (Mrs Esdon)
Hans Verkruijsse (Mr Dassen)
Yuichi Yamamoto (Mr Ikegami)

Apologies:

Rogério Gollo

Tania Sergott (Mr Hansen)

Non-Voting Observers

Present:

Thomas Ray
Hisashi Yamaura

IFAC Technical Staff

Present:

Jim Sylph (Technical Director)
Sylvia Barrett (June 17)
James Gunn (June 16-17)
Jane Mancino
Michael Nugent

Alta Prinsloo

Ken Siong

1. Opening Remarks and Minutes

Mr Kellas welcomed the public observers to the meeting. He recognized the Chinese observers, a previous member and technical advisor of the IAASB, and Mr Peter Poulsen, a member of the IAASB Consultative Advisory Group (CAG).

An apology was received from Rogério Gallo. He did not appoint a proxy.

The minutes of the public session of the meeting held on June 14-17, 2004 in Toronto were approved as presented.

2. Auditor's Report

Mr Ashton provided an overview of the comments received on exposure. The vast majority of respondents expressed support for the exposure draft and the direction taken. Comments on the proposals were varied and a broad range of issues and comments were offered, although often in only one or two responses. The amendment to the description of the auditor's responsibilities to align with the audit risk model was well received, as was the proposal for a two-part reporting model to accommodate other reporting responsibilities in a particular jurisdiction. Most of the respondents were also supportive of the direction taken regarding the split between ISAs 700 and 800, although a minority had strong arguments against, particularly relating to the prospect of issuing ISA 700 before the revision to ISA 800 was completed. Comments from the member bodies were wide spread. It was this group of respondents that was most negative about the split of the ISAs 700 and 701. Firms and regulators were more concerned with the clarity of guidance, particularly in relation to auditor's responsibilities, the date of the auditor's report and the applicable financial reporting framework. Mr Ashton noted that a formal response on the exposure draft was expected from the European Commission (EC) after the EC Committee on Auditing meeting later in June 2004.

APPROACH AND TIMING

Split between ISAs 700 and 701

The IAASB deliberated the three options presented by the task force regarding the split between ISAs 700 and 701, i.e. (a) combine ISAs 700 and 701 now, making it clear that the section on modified reports has been changed for conforming wording only and is under revision; (b) keep ISAs 700 and 701 separate for now pending the completion of the ISA 701 project, and recombine the two into a single standard once the revisions are completed; and (c) continue with the current plan keeping ISAs 700 and 701 separate. After due consideration, the IAASB concluded that, on balance, it was preferable to proceed with the current plan mainly because of the importance of having revised wording for the auditor's report in place at the same time that the Audit Risk Standards come into effect. Mr Ashton noted that the IAASB would have the opportunity to re-evaluate this decision at the December 2004 meeting since all three ISAs (700, 701 and 800) would be presented at that meeting.

Timing of ISA 700 revisions

The IAASB deliberated the issue of timing of final approval of the ISA 700 revisions in light of the concerns raised by some respondents regarding the risk that ISA 700 might have to be re-opened for revision when ISAs 701 and 800 are finalized. The IAASB noted that ISA 700 is a reporting standard and as such would not require a long lead time for implementation. There was therefore some flexibility in

pushing back final approval until June 2005 at the latest if necessary. The IAASB agreed that the task force should present the ISA 700 revisions for approval in principle at the December 2004 IAASB meeting, subject only to non-substantive revisions that might arise from the finalization of the revisions to ISAs 701 and 800 by June 2005.

FORMING AN OPINION ON THE FINANCIAL STATEMENTS

Whether “true and fair” and “presents fairly, in all material respects” are equivalent

The IAASB debated the merits of the proposed deletion of the qualifying term “and are equivalent” immediately following the terms “give true and fair view” and “presented fairly, in all material respects” used to express the auditor’s opinion on the financial statements. The IAASB noted that the term “and are equivalent” already exists in the ISA literature and that by deleting this qualifier, it would not be apparent to readers that the terms “give true and fair view” and “presented fairly, in all material respects” are equivalent. After due consideration, the IAASB agreed that, on balance, it was preferable to reinstate the qualifier “and are equivalent.”

Whether “fair presentation” is an accounting or auditing concept or both

Ms Hillier presented an overview of the main issues raised by commentators regarding whether “fair presentation” is an accounting or auditing concept or both, and whether the auditor’s opinion is a one-part or two part opinion. IAASB members noted that in certain jurisdictions, the wording of the audit opinion is specified in law and consequently, a term such as “fair presentation” would not be used in the audit opinion. The IAASB agreed that ISA 700 should have the flexibility to accommodate different wording of the audit opinion when prescribed by law for general purpose financial statements.

The IAASB also debated what criteria should be used for the auditor to evaluate the fair presentation of the financial statements as a whole. The IAASB agreed that whilst the auditor should evaluate “fair presentation” in the context of the financial reporting framework, the auditor should also be required to consider additional disclosures that might be necessary to achieve fair presentation. IAASB agreed that in an audit of general purpose financial statements the auditor needs to “stand back” to consider the overall financial statement presentation, whether or not specifically discussed in the financial reporting framework. However, after further deliberation, the IAASB agreed that further clarification in the guidance was needed to clearly distinguish between the concepts of (a) fair presentation in the context of the financial reporting framework, and (b) the rare circumstances when it is necessary to depart from a specific requirement in the financial reporting framework in order to achieve the objective of fair presentation. Where the concept of fair presentation is not already embedded in the financial reporting framework, guidance should be provided on the evaluation of the fair presentation of the financial statements as a whole.

The IAASB agreed on a number of other editorial and structural changes.

APPLICABLE FINANCIAL REPORTING FRAMEWORK

Acceptable financial reporting framework

Ms Smith explained the task force’s proposal to expand the concept of acceptable financial reporting framework to include frameworks that are also accepted by regulators. The problem created in the exposure draft was that the guidance stated that the auditor should not accept the engagement if the financial reporting framework is not suitable, yet auditors may be compelled by law or regulation to report

using a specified regulatory financial reporting framework. The IAASB noted that the task force's solution would broaden the concept of "acceptability" more than intended, since there could be frameworks adopted by regulatory bodies that do not inherently achieve a true and fair view or fair presentation. An added complication is the interrelationship with the stand-back provision, as the auditor could be faced with the prospect of concluding, at the end of the audit, that the regulatory financial reporting framework does not provide a fair presentation. The IAASB debated whether all financial statements based on regulatory financial reporting frameworks should be considered special purpose audits under ISA 800 but concluded that this would not be a workable option. The IAASB asked the task force to reconsider the approach to deal with financial reporting frameworks established by regulatory bodies.

The IAASB asked the task force to provide an example and related guidance to clarify the auditor's responsibilities when dealing with regulatory requirements that supplement, or allow exceptions from, the accounting standards that form the primary basis for the financial reporting framework.

The IAASB considered the proposed wording changes for ISAs 200, 210 and 700 relating to the applicable financial reporting framework.

DATE OF THE AUDITOR'S REPORT

The IAASB agreed on the following:

- An expanded definition of "date of the report on the financial statements."
- The task force should reconsider the example provided in terms of communication of material internal control weaknesses to those charged with governance.
- The ISA should avoid being too specific about the mechanics of dating and signing of the auditor's report, since requirements might vary amongst jurisdictions.
- The distinction between the terms "issuing" and "approving" should be made clearer.

OTHER ISSUES

The IAASB agreed that the auditor's report should:

- Not have an expanded discussion of the inherent limitations of an audit.
- Not have an expanded discussion of management's responsibility regarding communication of material internal control weaknesses to those charged with governance.

The task force was asked to present a first read of the proposed revisions to the exposure draft wording in September with the final ISA 700 revisions for approval at the December 2004 IAASB meeting.

3. Planning

Ms Esdon led a review of the proposed revised ISA. In addition to editorial and structural changes, the IAASB agreed to the following:

- The references to other ISAs in the introduction are redundant and can be deleted.
- References to the IFAC Code of Ethics for Professional Accountants should be removed to minimize conflicts with national ethical codes.
- References to the auditor's application of professional judgment in certain places in the proposed ISA should be removed since professional judgment permeates all facets of an audit.

- References to “standard audit programs or audit completion checklists” should be retained to acknowledge that these may legitimately be used as long as they are appropriately tailored to the individual engagement circumstances.

A revised proposed ISA, taking account of the IAASB’s comments, was submitted for consideration later in the meeting. The IAASB agreed the proposed changes and certain minor additional changes.

Mr Kellas asked whether, based on the changes processed to the exposure draft, there was a need to re-expose the proposed ISA. The IAASB agreed that re-exposure was not necessary.

The IAASB members present at the meeting voted unanimously to issue the proposed ISA as a final ISA.

4. Documentation

Mr Dassen invited Mr Ray to discuss features of the PCAOB’s Auditing Standard No. 3, “Audit Documentation,” released on June 9, 2004. Mr Ray highlighted the following main differences, as compared with the IAASB’s draft ISA:

- The PCAOB Standard requires that audit documentation demonstrate that the underlying accounting records agree or reconcile with the financial statements.
- It requires audit documentation to contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand the procedures performed, evidence obtained and conclusions reached. There is no separate evaluation of sufficiency and appropriateness.
- It also requires the auditor to identify all significant findings or issues in an engagement completion document, which will facilitate an effective review of the work.
- The file-assembling period is 45 days from the report release date.

The IAASB agreed that the requirement for audit documentation to demonstrate that the underlying accounting records agree or reconcile with the financial statements should be adopted as a conforming amendment to ISA 330, “The Auditor’s Procedures in Response to Assessed Risks.”

The main issues highlighted in the meeting material accompanying the draft ISA were discussed. Mr Dassen also relayed comments received from the CAG at its June 7-8, 2004 meeting. The IAASB agreed to the following:

- *Subsequent changes to audit documentation.* The overarching principle should be that, after the date of the auditor’s report, the auditor should not make changes to audit documentation that reflect new evaluations or conclusions unless the auditor clearly documents (a) when and by whom such changes were made and, where applicable, reviewed; (b) the reasons for the changes; and (c) the effect, if any, of these changes on the auditor’s conclusions.
- *File-assembling period.* The audit file should be assembled and completed without undue delay. The period should be set at 60 days after the date of the auditor’s report. The explanatory memorandum to accompany the exposure draft should explain the reasons for proposing a period different from that in the PCAOB’s Standard.

- *Information that comes to the auditor's attention after the date of the auditor's report.* To the extent that the auditor evaluates the new information, the auditor should retain it and document it accordingly.
- *Test of sufficiency.* The threshold for sufficiency of audit documentation should be the level needed by an experienced auditor.
- *Documentation of contradictory information.* To the extent that the auditor has identified information that materially contradicts the auditor's final conclusions, the auditor should document that information and how the auditor addressed it.
- *The role of oral explanations.* Oral explanations may be used to clarify documented information but on their own, they do not represent sufficient support for the audit work performed.

The IAASB conducted a review of the proposed exposure draft and certain detailed changes were agreed. On the last day of the meeting, the IAASB conducted a final review of a revised document and provided comments to the task force. The IAASB agreed to consider a final exposure draft for approval at its September 2004 meeting. It also asked the task force to prepare certain proposed conforming amendments to ISQC 1, "Quality Control for Firms that Perform Audits or Reviews of Historical Financial Information, and Assurance and Related Services Engagements," and to prepare an explanatory memorandum to accompany the exposure draft.

The IAASB also agreed that the proposed documentation Standard for review engagements should not be finalized until comments on the exposure draft on audit documentation have been evaluated.

5. Group Audits

Mr Hansen noted that a total of 40 comment letters were received on the exposure draft of the audit of group financial statements. He presented the task force's recommended dispositions.

DIVIDED RESPONSIBILITY

The task force recommended that the standards and guidance should not distinguish between sole and divided responsibility and the group auditor's procedures should be strengthened. The task force found IOSCO's comments on sole v. divided responsibility very helpful in bridging the differences between the two approaches.

The task force also recommended that the reporting standards and guidance should be revised to indicate that national law or standards may allow a group auditor to refer to another auditor in the auditor's report on the group financial statements, but that such reference does not affect the group auditor's procedures. Furthermore, the reference should be in an emphasis of matter paragraph. Careful consideration will have to be given to developing the wording in order to be transparent as to other auditors' involvement in the audit, but not to create the impression that the group auditor does not take full responsibility for the auditor's report on the group financial statements.

The task force's recommendations were discussed at the June 7-8, 2004 CAG meeting. CAG asked whether this recommendation will lead to an elimination of divided responsibility and noted that, if that is the case, this should be clearly communicated. An IAASB member noted that it does not make sense to retain the concept of division of responsibility when the group auditor's procedures are the same under

both approaches. Mr Hansen indicated that this matter will be considered once the task force has developed the proposed revised standards and guidance. The task force will then propose recommendations with regard to communicating the revisions.

STRENGTHENED PROCEDURES FOR THE GROUP AUDITOR

Mr Hansen explained that the proposed strengthened procedures are linked to the new audit risk model, and the proposed relationship between the group auditor and other auditors are more pro-active.

An IAASB member wanted to know how the proposals should be applied in the case of an associated company where the parent does not have control and the group auditor's access to relevant information may be restricted. Mr Hansen explained that, if the associated company is of individual financial significance or has been identified at group level as likely to include significant risks of material misstatement of the group financial statements, the auditor will have to consider the effect that such a scope limitation may have on the auditor's report on the group financial statements.

Concern was expressed that the proposed procedures to be performed by the group auditor – particularly at component level – may not be practical and necessary in all circumstances, and “are going too far.” The task force's recommendations are based on the principle that the group auditor should obtain sufficient appropriate audit evidence on which to base the audit opinion on the group financial statements. The IAASB was asked to consider whether another auditor's report on a component's financial information constitutes sufficient appropriate audit evidence. The task force is of the view that it does not constitute such evidence, and that the group auditor has to obtain additional audit evidence. The objective of the additional audit evidence should be determined – i.e. whether it is to confirm the appropriateness of the group auditor's reliance on the other auditor's report (review of the other auditor's work), or to obtain additional audit evidence on the component's financial information. The task force believes that, for components that are of individual financial significance and components that have been identified at group level as including significant risks of material misstatement of the group financial statements, the group auditor should directly obtain audit evidence on the component's financial information. An IAASB member suggested that, in addition to directly obtaining audit evidence, the group auditor should also be concerned about the quality of the other auditor's work.

An IAASB member suggested that the focus should be on significant risks only, i.e. individual financial significance may give rise to risk, but it is not a separate category of components. In the case of components that include significant risks of material misstatement of the group financial statements, the group auditor should not be required to directly perform procedures on the financial information of these components or to participate in the work of the other auditor, but should be required to determine the procedures to be performed based on the circumstances. Furthermore, although the fact that the group auditor and a related auditor may apply the same audit methodology may affect the group auditor's procedures, it should not be “cast in stone,” as circumstances may differ.

The IAASB asked the task force to further develop the revised standards and guidance. It was also agreed that the following terms should be further clarified: “involvement,” “participation” and “directly perform.”

RELATED V. OTHER AUDITORS

The task force recommended that the definition of “related auditor” should be narrowed to focus on firms with common quality control monitoring policies and procedures as described in ISQC 1. The fact that a related auditor applies an audit methodology common to that of the group auditor will also affect the procedures that the group auditor is to perform in relation to that auditor’s work. Also, the group auditor will be required to determine whether a related auditor is in fact a related auditor.

Mr Hansen reported that CAG had asked the task force to give guidance on the actions that the group auditor should take where deficiencies have been identified in the quality control system of a network firm. In addition, the term “group auditor” should be clarified, as it was not clear whether it is referring to an individual or an audit firm. An IAASB member asked that this clarification should also include a consideration of the concept of joint auditors. It was agreed that the concept of joint auditors should be considered, but not as part of this project, as it is not unique to group audits.

ACCEPTANCE AND CONTINUANCE

The task force recommended that the standards and guidance should be revised to clarify that the group auditor should not accept an engagement where (a) the group auditor and related auditors directly perform work on less than a significant portion of the group assets, liabilities, cash flows, profit or turnover (determined in relation to size and risk), or (b) the work on the financial information of a component that has been identified at group level as likely to include significant risks of material misstatement of the group financial statements is performed by an other auditor unless the group auditor or a related auditor will be able to participate in the work of the other auditor. The task force believes that it is important to retain the 50% acceptance/retention proposal, as different firms may apply different benchmarks.

An IAASB member suggested that the group auditor’s decision should be based on significant risks only. However, another thought that the proposed size criteria is helpful as – at acceptance stage – the auditor may not have the information necessary to take a decision based on significant risks only. Some IAASB members indicated that they were not in favor of quantifying the size of the group auditor’s involvement.

An IAASB member noted that, as the related auditors’ involvement in the audit of the group financial statements is included in the calculation of the group auditor’s involvement, it is important that the group auditor also considers the professional qualifications, etc. of a related auditor.

The task force was asked to consider the application of the proposals to groups of companies other than public companies – where there may be a number of unrelated auditors involved in the audits of these companies. The proposals may lead to the appointment of one or a small number of auditors for a group of companies. This may be to the disadvantage of small audit firms. In general, some members of CAG have asked the IAASB to think about the audit of small entities first when developing ISAs. However, in the context of the audit of group financial statements, it has asked that the task force focuses on the users of the auditor’s report by improving the quality of the audits of group financial statements and not on preserving work for small or large audit firms.

RE-EXPOSURE

The proposed strengthened procedures to be performed by the group auditor may have significant economic consequences and the task force is planning to consult with some external parties before

finalization of the proposed revised standards and guidance. In addition, the task force is proposing re-exposure of the revised standards and guidance.

Generally, the IAASB members agreed that it is likely to be necessary to re-expose, but noted that they will confirm their agreement after consideration of the proposed revised standards and guidance.

TIMETABLE

The IAASB asked the task force to finalize the revised ISA and IAPS for issue in December 2005.

6. Reports on Special Purpose Audit Engagements

Mr Dutt provided an overview of the project to revise ISA 800, “The Auditor’s Report on Special Purpose Audit Engagements.” He noted that the task force had identified 13 issues and that seven of the issues were addressed in the issues paper submitted for consideration at this meeting. The outstanding issues will be presented to the IAASB at a later meeting. The IAASB agreed to the following matters:

PROJECT TIMETABLE AND SCOPE

- The task force should have the second issues paper ready for consideration when the IAASB next deliberates the project on its agenda.
- By December 2004, when the final revised ISA 700 will be considered by the IAASB, key positions on ISA 800 should have been presented to and deliberated by the IAASB in order to avoid the potential for conflicting positions.
- Auditor’s reports on summarized financial statements should be dealt with in the revision of ISA 800; however, consideration of this topic will need to be given a lower priority than topics that affect the relationship between ISA 800 and ISA 700 so as not to delay completion of ISA 700. (Issues to be considered by the task force include how to deal with jurisdictions that do not have suitable criteria for summarized financial statements.)
- Auditor’s reports on the financial information of a component that is to be included in group financial statements should not be dealt with as part of this project because in many countries such reports are not in the public domain (therefore the need for standards to protect the public interest is diminished), and consideration of this issue is likely to delay the project beyond that necessary to coordinate with the revision of ISA 700 and ISA 701.
- The following issues should be dealt with by the task force:
 - Modifications to auditor’s reports on other historical financial information.
 - Limitations on the distribution of such auditor’s reports.
 - The adequacy of disclosure in other historical financial information.
 - Whether an auditor should audit an entity’s complete set of financial statements to be able to express an opinion on specified information that is based on the entity’s net income or equity (with the guidance to be based on that in extant ISA 800).
 - A change in the nature of an engagement (with the guidance to be based on that in International Framework for Assurance Engagements).
 - Use of a cash basis other than when applied by a public sector entity in accordance with IPSASs (which is covered in the proposed revised ISA 700).
- The task force should not address different levels of service on a given set of financial statements, for example, an audit of the balance sheet but a review of other statements for the period ending on the date of the audited balance sheet, since Standards on reporting for the respective levels of service already exist.

- While it was noted that the extent to which ISA 800 is used varies considerably between countries, it was also noted that its revision will be important for many countries, particularly given the fact that the proposed revised ISA 700 is restricted to complete sets of general purpose financial statements only.

INTRODUCTION AND TITLE

- The guidance in the proposed revised ISA 800 should be based on principles that have general application, rather than only a collection of rules applicable to specific situations.

TERMINOLOGY

- The task force will work with the term “financial reporting framework” (being “a set of criteria that is applied in preparing and presenting financial information”) rather than the terms “comprehensive basis of accounting” or “an other comprehensive basis of accounting.”

ACCEPTABILITY OF THE FINANCIAL REPORTING FRAMEWORK

- The auditor of other historical financial information should determine whether the applicable financial reporting framework is acceptable in the circumstances.
- A general purpose financial reporting framework or one determined by regulators will not necessarily be appropriate in all circumstances.
- The revised ISA should draw upon the principles in the International Framework for Assurance Engagements, in particular that criteria are context sensitive, and that the relative importance of each of the characteristics of suitable criteria, for example neutrality, to a particular engagement is a matter of judgment.

USE OF THE TERM “TRUE AND FAIR / PRESENT FAIRLY”

- The proposed revised ISA 800 should state a preference for the auditor’s opinion to use the expression “true and fair / present fairly.” It should also recognize, however, that in many cases other wording (for example, prepared in accordance with) is required by legislation, regulation or contract, or generally used and understood in practice. Where this is the case, the proposed revised ISA 800 should not disallow use of that other wording.
- Regardless of the choice of wording between these alternatives, the nature of the assurance to be obtained by the auditor is the same.
- The auditor should always have a “step back” responsibility, regardless of the wording used to express the opinion, and regardless of whether the preparer has a corresponding responsibility specified in the financial reporting framework. This position derives from the general responsibility not to be associated with misleading information. Whether or not information would be considered misleading will depend on the circumstances, including the needs of the intended users and the expected distribution of the other historical financial information. Suggestions for the task force to consider included stating the purpose of the information in the opinion itself, for example: “... present fairly in accordance with the criteria for the purpose of”

OTHER MATTERS

- The IAASB agreed with the recommendations of the task force, as set out in the issues paper, with respect to the adequacy of disclosures in other historical financial information, and public sector and small entity audit considerations.

7. Due Process

Mr Sylph explained that the IFAC reforms proposed certain enhancements to the due process followed by IFAC's Public Interest Activity Committees (PIAC), including the IAASB. He noted that the IAASB Steering Committee agreed that certain improvements to the IAASB's due process should be explored. Staff had been asked to prepare a draft description of the due process of the IAASB and, taking account of the IFAC reforms, to develop recommendations for possible enhancements thereto. He also noted that recent discussions with IOSCO have turned again towards the subject of "due process". The issues raised included the extent to which respondents' comments on exposure drafts are provided to the IAASB, how these comments are addressed and the basis for IAASB's conclusions thereon, and how a decision to re-expose a standard is made.

Mr Sylph presented the draft description of the due process, and proposed enhancements, as presented in the agenda material. He noted certain editorial suggestions made by CAG arising from discussion at its June 7-8, 2004 meeting. In addition to editorial changes, the IAASB agreed the following:

- The description of project identification, prioritization and approval should be amended to clarify that IAASB members may identify potential projects and are also involved in the process of prioritizing and approving new projects.
- A provision should be established for the IAASB to report back to the CAG or the PIOB on how the IAASB has responded to their suggestions on projects to be undertaken by the IAASB.
- The description should give recognition to the fact that the IAASB deliberates respondents' comments on exposure drafts at meetings open to the public and that related decisions are reflected in the minutes.
- The due process should provide for the possibility that the IAASB may discuss with respondents their letters of comment, or explain to them the reason(s) for not having accepted their proposals. It should specifically recognize that such discussion is expected to be regular practice for comments received from members of the Monitoring Group. In addition, the due process should provide for the nature and outcome of such discussions to be recorded in the minutes of the IAASB meeting at which the related project is discussed.
- Recognition should be given to the fact that project task forces, and therefore the IAASB, may not be able to give full consideration to comments received after the end of an exposure period.
- The current practice of recording the reasons for dissenting votes on an exposure draft or a final pronouncement in the minutes of IAASB meetings should be included within the proposed due process description.

It was noted that the IFAC reform proposals for due process complaints were questioned by CAG and will be referred to the IFAC Monitoring Group. As a result, the IAASB agreed that this part of the draft description should not be completed at this time.

The IAASB agreed that the revised draft description of the due process should be presented as an amendment to the Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services and circulated to the IAASB for approval by ballot as an exposure draft.

8. INTOSAI Update

Ms Johanna Gårdmark from the INTOSAI Secretariat in Sweden provided an update on the cooperation between INTOSAI and the IAASB. She noted that:

- There is a growing need for similar sets of standards for the public and private sectors. It is important that the areas where there are clear and objective reasons for differences in standards are identified at an early stage. The cooperation between INTOSAI and the IAASB is an important initiative in this regard.
- The INTOSAI Auditing Standards Committee has:
 - Finalized the Memorandum of Understanding with the IAASB.
 - Established a Working Group to assist it with the development of the Financial Audit Guidelines, which are to incorporate the ISAs.
 - Established a Reference Panel of experts and back office experts – 84 experts from 43 countries – to participate in IAASB task forces.
 - Established a process for nominating Reference Panel experts to participate in the IAASB task forces.
 - Established a Focus Group to contribute to the development of project proposals and other ad hoc projects.
 - Established a Project Secretariat to administer this work on behalf of the Working Group.

The Project Secretariat has nominated Reference Panel experts to participate in five IAASB task forces.

The Working Group has developed a first draft of a bridging document that illustrates the relationship between the INTOSAI Auditing Standards and the ISAs. The Working Group has also commenced work on INTOSAI practice notes relating to recently issued ISAs, i.e. where Reference Panel experts did not participate in the related IAASB task forces.

The Swedish National Audit Office currently receives limited funding from the World Bank for this project. The funding ends on June 30, 2004 and it is in the process of applying for additional external funds.

9. Clarity of IAASB Pronouncements

Mr Kellas provided an overview of the project and the work conducted to date by the task force. He explained that the proposal presented to the IAASB in December 2003 dealt primarily with the concerns raised by IOSCO and others over the status of the authority of bold v. grey lettered text and the possible ambiguity of the present tense in the explanatory (grey) material. It did not, however, address matters of the length and complexity of standards and the way in which they are structured, which the IAASB believed also required consideration as part of improving the overall clarity of standards.

Mr Kellas explained that the revised proposal comprises three interrelated aspects: (1) identifying and communicating the fundamental principles of auditing, (2) clarifying the professional requirements of the ISAs and interpreting the use of the present tense in explanatory material (as per the December 2003 proposal), and (3) restructuring the ISAs to distinguish professional requirements more clearly from explanatory material. As regards (2), the task force believes that applying the proposed categories of professional obligations to ISAs would not result in an unreasonable increase in the number of professional requirements. (This had been a concern of IAASB when discussing the matter in December 2003.) He noted that the proposal to restructure ISAs may assist practitioners in understanding what is

required of them, while retaining all of the explanatory material that provides context to the standards. The proposal neither adds nor deletes any material to or from the existing ISAs.

Mr Kellas reported that the IAASB CAG and IOSCO were consulted on the current proposal. In general, while both CAG and IOSCO supported the proposal to clarify professional requirements, they expressed concern over separating the professional requirements from the explanatory material of each ISA into two documents or separate sections of one document.

CATEGORIES OF PROFESSIONAL REQUIREMENTS OR OBLIGATIONS

The IAASB expressed general support for the proposal to clarify and communicate the professional requirements or obligations of a standard, and for the need to clarify the treatment of sentences describing audit procedures or actions in the present tense. The IAASB noted the following matters for further consideration by the task force:

- In describing the obligation imposed by a presumptively mandatory requirement, consideration should be given to whether the statement that a departure is allowed when it is necessary to achieve the objective of the *engagement* (as drafted and as per the Preface) should refer instead to the objective of the *standard*.
- The proposed requirement to justify departure from a presumptively mandatory requirement in writing should be explained further and reflected also in the proposed revised ISA 230 on audit documentation.
- Should the document be exposed, respondents' comments should be sought on whether use of the terms "shall" and "should" results in translation difficulties.

FUNDAMENTAL PRINCIPLES OF AUDITING

The IAASB expressed mixed views regarding the proposal to identify the fundamental principles of auditing. Some members suggested that a more structured, theoretical approach supported by research is needed to develop the principles, determine how professional requirements are to be derived from them, and how the link between the two should be expressed. It was also noted that, while the principles may be of assistance to the IAASB from a standards-development perspective, they may be of little benefit to practitioners, and that reaching agreement on the principles may detract from other efforts to improve clarity. Other members, however, expressed support for identifying the principles, noting that they are essential to an understanding of the objective of the audit and useful in guiding its conduct. The IAASB noted the following matters for further consideration by the task force:

- The description "fundamental principles of auditing" should be reconsidered and possibly replaced by "principles underlying an ISA audit," which may be more appropriate in the circumstances.
- Should the document be exposed, it should be made clear that resolution and agreement on the fundamental principles of auditing is not a prerequisite for the clarity proposal to proceed.

RESTRUCTURING

The IAASB expressed mixed views regarding the proposed restructuring of ISAs. Some members were not persuaded that the concerns over the length and perceived complexity of ISAs warrant restructuring, and expressed doubt over whether restructuring would achieve any substantive improvement if a practitioner is still obliged to read both elements. It was questioned whether any evidence exists that the length and complexity of the ISAs result in audit quality issues. It was noted that the length and complexity of ISAs are as a result of an increasingly complex business environment. Concern was also

expressed over the proposal to separate explanatory material from the professional requirements, which may possibly increase the risk of its being overlooked, irrespective of the authority to be given to the section of the standards containing the explanatory material. Other members, however, supported the proposed restructuring. It was observed that restructuring would assist practitioners to understand and absorb the requirements of the standard while providing the ability to delve into the application guidance as needed. The IAASB noted the following matters for further consideration by the task force:

- In the absence of general support by the task force for the option of restructuring an ISA into two separate documents (rather than one document with two sections), this alternative should be removed from the options under consideration. If options are to be presented, however, other options, such as creating a “basis for conclusions” for each ISA or positioning application guidance within IAPs, should be explored.
- Should the document be exposed, respondents’ comment should be sought on the effect of restructuring on local standard-setting environments and on convergence, and whether the length and complexity of ISAs is actually creating problems in practice.
- In the illustrative restructured ISA, consideration should be given to whether presenting the “application material” section before the “standards,” results in a better flow to the document, and whether the positioning of the effective date paragraph and use of the term “essential explanatory material” is appropriate.

The IAASB agreed that an exposure draft and a revised discussion paper should be presented to the September 2004 IAASB meeting for purposes of approval for issue. It was agreed that:

- The proposal to articulate professional requirements by identifying categories of professional obligations and their related authority should be presented as a draft exposure draft. This should follow the style of the proposed Policy Statement presented to the IAASB in December 2003. An illustration of how the draft exposure draft might be applied should be prepared for IAASB consideration.
- The issue of the length and complexity of standards, and the possible restructuring options, should be presented within a draft consultation paper seeking further input on improving the clarity of standards. The draft consultation paper should present a balanced discussion of the issues raised and the differing viewpoints on the possibility of restructuring. The illustrative ISA showing how the restructuring of an ISA might be affected should accompany the draft consultation paper.
- The proposed “fundamental principles of auditing” should be brought forward for further consideration, either as part of the draft exposure draft or draft consultation paper.
- The draft exposure draft and consultation paper should seek respondents’ view on the merits of both the “modified prospective” and “prospective” implementation approaches. The “big bang conversion” option is not practical and should be recognized but not recommended.

10. Materiality

At the April 2004 IAASB meeting there was support for a suggestion that, if the applicable financial reporting framework provides a definition of materiality, the auditor should be required to use that definition when considering materiality for audit purposes. The revised ISA 320 would provide a definition for use when one is not given in the applicable financial reporting framework. To enable the IAASB to consider this suggestion, staff had been asked to prepare a paper dealing with the definitions of materiality that exist in different financial reporting frameworks.

Mr Grant presented staff's paper to the IAASB. He explained that, since most countries would need to use the definition of materiality included in the IFRSs, the task force recommends that the IFRS definition of materiality should be used in the proposed revised ISA on materiality. Furthermore, the definition of materiality needs to be qualified by reference to general purpose financial statements. It may not apply to special purpose engagements.

The IAASB concluded that this was a reasonable starting point for its discussion in September 2004.

11. First Time Adoption of IFRSs

The 2005 adoption in the European Union of IFRSs endorsed by the EC, and the adoption of IFRSs in other countries, has given rise to requests for various forms of auditor's reports on related financial information, including the IFRS opening balance sheet.

In order to develop guidance and to ensure consistency in practice, representatives from professional accounting bodies, national standard setters and audit firms have met to discuss the possibility of joining efforts to develop a set of questions and answers on auditor's reports that may be issued with regard to the first time adoption of IFRS.

It was agreed that:

- The questions and answers document should make it clear that it was not approved, disapproved, or otherwise endorsed by the IAASB and does not constitute authoritative or official pronouncements or statements of the IAASB or IFAC.
- Once finalized, it should be circulated to the IAASB for negative clearance.
- If IAASB members are concerned about the scope of the guidance, i.e. it may be wider than the scope of the IAASB's activities, they should raise this on negative clearance.

12. Next Meeting

The next meeting of the IAASB is scheduled for September 13-17, 2004 in New York.

13. Closing Remarks

Mr Kellas thanked Mr Hansen and the Foreningen af Statsautoriserede Revisorer of Denmark for hosting the meeting and for assisting with the necessary arrangements.

Mr Kellas closed the meeting.