

**Minutes of the 22nd Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
Held on September 18-22, 2006 in Montreal**

Voting Members

Present: John Kellas (Chairman)
Denise Esdon (Deputy Chair)
Phil Cowperthwaite
Craig Crawford
Sukanta Dutt
Josef Ferlings
John Fogarty
Jan Bo Hansen
Diana Hillier
Kjell Larsson
Marcel Pheijffer
Will Rainey (September 19-21)
Bodo Richardt
Makoto Shinohara
David Swanney
Roberto Tizzano
Gérard Trémolière

Technical Advisors

Kelly Ånerud (Mr. Larsson)
Wolfgang Böhm (Mr. Ferlings)
Philip Ashton (Ms. Hillier)
Cédric Gélard (Mr. Trémolière)
Jon Grant (Mr. Rainey)
Jennifer Haskell (Mr. Hansen)
Richard Mifsud (Mr. McPhee)
Greg Shields (Mr. Cowperthwaite)
Sylvia Smith (Mr. Crawford)
George Tucker (Ms. Esdon)
Hans Verkruijsse (Mr. Pheijffer)
Sharon Walker (Mr. Fogarty)
Yuichi Yamamoto (Mr. Shinohara)

Apologies: Ian McPhee

Non-Voting Observers

Present: Jennifer Rand
Hisashi Yamaura
Jean-Philippe Rabine

Apologies: David Damant

Public Interest Oversight Board (PIOB) Observer

Present: Michael Hafeman

IAASB Technical Staff

Present: Jim Sylph (Executive Director), James Gunn (via tele-conference September 18 and 20), Kathleen Kerrigan, Michael Nugent, Alta Prinsloo, Ken Siong

1. Opening Remarks and Minutes

WELCOME AND INTRODUCTIONS

Mr. Kellas welcomed Mr. Michael Hafeman, who would be observing the meeting on behalf of the PIOB.

Proxies were noted as follows: Mr. Grant for Mr. Rainey (September 18 and 22), and Mr. Mifsud for Mr. McPhee. Apologies were received from Mr. Damant.

Mr. Kellas congratulated Ms. Smith on being awarded a Fellowship of the Institute of Chartered Accountants of Ontario. He also noted that Mr. Sylph had been re-appointed to his role within IFAC as Executive Director, Professional Standards. He welcomed Kathleen Kerrigan as a new member of the technical staff.

The IFAC Board meeting was held in Toronto on September 7-8. A number of presentations were given on convergence issues. It was noted that in June 2006, Canada had formally announced its intention to adopt international auditing standards.

The second public meeting of the IAASB CAG was held on September 11-12. Task Force Chairs would report on IAASB CAG comments during the presentations of their respective projects. Matters affecting SMEs, SMPs and developing nations were discussed, particularly documentation issues. It was noted that small practitioners may encounter difficulties with ISQC 1. Further guidance could be considered when the standard is clarified. Also, the IFAC SMP Committee is currently working on a guide to ISAs for SMPs and it could consider something similar for ISQCs.

MINUTES OF PREVIOUS MEETING

The minutes of the public session of the previous IAASB meeting were approved as presented. The approved close-off versions of ISAs 705 and 706 were distributed with these minutes.

2. Clarity

Mr. Kellas introduced the topic, noting that the purpose of the session was for the IAASB to approve the final wording of the proposed amendments to the Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services (Preface), and the four redrafted ISAs exposed in October 2005. The IAASB was also asked for its views on:

- Proposed changes to ISA 230 (Revised), "Audit Documentation," arising from the Task Force's consideration of comment received on the exposed Preface;
- The proposed revised draft objectives for all of the ISAs; and
- The first draft of a proposed revised ISA 200.

He reported on the views of the IAASB CAG Representatives and the IFAC Small and Medium Practices Committee on the documents presented.

PROPOSED REVISED AMENDED PREFACE

Mr. Kellas explained the recommendation of the Task Force to revise the obligation attaching to the objectives to establish an overall objective which the auditor must achieve (or otherwise modify the auditor's opinion accordingly or withdraw from the engagement), and to require the auditor to aim to

achieve the objectives contained in the ISAs, having regard to the interrelationships amongst the ISAs. He noted that the IAASB CAG Representatives supported these recommendations, and that at least one regulatory stakeholder would be concerned if the IAASB were to weaken the obligation attaching to the objectives.

The IAASB agreed with the recommendations of the Task Force, subject to the following:

- Reference to ‘reporting in accordance with the auditor’s findings and the requirements of the engagement’ in the overall objective of the auditor is confusing in that the second element seemed unnecessary and, accordingly, should be removed.
- The obligation attaching to the objectives contained in the ISAs should be amended to state that the auditor uses the objectives to judge whether, having complied with the requirements of the ISAs, ‘sufficient appropriate audit evidence has been obtained’ as this is the test of whether ‘further audit evidence is necessary’ (the wording proposed in the draft as presented).

In addition to editorial changes, the IAASB also agreed the following with respect to the proposed revised amended Preface:

- The use of ‘shall’ should be removed from the document, in light of the fact that the transposition of the provision of the Preface into the ‘shall’ form in relation to the ISAs is to be dealt with in the proposed revised ISA 200.
- The description of the objective of an audit should be expanded to clarify that an audit is undertaken to enhance the degree of confidence of intended users in the financial statements.
- The Preface should state that the authority of the International Standards on Quality Control (ISQCs) is set out in the introduction to ISQCs, as it is not appropriate at this time to conclude on the applicability of the new conventions to them.
- The Preface should state that it is necessary for the auditor to consider the entire text of an ISA to understand and apply its requirements.

PROPOSED REVISED REDRAFTED ISAs

The Task Force summarized the main changes to the four proposed redrafted ISAs made in response to comments received at the July IAASB meeting. The IAASB discussed each of the proposed revised Redrafted ISAs.

ISA 240

The IAASB agreed the changes recommended by the Task Force. In addition to editorial changes, the IAASB also agreed the following:

- To assist in addressing the comments raised by the Related Parties Task Force, the introductory section of the ISA should contain additional explanation of the inherent limitations of an audit in relation to fraud, to ensure that the context in which the ISA is set is adequately described.
- The ISA should refer specifically to the *assessed* risks of material misstatement due to fraud in all places where it is appropriate to do so, to eliminate any potential ambiguity in the ISA in this regard.

The IAASB asked that the Task Force consider further these two matters and to present a revised draft for approval at the October IAASB meeting.

ISA 300

The IAASB agreed the changes recommended by the Task Force. In addition to an editorial change to the scope paragraph, it was agreed that the objective should be simplified to state that the objective of the auditor is to plan the audit so that it will be performed in an effective manner, and to delete the reference therein to obtaining sufficient appropriate audit evidence.

ISA 315

The IAASB agreed the changes recommended by the Task Force. In addition to editorial changes, the IAASB also agreed the following:

- Reference to the five specific components of internal control should be removed from the definition of internal control, a change suggested by the European Commission to enhance jurisdictional neutrality. Rather, it should be presented as part of the application and other explanatory material. The IAASB agreed that this change would not affect the scope of the ISA, as it already made clear that internal control could be described in different ways provided the specified elements were all addressed.
- The definition of assertions should be amended to clarify that assertions are representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.
- The guidance on the auditor's use of assertions should include discussion of the fact that when making assertions about the financial statements of public sector entities, management may also often assert that transactions and events have been carried out in accordance with legislation or proper authority, and that such an assertion may fall within the scope of the financial statement audit.

ISA 330

The IAASB agreed the changes recommended by the Task Force. In addition to editorial changes, the IAASB also agreed the following:

- To improve its focus on the desired outcome and to better clarify the context in which it is set, the objective should be amended to state that the auditor is to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks.
- To avoid any potential unintended substantive change, the ISA should refer to *material* classes of transactions, account balances, and disclosures, as per the wording of the extant ISA, rather than to *significant* classes of transactions, account balances, and disclosures.

EFFECTIVE DATE

The IAASB deliberated whether an effective date should be specified for the amended Preface and the four redrafted ISAs at this time, or at a later point once further progress has been made in implementing the drafting conventions to the remaining ISAs. It was concluded that specifying an effective date now would assist stakeholders in planning and implementation, even if the IAASB

needs subsequently to defer the actual effective date. Accordingly, the IAASB agreed that the redrafted ISAs should be effective for audits of financial statements for periods beginning on or after December 15, 2008, with it to be noted that this date is provisional and that the actual effective date, if different, would be no earlier.

APPROVAL

Based on the recommendation of the Task Force, the IAASB concluded that re-exposure was not necessary. The IAASB unanimously approved the revised amended Preface and revised redrafted ISAs 300, 315 and 330.

Mr. Sylph advised the IAASB that due process has been followed in developing and finalizing the documents.

PROPOSED AMENDMENTS TO ISA 230 (REVISED)

Mr. Kellas indicated that the proposed changes to ISA 230 are intended to respond to issues arising from the Task Force's consideration of comments received on the exposed Preface. He noted that the amendments are not meant to impose additional requirements, but rather reinforce the idea that good documentation of matters requiring the exercise of professional judgment is necessary to the quality of an audit.

In addition to editorial changes, the IAASB agreed the following:

- In addition to significant matters arising during the audit, the auditor should be required to document the significant professional judgments made in reaching conclusions thereon. The proposed reference to the *reasons for* the professional judgments is redundant in the amended requirement and therefore should be removed.
- The guidance explaining that compliance with the requirements of the ISA together with the specific documentation requirements of other relevant ISAs is ordinarily sufficient in the circumstances, and that the specific documentation requirements of other relevant ISAs do not limit the application of ISA 230, should be positioned earlier in the ISA and reworded as appropriate.
- The guidance in extant ISA 230 explaining the circumstances when a requirement is relevant should be set out in full instead of being incorporated by reference to ISA 200.
- The sequence of the guidance pertaining to the documentation of significant matters and judgments should be reordered, explaining first the types of significant matters that the auditor may encounter and then the nature and extent of audit documentation that may be appropriate.
- With respect to the guidance relating to the auditor's use of a completion memorandum, the proposed reference to the documentation of the auditor's consideration of the achievement of the auditor's overall objective in light of the entirety of the audit documentation for the engagement is unnecessary and should be removed.

The IAASB asked that the Task Force consider further, as part of the redrafting of ISA 230:

- Whether any of the matters listed in the proposed guidance explaining when the auditor may consider it appropriate to prepare audit documentation relating to the use of significant professional judgment should be elevated as requirements.

- Whether reference in the guidance to the auditor's consideration of the achievement of the objectives specified in relevant ISAs is necessary and clear.
- The clarity of some of the specific wording used in the proposed amendments to the guidance of extant ISA 230.

Mr. Kellas indicated that a proposed amended ISA 230, redrafting in accordance with the clarity drafting conventions, will be presented to the IAASB for approval as an exposure draft at its December meeting.

DRAFT ISA OBJECTIVES

Mr. Kellas explained the main changes made to the form of the proposed revised draft objectives for all ISAs. The IAASB was asked for its views thereon before they are passed to the relevant IAASB task forces working on the redrafting or revision of individual ISAs, for their further consideration.

The IAASB agreed the general form of the objectives as proposed by the Task Force. The following matters, however, were noted for further consideration by the relevant IAASB task forces:

- In general, certain of the objectives could benefit from being more specific in terms the topic or matter about which the auditor is to obtain sufficient appropriate audit evidence.
- Some of the draft objectives refer to obtaining *sufficient* audit evidence, while others refer to *appropriate* audit evidence and other to *sufficient appropriate* audit evidence, with the basis for the difference unclear. The relevant task forces should consider carefully whether the construct used is appropriate in light of the scope and content of the extant ISAs.
- With respect to ISA 220, the objective should emphasize the outcome of obtaining reasonable assurance that the audit complies with professional standards and regulatory and legal requirements, and that the audit report issued is appropriate.
- With respect to ISA 706, the wording should emphasize the outcome of including, when appropriate, additional communication in the auditor's report to draw users' attention to a matter in the financial statements, and to any other matter which may be of relevance to the users' understanding of the report.

Various suggestions were made with respect to the wording of certain of the other draft objectives to make them more specific. Mr. Kellas observed that some of these would create objectives that are too procedural, thereby losing the focus of the objective on the desired outcome.

PROPOSED DRAFT REVISED ISA 200

Mr. Kellas explained that the primary purpose of the revision of ISA 200 is to incorporate the provisions of the amended Preface directly in the body of the ISAs. The Task Force has also redrafted the ISA in accordance with the clarity drafting conventions, and has proposed a number of enhancements to aspects of the extant ISA; these include some clarification of the definition and discussion of reasonable assurance, including the inherent limitations of an audit, and the other general concepts relevant to an audit of financial statements. He referred to the desire of the EC to have a complete 'principles-based' list of the limitations of an audit in one place, and that the wording in the final revised ISA 200 will be of clear interest to the EC.

The IAASB deliberated the meaning of, and how ISA 200 expresses, the concept of reasonable assurance. The IAASB was concerned about the proposed use of the word “high” in the definition of reasonable assurance without further explanation of the complexity of the concept, including its relative nature and the context in which it is to be understood. Accepting that it is not the intention of the IAASB to revisit the framework on which the ISAs are based, the IAASB asked that the Task Force consider further the following:

- How best to convey the fact that reasonable assurance is a relative concept, which deals with the financial statements as a whole and involves in certain instances a greater exercise of professional judgment than in others, depending on the circumstances.
- Inclusion within the definition of reasonable assurance reference to the fact that there are inherent limitations of an audit.

In addition to editorial changes, the following matters were also noted:

- The objective of an audit is not presented as clearly as it is in the amended Preface. Accordingly, the material explaining the linkage between the overall objective of the auditor and the objective of an audit should be revised to make clear the objective of the audit, and how the overall objective derives therefrom.
- The section dealing with the general concepts relevant to an audit of financial statements should explain that the concepts described provide the context for a proper understanding of the overall objective of the auditor. The Task Force should be reasonably satisfied that the section describes all of the relevant concepts, or otherwise make clear that there may be others. Further, use of the term ‘fundamental concepts’ would appear to be preferable to ‘general concepts.’
- The fundamental concept of professional skepticism should be included and presented in connection with the concept of professional judgment.
- The Task Force should consider whether additional discussion should be provided explaining further the risk-based and iterative nature of an audit.
- The discussion on the inherent limitations of an audit should include as an example the fact that financial reporting frameworks require management to apply judgment in applying their requirements to the facts and circumstances of the entity, which includes judging the outcome of uncertain events that may only be confirmed in the future. Further, the discussion should acknowledge the fact that other ISAs may describe further limitations that are of particular relevance to their subject matter.
- The discussion on the inherent limitations of an audit relating to the expectation that the auditor will form an opinion on the financial statements within a reasonable period of time and at a reasonable cost should emphasize the point that this expectation should not be considered a basis for the auditor to be satisfied with audit evidence that is less than persuasive. Further, the tone of the message may also be improved by making reference to the need for audits to be cost effective (i.e., the auditor needs to balance costs and benefits) and for the audited financial statements to be available in time to be relevant.
- The notion that professional judgment contributes to the inherent limitations of the audit should be removed. However, reference to the fact that the application of the applicable financial

reporting framework involves judgment, and therefore does pose an inherent limitation, should be retained.

- The definition of historical financial statements should be included in the definitions section of the ISA.
- The proposed explanatory material relating to the fundamental concept of auditor independence should be revised to eliminate wording that may potentially conflict with IFAC or national ethical requirements.
- The application guidance pertaining to considerations specific to audits in the public sector should be aligned with the related wording proposed in ISA 240.
- The Task Force should consider whether the guidance explaining when a requirement is relevant should distinguish explicit and implicit conditional requirements, though the balance of opinion was that this would probably not be appropriate. However, the Task Force should consider additional examples to help illustrate the general concept of relevance.

The IAASB asked the Task Force to consider its comments, and align the document with the approved amended Preface, and to present a revised draft for discussion at the December IAASB meeting.

3. Special Reports

Mr. Dutt led the review of the proposed close off documents of ISA 800, “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement” and amended ISA 200, “Objective and General Principles Governing an Audit of Financial Statements,” ISA 210, “Terms of Audit Engagements,” and ISA 700 (Revised), “The Independent Auditor’s Report on General Purpose Financial Statements.”

PROPOSED AMENDED ISA 200

A member noted that the term “accounting system,” which appears in the definition of “historical financial information,” was not defined. It was noted that the term is used in a similar context in ISA 315, “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement,” and therefore should not be confusing. In addition to comments of an editorial nature, the IAASB agreed the following:

- The Introduction of the ISA should be aligned with the Introduction in the clarity redrafted ISA prepared by the Clarity Task Force.
- It should be clarified that the “applicable financial reporting framework” is the framework adopted by management in preparing and presenting the financial statements. It should also be clarified that management identify the framework in the context of any relevant law or regulation.
- The guidance on other sources should be redrafted to indicate that, in most cases, they provide direction on the application of the applicable financial reporting framework, while, in some cases, the framework may encompass such other sources, or may even consist only of such sources.

- The guidance on the applicable financial reporting framework should include a cross-reference to ISAs 210 and 800, which contain requirements and guidance on determining the acceptability of the framework.
- The guidance on the auditor's evaluation whether, in view of the specific requirements of the applicable financial reporting framework, the financial statements adequately refer to or describe the framework (paragraph 51c(a)), should be repositioned because reference to or describing the framework is normally not a requirement of the framework.
- The guidance stating that it will be extremely rare for the auditor to consider financial statements prepared and presented in accordance with a compliance framework to be misleading (paragraph 51e) should be redrafted. Additional guidance in Appendix 2 to ISA 210 should indicate that a compliance framework will not be an acceptable framework, unless it is generally accepted in the particular jurisdiction by preparers and users.
- The requirements and guidance on forming an opinion should be moved to ISA 700, and incorporated in proposed ISA 800 by way of reference to ISA 700.

PROPOSED AMENDED ISA 210

In addition to comments of an editorial nature, the IAASB agreed the following:

- The guidance on deficiencies in the applicable financial reporting framework, the use of which is not prescribed by law or regulation, (paragraph 14) should be moved to follow the guidance on determining the acceptability of the framework.
- The reference to *objective* of the financial statements should be changed to *purpose* of the financial statements in the paragraph dealing with the factors that may affect the auditor's determination of the acceptability of the applicable financial reporting framework (paragraph 15).
- Introductory text from Appendix 2 should be moved to the ISA (paragraph 25) to provide context to the reference in the ISA to the appendix.
- The paragraph dealing with a deficient financial reporting framework, the use of which is prescribed by law or regulation (paragraph 20), should be simplified.
- The present tense explanatory text, noting that the auditor includes an Emphasis of Matter paragraph in the auditor's report when the financial reporting framework is deficient and management provides additional disclosures in the financial statements to avoid misleading users (paragraph 21), should be a bold lettered requirement. Furthermore, this requirement should not be in ISA 210. ISA 210 could indicate that the auditor includes in the terms of engagement the fact that an Emphasis of Matter paragraph will be included in the auditor's report.
- The Task Force should reconsider the references to both ISAs 705, "Modifications to the Opinion in the Independent Auditor's Report," and 706, "Emphasis of a Matter Paragraph and Other Matter(s) Paragraphs in the Independent Auditor's Report," when the auditor is required to consider the effect of the misleading nature of the financial statements on the auditor's report (paragraphs 20 and 22).

- The paragraph dealing with auditors' reports prescribed by law or regulation (paragraph 26) should clarify that the requirement and guidance relate to cases where law or regulation prescribes wording for the *opinion* in the auditor's report.

PROPOSED AMENDED ISA 700

In addition to comments of an editorial nature, the IAASB agreed the following:

- The paragraph referring to ISA 200 and the fact that the auditor cannot describe the audit as being conducted in accordance with the ISAs unless the auditor has complied fully with all the ISAs relevant to the audit (paragraph 24) should be a bold lettered requirement. Furthermore, text from ISA 200 (conforming amendment as a result of ISA 230) should be included in this paragraph. That text notes that, where the auditor has departed from a requirement in the cases provided for in ISA 200, the auditor is not prohibited from describing the audit as being conducted in accordance with the ISAs.
- Paragraph 42 of ISA 700 (Revised) should be re-inserted in the ISA. That paragraph provides an example of the opinion in an auditor's report on financial statements prepared and presented in accordance with IFRSs.
- The section on Other Matters should include a cross reference to ISA 706.
- The illustration of the auditor's report on financial statements prepared and presented in accordance with IFRSs should be moved to the Appendix. The reference to the Appendix should indicate that the Appendix contains illustrations of auditors' reports that incorporate the elements set forth in the ISA. They are not merely examples.

PROPOSED ISA 800

In addition to comments of an editorial nature, the IAASB agreed the following:

- The Introduction of the ISA should be aligned with the Introduction in ISA 200, noting that ISAs are written in the context of financial statements and are adapted as necessary in the circumstances when applied to audits of other historical financial information. Furthermore, the Introduction should indicate that the ISA does not apply to the report of another auditor issued as a result of work performed on the financial information of a component at the request of a group auditor for purposes of the audit of the group financial statements.
- The Task Force should reconsider the guidance for the audits of special purpose financial statements prepared for a specific purpose relating to cases where a materiality level is agreed between management and the intended users. A member was of the view that management and the intended users may agree a threshold under which identified misstatements are not corrected; Although this threshold may affect the auditor's determination of materiality, it is not the materiality level used by the auditor for planning and performing the audit in accordance with ISAs.
- The Task Force should reconsider the guidance for accepting an engagement to audit a specific element, account or item of a financial statement. The guidance should be aligned with the requirement in ISA 200, which deals with the auditor's compliance with the requirements in each ISA in all cases where the requirements are relevant in the circumstances of the audit. It should also note that, as explained in ISA 200, the ISAs are written in the context of financial statements

and are adapted as necessary in the circumstances when applied to audits of single elements, accounts or items of a financial statement. The practicality of this should be discussed, particularly in the case where the auditor is not also engaged to audit the entity's financial statements.

Some members continued to disagree that the auditor could express a true and fair view / presents fairly, in all material respects, opinion on an element, account or item of a financial statement. Consideration was given to limiting the auditor's opinion to stating that the financial information is presented, in all material respects, in accordance with the applicable financial reporting framework, or is properly prepared in accordance with the framework. However, one member disagreed with the introduction of a third form of opinion. The majority of members agreed that the guidance should not be changed.

SPLIT PROPOSAL

Mr. Dutt explained that the some members of the Task Force supported the proposal that the requirements and guidance for the auditor's report on special purpose financial statements should be presented in a separate ISA in order to be consistent with existing ISAs that are structured to deal with performance and reporting considerations separately. The majority of the members did not agree with this proposal.

WAY FORWARD

ISAs 200, 210, 700 and 800 were revised based on the members' comments and reviewed for "close off" approval at the end of the meeting. The Task Force was asked to consider two matters, i.e., (1) placement of the requirement to include an Emphasis of Matter paragraph in the auditor's report when the financial reporting framework is deficient and management provides additional disclosures in the financial statements to avoid misleading users (currently in ISA 210), and (2) the guidance in respect of an engagement to audit a specific element, account or item of a financial statement. It was agreed that the close off documents should be approved at the October 2006 IAASB meeting after consideration of the resolution of these two matters.

Based on the recommendation of the Task Force, the IAASB concluded that re-exposure of the ISA and proposed conforming amendments is not necessary, as the changes since exposure did not result in fundamental changes of position. The changes mainly clarify the requirements and guidance or are of a structural nature.

4. Service Organizations

Ms. Esdon introduced the topic, noting that the project encompasses two standards: an update of extant ISA 402, "Audit Considerations Relating to Entities Using Service Organizations," which deals with service organizations from the perspective of the auditor of the user organization, and a new assurance standard ISAE 3402, "Assurance on Controls at a Service Organization," which will deal with considerations relevant to service auditor preparing reports on controls at service organizations. Ms. Esdon is the chair of the ISA 402 task force and Mr. Tucker is the chair the ISAE 3402 task force.

CURRENT PRACTICES REGARDING SERVICE ORGANIZATIONS

Mr. Tucker discussed how, in order to focus on core competencies and derive cost savings, many entities have decided to outsource a variety of functions, including some related to accounting and reporting. Auditors of those entities need to consider the implications of this outsourcing for the entity's financial reporting process, including consideration of both (a) controls that are maintained by the service organization, and (b) controls that the user organization maintains over the activities of the service organization.

Because a service organization usually services many user organizations, it is generally not practical for all user auditors to perform audit procedures at the service organization. Therefore, a service organization will often request a service auditor to issue a report on controls at the service organization. In addition to the service auditor's opinion on controls as they relate to the user organization's information, such reports ordinarily include: (a) a section prepared by management describing those controls, and (b) details of the specific tests of controls performed by the service auditor. User auditors use these reports in their risk assessment at user organizations; however, user auditors do not usually have a direct relationship with the service auditor as all communications are via the service organization and the user organizations.

EXISTING ISA RISK ASSESSMENT REQUIREMENTS

Ms. Esdon explained that the ISA 402 task force had reviewed ISA 315 and ISA 330 to identify considerations relevant to service organizations. The Board discussed this matter and agreed that the user auditor should understand those activities performed by the service organization that affect the user organization's information system relevant to financial reporting, and should consider those activities in identifying and assessing the risks of material misstatement. It was noted, however, that the auditor may not need to perform tests of controls at the service organization or obtain a report from the service auditor if the user organization has strong monitoring controls in place over the activities of the service organization, or if a substantive approach is appropriate in the engagement circumstances.

SCOPE OF ISA 402

Ms. Esdon noted that the task force believes there is a need to explain what types of outsourced activities would be covered by the revised ISA 402. For example, some activities clearly have a direct effect on the user organization's internal control as it relates to the preparation of the financial statements (such as payroll processing), whereas others relate to broader activities that are not directly related to financial reporting (such as waste disposal). The IAASB agreed that while ISA 402 should note that the user auditor may need an understanding of the business risks arising from outsourced activities regardless of whether they have a direct effect on the entity's financial reporting process, the primary focus of ISA 402 should be on service organizations involved with the processing of financial transactions and events of user organizations.

RELATIONSHIPS BETWEEN THE PARTIES

The IAASB discussed the relationship between the service auditor, the service organization, the user organization and the user auditor, and agreed that ISA 402 and ISAE 3402 should be written primarily on the assumption of no direct relationship between the service auditor and the user auditor.

While the goal of ISA 402 is not specifically to provide guidance on group audits, the IAASB agreed that in the case of a shared service center, where there is likely to be a direct relationship between the service center auditor and the group auditor, some material within ISA 402 could be helpful in planning and performing a group audit.

SCOPE OF ISAE 3402

The IAASB debated whether ISAE 3402 should address activities provided by service organizations regarding activities that are not directly related to finance and accounting. The possibility of linking the report to issues contained in the service level agreement between the user organization and the service organization, or to the various needs of management of user organizations, as opposed to user auditors, was discussed. It was agreed that ISAE 3402 should acknowledge that service auditors may provide reports on broader activities, however, it was agreed that in order to contain the project, it would be necessary to limit the standard's focus to reports on controls as it relates to the preparation of user organization's financial statements, i.e. the scope of ISAE 3402 should complement that of ISA 402.

CONTENT OF SERVICE AUDITOR REPORTS

Mr. Tucker noted that extant ISA 402 includes reference to two types of reports: "Type A" reports, which include the service auditor's opinion about management's description of internal control, and whether controls are suitably designed and have been implemented; and "Type B" reports, which also include the service auditor's opinion about the operating effectiveness of controls. The IAASB discussed whether Type A reports are useful or common, and whether they should be retained. It was noted that there are circumstances when a Type A report may be appropriate, e.g., in the case of a first time report where the operating effectiveness of controls cannot yet be established, or when a user organization has strong monitoring controls over activities at the service organization. It was agreed therefore that ISAE 3402 should continue to acknowledge both Type A and Type B reports, but that it should clearly indicate the difference between the two, and should require Type A reports in particular to be clear about their limitations.

The IAASB discussed whether Type B reports need to include details of the tests of control that the service auditor has performed, as well as the service auditor's opinion, and agreed that the current practice of including both is appropriate and should be retained.

OTHER MATTERS

The IAASB also agreed that ISAE 3402 should:

- Be drafted in terms of the service auditor's report being a "reasonable assurance" report, however, it is not necessary to prohibit "limited assurance" reports;
- Allow flexibility for dealing with sub-service organizations because whether to include or exclude them from the scope of the service auditor's report will depend on the circumstances of the engagement; and
- Be written in the clarity format following the structure of ISAE 3000 to the extent possible, but avoid duplicating material contained in ISAE 3000.

5. Accounting Estimates

Mr. Ashton introduced the topic, explaining that the purpose of the session is to approve the proposed ISA 540 (Revised), “Auditing Accounting Estimates and Related Disclosures (Other Than Those Involving Fair Value Measurements and Disclosures)” as the close off document under the IAASB previous drafting conventions, and to consider the Task Force’s proposal to combine ISA 540 (Revised) and ISA 545, “Auditing Fair Value Measurements and Disclosures” in one document. He reported on the views of the IAASB CAG Representatives and the IFAC Small and Medium Practices Committee on the documents presented.

PROPOSED REVISED ISA 540

Mr. Ashton presented a number of additional editorial changes proposed by the Task Force to the document. The IAASB agreed the proposed changes, with the exception of those related to the requirement and guidance dealing with indicators of possible management bias which the IAASB did not consider necessary.

In addition to further editorial matters, the IAASB also agreed the following changes:

- Reference to the auditor’s consideration of the potential for management bias should be included in the guidance dealing with the circumstances where events occurring up the date of the auditor’s report contradict an accounting estimate.
- The description of the process for narrowing the auditor’s range should be simplified to focus on the desired end-state, being a range that has been narrowed, based on audit evidence available, until the auditor is able to conclude that all outcomes within the range are considered reasonable.
- Additional guidance should be provided explaining the types of circumstances that may give rise to the need for the auditor to consider whether it is necessary to develop a range to evaluate the reasonableness of the accounting estimates that give rise to significant risks.
- The requirement pertaining to disclosures of estimation uncertainty should be revised to state that, for accounting estimates that give rise to significant risks, the auditor should evaluate the adequacy of their disclosure in the financial statements, in the context of the requirements of the applicable financial reporting framework. The related explanatory material should also be amended to state that the auditor’s evaluation of the adequacy of disclosure of estimation uncertainty increases in importance the greater the auditor’s range is in relation to materiality.

The IAASB deliberated whether the ISA should continue to require the auditor to obtain representation from management relating to significant assumptions and if so, whether the requirement is sufficiently specific in terms of the nature and extent of the representations expected to be obtained. The IAASB agreed to retain the requirement as presented, having regard to the fact that ISA 545 contains a similar requirement which has not given rise to practice issues. The IAASB asked the Task Force, however, to consider when redrafting ISA 540 (Revised) in accordance with the clarity drafting conventions whether the wording of the requirement remains appropriate in light of changes that may be proposed under the project to revise ISA 580, “Management Representations.”

Based on the recommendation and analysis of the Task Force, the IAASB concluded that re-exposure was not necessary. The IAASB unanimously approved the close off version of ISA 540 (Revised), a copy of which is attached to these minutes.

Mr. Sylph advised the IAASB that due process has been followed in developing and finalizing the close off version of ISA 540 (Revised).

PROPOSED ISA 540-545 COMBINED

Mr. Ashton presented the Task Force's proposal to combined ISAs 540 and 545 in one ISA (Combined ISA) and the basis thereof. He noted the IAASB CAG Representatives have expressed support for this course of action. The IAASB agreed in principle to the combination.

Mr. Ashton highlighted the main redrafting changes made to ISA 540 (Revised), including which of the present tenses therein have been elevated to requirements, and the process followed in considering the material of extant ISA 545 in developing the Combined ISA. He then led a detailed review of the document. In addition to editorial changes, the IAASB agreed the following:

- The introduction to the ISA should emphasize the difference in the measurement objective that exists when fair value measurements are involved, and that a proper understanding thereof assists the auditor in determining whether management has appropriately applied the requirements of the applicable financial reporting framework. Further, it should clarify that irrespective of basis of measurement (i.e., fair value or not): amounts in the financial statements that do not have a precise means of measurement are accounting estimates; there is a spectrum in terms of the degree of measurement uncertainty that may exist; and that some estimation uncertainty may exist even for fair value measurements based on published data from an active and open market.
- The requirement specifying the risk assessment procedures to be performed should include wording that clarifies that they are performed in the context of the related requirements and guidance of ISA 315. The wording of other requirements may also require explicit reference to the related audit risk ISAs.
- The requirement for the auditor to determine the need to use the work of an expert in extant ISA 545 should be brought forward to the Combined ISA, either as a separate requirement or as a clarification of the requirement dealing with the circumstances when the auditor decides to respond to the risks of material misstatement by making an independent estimate, as appropriate.
- Additional guidance should be provided explaining the auditor's considerations in the circumstances when the auditor is unable to adequately narrow the range, when the auditor adopts the approach of developing a range to evaluate management's estimate. The Task Force should also reconsider whether the wording of the proposed elevated requirement for the auditor to narrow the range is too absolute.
- The optional procedure of testing how management made the accounting estimate should be expanded to require the auditor to also evaluate whether the method of measurement used is appropriate in the circumstances, as the related material drawn from extant ISA 545 suggests a requirement.
- The auditor should be required to request management to support how it has addressed the effects of estimation uncertainty on the accounting estimate in those circumstances where management has not considered alternative assumptions or outcomes, as the present tense in the guidance in ISA 540 (Revised) suggests a requirement.

The IAASB asked that the Task Force consider further the following:

- Whether the proposed deletion of the reference to the applicable financial reporting framework in the objective is appropriate.
- Whether it would be useful to have fair value accounting estimates defined as a subset of the definition of an accounting estimate, thereby allowing the ISA to distinguish between those requirements that are applicable only to one or the other.
- Whether the requirement for the auditor to review the outcome or re-estimation of an accounting estimate is applicable fully to the audit of fair values. It was noted that the idea that the auditor needs to consider management's past 'track record' is important and should not be lost; however, what may possibly be more relevant in the context of fair values is the consistent application of the method of measurement, as changes thereto may be ways in which management bias could be introduced. It was also noted that the application material should make clear that the actual fair value amount observed do not necessarily indicate an error in the making of the fair value estimate.
- Whether the wording of the optional procedures for the auditor to review events occurring up to the date of the auditor's report is applicable fully to the audit of fair values.
- Whether the ISA is sufficiently clear in terms of the nature and extent of the assumptions made by management that the auditor is required to consider and evaluate.
- Whether the requirement for the auditor to evaluate how management has considered alternative assumptions or outcomes and management's intent to carry out specific courses of action and its ability to do so is applicable fully to the audit of fair value measurements.
- Whether the application material dealing with the auditor's consideration when the auditor uses assumptions different from those used by management represent a conditional requirement that should be elevated.
- Whether certain of the examples drawn from extant ISA 545 remain valid, and whether the criteria brought forward from extant ISA 545 pertaining to the auditor's consideration of whether assumptions are reasonable are in fact appropriate in the context of assumptions (as opposed to being applied to the resultant financial information).
- Whether the requirement to document the basis for the auditor's conclusions about the reasonableness of accounting estimates that give rise to significant risks is necessary in light of the proposed amendments to ISA 230, "Audit Documentation."

The IAASB asked the Task Force to consider its comments and to present a proposed revised Combined ISA for approval as an exposed draft at the December IAASB meeting.

6. Forming an Opinion

Ms. Hillier introduced the topic, noting that the project had originated in the context of ISA 700. The aim of this project was to consider the need for a separate standard to reposition material in extant ISAs related to forming an opinion on the financial statements.

In determining whether a separate standard would be necessary, the IAASB considered whether it would be an enhancement to the standards in light of the scope of work currently facing the IAASB, as well as the following:

- The IAASB CAG Representatives was of the view that guidance on forming an opinion apart from what was already in the extant ISAs may be more appropriate as an IAPS or a practice aid.
- Based on the proposals set forth by the Task Force in the issues paper, the IAASB generally felt that Option 3, which was the most comprehensive option, would be the only path forward if the IAASB agreed to continue with the project.
- Because of the guidance already containing in extant ISA 700, certain members felt a new standard was unnecessary. To this point, another member suggested that if the goal was for a coherent collection of paragraphs about forming an opinion, one option may be to compile them all in ISA 700 or move to ISA 200.
- Other members were in agreement that due to the significant number of open projects currently being addressed by the IAASB, as well as the resource constraints, introducing another new standard may be negatively received by the user community and could compromise the existing IAASB work plan from a timing and resource perspective without providing any significant benefit.

As a result of this discussion, the IAASB agreed not to proceed with the project; rather, the guidance in question would be reviewed as part of the ongoing projects in which the material is currently contained. Mr. Kellas thanked Ms. Hillier and her Task Force for the careful analysis of the issues which had helped the IAASB to come to its conclusion.

7. Related Parties

Mr. Trémolière introduced the topic, noting that the objective was to review significant comments received on the exposure of the proposed revised ISA 550, and to discuss a revised draft of the proposed ISA.

He noted that, in his absence from the IAASB CAG meeting the previous week, Ms. Hillier (who recently joined the Task Force) had presented the significant comments received on exposure to the IAASB CAG Representatives, and she would report on their comments at relevant points during this discussion. Additionally, the Task Force had received comments from the IFAC SMP Committee, which expressed support for the Task Force's approach to dealing with the exposure comments, as reflected in the revised draft now presented. The IFAC SMP Committee, however, indicated some remaining concern over some of the suggested procedures in the application material, which they perceived as being quite open-ended.

Mr. Trémolière then proceeded to present the significant comments received on exposure.

INHERENT LIMITATION IN IDENTIFYING RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

Mr. Rabine noted that the inclusion of the explanatory material on inherent limitations in the introduction seemed confusing, given that similar explanation is already included in the proposed revised ISA 200. Mr. Trémolière noted that the description of inherent limitations in this ISA should be similar to that in the context of fraud, and in view of the particular risks associated with related parties, the Task Force believed it would be important to include such material in this ISA. A member noted that placing the material in ISA 200 would be difficult as the inherent limitations are very specific to related parties. Ms. Hillier noted that IAASB CAG Representatives were generally supportive of having some discussion of inherent limitations in this ISA.

It was pointed out that the inherent limitations described in the introductory section seemed to relate only to the risks of material misstatement, and that a link seemed to be missing between these inherent limitations and the consequent inherent limitation on the effectiveness of the auditor's procedures. It was also noted that the proposed wording relating to inherent limitations seemed inconsistent with the proposed revised Preface in that such wording seemed to suggest that having performed the requirements, the auditor has achieved the objective of the ISA. In addition, it was cautioned that care should be taken when drafting the guidance so as not to give the impression that the auditor can overcome the inherent limitations by complying with the requirements of the ISA. Inherent limitations, by their nature, cannot be overcome, but the ISA provides requirements and guidance to assist the auditor in mitigating their effect. The IAASB agreed that the Task Force should reconsider the wording used to describe the inherent limitations in this ISA.

DEFINITIONS

Ms. Hillier noted that IAASB CAG Representatives had expressed support for the Task Force's proposed approach to provide general guidelines regarding the common characteristics of related parties. It was nevertheless noted by some members of the Board that the inter-relationship between these guidelines and the discussion of weak financial reporting frameworks in the introduction was somewhat unclear. Further, in relation to the proposed requirement to obtain written representations from management, it was unclear whether it was intended that these representations should cover relationships and transactions with parties that share these common characteristics. The IAASB asked the Task Force to consider clarifying the introductory section so that it would better link financial reporting issues pertaining to framework requirements with the definitions set out in the framework, and issues pertaining to understanding related party relationships and transactions in the context of fraud with the common characteristics proposed.

RISK ASSESSMENT PROCEDURES

It was noted that the proposed draft did not appear to elaborate on the implications of related party controls that are weak or non-existent. It was noted that in the absence of adequate controls, the auditor may have to resort to a fully substantive approach. In such a situation, the auditor may be unable to obtain sufficient appropriate audit evidence regarding related party relationships and transactions and may need to consider the implications on the audit opinion. The IAASB asked the Task Force to consider this further.

Ms. Hillier noted that IAASB CAG Representatives generally supported the revised approach to the risk assessment section, but they felt that the linkage to ISAs 315 and 240 could be further tightened. Ms. Rand noted that the risk assessment procedures seemed to be limited to the proposed requirements to make inquiries and remain alert to relevant information, and suggested that the auditor's responsibility to perform other risk assessment procedures should be clarified.

ARM'S LENGTH ASSERTIONS

Mr. Trémolière explained that the European Commission's revised 4th and 7th Directives require the disclosure of related party transactions that have not been conducted under normal commercial or market terms. This would effectively mean that if a related party transaction is not disclosed, there is an implicit assertion that the transaction has been entered into on market terms.

After discussion, the IAASB concluded that the ISA should not deal with the issue of implicit and explicit arm's length assertions which could give rise to a wider expectations gap as questions might arise as to whether other implicit assertions exist; some guidance could, however, be considered to highlight that this could be a significant risk area for which significant work effort might be necessary.

One member noted that, although related party transactions could take place at market prices that could be substantiated, the issue concerned more the risks pertaining to the other aspects of these transactions, such as their nature, terms and conditions. In addition, it was noted that no related party transaction could be conducted at arm's length given the nature of related parties. Accordingly, it may be more appropriate to consider terms such as "normal market conditions." The IAASB agreed that the Task Force should consider adding the notion of normal market conditions to the definition of arm's length transaction to maintain a framework-neutral approach.

WRITTEN REPRESENTATIONS

It was questioned whether, for the purpose of obtaining written representations, the auditor should be required to agree with management which parties meet the common characteristics of related parties set out in the proposed ISA. Some members argued that the representations should be extended to cover these parties (in addition to any parties that fall within the framework definition of a related party) for the purpose of addressing the fraud aspect. It was noted that without management's clear understanding of those common related party characteristics the auditor has in mind, management would likely be unable to provide appropriate representations regarding the completeness of related party information provided to the auditor. Other members, however, pointed out that there would be practical difficulties in imposing such a requirement, particularly given the scope for disagreement between management and the auditor regarding which parties meet the common related party characteristics. Further, there would be a risk that, by broadening the representations to cover parties other than those defined in the framework, these representations would become too open-ended and general. The IAASB agreed that the task force should reconsider the approach to written representations in light of these comments.

OTHER COMMENTS

In addition to editorial changes, the IAASB agreed the following:

- The wording in the introductory section addressing financial reporting frameworks that establish limited or no related party requirements should be amended and aligned with the proposed guidance on common related party characteristics, as it could be read as implying that auditors in jurisdictions with weak frameworks have a greater responsibility to detect fraud.
- Consideration should be given as to whether the objective of the ISA should include a reference to the identification of related party relationships and transactions (in the context of fraud), as the current objective seemed unduly restricted to accounting issues.
- Consideration should be given to providing some examples of dominant influence to illustrate the proposed definition.
- Consideration should be given as to whether significant non-routine related party transactions carried out during the year should be treated as a separate category of circumstances giving rise to significant risk.

- In relation to communication of significant related party issues with those charged with governance, the requirement to communicate conflict of interest issues should be deleted, as this could be perceived as extending the scope of the auditor's work to detect and communicate conflicts of interests.
- In relation to documentation, the guidance should indicate that management may often provide a list of related parties to the auditor.

WAY FORWARD

The IAASB asked the Task Force to present an updated draft of the proposed ISA for discussion at the December meeting.

8. External Confirmations

Mr. Crawford introduced the topic and noted the objective of the discussion was to obtain the members' input on the proposed direction of the project to revise ISA 505, "External Confirmations." He then proceeded to introduce the matters noted in the issues paper.

DOES THE EXISTING ISA 505 FIT IN THE AUDIT RISK MODEL?

The Task Force believes that ISA 505 does not fully address how external confirmations fit within the audit risk model, and proposes that the project improve the linkages in ISA 505 between the audit risk model and the decision to request external confirmation. The members were generally in support of this idea. It was noted that both the IAASB CAG Representatives and IOSCO did not want the ISA to discourage the use of external confirmations, but wanted the ISA to emphasize the notion that the auditor needs to determine whether the evidence that is obtained is reliable.

A number of members supported the risk-based approach with examples. These points had been echoed in discussions at the IAASB CAG meeting, during which it was suggested that it was not necessary to mandate confirmations but it may be appropriate for the auditor to document his or her assessment that confirmation responses may not be reliable.

SHOULD REQUESTING EXTERNAL CONFIRMATIONS TO ADDRESS CERTAIN FINANCIAL STATEMENT ASSERTIONS BE MADE MANDATORY?

As a result of the discussion surrounding the risk-based approach, most members thought the ISA should not require mandatory confirmations. One member spoke of the need to balance the perception that evidence obtained outside the entity is more reliable than evidence obtained inside the entity when sometimes it is not the case. In the proper context, however, confirmations may be best from an efficiency and effectiveness standpoint. However, the focus should not be so much on efficiency, which may imply a focus on cost savings, as on the quality of evidence that can be obtained to address the risks. One member was slightly in favor of requiring them, because they can provide better evidence than evidence obtained internally but because it can be difficult and time-consuming to make confirmations effective where responses were poorly completed or not provided at all, the procedure may be most useful as a substantive procedure overlaid on the risk-based procedures; for example, he suggested that perhaps confirmation of the top 5 balances for accounts receivable may provide useful additional substantive evidence under ISA 330.

Two members felt that the presumption should be that you should obtain bank confirmations, and believed that the ISA should require the auditor to document why he or she chose not to do so. Other members countered this point, noting that a rebuttable presumption often results in the auditor focusing on justifying why a procedure is not performed. In their view, the focus should be on finding the best procedure possible to obtain the evidence required. Others agreed noting that in their experience, bank confirmations may only prove the existence of cash, and in many cases become a perfunctory step to the auditor due to the error rates in the confirmation responses or lack of responses. Another member noted that fraud and misappropriation of assets are often conducted through cash accounts, and this should be a consideration in determining whether to require bank confirmations.

Another member noted that if the decision was made not to mandate confirmations, further guidance should be added indicating that if the auditor decides not to use confirmations it should be because procedures would be more effective. Since the auditor needs to obtain sufficient appropriate audit evidence, if alternative procedures do not provide higher quality evidence than confirmations, then confirmations should be used.

Other members felt that in the case of a bank confirmation, it would be more useful to confirm the information around the banking relationships, such as loans, guarantees, and financial instruments, rather than the cash balance. One member suggested that in the application material it would be useful to have discussion about legal letters, banking relationships and accounts receivable because there are different considerations and auditors need to understand what the other sources of evidence are for each.

HOW DOES THE AUDITOR CONCLUDE THAT EVIDENCE RECEIVED FROM EXTERNAL CONFIRMATIONS IS RELIABLE?

Given that the majority of the members felt that confirmations should not be mandated, many expressed the view that the revised ISA should seek to provide more guidance on what the auditor should do to ensure that any confirmations requested provide reliable evidence. This would include how to deal with a lack of responses to confirmations, as well as situations in which there was a discrepancy between the confirmation and the account balance per the client.

UNDER WHAT CIRCUMSTANCES CAN THE AUDITOR USE NEGATIVE CONFIRMATIONS?

The members agreed with the Task Force's suggestion that negative confirmations should still be permitted by the ISA, as they were of particular use in the audits of financial institutions. The Task Force plans to include cautionary guidance in the ISA to explain the degree of evidence that is actually provided by using this type of confirmation.

LEGAL CONFIRMATIONS AND ISA 501 PART C

The majority of the discussions on confirmations took place in the context of bank confirmations. Members felt there was a distinction between the evidence obtained from legal confirmations and that obtained from bank confirmations. A few members noted that communications with legal counsel can be difficult (for example, because of legal privilege) and that a number of countries do not allow the auditor to ask lawyers to respond to open questions. Most members believe that communications with lawyers should be a separate topic from external confirmations.

OTHER MATTERS

Two members noted that bank confirmations may not be useful if the processes in place at the banking institutions were not rigorous. It is understood, for example, that in some jurisdictions temporary staff are employed by banks to deal with confirmation requests, which may lead to errors through a lack of familiarity with the bank's business and customers. It was suggested that perhaps guidance in the ISAs could promote better responses by stressing the need for the auditor to have a clear understanding of the process to follow when confirming and in obtaining complete listings of bank accounts and relevant contacts.

WAY FORWARD

The Task Force will present the first read of the ED at the February meeting.

9. IAASB's Future Strategy and Work Program

Mr. Kellas invited members to provide input into the IAASB's future strategy and work program. He noted that the PIOB had requested the IAASB to describe its current processes for developing its work program, and that the PIOB was currently finalizing its own oversight process.

The paper discussing the IAASB's Future Strategy and Work Program (Agenda Item 6-A) was shared with the IAASB CAG at their September 11-12 meeting. IAASB CAG Representatives generally felt that the IAASB should be asking open-ended questions of its constituents to understand their expectations. In particular, they suggested that the IAASB should focus more on finding out what stakeholders expect from the audit, rather than on what should be in the standards (of which respondents may not have knowledge). Additionally, they felt that more effort should be made to obtain input from constituents in Africa, Asia and Latin America.

IAASB CAG Representatives also commented on the role of the audit on corporate governance and who were the intended beneficiaries of audits. The importance of good corporate governance was emphasized, as were other elements of the financial reporting process.

The IAASB CAG was asked for its views on whether the IAASB should be doing more on assurance standards other than auditing standards. Differing views were expressed but regulators and investors may prefer further enhancements to the auditing standards. Mr. Kellas noted that merely issuing new auditing standards may not be the only way to improve audit quality, and it is hoped that the consultations being proposed would suggest other ways to do so.

One member questioned how the additional outreach proposed would be different from the current involvement with the IAASB CAG. Mr. Kellas noted that although the IAASB CAG is the first point of contact for consultation, it is not intended to represent a comprehensive source of advice. For example, audit regulators are not directly represented on the IAASB CAG. To mitigate this, it is envisioned that members could independently meet audit regulators in their jurisdictions to gather appropriate input.

It was suggested that the IAASB should seek to engage other boards and committees within IFAC, as audit quality concerns not only auditing standards, but also areas such as education, ethics, etc. Mr. Sylph noted that the Public Interest Activity Committees within IFAC have their own agendas but he would raise the question with them.

One member suggested that the IAASB should focus on setting specific medium-term goals on issuing assurance standards dealing with topics other than auditing; otherwise it would never be able to issue these. It was, however, argued that there is a higher priority in serving the public interest by improving audits, as it was unclear whether there was a significant level of public interest in these other assurance standards.

One member suggested that the World Bank might be able to identify the issues developing nations currently face. Mr. Kellas noted that the World Bank is already a member of IAASB CAG. The issue concerned more the sophistication of the ISAs and whether they are being improperly applied, which would lead to a culture of non-compliance in countries whose auditing profession is not yet fully developed.

A member cautioned that the amount of change arising from the Clarity and other projects should not be under-estimated, and users and others would need time for implementation and monitoring. Mr. Kellas indicated that this point was noted at the IAASB CAG meeting, and the IAASB CAG Representatives had acknowledged that a period of reflection might be desirable during which no new standards would be issued. A time of reflection would also assist national standard setters in working towards international convergence. It was suggested that the IAASB should, nonetheless, continue its work during this period, perhaps concentrating on obtaining feedback about implementation, which could provide input into new interpretive guidance or other standards.

A member also cautioned that there is a risk that, through undertaking all these consultations, unrealistic expectations develop among stakeholders regarding what the IAASB can deliver. Accordingly, it would be important to emphasize the limitations of the consultation exercise so as not to over-commit the IAASB. Mr. Sylph agreed that the IAASB should consider all the input received. A draft strategy and work program document summarizing the best ideas received would be issued for public comment.

Mr. Kellas highlighted the need to consider the cost-benefit of all new projects. Accordingly, this should be drawn to respondents' attention.

WAY FORWARD

Mr. Kellas encouraged members to submit any additional ideas they may have, particularly regarding contacts with audit oversight authorities and others who may be familiar with implementation issues.

A presentation by external speakers is being considered for the October meeting. Further discussion with the IAASB will take place in December, possibly in the form of a survey on the focus of possible future projects.

10. PIOB Observer Comments

Mr. Hafeman thanked the members for the opportunity to observe the meeting. He noted dedication, expertise and hard work during the deliberations. He believed that the discussions showed appropriate flexibility in the deliberative process, but suggested that a clearer view as to which requirements and guidance should be located in which standards might be helpful.

He urged the members to continue to be attentive to users' needs, particularly in relation to the use of terminology which needed to be understood both by the IAASB and by users. He supported the

intention to further enhance the Related Parties standard, and other standards where appropriate, in areas where the financial reporting framework is silent or weak on a particular definition or issue.

He reported that the PIOB was pleased with the approach to the development of the work program beyond 2008, and he was encouraged by the wide range of ideas that members had provided in the discussion of the topic. He noted in particular the comments on the role of the IAASB (or IFAC) in connection with the implementation of the ISAs.

He then outlined two main areas of interest to the PIOB - the balance of representation on the IAASB, and due process. The PIOB is mindful that the balance between practitioners and non-practitioners should not compromise the quality of the IAASB's work. As such, the PIOB takes a keen interest in the nomination process. He indicated that further thinking may be needed on how to ensure that, as the balance changes towards including more non-practitioners, the practitioners are not unfairly burdened in the task of developing draft standards.

As regards due process, Mr. Hafeman reported that the PIOB was discussing with the Chairman and Executive Director how to ensure that it was clear that all comments submitted on proposed standards are properly handled.

11. Next Meeting

The next meeting of the IAASB has been scheduled for October 25-27, 2006 in New York.