Minutes of the 27th Meeting of the

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

Held on July 9-13, 2007 in Warsaw

	Voting Members	**Technical Advisors**
Present:	John Kellas (Chairman)	Kelly Ånerud (Mr. Larsson)
	Denise Esdon (Deputy Chair)	Philip Ashton (Ms. Hillier)
	Phil Cowperthwaite	Michele Caso (Mr. Tizzano)
	Craig Crawford	Josef Ferlings (Mr. Kinney)
	John Fogarty	Cédric Gélard (Mr. Trémolière)
	Jan Bo Hansen	Jon Grant (Mr. Rainey)
	Diana Hillier	Jennifer Haskell (Mr. Hansen)
	Susan Jones	Shahid Hussain (Mr. Yusuf)
	William Kinney	Richard Mifsud (Mr. McPhee)
	Kjell Larsson	Greg Shields (Mr. Cowperthwaite)
	Ian McPhee	Sylvia Smith (Mr. Crawford)
	Marcel Pheijffer	Hans Verkruijsse (Mr. Pheijffer)
	Makoto Shinohara	Sharon Walker (Mr. Fogarty)
	David Swanney	Yuichi Yamamoto (Mr. Shinohara)
	Roberto Tizzano	
	Gérard Trémolière	
	Abdullah Yusuf	
Apologies:	Will Rainey	

	Non-Voting Observers
Present:	Jennifer Rand
	Jean-Philippe Rabine
	Hisashi Yamaura
Apologies:	David Damant

	Public Interest Oversight Board (PIOB) Observer
Present:	Dr. Arnold Schilder (July 11-13)

IAASB Technical Staff

Present: Jim Sylph (Executive Director), James Gunn, Kathleen Kerrigan, Daria Koukhar, Michael Nugent, Alta Prinsloo

1. Opening Remarks and Minutes

WELCOME AND INTRODUCTIONS

Mr. Kellas welcomed the meeting participants to the International Auditing Practices Committee (IAPC) / IAASB's 100th anniversary meeting. Three past chairmen of the IAPC – Messrs. Justin Fryer, Robert Roussey, and Gijs Bak – have accepted Mr. Sylph's invitation to attend the meeting. Mr. Ian Ball, Chief Executive of IFAC will also attend portions of the meeting.

Apologies were received from Messrs. Damant and Rainey. Mr. Rainey appointed Mr. Grant as his proxy.

Mr. Kellas reported that Mr. Tucker has retired from his firm and consequently from the position of Technical Advisor (TA) to Ms. Esdon. He will however continue to serve as chairman of the ISAE 3402 Task Force. Mr. Dan Montgomery will join the IAASB as Ms. Esdon's TA in September.

Mr. Kellas also introduced Ms. Dorothy Ofori, Mr. Sylph's new Executive Assistant, who will be handling the administration of IAASB meetings.

MINUTES OF PREVIOUS MEETING

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

2. The Audit of Group Financial Statements

Mr. Hansen led the IAASB through a review of proposed ISA 600 (Revised and Redrafted), "The Audit of Group Financial Statements (Including the Work of Component Auditors)." He explained the Task Force's recommendations with regard to comments made at the April 2007 IAASB and IAASB CAG meetings.

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

- The reference to "single entity" in the paragraph explaining that the auditor of a single entity may find the ISA, adapted as necessary in the circumstances, useful when other auditors are involved in the audit of the financial statements of the single entity should be clarified by way of an example.
- The paragraph in the section on Component Auditors that explains the relationship between proposed ISA 600 (Revised and Redrafted) and proposed ISA 220 (Redrafted), "Quality Control for Audit Engagements" is not consistent with the application material that explains the factors that may affect the nature, timing and extent of the group engagement team's procedures to obtain an understanding of the component auditor. Further, the paragraph is drafted as though it covers all aspects of proposed ISA 220 (Redrafted), while that may not be the case.
- The second objective of the auditor (i.e., "to communicate with component auditors on a timely basis") is a subset of the third (i.e., "to obtain sufficient appropriate audit evidence about the financial information of the components and the consolidation process to express an opinion whether …). Further, the auditor may be able to achieve the third objective even if the communication with component auditors is not on a timely basis. It was agreed that the second objective should be retained, but that the Task Force should consider revising the wording.

- As drafted, the definition of "group engagement team" is very narrow and may, for example, exclude seconded individuals. Consideration should be given to deleting the phrase "of the group engagement partner's firm," focusing the definition on what the group engagement team is responsible for.
- To further emphasize the fact that the group engagement partner or the group engagement partner's firm is responsible for the group audit opinion, the following should be added to the section on Responsibility and Cooperation: "In accordance with [proposed] ISA 220 (Redrafted), the group engagement partner is responsible for the direction, supervision and performance of the group audit engagement in compliance with professional standards and regulatory and legal requirements, and whether the auditor's report that is issued is appropriate in the circumstances."
- The section on Responsibility and Cooperation should also explain that law or regulation may require reference to a component auditor in the auditor's report on the group financial statements. If this is the case, the auditor's report should indicate that the reference does not diminish the group engagement partner's or the group engagement partner's firm's responsibility for the group audit opinion.
- ISAs contain requirements for the auditor; in the case of proposed ISA 600 (Revised and Redrafted), the group engagement partner and his/her team. As a result, the requirement for a component auditor, knowing the context in which the group engagement team will use his/her work, to cooperate with the group engagement team should be redrafted. The group engagement team's communication with the component auditor should include a request that the component auditor confirms that he/she will cooperate.
- The paragraph in the section on Materiality that explains the requirements of proposed ISA 320 (Revised and Redrafted), "Materiality in Planning and Performing an Audit" should be moved to the application material.
- The paragraph that deals with the group engagement team's communication with the component auditors and the paragraph that deals with the component auditor's communication with the group engagement team should be aligned.
- The reference to "group engagement partner" in the following requirements should be replaced with "group engagement team": "If the *group engagement partner* concludes that the work of the component auditor is insufficient, the *group engagement partner* shall determine what additional procedures are to be performed, and whether they are to be performed by the component auditor or by the group engagement team"; and "The *group engagement partner* shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed on the consolidation process and the work performed by the group engagement team and the component auditors on the financial information of the components, on which to base the group audit opinion". In addition, the definition of "group engagement team" should indicate that the group engagement team includes the group engagement partner. This provides for the most relevant person(s) to fulfill the requirements.
- The section on Performing Analytical Procedures in the Overall Review at the End of the Group Audit and related application material should be deleted. The proposed ISA does not deal

explicitly with analytical procedures performed at other stages of the audit, i.e., as provided for in ISA 520, "Analytical Procedures."

- Mr. Rabine asked whether the engagement team's evaluation of the component auditors' communications and adequacy of their work serve the same purpose as "carrying out a review for the purpose of the group audit" as per Article 27 of the European Commission's 8th Directive. He also noted that the documentation requirements do not cover documentation of such reviews. It was agreed that the requirement for the auditor to document the nature, timing and extent of the group engagement team's involvement in the work performed by the component auditors on significant components should include reference to the group engagement team's review of relevant parts of the component auditor's audit documentation and conclusions thereon.
- The application material that explains that although all components will have component management it may not be possible to identify those charged with governance for all components, may be confusing and is not necessary. The Task Force should consider deleting the paragraph.
- Additional guidance should be developed to address circumstances where a member of the group engagement team performs the work on the financial information of a component for the group audit at the request of the group engagement team. Where this is the case, such a member of the group engagement team is a component auditor. However, the objective for the group engagement team to communicate clearly with the component auditor can often be achieved by means other than specific written communication.
- The application material at paragraph A9 explains that, when the group audit opinion is modified because the group engagement team was unable to obtain sufficient appropriate audit evidence in relation to the financial information on one or more components, the basis for the modification paragraph in the auditor's report on the group financial statements describes the reasons for that inability in accordance with proposed ISA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report" without referring to the component auditor. The Task Force should consider adding the following to paragraph A9: "unless such a reference is necessary for an adequate explanation of the circumstances."
- It was debated whether the application material that explains that awareness of the regulatory environment may assist the group engagement team to evaluate the independence and competence of the component auditor should be expanded to also include reference to the findings of independent oversight bodies. It was agreed that such reference is implicit in the reference to the regulatory environment, and that an explicit reference may not be appropriate because of the format in which they are reported.
- The application material that explains analytical procedures in the context of components that are not significant components should be changed to indicate that, depending on the circumstances of the engagement, the financial information of the components may be aggregated at various levels for purposes of the analytical procedure.
- The application material that explains that, subject to legal and professional confidentiality considerations, the component auditor would need to be advised of any matters that come to the attention of the group engagement team that may have an important bearing on the component

auditor's work for purposes of the group is unnecessary and should be deleted. The requirement is sufficient.

APPROVAL

The IAASB agreed that the changes to the text of the third ED of proposed ISA 600 were in response to the comments received on that ED and that re-exposure of the proposed ISA is not necessary. Mr. Sylph confirmed that due process was followed in the development of the proposed ISA. The IAASB unanimously approved ISA 600 (Revised and Redrafted). The effective date will be the same as that of the clarity redrafted ISAs.

The IAASB was asked to submit any comments that they may have on the draft Basis for Conclusions to IAASB staff within one week after the meeting.

3. Initial Engagements

Ms. Hillier introduced the topic and summarized the main issues identified by the Task Force in developing proposed ISA 510 (Redrafted), "Initial Audit Engagements–Opening Balances." She indicated that the IFAC Small and Medium Practices (SMP) Committee had reviewed the proposed redrafted ISA and that she would raise their comments at relevant points in the discussion. Ms. Hillier then led a review of the proposed ISA.

REFERENCE TO CONTINGENCIES AND COMMITMENTS

The IAASB considered whether the proposed rewording to explain the intended applicability of the ISA to contingencies and commitments existing at the beginning of the period is correct and whether the ISA provides sufficient clarity of the auditor's responsibilities in accordance with the extant ISA. The IAASB also discussed whether there were other required disclosures over the contingencies and commitments, for instance, disclosure of prior period related parties' transactions.

The IAASB agreed that the ISA should be worded such that opening balances include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments. It concluded that this wording change would clarify the intended meaning of the extant ISA, consistent with the scope of the IAASB Clarity project.

OBJECTIVE AND STRUCTURE

The IAASB discussed the Task Force's proposal to limit the proposed objective to two key elements: (i) obtaining sufficient appropriate audit evidence that the opening balances are free of material misstatements, and (ii) obtaining sufficient appropriate audit evidence about whether the accounting policies are used consistently or changes are properly accounted for. It was noted that the proposed drafting would make the objective less procedural than that of the overarching bold type paragraph of the extant ISA, and that the IFAC SMP Committee was supportive of the proposed objective. After discussion, and subject to some small editorial changes, the IAASB agreed with the Task Force's proposal and basis thereof, noting that opening balances would be misstated if the closing balances are not brought forward correctly. The IAASB also supported the Task Force's recommendation to align the requirements with the proposed objective by restructuring those that describe the audit procedures to be performed into two sections: (a) Opening Balances; and (b) Accounting Policies.

REVIEWING THE PREDECESSOR AUDITOR'S WORKING PAPERS

The IAASB discussed whether the proposed requirement for the auditor to review the predecessor auditor's working papers is appropriate, and whether the caveat proposed enabled the auditor to still comply with the requirements of the proposed ISA in those situations where access to the predecessor auditor's working papers may be restricted. The caveat stated that should impediments arise that prevent the current auditor from being able to conduct a review of the predecessor auditor's working papers, the auditor is required to perform alternative audit procedures in the circumstances.

Ms. Hillier reported that the IFAC SMP Committee had suggested that the proposed ISA should not only acknowledge the fact that the auditor may not have access to the working papers by law and legislation, but also because there may be situations when working papers are not available, due to litigation, for instance. The IFAC SMP Committee also questioned if there was a need to provide additional guidance in respect of the types of procedures which might be useful under such circumstances. Ms. Hillier also noted that the Task Force has received a number of comments from Board members in advance of the meeting opposing the proposal to elevate the review of the predecessor's working papers as a requirement.

The IAASB concluded that several of the proposed requirements, including the review of the predecessor's working papers, represent the ways by which the auditor obtains sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements. Accordingly, the IAASB agreed to retain the proposed requirements, but to restructure their presentation further as sub-bullets to the requirement for the auditor to obtain sufficient appropriate audit evidence regarding opening balances.

SPLIT OPINION

Ms. Hillier explained that extant ISA 510 restricts the circumstances when the auditor can express an unmodified opinion on the closing financial position of the entity and a qualified opinion or disclaimer of opinion on the results of operations and cash flows ("split opinion") to jurisdictions permitting it. The IAASB agreed with the Task Force's recommendation to remove this restriction as it is unnecessary and may create inconsistency in reporting. This change is consistent with the requirements and guidance of proposed ISA 705 (Revised and Redrafted).

OTHER MATTERS

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

- Reference to communication to appropriate level of management of identified misstatement in the opening balances should be expanded to include those charged with governance.
- Guidance focusing on considerations where a modification to the predecessor auditor's opinion may not be relevant and material to the opinion on the current period's financial statements should be enhanced by an example illustrating the circumstance where there was a scope limitation in the prior period but the matter giving rise to the scope limitation has been resolved in the current period.
- The second example provided in the Appendix should be deleted. There is little merit in keeping two almost identical illustrations.

APPROVAL

The IAASB unanimously approved the proposed ISA 510 (Redrafted) for exposure with a 90-day comment period.

4. Terms of Audit Engagements

Mr. McPhee introduced the revised proposed ISA 210 (Redrafted), "Agreeing the Terms of Audit Engagements," noting that comments had been received from the IFAC SMP Committee who were generally in agreement with the draft.

MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

The IAASB discussed which elements of the draft should apply to management, which to those charged with governance, and which to both. The Task Force was asked to review each instance in which management or those charged with governance is mentioned in the draft. The Task Force was also asked to consider whether separate identification of management and those charged with governance will be necessary in other ISAs, and whether an alternative drafting technique would be appropriate in the circumstances.

UNACCEPTABLE FINANCIAL REPORTING FRAMEWORK

The proposed ISA included a requirement that, where law or regulation prescribes the wording of the audit opinion in terms that are significantly different from the requirements of the ISAs and "the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, the auditor shall not accept the audit engagement, unless prohibited by law or regulation from doing so. An audit which the auditor is thereby required to accept is not an audit conducted in accordance with the ISAs." It was noted that this requirement would seem to imply that an auditor could accept an engagement to report on financial statements prepared in accordance with an unacceptable financial reporting framework using a specified fair presentation form of opinion with no warning being given about the unacceptability of that framework. Part of the concern appeared to be that the requirement was thought to override the other requirements of the ISA in respect of unacceptable frameworks, and in particular the need for further explanation in the financial statements and an emphasis of matter in the audit report.

The IAASB agreed that attempting to develop additional requirements to address this issue directly is beyond the scope of the Clarity project. However, while noting that the current draft requirement was introduced to ISA 210 as a conforming amendment from the revision of the reporting ISAs, the IAASB asked the Task Force to consider whether any unintended consequences had occurred as a result of the inclusion of the proposed wording in the proposed ISA.

OTHER MATTERS

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

- The wording of the requirement that relates to establishing whether the necessary preconditions of an audit are present should be consistent with that in the current ED of proposed ISA 580 (Revised and Redrafted), "Written Representations." The explanatory memorandum to the ED of ISA 210 (Redrafted) should mention, however, that this wording may change as a result of finalizing ISA 580 (Revised and Redrafted). With regard to whether the specific wording used in

this paragraph would need to be used in the engagement letter or other agreement, the IAASB agreed that other parts of the ISA offered the necessary flexibility for the ISA to be applicable in those jurisdictions that had expressed concern about this issue.

- The Task Force should further consider the wording of the application material relating to the circumstances in which the auditor would revise the terms of the engagement or remind the entity of the existing terms. In doing so, the Task Force should consider whether the wording of the proposed ISA is consistent with current practice, the tone of the extant ISA, and the requirements relating to changes in the terms of the engagement.

WAY FORWARD

The Task Force was asked to present a revised draft for approval as an ED at the September 2007 meeting. The IAASB identified the two issues identified above relating to "management and those charged with governance" and "unacceptable financial reporting framework" as the only substantive issues requiring further discussion.

5. Quality Control

Mr. Cowperthwaite introduced proposed ISQC 1 (Redrafted), "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance Engagements and Related Services Engagements." He noted that proposed ISA 220 (Redrafted) was agreed in principle by the IAASB at its April 2007 meeting, subject to conforming changes that may arise as a result of developing proposed ISQC 1 (Redrafted). He also noted that the Task Force had received a number of comments in advance on proposed ISQC 1 (Redrafted), including comments from the IFAC SMP Committee which expressed concerns over the number of elevations to requirements and on the practicality of the standard where there are a small number of partners in a firm. Mr. Cowperthwaite then led a review of the proposed ISQC 1 (Redrafted) and ISA 220 (Redrafted).

AUTHORITY OF THE ISQC

The IAASB agreed with the recommendation of the Task Force to establish within proposed ISQC 1 (Redrafted) the authority attaching to the ISQC, the conventions used in its drafting, and the obligations of the firms that follow the standard. This is consistent with the amended Preface, which states that the authority of ISQCs will be set out within the ISQCs themselves.

The IAASB agreed that the authority and obligations attaching to the content of proposed ISQC 1 (Redrafted) should be substantially the same as those proposed by the IAASB with respect to ISAs. However, because of the scope of the ISQC, the IAASB agreed that they should be adapted appropriately, in particular in relation to the objective stated in the ISQC. In addition, the IAASB agreed that no provision should be made for departure from a requirement when this is deemed necessary by the firm. This is consistent with the current Preface, which makes no provision for this in respect of the ISQCs. The IAASB reconfirmed this position in agreeing the adaptations, since the generally principled nature of the requirements are not expected to give rise to circumstances in which departure would be appropriate.

The IAASB agreed that the authority should be described within the Introduction section of proposed ISQC 1 (Redrafted). This provides necessary context when reading and understanding the objective and requirements of the firm in establishing a system of quality control in accordance with the ISQC. The IAASB also agreed that the obligations attaching to objectives, requirements and other material

should be established within the Requirements section of proposed ISQC 1 (Redrafted). This is consistent with how the IAASB has incorporated the provisions of the amended Preface in proposed ISA 200 (Revised and Redrafted), "Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing."

OBJECTIVE

The IAASB debated whether the reference to "professional standards" in the objective stated in the proposed ISQC was appropriate, in light of the definition of the term in the extant standard. One concern noted was that some countries may interpret it as requiring adoption of all of the standards in order to comply with ISQC 1. The IAASB concluded that maintaining the language in the extant ISQC was appropriate.

DEFINITION OF ENGAGEMENT TEAM

Mr. Cowperthwaite noted that the definition of engagement team included in the proposed ISQC had been taken from that which is being considered by the ISA 620 Task Force in the context of experts.

The IAASB agreed that the proposed ISQC and ISA should use the definition of 'engagement team' that reflects what is currently being considered by the International Ethics Standards Board for Accountants (IESBA). The IAASB considered that definition to be broadly appropriate, but acknowledged that it may be subject to further refinement as the IESBA continues its deliberations. The IAASB agreed to continue to work with the IESBA, with the intention that the final definition of "engagement team" will be the same in the respective Boards' standards. It was agreed that the explanatory memorandum to the ED of the proposed ISQC and ISA should highlight this matter.

It was also noted that the proposed definition excludes "an auditor's external expert" from the engagement team. "An auditor's external expert" will be defined in proposed ISA 620 (Revised and Redrafted), "Using the Work of an Auditor's Expert;" the definition is currently expected to be "an auditor's expert who is engaged, not employed, by the auditor." As a consequence, the IAASB agreed that references in proposed ISA 220 (Redrafted) to the need to ensure that the members of the engagement team have the appropriate competence to perform the audit should be extended to refer to the auditor's external experts.

DATE OF COMPLETION OF ENGAGEMENT QUALITY CONTROL REVIEW

It was noted that subsequent to the issue of extant ISA 220 and ISQC 1 in 2004, the IAASB issued ISA 700 (Revised), "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements." ISA 700 (Revised) defined and referred to the date of the auditor's report, but not to the issuance of the auditor's report. However, extant ISA 220 and ISQC 1 contain certain requirements that refer specifically to the issuance of the auditor's report. The IAASB agreed to amend the proposed ISA 220 (Redrafted) and proposed ISQC 1 (Redrafted) to conform to ISA 700 (Revised) by referring to the date of the auditor's report, and to remove references to the issuance of the auditor's report as it is a term that is undefined in the Handbook of International Auditing, Assurance, and Ethics Pronouncements. It was agreed that this matter should be highlighted in the explanatory memorandum to the ED.

OTHER MATTERS

ISQC 1

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

- In all engagement quality control reviews, including those for audits of financial statements of listed entities, there should be a requirement for a review of selected working papers relating to the significant judgments the engagement team made and the conclusions they reached.
- The requirement specifying considerations relevant to quality control reviews should be limited to quality control reviews for listed entities. Such considerations may be too restrictive for smaller entities who may wish to establish a system of quality control for non-listed entities.
- New application material should be added to reflect smaller practice considerations regarding the selection of the engagement quality control reviewer in the case of firms with a few partners.
- Reference to a three-year inspection cycle should be moved from the Requirements section to the Application and Other Explanatory Material section in order to allow for flexibility and judgment by the firm in selecting partners for review.
- The title of the proposed ISQC should be changed to "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements and Related Services Engagements."

ISA 220

In addition to editorial changes, including those arising from changes to proposed ISQC 1 (Redrafted), the IAASB agreed the following:

- The title of the proposed ISA should be changed to "Quality Control for an Audit of Financial Statements."
- The definition of "professional standards" should be revised to limit it to ISAs.

APPROVAL

The IAASB unanimously approved proposed ISA 220 (Redrafted) and proposed ISQC 1 (Redrafted) for exposure with a 150-day comment period.

6. Auditors' Reports on General Purpose Financial Statements

Ms. Hillier led the IAASB through a review of proposed ISA 700 (Redrafted). She highlighted the following matters discussed in the memorandum:

- The proposed resolution to the overlap between proposed ISA 450 (Revised and Redrafted), "Evaluation of Misstatement Identified during the Audit" and proposed ISA 700 (Redrafted).
- The proposed positioning of the "misleading" test in the context of compliance frameworks.
- The proposed clarification of how the guidance on audits conducted in accordance with both national auditing standards and international standards on auditing applies when the additional requirements are in law or regulation.

- Alignment of the wording of the requirements and guidance on supplementary information presented with the financial statements to align better with the extant ISA.
- Proposed new guidance on circumstances when the financial reporting framework is described by reference to International Financial Reporting Standards (IFRSs).
- Incorporating the guidance from IAPS 1014, "Reporting by Auditors on Compliance with International Financial Reporting Standards."

Ms. Hillier also referred to comments received from the IFAC SMP Committee.

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

- There appears to be a disconnect between the auditor's conclusion in forming an opinion, and the conclusions the auditor takes into account and the evaluations the auditor performs in reaching that conclusion. The section on Forming an Opinion on the Financial Statements should be restructured to address this matter.
- The essential guidance in the section on Forming an Opinion on the Financial Statements that deals with the extremely rare circumstances when the auditor concludes that financial statements prepared and presented in accordance with a compliance framework are misleading should be combined with the related requirement in the section on Form of Opinion.
- The prescribed description of management's responsibility for the financial statements should not be amended to allow flexibility with regard to the description. The IAASB concluded that such an amendment would go beyond the clarity drafting conventions. Furthermore, proposed ISA 580 (Revised and Redrafted) (which deals with the premises, relating to management responsibilities, on which an audit is conducted) may give rise to conforming amendments to the description of management's responsibility for the financial statements. The IAASB was of the view that it would not be appropriate to pre-empt this in proposed ISA 700 (Redrafted).
- Where the financial statements are prepared in accordance with a fair presentation framework, the ISA indicates that the statement of management's responsibility for the financial statements shall refer to "the preparation and fair presentation of the financial statements" or "the preparation and presentation of financial statements that give a true and fair view," as appropriate in the circumstances, instead of "preparation and presentation." At present, the illustrative reports refer only to "the preparation and fair presentation of the financial statements." Accordingly, they should be revised to reflect the wording of the related requirements.
- The auditor may be required to comply with other professional, legal or regulatory requirements in addition to ISAs. Where this is the case, the auditor may be obliged to use a layout or wording in the auditor's report that differs from that described in proposed ISA 700 (Redrafted). In addition to the requirements and guidance for circumstances where the audit is conducted in accordance with both ISAs and national auditing standards, the proposed ISA should address circumstances where the auditor's report is prescribed by law or regulation. In such circumstances, the relevant law or regulation should be identified in the auditor's report.
- The Task Force should consider whether the use of present tense in the guidance on the description of the applicable financial reporting framework in the financial statements and the

effect that the description has on the auditor's opinion is appropriate. The paragraph that explains that it is desirable that the auditor's opinion describes the applicable financial reporting framework in similar terms to those used by management to describe the framework in the financial statements could be deleted.

- The paragraph from IAPS 1014 that explains that, if failure to comply with one of the frameworks causes the financial statements to fail to comply with the other framework, a modified opinion with regard to both of the frameworks is needed in accordance with [proposed] ISA 705 (Revised and Redrafted) should be deleted. Such circumstances are rare and the guidance confuses rather than clarifies.
- New application material should explain that, where relevant, one or more sub-headings may be used that describe the content of the other matters paragraphs.

APPROVAL

The IAASB unanimously approved proposed ISA 700 (Redrafted) for exposure with a 120-day comment period.

The IAASB agreed that, except for the following, the request for comments should be limited to the application of the clarity drafting conventions:

- The proposal to limit the scope of proposed ISA 450 (Revised and Redrafted) to the evaluation of the effect of uncorrected misstatements, while proposed ISA 700 (Redrafted) deals with the evaluation whether the financial statements as a whole are free from material misstatement.
- The proposal to address the matter of financial reporting frameworks described by reference to IFRSs in proposed ISA 700 (Redrafted). (The explanatory memorandum should explain that the proposed new guidance is based on a proposed exposure draft of the International Accounting Standards Board (IASB), which has not yet been finally approved by the IASB and which is dependent on the IASB's due process. However, should the IASB proceed with its proposal, the IAASB proposes to incorporate the guidance in ISA 700 (Redrafted) and, therefore, considers it appropriate to use this opportunity to obtain respondents' comments on the proposed guidance.)
- The proposal to incorporate the guidance in IAPS 1014, appropriately amended, in proposed ISA 700 (Redrafted) and to withdraw IAPS 1014.

7. Modifications

PROPOSED ISA 705 (REVISED AND REDRAFTED)

Mr. Hansen introduced proposed ISA 705 (Revised and Redrafted). He noted that the Task Force had made changes to the ISA in response to comments raised by the IAASB at its February 2007 meeting on the need to define the term "pervasive," as well as the need to provide further guidance on the auditor's actions when a scope limitation had been imposed by management. He then led the IAASB through the changes to the proposed ISA.

The IAASB debated whether it was appropriate to include a definition of "pervasive." While some members believed it was not of the typical structure of a definition and may not be a term that can be precisely defined, the majority of the IAASB agreed that such a definition, along with the

corresponding application material under the heading "Pervasiveness of the Matter or Matters Giving Rise to a Modification" was appropriate for inclusion in the ISA.

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

- The definition of "pervasive" would be modified to put the term specifically in the context of misstatements or an inability to obtain sufficient appropriate audit evidence and reflect that such assessment is a matter of the auditor's judgment.
- The changes made to subsume the concept of materiality into pervasiveness that had been made were not agreed by the IAASB; the ISA will be changed back to refer to matters that are "material and pervasive" as this phraseology is commonly accepted.
- The requirement for the auditor to communicate scope limitations to those charged with governance should occur before the auditor determines whether it is possible to perform alternative procedures. While some IAASB members were of the view that those charged with governance may not need to be made aware of a scope limitation if the auditor could perform alternative procedures, such as in the context of external confirmations, others were of the view that in many cases a scope limitation could result in a qualified opinion, and those charged with governance would likely wish to be made aware of such matters.
- New application material will be included which highlights that there may be a professional, regulatory or legal requirement for the auditor to communicate matters relating to a resignation from an engagement in the event of a scope limitation.
- In the case where the auditor issues an adverse opinion, the auditor would have obtained sufficient appropriate audit evidence and therefore it would be appropriate for the auditor to describe in the Basis for Modification paragraph the reasons for any other matters that would have required a modification to the opinion.

PROPOSED ISA 706 (REVISED AND REDRAFTED)

Mr. Hansen introduced proposed ISA 706 (Revised and Redrafted), "Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report." He noted that the IAASB had been asked to consider whether the reference to matters "presented and disclosed" in the financial statements would be appropriate throughout the ISA. The IAASB was in agreement with the recommendations of the Task Force, however, it was determined that the reference should be to matters "presented OR disclosed" in the financial statements. This change will be made throughout the ISA.

After some discussion, the IAASB noted that the requirement for an Emphasis of Matter paragraph in the current draft of the ISA dealt with the form and content of such a paragraph, while the equivalent requirement for an Other Matter(s) paragraph also deals with the circumstances in which the auditor would include such a paragraph in the auditor's report. As such, a new requirement was added that provides for the auditor to use an Emphasis of Mater only if the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements. Guidance that had previously been application material will also be elevated to require

that an Emphasis of Matter paragraph only refer to information presented or disclosed in the financial statements.

In addition to editorial changes, the IAASB agreed that references to when the auditor considers it necessary to the users' understanding of the financial statements throughout the ISA should be changed to matters which may be relevant to the users' understanding. This impacts wording in both the scope paragraphs and the objective.

APPROVAL

The IAASB unanimously approved the proposed ISAs 705 (Redrafted) and 706 (Redrafted) for exposure with a 120 day comment period.

8. Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

Ms. Smith led the IAASB through a review of proposed ISA 800 (Revised and Redrafted), "Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement." She highlighted the following matters discussed in the agenda material: (i) the objective of the auditor; and (ii) financial statements prepared for a specific purpose. She also referred to comments received from the IFAC SMP Committee.

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

- The word "appropriate" in the objective of the auditor should be deleted as it is not clear to what it relates and is not necessary.
- The requirements in the proposed ISA should stand alone. The references to proposed ISA 200 (Revised and Redrafted) in the Requirements section should be consolidated and, if possible, moved to the application material.
- The new application material stating that general purpose financial statements prepared pursuant to the requirements of a contract are regarded special purpose financial statements should be deleted. The IAASB members had varying views, based on different fact patterns, on the appropriateness of the conclusion reached in the application material. After some discussion, it was agreed that the paragraph should be deleted since it was not included in the agreed close-off version and thus goes beyond application of the IAASB Clarity drafting conventions.

ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS

Ms. Smith led the IAASB through a review of proposed ISA 805 (Revised and Redrafted), "Engagements to Report on Summary Financial Statements." She referred to comments received from the IFAC SMP Committee.

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

- The reference in the ISA to the fact that the ISA does not apply to summary financial statements in documents relating to securities offered to the public should be deleted.
- The paragraph dealing with cases where law or regulation prescribes the wording of the opinion on summary financial statements should be amended to indicate that the auditor shall apply the procedures prescribed in the ISA *and any further procedures necessary to enable the auditor to*

express the prescribed opinion. Consideration should be given to moving this paragraph to the section on Engagement Acceptance.

- The requirement about the date of the auditor's report on the summary financial statements should be expanded to indicate that it shall not be earlier than the date of the auditor's report on the audited financial statements.
- The reference to proposed ISA 800 (Revised and Redrafted) in the requirement dealing with the restriction on use or distribution is not necessary and should be deleted.
- The paragraph requiring the auditor to consider seeking legal advice to assist in determining the appropriate action when the auditor becomes aware that the entity has issued a document that contains a statement that inappropriately associates the auditor with the summary financial statements should be deleted. Although good practice management, it is not a matter for the ISA.

APPROVAL

The IAASB unanimously approved proposed ISAs 800 (Revised and Redrafted) and 805 (Revised and Redrafted) for exposure with a 120-day comment period.

It was noted that Ms. Esdon, Ms. Hillier and Mr. Swanney dissented, and that Mr. Rainey abstained, when the IAASB voted to approve the close off document of ISA 800 (Revised) in October 2006. In addition, Mr. Rainey voted against the close off document of ISA 805 (Revised) when it was approved in December 2006. Accordingly, their approval of proposed ISAs 800 (Revised and Redrafted) and 805 (Revised and Redrafted) was on the basis that the redrafted ISAs faithfully reflect the application of the IAASB's Clarity drafting conventions to the close off documents.

9. External Confirmations

Mr. Crawford introduced the revised proposed ISA 505 (Revised and Redrafted), "External Confirmations." He noted that the ISA was substantially rewritten since the February 2007 IAASB meeting. It was shortened and the tone was revised to give more encouragement to auditors to use confirmations. The extent of detail in the ISA was also reduced where appropriate. The IAASB also had asked the Task Force to elevate the linkage of the ISA to ISA 240 (Redrafted), "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" in two contexts: fraud risk factors that might surface in going through the confirmation routine; and in using confirmations as a response to fraud risks. With respect to negative confirmations, the IAASB advised the Task Force to lower the profile of negative confirmations in the ISA.

Mr. Crawford reported that the IAASB CAG was supportive of the proposed changes, at least at a conceptual level. He also noted that at both the IAASB February 2007 meeting and the IAASB CAG April 2007 meeting the question as to whether confirmations should be mandated in any particular circumstances was specifically addressed. In both instances, the direction received was that the ISA should not require the use of confirmations in any particular circumstance.

Mr. Crawford also noted that the IFAC SMP Committee was supportive of the draft.

NATURE AND RELIABILITY OF EXTERNAL CONFIRMATIONS

The IAASB discussed the extent to which the ISA should include an objective and requirements obliging the auditor to determine whether and to what extent to request external confirmations.

It was noted that external confirmations are considered as the supreme source of audit evidence by many regulators in various jurisdictions, but in practice there have been many examples of that not being true. Confirmations are becoming increasingly difficult to obtain and when they are obtained, they often contain qualifications or disclaimers. While understanding the desire to encourage their use, regulators and others need to understand that this form of evidence may not be as strong or reliable as they believe and auditors should not be encouraged to rely on evidence that may not be as strong as it is purported to be.

Mr. Kellas noted that the use of external confirmations has been changing, and under certain circumstances confirmations could be a particularly appropriate source of audit evidence. For instance, obtaining external confirmation of agreements about intangible sales or services, where it is extremely hard to obtain physical evidence of delivery, may provide a reliable source of audit evidence. He thought that external confirmations could therefore be very useful as a basic tool, and if effective, could provide independent audit evidence.

OBJECTIVE

The IAASB deliberated the wording of the objective of the auditor, and possible alternatives for its form and content.

Mr. Kellas observed that the proposed draft is weaker than the overarching bold type paragraph of the extant ISA in that it is lacking a "positive incentive" for the auditor to consider whether the use of the external confirmations will be relevant or appropriate for various assertions in different circumstances. He suggested including that the auditor's objective is to determine whether and to what extent to request external confirmations as a means of obtaining sufficient appropriate audit evidence as a response to assessed risks of material misstatement at the assertion level. To support this objective, he suggested that the related requirement could be at a rather high level, so as to initiate a thinking process within the audit planning stage and making it a point of discussion within the scope of ISA 315 (Redrafted).

Mr. Crawford noted that the Task Force had previously considered including "a decision point" or the determination thought process in the proposed standard but found it difficult to effectively operationalize that particular concept in the form of drafting the requirements for this ISA, without it becoming a perfunctory exercise. The Task Force was of the view that the decision process was already contemplated in ISAs 315 (Redrafted) and 330 (Redrafted), and therefore the objective of the proposed ISA 505 (Revised and Redrafted) was drafted assuming that the decision to request external confirmations has been already made.

Both concepts were debated by the IAASB. Concern was raised that if the auditor was required to consider whether the use of the external confirmations was appropriate for obtaining sufficient audit evidence, then why should there not be requirements in the ISAs dealing with when to apply other audit techniques, such as use of test of details and analytical procedures. Also of concern was that such procedures would need to be applied in relation to every account and every assertion.

It was also noted that the paragraph in the extant ISA was also a cause of concern when the extant ISA was first revised in 2000, and that the extant ISA does not provide criteria how to determine when to use external confirmations.

The IAASB discussed two alternatives to drafting the objective for the proposed ISA:

i. If the tone of the ISA is to move towards encouraging the auditor to use confirmations, then the objective should be amended accordingly.

ii. If the ISA is to be drafted to enhance the performance of audit procedures to obtain external confirmations, then the ISA guides the auditor how to effectively go about the procedure when the auditor has decided to use them.

Other members thought that the decision process was now appropriately tackled in ISAs 315 (Redrafted) and 330 (Redrafted), and the proposed ISA 505 (Revised and Redrafted) should be focusing on strengthening the process of obtaining the confirmations.

After further deliberation, the IAASB agreed with the Task Force's recommendation to draft the ISA to enhance the auditor's process of obtaining external confirmations. It was also decided that the explanatory memorandum accompanying the exposure of proposed ISA 505 (Revised and Redrafted) should discuss the issue regarding the auditor's obligation to consider whether and to what extent it was appropriate to use external confirmations.

EXTERNAL CONFIRMATION PROCESS

The IAASB discussed the requirement for the auditor to maintain control over the external confirmation process. It was noted that this requirement should be made more specific and should encompass the guidance contained in the related application material. The IAASB was of the view that failure to perform any of the specific activities identified in the related application material would automatically invalidate the confirmation process to obtain quality audit evidence.

It was also agreed to include the consideration of the selection of the items to be confirmed as an additional element in the requirements relating to the confirmation process, and that the communication requirement should be directed to the *appropriate* confirming party. In discussing this matter, some members were concerns about introducing specific procedural tasks as part of the requirements. The majority of the IAASB however was of the view that the proposed ISA is in fact a procedural standard, and that the proposed changes are consistent with the original intent of the project to strengthen the auditor's confirmation process.

MANAGEMENT REQUEST TO NOT CONFIRM

The IAASB discussed the requirements relating to the circumstances where the auditor is prevented from requesting a confirmation. The Task Force was directed to explore the issue whether communication with those charged with governance should be included in the spectrum of auditor's procedures when management requests that the auditor not send a confirmation request. The IAASB also suggested that the Task Force explore further the issue of the evaluation of the reasons of management's request not to confirm and to consider the impact of such a request on the auditor's assessment of the risks of material misstatement. The IAASB also recommended changing the order of the auditor's procedures to improve the logical flow of the proposed requirement.

The IAASB noted that reference should be made to the need to use skepticism when considering the reasons for management's request. In practice, reasons for refusing a request to confirm are often not specific and may have been too easily accepted by the auditor. Accordingly, reasons should only be accepted by the auditor with skepticism. The Task Force was asked to consider whether there are specific examples of when management's request is valid that would help the auditor make this judgment.

NEGATIVE CONFIRMATION

Some IAASB members believed that negative confirmations should not be considered in the determination of whether sufficient appropriate audit evidence has been obtained because of the limited evidence they provide. Other IAASB members were concerned that auditors should not be banned completely from using negative confirmations. One IAASB member suggested that the proposed requirement relating to negative confirmations be deleted and reference only made in the application material. On balance, the IAASB found the Task Force proposals to be too permissive of negative confirmations.

Concern was also expressed around the proposed wording of the ISA in that it appeared to suggest that the auditor could use negative confirmations without meeting the criteria stated in the ISA for their use, even though the auditor's only substantive procedures are analytics. This was felt to inappropriately encourage the use of negative confirmations. The IAASB asked that the Task Force develop appropriate wording.

OTHER MATTERS

In addition to editorial suggestions, the IAASB noted the following for further consideration by the Task Force:

- Material in the Introduction section may need to be reduced to eliminate duplication and redundancy, and possibly repositioned to the Application and Other Explanatory Material section to align it with the structure of other ISAs and to respond to general concerns about lengthy introductory sections. In addition, the Task Force was asked to ensure that wording with respect to corroboration of representations of management is consistent with proposed ISA 580 (Revised and Redrafted).
- The Task Force should consider revising the definition of "external confirmation" by expanding it to audit evidence obtained in the form of a direct written *or other appropriate media response*, in order to reflect the contemporary business practices. Consequential amendments required to related application material should also be considered.
- The definition of "positive confirmation request" should be restored to the original definition, which contained better distinction between positive and negative confirmation request.
- The Task Force should clarify further the auditor's treatment of the non-reliable response, providing guidance on what constitutes reliable and non-reliable evidence. It was also recommended to link this requirement to ISA 240 (Redrafted) by considering a non-reliable response a fraud risk factor.

WAY FORWARD

The IAASB asked the Task Force to present a revised draft at the September 2007 meeting for approval as an ED.

10. Audit Sampling

Mr. Fogarty introduced the revised proposed ISA 530 (Redrafted), "Audit Sampling." He summarized the main issues on the initial draft of the proposed ISA that were communicated informally to the Task Force prior to the meeting and the Task Force's proposed changes in response. He then led a review of the proposed ISA 530 (Redrafted).

OBJECTIVE

The IAASB agreed to further clarify the objective of the auditor by stating that the auditor, in addition to designing samples, is required *to select the audit sample* and *perform audit procedures on the sample items*, and to evaluate *the results from the sample* in a manner that will provide an appropriate basis for the auditor to draw conclusions about the population from which the sample is drawn.

DEFINITIONS

Sampling Risk

The IAASB agreed to clarify the definition of "sampling risk" by describing the risk as giving rise to two possible types of *erroneous conclusions*. The IAASB also concluded that the term "confidence level" was not needed in this ISA.

Tolerable Misstatement And Tolerable Rate Of Deviation

The IAASB extensively debated the definition of a "tolerable misstatement," including whether it implies that reasonable assurance has to be obtained at the assertion level rather the financial statements level as a whole, as well as whether reasonable assurance could in fact be obtained by using audit sampling alone.

Several suggestions were considered in seeking to clarify this issue, including adding to the definition the statement that tolerable misstatement "… is used at the account balance, class of transactions and assertion level so that the auditor can conclude with reasonable assurance in relation to materiality at the financial statement level", or stating that tolerable misstatement "…is established or determined for sampling purposes." However, some members were concerned that these suggestions still leave the definition as possibly misleading.

It was also questioned whether it was appropriate to use the term "reasonable" in relation to assurance in this ISA. After discussion of this matter, the IAASB concluded to refer to an *appropriate level of assurance* to make it consistent with the term "appropriate level of sampling risk" used elsewhere in the proposed ISA.

After further discussion, the IAASB agreed the definition of tolerable misstatement as: "A monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that it is not exceeded by the actual misstatement in the population."

The IAASB agreed consequential amendments to the definition of "tolerable rate of deviation", and to further specify that it is a rate *of deviation from prescribed internal control procedures set by the auditor* in respect of which the auditor seeks to obtain *an appropriate level of assurance* that it is not exceeded by the actual rate of deviation in the population.

Estimated Maximum Misstatement and Estimated Maximum Rate Of Deviation

The IAASB agreed to amend the proposed definition of "estimated maximum misstatement" to clarify that it is the upper limit of the range of possible misstatement *consistent with the auditor's risk assessment and results of other audit procedures*, and to clarify that the "estimated maximum rate of deviation" is the upper limit of the range of possible rates of deviation *consistent with the auditor's planned reliance on internal controls.*

ANOMALIES

The IAASB discussed the Task Force's proposal to redraft the discussion of errors so that it is generic and for the ISA to now remain silent with respect to specific treatment of anomalies. It was noted that extant ISA 530 states that sometimes the auditor may be able to establish that an error arises from an isolated event that has not recurred other than on specifically identifiable occasions and is therefore not representative of similar errors in the population (an anomalous error). The Task Force was concerned that the extant language is not clear about the treatment of anomalies.

The IAASB agreed with the concern of the Task Force; however it concluded that it is appropriate to retain a discussion of the treatment of anomalies in the ISA and to caution the auditor against inappropriately concluding that an anomaly exists in a population. Accordingly, the IAASB agreed to specify as requirements some of the present tense statements in extant ISA 530 relating to anomalies. In particular, the ISA should require that the auditor, in order to conclude that a misstatement or deviation is an anomaly, obtain a high degree of certainty that the misstatement or deviation is not representative of the population, and that the auditor obtains this high degree of certainty by performing additional audit procedures to obtain sufficient appropriate audit evidence that the misstatement or deviation does not affect the remainder of the population. It was also agreed that this requirement should state that it would be an extremely rare circumstance when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly.

In addition, the IAASB agreed to add cautionary language to the application and other explanatory material relating to these proposed requirements. This cautionary language should state that the smaller the sample relative to the total population, the more difficult it will be for the auditor to obtain the level of certainty necessary to determine that the misstatement or deviation is an anomaly.

Consequentially, the IAASB also agreed that a definition of "anomaly" should be included in the proposed ISA, being *a misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.*

OTHER MATTERS

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

- The scope of the ISA should be limited to test of controls and test of details.
- The Task Force should reinstate the requirement that in projecting and evaluating sample results, the auditor shall conclude whether, in light of the risk assessment and other procedures

performed, the use of audit sampling has provided an appropriate basis for conclusions about the population that has been tested. The auditor shall determine the projected rate of deviation (for tests of controls) and projected misstatement (for tests of details) and in both cases the auditor is required to evaluate their effect on the objective of the particular audit procedure and on other areas of the audit.

- The ISA should include a requirement, together with related guidance, for the auditor to obtain additional audit evidence when the auditor determines that the use of audit sampling has not provided an appropriate basis for conclusions about the population evidence.
- To link the concept of tolerable misstatement to the concept of an amount lower than materiality that the auditor determines in accordance with proposed ISA 320 (Revised and Redrafted), the ISA should state that when designing a sample, the auditor determines tolerable misstatement in order to address the risk that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated and provide a margin for possible undetected misstatements.
- The Task Force's proposed new guidance in the last appendix of the proposed ISA that explains how estimated maximum misstatement can be used by the auditor to conclude whether the use of audit sampling has provided an appropriate basis for conclusions about the population should be included in the ISA. However, some IAASB members were concerned that that guidance might inadvertently extend the scope of extant ISA 530 and, accordingly, it was agreed that the addition of this material should be highlighted in the explanatory memorandum to the ED.

APPROVAL

The IAASB unanimously approved proposed ISA 530 (Redrafted) for exposure with a 90-day comment period.

11. Experts

Mr. Ferlings introduced proposed ISA 620 (Revised and Redrafted), "Using the Work of an Auditor's Expert."

DEFINITION OF ENGAGEMENT TEAM

Mr. Ferlings noted that at their recent meeting, the IESBA considered respondents' comments on the definition of "engagement team" proposed in its December 2006 ED of a revised Code of Ethics. The IESBA decided, in principle, that the definition should exclude auditor's external experts, but in doing so were concerned about whether ISA 620 is sufficiently rigorous in its approach to the auditor's evaluation of the objectivity of auditor's experts, particularly when they are integrally or extensively involved in the audit. The IAASB agreed that the ISA should continue to be drafted on the basis of external experts being excluded from the definition of engagement team. However, the explanatory memorandum to the exposure of ISA 620 (Revised and Redrafted) should include a discussion of this matter, including a reference to the "in principle" decision of the IESBA. The IAASB also agreed to include in the proposed ISA an explicit requirement for the auditor to evaluate the auditor's experts' objectivity and further guidance on the matter, including discussion with the expert of relevant threats and safeguards.

EXPERTS EMPLOYED OR ENGAGED BY THE ENTITY

The IAASB discussed the extent to which the proposed ISAs should deal with experts employed or engaged by the entity (management experts). As discussed at the previous meeting, text had been included in the Introduction section of the draft ISA noting that management experts are not dealt with in the ISA, but providing some guidance on matters that may be relevant when determining the nature, timing and extent of audit procedures in relation to the work of management experts. After discussion during the meeting, a revised draft was considered in which much of this text was presented as application and other explanatory material. In reviewing the revised draft, the IAASB discussed whether the text in the explanatory material could be used as a basis for requirements that address the key considerations relevant to management experts. The Task Force was asked revise the draft on that basis for consideration at the next meeting. In preparing the revised draft, the Task Force was asked to ensure the requirements relating to management's experts are clearly separate and drafted in such a way that, if they are not agreed to by the IAASB, could be detached leaving the ISA dealing solely with auditor's experts.

APPLICATION OF THE "SLIDING SCALE"

The IAASB discussed whether the "sliding scale" paragraph (i.e., the paragraph which notes that the nature, timing and extent of procedures with respect to an expert will vary with the circumstances and identifies particular matters to be taken into account in determining that nature, timing and extent) should be included as application material or as a requirement. It was suggested that because ISAs 315 (Redrafted) and 330 (Redrafted) already acknowledge that procedures need to be tailored to the particular circumstances of the engagement, the sliding scale could be included as application material only. However, it was agreed that because this ISA deals with such an extensive range of circumstances in which an expert may be involved (e.g., from a single question asked of an independent lawyer to the day-to-day involvement of an actuary), it is appropriate to include the sliding scale as a requirement. The IAASB also agreed that the sliding scale paragraph should follow immediately after the requirement to determine whether an auditor's expert is needed.

OTHER MATTERS

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

- The ISA should state that consulting with accounting and auditing specialists is covered by proposed ISA 220 (Redrafted), not proposed ISA 620 (Revised and Redrafted). The proposed ISA 620 (Revised and Redrafted) should continue to exclude such specialists from the definition of expert.
- The definition of "auditor's expert" should be split so as to have separate definitions for "expert" and for "auditor's expert."
- The term "using the work of the expert," rather than using "evidence provided by the expert," should continue to be used.
- The application material regarding obtaining a representation from the entity about any known interests or relationships with the auditor's expert should be replaced by a reference to inquiry of the entity, as this is a more practical approach.

- Additional emphasis should be given in the application material to the respective responsibilities of the auditor and the auditor's experts, and to identification of specific members of the engagement team with responsibility to liaise with the expert.
- The application material should include reference to reviewing the expert's work with management.
- The application material regarding source data used by the expert should apply to both internal and external experts.
- The application material relating to consideration of whether the expert's methods are consistent with the applicable financial reporting framework should be retained as guidance, rather than elevated to a requirement, because the ISA is dealing with a broad range of circumstances, including those in which this matter is not relevant (e.g., when using the work of an IT expert).
- The structure of the appendix should be aligned with the structure of the related requirement.

WAY FORWARD

The IAASB asked the Task Force to present a revised draft at the September 2007 meeting for approval as an ED. It was noted that a few Board members would unlikely vote in favor of the proposed ISA if it does not include requirements addressing management experts.

12. Next Meeting

The next meeting of the IAASB has been scheduled for September 24-28, 2007 in Madrid, Spain.

13. Closing Remarks

Mr. Kellas thanked the Accountants Association in Poland and the National Chamber of Statutory Auditors for hosting the meeting and their staff for assisting with the meeting arrangements. He also noted that it had been a particularly busy week with a heavy agenda for the meeting, and that he was grateful to the staff for preparing and revising so many papers and to the Board members for their contributions to the success of the meeting.

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