

**Draft Minutes of the 40<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD  
Held on June 14-18, 2010 in Mainz, Germany**

	<b>Voting Members</b>	<b>Technical Advisors</b>
Present:	Arnold Schilder (Chairman) Diana Hillier (Deputy Chair) Arch Archambault Valdir Coscodai Phil Cowperthwaite Craig Crawford Josef Ferlings Cédric Gélard Jon Grant Gert Jönsson William Kinney Caithlin McCabe Daniel Montgomery Tomokazu Sekiguchi David Swanney Abdullah Yusuf Ashif Kassam	Wolfgang Böhm (Mr. Ferlings) Ricardo DeLellis (Mr. Coscodai) Jan Thijs Drupsteen (Mr. Kassam) Denise Esdon (Mr. Montgomery) Marek Grabowski (Mr. Grant) Jonas Hällström (Mr. Jönsson) Hiram Hasty (Mr. Kinney) Josephine Jackson (Mr. Archambault) Len Jui (Mr. Tang) Sachiko Kai (Mr. Sekiguchi) Pervez Muslim (Mr. Yusuf) Jon Rowden (Ms. Hillier) Tania Sergott (Ms. McCabe) Greg Shields (Mr. Cowperthwaite) Sylvia Smith (Mr. Crawford) Isabelle Tracq-Sengeissen (Mr. Gélard)
Apologies:	Jianhua Tang	Chuck Landes (Mr. Kinney)

**Non-Voting Observers**

Present: David Damant (IAASB CAG Chairman), [Linda de Beer](#),<sup>1</sup> Norio Igarashi, and Jean-Philippe Rabine

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

Present: Antoine Bracchi (June 14-15), Kai Uwe Marten (June 16-17)

**IAASB Technical Staff**

Present: Jim Sylph (Executive Director, Professional Standards) (June 16-18), James Gunn (Technical Director), Brett James, Joanne Moores, Michael Nugent, Ken Siong, and Jessie Wong

<sup>1</sup> [In capacity as incoming IAASB CAG Chair](#)

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

### WELCOME AND INTRODUCTIONS

Prof. Schilder welcomed the participants and public observers to the meeting. He also welcomed:

- Mr. Bracchi, observing the meeting on behalf of the PIOB;
- New member Mr. Archambault;
- New technical advisor (TA) Mr. Drupsteen (TA to Mr. Kassam);
- IAASB CAG Chair-elect, Ms. Linda de Beer, observing the meeting;
- IAPS Authority/IAPS 1012 Task Force Chair, Mr. Fogarty;
- Prof. Simnett, co-Chair of the Carbon Emission Task Force; and
- New staff member Mr. James.

Apologies were noted from Messrs. Tang and Landes. Mr. Grant was noted as proxy for Mr. Tang. Mr. Hasty was noted as TA to Mr. Kinney in place of Mr. Landes.

Prof. Schilder thanked the Wirtschaftsprüferkammer (WPK) and Institut der Wirtschaftsprüfer in Deutschland e.V. (IdW) for hosting the IAASB in Mainz.

Prof. Schilder also congratulated Ms. Tracq-Sengeissen on her appointment as Vice-President of the French audit standard setter, the Comité des Normes Professionnelles of the Compagnie Nationale des Commissaires aux Comptes.

He highlighted the heavy agenda for this meeting, acknowledging that some agenda papers had been distributed later than originally envisaged but, nevertheless, recognizing the significant efforts by task forces and staff in preparing the material for the meeting. Given the heavy agenda, he urged IAASB members to focus on pivotal issues during the discussions.

### RECENT MEETINGS

Prof. Schilder noted that the 10<sup>th</sup> IAASB-National Auditing Standards Setters (NSS) meeting was held on June 3-4, 2010 in Dublin. The meeting involved robust and constructive discussions on a number of topics on this meeting's agenda. He noted that Task Force chairs would report on relevant points arising from those discussions as appropriate during the meeting.

Prof. Schilder gave an overview of recent and upcoming outreach activities in which he and other IAASB representatives have been, or would be, involved.

### MINUTES OF PREVIOUS MEETING

The minutes of the public sessions of the March and May 2010 IAASB meetings were approved as presented.

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

Mr. Fogarty introduced the topic, noting that the objective of the session is to seek the IAASB's approval of proposed amendments to the *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services* (Preface) to reflect the

proposed status and authority of IAPSs. He recapitulated the main outcomes of the May 11, 2010 IAASB meeting, i.e.:

- IAASB agreement that auditors should determine whether any IAPS is relevant to the circumstances of the audit and, if so, obtain an understanding of the IAPS' content; and
- General IAASB consensus that this authority should continue to be described in the Preface.

With regard to latter, while a few IAASB members had acknowledged that there may be merit in including the auditor's obligation within ISA 200,<sup>2</sup> the majority of IAASB members were of the view that doing so would give rise to practical challenges for jurisdictions that are currently in process of, or considering, adopting the clarified ISAs into law, as well as possible confusion between the guidance in an IAPS and the application material within the ISAs.

Mr. Fogarty highlighted that general support for the proposed authority of the IAPSs, the placement of the statement of authority of the IAPSs in the Preface, and withdrawal of the extant IAPSs has been received as well from the IFAC Small and Medium Practices (SMP) Committee and participants at the June 2010 IAASB-NSS meeting.

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

In addition to editorial changes to the proposed amended Preface and the proposed explanatory memorandum, the IAASB agreed the following:

- The proposed "criteria" for the development of new IAPSs should be restructured into two separate tiers, with the first tier being that a new IAPS should only be developed if there is not likely to be a need for new or modified requirements or application material in the ISAs.
- The explanatory memorandum should explain why there is no requirement for the auditor to document compliance with the obligation to determine whether any IAPS is relevant to the audit and, if so, the auditor's understanding of its content. This rationale should be included in the Basis for Conclusions document upon final approval of the amended Preface.

#### APPROVAL

The IAASB members present or represented by proxy approved the proposed amended Preface for exposure. The exposure draft will be issued contemporaneously with the exposure draft of the proposed revised IAPS 1012<sup>3</sup> planned for approval in September 2010 so as to enable respondents to evaluate the proposed amended Preface in the context of an actual proposed IAPS.

### **3. Complex Financial Instruments**

Mr. Fogarty introduced the topic, noting that the Task Force has arranged two expert panel meetings in July 2010 to obtain further expert views on the topic before seeking IAASB approval of the proposed revised IAPS. In addition, he noted the IFAC SMP Committee's support for the document and the document's proposed authority, and the SMP Committee's view that the scope

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<sup>2</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>3</sup> Proposed IAPS 1012 (Revised), *Auditing Complex Financial Instruments*

of the IAPS should encompass all but the simplest financial instruments. Mr. Fogarty then led a review of the proposed IAPS.

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

#### LENGTH AND STRUCTURE OF THE PROPOSED IAPS

Some IAASB members expressed concern about the length and structure of the proposed IAPS. It was suggested that the detailed guidance on procedures, in particular, could lead to a build-up of expectations regarding compliance with the guidance material. Additionally, it was felt that the document lacked sufficient focus on the key issues. A few IAASB members suggested consideration of an alternative presentation to make the document more readable and accessible.

It was suggested that a key factor that would make a significant difference to the length of the document is whether it should include material that is educational in nature. Several IAASB members expressed the view that there is considerable need for educational material in the document, reinforcing views previously expressed on this specific matter. It was noted, in particular, that the topic has broad applicability and there is a compelling need to provide such educational material and to make it available for a broad range of audits.

After further deliberation, the IAASB agreed that the document should be reorganized to increase its focus on the key issues as well as enhance its readability, with consideration to be given to gathering the educational material in one section at the front of the document and material dealing with the specific audit issues in another section.

#### ASSERTIONS AND DISCLOSURES

An IAASB member expressed concern that the proposed IAPS seemed to address only three of the assertions as opposed to all of them. In response, it was noted that the decision to address only those three assertions was made explicitly to ensure a more focused and manageable document. It was, however, argued that practitioners who are not used to auditing financial instruments may not be fully aware of the risks that relate to other assertions. Accordingly, it was suggested that the proposed IAPS is not as holistic as it could be. After further deliberation, the IAASB asked the Task Force to consider whether further guidance could be provided focusing on obtaining audit evidence regarding risks relative to other assertions.

It was also noted that while the document dealt at length with the valuation issue, it did not appear to give sufficient weight to disclosure issues. It was argued that valuation does not reflect complexity as much as disclosures do, and that this emphasis was absent in the document. The IAASB agreed that while the emphasis on valuation in the document is appropriate, more could be done to highlight the importance of disclosures. Accordingly, the IAASB asked the Task Force to consider giving greater prominence to the guidance on disclosures in the document. An IAASB member cautioned against inadvertently creating new requirements on disclosures through the introduction of additional guidance on disclosures, arguing instead for the need to monitor the present debates on disclosures on the accounting side.

#### EFFECTIVE DATE

An IAASB member questioned the need for an effective date, noting that the proposed IAPS contains no new requirements. It was also noted that the document is mainly educational in nature and therefore could be effective immediately upon approval. In addition, another IAASB member suggested that introducing an effective date could blur the distinction between ISAs and IAPs. Other IAASB members, however, disagreed, noting that there is a requirement for practitioners to read and understand the document; accordingly, time will be needed for implementation and training, and also, in many jurisdictions, for translation. An IAASB member expressed the view that while the proposed IAPS contains no requirements, regulatory expectations may arise for practitioners to apply it as soon as it is released. After further deliberation, the IAASB agreed that it should be proposed that an IAPS include an effective date, and that the explanatory memorandum should explain why the Board feels it important to do so.

#### OTHER MATTERS

In addition to editorial changes, the IAASB asked the Task Force to:

- Focus the introductory section of the document more on complex financial instruments as opposed to providing a broad overview of the audit process, and emphasize that the document does not deal with “plain vanilla” financial instruments such as cash and accounts receivable but is focused on the complex type.
- Consider gathering the descriptions of the characteristics of a complex financial instrument in one place.
- In relation to the section describing the types of entities to which the IAPS applies, consider providing examples of entities other than banks that deal with complex financial instruments in order to avoid over-emphasizing banks.
- In relation to the guidance dealing with the use of experts, consider the implications of using an individual who is not an expert in auditing and accounting but has knowledge of auditing and accounting.
- Reconsider the descriptions of actions expected of management, as the present text appears to impose obligations on management.
- In relation to the guidance on circumstances that may lead the auditor to determine that a significant risk exists regarding complex financial instruments, reconsider the reference to what will constitute a significant risk as this appears to imply a requirement.
- Consider providing more specific examples to explain what is meant by complexity in the context of financial instruments.
- Consider giving greater emphasis to the guidance on professional skepticism and fraud while also making it more specific to complex financial instruments.
- Consider defining terms such as “CDO2” for inclusion in the Glossary of Terms in the IAPS.

## WAY FORWARD

The IAASB asked the Task Force to present a revised draft of the proposed IAPS (highlighting any new material added with input from the experts and any material deleted) for approval for exposure at the September 2010 IAASB meeting.

### **4. Internal Audit—Revision of ISA 610<sup>4</sup>**

Ms. Hillier introduced the topic, noting that comments had been received from the IFAC SMP Committee and that she would be referring to these during the discussion as appropriate. She highlighted that the draft explanatory memorandum provided in the meeting papers pilots an approach for analyzing the benefits and impacts of the IAASB's proposals. She then led a review of the proposed revised ISA 610 and ISA 315.<sup>5</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

In explaining the Task Force's proposals, Ms. Hillier noted that the IFAC SMP Committee was generally satisfied that these would address the needs of SMPs.

In addition to editorial changes, the IAASB agreed that the linkage between the auditor's procedures regarding the internal audit function performed under ISA 315 and ISA 610 should be clarified. Specifically, proposed revised ISA 315 should make clear that information obtained from the auditor's inquiries of the internal audit function and the understanding obtained of that function's role in the entity's monitoring of internal control over financial reporting provide information relevant to the auditor's identification and assessment of the risks of material misstatement. Such information is relevant in all audits and therefore, it would be appropriate for the related requirements to be placed in proposed revised ISA 315. This is distinct from the external auditor's decision to use the work of internal auditors to modify the nature or timing, or reduce the extent, of audit procedures to be performed, which is addressed in proposed revised ISA 610.

#### PROPOSED REVISED ISA 610

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

- The scope section and the section on direct assistance should emphasize that obtaining the direct assistance of internal auditors is solely at the external auditor's discretion. The requirements in the ISA do not apply if the external auditor either chooses not to obtain the direct assistance of internal auditors or is prohibited from doing so by law or regulation.
- It should be made clear that in addition to their application relative to the external auditor's determination of whether to use the work of the internal audit function, the minimum requirements for the degree of objectivity and level of competence also apply in the external auditor's determination of whether to obtain direct assistance and, if so, the

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<sup>4</sup> ISA 610, *Using the Work of Internal Auditors*

<sup>5</sup> ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

external auditor's decision regarding work to be assigned and the appropriate level of direction, supervision and review by the external auditor.

- The ISA should clarify that as part of the external auditor's communication of the planned scope and timing of the audit with those charged with governance in accordance with ISA 260,<sup>6</sup> the external auditor may, amongst other matters, discuss the extent to which the work of internal auditors will be used, including the planned use of the direct assistance of internal auditors.
- The ISA should clarify how the factors considered by the external auditor in determining the planned use of the work of the internal audit function apply in the case of direct assistance.
- Given that risk is another driver of the external auditor's decisions regarding the use of the work of the internal audit function, the ISA should make reference to ISA 200,<sup>7</sup> which states that the greater the assessed risks of material misstatement, the more persuasive the audit evidence required by the external auditor will need to be. Accordingly, the more likely it will be that the external auditor will need to perform more of the work directly.

#### EXPLANATORY MEMORANDUM

The IAASB considered and provided input to the Task Force on the proposed explanatory memorandum, including its layout and structure. Ms. Hillier indicated that a revised draft of the explanatory memorandum would be circulated to the Board for clearance.

#### APPROVAL

After considering changes to the documents in the light of the comments, the IAASB members present or represented by proxy unanimously approved the proposed revised ISA 610 and ISA 315 for exposure with a 120-day comment period.

### **5. Emissions Assurance**

Ms. McCabe introduced the topic, noting the link between this project and the project to revise ISAE 3000.<sup>8</sup> She also noted the Task Force's intention to use the feedback received at this meeting to develop a draft ISAE for approval as an exposure draft at the September 2010 IAASB meeting.

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

#### LIMITED ASSURANCE

Ms. McCabe highlighted the major change to the document as being the introduction of limited assurance, as agreed at the March 2010 meeting. The Task Force developed the position in the draft based on the IAASB's recent discussions of ISRE 2400<sup>9</sup> and ISAE 3000, responses to the

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<sup>6</sup> ISA 260, *Communication with Those Charged with Governance*, paragraph 15

<sup>7</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>8</sup> ISAE 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

<sup>9</sup> ISRE 2400, *Engagements to Review Financial Statements*

October 2009 Consultation Paper, *Assurance on a Greenhouse Gas statement*, the review of a selection of published limited assurance reports on Greenhouse Gas (GHG) statements, and Task Force members' practical experience. That position requires a risk assessment essentially similar to that for a reasonable assurance engagement. However, differences relative to the latter include evidence-gathering procedures with respect to their extent, the nature of analytical procedures, and the emphasis placed on various sources of evidence. Ms. McCabe noted that this approach is not inconsistent with that adopted in ISO 14064-3<sup>10</sup> except that under ISO 14064-3, materiality varies with the level of assurance, which is contrary to the IAASB's view as expressed in previous discussions of ISAE 3000.

The IAASB noted that the approach in the draft differs from ISRE 2400 in a number of ways, such as the fact that the former establishes the limited assurance work effort relative to the reasonable assurance work effort whereas the latter establishes the review work effort independent of what is required for an audit; and the fact that the former allows the level of assurance required to vary from just above meaningful to just below reasonable, whereas limited assurance under the latter is more tightly pegged. Nevertheless, both approaches are consistent with the Assurance Framework.<sup>11</sup> Amongst the reasons for a different approach are the fact that GHG engagements are still at an early stage of evolution and can vary considerably depending on the circumstances (for example, whether Scope 1, 2 or 3 emissions are being assured), and a GHG statement is not the product of a double entry recordkeeping system. The IAASB discussed the implications of these approaches and differences, including whether users would be able to understand the different levels of assurance on different engagements as conveyed in the assurance report. The IAASB asked the Task Force to consider whether a sample limited assurance report should be developed and whether the sample reasonable assurance report included in the draft should include further details of procedures performed.

The IAASB discussed whether separate ISAEs for reasonable assurance engagements and limited assurance engagements are necessary, and agreed that this is not the case. The IAASB also agreed that more emphasis should be given to:

- The importance of site visits and the nature of procedures performed on site, and to the interaction between the desired level of assurance and the number of sites visited.
- Describing the lower end of the limited assurance range required by ISAE 3000, i.e., a "meaningful" level of assurance.

In addition, the IAASB also asked the Task Force to consider whether:

- Reducing the sample size for tests of controls in a limited assurance engagement would be appropriate.
- The importance of the completeness assertion should be further emphasized.
- Users might misunderstand a limited assurance report that includes an extensive list of procedures, incorrectly assuming that it conveys a higher level of assurance than a reasonable assurance report written in the more traditional "short form."

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<sup>10</sup> ISO 14064-3 *Greenhouse gases—Part 3: Specification with guidance for the validation and verification of greenhouse gas assertions*

<sup>11</sup> *International Framework for Assurance Engagements*

- The objective should more clearly differentiate between reasonable assurance and limited assurance engagements.
- The requirements should be rearranged, or some other mechanism used, to help clarify the difference between reasonable assurance and limited assurance engagements, particularly with respect to procedures to respond to assessed risks.
- Analytical procedures in a limited assurance engagement should involve developing an expectation, albeit that the expectation may be more directional in nature and less precise than in a reasonable assurance engagement.

#### OTHER MATTERS

The IAASB also asked the Task Force to consider whether:

- The guidance regarding materiality could be clarified with respect to the role of performance materiality, including stating that the possible effects of misstatements on specific individual users, whose needs may vary widely, are not considered as part of an assurance engagement.
- Certain requirements in extant ISAE 3000 or expected in revised ISAE 3000 should be repeated in this ISAE because of their importance in the context of GHG engagements, in particular, the requirement for the entity to have a reasonable basis for its assertion, and the requirement for the team to collectively have the necessary competence for the engagement.
- Further guidance is needed to make it clear that the ISAE is not seeking to impose disclosure requirements on entities, but that consideration of disclosure requirements is part of assessing the suitability of the criteria.
- ISA terminology, e.g. procedures designed to respond to the assessed risks of material misstatement, is appropriate for GHG engagements, particularly limited assurance ones.
- Some of the guidance, such as with respect to component practitioners, should be requirements to be consistent with their treatment in the ISAs.

#### WAY FORWARD

The IAASB asked the Task Force to prepare a revised draft of the proposed ISAE 3410 for the IAASB's consideration and approval for exposure at the September 2010 meeting.

### **6. Assurance Engagements**

Prof. Kinney introduced the topic, providing an overview of the newly added appendix to the draft revised ISAE 3000 which helps readers better understand the nature of assurance engagements by identifying the different roles parties play in an assurance engagement.

#### THE ASSURANCE FRAMEWORK

The IAASB considered a number of options proposed by the Task Force for dealing with the split between the Assurance Framework and ISAE 3000. These ranged from retaining the Framework largely as it is, but with clarified wording, to fully integrating the content of the Framework into ISAE 3000 and withdrawing the Framework itself, or potentially migrating the Framework from being a document that deals with only assurance to one that deals with the full range of engagements for which the IAASB sets standards.

The IAASB acknowledged that practitioners rarely access the Framework and that whatever is necessary for a proper understanding of ISAE 3000 is best placed in ISAE 3000 itself. The IAASB asked the Task Force to further explore whether the Framework could adequately deal, at a very high level, with all engagements for which the IAASB sets standards. The IAASB cautioned the Task Force to be mindful, in doing so, that (a) changes made to the Framework do not adversely affect other projects, in particular the project to revise ISRE 2400; and (b) revising the Framework is a by-product of the project to revise ISAE 3000 and excessive resources should not be devoted to the former.

#### SPLIT BETWEEN ISAE 3000 AND THE ISAS

The IAASB discussed the Task Force's proposal to use ISAE 3000 for all engagements where there is any doubt about which standards should apply, but to ensure that where historical financial information is included as anything other than an incidental part of the engagement, to apply the evidence-gathering procedures of the ISAs to that information.

Some concern was expressed about whether the terminology used in drafting the relevant requirements is sufficiently precise to make it clear which ISA requirements should apply in all cases. For example, does "evidence-gathering" procedures include procedures conducted as part of engagement acceptance, planning and reporting, as well as all procedures required by the ISAs relating to, for example, fraud and going concern? It was also noted that the point at which historical financial information ceases to be merely "incidental" may not be clear in all cases.

#### ASSURERS WHO ARE NOT PROFESSIONAL ACCOUNTANTS

The IAASB discussed the Task Force's proposal for the draft to acknowledge that it is written for professional accountants, but that there is no attempt to limit its application to professional accountants and their public sector equivalents, as does extant ISAE 3000. Rather, the draft requires that anyone who uses ISAE 3000 should apply quality control and ethical standards that are at least as demanding as ISQC 1<sup>12</sup> and the International Ethics Standards Board for Accountants' (IESBA) Code,<sup>13</sup> respectively, and to disclose which standards they have applied.

Amongst other matters, the IAASB discussed:

- Whether practical steps can be taken to prevent non-accountants from inappropriately using ISAE 3000, e.g., whether in the absence of an international monitoring mechanism, it is practical to expect IFAC member bodies to take action against non-accountants who inappropriately cite ISAE 3000;
- The difficulty of assessing whether any particular national or regional ethical standard or the standards of another profession are "at least as demanding" as ISQC 1 and the IESBA Code;
- Whether compliance with quality control and ethical standards that are at least as demanding as ISQC 1 and the IESBA Code would allow an assurer to claim compliance with ISQC 1 and the IESBA Code by default, which would therefore negate the apparent flexibility being allowed for;

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<sup>12</sup> ISQC 1, *Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>13</sup> IESBA *Code of Ethics for Professional Accountants*

- The role of disclosures in the assurance report if ISQC 1 or the IESBA Code is not used;
- The applicability of ISAE 3000 to public sector assurers, many, but not all, of whom follow ISQC 1 and the IESBA Code; and
- Whether the desired level of flexibility could be introduced via the application material rather than the requirements.

The IAASB asked the Task Force to consider these matters further in the light of its comments.

#### LEVELS OF ASSURANCE

The IAASB discussed the definition of limited assurance. It was noted that the concept of limited assurance in extant ISAE 3000 positions it as being within a range, from just above “meaningful” assurance at the lower end, to reasonable assurance at the upper end. Using such an open concept allows for limited assurance relative to any particular underlying subject matter to then be described through either a bottom up approach (as is the case with the ISRE 2400 draft presented at this meeting) or a top down approach (as is the case with the GHG draft also presented at this meeting). Amongst other matters, the IAASB asked the Task Force to consider the following further:

- Whether the various references to limited assurance throughout the application material could be brought together in one place to more coherently explain the concept.
- Whether limited assurance could be defined without reference to reasonable assurance, perhaps by:
  - Emphasizing more the lower threshold (meaningful assurance) rather than the upper threshold (reasonable assurance). In this regard, it was noted that the definition of reasonable assurance could perhaps, in turn, be defined by explaining that it is the highest practicably obtainable level of assurance given the circumstances of the engagement, including time and cost constraints; and
  - Relating it to the practitioner having performed adequate procedures, or obtained sufficient appropriate evidence, or reduced engagement risk to an acceptably low level, to express a negative form of conclusion. It was noted that the problem which needs to be overcome with such a formulation is that in theory one could issue a negative opinion on the basis of such a small amount of work that meaningful assurance is not obtained. Some IAASB members were also concerned with applying the expression “sufficient appropriate evidence” to limited assurance engagements, while others expressed the view that the concept of sufficient appropriate evidence is indispensable.

#### OTHER MATTERS

The IAASB agreed that ISAE 3000 should continue to cover both direct and attestation engagements, and that the number and nature of requirements are, in general, appropriate.

In addition to a number of editorial matters, the IAASB asked the Task Force to further consider whether:

- It may be more appropriate to use alternative terminology to “attestation” and “managing party” to help understandability and translation.

- The definition of an assurance engagement adequately deals with a 3-party relationship in which the measurer or evaluator is an external party and the user is the responsible party.

#### WAY FORWARD

The IAASB asked the Task Force to present a revised draft of the proposed revised ISAE 3000 for its consideration at the September 2010 meeting.

#### **7. IAASB Member Presentations**

Mr. Coscodai gave an overview of his country, Brazil, including, amongst other matters, its economy, economic history, demographics, economic and social prospects, and international trade. He also gave an outline of the accounting profession in Brazil. He highlighted that while listed entities, financial institutions and insurers are now required to use International Financial Reporting Standards (IFRS), other entities are still permitted to use Brazilian Generally Accepted Accounting Principles (GAAP). He noted the expectation that Brazilian GAAP would be in accordance with IFRS in 2011/2012.

Mr. Ferlings gave an overview of his country, Germany, as well as the Institut der Wirtschaftsprüfer (IDW). He outlined Germany's history and its geography and demography, as well as the status of the German profession, the educational requirements to qualify as auditors, and the process for setting German auditing standards.

Prof. Schilder thanked Messrs. Coscodai and Ferlings for their informative presentations.

#### **8. ISRS 4410<sup>14</sup> and ISRE 2400**

Mr. Cowperthwaite introduced the topic and led a review of the proposed revised ISRS 4410 and ISRE 2400.

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

#### COMPILATIONS

##### *Scope of the Proposed Revised ISRS 4410*

Some IAASB members expressed the view that the standard needs to address the situation where information compiled by a professional accountant will be used by external parties. Accordingly, it was suggested that there should be requirements for such compilations to always be scoped in and for compilation reports to be issued. As the standard is currently drafted, however, it would be possible for the engaging party and the practitioner to agree that no report need be issued, which would imply that the standard, as currently worded, would not have to be applied as it only applies when the practitioner is engaged to compile and report. These IAASB members felt that in view of the key purpose of communicating in the report the nature of the engagement and the practitioner's responsibilities and work performed, it would be best practice for reports to always be required when information is compiled for external use.

Other IAASB members felt that the situation of external use is one of the practitioner's association with compiled information. Because this issue is generic to all activities undertaken

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<sup>14</sup> ISRS 4410, *Engagements to Compile Financial Statements*

by professional accountants, it was suggested that it would be best addressed through a pronouncement that deals with association issues across all engagements. In this regard, Prof. Schilder noted that the current strategy consultation should highlight any need for a wider pronouncement. In the meantime, Mr. Cowperthwaite noted that views on this issue would be canvassed through the explanatory memorandum to the exposure draft.

#### *Applicability of ISQC 1*

Some IAASB members emphasized that not all countries have adopted ISQC 1 for related services engagements. It was noted that there is a perception in some countries that while ISQC 1 is appropriate for assurance engagements, it is too onerous for related services engagements. In view of this, some IAASB members suggested that the Task Force review the premise that ISQC 1 applies to all firms using the standard as that fact is not true in many countries. Were the premise to apply, the standard may not be capable of being used in those countries without significant modification or adaptation, which would likely undermine international convergence relative to compilation engagements. However, some other IAASB members pointed out that ISQC 1 does apply to all IAASB engagement standards, as set forth within ISQC 1 itself. Further, not applying ISQC 1 may not be in the public interest. Mr. Cowperthwaite indicated that it would be important to understand wider stakeholder views on this issue, and that it would likely need to be highlighted in the explanatory memorandum to the exposure draft.

#### *Practitioner's Work Effort*

A few IAASB members were of the view that greater clarity was needed regarding the practitioner's work effort in a compilation engagement. It was argued that although the engagement is not an assurance engagement, the practitioner must perform some basic types of procedure sufficient to avoid possible association with misleading information. As currently drafted, however, the proposed revised standard did not seem to address this point adequately. An IAASB member also suggested the need for some basic requirements for the practitioner in relation to specific matters, such as in relation to use of the going concern assumption and the development of accounting estimates, albeit that performance of assurance-type procedures is clearly not required.

#### *Applicable Financial Reporting Framework*

Mr. Cowperthwaite explained the Task Force's proposed approach set out in the agenda material to address the situation where the practitioner, having compiled the financial information using the applicable financial reporting framework, becomes aware that the financial information is materially misstated or misleading. Under this approach, the practitioner would be required to recommend that management either amend the compiled financial information, or use a different financial reporting framework that is acceptable in view of the intended use of the financial information. The Task Force's view is that such action would ensure that the practitioner is not knowingly associated with information that is materially misstated or misleading, in compliance with the relevant ethical standards (set out in the IESBA Code).

The IAASB agreed that for better clarity and understandability of the term "applicable financial reporting framework," it should be added to the list of definitions in the proposed revised standard. Also, an IAASB member suggested that the discussion in the draft revised standard of different types of reporting frameworks should be explained and set out in a way that is consistent with the ISAs. Another IAASB member emphasized that the proposed revised

standard should be clearer regarding how the practitioner should deal with circumstances where the financial reporting framework used is customized for a particular entity's financial information. Financial statements compiled using a customized financial reporting framework would not be used as "general purpose" financial information, and so would need to be clearly differentiated or signaled as being "special purpose" in nature and intended use.

#### *Other Matters*

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

- The Task Force should reconsider how management's responsibilities are described in both the illustrative reports and the standard itself, as stating those responsibilities as including "preparation of" the financial statements is disingenuous in view of the nature of compilations where the practitioners are engaged to contribute their expertise and knowledge to prepare the financial information on behalf of management.
- The Task Force should consider whether it will be sufficiently clear to users when the practitioner performing the compilation is not independent of the entity.
- With regard to a practitioner's observation of material misstatements in the compiled financial information, the Task Force should consider removing the word "obvious" where it appears, as it causes confusion and distorts the intended meaning of the requirements.

#### REVIEWS

##### *The Practitioner's Objectives*

The IAASB discussed the practitioner's objectives in a review engagement. Some IAASB members felt that the procedures-based nature of the review, as a type of limited assurance engagement, needs to be conveyed more strongly in the statement of objectives. Most IAASB members agreed with the formulation of the objectives in two parts, addressing both the practitioner's work effort and the form of the practitioner's report. However, a number of IAASB members felt that the former needs to more closely reflect the "sequence of events" in a review, i.e. performing procedures in order to obtain sufficient appropriate evidence to be able to form a conclusion to be reported in the required form. By contrast, the objectives as worded in the draft have a focus on obtaining sufficient appropriate evidence, which does not reflect the procedures-based nature of the engagement. However, it was agreed, as a fundamental principle for all assurance engagements, that the expression of a conclusion must always rest on obtaining sufficient appropriate evidence.

The IAASB considered the interaction between the procedures performed and evidence obtained to support expression of a conclusion on a meaningful basis. It also discussed the need for the objectives to closely reflect the limited assurance nature of the engagement. A few IAASB members expressed the view that there is a point of difference in a review, where the concept of sufficient appropriate evidence is not applied to obtain evidence that something is "right," but is applied in a rather more limited way to enable the practitioner to state that it is "not wrong."

##### *Form of the Practitioner's Conclusion*

Regarding the form of the practitioner's conclusion, the IAASB agreed that the various forms of positive expressions of the practitioner's conclusion explored by the Task Force, including the version reflected in the agenda material are not suitable to effectively convey the limited

assurance nature of the engagement, and could be misleading to users. The IAASB asked the Task Force to draft the standard with only the negative form of expression of the conclusion.

### *Performing the Review*

A number of IAASB members expressed the view that there needs to be greater specificity about the review procedures required for every review in order to form the limited assurance conclusion. The IAASB agreed that the standard will need to convey the work effort required in two possible scenarios: work effort based primarily on inquiry and analytical procedures, where the results do not indicate likely material misstatements; and the situation where an “extended” work effort is needed, involving use of further procedures, when the results do indicate likely material misstatements.

A few IAASB members commented that the section on review procedures needs to be set out more clearly, and should include requirements with appropriate procedures to address fraud, compliance with laws and regulations, and the going concern assumption.

### *Forming the Conclusion*

An IAASB member commented on the approach reflected in the draft standard of obtaining sufficient appropriate evidence to form the conclusion, with reference to “sufficient appropriate evidence” in the wording of the practitioner’s objectives. The practitioner’s conclusion is formed on the basis of evaluation of the results of the procedures performed, which need to provide a sufficient basis for the practitioner to express a conclusion in the required (negative) form. Many IAASB members were of the view that when the practitioner’s conclusion includes any modification, the practitioner would need to perform sufficient procedures to support a qualification or an adverse conclusion at the level where the practitioner has sufficient appropriate evidence to be able to conclude that a misstatement actually exists in the financial statements.

The IAASB discussed whether it is appropriate to disclaim a conclusion in a review. Most IAASB members agreed that the standard should contain requirements on providing disclaimers. An IAASB member, however, disagreed on the ground that the outcome would be meaningless in a review and would probably be confusing for users. Some IAASB members held the view that, as reflected in ISRE 2410,<sup>15</sup> scope limitations in a review ordinarily have a larger impact than in an audit. Often, therefore, disclaiming a conclusion is the most appropriate action for the practitioner in a review.

### *Reporting*

An IAASB member emphasized the importance of minimizing any confusion between a review and an audit, and accordingly argued for the need for a review report that is visually different from the audit report. Some IAASB members agreed. Other IAASB members, however, expressed the view that the form of the report in an audit is not necessarily exclusive to audits, but rather reflects a logical flow that describes the engagement performed and the conclusion or opinion expressed based on that work. Some IAASB members questioned why striving to achieve that same outcome should be different in a review, and argued that possibly the best way to distinguish the two engagements when reporting is to signal in the review report title that it is

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<sup>15</sup> ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

a report for a review. Mr. Cowperthwaite asked IAASB members for examples of other forms of review reports that the Task Force could consider.

### *Other Matters*

The IAASB agreed that the revised standard should be premised on the implementation of ISQC 1 by the firm performing review engagements.

### WAY FORWARD

The IAASB asked the Task Force to consider the need for the IAASB to reconvene via teleconference in advance of the September 2010 IAASB meeting to further discuss the wording of the practitioner' objectives for a review.

Subject to this, the IAASB asked the Task Force to present revised drafts of the proposed revised ISRS 4410 and ISRE 2440 at the September 2010 meeting.

## **9. XBRL**

Mr. Crawford introduced the topic, noting that the planned needs analysis to inform the determination of IAASB action on the project had been progressing more slowly than anticipated, an indication of the fact that stakeholders themselves need time to prioritize the topic on their agendas. He highlighted the fact that different jurisdictions appear to be moving at different speeds in relation to XBRL filing requirements. As a result, this has created a moving target from a standard-setting perspective. He also noted that his presentation of the topic at the March 2010 IFAC SMP Committee meeting had generated robust discussions and helpful input.

Mr. Crawford then sought the IAASB's input and guidance on the following three specific issues.

### AUDITOR ASSOCIATION WITH XBRL DATA

Mr. Crawford highlighted the IAASB's discussions on the issue of auditor association in the latter part of 2010 which led to the development of the January 2010 IAASB Staff Questions and Answers (Q&A) publication on XBRL.<sup>16</sup> Despite awareness of the issue being raised through the Q&A, however, discussions with stakeholders continue to indicate inconsistent understanding of the issue around the world. Thus, the question that has arisen is whether the IAASB could do more to emphasize that, unless otherwise so stated, auditors are not providing any assurance on XBRL data. Amongst the options that the Task Force has been considering in this regard is advocating the use of an Other Matter paragraph in the auditor's report.

An IAASB member noted that while some organizations have issued guidance regarding the fact that auditors are not associated with XBRL data, such guidance is generally not available to users. It was therefore suggested that it would be beneficial if auditors could have a means to better acknowledge that they have no responsibilities in relation to XBRL data, and if regulators could, perhaps, similarly recognize this in their filing requirements. Other IAASB members did not support using the auditor's report to include the appropriate caveat, noting that users would tend to access the XBRL data directly through their software tools and assume that the data had been audited without looking at the auditor's report. It was also noted that besides the risk of

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<sup>16</sup> IAASB Staff Q&A, XBRL: *The Emerging Landscape*

inconsistent reporting and confusion arising through giving auditors the option of using their reports to communicate the matter, auditors have generally not been inclined to include matters in their reports that are not strictly required.

Some IAASB members were of the view that the Staff Q&A is a great resource to raise awareness of the issue and more could be done to increase its visibility. In this regard, it was noted that the key challenge is communicating the message to stakeholders. It was argued that while discussions at the IAASB CAG are a useful mechanism for this purpose and national auditing standard setters have been encouraged to raise awareness of the issue at the national level, the IAASB should continue to focus effort on communication with stakeholders.

An IAASB member was of the view that there is a public interest need for the IAASB to explore whether an appropriate caveat could be attached to each piece of XBRL-tagged information, as users would otherwise be left to seek their own sources of information as to whether or not the data have been audited. In this regard, another IAASB member questioned whether an “infrastructural” issue should be considered pertaining to whether audit “flags” could be built into the XBRL taxonomy at the individual data level to indicate whether each tagged item and the related tagging process have been audited. The IAASB agreed that this type of functionality relative to XBRL taxonomies should be explored further with XBRL International.

A few IAASB members suggested that if an XBRL assurance standard were developed, this could raise users’ awareness of the possibility of assurance engagements on XBRL data. In this regard, it was noted that the development by the American Institute of Certified Public Accountants (AICPA) of an assurance standard on reporting on internal control in the 1990s for voluntary engagements, before the enactment of any regulatory requirement for such reporting in the U.S., had helped accelerate the development of assurance services in this area. Accordingly, it was suggested that the availability of an assurance standard on XBRL could similarly spur regulatory demand for assurance on XBRL data.

In this regard, Prof. Schilder noted that his meetings with the International Organization of Securities Commissions’ (IOSCO) Standing Committee No. 1 in July 2010 and the International Forum of Independent Audit Regulators (IFIAR) in September 2010 would present opportunities to discuss the issue with regulatory stakeholders. While IOSCO and IFIAR may not have a mandate to set regulatory requirements regarding assurance on XBRL data, such meetings with regulatory stakeholders are important fora through which key messages on XBRL could be communicated. In addition, these meetings would enable the IAASB to promote further consideration of the issues on IOSCO’s and IFIAR’s agendas on an ongoing basis, and help them to raise awareness of the issues to their respective constituents.

#### AGREED-UPON PROCEDURES STANDARD

The IAASB considered the merits of developing an Agreed-Upon Procedures (AUP) standard to respond to near-term needs of users for some level of comfort regarding XBRL data, recognizing that engagements performed in accordance with such a standard would not be public engagements. It was suggested that guidance issued by the AICPA’s Auditing Standards Board in April 2009 addressing the performance of AUP procedures with respect to XBRL data, Statement

of Position (SOP) 09-1,<sup>17</sup> could be leveraged to that effect, as such guidance has been well received in the U.S. Nevertheless, it was noted that there are a number of other considerations that increase the complexity of the issue. These include, amongst others, the fact that the SOP 09-1 is a guidance document and not a standard, and whether there would be merit in developing an umbrella standard for different types of AUP services. Accordingly, time would be needed to thoroughly consider the issue.

An IAASB member was of the view that the advantages of developing an AUP standard would outweigh the disadvantages, as such a standard could help explain the complexities involved with XBRL data, including the auditor association issue. Another IAASB member, however, expressed the view that it was unclear how an AUP standard would help users given the key question of what the practitioner would be reporting on relative to what users generally expect from the auditor in terms of an audit opinion on the financial statements as a whole. An IAASB member cautioned against devoting scarce resources to the development of an AUP standard to meet short-term needs when longer term needs regarding assurance on the tagging process may be of greater importance. It was suggested that the AICPA's SOP 09-1 may be sufficient to meet present needs and that before any IAASB resources are committed to pursuing the development of an AUP standard, IFAC could investigate whether such guidance could be adopted in other countries in one form or another. After further deliberation, the IAASB asked the Task Force to study the matter further, particularly from a cost-benefit perspective.

#### NEXT STEPS

Mr Crawford explained the Task Force's proposal for the establishment of a Project Advisory Panel (PAP) to solicit views from key stakeholders, particularly members of IOSCO and IFIAR that are already facing, or will face in the near future, XBRL filing requirements. Whilst a few IAASB members felt that the idea of a PAP had some merit, there was concern that it may be over-ambitious, as participating regulators may have different objectives and the issues that the PAP would address are unclear. It was suggested that a roundtable may be a more appropriate next step as it would help initiate debate on the topic without committing the IAASB to creating a long-term infrastructure along the lines of a PAP.

Subject to resource availability, the IAASB broadly supported consideration of roundtables with particular involvement of regulators, as a precursor to determining whether there would be benefit in setting up a PAP on a longer-term basis. In this regard, an IAASB member highlighted the need to involve stakeholders who have jurisdiction over the filing requirements in the discussions, without whom effective solutions may not be reached.

#### OTHER MATTERS

In relation to auditors' independence in the context of their involvement in assisting management in developing an appropriate approach to XBRL tagging, the IAASB noted that the IESBA has been asked to consider the matter further.

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<sup>17</sup> SOP 09-1, *Performing Agreed-Upon Procedures Engagements that Address the Completeness, Accuracy, or Consistency of XBRL-Tagged Data*

## WAY FORWARD

The IAASB asked the Task Force to consider the above issues further in the light of the comments made and to present revised proposals for the IAASB's consideration in due course.

### **10. IAASB - IASB Liaison**

Ms. Hillier provided an update on key activities undertaken as part of the IAASB – International Accounting Standards Board (IASB) liaison initiative, including the status and outputs of existing IAASB working groups that have been set up to monitor the development of selected IASB projects to identify potentially significant verifiability/auditability issues.

Amongst other matters, Ms. Hillier reported that IAASB representatives have been invited to observe the IASB's Expert Advisory Panel (EAP) on impairment of financial instruments. She highlighted this as a positive development, enabling the IAASB to gain better insight into the EAP's deliberations, particularly with respect to verifiability/auditability issues which are now being given greater consideration by participants than previously.

Ms. Hillier drew attention to a summary of the anticipated key activities in the IASB's forward work program in the meeting papers. She highlighted recommendations regarding the IASB projects that should be monitored by the IAASB and for which new working groups would therefore need to be established. The proposals were informed by the responses to the IAASB's April 2010 strategy questionnaire.

The IAASB expressed support for the proposals and agreed to set up working groups for the following IASB projects:

- Extractive activities;
- Financial statement presentation; and
- Insurance contracts.

Ms. Hillier invited IAASB members, technical advisors and observers to express their interest in participating in working groups to herself or Staff.

### **11. ISA Implementation Monitoring**

Mr. Grant introduced the topic, noting that following the discussion of the Task Force's preliminary results from Phase One of the ISA Implementation Monitoring project at the IAASB-NSS meeting earlier in June 2010, some information reflected in the Appendices to Agenda Item 10-A had been updated. An updated version of that meeting paper was distributed to the Board at the start of this session of the meeting.

## REPORT ON PHASE ONE

Mr. Grant introduced the project Task Force's report with a brief update on developments since the last project update at the March 2010 IAASB meeting. He noted that Phase One was a pre-implementation exercise and addressed the following areas discussed in the report:

### *Modification of the Clarified ISAs by NSS*

Mr. Grant explained that different approaches to NSS' use of the clarified ISAs have been observed, ranging from adoption of the standards with no changes to adoption with a relatively small number of modifications to use of the standards as a basis for national standards but with more extensive changes.

In the light of these different approaches, he noted that the IAASB's 2006 Policy Position Paper *A Guide for National Standard Setters that Adopt IAASB's International Standards but Find it Necessary to Make Limited Modifications* (Policy Guidance) may need reconsideration with a view to assessing whether it can be improved given the different ways in which the clarified ISAs are being used. He noted that various NSS have confirmed the usefulness of the Policy Guidance and view it as a useful aid for decisions about modifications to the ISAs. He explained that the Policy Guidance is likely to be important from the compliance perspective, particularly in relation to countries being able to claim compliance with the clarified ISAs, and that any review of the Policy Guidance may warrant the involvement of the IFAC Compliance Panel. Mr. Sylph asked the Task Force to forward any recommendations for improvement of the Policy Guidance to IFAC for further consideration.

Mr. Grant highlighted a concern about what different countries that adopt or otherwise use the clarified ISAs are calling the resulting national standards. He explained that many countries appear to be using titles for standards that imply national standards rather than international standards; few are using titles that refer to the ISAs. This is likely to give a false impression of the extent to which auditing standards are, in fact, being harmonized. Mr. Sylph agreed that this point is very significant from the perspective of getting global acceptance in the public eye that these various national auditing standards are all broadly the same standards based on adoption of the ISAs. He suggested that one way to address this may be to encourage reference to both the relevant national auditing standards and the ISAs in the auditor's report when the auditor is able to assert compliance with both sets of standards.

### *Implementation Support*

Mr. Grant highlighted that a number of countries had indicated that, in order to maximize success in implementation of the ISAs, it would be useful if those implementing the standards could draw on information about significant changes made to the ISAs and reasons for the changes, e.g. for training and education purposes. An IAASB member expressed strong support for the idea of developing a published summary of changes to the revised clarified ISAs, as part of the IAASB's wider implementation support effort.

### *Individual ISAs*

Mr. Grant noted that responses obtained from the Phase One questionnaire survey had pointed to some challenges mainly in relation to two of the ISAs:

- ISA 320<sup>18</sup>—specifically, the principles nature of the standard could lead to inconsistencies especially in relation to the determination of performance materiality.

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<sup>18</sup> ISA 320, *Materiality in Planning and Performing an Audit*

- ISA 600<sup>19</sup>—specifically, practical difficulties relating to auditing equity investments in groups and audit work carried out at shared service centers.

Mr. Grant explained that these areas may need further attention from the perspective of promoting consistency in the application of these ISAs. He noted that the question of applying the provisions of ISA 600 in the context of auditing equity investments is being considered by a working group from the large audit firms, who are likely to issue further guidance to support the current requirements of ISA 600. He also observed that it was important that the firms quantify the extent of the problem to assist IAASB in considering whether a change to ISA 600 would be needed in due course. Prof. Schilder noted that attention should be given to seeing whether responses obtained from the current consultation on the IAASB's future strategy and work program also point to a need to address these topics, either in relation to the standards or in relation to producing some form of clarification targeting specific areas of difficulty.

Mr. Grant noted that most countries seem to be adopting ISA 700, although some have introduced national equivalent standards with more significant changes. He noted that relevant information had been passed to the Task force on audit reporting.

#### *Use of the Clarified ISAs in Small- and Medium-Sized Enterprises (SME) Audits*

Mr. Grant noted that a number of countries did anticipate difficulties in applying the ISAs to smaller audits but there was little evidence available at this stage about the nature and extent of such difficulties. Because of this, the Task Force thought it important to gather specific information and, accordingly, is considering surveying actual SMPs in countries where the clarified ISAs have been adopted. He also emphasized the importance of considering the question of how the ISAs can be applied in audits of micro-entities. Prof. Schilder noted the overall importance of evaluating the use of ISAs and ISQC 1 for SME audits, as evident also from the IAASB's strategy consultations.

#### COMMUNICATING RESULTS OF PHASE ONE

Mr. Grant emphasized that the results of Phase One of the project have revealed a great deal of progress in implementation of the ISAs amongst those firms and countries surveyed, and that the results overall are very positive. He suggested that it would be useful to produce an external communication to make the findings of Phase One of the project available more widely. Some IAASB members mentioned the need to carefully caveat the content of any communication based on the Phase One results, as these reflect the experiences of only a relatively small number of countries and firms. The IAASB agreed that an external communication would be constructive and asked the Task Force to develop one for its further consideration.

#### PHASE TWO—POST IMPLEMENTATION REVIEW

Mr. Grant mentioned that in the remainder of 2010 the Task Force would spend time considering the objectives and design of Phase Two of the project, the post-implementation review. He noted the Task Force's view that there is likely to be significant benefit in having a dialogue with audit

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<sup>19</sup> ISA 600, *Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)*

inspection bodies, through IFIAR, to understand how information obtained from audit inspections can contribute to Phase Two.

Mr. Grant also explained how the objectives of Phase Two could be linked to the wider discussion of audit quality, by aiming the objectives towards understanding whether and how use of the clarity ISAs has impacted audit effectiveness. He noted that the Audit Quality Task Force will be considering this question in its further deliberations.

#### WAY FORWARD

Mr. Grant outlined the Task Force's proposed further activities for the remainder of 2010 and for 2011. The IAASB expressed unanimous support for the Task Force's proposals.

Mr. Jönsson updated the Board on the implementation of the ISAs within the community of the International Organization of Supreme Audit Institutions (INTOSAI). He noted that the full set of ISAs and corresponding INTOSAI practices notes are now awaiting the endorsement of the INTOSAI Congress in December of this year. He explained that the next phase of INTOSAI effort, which will be directed towards supporting training effort for implementation at the National Audit Office level, is to set up a monitoring group working together with the INTOSAI Development Initiative.

Prof. Schilder thanked Mr. Grant for his report and the Task Force for its work on Phase One of the project.

## **12. Monitoring Group Consultation**

Mr. Sylph introduced the topic, providing background to the Monitoring Group's (MG) assessment of the implementation of the 2003 IFAC reforms and an overview of the MG's process to develop the consultation paper (CP).<sup>20</sup> He noted that IFAC would develop a response to the CP, informed by the views of the IAASB and the IESBA at their June 2010 meetings. The MG expects to issue its final report and recommendations by November 2010 in time for presentation to the IFAC Council and at the World Congress of Accountants.

Prof. Schilder shared with the IAASB the contents of the letter that Mr. Hans Hoogervorst, MG Chairman, had written to him on June 11, 2010 enclosing a copy of the CP, noting in particular the MG's invitation to IAASB members to comment. He then asked for IAASB members' reactions to the CP.

#### OVERALL REACTION

Overall, the IAASB expressed surprise and significant disappointment regarding the CP, noting that it contained a number of inaccuracies and misunderstandings relative to the IAASB's processes and operations. As a result, given the public nature of the CP and the expected final report from the MG, significant concern was expressed regarding the potential for these documents to undermine public confidence in the profession and the IAASB's standing as a global standard-setter.

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<sup>20</sup> CP dated June 10, 2010 and titled *Review of the IFAC Reforms—Consultation Paper*, responses to which were due by August 15, 2010.

## SPECIFIC REACTIONS

### *Clarity of Purpose*

IAASB members commented on the overall lack of clarity regarding the aim of the CP. It was felt that instead of addressing the IAASB's overall effectiveness as a global standard setter or reflecting on whether there had been any betterment of the public interest as a result of the 2003 IFAC reforms, the MG had chosen to critique matters of process on which the public would not have much insight or ability to provide meaningful comment. Some IAASB members were of the view that the CP appeared self-serving to members of the MG. Importantly, however, several IAASB members felt that a significant shortcoming of the CP was its apparent lack of an assessment of the overall impact of all the MG's recommendations relative to the aim of the original 2003 IFAC reforms.

### *Balance and Substantiation*

From the perspective of balance, some IAASB members expressed disappointment that the CP had failed to recognize the IAASB's significant achievements over the past 7 years, particularly the tremendous progress that the IAASB had achieved with respect to global acceptance of, and convergence with, the ISAs over that period. Other members felt that some of the recommendations did not fairly reflect the actual processes and operations of the IAASB, the design of which IFAC had invested significant thought and effort under the PIOB's oversight. In this regard, Mr. Sylph clarified that the CP covered the processes of both the IAASB and the IESBA, and therefore not all the MG's recommendations necessarily addressed the IAASB's processes.

Nevertheless, several IAASB members expressed significant concern regarding how the MG undertook its assessment of the IAASB's processes and how it substantiated its various findings and recommendations. In particular, it was felt that the MG appeared to have based its CP on anecdotal evidence as opposed to specific observations of, or direct interactions with, the IAASB. It was also unclear what benchmark the MG had used in measuring the IAASB's current processes.

Given that the scope of the CP encompasses the processes of both the IAASB and the IESBA, some IAASB members felt that it would have been helpful for the IAASB to have been made aware of the specific issues relating to its processes that prompted the related MG recommendations.

### *Nature and Implications of the Recommendations*

Several IAASB members commented that a number of the MG's recommendations may have potentially profound and far-reaching consequences for the IAASB. In particular, implementing a change in response to a given recommendation may have unintended consequences on other aspects of the IAASB's operations. Accordingly, it was suggested that further thought should be given to how changes should be implemented appropriately, taking into account the broader context of the IAASB's processes and operations.

An IAASB member commented that while the CP indicates that the scope of the MG's assessment does not involve revisiting the overall standard-setting governance of the IAASB, it would be difficult to avoid considering governance implications when evaluating the 18 recommendations altogether. Other IAASB members agreed, noting that a number of the recommendations may have constitutional implications for IFAC.

Some IAASB members were of the view that a number of the recommendations may be impractical and might extend the IAASB's processes to no apparent benefit. Other IAASB members commented on the lack of specificity of some of the recommendations as well as the MG's failure to address the funding aspect of those recommendations that have cost implications.

An IAASB member expressed surprise and disappointment that the CP contained no recommendations as to how the IAASB could develop and strengthen its relationships with audit oversight bodies such as IFIAR, particularly in the light of the IAASB's present efforts to reach out to such stakeholders in response to changes in the regulatory environment.

#### WAY FORWARD

Given the various concerns expressed, the IAASB agreed that a direct response to the MG from the IAASB as opposed to through IFAC was warranted in order to clearly express the IAASB's significant concerns and disappointment regarding the CP. The IAASB agreed that it should do so in an open and transparent manner. In this regard, Prof. Schilder cautioned that it would be unhelpful to the MG if the IAASB's response was inconsistent with IFAC's. Prof. Schilder indicated that the Steering Committee would meet to further consider the nature of, and approach to, the IAASB's response.

### **13. Audit Quality**

Mr. Crawford introduced the topic, noting the aim of agreeing the scope and objectives of the project. He then gave the floor to Prof. Schilder to present a slide on key elements of audit quality (AQ). Prof. Schilder noted that he has used this slide in various recent presentations to, and meetings with, stakeholders to communicate key messages about AQ. The slide has, in turn, proven useful in provoking many reactions from stakeholders in the discussion on the topic. Prof. Schilder concluded his presentation by noting that to meaningfully deal with the subject of AQ requires consideration of not only input factors such as auditing standards, the audit process and behavioral aspects of auditing, but also output factors such as user perspectives and auditor communications, as well as contextual factors such as governance, regulation and oversight.

Mr. Crawford then gave the floor to Mr. Grant to provide an update on the discussion of the topic at the IAASB- NSS meeting earlier in June. Mr. Grant noted great interest and support from NSS participants in the IAASB undertaking a project on this topic. He also highlighted the following significant comments from NSS participants:

- A modeling approach to AQ could be considered that would include such matters as exploring a definition of AQ, identifying potential measures for AQ, and considering reporting aspects of AQ.
- While the elements in Prof. Schilder's slide are all relevant, one should also not lose sight of other important external factors such as the quality of the entity's management, the entity's corporate governance, and its reporting deadlines.
- There is a need for harmonization of approaches to regulatory inspections around the world. In this regard, the project would be of significant benefit to such bodies as the IFIAR if it could establish some sort of common "language" of AQ that would assist in harmonizing inspection practices.

Mr. Crawford then explained the Task Force's thinking regarding the development of a proposed thought piece on AQ in the short term followed by a more substantive consultation paper on the topic in the medium term. Some IAASB members supported a consultative approach to the project as this would give stakeholders an opportunity to provide input on this important topic and for the IAASB to hear their views. Other IAASB members cautioned that the Task Force's proposed scope for the project seemed ambitious, especially with regard to the proposed medium-term consultation phase. In particular, an IAASB member was of the view that while the thought piece could be a relatively straightforward publication that would describe the main elements of AQ in Prof. Schilder's slide, the consultative phase of the project could be time consuming. In this regard, a few IAASB members commented on the lack of clarity regarding the ultimate objective of the proposed consultation paper and how it would enable the IAASB to further the public interest. It was noted that a certain amount of consensus already exists today regarding the key elements of AQ. Accordingly, it was unclear how much further the IAASB could advance such consensus through a consultation process.

An IAASB member reflected on the experience in the UK which has developed a framework of AQ drivers that has provided a useful mechanism for engaging in discussion with those responsible for audit oversight. While this framework has not stopped the latter from seeking more detailed standards, it has helped shift the debate into more meaningful areas of AQ. It was suggested that as the IAASB develops closer working relationships with oversight bodies such as IFIAR, there might be benefit in taking this approach, as a broader perspective on AQ would enable such bodies to consider whether there are other areas that would deserve closer scrutiny in furtherance of AQ than just the auditing standards. Another IAASB member expressed support for working closely with IFIAR in agreeing on an AQ framework that would facilitate dialogue between inspectors and auditors. It was suggested that such an outcome would represent a more valuable contribution from the IAASB to the public interest than the mere issuance of a publication on AQ by the IAASB alone.

An IAASB member noted that while the project may appear to be ambitious, there would be opportunity to leverage the large amount of work that has already been done on the topic by other parties. In addition, it was argued that the development of a consultation paper may not necessarily be a time consuming activity. Rather, the difficulty lies in determining what should be done post-consultation. In this regard, it was noted that some effort may be needed in managing public expectations.

Some IAASB members emphasized the importance of obtaining user views on AQ and understanding users' needs relative to their assessments of AQ, as users are most interested in knowing that they have received a high quality service. Also, it was noted that the project will be very beneficial in helping the IAASB in its standard setting efforts, particularly in identifying whether there are any particular areas on which the IAASB should focus.

Mr. Rabine noted that there would be a possibility of the IAASB reaching the boundaries of its remit in some ways while undertaking this project. Nevertheless, he encouraged the Task Force to pursue its efforts on the topic. He noted that the EC planned to issue a "green paper" in September-the autumn that will consider, among other matters, the topic of AQ and the related drivers of AQ. In this regard, he suggested that the EC be added to the list of stakeholders with whom the IAASB could liaise on the topic, and that the Task Force acts as an interface between the IAASB and the outside world.

## WAY FORWARD

The IAASB asked the Task Force to reflect further on the way forward in the light of the Board's comments, giving particular consideration to the development of a thought piece as a precursor to a broader debate on AQ, and to refine the Task Force's terms of reference accordingly for approval at a future meeting.

### **14. PIOB Observer's Remarks**

Acknowledging this IAASB meeting as his first in his capacity as PIOB observer, Mr. Marten expressed his overall satisfaction with the general climate of the discussions, noting that there was a very open dialogue with adequate time for all participants to comment. He was of the view that there were no participants who tried to promote anything other than the public interest in the discussions.

In relation to the "Reviews and Compilations" project, he highlighted the following from a public interest perspective:

- The discussion on the proposed revised ISRS 4410 thoughtfully focused on the public interest. Nevertheless, if the differences between compilation and audit engagements are not clearly described, this will increase the "expectations gap."
- It is important that the content of the practitioner's report for both review and compilation engagements is clear and understandable for users who do not have expert knowledge in such engagements.
- If there is a level of assurance for review engagements, it is necessary to explain in the standard and the practitioner's report that such engagements do not constitute audits.
- In relation to compilation engagements, there is no independence requirement in the IESBA's *Code of Ethics for Professional Accountants*.

Prof. Schilder thanked Mr. Marten for his remarks.

### **15. Farewell to IAASB CAG Chair**

Prof. Schilder indicated that this was Mr. Damant's last meeting observing in his capacity as Chair of the IAASB CAG. He highlighted Mr. Damant's numerous achievements over the course of his two terms as CAG Chair in growing and developing the CAG into the well respected consultative group that it now is, as well as his active participation on the IAASB Steering Committee. He also highlighted Mr. Damant's openness for dialogue and expressed the IAASB's gratitude for his valuable contribution to the IAASB's work.

Mr. Damant commented that he has been impressed by the quality of the IAASB's work as well as its concern for the public interest. He added that he had emphasized his view to the PIOB that if a major corporate failure were to occur, this would not be because of the auditing standards but other factors.

~~He also~~ Mr. Damant complimented the three IAASB Deputy Chairs, Mss. Esdon and Hillier and Mr. Fogarty, he has had the opportunity to work with over the course of his chairmanship of the IAASB CAG. and Above all, he highlighted the honor it has been for him to work with the

current and former IAASB Chairmen, Prof. Schilder and Mr. Kellas. He conveyed his best wishes to the IAASB.

At Prof. Schilder's invitation, the incoming CAG Chair, Ms. de Beer, introduced herself, highlighting that she represents the Johannesburg Stock Exchange on the South African auditing standard setter. She also highlighted that she has been a representative on the CAG since 2004 on behalf of both the Eastern Central and Southern African Federation of Accountants and the World Federation of Exchanges. Ms. ~~D~~de Beer indicated that she looked forward to a fruitful working relationship with the Board.

#### **16. Next Meeting**

The next IAASB meeting is scheduled for July 29, 2010 via teleconference.

#### **17. Closing Remarks**

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