

**Draft Minutes of the 41st Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD  
Held September 20–24, 2010 in St. Julians, Malta**

	<b>Voting Members</b>	<b>Technical Advisors</b>
Present:	Arnold Schilder (Chairman)	Wolfgang Böhm (Mr. Ferlings)
	Diana Hillier (Deputy Chair)	Ricardo DeLellis (Mr. Coscodai)
	Arch Archambault (September 20–21, Jan Thijs Drupsteen (Mr. Kassam) 24)	Denise Esdon (Mr. Montgomery)
	Valdir Coscodai	Marek Grabowski (Mr. Grant)
	Phil Cowperthwaite	Jonas Hällström (Mr. Jönsson)
	Craig Crawford	Chuck Landes (Mr. Kinney)
	Josef Ferlings	Josephine Jackson (Mr. Archambault)
	Cédric Gélard	Susan Jones (Mr. Crawford)
	Jon Grant	Len Jui (Mr. Tang)
	Gert Jönsson	Sachiko Kai (Mr. Sekiguchi)
	Ashif Kassam	Pervez Muslim (Mr. Yusuf)
	William Kinney	Jon Rowden (Ms. Hillier)
	Caithlin McCabe	Tania Sergott (Ms. McCabe)
	Daniel Montgomery	Greg Shields (Mr. Cowperthwaite)
	Tomokazu Sekiguchi	Isabelle Tracq-Sengeissen (Mr. Gélard)
	David Swanney	
	Jianhua Tang	
	Abdullah Yusuf	

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**Non-Voting Observers**

Present: Linda de Beer,<sup>1</sup> Norio Igarashi, and Jean-Philippe Rabine

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

Present: Antoine Bracchi

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<sup>1</sup> As designated by Mr. Damant, Chairman of the IAASB Consultative Advisory Group (CAG), in her capacity as incoming IAASB CAG Chair.

**IAASB Technical Staff**

Present: James Gunn (Technical Director), Kathleen Healy, Brett James, Joanne Moores,  
Michael Nugent, Ken Siong, and Jessie Wong

Apologies: Jim Sylph, Executive Director, Professional Standards

## 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;
- IAASB CAG Chair-elect, Ms. de Beer, observing the meeting;
- Ms. Jones, returning to the IAASB as Technical Advisor (TA) to Mr. Crawford;
- Mr. Fogarty, Chair of the IAPS Authority/IAPS 1000 Task Force; and
- Prof. Simnett, Co-Chair of the Assurance Engagements on Greenhouse Gas (GHG) Statements Task Force.

Prof. Schilder thanked the Maltese Institute of Accountants for hosting the IAASB.

He highlighted the heavy agenda for this meeting and expressed his gratitude to Task Forces and staff for their efforts to deliver the agenda papers in time. Given the agenda, he urged IAASB members to focus on pivotal issues during the discussions.

### RECENT DEVELOPMENTS

Prof. Schilder noted that the IAASB Staff question and answers (Q&A) document on auditing significant unusual transactions has now been posted as a resource on the IAASB website. He thanked the IAASB members for their comments on the document. He also noted that three additional ISA Implementation Modules will be released in October. The modules feature Ms. Hillier on *Materiality, Misstatements and Reporting*; Mr. Swanney on *Written Representations*; and Mr. Ferlings on *Using the Work of an Auditor's Expert*.

Prof. Schilder noted that a response to the Monitoring Group (MG) Consultation Paper on the IFAC Reforms had been submitted by IFAC in mid-August. The response incorporated the IAASB's views and a copy was shared with the Board.

### RECENT MEETINGS

Prof. Schilder reported that Representatives of the IAASB CAG met on September 14–15, 2010 in London, U.K.

Prof. Schilder asked staff to circulate to the IAASB Members, Technical Advisors and Official Observers a list of recent and upcoming outreach events in which he and other IAASB representatives have been, or will be, involved.

### MINUTES OF PREVIOUS MEETINGS

The minutes of the public sessions of the June and July IAASB meetings were approved as presented.

## 2. Limited Assurance

To provide context to, and facilitate, the discussions on a number of topics on the agenda, Ms. Hillier presented a brief overview of the defining characteristics of a limited assurance engagement. These include:

- The need for professional judgment in determining the practitioner's procedures; and
- The summarization of work performed in the practitioner's report, which is particularly important for purposes of communicating different levels of assurance clearly and unambiguously.

She also explained the similarities and differences between limited assurance engagements on the one hand, and reasonable assurance and agreed-upon procedures engagements on the other hand. In addition, she highlighted a number of commonly held myths about limited assurance.

### 3. ISRE 2400

Mr. Cowperthwaite introduced the topic, noting that comments have been received from the IFAC Small and Medium Practices (SMP) Committee and the IAASB CAG and that he would refer to these as appropriate during the discussion. He then summarized the key issues and led a review of the proposed revised ISRE 2400.<sup>2</sup>

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

#### THE PRACTITIONER'S OBJECTIVES

While agreeing with the concept of obtaining evidence as the basis for the conclusion the practitioner expresses in a review engagement, the IAASB generally did not support the Task Force's proposal to use the wording "sufficient appropriate evidence" in the practitioner's objectives for a review. A number of IAASB members expressed the view that this wording creates a logical disconnect between the basis for the conclusion and the form of the conclusion in the report (that is, "nothing has come to the practitioner's attention that causes the practitioner to believe that the financial statements are not prepared in accordance with..."). Accordingly, they were of the view that such wording could be misleading because the engagement is designed to be based on the performance of limited procedures as opposed to a full range of procedures that might be implied by this wording. The IAASB therefore asked the Task Force to amend the statement of the practitioner's objectives by:

- Omitting the phrase "sufficient appropriate evidence," and instead using the wording "to perform sufficient procedures to form a conclusion on the financial statements based on the evidence obtained;" and
- With regard to the second part of the statement of objectives addressing reporting, including the form of expression of the conclusion (i.e. negatively-expressed) required under the proposed revised ISRE.

The IAASB also considered whether the amended statement of objectives should include the word "meaningful" as the adjective for "conclusion." Some IAASB members pointed out that, if that change were made, an explanation would be needed of what "meaningful" is intended to mean. The IAASB asked the Task Force to consider the matter further.

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<sup>2</sup> International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*

## THE “MECHANICS” OF PERFORMING A REVIEW

In line with the above discussion, the IAASB agreed that the intended outcome of performing the review in accordance with the ISRE is that the practitioner will have obtained the limited level of assurance needed to be able to form and express a conclusion on the financial statements in the required form. Accordingly, the IAASB agreed that the proposed requirement for the practitioner to consider, prior to forming a conclusion, whether the practitioner has obtained “sufficient appropriate evidence” to form a conclusion would be unnecessary and should be deleted.

In relation to performance of reviews, the IAASB also asked the Task Force to:

- Describe clearly the iterative nature of the process of the practitioner obtaining knowledge and understanding of the entity and its environment, designing and performing appropriate procedures, and then evaluating the results of the procedures performed.
- Explain how analytical procedures are used in a review, in particular emphasizing that they are not used in the same way as “substantive analytical procedures” in an audit.
- Reconsider the order of the requirements and guidance addressing performance of further procedures and consideration of subsequent events.
- Describe the relevant time horizon for the practitioner’s consideration of the going concern assumption when the time horizon is not specified in the applicable financial reporting framework.
- Address the situation when the practitioner is not able to obtain written representations that are needed to complete the review.

## FURTHER PROCEDURES

The IAASB considered the wording to be used to describe the point in the engagement when the practitioner needs to perform further procedures to respond to the circumstance where results obtained from the inquiry and analytical procedures lead the practitioner to believe the financial statements may be materially misstated. The IAASB recognized that this issue arises in the context of other types of limited assurance engagements, including those to be dealt with by the proposed ISAE 3410<sup>3</sup> and, more generally, limited assurance engagements to be undertaken under the proposed revised ISAE 3000.<sup>4</sup> The IAASB asked the Task Force to consider explaining clearly the extent of work effort that should be undertaken in such circumstances.

## FLOWCHART

The IAASB expressed support for including the proposed flowchart as set out in an appendix to the proposed standard. The IAASB agreed that this would be helpful supplementary material for practitioners to illustrate the key stages in performance of an ISRE 2400 review engagement. The IAASB asked that the flowchart closely reflect the requirements of the proposed standard.

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<sup>3</sup> Proposed ISAE 3410, *Assurance on a Greenhouse Gas Statement*

<sup>4</sup> Proposed ISAE 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

## WAY FORWARD

The IAASB asked the Task Force to present a revised draft of the proposed revised ISRE 2400 for approval as an exposure draft at the December 2010 meeting.

### **4. Assurance Engagements on Greenhouse Gas (GHG) Statements**

Ms. McCabe introduced the topic, noting that the comments received on the consultation paper<sup>5</sup> issued nearly a year ago had indicated an urgent need for this standard and that the main area remaining for resolution is the approach to limited assurance since the IAASB had previously expressed general satisfaction with the reasonable assurance approach. She also noted that while there are common elements between this project and the revision of ISRE 2400, there are also a number of differences between the subject matter of the two standards that cause the approach each takes to limited assurance to be different (for example, a greenhouse gas (GHG) statement is not the product of a double-entry information system).

#### LIMITED ASSURANCE

The IAASB asked the Task Force to split the sections of the draft dealing with understanding the entity and its environment, the identification and assessment of risks, and further procedures, in such a way as to differentiate the minimum procedures required for a limited assurance engagement from those for a reasonable assurance engagement.

While restructuring the draft in this way led to a certain amount of duplication, it also enabled the rewording of some requirements to better differentiate how they were to be applied in a limited assurance engagement versus a reasonable assurance engagement.

In considering the restructured draft, the IAASB expressed general satisfaction with the differentiation between the two levels of assurance with respect to further procedures. The IAASB, however, provided suggestions for further improvement relative to how limited assurance is treated in the sections relating to obtaining an understanding of the entity and its environment, and identifying and assessing risks.

Other issues discussed in relation to the difference between limited assurance and reasonable assurance engagements included whether:

- Limited assurance GHG engagements should be defined by comparison to reasonable assurance GHG engagements.
- Limited assurance GHG engagements should be based on a set of minimum procedures (such as inquiry and analytical procedures). The Task Force co-Chairs noted that the advice of the experts on the Task Force and the Project Advisory Panel has consistently been that this is not how these engagements are performed in practice. Instead, these engagements are based on an identification and assessment of risks, and then on the design of further procedures to respond to the assessed risks. A number of IAASB members supported the view that the advice of the experts should be followed as the basis for exposure when a broader range of views (including those of users, regulators, etc.) would be sought.

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<sup>5</sup> IAASB Consultation Paper, *Assurance on a Greenhouse Gas Statement*, October 2009

- The procedures performed on all limited assurance GHG engagements should be roughly the same. The Task Force co-Chairs noted that this would not be a realistic expectation given the variety of engagement circumstances encountered in practice. It was also noted that ISAE 3000 would not necessarily lead one to conclude that the procedures performed on all limited assurance GHG engagements would be more or less the same.
- In a limited assurance GHG engagement:
  - A practitioner can assess risks “for material types of emission and disclosure” without slipping into a reasonable assurance-style assessment at the assertion level; and
  - If an identified risk is assessed to the same extent as in a reasonable assurance engagement, the practitioner can reasonably do less in response to that risk than would be the case in a reasonable assurance engagement.

Some IAASB members suggested that the final resolution of these issues may depend on the IAASB’s deliberations with respect to the ISAE 3000 project. The IAASB agreed, however, that the finalization of proposed ISAE 3410 need not wait for further development of the ISAE 3000 project, as the direction of that project is not inconsistent with the draft of ISAE 3410. As with extant ISAE 3000, revised ISAE 3000 can be expected to be sufficiently flexible to allow for the approach adopted in ISAE 3410.

#### OTHER MATTERS

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

- For a limited assurance engagement, it is necessary to require the practitioner to evaluate the design of relevant controls and determine whether they have been implemented.
- The requirement regarding the identification and assessment of risks due to fraud or non-compliance should be better integrated with the identification and assessment of other risks, rather than appearing to be a separate step.
- It would be appropriate to use the words “subject to” in the conclusion paragraph of the assurance report as this may be misinterpreted as a modification.
- It would be appropriate to include more details on the procedures performed in the report on a limited assurance engagement than a reasonable assurance engagement.
- It would be appropriate to use the words “significant facility”, considering the different nature of procedures required to “significant components” under ISAs.

#### WAY FORWARD

The IAASB asked the Task Force to present a revised draft of proposed ISAE 3410 for consideration and approval as an exposure draft at the December 2010 meeting.

## 5. **Compilation Engagements—Revision of ISRS 4410<sup>6</sup>**

Mr. Cowperthwaite introduced the topic, noting that comments had been received from the IFAC SMP Committee and the IAASB CAG and that he would refer to these as appropriate during the discussion. He then led a review of the proposed revised ISRS 4410.

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

In addition to editorial and structural changes, including changes to the proposed illustrative practitioner's compilation reports, the IAASB agreed the following:

- The introductory material describing management's responsibilities for the financial information should be presented in summary form. It should highlight the principal point that while management may use a professional accountant in public practice to assist with the preparation and presentation of the financial information, management retains the responsibility of the financial information and the basis on which it is compiled.
- As a matter of emphasis, the introduction section of the proposed ISRS should describe the relationship between the ISRS and ISQC 1.
- Further explanation of the scope of the ISRS should acknowledge that the ISRS would be applied, adapted as necessary, in circumstances where the engaging party is someone other than management or those charged with governance of the entity.
- Additional application material should be introduced describing general purpose and special purpose financial reporting frameworks, to better align with the description of those frameworks provided in the ISAs.
- Additional application material should be introduced explaining that a general purpose financial reporting framework might be used on a modified basis, if appropriate, as the applicable financial reporting framework.
- It should be clear in the proposed ISRS that, as part of recommending amendments to the compiled financial information so that it will not be materially misstated or misleading to the intended users, the practitioner may alternatively recommend the application of another financial reporting framework, appropriate for the intended use of the financial statements. It should also be clear that if recommendations include the use of a modified general purpose financial reporting framework, the nature of the financial statements would need to be clearly described as being special purpose in nature for the intended users. The practitioner would therefore be required to ensure that the basis of preparation of the financial statements is clearly described within the financial statements, and that the appropriate alert to readers appears in the practitioner's compilation report.
- The proposed ISRS should include an illustration of a practitioner's compilation report for an engagement to compile financial statements using a modified general purpose framework.

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<sup>6</sup> Proposed ISRS 4410 (Revised), *Compilation Engagements*

- The application material for the definition of the term “compilation engagement” should explain that while the scope of activities undertaken for a compilation engagement will vary in different engagements, in every engagement the practitioner is involved with the financial statements through assisting management to prepare and present the financial statements in accordance with the applicable financial reporting framework, based on information provided by management.
- The definitions of the terms “engagement partner” and “engagement team” should be included in the list of definitions in proposed ISRS 4410, to support the requirements and application material in the proposed ISRS relating to the engagement partner’s responsibilities for engagement level quality control.

The IAASB indicated areas on which comments from respondents should be specifically requested. These included whether respondents:

- Believe the scope of the ISRS is appropriate, whether it is clear when practitioners undertaking the compilation of financial information are required to apply the standard, and what practical challenges, if any, might arise from the proposed scope of the standard.
- View the requirement for the practitioner to obtain management’s acknowledgement of its responsibilities as specified under the proposed ISRS as being an acceptable premise for the practitioner undertaking a compilation engagement under the standard.
- Agree, when the practitioner identifies the need to amend the compiled financial information so that it will not be materially misstated or misleading, that the practitioner may, in appropriate circumstances, propose the use of another financial reporting framework as long as the proposed alternative framework is acceptable in the circumstances of the engagement and is adequately described in the financial information.
- Believe the communications contained in the illustrative practitioner’s reports are clear and appropriate.
- Believe the requirements concerning quality control at the engagement level are sufficient, and whether the approach to specifying quality control provisions on the basis that a firm providing compilation engagements under the standard is required to apply, or has applied, ISQC 1 or requirements that are at least as demanding would create difficulty at a national or firm level.

#### APPROVAL

After considering changes to the documents in the light of the comments, the IAASB members unanimously approved the proposed revised ISRS 4410 for exposure with a comment period until the end of March 2011.

## **6. Complex Financial Instruments**

Mr. Fogarty introduced the topic noting that, since the IAASB’s last discussion, the Task Force had held two meetings with expert panels to obtain additional input. He also noted that at the September 2010 IAASB CAG meeting, CAG Representatives were broadly supportive of issuing the revised draft for exposure. Finally, Mr. Fogarty noted that comments have been received from the IFAC SMP Committee. He indicated that he would be referring to both the CAG and

the SMP Committee comments during the discussion as appropriate. He then led a review of the proposed revised IAPS 1000.<sup>7</sup>

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

#### RESTRUCTURING OF THE IAPS

Mr. Fogarty noted that the CAG largely supported the reorganization of the material within the IAPS as enhancing the document's readability. In also supporting the revised presentation, the IAASB asked that the explanatory memorandum (EM) to the exposure draft (ED) invite respondents' views on whether the proposed form of the IAPS enhances its readability.

Mr. Fogarty highlighted a suggestion from the SMP Committee that the IAPS be as explicit as possible in explaining to which engagements it applies. This would be to avoid imposing a burden on SMPs to read the entire IAPS to determine whether it is relevant when most small- and medium-sized entities (SMEs) may not use complex financial instruments. The IAASB agreed that additional wording in the Scope section could be included to address this concern.

#### ADDITIONS TO, AND DELETIONS FROM, THE PROPOSED IAPS

Mr. Fogarty noted the CAG Working Group was of the view that further discussion of financial liabilities should be included within the IAPS. The IAASB agreed that refinements could be made within the draft to note that, while the auditing considerations for financial assets and financial liabilities are generally the same, measurement of credit risk for financial liabilities can be particularly challenging. In addition, the draft should highlight how credit risk may affect fair value.

Mr. Fogarty noted a suggestion from some CAG Representatives for the proposed IAPS to address a number of additional topics such as hedge accounting, risk transfer, and further guidance for originators. These Representatives nevertheless accepted that the ED should not be delayed pending consideration of their suggestion. The IAASB agreed that many of these suggested topics would be addressed within the applicable financial reporting framework. Accordingly, the IAPS could highlight the requirement in ISA 540<sup>8</sup> for the auditor to obtain an understanding of the framework, listing these topics as areas which may require consideration in certain financial reporting frameworks.

#### FIELD TESTING

Mr. Fogarty noted a suggestion from a CAG Representative that it may be appropriate for the IAASB to field test the IAPS to determine its impact in practice. Mr. Fogarty expressed the view that, given the consultation paper that was issued in October 2009 and the additional involvement of experts in this project, it was unlikely that this step would be necessary before exposure. Importantly, there would be benefit in making the ED available to auditors in advance of the upcoming audit season. The IAASB agreed that field testing would not be necessary.

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<sup>7</sup> IAPS 1000, *Special Considerations in Auditing Complex Financial Instruments*

<sup>8</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

## GLOSSARY OF TERMS

The IAASB again considered whether the IAPS should include a Glossary of Terms. Mr. Fogarty noted that the majority of the Task Force, including the experts, was of the view that universal definitions for terms related to complex financial instruments likely do not exist. Further, the related concepts are continually evolving, which would make a glossary quickly obsolete. In addition, the terms may have different meanings depending on the financial reporting framework. While some IAASB members were in favor of including a glossary in the ED, the majority of the IAASB did not support doing so on the ground that a glossary is not essential to understanding the guidance contained in the IAPS.

## EFFECTIVE DATE

Mr. Fogarty explained that previous IAPSs had become effective when issued. He noted the Task Force's view that it would be desirable for the proposed IAPS to have an effective date to allow for its content to be built into training materials and audit methodologies, as appropriate.

IAASB members expressed mixed views on whether an effective date should be established for the proposed IAPS. Those in favor noted that under the proposed status and authority attaching to IAPSs, auditors would be required to be aware of and understand the guidance. It would thus not be reasonable to expect practitioners to incorporate the guidance in the IAPS into their audit methodologies in time for December 2011 year-end engagements that would already have been planned. In addition, for jurisdictions that may adopt the IAPS into law or regulation, time would be needed for adoption and, where necessary, translation processes.

Other IAASB members were of the view that the IAPS should become effective in December 2011 because the guidance was developed in response to issues noted in practice and would be immediately relevant. In any event, the IAPS does not purport to establish new requirements and so could become effective immediately. It was also noted that postponing when the proposed IAPS becomes effective until 2012 may suggest that IAPSs are not the most appropriate method for providing interpretive guidance to practitioners on a timely basis.

After further deliberation, the IAASB agreed that the EM should invite respondents' views on whether an effective date should be established and, if so, what an appropriate lead time would be. The IAASB acknowledged that early application of the IAPS not only would be permitted but also could be encouraged.

## OTHER MATTERS

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

- The proposed status and authority of the IAPS should be included within the IAPS to give the appropriate context to the material.
- Further guidance should be added to explain the timing of the auditor's procedures in relation to complex financial instruments.
- The existence assertion should be discussed with the completeness and accuracy assertions.
- The guidance should be clarified to note that reconciliation processes will not ensure that all characteristics or terms of the complex financial instrument have been recorded accurately.

- The guidance should be aligned with that in proposed ISA 610 (Revised)<sup>9</sup> and proposed ISA 315 (Revised),<sup>10</sup> including making a more explicit statement that the auditor may be able to use the work of the internal audit function in relation to complex financial instruments if the nature of that function's responsibilities and assurance activities are related to the entity's financial reporting.
- In relation to brokers and pricing services as management's experts:
  - The guidance should contrast circumstances in which a pricing service is not necessarily a management's expert (e.g., when the pricing service is used on a contractual basis to provide routine pricing data) and when a broker or pricing service would likely be considered a management's expert (e.g., when the broker or pricing service is engaged to value an entity's portfolio using proprietary models).
  - The guidance should further explain why other sources of evidence may be necessary when management uses a consensus pricing service.
  - The guidance should explain why an auditor would obtain multiple sources of evidence to illustrate a range of prices. At the same time, the guidance should reiterate that simply obtaining prices from multiple sources is not a substitute for the auditor gaining an understanding of, and testing inputs and assumptions to, prices used by an entity to value its position.
  - It should be highlighted that an alternative source of evidence would be useful when management and the auditor have used the same pricing service or broker to obtain a price.
- Pursuant to a CAG Representative's suggestion, previous material describing the interaction between information obtained during the auditor's risk assessment procedures and testing of control activities and the auditor's conclusions about disclosures should be reinstated.
- Given the references to accounting standards in the proposed IAPS, the Task Force should obtain the views of the staff of the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) on the ED.

#### APPROVAL

After considering changes to the documents in the light of the comments, the IAASB members unanimously approved the proposed IAPS 1000 for exposure with a 120-day comment period. The proposed IAPS will be exposed contemporaneously with the proposed statement of authority for new IAPSs and the proposal to withdraw existing IAPSs, both of which were approved by the IAASB in June 2010 for exposure.

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<sup>9</sup> Proposed ISA 610 (Revised), *Using the Work of Internal Auditors*

<sup>10</sup> Proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

## **7. Assurance Engagements Other Than Audits or Reviews of Historical Financial Information**

Prof. Kinney introduced the topic, summarizing some of the key issues in the project to revise ISAE 3000.

Prof. Kinney raised the matter of whether it would be appropriate to circumscribe the level of assurance to be obtained in a limited assurance engagement by using a term such as “moderate,” and raising the lower level of allowable assurance as described in extant ISAE 3000. The IAASB expressed a range of views about these and related issues regarding how limited assurance is conceptualized in ISAE 3000. Specifically:

- Use of the term “moderate”: It was suggested that using a term such as moderate may allow the level of assurance to be “pegged,” thus providing a target level that could perhaps be associated with a numerical level of confidence. This would help practitioners determine the necessary nature, timing and extent of procedures. As a result, there would be greater consistency to limited assurance engagements, which may obviate the need for the negative form of expression of the practitioner’s conclusion. Some IAASB members thought that using a term such as moderate may be helpful in communicating with practitioners and assurance report readers. The majority of IAASB members, however, did not hold this view, and thought that a term such as moderate (which was used in early drafts of the first version of ISAE 3000) would not be any easier to interpret than the current term “meaningful.” Further, changing the terminology in this way would not result in a real change in any practical sense and, therefore, would not help practitioners or readers of assurance reports.
- The lower level of assurance: The lower level of assurance to be obtained in a limited assurance engagement is currently described in ISAE 3000 as a level that “is likely to enhance the intended users’ confidence about the subject matter information to a degree that is clearly more than inconsequential.” It was noted that this phrase is sometimes interpreted with the emphasis placed on “inconsequential” rather than “clearly more than inconsequential.” Consequently, this is taken to imply a much lower threshold than intended. There was some support for dispensing with this phrase.
- Numerical level of confidence: The prevailing IAASB view is that it is not feasible to attempt to quantify levels of confidence in a limited assurance engagement.
- Negative expression of conclusion: It was suggested that readers of assurance reports do not understand the negative form of expression. They may even think that the assurance obtained in a limited assurance engagement is higher than that obtained in a reasonable assurance engagement because the assurance report in the former often provides more details about the procedures performed. It was noted, however, that this conclusion, while it had appeared to be been supported by research, has been overturned by more robust, recent research. The recent research finds that assurance report readers understand negatively expressed conclusions and place less confidence in them than positively expressed conclusions when these conclusions are accompanied by a statement to the effect that the procedures performed were less than would be performed in a reasonable assurance engagement. A statement to this effect is required by ISAE 3000.

## OTHER MATTERS

The IAASB agreed that the position the draft takes with respect to who may apply the ISAE is correct, i.e., while the ISAE has been written with professional accountants in mind, others may use it if they meet specified criteria, including compliance with ISQC 1<sup>11</sup> and the IESBA Code<sup>12</sup> (or equivalents that are at least as demanding) and having specialist assurance knowledge and competence.

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

- The definition of limited assurance should include reference to risk, and whether it should include a reference to the fact that the level of assurance for a limited assurance engagement is less than that for a reasonable assurance engagement.
- Adequate guidance is provided with respect to quantitative aspects of materiality, for example, the determination of materiality when the subject matter information has a number of aspects measured in different units, as in a sustainability report.
- The proposed wording of the practitioner's responsibility to perform additional procedures should be clarified to address issues such as:
  - Whether it would be appropriate for a greater amount of evidence to be obtained when the practitioner intends to modify the assurance report than when the practitioner concludes that the subject matter information is not likely to be material misstated; and
  - Whether using the words "reasonable basis" in relation to this aspect of a limited assurance engagement is confusing.
- It is necessary to require the practitioner to obtain corroborating evidence for material matters upon which the practitioner has received a written representation.
- Further guidance is needed regarding access to information and the availability of written representations in a "hostile" situation, that is, when the entity is not a willing participant in the assurance process, or when the measurer or evaluator is not a party to the engagement.
- Guidance is needed for the requirement dealing with internal audit.
- Illustrative reports should be provided to show how required reporting practices should be operationalized.

## WAY FORWARD

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

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<sup>11</sup> ISQC 1, *Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>12</sup> IESBA *Code of Ethics for Professional Accountants*

## **8. Strategy Consultation**

Prof. Schilder introduced the topic, noting that he had shared the key findings from the April 2010 strategy survey questionnaire at recent presentations he had given to the International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 and the IFAC SMP Committee.

### SEPTEMBER 2010 IAASB CAG DISCUSSION

Ms. Healy reported on the discussion of the draft consultation paper at the most recent CAG meeting, noting that the CAG was generally supportive of the approach to the paper. In particular, the CAG Representatives were supportive of the Disclosures and the ISA Implementation Monitoring projects. In relation to the latter, they were of the view that implementation success stories should be shared via a communication piece. In addition, there was support for including a report of performance against the current strategic plan. However, the Representatives were not generally supportive of sector-specific standards or guidance as they felt it would be more appropriate and efficient for the IAASB to work on projects that are sector neutral.

Ms. Healy and Ms. de Beer also noted that, amongst other matters, there was a suggestion from the Representative from the International Association of Insurance Supervisors for a project to develop guidance on working with insurance supervisors. In addition, the observer from the IFAC SMP Committee suggested consideration of a communication piece on benefit of an audit to SMEs, completion of the revision of the agreed-upon procedures standard, and further work on proportionality in respect of ISQC 1. Finally, whilst the CAG acknowledged the discussion of the interactions between the IAASB and the other IFAC boards and committees in the paper, a Representative highlighted that audit quality is an area where there is significant overlap between the IFAC boards and committees.

### STRUCTURE and CONTENT OF THE STRATEGY CONSULTATION PAPER

Several IAASB members suggested that the consultation paper should address the need for implementation support for the clarified ISAs, particularly tools to assist implementation in developing nations.

The IAASB discussed the proposed division of Board time, with members suggesting that there needs to be a link between the projects and the proposed allocation of time to show how the IAASB has met the expectations expressed in the strategy survey.

### RESOURCE-RELATED CONSIDERATIONS

Several IAASB members highlighted the importance of correctly assessing the cost and time to complete the more complex projects relative to the IAASB's resources, as a failure to complete projects on time may adversely affect external expectations. The IAASB agreed that a paragraph should be added to reflect the lessons learned from the recent projects.

In addition, several IAASB members commented that greater efficiency may be achieved if, in relation to complex topics, formal education sessions were to be held for the IAASB, reinforced by more detailed project proposals and use of experts if needed.

#### POSSIBLE ACTIONS TO IMPLEMENT THE PROPOSED STRATEGY, INCLUDING CURRENT PROJECTS

In generally supporting the proposed list of possible projects, IAASB members noted the following for further consideration in the development of the consultation paper, amongst other matters:

- The ISA implementation monitoring project needs to be more fully explained as it may result in implementation guidance rather than a new standard.
- The banking sector includes many different activities. Accordingly, the involvement of experts will be critical. The key focus time could be 2012–2014 as new regulations are introduced.
- In relation to extant ISAE 3400, a revision of the standard would be preferred over withdrawal as the standard is in use today. In addition, withdrawal would not seem appropriate in given the recent CAG discussions on the usefulness of ISAE 3400.
- Suggested projects on assurance on corporate governance reports and assurance on internal controls mainly reflect domestic agendas and issues, which cannot be resolved at a global level. While support for these projects had come from several quarters, it may be broad enough for the IAASB to pursue them. However, these projects may be resource intensive.
- There would be merit in developing a communication on the role of the auditor when the Reviews and Compilations project is completed to assist users of the IAASB pronouncements in distinguishing between the different levels of assurance.
- The proposed publication on the benefits of adopting ISAs could address the application of ISQC 1 to different engagements. Alternatively, two separate communications could be developed, one directed at regulators explaining the value of an SME assurance service, and the other at SMPs highlighting the benefits of offering such a service.
- While useful to developing countries and SMPs, the proposed project on developing implementation guidance may raise expectations that cannot be satisfied due to resource constraints. A joint project with other IFAC Boards or Committees could be considered to mitigate this. However, this would still require IAASB and staff time.
- There may be benefit in a guidance project on the applicability and scalability of ISQC1 as this is an area often misunderstood in practice. Some standard-setters believe this is very important.
- The monitoring of ISAE 3402<sup>13</sup> should be expanded to include shared service centers.

An IAASB member noted that the list of possible actions would have minimal impact on SMPs and that the stable platform of clarified ISAs for SME audits should be highlighted in the consultation paper.

#### OTHER MATTERS

In addition to editorial suggestions, IAASB members also made the following other comments:

- Consideration should be given to including a project on the parameters of professional judgment.

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<sup>13</sup> ISAE 3402, *Assurance Reports on Controls at a Service Organization*

- The current projects on global acceptance, development and partnership in Appendix 3 of the proposed consultation paper should be highlighted to illustrate the full range of adoption and implementation support being provided by the IAASB.
- The IAASB should challenge itself to be an active participant in current issues and debates as some of the IAASB's projects may influence important debates. However, it was noted that it may be difficult for the IAASB to be proactive without debate within the IAASB.
- Consideration should be given to inviting comments on how the IAASB can help SMPs.

#### WAY FORWARD

The IAASB asked staff to present a revised draft of the proposed consultation paper for approval at the December 2010 meeting.

### **9. The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements**

Mr. Gélard introduced the topic, noting that the IAASB had considered preliminary issues at its March 2010 meeting. He indicated that significant issues to be addressed in the project were considered by the IAASB CAG at its September 2010 meeting. Comments had also been received from the IFAC SMP Committee. He noted that he would refer to CAG and SMPC comments as appropriate during the discussion. Mr. Gélard then led a review of the significant issues.

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

#### DOCUMENTS THAT SHOULD BE WITHIN THE SCOPE OF ISA 720<sup>14</sup>

A number of IAASB members expressed concern over the inclusion of preliminary announcements in the scope of the proposed revised ISA 720 based on the Task Force's proposed list of key features defining documents that fall within scope. It was noted that unless explicitly required by law or regulation, it would be unlikely that preliminary announcements would be prepared in every circumstance. Also, where preliminary announcements are prepared, the timing of release of such documents likely would vary among preparers. Further, auditors may not have access to these documents in advance of their release to the public unless law or regulation requires prior auditor involvement with them. It was felt that in such cases, the value-add that the auditor can bring through application of the work effort in ISA 720 would likely be limited. It was also noted that the focus of annual reports is principally on communicating the audited financial statements whereas documents such as preliminary announcements are prepared for an entirely different purpose.

Notwithstanding these points, the IAASB recognized that the Task Force had raised valid issues relating to preliminary announcements that would need further consideration. In particular, it was suggested that the Task Force consider whether it would be appropriate to address these issues in a separate standard.

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<sup>14</sup> ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

The IAASB also asked the Task Force to consider the following matters:

- Whether, in determining the types of document to be included in the scope of the proposed revised ISA, it would be more appropriate to focus on the linkage between the relevant documents and the auditor's report as opposed to the connection with the audited financial statements as per extant ISA 720.
- Whether the broader topic of the auditor's association with documents and information should be addressed in a separate pronouncement and, if so, what the relevant considerations might be.
- Clarifying the phrase "issued at an advance stage of the audit" in the proposed description of key features of documents to be included in the scope of revised ISA 720 so as to give a clearer indication of the intended time frame.

#### THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION

Mr. Gélard reported that the Task Force had considered whether and, if so, to what extent the auditor may take on greater responsibility for other information in documents containing audited financial statements. In this regard, Mr. Gélard highlighted the Task Force's proposals regarding other information that is misleading. He noted that these proposals are premised on the auditor's obligation under the IESBA Code to not be associated with misleading information.

An IAASB member was of the view that making a connection in ISA 720 to the auditor's obligation relating to misleading information as required under the IESBA Code may be problematic. In particular, it was suggested that there would need to be a framework on which auditors could base their judgments in determining whether the other information is misleading. However, it was unclear whether such a framework currently exists and, if so, in what form.

It was also suggested that the Task Force consider clarifying in ISA 720 the linkage to ISA 315<sup>15</sup> since the auditor's work effort under ISA 720 falls within the remit of the audit. Specifically, it was felt that procedures performed on the other information as required under ISA 720 should be premised on the auditor's understanding of the entity and its environment obtained for the purposes of the audit, and any other information obtained from performance of the audit. The IAASB asked the Task Force to consider these matters further.

#### WAY FORWARD

The IAASB asked the Task Force to present a draft revised ISA 720 for first read at the March 2011 IAASB meeting.

### **10. Disclosures**

Ms. Hillier introduced the topic, noting that the need for a project on the topic had been discussed at the June 2010 IAASB and IAASB-National Auditing Standard Setters (NSS) meetings, and at the September 2010 CAG meeting. She highlighted support from the IFAC SMP Committee and the IAASB CAG for the Working Group's proposed direction for the project.

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

In supporting the Working Group's proposal for, and general approach to, a discussion paper to further explore the relevant issues for purposes of determining an appropriate focus for the project, IAASB members noted the following:

- A key aspect that would need to be considered are disclosures not derived from the accounting system, such as Value at Risk disclosures, and disclosures that are permitted by the financial reporting framework to be made outside of the financial statements.
- The auditability of disclosures is a key area to explore. In this regard, consideration should be given to whether the auditor is auditing the disclosures themselves or the process of preparing the disclosures.
- The role of auditors' professional skepticism in relation to disclosures has been highlighted in recent regulatory reports as an area needing greater attention and should be addressed in the discussion paper.
- While the issues are varied, the discussion paper should focus primarily on disclosures required by financial reporting frameworks.
- It would be important to reach out to other stakeholders such as preparers and regulators. In addition, it would be important to engage with the accounting standard setters, particularly in the context of their conceptual frameworks and proposals they are working on for new disclosure frameworks.

Ms. Hillier indicated that she is an observer on the European Financial Reporting Advisory Group's project on disclosures. While the IAASB's project on the topic is not intended to seek changes in disclosure requirements, issues that are identified regarding the auditability of disclosures could be addressed via such liaison activities.

#### WAY FORWARD

The IAASB asked the Working Group to present a draft discussion paper for its consideration at the December 2010 meeting.

### **11. Process for Developing IAASB Staff Publications**

Mr. Gunn introduced the topic, thanking IAASB members for their input in enabling staff to finalize the August 2010 IAASB Staff Q&A publication, *Auditor Considerations Regarding Significant Unusual or Highly Complex Transactions*. He noted that the IFAC SMP Committee and others have found the Q&A helpful in understanding a complex area that cuts across a number of the ISAs. He also explained the background for the development of the Q&A and noted the concerns that were raised by a few IAASB members during the process of seeking Board clearance of the document. He acknowledged that, in hindsight, staff should have provided more background information to the Board at the time clearance was sought. He then asked for the IAASB's views on whether there was some flexibility for staff, in consultation with the Steering Committee, to take the initiative in developing a publication like the Q&A that would seek to address uncomplicated and uncontroversial subject matters.

An IAASB member expressed the view that the concern is not whether the staff publication is straightforward or not. Rather, the point is that there might be a different outcome with Board involvement. Accordingly, it was suggested that it would be important for the IAASB to be

involved in determining the nature of the response and in authorizing specific staff action. Another IAASB member was of the view that the circumstances may justify a rapid response and therefore it may be appropriate to keep the IAASB informed at the same time as the Steering Committee is approached for a possible response. It was, however, noted that it would be unlikely that there would be many cases needing a possible response where the subject matters would be uncontroversial, as in such circumstances the outputs would not likely be of high value. It was therefore argued that following the standard process would be more appropriate. It was also noted that consulting the Board before staff commences any work would not only help avoid later surprises, but also provide the Board with an opportunity to offer its advice.

After further deliberation, the IAASB agreed that staff should take appropriate steps in seeking early communication with the Board in such situations, and follow the standard process for developing IAASB staff publications.

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

Mr. Bracchi reflected positively on the depth of the discussion and the participation of all the IAASB members. He commented that the IAASB's current projects are less directly related to the audit of historical financial information which require Task Forces to spend more time on consultation. This will help the Task Forces develop wording that is acceptable to a variety of stakeholders and jurisdictions.

Mr. Bracchi commented the changing nature of the projects posed challenges for the IAASB's ability to deal with the number of projects. He suggested that the IAASB may need to limit the number of projects if the existing resources do not change.

Prof. Schilder thanked Mr. Bracchi for his comments and agreed that some projects required additional time for IAASB discussions, and that this would be reflected in the Strategy Consultation Paper.

## **13. Next Meeting**

The next IAASB meeting is scheduled for December 6–10, 2010 in Orlando, Florida, USA.

## **14. Closing Remarks**

Prof. Schilder reflected on the calls he made to the IAASB members over the last several months, and noted that the members were generally positive about their participation in the IAASB.

Prof. Schilder thanked Mr. Tang for his contribution to the IAASB, particularly his involvement in the Steering Committee in 2009 and the Task Forces on ISA 265<sup>16</sup> and ISAE 3000. He complimented Mr. Tang on the quality of his input to the IAASB deliberations and his support for the adoption and implementation of the clarified ISAs in China. Mr. Tang thanked the IAASB for their kindness, commenting also that the IAASB's expertise in auditing had given him the opportunity to learn a great deal.

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<sup>16</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

Prof. Schilder thanked Ms. Sylvia Smith who has resigned as Mr. Crawford's TA and expressed the IAASB's gratitude for her service and important contributions to the work of the Board over the last several years.

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