

**Draft Minutes of the 14<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD  
Held on March 7-11, 2005  
In Lima, Peru**

**Voting Members***Present:*

John Kellas (Chairman)  
Denise Esdon (Deputy Chair)  
Inga-Britt Ahlenius  
Philip Ashton  
Craig Crawford (March 7-8)  
Sukanta Dutt  
Josef Ferlings  
John Fogarty (March 7-8)  
Rogério Gollo (March 7-10)  
Jan Bo Hansen  
Gen Ikegami  
Ian McPhee  
Bodo Richardt (March 7-10)  
Roger Simnett  
Roberto Tizzano  
Gérard Trémolière  
Mowafak Al Yafi  
Will Rainey

**Technical Advisors**

Kelly Ånerud (Ms Ahlenius)  
Wolfgang Böhm (Mr Ferlings)  
Cédric Gélard (Mr Trémolière)  
Jon Grant (Mr Rainey)  
Diana Hillier (Mr Ashton)  
Susan Jones (Mr Fogarty)  
Richard Mifsud (Mr McPhee)  
Emilio Palma (Mr Tizzano)  
Tania Sergott (Mr Hansen)  
Tan Shook Kheng (Mr Dutt)  
Makoto Shinohara (Mr Ikegami)  
Sylvia Smith (Mr Crawford)

*Apologies:*

George Tucker (Ms Esdon)

**Non-Voting Observers***Present:*

Thomas Ray  
Hisashi Yamaura

*Apologies:*

David Damant

**IFAC Representatives and Technical Staff***Present:*

Jim Sylph (Technical Director), James Gunn, Jane Mancino, Michael Nugent, Jan Munro  
(March 9-10), Alta Prinsloo, Ken Siong (March 7-10)

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

### **WELCOME AND INTRODUCTIONS**

The President of the Federacion de Colegios de Contadores Publicos del Peru welcomed the meeting participants and wished them a productive meeting. Mr. Kellas thanked the Federacion for their kind invitation to Peru, and for the arrangements made for the meeting.

Mr Kellas noted that the following new members and technical advisors had been appointed since the last meeting: Ms Ahlenius (technical advisor, Mrs Ånerud), Messrs Rainey (technical advisor, Mr Grant), Richardt, and Crawford (technical advisor, Mrs Smith), and Mr Shinohara as technical advisor to Mr Ikegami. He welcomed all those attending their first meeting.

Mr Kellas noted that apologies had been received from Messrs Al Yafi, and Rainey as well as Mr Damant, the Chairman of the Consultative Advisory Group (CAG). In addition, Messrs Crawford, Fogarty, Gollo and Richardt have advised that they have to leave the meeting early.

Proxies were noted as follows: Mr Grant for Mr Rainey, Mr Kellas for Mr Richardt, Mrs Sergott for Mr Fogarty, Mrs Smith for Mr Crawford, Mr Ashton for Mr Gollo.

Mr Kellas noted that this would be the last meeting to be attended by Susan Jones. He thanked her for her contribution while in various roles with IFAC, the IAASB and its predecessor the International Auditing Practices Committee. He wished her success for the future.

### **INTOSAI AUDITING STANDARDS COMMITTEE WORKING GROUP**

Mr Kellas noted that the INTOSAI Auditing Standards Committee Working Group had met in Lima the previous week. The group is responsible for developing financial audit guidelines for the public sector based on International Standards on Auditing (ISAs). This enabled members of the working group to observe the IAASB meeting. He welcomed eight INTOSAI observers and, in particular, Mr Larsson, Auditor-General of the Swedish National Audit Office and chairman of the INTOSAI Auditing Standards Committee and the working group.

Mr Larsson noted the importance of the INTOSAI-IAASB project whereby public sector experts are involved in the IAASB task forces to assist with the development of public sector considerations to be included in the ISAs.

### **MINUTES OF PREVIOUS MEETING**

The minutes of the public session of the previous IAASB meeting were approved as presented.

## **2. The Auditor's Communication with Those Charged With Governance**

Mr McPhee, chairman of the task force, noted that this was a joint project with the Australian Auditing and Assurance Standards Board. Since the previous meeting, the task force had considered the application of the proposed standards and guidance to small entities, and added a section dealing with circumstances where those charged with governance are involved in the management of an entity. The IFAC Small and Medium Practices Permanent Task Force have been consulted regarding this new guidance.

Mr McPhee led a review of the proposed revised ISA 260. The key matters discussed were:

- The guidance, and the related exemption, for cases where all of those charged with governance are involved in managing the entity. It was agreed this guidance should be amended to clarify the requirements to which the exemption applies.
- The guidance associated with the requirement to communicate certain matters, other than those arising from the audit, that relate to the financial reporting and disclosure process. In particular, the task force was asked to minimize the likelihood of this guidance being interpreted as a complete checklist of such matters.
- The requirement for the auditor of a listed entity to communicate regarding independence. In particular, the term “assurance team,” as used in the *IFAC Code of Ethics for Professional Accountants*, is to be replaced with “engagement team and others in the firm as appropriate,” and the task force is to communicate with the IFAC Ethics Committee regarding possible wording changes in the Code to ensure that only significant matters are required to be communicated.
- The appendix summarizing communications requirements of other ISAs. It was agreed that the appendix be deleted.

The IAASB reviewed and discussed a revised draft reflecting the changes agreed during the earlier discussions, and approved the issue of the proposed ISA as an exposure draft. The closing date for comments was set as July 31, 2005.

### **3. The Independent Auditor’s Report on Other Historical Financial Information**

Mr Dutt provided a brief overview of the scope of the project and summarized the main issues highlighted in the proposed explanatory memorandum. He indicated that the task force proposed to split the extant ISA 800. While the possibility of some renumbering was under consideration, for purposes of the discussion the split would be recognized as a revised ISA 800, “The Independent Auditor’s Report on Other Historical Financial Information,” and a new ISA 810, “The Independent Auditor’s Report on Summarized Audited Historical Financial Information.”

Mr Dutt led a review of the proposed revised ISA 800 and the proposed ISA 810.

#### **REPORTING ON A SINGLE ELEMENT, ACCOUNT OR ITEM OF A FINANCIAL STATEMENT**

Concern was expressed about the suggestion that other ISAs need to be applied, adapted as necessary, in an audit of a single element, account or item of a financial statement. It was argued that, without further guidance on ‘adaptation,’ practitioners may not know how to apply the ISAs in such an audit; some argued that it was unrealistic to suggest that all the ISAs should be applied to audits that were so limited in their objectives. It was also argued that engagements to ‘audit’ a single element, account or item of a financial statement normally are driven by national law or regulation, and may be conducted using agreed or specified procedures. Accordingly, it was questioned whether the IAASB should seek to address such engagements. The majority of the IAASB members agreed that auditors’ reports issued as a result of an audit of a single element, account or item of a financial statement should remain within the scope of the proposed revised ISA 800.

Concern was also expressed about the use of the terms “true and fair” and “presents fairly, in all material respects,” in an audit opinion on a single element, account or item of a financial statement. Practice varies in different jurisdiction, and there seemed to be insufficient reason to change the

current guidance in ISA 800. It was therefore agreed that the guidance in the revised ISA should continue to permit the use of these terms in such audit opinions.

#### TRUE AND FAIR OVERRIDE AND CONSIDERATION OF MISLEADING INFORMATION

The IAASB discussed the distinction between a financial reporting framework designed to achieve fair presentation and a financial reporting framework not designed to achieve fair presentation, and the effect that it has on (a) the terms used in the audit opinion, and (b) the auditor's "step-back" responsibility or responsibility not be associated with misleading information.

It was also noted that the guidance in the proposed ISA 810 was inconsistent with the guidance in the proposed revised ISA 800. The proposed ISA 810 does not provide for the auditor to consider whether the summarized financial information may result in a misrepresentation of the financial information when the responsible party is required or expressly permitted to issue summarized financial information under law or regulation that imposes no corresponding obligation on the responsible party.

The IAASB was asked to submit further comments to the task force to enable it to reconsider its recommendations in this area.

#### OTHER MATTERS FOR CONSIDERATION BY THE TASK FORCE

Amongst other matters, it was also agreed that the task force should consider the following:

##### *Proposed Revised ISA 800*

- Whether the standards and guidance on prescribed forms of report should provide for circumstances where law or regulation requires the auditor to report in the prescribed format.
- The need for additional guidance on piecemeal opinions, providing a link to the related guidance in the proposed ISA 701 (Revised), "Modifications to the Opinion in the Independent Auditor's Report."
- The appropriateness of the guidance on materiality, i.e., in the circumstances where, in preparing other historical financial information for a special purpose, the responsible party has agreed with the intended users on the materiality level.

##### *Proposed ISA 810*

- The need to clarify that, where criteria for preparing and presenting summarized financial information are not publicly available, the criteria should be made available, i.e., in accordance with the International Framework for Assurance Engagements.
- The need to clarify the auditor's responsibility to evaluate whether the summarized financial information appropriately discloses matters that have a pervasive or otherwise significant effect on the summarized financial information.
- Whether the auditor should disclaim an opinion on the summarized financial information when he or she has expressed an adverse opinion or disclaimed an opinion on the financial information from which the summarized financial information has been derived.
- The length of the example auditors' reports on summarized financial information.

Board members were asked to submit written comments on any items in the draft documents that had not been addressed to the task force by April 4. The task force was asked to consider the IAASB's comments and to present revised documents for approval to be issued as exposure drafts at the June 2005 IAASB meeting.

#### **4. Modifications to the Opinion in the Independent Auditor's Report**

Mr Hansen summarized the main objectives of the project. The task force proposed to use the term "modified opinion" to refer to the three types of modification: "except for," "adverse" and disclaimer." Mr Hansen also explained the split between the proposed ISA 701 (Revised), "Modifications to the Opinion in the Independent Auditor's Report" and the proposed ISA 702, "Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor's Report."

##### **PROPOSED ISA 701 (REVISED)**

The IAASB discussed the extent to which the auditor should have an obligation to disclose in the auditor's report information about the matter giving rise to a modification to the opinion in the auditor's report. It was noted that the auditor should not make judgments on behalf of management or assume management's responsibility for preparing the financial statements. It was argued, however, that given such caveats, it would be in the public interest for the auditor to disclose information that was readily available, unless prohibited by law or regulation. The majority of the IAASB agreed that guidance should be provided to that effect.

The IAASB agreed that it would be inappropriate to use the term 'qualified opinion' to describe all forms of 'modified opinion'; but the term is sufficiently well understood as a description of an "except for" opinion and should be retained for that purpose.

The IAASB also agreed that the proposal to use subheadings in the auditor's report to emphasize the modification being made should be retained as this would drive consistency of practice. The explanatory memorandum should pose a specific question on whether the use of sub-headings was desirable in modified reports.

##### **PROPOSED ISA 702**

It was debated whether it was necessary to have the two specified conditions for an emphasis of matter, i.e. the matter is of fundamental importance to the user's understanding of the financial statements, and it is unusual. It was argued that only the first condition was sufficient, and the second condition would not be applicable, for example, in the case of a first-year engagement. The IAASB noted, however, that having only the first condition would lead to significantly more matters being emphasized. Consequently, the IAASB reaffirmed its belief that an emphasis of matter would be unnecessary in all cases where the matter is fundamental but not unusual. The guidance should, however, explain when a matter would be considered unusual.

It was also noted that the proposed requirement for the auditor to consider emphasizing a matter in the auditor's report under the two specified conditions would lead to inconsistent practice as the consideration was subject to judgment. Accordingly, while it was accepted that judgment was necessary in deciding whether the conditions were met, it was agreed that an emphasis of matter should be required in all cases when the specified conditions applied.

The IAASB debated whether to retain the approach taken in extant ISA 700, “The Auditor’s Report on Financial Statements,” to allow the auditor to issue a disclaimer of opinion in the case of multiple uncertainties or whether to adopt a clear demarcation between proposed ISAs 701 (Revised) and 702. The IAASB concluded it would be appropriate to retain the extant ISA 700 wording, but asked that a specific question be posed in the explanatory memorandum as to whether the extant ISA 700 approach to multiple uncertainties should be retained.

The IAASB reviewed and discussed revised drafts of the proposed ISAs 701 (Revised) and 702 reflecting the changes agreed during the earlier discussions, and approved the issue of the proposed ISAs as an exposure draft. The closing date for comments was set as July 31, 2005.

Mr Tizzano abstained from voting on the proposed ISA 702. While the proposals represent a substantial improvement to the understanding of emphasis of matter paragraphs and other matters paragraphs, he believes that such paragraphs may be misused to render “semi-qualified opinions” and lead to clients pressurizing their auditors to do so. They may also give rise to the public misunderstanding the objective of such paragraphs, because they are included in the auditor’s report and may include additional financial information. While there is a growing need for the auditor to play a more active informative role in the marketplace, in his view, the auditor’s report is not the right place to do so.

## **5. The Audit of Group Financial Statements**

Mr Hansen noted that the IAASB had expressed a preference at its previous meeting for two separate documents dealing with the audit of group financial statements, i.e., an ISA and an IAPS. Mr Hansen indicated that, although the task force prepared two separate documents, it had difficulty agreeing what material should be in the IAPS. Consequently, the task force decided to also present a combined proposed revised ISA for the IAASB’s consideration, and recommended that this be exposed.

The IAASB debated whether to issue the re-exposure draft as a combined ISA or as an ISA and an IAPS. Against the combined version, it was noted that a large part of the combined ISA contained standards and guidance transposed into a group audit context from other ISAs, and thus such content did not introduce new audit principles. It was also noted that the length of the combined ISA might be held to undermine its effectiveness. On the other hand, it was noted that it would be preferable to have all the standards and guidance in a single document, thus facilitating ease of reference, eliminating duplication of guidance and reducing the combined length of the documents. In addition, it was noted that the presentation of the document may be subject to review on the outcome of the IAASB’s clarity project. A majority of the IAASB agreed to issue the re-exposure draft as a single ISA.

Mr Hansen led a review of the proposed ISA 600 (Revised) (combined document). Amongst other matters, the following was agreed:

### **ACCEPTANCE AND CONTINUANCE AS GROUP AUDITOR**

- The requirement for the group auditor to determine whether sufficient appropriate audit evidence can be obtained to support the group audit opinion should be more closely linked to the requirement for the group auditor to perform the work on significant components or be involved in the work that other auditors perform on such components. The requirement should not distinguish between other auditors who are related and those that are unrelated., The guidance

should be expanded to explain why the risk of not detecting a material misstated ordinarily increases when the group auditor does not perform the work on significant components, and the effect of using the work of related auditors, as against that of unrelated auditors.

- The term “preliminary understanding” should not be used, as this is not a concept used in the ISA literature. Furthermore, guidance relating to understanding the reason for engaging unrelated auditors should be clarified, as this could give the impression that there was something amiss in engaging unrelated auditors.

#### ACCESS TO INFORMATION

- It was noted that certain jurisdictions prohibit auditors from providing access to their audit documentation for confidentiality reasons. Accordingly, guidance regarding access to relevant parts of other auditors’ audit documentation should be expanded to clarify what is meant by the term “relevant parts.”
- Guidance should be provided to describe what other means the group auditor may use to obtain sufficient appropriate audit evidence if restrictions on access cannot be overcome. Furthermore, the guidance regarding what is sufficient and appropriate audit evidence in the context of a component that is equity accounted for should be redrafted as an example of how other means may be used by the group auditor to obtain the audit evidence in relation to that component.

#### RELATED AUDITORS

- The guidance should be expanded to (a) provide an explicit statement that the group auditor relies on the related auditor’s compliance with the requirements of ISQC 1; and (b) clarify that the group auditor considers any communication received in accordance with ISQC 1 regarding the related auditor’s quality control monitoring process of relevance to the group auditor.

#### ASSESSING THE RISKS OF MATERIAL MISSTATEMENT OF THE GROUP FINANCIAL STATEMENTS

- The requirement for the group auditor to assess “significant risks” “at the group level” should be clarified. It should be explained that this assessment is of those risks identified as a result of the procedures performed by the group auditor to enhance his or her understanding of the group obtained during the acceptance and continuance stage and of the consolidation process.

#### EVALUATING THE ADEQUACY OF ANOTHER AUDITOR’S WORK

- The requirement in respect of evaluating another auditor’s work should be structured to cover both related and unrelated auditors. In addition, when a related auditor has reviewed the audit documentation of an unrelated auditor, on behalf of the group auditor, the principle should be that the group auditor should review and discuss with the related auditor whether the unrelated auditor has performed work of appropriate quality.

#### COMMUNICATIONS WITH ANOTHER AUDITOR

- The requirement for the group auditor to obtain the other auditor’s memorandum or report of work performed should not also cover the content of the report. The detailed list of matters that should be communicated in such a memorandum or report should be shown as explanatory material.

Mr Hansen also indicated that the task force had received an updated Public Sector Perspective that will be included in the final re-exposure draft.

The IAASB reviewed and discussed a revised draft reflecting the changes agreed upon during the earlier discussion, and approved the issue of the proposed ISA 600 (Revised) as a re-exposure draft. The closing date for comments was set as July 31, 2005.

Mrs Esdon voted against the issue of the re-exposure draft. She was of the view that the standards and guidance should be presented in an ISA and an IAPS. The proposal to issue a combined document resulted in a proposed revised ISA that duplicates guidance in other existing ISAs, while at the same time omitting some useful guidance that was previously contained in the draft IAPS.

Mr Ferlings voted against the document on similar grounds. He was of the view that the proposed revised ISA contains guidance that, while suitable for an IAPS, is not appropriate for an ISA. He believed that the proposed revised ISA is longer and more confusing than it needs to be.

## **6. Review of Interim Financial Information by the Entity's Auditor**

Mrs Esdon provided a summary of the main issues raised on the previous draft of the proposed standard at the April 2004 IAASB meeting.

### **ISA OR ISRE**

The IAASB agreed that the proposed standard should be issued as an ISRE. While it was noted that the engagement was performed by the auditor of the entity, the engagement is a review engagement and, as such, the standard should be an ISRE.

### **RELATIONSHIP BETWEEN PROPOSED ISRE AND ISRE 2400**

It was noted that there were differences in work effort and reporting, between the proposed ISRE and ISRE 2400, "Engagements to Review Financial Statements." These differences arise because the work effort under the proposed ISRE is different as the engagement is performed by the auditor of the entity who has "audit based knowledge of the entity." In addition, it has been recognized that ISRE 2400 might be somewhat out of date because it was issued several years ago.

The IAASB noted that review of interim financial information, particularly for listed entities, was becoming more prevalent and accordingly agreed that it was appropriate to proceed with the proposed ISRE. The IAASB also agreed that ISRE 2400 should be revised on an urgent basis to align both review standards as appropriate.

### **THE AUDITOR'S OPINION ON AN INTERIM REVIEW ENGAGEMENT**

It was agreed that proposed wording for the review opinion should allow for negative assurance on whether the interim financial information gives a true and fair view (or presents fairly, in all material respects) in circumstances where the interim financial information is presented as complete financial statements (rather than the usual condensed statements) as is required by some law or regulation. In all other cases the report should provide negative assurance on whether the interim financial information is in accordance with the applicable financial reporting framework.

It was also agreed that the review report should make specific reference to the proposed ISRE, instead of the IAASB Standard applicable to interim reviews.

### **DETAILED REVIEW OF RE-EXPOSURE DRAFT**



Mrs Esdon led a review of the proposed ISRE. Amongst other matters, it was agreed that the task force should consider the following:

*General Principles of a Review of Interim Financial Information*

- Whether relevant ethical requirements with which the auditor should comply are the same as those that apply to audits of financial statements.
- Whether expanded guidance on the application of quality control principles for review engagements should be provided.

*Agreeing on the Terms of the Engagement*

- Clarifying that management may choose not to include the full review report within the document containing the interim financial information, but instead indicate where such report can be obtained, only when the review report has not been modified.

*Understanding the Entity and its Environment, Including its Internal Control*

- Expanding the guidance to address the inherent limitations with respect to the detection of fraud and non-compliance with laws and regulation in a review engagement, as the likelihood of detecting these is much lower in a review than in an audit.

*Inquiries, Analytical and Other Review Procedures*

- Expanding the guidance on the auditor's communication with other auditors, who are performing reviews of components, to indicate that the auditor should evaluate the communications that would be required in the circumstances.

*Management Representations*

- Whether it is appropriate to align the requirement for the auditor to obtain a management representation, confirming that management has disclosed the results of its assessment of the risk that the interim financial information may be materially misstated due to fraud, with the guidance in ISA 240, "The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements" because such assessment might not be undertaken for each interim period.

*Inability to Complete a Review*

- Expanding the guidance to provide for a scope limitation, other than that imposed by management, and a related illustrative report.

*Interim Financial Information Comprised of a Condensed Set of Financial Statements*

- Deleting the requirement that, when the interim financial information comprises a condensed set of financial statements, the auditor should include in the review report a reference to the need for the interim financial information to be read in conjunction with the most recent annual financial statements. Instead, the guidance should indicate that a reference to the annual financial statements would be appropriate to the extent the interim financial information does not contain the full set of accounting policies.

*Documentation*

- The key principles in the proposed ISA 230 (Revised), “Audit Documentation” should be considered to determine whether more comprehensive guidance on the application of these principles in a review context can be provided in the ISRE.

The IAASB asked that the task force present a revised proposed ISRE for approval for issue as a final standard at the June 2005 IAASB meeting.

**7. Improving the Clarity of IAASB Pronouncements**

Mr Gunn provided background to the project and an overview of respondents’ comments on the Clarity exposure draft and consultation paper. He reported that different views were expressed by respondents from, and amongst respondents within, each of the regulatory, public accounting, and standard-setting communities. Accordingly, there was no clear consensus on the direction that the IAASB should take towards enhancing the clarity of its standards. Mr Gunn highlighted aspects of the exposure draft and consultation paper on which there was general agreement among respondents, and explained those areas where there was a significant divergence of views.

Mr Kellas reported that a similar summary of respondents’ comments was provided to, and discussed by, the national auditing standard setters in February; and that a summary was presented to IOSCO in March.

Mr Kellas indicated that, based on the preliminary analysis of respondents’ comments, the Task Force is of the view that:

- There is a clear need to progress the project, and to do so on a timely basis. Accordingly, those options that can result in improvement in the near term should be given careful consideration.
- It may not be possible to formulate a response that will satisfy all of the views of all respondents, and that attempting to fulfill too many objectives may prevent achievement of the main goals of the clarity project. Accordingly, it will be necessary to consider the balance of views of respondents and to seek a compromise that will be acceptable to most stakeholders.
- The approach to improving clarity may need to include matters raised in the consultation paper and consequently, any solution is likely to include considerations broader than those addressed in the exposure draft.
- Where possible, the solution should assist, rather than impede, international convergence.
- The solution must not result in a weakening of the existing standards.

Mr Kellas explained that the Task Force is considering, on a preliminary basis and in response to comments received, the following approach to the specific elements of the clarity of IAASB standards:

*Clarifying Professional Requirements*

- To eliminate the use of the present tense in ISAs to describe auditor actions, and to adopt the proposed two categories of professional requirements: requirements and presumptive

requirements. The term “must” would replace the proposed term “shall” for use in identifying requirements, in light of translation difficulties noted by respondents.

- To adopt the proposed obligation to be imposed by a requirement, but to revert to the existing definition of “should” statements for purposes of the obligation to be imposed by presumptive requirements. The basis for the latter change reflects a concern by the Task Force, based on indications in respondents’ comments, that internationally a more liberal interpretation may be taken of the degree of flexibility to depart from a presumptive requirement (based on the proposed definition) than that which was originally intended. It was also noted that retaining the existing obligation imposed by a “should” statement would avoid any real or perceived weakening of ISAs and minimize any concerns over how a new definition would apply to existing ISAs.
- To develop further the ‘fundamental principles underlying an ISA audit’ as a basis for specifying professional requirements. Such principles would be developed based on the judgment and experience of the IAASB and in consultation with stakeholders. The main challenge, however, will be in reaching agreement on a set of ‘fundamental principles’ that is useful in driving the distinction between the proposed categories of professional requirements.
- To adopt the proposed requirement to document a departure from a presumptive requirement.
- To explore the meaning of “objectives based” standards and the development a drafting framework to assist in determining the extent and specificity of professional requirements resulting from the application of the categories of professional, in particular to auditor actions described in the present tense. When coupled with the fundamental principles, such a drafting framework may assist in appropriately managing the risk of an inflation of professional requirements.
- The main challenge will be whether it is in fact possible to agree on the level at which requirements should be set.

#### *Improving the Structure and Clarity of IAASB Standards*

- To pursue a restructuring of ISAs whereby ISAs are presented in two section: the first section comprising the professional requirements of the ISA along with essential explanatory material; the second section comprising application guidance (Option B - Clarity Consultation Paper). The main challenges will include: determining the minimum essential explanatory material that is needed to set the context of the requirements (and thereby positioned in the first section of an ISA); establishing an appropriate means to ensure that application guidance is not ignored or overlooked by practitioners.
- To adopt certain drafting improvements to enhance the clarity and understandability (including length) of the ISAs.

#### *Implementation*

- To pursue an implementation approach that calls for a redrafting (but not revision) of a significant number of recently revised ISAs immediately, and to apply the proposals to other ISAs in according with a schedule as part of future improvements program. This approach permits improvement without delay in addressing those ISAs which respondents have noted as

problematic in terms of length and where there is generally more guidance that may require clarification. Mr Kellas indicated that he will consult with representatives of the European Commission with regard to the possible implications of this implementation from an EU perspective. He also indicated that the approach may require additional meetings in 2005 and 2006 and may affect the ability for IAASB to undertake new projects.

Mr Kellas indicated that the Task Force is also considering the need to hold a forum with national auditing standard setters, regulators, firms and others to debate further the direction to be taken for the clarity project. The forum, if held, would take place after the June IAASB meeting.

Some IAASB members expressed support to the proposal to pursue a restructuring of the ISAs. It was noted that doing so would enhance the understandability of the standards and assist national convergence strategies. Other IAASB members, however, expressed concern over pursuing a restructuring of ISAs and in particular, the impact that separation of the professional requirements from the explanatory material may have on the perceived strength of the ISAs. It was noted that the acceptability of a restructuring of ISAs will depend on:

- How the application material might be treated in legislation, and what responsibility would be placed on national auditing standard setters to promulgate such material.
- How the IAASB ensures that an appropriate obligation is placed on practitioners to consider the application guidance (which has been included in the existing ISAs based on the view that it is essential to a proper understanding of and consistent application of the standards) such that it is not overlooked.
- The benefits to be obtained in comparison to the degree of effort that will be involved, particularly in terms of the deliberations over whether specific explanatory material should be presented in the first or section half of a restructured ISA.

It was also noted that the nature of proposals appear to be such that a significant re-write, or possibly revision, of the standards may be needed to ensure that the objectives and benefits of the proposals are fully achieved. If so, there are important consequences to the timetable involved with this project.

Mr Kellas indicated that a full analysis of the comments received on the exposure draft and consultation paper, the task force recommendations thereon and one or more draft restructured ISAs will be presented for discussion at the June 2005 IAASB meeting. He asked that members read the comment letters in preparation of those discussions.

## **8. IAASB Due Process**

Mr Gunn provided background to the project and an overview of respondents' comments to the exposure draft, as presented in the meeting agenda material.

Mr Gunn reported that the majority of respondents were supportive of the project and of the related proposals. Respondents, however, made a number of recommendations for the IAASB to strengthen further its due process. These included, amongst others, recommendations for the IAASB to:

- Issue with each final standard a basis of conclusions document explaining how respondents' comments on an exposure draft have been dealt with by the Board;
- Extend the comment period on IAASB exposure drafts from 90 days to 120 days;

- Explain further the basis on which the IAASB decides to, or decides not to, re-expose a document;
- Enhance the transparency of how projects are identified and approved, and appointments are made to project task forces; and
- Clearly delineate between matters of due process and matters of working procedures.

He noted that some respondents, however, urged the IAASB to strike an appropriate balance between the provisions for due process and the need for timely decision making.

The IAASB agreed with the proposed revised due process and working procedures, and with the disposition of respondents' comments. In addition to editorial matters, the following matters were also agreed:

- The working procedures should emphasize working cooperatively on IAASB projects with national auditing standard setters and others, rather than through projects badged as "joint projects."
- The document should clarify that the outcome(s) of a public forum or roundtable, or the issue of a consultation paper, is subject to the transparency features of the IAASB, and that such matters are summarized and reported to the IAASB as part of the IAASB's public agenda papers relating to the subject under consideration.
- Explanatory memoranda accompanying exposure drafts should also explain the IAASB's view on the main issues addressed in the development of the exposure drafts.
- The IAASB voting procedures should be expanded to encompass the voting on the withdrawal of a pronouncement.
- The description of due process and working procedures should be repositioned from the Preface document to a separate document within the Handbook.

The IAASB expressed some concern over the proposed working procedure to include within project agenda papers a cumulative summary of the significant decisions made by the IAASB on matters relating to a project. In particular, it was questioned whether the level of effort involved in producing such a summary was reasonable in comparison to the benefits to be obtained. It was agreed that the proposed working procedure should be applied only where appropriate (for example, when a project has a lengthy development period or a number of complex issues).

It was noted that the IFAC Board would be receiving a report on due process at its meeting the following week. Its interest was in ensuring that the public interest boards and committees of IFAC should as far as practicable follow the same due process.

Mr Kellas noted that the proposed due process and working procedures of the IAASB will be discussed with the Public Interest Oversight Board (PIOB). He indicated that he expected the PIOB to consider further its role in relation to the IAASB work agenda, and to pay particular attention to the proposed due process relating to how the IAASB treats alleged breaches of due process.

The IAASB asked staff to report on the views of the PIOB on the proposed due process and working procedures and to present a revised document at the June 2005 IAASB meeting.

## 9. Sustainability Reporting

Two recent Royal NIVRA exposure drafts on sustainability assurance and use of experts in assurance engagements had been distributed for this agenda item. Mr Simnett introduced the topic noting that:

- A Sustainability Experts Advisory Panel (SEAP) had been established by the IAASB Steering Committee in 2004.
- The SEAP is reviewing the Royal NIVRA exposure drafts, and is working with the Global Reporting Initiative (GRI) on criteria for sustainability reports.
- The Royal NIVRA exposure drafts are not currently in a form that is consistent with the IAASB style, e.g., they are very discursive; however, reviewing them will:
  - Further the IAASB's understanding of this subject matter,
  - Enhance Royal NIVRA's development process by providing useful feedback, and
  - Provide the IAASB with insights into application of the International Framework for Assurance Engagements and ISAE 3000, "Assurance Engagement Other than Audits or Reviews of Historical Financial Information."

Technical aspects of the Royal NIVRA exposure drafts were not discussed, but it was agreed that a draft comment letter to Royal NIVRA should be prepared for consideration at the June 2005 IAASB meeting.

IAASB members and technical advisers were encouraged to e-mail their comments to the IAASB staff by March 26. They were also encouraged to invite their respective national standard-setter board, member body, or firm to respond directly to Royal NIVRA on the exposure drafts.

## 10. Related Parties

Mr Trémolière led a review of the proposed revised ISA 550. In addition to editorial changes, the IAASB agreed the following:

- The task force should consider guidance that draws the auditor's attention to measurement considerations in appropriate circumstances, but without placing any obligation on the auditor to resolve measurement issues if these are not dealt with in the applicable financial reporting framework.
- The task force should consider restructuring the overarching bold letter requirement in the introduction so that the auditor focuses on the risks of material misstatement as a result of the failure to identify or to disclose related party transactions, as opposed to focusing on obtaining evidence regarding identification and disclosure. As this change would call on the auditor to use professional judgment to determine whether the requirements of the ISA are relevant, this may help avoid the need to scope out audits where the applicable financial reporting framework does not establish related party disclosure requirements *and* the auditor is only engaged to render a report on whether the financial information is in compliance with that framework (as distinct from being fairly presented).
- The requirement for the engagement team to discuss related party considerations during audit planning should be clarified to indicate that this is a matter that should be part of the agenda regarding the discussion that ISA 315 requires the engagement team to hold.

- The task force should reconsider the structure and sequencing of the various requirements and guidance addressing the auditor's inquiries of management regarding (a) known related parties and (b) undisclosed related party relationships or transactions, and how these relate to the auditor's communication of the names of known related parties to the engagement team in the planning stage of the audit.
- The task force should more clearly integrate the guidance in ISA 550 with that in ISA 240.
- The task force should consider refocusing the guidance so that it emphasizes identifying significant and unusual transactions at a generic level, and then providing guidance at a specific level to address those particular transactions where there is a concern that related parties may be involved.
- With regard to substantive procedures to respond to significant risks, the task force should clarify the inter-relationship between significant risks in this context and transactions that are significant and unusual.
- The requirement and guidance addressing disclosures asserting that related party transactions are at arm's length should be expanded to include more broadly cases where such assertions take more subtle forms, for example, when such disclosures assert that the transactions have been conducted on reasonable commercial terms or otherwise hint that these terms are on arm's length basis without directly stating so.
- The requirement and guidance addressing communication with those charged with governance should be expanded to include more broadly discussions of the nature and extent of material related party transactions.
- The requirement to obtain written representations should be expanded to include a representation that the information that management has provided concerning related parties is complete.
- The task force should consider expanding the guidance on reporting to address circumstances where law or regulation might only require the auditor to report whether the financial information audited comply with the applicable financial reporting framework, even though that framework is designed to result in financial information that is fairly presented.
- The task force should also consider providing guidance to address a scope limitation, for example, when the auditor has identified a previously undisclosed related party transaction but the auditor is unable to determine whether all material related party transactions have been disclosed because the entity's internal control system has not been adequately designed to identify, record and disclose such transactions.

The IAASB asked that the task force present a proposed revised ISA for approval for issue as an exposure draft at the June 2005 IAASB meeting.

## **11. Management Representations**

Mr Ferlings introduced the subject on behalf of the task force.

### **MANAGEMENT REPRESENTATIONS AND INTERNAL CONFIRMATIONS**

Mr Ferlings explained that the task force proposes to differentiate between general representations relating to the financial statements as a whole, and specific representations relating to specific financial statement line items (i.e., internal confirmations). The task force further proposes that mandatory representations encompass only the first category, i.e., general representation relating to the financial statements as a whole. Specific representations would be included in appropriate parts of the audit file, unless the auditor concludes that the confirmed item should be included in the representation letter.

The IAASB deliberated the proposed differentiation. The IAASB requested that the task force gather additional evidence supporting the proposal, update the Issues Paper and submit it at the next IAASB meeting for further discussion.

#### TASK FORCE(S) AND STANDARD(S)

The IAASB was asked whether general representations and specific representations should be addressed in one or two separate standards and, if in two separate standards, whether they should be developed by one or two task forces. The IAASB did not find the case for two standards, and consequently two task forces, compelling.

### **12. Next Meeting**

The next meeting of the IAASB is scheduled for June 13-17, 2005 in Rome, Italy.

### **13. Closing Remarks**

Mr Kellas noted that a considerable number of agenda papers had been revised during the week and members had been called upon to study them during the evenings after long meeting sessions. He thanked the members of the IAASB and their technical advisors, as well as the chairs, members and staff of the task forces for their hard work and support. He also reiterated the board's appreciation of the support and welcome provided by the Peruvian Federation.