

**Draft Minutes of the 39th Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
Held via Teleconference on May 11, 2010**

	Voting Members	Technical Advisors
Present:	Arnold Schilder (Chairman) Diana Hillier (Deputy Chair) John Archambault Valdir Coscodai Josef Ferlings Cédric Gélard Jon Grant Ashif Kassam William Kinney Caithlin McCabe Daniel Montgomery Jianhua Tang Abdullah Yusuf ¹	Wolfgang Böhm (Mr. Ferlings) Ricardo DeLellis (Mr. Coscodai) Denise Esdon (Mr. Montgomery) Marek Grabowski (Mr. Grant) Sachiko Kai (Mr. Sekiguchi) Richard Kamami (Mr. Kassam) Pervez Muslim (Mr. Yusuf) Jon Rowden (Ms. Hillier) Greg Shields (Mr. Cowperthwaite) Sylvia Smith (Mr. Crawford) Isabelle Tracq-Sengeissen (Mr. Gélard)
Apologies:	Phil Cowperthwaite Craig Crawford Gert Jönsson Tomokazu Sekiguchi David Swanney	Jonas Hällström (Mr. Jönsson) Josephine Jackson (Mr. Archambault) Len Jui (Mr. Tang) Chuck Landes (Mr. Kinney) Tania Sergott (Ms. McCabe)
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	Non-Voting Observers	
Present:	Jean-Philippe Rabine	
Apologies:	David Damant (IAASB CAG Chair), Linda de Beer (Incoming IAASB CAG Chair), Norio Igarashi, and Jennifer Rand	
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	Public Interest Oversight Board (PIOB) Observers	
Apologies:	Susana Novoa	
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	Working Group Chair and IAASB Technical Staff	
Present:	John Fogarty (Working Group Chair), Jim Sylph (Executive Director, Professional Standards), James Gunn (Technical Director), Kathleen Healy, Joanne Moores, Michael Nugent, Ken Siong, and Jessie Wong	

¹ Attended part of the meeting due to difficulties with the teleconference connection.

1. Opening Remarks

Prof. Schilder welcomed the participants to the meeting, noting that the necessary quorum of Board members has been met. He also welcomed Mr. John Fogarty, Chair of the International Auditing Practice Statements (IAPS) Status and Authority Working Group, and Ms. Susan Koski-Grafer, observing the meeting on behalf of the International Organization of Securities Commissions.

Prof. Schilder noted that apologies were received from Messrs. Cowperthwaite, Crawford, Damant, Igarashi, Jönsson, Sekiguchi, and Swanney, and Mmes. de Beer, Novoa, and Rand. Mr. Shields and Mms. Kai and Smith were noted as proxy for Messrs. Cowperthwaite, Sekiguchi and Crawford respectively.

2. Status and Authority of the IAPSS

Mr. Fogarty introduced the topic, noting the intent of the discussions is to allow the Working Group to more fully prepare for the June IAASB meeting at which proposed revised IAPS 1012² will be presented for approval as an exposure draft. He noted that the National Standard Setters (NSS) group had been asked for their views on the matters included in the meeting's agenda material, and that he would report on them in the context of the questions set forth to the IAASB.

WITHDRAWAL OF THE EXTANT IAPSS

Mr. Fogarty noted that the NSSs did not object to the withdrawal of the extant IAPSSs.

CLARIFYING THE STATUS AND AUTHORITY OF THE IAPSS

Mr. Fogarty noted that the NSSs' views on the proposal to clarify the status and authority of the IAPSSs were largely consistent with the Board's prior discussions. In particular, some NSSs were of the view that IAPSSs are authoritative and comparable to application material, while others suggested IAPSSs should not have any binding status. While no clear consensus existed among the NSSs, the majority view was that changes to how the status and authority is currently described in the *Preface to the International Standards on Quality Control, Auditing, Reviews, Other Assurance and Related Services* (the Preface) is necessary.

The Auditor's Obligations with Respect to IAPSS

Some IAASB members expressed reservation about the proposed obligation for the auditor to determine whether an IAPS is relevant to the circumstances of the audit, noting this implies a certain level of authority to the pronouncement. Mr. Fogarty clarified that while IAPSSs are not intended to impose requirements on auditors, the current Preface already attaches an obligation on the auditor. Further, the IAASB's Terms of Reference include Practice Statements as "international pronouncements" of the IAASB, which are required to be developed following full due process.

An IAASB member found the proposed obligation for the auditor to consider whether the examples of procedures in an IAPS would be appropriate in the circumstances to imply that the auditor would need to do particular procedures if such procedures were appropriate. In his view,

² Proposed revised IAPS 1012, *Auditing Complex Financial Instruments*

this goes beyond providing practical assistance to auditors, and it would be preferable to describe the nature of IAPSs but not impose obligations on auditors with respect to them.

Some IAASB members did not agree, and believed there should be a minimum obligation for the auditor to understand the guidance in an IAPS. Absent this, an IAPS would need to be positioned as no more than a non-authoritative Staff publication. It was also noted that developing an IAPS following due process and then not attaching an obligation to it is inherently inconsistent. Notwithstanding this, the Working Group was asked to give further consideration to whether the proposed obligation as described would impose a documentation requirement on the auditor.

It was suggested that it would be helpful to develop wording that clarifies what the auditor's understanding of an IAPS may be used for. For example, as suggested by the UK Auditing Practices Board, such wording could explain that while an IAPS may contain examples of procedures, it may also assist the auditor's judgment in applying the ISAs. Doing so may encourage auditors to use them to a greater degree while not imposing an obligation on auditors.

Relationship of the IAPSs and ISAs

Most IAASB members did not believe the proposed wording about the status and authority needs to differentiate between IAPSs and ISAs. It was proposed that the following sentence be deleted: "IAPSs are not intended to provide further explanation of the requirements, not explain more precisely what a requirement means or is intended to cover, as this is the role of the application and other explanatory material within the ISAs."

An IAASB member was of the view that the main difference between guidance in an IAPS and application material in the ISAs is that not all the material in an IAPS may be relevant. It was suggested this could be clarified in the proposed wording.

PLACEMENT OF THE WORDING DESCRIBING THE AUDITOR'S OBLIGATION

The IAASB had mixed views on where the auditor's obligation regarding IAPSs should be described.

Many IAASB members did not support including the auditor's obligation in ISA 200,³ noting the challenges of doing so in the context of possible adoption of the ISAs by the European Commission (EC). Mr. Rabine explained that the EC's 8th Directive does allow for the adoption of IAPSs but he did not believe that the use of IAPSs should be mandated through ISA 200. He noted the EC's view that IAPSs may be seen to address issues that go beyond those encountered in statutory audits.

Some IAASB members, however, cautioned that if the IAASB decides to exclude the auditor's obligation from the auditing standards themselves, the Board would then need to raise awareness of the existence of, and obligations attaching to, the IAPSs by other means.

The Working Group was asked to explore whether a separate Preface to the IAPSs should be established, to further differentiate IAPSs from the ISAs. This Preface could discuss the authority of the IAPSs and the auditor's obligations relating to them, and explain the due process

³ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

and criteria applied in their development. Some IAASB members did not support doing so, noting that is important to link the ISAs with the IAPSs.

Some IAASB members did not believe using the Statements of Membership Obligations (SMO) to promote the use of IAPSs would achieve the same effect as including wording in the Preface or ISA 200.

Of the remaining options presented in the meeting's agenda material, the IAASB expressed general support for continuing to describe the auditor's obligations relating to IAPS in the Preface and developing a hierarchy explaining the relationship of the ISAs, IAPSs and Staff Publications.

CRITERIA FOR THE DEVELOPMENT OF IAPSs

Mr. Fogarty explained that the proposal to establish criteria to be considered by the IAASB when determining whether to develop a new IAPS is to alleviate the fear of proliferation, and further distinguish an IAPS from a Staff publication. He noted the NSSs generally supported the establishment of criteria.

Regarding the proposed criteria, the IAASB asked the Task Force to consider the following:

- Whether it was appropriate to infer that IAPSs promote consistent application of the requirements of the ISAs. Some IAASB members were of the view this is more the role of the ISAs' application material.
- Whether, if the subject matter of a proposed IAPS extends across a number of ISAs, the criteria should emphasize the need for the IAASB to consider whether this material builds on the requirements in the ISAs or establishes new requirements. If the latter, such material should be included in the ISAs themselves rather than in an IAPS.
- Whether it was necessary to refer to the costs and benefits of an IAPS prior to its development.
- Whether a further criterion should be added to suggest an IAPS should only be developed if the guidance is likely to remain applicable for a number of years.
- How the potential criteria could be used to explain the IAASB's decision-making process to its external stakeholders.

While the IAASB seemed to favor the development of criteria, it was noted that the criteria as currently drafted may be equally applicable to the IAASB's determination whether to develop a new ISA. The IAASB's due process mandates the approval of a project proposal and, through this activity, the IAASB considers a number of similar factors in deciding whether it is necessary to address a particular topic and what the planned output may be. Mr. Fogarty suggested that an avenue worth exploring may be in relation to whether the project proposal process could be amended to require a structured consideration of the appropriate form of output in the circumstances; for example, the decision to pursue an IAPS would be made only if that course of action is appropriate in the circumstances, and only after evaluating the merits of proposing new or modified requirements or application material in an ISA, or the development of a Staff publication.

WAY FORWARD

The IAASB asked the Working Group to consider the input received to date and present a revised proposal to clarify the status and authority of the IAPSs at the June IAASB meeting.

3. Closing Remarks

Prof. Schilder thanked the participants for their contributions. He then closed the meeting.