

**Draft Minutes of the 38<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD**

**Held on March 15-19, 2010 in New York, USA**

**Voting Members**

Present: Arnold Schilder (Chairman)  
Diana Hillier (Deputy Chair)  
Valdir Coscodai  
Phil Cowperthwaite  
Craig Crawford (Mar 16-19)  
Josef Ferlings  
Cédric Gélard  
Jon Grant  
Susan Jones  
Gert Jönsson  
William Kinney  
Caithlin McCabe  
Daniel Montgomery  
Tomokazu Sekiguchi  
David Swanney  
Abdullah Yusuf

**Technical Advisors**

Wolfgang Böhm (Mr. Ferlings)  
Ricardo DeLellis (Mr. Coscodai)  
Marek Grabowski (Mr. Grant)  
Jonas Hällström (Mr. Jönsson)  
Hiram Hasty (Mr. Kinney) (Mar 15, 17-18)  
Josephine Jackson (Ms. Jones) (Mar 15-18)  
Len Jui (Mr. Tang)  
Sachiko Kai (Mr. Sekiguchi)  
Chuck Landes (Mr. Kinney) (Mar 16)  
Pervez Muslim (Mr. Yusuf)  
Jon Rowden (Ms. Hillier)  
Tania Sergott (Ms. McCabe)  
Greg Shields (Mr. Cowperthwaite)  
Sylvia Smith (Mr. Crawford) (Mar 15-16, 18-19)  
Isabelle Tracq-Sengeissen (Mr. Gélard)

Apologies: Ashif Kassam  
Jianhua Tang

Denise Esdon (Mr. Montgomery)  
Richard Kamami (Mr. Kassam)

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**Non-Voting Observers**

Present: David Damant (IAASB CAG Chairman) (Mar 15 and 17), Norio Igarashi, Jean-Philippe Rabine, and Jennifer Rand<sup>1</sup>

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**Public Interest Oversight Board (PIOB) Observers**

Present: Dr. Aulana Peters

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**IAASB Technical Staff**

Present: Jim Sylph (Executive Director, Professional Standards), James Gunn (Technical Director), Kathleen Healy, Joanne Moores, Michael Nugent, Ken Siong, and Jessie Wong

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<sup>1</sup> The views expressed by Ms. Rand, where noted in the minutes, are her own and do not necessarily reflect the views of the PCAOB Board or PCAOB members or its staff.

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

### **WELCOME AND INTRODUCTIONS**

Prof. Schilder welcomed the participants and public observers to the meeting. He noted apologies from Messrs. Kamami, Kassam and Tang, and Ms. Esdon. Messrs. Swanney and Grant were noted as proxies for Messrs. Kassam and Tang, respectively.

Prof. Schilder welcomed new members Messrs. Coscodai and Jönsson, and new technical advisors (TAs) Messrs. DeLellis (TA to Mr. Coscodai), Grabowski (TA to Mr. Grant) and Muslim (TA to Mr. Yusuf). He also congratulated Ms. Hillier on her appointment as IAASB's Deputy Chair. Prof. Schilder reminded all TAs that they are primarily here to advise their members. He noted that while TAs have the right to speak, they should not express views of their own organizations or views that are contrary to their members. He added that the 2009 performance assessment of Board members was completed in January 2010 and that he was satisfied about the outcome of the process. Prof. Schilder also reported that public interest declarations for 2010 had been received from all Board members.

Prof. Schilder also welcomed Ms. Peters, observing the meeting on behalf of the PIOB. Mr. Sylph informed the IAASB that Ms. Peters was recently presented with a medal of honor by the American Institute of Certified Public Accountants. This award recognizes a non-certified public accountant whom as an individual has worked and significantly influenced the accounting profession. The IAASB congratulated Ms. Peters on her achievement.

Prof. Schilder informed the IAASB that this meeting will be the last for Ms. Jones as an IAASB member. He noted that Ms. Jones had made significant contributions to the IAASB's work over her thirteen years of service in numerous capacities. Prof. Schilder thanked Ms. Jones for all her efforts and wished her well in her future endeavors. He noted that Mr. Cowperthwaite would be assuming the Chairmanship of the Task Force on reviews and compilations.

Finally, Prof. Schilder congratulated Ms. Healy on her promotion to Senior Technical Manager.

### **RECENT DEVELOPMENTS**

Prof. Schilder reported that Representatives of the IAASB CAG met on March 1-2, 2010 in Barcelona, Spain. He noted that incoming chair Ms. Linda De Beer would attend the June 2010 IAASB meeting. Mr. Damant expressed his thanks to the Task Force chairs who attended the CAG meeting. He noted that the presence of Task Force chairs for key items on the agenda at the meeting was greatly appreciated by the Representatives.

Prof. Schilder noted that the EC had recently released the results of its consultation on the adoption of the ISAs in the European Union (EU). The report on the findings of the consultation had previously been distributed to the Board. He noted that Mr. Rabine had agreed to provide the Board with an overview of the outcome of the consultation as well as a possible way forward during the executive session later in the week.

Prof. Schilder further noted that the four auditing research projects to be undertaken as part of the initiative funded by the Association of Chartered Certified Accountants (ACCA) and supported by the IAASB and the International Association for Accounting Education and Research (IAAER) were recently announced. He indicated that the research designs of these projects

would be presented at the International Symposium on Audit Research in June 2010 in Singapore, at which the IAASB would be represented.

In relation to IAASB publications, Prof. Schilder noted that the IAASB annual report was expected to be published in early April 2010 and the 2010 edition of Handbook would be available by end of March 2010. He also reported on key recent and forthcoming IAASB speaking engagements.

Finally, Prof. Schilder announced board meeting dates and proposed locations for 2011 as follows:

- March 14-18: Paris, France
- June 20-24: New York, USA
- September 19-23: Beijing, China
- December 5-9: North America (location TBA).

#### MINUTES OF PREVIOUS MEETING

The minutes of the public session of the previous IAASB meeting were approved, subject to a few editorial changes.

## **2. Pro Forma Financial Information**

Mr. Swanney introduced the topic, noting that Kevin Desmond, one of the practitioner members of the Task Force, had agreed to participate in the discussion via teleconference. He also noted that Mr. Montgomery had joined the Task Force since the previous IAASB meeting. He added that the IAASB CAG had discussed the topic at its meeting earlier in March 2010 and that the CAG was broadly supportive of the direction taken in the revised draft of the proposed ISAE 3420.<sup>2</sup> He indicated that he would note CAG Representatives' comments as appropriate during the discussion.

Mr. Montgomery shared his perspective as a new member of the Task Force. Acknowledging the Task Force's challenge in trying to reconcile the project's original remit with the subsequent Board discussions regarding the scope and focus of the proposed ISAE, he was of the view that the draft ISAE had improved significantly since the previous meeting. In particular, the three significant issues regarding the global applicability of the standard, the overall structure and complexity of the standard, and the approach to the work effort, appeared to have been dealt with satisfactorily. He suggested that if necessary specific questions be identified on which to seek respondents' views on exposure in order to progress the development of the standard.

Except as noted in the following, the IAASB agreed the recommendations of the Task Force as set out in the meeting's agenda material.

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<sup>2</sup> Proposed ISAE 3420, "Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus."

## MATERIALITY

An IAASB member was of the view that the application of materiality to the process to compile the pro forma financial information (PFI) was unclear, as the proposed guidance, in referring to “inappropriate application of the process that could result in influencing economic decisions of intended users,” would appear to be addressing the PFI itself. It was noted an omission or an inappropriate application of an element of the process would be truly material only if it resulted in PFI that is misleading. While the determination of materiality in this context would not depend on a single quantitative measure, it would depend on the size and nature of the omission of inappropriate application of an element of the process, judged in the light of the event or transaction and the related engagement circumstances. The IAASB agreed that this clarification should be made to the proposed ISAE and asked that the Task Force amend the related application material accordingly.

## OTHER MATTERS

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

- The definition of “pro forma financial information” should be reinstated to ensure that the meaning of the term is clear in the context of the ISAE.
- As a precondition for engagement acceptance, the requirement to determine, if applicable, whether the relevant law or regulation permits the use of, or reference in the practitioner’s report to, a modified opinion or review conclusion or a report containing an Emphasis of Matter paragraph with respect to the source of the unadjusted financial information, should be reinstated to ensure that the practitioner accepts the engagement only when such cases are permitted.
- In relation to assessing the suitability of criteria, there should be a requirement that the practitioner determine that the criteria include a requirement that the pro forma adjustments be consistent with the entity’s *applicable financial reporting framework* and its accounting policies under that framework. This is to ensure that the adjustments will be consistent with the framework if the entity has not previously had to account for the underlying transactions.
- The requirement to assess whether the applicable criteria are adequately disclosed if not publicly available should be dealt with as part of the requirement for the practitioner to form an opinion.
- The requirements relating to the practitioner’s forming the opinion should parallel the structure of the corresponding requirements in ISA 700.<sup>3</sup>
- The requirement relating to Emphasis of Matter paragraphs should be reinstated to enable the practitioner to emphasize matters that are fundamental to the process to compile the PFI.
- In relation to preparation of the report, the two alternatives for the wording of the opinion should be moved to the application material and replaced by a generic requirement for the report to include an opinion on the proper application of the process to compile the PFI. In

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<sup>3</sup> ISA 700, “Forming an Opinion and Reporting on Financial Statements.”

addition, a specific question should be asked on exposure regarding whether respondents believe that it is clear that the opinion, in the context of the whole of the practitioner's report, is addressing the process to compile the PFI.

- Guidance should be provided to explain the link between applicable criteria and the term "basis stated" used in one of the proposed alternative wordings of the opinion.

#### EXPLANATORY MEMORANDUM

The IAASB considered and provided guidance to the Task Force regarding specific questions to ask of respondents on exposure, as well as the issues to highlight in the explanatory memorandum. In addition, the IAASB agreed that a specific request for comments from the investor community should be included in the explanatory memorandum. Prof. Schilder asked that the Task Force circulate a draft of the latter to the Board for comment in due course.

#### APPROVAL

The IAASB members present or represented by proxy approved the proposed ISAE for exposure with a 150-day comment period until September 30, 2010.

Mr. Ferlings abstained as he was unclear as to whether current practice is consistent with the proposals in the exposure draft, whether the practitioner's procedures in some instances are in fact addressing the PFI itself as opposed to the process of compilation, and the potential impact of the current project to revise ISAE 3000<sup>4</sup> on the proposed standard. In addition, he was of the view that the global applicability of the proposed standard would be limited.

### **3. Review and Compilation Engagements**

Ms. Jones introduced the topic, requesting the Board's feedback on matters raised in the agenda material.

#### COMPILATIONS

The IAASB discussed the scope of the proposed revised standard and agreed that the revised standard should have a clear application scope. That is, the standard should focus on the situation when a practitioner performs an engagement to compile financial information, rather than attempt to address broader questions of the practitioner's responsibilities when the practitioner otherwise becomes associated with financial information.

Regarding the practitioner's objectives in a compilation engagement, a number of IAASB members noted an element of circularity in the wording proposed by the Task Force, and encouraged the Task Force to develop wording that clearly states what the compilation engagement is, rather than what it is not, and that the same approach should be taken regarding the provision of the compilation report.

A few IAASB members expressed the view that whereas direct reporting engagements and compilations have some parallel features, the compilation is not a direct reporting engagement. It

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<sup>4</sup> ISAE 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information."

should therefore be very clear in the revised standard that management or those charged with governance of the entity as appropriate are always responsible for the compiled financial information.

In relation to engagement acceptance considerations and the practitioner's knowledge and understanding of the entity, the IAASB agreed that the proposed revised standard would need to be scalable to both small and larger entities. Compilations for larger entities or entities that have more complex financial reporting are more demanding engagements for the practitioner than compilations for smaller entities that have simpler financial information. Management also has higher responsibilities in the former case, e.g. when a fair presentation financial reporting framework is used. The proposed standard should explain the need for communication between the practitioner and management about the key facets of the engagement, including regarding management's understanding of the extent of their responsibility. Application guidance should explain that the practitioner's knowledge and understanding of the entity is less than that possessed by management.

The IAASB also discussed issues relating to the procedures performed in the engagement, including addressing misstatements and situations when the compiled financial information is misleading. Regarding reporting, the IAASB agreed that it would be sufficient that the report simply note that the engagement was performed by the practitioner in accordance with the relevant ethical requirements. The report should also contain a positive description of what the compilation engagement is and the work undertaken by the practitioner in the engagement.

## REVIEWS

The IAASB noted that while the proposed revised standard is being drafted applying a 'think small first' approach, in many countries reviews are performed also for larger entities. Accordingly, the proposed revised standard should be scalable to larger entities.

Regarding the proposed wording of the practitioner's objectives and the proposed definitions, the IAASB requested the Task Force to remove the reference to the concept of limited assurance in the objective and in the definition of review evidence. The IAASB agreed that using wording that requires the level of evidence obtained to be sufficient and appropriate to express the practitioner's conclusion on the financial statements in negative terms implicitly conveyed that limited assurance is achieved as the outcome of the engagement. The IAASB did not agree that using the term 'worthy of belief' in the definition of review evidence would be appropriate in conveying the idea of the evidential basis the practitioners achieve in the review as this would likely create an expectations gap. The IAASB suggested that the Task Force explore alternatives, such as use the word 'credible' as proposed by some IAASB CAG representatives.

Regarding engagement acceptance considerations, the IAASB discussed the question of how to address limitations of scope, including where it is clear at commencement of the engagement that the practitioner would have to disclaim a conclusion. One IAASB member was of the view that the review should not be different from the audit, where an engagement can be accepted on the basis that the auditor would disclaim an opinion. The IAASB discussed whether it is in the public interest for a practitioner to perform a review knowing that there is a significant scope limitation.

The IAASB asked the Task Force to consider the issue further, taking into account how the issue is addressed in ISRE 2410.<sup>5</sup>

Ms. Jones explained that there are different views within the Task Force about the extent of work effort required from the practitioner to address likely material misstatements. The IAASB agreed that the practitioner should be required to perform whatever additional procedures are necessary to resolve questions of whether likely material misstatements actually exist. This would not require specification of any 'level of assurance' the practitioner would need to reach to have resolved those questions, nor would performance of additional procedures in those circumstances imply that the engagement takes on the nature of an audit. The practitioner would simply aim, through the further work effort, to obtain sufficient, appropriate evidence in order to be able to conclude on the financial statements as a whole, in accordance with the overall objective of the engagement.

On reporting considerations, the IAASB expressed the view that the report should positively describe what a review is and what it entails, instead of emphasizing what it is not, so as to better communicate the value of the review. The IAASB discussed the level of detail in which the procedures performed should be described in the report, and agreed that providing such a description is a better approach than simply stating in the report that limited procedures were performed. The IAASB asked the Task Force to include requirements and guidance regarding the use of emphasis of matter paragraphs as well as the practitioner's responsibilities in relation to financial statements prepared on the going concern basis. In relation to modification of conclusions, the IAASB agreed that the approach in reviews should not be different from that in an audit. The practitioner may express qualified or adverse conclusions when warranted, and may also disclaim a conclusion. The IAASB asked that the Task Force develop the proposed revised standard also with reference to the requirements and guidance in ISRE 2410.

#### **4. Emissions Assurance**

Ms. McCabe introduced the topic, noting that the September 2009 Consultation Paper<sup>6</sup> had been a beneficial process that provided the opportunity for feedback on a range of issues and preliminary positions before moving to exposure draft stage. She noted that 35 responses had been received in response to the Consultation Paper. She also reported that the Task Force co-chairs and staff had participated in a conference organized by ACCA in the UK which provided further feedback from a range of stakeholders.

#### **GENERAL REACTION TO THE CONSULTATION PAPER**

Ms. McCabe summarized the major comments received on each of the topics raised in the Consultation Paper, and provided the co-chairs' preliminary analysis of those comments based on their initial reading of the responses. She noted that while there are many detailed comments that will need to be fully considered by the Task Force, the clear majority of respondents were

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<sup>5</sup> ISRE 2400, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity."

<sup>6</sup> Consultation Paper, *Assurance on a Greenhouse Gas Statement*

generally satisfied with how most issues were dealt with in the Consultation Paper and accompanying working draft.

#### LIMITED ASSURANCE AND NEXT STEPS

Ms. McCabe noted that the responses indicated a strong demand for an ISAE on limited assurance as well as reasonable assurance engagements. One approach to address this would be to aim to approve an exposure draft in June 2010 that covers only reasonable assurance, while at the same time progress a draft covering limited assurance on a timetable that is one meeting (approximately 3 months) behind. Prof Simnett added that while the UN conference on emissions in Copenhagen in December 2009 had not resolved matters as definitively as may have been hoped, particularly with respect to emissions trading, reporting of emissions is still progressing quickly with regulatory schemes now operating in, or planned for, many countries. It is therefore appropriate to continue to proceed with this ISAE as quickly as possible.

The IAASB discussed the project timetable, noting that attempting to approve an exposure draft in June would be very ambitious. On balance, the IAASB decided that it would be better to aim for a first read in June of an exposure draft that combines reasonable assurance and limited assurance engagements in one ISAE. Reasons discussed included that users may be confused if the IAASB issues a reasonable assurance ISAE only three months in advance of a limited assurance ISAE on the same topic and the revised ISAE 3000, which itself may introduce consequential amendments. Also, any detriment caused by delaying the reasonable assurance component by three months would be offset by the reduced uncertainty and increased synergy to be gained from considering limited assurance and reasonable assurance issues simultaneously and in parallel with the development of ISAE 3000.

#### RANGE OF RESPONSES

The IAASB noted that the vast majority of responses had been received from accounting bodies, auditing standard setters and accounting firms. The IAASB noted that further effort needs to be made to communicate and engage with a broader range of stakeholders. This may entail, for example, a longer exposure period, a different type of exposure document, seeking feedback on working drafts and issues papers published on the IAASB website, publication of staff project updates, or participation in different public forums than usual.

### **5. Assurance Engagements**

Prof. Kinney introduced the topic, noting that a working draft of the proposed revised ISAE 3000<sup>7</sup> was being presented at the meeting for reference to illustrate matters outlined in the issues paper.

#### DIRECT REPORTING VERSUS ASSERTION-BASED ENGAGEMENTS

The IAASB discussed the distinction between direct reporting and assertion-based engagements, noting that the key distinction is that in a direct reporting engagement there is no management

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<sup>7</sup> ISAE 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information."



assertion because the practitioner performs the initial measurement of the subject matter. This was contrasted with the US literature in which a ‘direct reporting engagement’ is the name given to an engagement that the Assurance Framework<sup>8</sup> would refer to as an assertion-based engagement, with the conclusion worded directly in terms of the subject matter and the criteria. The US literature does not recognize as an assurance engagement a situation in which the practitioner performs the initial measurement of the subject matter. The potential for a separate standard to deal with direct reporting was identified. The IAASB also discussed the distinction between a direct reporting engagement and a compilation engagement, with the primary difference identified as being the gathering of sufficient appropriate evidence about the underlying subject matter to enable the practitioner to express a conclusion on the subject matter information. Whether or not the practitioner’s objective is to form a conclusion was also identified as a possible factor.

The IAASB asked the Task Force to further clarify these distinctions, for example:

- Where there is an obligation or general expectation that an entity will behave in a certain way, such as an obligation to comply with laws and regulations, or an expectation that controls will be effective, should any related assurance engagement be considered an assertion-based, as opposed to a direct reporting, engagement because there is an “implicit assertion?”
- Could a compilation engagement where the practitioner performs some evidence-gathering procedures be considered a limited assurance direct reporting engagement? The importance of the interplay between the IAASB’s literature and the Code of Ethics was noted in this context.

The difficulty of the terminology with respect to “assertion” and “direct reporting” was also discussed, and the IAASB expressed a slight preference for the terminology suggested by the Task Force in the issues paper.

#### NATURE AND EXTENT OF REQUIREMENTS

A number of IAASB members commented that although there appeared to be a long list of requirements in the working draft, upon reading them they appeared generally pitched at about the correct level. One member was strongly of the view that there were too many requirements and that the level at which extant ISAE 3000 is pitched would be more appropriate, with any necessary additional material being added as guidance. While most IAASB members were generally comfortable with the number and nature of requirements, the IAASB asked the Task Force to consider whether reductions could be made, perhaps by further summarizing some lengthy requirements or moving some requirements into the application material.

On this latter point, it was noted that the rationale for “demoting” what is a requirement in the ISAs to application material in the working draft was not always apparent, for example, with respect to documentation. It was noted that assurance engagements may often be performed by former financial statement auditors who now specialize in assurance on broader subject matters and that including requirements derived from the current ISAs in a summarized form or as

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<sup>8</sup> International Framework on Assurance Engagements.

application material in ISAE 3000 is a sensible approach. The IAASB also asked the Task Force to consider the desirability of requirements being consistent with the review and compilations standards where similar topics are covered (such as engagement level quality control), and whether more specific requirements with respect to fraud should be added.

#### OTHER MATTERS

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

- Separate topic-specific ISAEs are not needed.
- Inherent limitations that are specific to a subject matter should be mentioned in subject matter-specific ISAEs.

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

- The status of assurance engagements on historical financial information that are not dealt with in the ISAs or ISAE 3000.
- Whether the table presented in the issues paper should be included in the revised ISAE. If so, consideration should be given to clarifying which, if any, assurance engagements on historical financial information should be performed in accordance with ISAE 3000.
- Whether an assurance engagement involving both historical financial information and information that is not historical or not financial needs to be split into two engagements with separate reports.
- How best to deal with engagements where not all parts of reported subject matter information is subject to assurance.
- Whether the term ‘free from material misstatements’ is appropriate for direct reporting engagements, and when the subject matter is a system or process.
- How to specify to whom the ISAE applies, bearing in mind, for example, that public sector performance auditors who are not necessarily professional accountants are still subject to ISQC 1 and the Code; many CPAs in the U.S. are not members of an IFAC member body; and in Australia, there is a ‘affiliate member’ category for partners of public firms who are not qualified as accountants.
- Whether the definition of limited assurance in the working draft is compatible with the direction in which the project to revise ISRE 2500 is heading.
- Whether additional guidance is needed on the use of experts and on determining who should be considered a management’s experts in the context of subject matters beyond financial statements.
- Whether it is appropriate to ban divided responsibility with an expert when most of the assurance work may be done by that expert.

#### WAY FORWARD

The IAASB asked the Task Force to prepare a first read of the proposed revised ISAE 3000 for consideration at the June 2010 IAASB meeting.

## **6. IAASB - IASB Liaison**

Ms. Hillier provided an update on the IAASB–IASB liaison initiative, including the status of the working groups that have been set up to monitor the developments of selected IASB projects with a focus on identifying potentially significant verifiability/auditability issues. She reported on the following matters:

### **OVERALL DEVELOPMENTS**

The IAASB Chairman, Deputy Chair (also IAASB Liaison Representative) and Technical Director met with IASB Chairman Sir David Tweedie and senior members of the IASB Staff in February 2010. Amongst other matters discussed of mutual interest to the two Boards, the representatives reflected on the progress made with the IAASB-IASB liaison initiative to-date including the IASB projects which have been selected for monitoring by IAASB working groups and the outputs generated as a result of the process. The representatives also discussed the session held by the IAASB in December 2009 to review trends in financial reporting and their implications for the present and forward work program of the IAASB. Ms. Hillier noted that as agreed with Sir David Tweedie, a follow-up letter was sent to the IASB on the matters discussed at the meeting.

Ms. Hillier further indicated that good progress has been made in terms of establishing stronger working relationships between the staff members of both Boards. With the assistance of IASB Member and Liaison Representative Prabhakar Kalavacherla, connections between the staff of the two Boards continue to be built for example on the project on XBRL.

### **DEVELOPMENTS RELATING TO IAASB WORKING GROUPS**

Ms. Hillier reported that the IAASB working groups continues to make progress. She noted that the Leases Working Group, led by Mr. Landes, has had a discussion with the IASB Liaison Representative and the relevant IASB staff responsible for the project. She further reported that a working group has also been set up to monitor the IASB's project on liabilities which is an area previously identified by the IAASB as potentially being of relevance. She indicated that Mr. Coscodai has agreed to be the rapporteur for this group and noted that a response letter is likely to be submitted to the IASB in this case.

Ms. Hillier also reported that the Conceptual Framework Working Group, led by Ms. Smith, has also discussed the IASB proposals that are currently out for public consultation and that the Working Group was satisfied that there are no substantive verifiability/auditability matters for raising with the IASB in this case. She indicated that this view will be communicated accordingly to the IASB.

### **WAY FORWARD**

Ms. Hillier thanked all IAASB participants who have volunteered to be on the working groups for their continued support of this important initiative. She indicated that further progress reports will be provided to the IAASB periodically.

## 7. Other Information – Revision of ISA 720<sup>9</sup>

Mr. G  lard introduced the topic, noting that the project proposal was approved at the December 2009 meeting. He noted that the IAASB CAG had considered the significant issues being presented at this meeting earlier in March and that the IFAC SMP Committee (SMPC) had also provided comments. He indicated that he would refer to the comments provided by these groups during the discussion as appropriate.

Except as outlined below, the IAASB agreed the recommendations of the Task Force as set out in the meeting papers.

### DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS ADDRESSED BY ISA 720

Mr. G  lard explained that the reasons for the extant ISA’s focus on annual reports represent an important consideration in evaluating whether the scope of ISA 720 should be expanded. While the Task Force was of the preliminary view that the scope of the ISA remains appropriate, it felt that the extant ISA does not provide a clear explanation of why it focuses on annual reports (or equivalent). Accordingly, the Task Force was of the view that clarity on this matter should be provided. In this regard, IAASB members commented as follows:

- Given that the ISA is applicable to not-for-profit or governmental settings where the entity’s stakeholders are not its owners, the scope of the ISA should be amended so that the ISA addresses annual reports issued by non-owner stakeholders.
- As ISA 720 deals with audits of financial statements as opposed to reviews, its focus should therefore be on the conduct of the audit and the process of obtaining evidence to support the auditor’s opinion in this regard. This forms the basis for identifying the other information that relates to the audit that the auditor should be concerned with and differentiating such information from other extraneous material that is not used in forming the basis for the audit opinion.
- Consideration should be given to whether preliminary earnings announcements, which relate to the entity’s annual reporting cycle but do not directly form the basis of the audit opinion, should be included within the scope of the ISA.
- The title of the extant ISA refers broadly to documents containing audited financial statements. This could be misinterpreted as including documents containing audited financial statements in general as opposed to just annual reports.
- Inclusion of the auditor’s report may be a key consideration in determining whether documents containing audited financial statements fall within the scope of ISA 720. Consideration should be given to whether this should be a criterion for determining the applicability of the ISA.
- Given a number of major corporate collapses in the recent past, some stakeholders are of the view that the auditor’s responsibilities under ISA 720 should be broadened. If the current

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<sup>9</sup> ISA 720, “The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements.”

scope and requirements are retained, the reasons for their continued appropriateness should be made clear so as to address any perceptions that they are unduly limited.

#### THE EXTENT OF THE AUDITOR'S PROCEDURES WITH REGARD TO OTHER INFORMATION

In relation to the Task Force's proposals in this area, IAASB members commented as follows:

- Consideration should be given to extending the purpose of the auditor's reading of the other information beyond material inconsistencies and material misstatements of fact to include obtaining satisfaction that such information is consistent with the auditor's knowledge of the entity, for example, the entity's narrative disclosures and judgments (such as in relation to estimates).
- To respond to increasing stakeholder expectations and to provide added value, it may be useful to identify matters other than those in extant ISA 720 that the auditor should pay particular attention to when reviewing other information. The following considerations are relevant:
  - The new requirements should be practicable and therefore consideration should be given to the effect of the proposed requirements on the auditor's work effort.
  - The new requirements should not create unrealistic stakeholder expectations about the auditor's responsibilities with regard to other information.
  - The influence, if any, that the auditor would be able to exert on the entity, particularly if management judgments are involved, for example, in relation to management bias.
- It may not always be the case that matters encountered by the auditor when reading the other information can be clearly identified as having (or not having) relevance to the audited financial statements. As the extant ISA 720 appears to draw such distinction between material inconsistencies and material misstatements of fact, further guidance may be beneficial.
- Improvements to entities' reporting practices and behaviors may be brought about without significant changes to auditors' existing responsibilities under ISA 720. For instance, from reading the other information, the auditor will form an impression of the quality of such disclosures and areas where improvements could be made. Entities will benefit from their auditors providing those charged with governance with such feedback. Although this does not fall within the remit of the extant procedures required of auditors under ISA 720, it directly addresses concerns over the adequacy of the other information in meeting users' needs.

#### ELECTRONIC DISSEMINATION OF THE AUDITED FINANCIAL STATEMENTS AND THE AUDITOR'S REPORT

The IAASB noted that ISA 720 is appropriately focused on the *type of information* which the auditor is concerned with under the ISA as opposed to the *means of dissemination* of such information. It was also noted that the matter of electronic dissemination has relevance to engagements beyond audits of financial statements.

## WAY FORWARD

The IAASB asked the Task Force to consider its comments and present a full issues paper at the September 2010 meeting.

### **8. Presentation by CFA Institute**

Mr. Waldron gave a presentation on the CFA Institute, explaining the organization's background and its objectives, as well as its current activities and initiatives, particularly in the context of the global financial crisis. The Institute's Standards and Financial Market Integrity Division undertakes policy analysis work that underpins the Institute's activities relevant to strengthening the role of investment professionals and their role as financial market participants. The CFA Institute supports use of financial reporting on the basis of fair value and advocates convergence with International Financial Reporting Standards.

Mr. Waldron also explained the importance of the voluntary ethical standards adopted by members of the Institute, and their commitment to adherence to the performance and reporting standards of investment professionals.

The CFA Institute conducts regular surveys to obtain views of its members on issues of contemporary importance, such as the usefulness of the auditor's report and the need for auditor reporting on an entity's risk exposures.

IAASB members commented on the usefulness of CFA Institute surveys for some current IAASB projects and initiatives. Prof. Schilder noted that the IAASB would consider it useful to explore the opportunity of partnering with the CFA Institute in its survey activities. Prof. Schilder thanked Mr. Waldron for his interesting and informative presentation.

### **9. Status and Authority of International Auditing Practice Statements (IAPSs)**

Mr. Fogarty introduced the topic, noting it is necessary for the IAASB to clarify the authority of the IAPSs before further progressing with the work on amending IAPS1012.

Except as outlined below, the IAASB agreed the Task Force's recommendations as set out in the meeting's agenda material.

#### WITHDRAWAL OF THE EXISTING IAPSS

The IAASB broadly supported the Working Group's proposal to withdraw the existing IAPSs, subject to the views arising on further consultation on the matter. While some IAASB members were of the view that the decision to withdraw should be linked to the decision on the status and authority of the IAPSs, the majority favored the proposal to withdraw the existing IAPSs and adopt a clean slate approach to new IAPSs when establishing their status and authority.

#### CLARIFICATION OF THE STATUS AND AUTHORITY OF NEW IAPSS

Mr. Fogarty highlighted the proposed revised wording to describe the status and authority of the IAPSs that was included in meeting's agenda material. He reiterated the Task Force's view that, should the IAASB consider it necessary to issue IAPSs, some form of obligation should attach to them so that they are capable of achieving their purpose.

The IAASB offered the following views, using the proposed draft of IAPS 1012 in the meeting material as an example:

- A number of IAASB members supported the use of IAPSs where the topic spanned more than one IAPS. They believed included all the relevant guidance, including educational material, in one vehicle would better enhance the consistency with which the guidance would be applied. They cited IAPS 1012 as necessary guidance for a particularly challenging topic and, despite its length, believed it should be read and understood by auditors. Mr. Damant noted the CAG supported this view.
- An IAASB member expressed the concern that, if IAPS 1012 was intended to explain how an auditor should apply the requirements of the ISAs when dealing with complex financial instruments, this material might be better placed in a new ISA. The IAPS 1012 Task Force was asked to consider whether the proposed draft may have unintentionally established new requirements. Other IAASB members supported the consideration of the material being elevated to an ISA, but acknowledged useful material within the current draft of the IAPS 1012 would not be retained in doing so.
- Some IAASB members questioned how regulators would view IAPSs. An IAASB member noted that because most entities have financial instruments of some kind, it would be expected that IAPS 1012 would be relevant and, accordingly, should be considered by most auditors. Mr. Fogarty noted the CAG Representative from the European Commission had expressed a concern that IAPSs would be seen as establishing new requirements even if that was not the IAASB's intent.
- Depending on the status and authority of IAPSs, the IAASB may need to express a view on whether jurisdictions that did not adopt or translate the IAPSs would not be seen to be ISA compliant.
- An IAASB member felt strongly that the IAASB should allow and in fact encourage national standard setters to modify IAPSs for their local environment. In his view, this would promote their use and allow for them to be adapted based on the legal and regulatory structure to enhance audit quality.
- Some IAASB members expressed concern that having a proliferation of IAPSs would be undesirable, particularly for small practitioners. Mr. Fogarty explained that the Working Group proposes that criteria be established so that the IAASB would conscientiously determine that an IAPS was the appropriate vehicle before undertaking development of a new IAPS.
- An IAASB member stressed the necessity of having a vehicle to provide guidance to assist auditors in implementing the ISAs over time and suggested that, if the IAASB did not believe IAPSs were the best means of doing so, another vehicle will be necessary. It may be that an alternate vehicle that does not go through due process would be preferable when there is a clear need for additional guidance.

With respect to the wording used to describe the proposed status and authority, the following comments and suggestions were offered for the consideration of the Working Group:

- Most IAASB members did not support retaining the phrase in the Preface explaining that IAPS were “issued to provide interpretive guidance.”
- The description of the authority should highlight that the IAPS does not establish requirements. However, the wording should be clearly distinguishable from how ISA 200 describes application and other explanatory material. For example, it would not be desirable for the description to imply that, in the particular circumstances addressed by the IAPS, following the guidance in the IAPS is necessary to comply with the ISAs, as this is the role of the application and other explanatory material within the ISAs.
- The description of IAPSs should acknowledge that, such as in the case of IAPS 1012, they may contain guidance that spans across a number of ISAs and contain important background material.

During the meeting, the IAASB considered revised wording as follows:

International Auditing Practice Statements provide guidance in the context of a particular topic, and include examples of procedures that may be appropriate in the circumstances. They are issued to provide practical assistance to auditors and to promote good practice.

The auditor shall determine whether any IAPSs are relevant to the circumstances of the audit. If the auditor determines an IAPS is relevant, the auditor shall have an understanding of the IAPS.

IAASB members were generally supportive of these revisions and asked the Working Group to consider whether this could be further refined in light of the discussions. The IAASB did not have an opportunity to discuss the issue of where such a description should be placed.

#### WAY FORWARD

The IAASB asked Staff to explore holding a Board teleconference in advance of the June meeting to discuss revised wording to describe the status and authority of the IAPSs and where such wording should be placed. Mr. Gunn explained that the IAASB’s Due Process and Working Procedures allow for teleconferences to be held, provided a quorum of Board members are present and the meeting is open to the public. Prof. Schilder noted the PIOB will be informed of the IAASB’s intent to hold the teleconference.

Subject to the views expressed during the teleconference, the Working Group will present a draft of a Consultation Paper for approval at the June 2010 IAASB meeting.

### **10. Auditing Complex Financial Instruments**

Mr. Fogarty introduced the topic, noting the Task Force was pleased with the response to the October 2009 Consultation Paper.<sup>10</sup> The CAG had discussed the project at its recent meeting, and were supportive of the direction taken by the Task Force. He also noted the SMPC had provided comments for the Task Force’s consideration which he would highlight as appropriate.

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<sup>10</sup> Consultation Paper, *Auditing Complex Financial Instruments*



Except as outlined below, the IAASB agreed the Task Force's recommendations as set out in the meeting's agenda material.

#### NATURE OF FINANCIAL INSTRUMENTS AND APPLICABILITY OF THE IAPS TO AUDITS OF ENTITIES OF ALL SIZES

Mr. Fogarty explained the Task Force's view that the complexity of financial instruments depends on the education and experience of the auditor dealing with such instruments. Revised IAPS 1012<sup>11</sup> therefore had been developed to explain the circumstances in which the IAPS was expected to apply. The CAG noted it would be helpful if the IAPS provided more reference to financial liabilities, and Mr. Fogarty agreed the Task Force would aim to do so in revising the IAPS for the June IAASB meeting.

The SMPC supported the proposal to widen the scope of the IAPS such that it is not restricted to complex financial instruments. In its view, as the use of financial instruments has increased considerably in recent years, auditors who have little or no experience of dealing with financial instruments would benefit from the IAPS covering all but the simplest instruments.

Like the Task Force, the IAASB had mixed views on what the IAPS should be titled but indicated a preference that the IAPS mainly deal with auditing complex financial instruments. The IAASB also agreed that the primary focus of the IAPS on instruments measured and disclosed at fair value, however, the guidance on completeness and accuracy, in addition to valuation, was valuable and should be retained.

#### USE OF A MANAGEMENT'S EXPERT, INCLUDING BROKER QUOTES AND PRICING SERVICES

Mr. Fogarty noted the IAASB had discussed the Task Force's proposal to clarify that the auditor is required by ISA 540<sup>12</sup> to understand the assumptions and methods used in valuing individual financial instruments rather than obtaining a general understanding of how a management's expert might approach valuation. He acknowledged that there are some barriers to doing so in practice, and therefore suggested that the explanatory memorandum of the exposure draft specifically highlight this matter to solicit views on whether it might be perceived as imposing responsibilities on management.

#### MODELS

Mr. Fogarty noted the IAASB CAG was of the view that illustrative examples of commonly used models should be included in the IAPS. The IAASB did not support doing so, and agreed with the Task Force's view that, given the evolving nature of the financial instruments and the models used in valuation, attempting to include examples would likely lead to the document becoming obsolete more quickly. In the IAASB's view, it was best for the IAPS to identify that models are often used to value financial instruments and to emphasize the need to consider the use of an auditor's expert.

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<sup>11</sup> Proposed revised IAPS 1012, *Auditing Financial Instruments* (revision of IAPS 1012, *Auditing Derivative Financial Instruments*)

<sup>12</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

It was suggested that the IAPS could prescribe more detailed procedures for valuing unlisted stocks and that as separate IAPS would perhaps be necessary in the context of valuation of real estate. Mr. Fogarty explained that it was likely guidance prepared by valuation standard setters would address this and the IAPS would not be able to adequately address these circumstances. It was also acknowledged that the purpose of the IAPS is to alert auditors to the fact that the applicable financial reporting framework and accounting standards detail how management should prepare the valuations, and the IAPS should not attempt to expand upon those accounting requirements.

#### LINKAGE TO THE FAIR VALUE HIERARCHY EXPLAINED IN ACCOUNTING STANDARDS

The IAASB was generally supportive of included a reference to the fair value hierarchy used in U.S. GAAP and IFRS. While it was acknowledged that the hierarchy could change in the future, IAASB members believed the hierarchy provides a useful way for the auditor to think about the approach that may be necessary. An IAASB member suggested that because IFRS for SMEs does not include a hierarchy, additional consideration may need to be given to ensure that applying the concepts in a small entity environment does not become too onerous.

#### PRESENTATION AND DISCLOSURE

While the IAASB supported how presentation and disclosure matters had been dealt with in the IAPS, some IAASB members acknowledged that the auditor's procedures with respect to disclosures, including sensitivity analysis and disclosures positioned outside of the financial statements, warranted the IAASB's attention outside the IAPS 1012 project. Specifically it was noted that the trend towards broader more integrated entity reporting will have an effect on auditors.

The Task Force was asked to consider the following:

- Whether the concept of transparency of disclosures was adequately addressed in the IAPS;
- Whether disclosure risks should be discussed in Appendix 2 of the proposed revised IAPS; and
- Whether the IAPS could provide more guidance on the complexity of disclosures relating to non-linear financial instruments.

#### OTHER MATTERS

Most IAASB members supported the general presentation and level of detail in the IAPS, and believed it was important for the beginning of the IAPS to articulate what material in it would be most relevant to auditors using the IAPS. Support was noted for the manner in which the IAPS mirrored the ISA process to identify risks associated with financial instruments and how the auditor would address these risks.

An IAASB member, however, was of the view that the extent to which the IAPS attempts to link to the ISAs was unnecessary. In her view, it would be more helpful if the IAPS, particularly the discussion on controls that may be in place over financial instruments, could be more educational rather than directed at what an auditor may need to consider, as this could be seen to be establishing new requirements.

Another IAASB member believed it was important that the exposure draft of IAPS 1012 be issued after the IAASB had concluded on the status and authority of the IAPSs. If the IAPS 1012 is to be issued simultaneously with the Consultation Paper on the IAPSs, the exposure draft should highlight that IAPS 1012 may need to be re-exposed after a decision is taken regarding the IAPSs generally if the original status and authority proposed by the IAASB is later changed.

Questions regarding the enforceability of IAPS 1012<sup>13</sup> were also raised, but it was acknowledged that this is dependent on how regulators and inspection bodies interpret the status and authority of the IAPS. Prof. Schilder suggested IFIAR should be consulted on this matter at its September meeting. It was also noted that IAPS 1012 may need to be adapted for local circumstances.

#### WAY FORWARD

The IAASB asked the Task Force to present a revised draft of the proposed revised IAPS 1012 for approval at the June 2010 IAASB meeting. IAASB members were asked to submit any additional comments that had not been raised during the session to the Task Force for consideration.

#### **11. Internal Audit – Revision of ISA 610<sup>14</sup>**

Ms. Hillier introduced the topic, noting that the proposed revised ISA was considered at the IAASB CAG meeting earlier in March and at the February 2010 meeting of the International Ethics Standards Board for Accountants. She added that comments had also been received from the SMPC. She indicated that she would highlight comments from these groups as appropriate during the discussion.

Ms. Hillier also noted that this project is being used to pilot an impact analysis framework for IFAC's Public Interest Activity Committees. She then led a review of the first drafts of the proposed revised ISA 610 and parts of ISA 315.<sup>15</sup>

Except as outlined below, the IAASB agreed the recommendations of the Task Force as set out in the meeting papers.

#### PROPOSED REVISED ISA 315

Ms. Hillier reported that IAASB CAG Representatives were broadly supportive of the Task Force's proposals to revise ISA 315 in relation to internal audit and provided comments on specific areas where improvements could be made. The IAASB discussed the proposed revisions to ISA 315, noting the following:

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<sup>13</sup> IAPS 1012, "Auditing Derivative Financial Instruments."

<sup>14</sup> ISA 610, "Using the Work of Internal Auditors."

<sup>15</sup> ISA 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment."

### *Institute of Internal Auditors' Definition*

Some IAASB members expressed reservations about the inclusion of the Institute of Internal Auditors' (IIA's) definition of "internal auditing" in ISA 315. In particular, it was noted that the reference to internal auditing as an "independent" activity is contrary to the IESBA Code of Ethics' interpretation of "independence" and to extant ISA 610, which states that the internal audit function is not independent of the entity. Consequently, there is a risk of confusion if the IIA's definition were included in the ISA. Concern was also expressed about explicitly recognizing another organization's particular definition as it could imply that the IAASB has adopted that definition by reference. In this regard, it was noted that other professional bodies that focus on internal auditing also exist and they may have their own definitions.

### *Inquiry of the Internal Audit Function*

The IAASB supported the proposal for the external auditor to inquire with the internal audit function to obtain information that is likely to be relevant to the audit and the external auditor's risk assessments. It was also supportive of the proposed guidance to emphasize the value of reviewing some of the reports produced by the internal audit function. In this regard, IAASB members commented as follows:

- Instead of being carried out only once, the external auditor's inquiries with the internal audit function are likely to be part of an ongoing and iterative process beginning at the planning stage of the audit and occurring throughout the engagement as necessary. The guidance in the ISA should appropriately reflect the iterative nature of this process.
- Guidance relating to the external auditor's examination of reports produced by the internal audit function will be more helpful if more specific direction is provided to the external auditor on when it may be appropriate to look more closely at specific reports. For example, the guidance on the requirement to make inquiries of the internal audit function could suggest that the external auditor's inquiries include whether and what internal audit reports may be relevant to audit.

### PROPOSED REVISED ISA 610

The IAASB discussed the Task Force's proposals, noting the following:

### *Relationship between the Internal Audit Function and the External Auditor*

- The frequency (implied in the ISA) at which the internal audit function performs procedures similar to those undertaken by the external auditor in an audit of financial statements should be toned down as this may not be the case in all engagements where an internal audit function is present.
- It should be emphasized that the external auditor is not prevented from complying with local law or regulations if prohibited from interacting with the internal audit function in ways envisaged by the ISA. This could be achieved by emphasizing that the ISA only applies if the auditor has concluded in ISA 315 that the work of the internal audit function is relevant to the engagement, including through having made the decision to use the work of the internal audit

function instead of performing certain audit work directly, or through obtaining direct assistance from internal auditors.

- Consideration should be given to whether it is possible for the external auditor to evaluate the internal auditors' objectivity and the internal audit function due to its nature and, therefore, whether it is more appropriate to instead refer to, for example, the organization status of the internal audit function within the entity.

#### *Determining Whether and to what Extent to use the Work of the Internal Audit Function*

- The term "key audit judgment" appears to be a new concept in the context of the ISAs and should either be aligned with equivalent terms in the extant ISAs or its application clarified.
- It is unclear whether and how the requirements in the ISA relating to the external auditor's evaluation of the internal audit function apply in the case of direct assistance. The intended linkages, if any, between these two areas in the ISA should be made clearer.
- Risk should also be a driver of the external auditor's consideration for deciding when, where and how to use the work of the internal audit function. For areas of higher risk, the auditor may be expected to do more work.

#### *Direct Assistance*

A few IAASB members felt that because of the independence implications that may arise from internal auditors working directly with the external auditors on the audit, such arrangements are inappropriate and should not be addressed in ISA 610. IAASB members further commented as follows:

- If the scope of ISA 610 is expanded to address the provision by internal auditors of direct assistance to the external auditor, the title of ISA 610 should be amended to reflect the revised scope of the standard accordingly.
- Guidance should be provided on the following considerations relating to direct assistance: (i) incorporating cautionary language to alert external auditors to the considerations and measures that should be undertaken when considering whether to obtain the direct assistance of internal auditors on the engagement; and (ii) clarifying the extent to which the external auditor should perform further planning, supervision and review of the audit procedures performed by the internal auditors in these cases.

#### **WAY FORWARD**

The IAASB asked the Task Force to consider its comments and to present revised drafts of ISA 610 and ISA 315 for approval for exposure at the June 2010 meeting.

### **12. ISA Implementation Monitoring**

Mr. Grant presented information about progress made with the ISA Implementation Monitoring project to date, in relation to Phase 1 of the project. He described the survey work undertaken by the Task Force during 2009 and mentioned, on a preliminary basis, some of the broader issues reflected in the responses returned by the countries and firms that have participated in the surveys

to date. A few countries have informed the Task Force that they will be able to forward a full response to the survey at a later stage, corresponding with their timeframe for adopting the clarified ISAs, and that they have endeavored to provide as much information as possible at this stage. Information gathered from the surveys will be discussed in further detail with the IAASB-National Auditing Standard Setters liaison group at its forthcoming meeting in early June 2010.

Regarding consultation undertaken with key IAASB stakeholders in relation to both Phase 1 and the focus to be applied in the subsequent Phase 2 of the project, Mr. Grant noted that in 2009 and 2010, discussions occurred with the IAASB CAG and with individuals from INTOSAI, the World Bank, and IFIAR. The Task Force has also continued regular dialogue with the SMPC and with staff from the IFAC Compliance Advisory Panel.

Mr. Grant outlined the Task Force's priorities in the period leading up to the next IAASB meeting in June 2010, when the Task Force would provide its full report on Phase 1 of the project to the IAASB for consideration. Prof. Schilder thanked Mr. Grant for his presentation.

### **13. NSS Implementation Guidance**

Mr. Siong introduced the topic, providing background to the proposal to establish a centralized online cataloguing system to enable national auditing standard setters (NSS) to share implementation guidance and other relevant materials that may be of international relevance. He noted that the SMPC had expressed strong support for the initiative.

In broadly supporting the initiative, IAASB members commented on the following practical matters.

#### **QUALITY CONTROL OVER CATALOGUE CONTENT**

An IAASB member was of the view that while NSS participating in the initiative would derive benefit from sharing information and leveraging each other's work, a key question was whether there would be a presumption of IAASB involvement in assessing the quality of the material and thus a presumption of IAASB support for it. In this regard, it was suggested that while IFAC may assist in the development of the architecture for the catalogue, the initiative should be run by NSS with no IAASB involvement.

Another IAASB member was of the view that NSS in the IAASB-NSS liaison group are aware that any form of quality control on the catalogue would not be practicable and that, in any event, the NSS would likely not support it as it might be seen as a form of "censorship." Further, it was argued that it would be unreasonable to expect IAASB or any participating NSS to shoulder such a burden, as the objective of the initiative should be to provide just a platform for exchange of ideas among NSS. The duty of care would therefore rest with any party that accesses and makes use of the material. The IAASB member was of the view that for this reason, the initiative should be limited to NSS only.

#### **APPROACH TO DEALING WITH INAPPROPRIATE MATERIAL**

While recognizing the practical difficulty in implementing a level of quality control over catalogue content, an IAASB member inquired into the approach for dealing with an interpretation or other material that has been catalogued if it came to light that that particular

material is inconsistent with, or otherwise undermines, the IAASB standards. Another IAASB member was of the view that this should not be a matter for the IAASB to resolve. Rather, power to address such issue should devolve to the NSS. For example, other NSS that have developed guidance material in the same area might exchange views on the issue and coordinate efforts to resolve the matter. In addition, it was argued that the NSS user should be the primary determinant of what is quality material in this context. Accordingly, it was suggested that the catalogue should incorporate an element of self-policing by those that use it.

It was noted, however, that the user should not be taken to include practitioners, as the initiative is not being targeted directly at them. Rather, it would be for the participating NSS (or others allowed access to it) to identify the needs of their stakeholders in their jurisdictions, and if those needs can be met by leveraging the catalogue, to take steps to respond accordingly. The key benefit that the initiative is seeking to achieve in that respect is an exchange of information and raising awareness regarding relevant work done internationally.

#### SCOPE OF ACCESS AND PROPOSED PILOT PHASE

While it is envisaged that participation in, and scope of access to, the catalogue would be limited to NSS, it was noted that eventually pressure may build up for IFAC Member Bodies to also have access. This is particularly so because in some jurisdictions it may be the Member Bodies, as opposed to the NSS, which are best placed to distribute relevant material from the catalogue to local practitioners. In this regard, an IAASB member was of the view that if access to the catalogue is not extended more broadly to IFAC Member Bodies, its content might not receive adequate promotion and distribution. This view was also supported by the SMPC.

Another IAASB member questioned the appropriateness of the proposal to limit participation in this initiative to only those NSS that participate in the IAASB-NSS liaison group, as these tend to be the NSS that have resources at their disposal. Rather, it was argued that the real benefit of the initiative would be to the smaller NSS through enabling them to leverage the work of the larger NSS. Accordingly, it was suggested that the former should represent the primary target for this initiative. For this reason, it was also argued that the proposal to pilot test the catalogue with the NSS in the IAASB-NSS liaison group for 12 months would not achieve useful results. It was therefore suggested that the pilot phase should be open to all NSS from the start.

#### MAINTENANCE OF THE CATALOGUE

An IAASB member noted the importance of incorporating an element of monitoring in the catalogue to ensure consistency and relevance of the material. Without this, the catalogue could over time lose integrity through being populated with inconsistent or outdated content. It was suggested that participating NSS should take responsibility for the content in that respect.

Another IAASB member suggested that some type of “filtering” of the material may be necessary to properly categorize it. Related to this, it was noted that uploading material (as opposed to categorizing hyperlinks) to the intranet site and performing procedures to confirm the completeness and accessibility of the uploaded material may potentially be a high maintenance exercise. In this regard, it was suggested that while IFAC may facilitate the architecture, it may be appropriate for participating NSS to explore arrangements for shared responsibility for operating, maintaining and overseeing the resource.

## OTHER MATTERS

IAASB members also noted the following other points:

- It may be appropriate to consider categorizing the content by region to enhance the relevance of the catalogue to individual users.
- A caveat should be included to the effect that the material may have been developed on the basis of national standards transposed from ISAs and not the ISAs themselves.
- The reference to implementation guidance should more appropriately be changed to “implementation resource,” reflecting the broad nature of the material contemplated.
- While it is important to put proper boundaries around how such a resource will operate, care should be taken in not over-engineering it, as putting up too many hurdles will defeat the original purpose of facilitating the sharing of, and access to, information.

## WAY FORWARD

The IAASB asked staff to reflect on the comments and further discuss the proposal with the NSS at the April 29-30, 2010 IAASB-NSS meeting.

## 14. Presentation by IFAC Committee

### IFAC SMP COMMITTEE

Paul Thompson, Senior Technical Manager of the SMPC, gave a presentation on the role of the SMPC and its interaction with the IAASB. He outlined the SMPC’s strategy of building the capacity of SMPs to support small- and medium-sized entities (SMEs) by offering input to international standard setting processes and providing practical support, including development of the *Guide to Using ISAs in the Audits of SMEs*, and the *Guide to Quality Control for SMPs*, which are available from the International Center for SMPs.<sup>16</sup> He noted the SMPC’s support for the clarified ISAs and its interest and involvement in IAASB projects, including commenting on many technical projects through a rapid response mechanism. He encouraged the IAASB to consider ways to increase SME and SMP input to IAASB processes, including collaborating more closely with the SMPC in areas of mutual interest.

The IAASB discussed with Mr. Thompson: the capacity of SMPs to represent the interests of SMEs in the standard-setting process; the difficulty of engaging with SMPs because of, for example, jurisdictional differences impeding a single response on behalf of the whole sector globally and SMPs’ resource capacity constraints; the limitations of relying on the SMPC as the single source of SMP input; the importance of SMP input to the reviews and compilations projects in particular; and the use being made of the SMPC Guides in different jurisdictions.

## ADOPTION AND IMPLEMENTATION SUPPORT

Mr. Thompson provided an overview of IFAC’s activities regarding its strategic objective of assisting adoption and implementation of international standards. While this objective was only

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<sup>16</sup> [www.ifac.org/smp](http://www.ifac.org/smp).



adopted in 2009, much work had already been initiated that is now being brought together under a more formal framework, with better coordination among the various IFAC boards and committees and more systematic reporting.

Mr. Thompson acknowledged a range of relevant IAASB activities (such the IAASB Clarity Center and outreach to practitioners, regulators and others) and a number of initiatives of other IFAC Boards and Committees. He also touched on a number of other matters, including: the significance of the IFAC Compliance Program; the importance of addressing cultural differences, a topic on which Mr. Cowperthwaite has worked extensively; and the implications for SMEs and SMPs, particularly those in emerging markets.

#### TRANSLATION ACTIVITIES

Kelly Ånerud, Senior Technical Manager – Translations, briefed the IAASB on the first year of applying the two policy statements that guide IFAC's translation work, including the priority focus on translating the ISAs into the 21 official EU languages.<sup>17</sup> Other activities include facilitating translation of international standards, including ISAs, into Arabic, Chinese, Russian, and Portuguese; developing strategic relationships with bodies such as the IFRS Foundation, the United Nations, and the World Bank; maintaining a translations database; and ongoing processing of permission requests, translation proposals and legal agreements, including monitoring whether up-to-date versions of the ISA and other standards and publications are used for 42 languages into which they are currently translated.

With respect to the EU translation process, Ms. Ånerud noted that as of March 2010 all but four countries had submitted entire sets of standards and that all are expected to be submitted for EC quality control processes by June 2010. She also noted that IFAC had signaled to the EC its intention to waive copyright and thus allow the ISAs to be included in relevant legislation.

Ms. Ånerud also highlighted feedback from translating bodies regarding areas within the standards that pose challenges for translation. She urged IAASB members to review the translations database for their languages and inform IFAC about any need for updates, and to encourage regional cooperation on translations.

#### IFAC MEMBER BODY COMPLIANCE PROGRAM

Szymon Radziszewicz, Senior Technical Manager – Compliance Program, gave an overview of the IFAC Member Body Compliance Program and its activities, including publication of IFAC member body self assessments on the IFAC website as well as related action plans for continuous improvement. Compliance activities are now moving towards a monitoring process for published action plans.

Observations from the Compliance Program to date include: (a) the significant need of member bodies in developing countries for assistance; (b) the challenges of successfully implementing international standards; and (c) the willingness of national governments and donor agencies to

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<sup>17</sup> "Policy for Reproducing, or Translating and Reproducing, Publications Issued by the International Federation of Accountants" and "Policy for Translating and Reproducing Standards Issued by the International Federation of Accountants."

provide support and financial resources as a primary factor in the quality of implementation and the meaningful execution of action plans.

Prof. Schilder thanked the IFAC staff members for their informative presentations.

### **15. Presentation by Center for Audit Quality**

Ms. Fornelli provided an overview of the objectives and work of the Center for Audit Quality, outlining the organization's background as a public policy body and the impetus for the creation of the Center. She also explained the Center's governance arrangements. The member organizations of the Center support the contributions it makes to advancement of public debates in a number of key areas that are central in today's financial reporting environment including, for example, the use of fair value, independent standard setting, the requirements of the Sarbanes-Oxley Act, and audit quality. More recently, the Center has co-ordinated a project focused on promoting better understanding of the shared responsibilities of parties within the financial reporting supply chain in relation to preventing and detecting financial statement fraud.

Ms. Fornelli emphasized the important purposes that the Center serves in the current environment through contributing rigorous policy analysis to promote dialogue on difficult areas and to help further debates on financial reporting and auditing in today's complex environment. The Center also promotes academic research and sponsors academic symposia with a focus on advancing research on topics central to audit quality.

IAASB members expressed great interest in the work and contributions of the Center. Prof. Schilder thanked Ms. Fornelli for her detailed presentation and conveyed the IAASB's best wishes to the Center in its work.

### **16. IAASB Strategic Plan**

Prof. Schilder introduced the topic, noting the purpose of the session was to approve the strategy questionnaire as the first step in the consultation process to develop the IAASB's strategy and work program for the period 2012-2014.

#### **MEDIUM-TERM STRATEGY**

Reflecting upon the stated focus in the *Strategy and Work Program, 2009-2011*, the IAASB agreed it may be necessary to clarify how it describes this focus in developing its future strategy.

Regarding the focus on "development of standards, in particular with a focus on the effective operation of the world's capital markets, and the needs of small- and medium-sized entities (SMEs) and small and medium practices (SMPs)," the IAASB noted the following:

- It would be preferable to clarify how the Board's work facilitates the capital markets rather than implying that the standards themselves make the markets effective as this is more the role of regulators. The IAASB was of the view that audits in accordance with ISAs give credibility to information used by investors in decision making, and this point should be stressed in the consultation paper.

- Further consideration is needed as to what the IAASB could realistically do to address the needs of SMPs; the discrete inquiries in the questionnaire should assist the IAASB in this regard.
- The IAASB's recent work to address greenhouse gas statements and other assurance engagements has been undertaken to respond to demands in the market and from regulators, and it is anticipated that the market will continue to demand services outside of those based on a particular financial reporting framework.

Regarding the focus areas of adoption and implementation, some IAASB members were of the view that increased attention should be given to monitoring the adoption of the clarified ISAs, and promoting and assisting with their implementation. This was noted particularly as an issue in developing countries, where many of the entities being audited are performed by smaller accounting firms and SMPs and auditors are looking to the IAASB to develop implementation guidance to address the challenges that they are currently facing.

Some suggested additional communication and outreach is also necessary to promote the adoption and successful implementation, leveraging the work of national standard setters and regional organizations, while recognizing the constraints on the board's time and resources.

#### MATTERS TO BE ADDRESSED IN THE CONSULTATION PAPER

The IAASB was of the view that the consultation paper should seek to communicate and inform stakeholders of the IAASB's current work, the processes it undertakes in developing its standards, and the information that is available through its various communication vehicles.

The IAASB also agreed that, in developing the consultation paper, it should clearly explain how its priorities align with its areas of strategic focus. Most IAASB members believed the IAASB's strategic focus should support its objective as stated in its Terms of Reference. A number of IAASB members were of the view that, in selecting the projects to be undertaken during 2012-2014, the IAASB should evaluate how these projects would achieve its strategic focus and use this as a basis for determining whether to undertake particular activities in standard-setting, development of guidance and outreach.

The IAASB also suggested its consultations should explain how its broader discussions on audit quality, commitment to continuous improvement of the ISAs and auditor communications fit into these areas of strategic focus. Because of the increasing call from investors for more information, the IAASB may have a role to play in meeting these needs.

Some IAASB members were of the view that the IAASB needs to communicate more about the role of the auditor and be influential in determining whether this role needs to evolve to meet the needs of investors and the marketplace broadly. One IAASB member suggested the IAASB may need to consider whether it should be more involved in the area of corporate governance. Illustrating the IAASB's role in the financial reporting supply chain, and explaining how the IAASB's work interacts with other key players including regulators and audit oversight bodies, national standard setters, and others, would better clarify the IAASB's role in serving the public interest.

## STRATEGY QUESTIONNAIRE

Based on its discussions, the IAASB agreed the following changes to the draft strategy questionnaire:

- In light of the global financial crisis, respondents should be asked for their view on whether there are key issues facing preparers and auditors in the mid- to long-term that should influence the IAASB's strategy, and what the IAASB might do to address the expectation gap.
- Respondents should be asked whether the three areas of strategic focus should be changed or better described and how the IAASB's time should be allocated among these areas of focus.
- Respondents should be asked for views on how the board's time should be allocated between the development of auditing standards and the development of assurance standards.
- Respondents should be asked whether there are issues currently being noted in implementing the clarified ISAs. This information can be fed back to the ISA Implementation Monitoring Task Force, and considered when drafting the consultation paper. As that Task Force's work develops, it will be important for the consultation paper to explain how the IAASB's work program will be affected and the potential limited capacity for non-ISA projects.

## OUTREACH ACTIVITIES

The IAASB supported the plans for consultation with key stakeholders throughout the development period and suggested that corporate governance and company directors organizations and institutional investors groups should be targeted.

## WAY FORWARD

The IAASB agreed the strategy questionnaire will be issued in early April and open for public comment for 45 days. The results of the questionnaire will be presented to the IAASB with a draft consultation paper at its September 2010 meeting.

## 17. PIOB Observer's Remarks

Ms. Peters, reflecting upon her attendance at the September 2009 meeting, commended the IAASB's for its continued willingness to engage in tackling difficult issues on a number of projects such as assurance on greenhouse gases and pro forma financial information. In her view, dealing with such challenging issues, some which may be outside of the IAASB's traditional comfort zone, is in the public interest, and doing so in a transparent manner is essential.

Ms. Peters indicated her support for the way in which the IAASB agreed to deal with the need to present alternatives in finalizing the exposure draft of ISAE 3420, and congratulated the IAASB on reaching this important milestone. However, she noted that, in doing so, the IAASB had expressed some concern in its deliberations about how to articulate its debate in the exposure draft and which questions to pose to respondents. She reminded the IAASB that its first concern should be transparency in crafting its exposure drafts and forthrightness in putting forth questions on issues on which the IAASB has spent a significant amount of time debating, even if that may

lead to negative views. In her view, continuing to be proactive will give the IAASB the information it will need to address divergent views on its exposure drafts.

On the topic of audit quality, Ms. Peters supported the IAASB's interest and level of discussion. She agreed with Ms. Fornelli's view that it is difficult to define audit quality since the concept is influenced by the person trying to achieve or benefit from audit quality. In her view, so long as the IAASB continues to be dedicated to act in the public interest, audit quality can be achieved by the IAASB developing high-quality standards focused on giving credibility to financial information used by investors in decision-making, whether this financial information is included in historical financial statements or in other forms.

Ms. Peters concluded by expressing her support for the Chairman's philosophy and management style, and the level of engagement of the IAASB members. She confirmed the importance of the IAASB hearing from people outside its process like the CAQ and other activity areas within IFAC.

Prof. Schilder thanked Ms. Peters for her feedback, and in particular noted that the IAASB's discussions throughout the meeting have illustrated its willingness to expose itself to difficult issues and potential feedback from a wide variety of stakeholders.

## **18. Next Meeting**

The next IAASB meeting is scheduled for June 14-18, 2010 in Mainz, Germany.

## **19. Closing Remarks**

Prof. Schilder thanked the members, TAs, observers and staff for their contributions to the meeting. He then closed the meeting.