

**Draft Minutes of the 46th Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
Held on June 20-23, 2011 in New York, USA**

Voting Members

Present: Arnold Schilder (Chairman)
Diana Hillier (Deputy Chair)
Arch Archambault
Jean Blascos
Valdir Coscodai
Phil Cowperthwaite
Cédric Gélard
Jon Grant
Gert Jönsson
Merran Kelsall
William Kinney
Daniel Montgomery
Tomokazu Sekiguchi
David Swanney

Apologies: Jianshen Chen
Ashif Kassam
Caithlin McCabe
Abdullah Yusuf

Technical Advisors

Ricardo DeLellis (Mr. Coscodai)
Jan Thijs Drupsteen (Mr. Kassam)
Denise Esdon (Mr. Montgomery)
Marek Grabowski (Mr. Grant)
Hiram Hasty (Mr. Kinney)
Susan Jones (Mr. Blascos)
Sachiko Kai (Mr. Sekiguchi)
Pervez Muslim (Mr. Yusuf)
Jon Rowden (Ms. Hillier)
Tania Sergott (Ms. McCabe)
Greg Shields (Mr. Cowperthwaite)
Isabelle Tracq-Sengeissen (Mr. Gélard)
Rick Wood (Mr. Archambault)
Ge Zhang (Mr. Chen)

Jonas Hällström (Mr. Jönsson)
Richard Mifsud (Ms. Kelsall)

Non-Voting Observers

Present: Linda de Beer and Norio Igarashi
Apology: Juan Maria Arteagoitia

Public Interest Oversight Board (PIOB) Observer

Present: Michael Hafeman

IAASB Technical Staff

Present: James Gunn (Technical Director), Brett James, Diane Jules, Joanne Moores, Ken Siong, and Jessie Wong

1. Opening Remarks and Minutes

WELCOME AND INTRODUCTIONS

Prof. Schilder welcomed the participants and public observers to the meeting. He welcomed in particular Mr. Zhang as Technical Advisor for Mr. Chen.

Apologies were received from IAASB members Messrs. Chen and Yusuf (visa difficulties), Mr. Kassam (family medical matter), and Ms. McCabe (maternity). Apologies were also received from Messrs. Arteagoitia, Hällström and Mifsud.

Prof. Schilder thanked the task forces and working groups for their efforts in preparing the week's agenda material.

RECENT AND UPCOMING MEETINGS

Prof. Schilder reported on the main outcomes of the April 2011 IAASB-National Auditing Standard Setters (NSS) meeting. He highlighted the participation of the Nordic Federation in the meeting for the first time. He also noted the expected participation of Russia in next year's meeting.

Prof. Schilder noted that a list of recent and upcoming outreach meetings and presentations would be distributed to the IAASB later in the week. He gave special thanks to efforts by Messrs. Coscodai and Sekiguchi in helping specific outreach efforts in Brazil and Japan, respectively. He noted with regret not being able to do the Japan outreach in March 2011 due to the earthquake event in Japan but that this would be rescheduled next year. He also noted that IAASB representatives would be meeting new members of the U.S. Public Company Accounting Oversight Board (PCAOB) in July 2011.

RECENT DEVELOPMENTS

Prof. Schilder reported that the Fair Values Working Group had submitted comment letters on the following exposure drafts (ED) in April 2011:

- International Accounting Standards Board (IASB) ED, *Offsetting Financial Assets and Financial Liabilities*; and
- U.S. Financial Accounting Standards Board (FASB) Discussion Paper, *Selected Issues about Hedge Accounting (Including IASB ED, Hedge Accounting)*.

Prof. Schilder also reported that the American Institute of Certified Public Accountants (AICPA) had published an article in June 2011, *Clarified Auditing Standards: The Quiet Revolution*, that describes the progress of the AICPA's Auditing Standards Board's clarity project. He complimented the AICPA on the article and the progress of its clarity project.

Prof. Schilder also noted the recent decision by Luxembourg to adopt the clarified ISAs.

Prof. Schilder congratulated Ms. McCabe and IAASB staff member Ms. Healy on the recent births of their first children. Finally, Prof. Schilder noted the recent appointment of Mss. Diane Jules and Beverley Bahlmann on the technical staff.

MINUTES OF PREVIOUS MEETINGS

The minutes of the public session of the May 2011 IAASB meeting were approved as presented. The minutes of the public session of the March 2011 IAASB meeting were also approved, subject to minor editorial changes to reflect more accurately the comments of Mr. Hafeman.

2. Using the Work of Internal Auditors

Ms. Hillier introduced the topic, providing an overview of the significant issues raised by respondents to the ED of proposed revised ISAs 315¹ and 610.² She noted that comments had been received during the March 2011 IAASB Consultative Advisory Group (CAG) meeting and from the IFAC Small and Medium Practices (SMP) Committee.

Ms. Hillier briefed the IAASB on the International Ethics Standards Board for Accountants' (IESBA) consideration of respondents' comments relating to the matter of direct assistance at the June 15–17, 2011 IESBA meeting. She reported that the IESBA had agreed that a task force be set up to further consider the issues raised by respondents from an ethics perspective. She indicated that the IESBA would consider the way forward at its next meeting in October 2011. She then led a review of the draft revised ISAs.

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

OVERALL TONE AND BALANCE OF THE REVISED DRAFT ISA 610

IAASB members were asked for views as to whether the revised draft ISA 610 had struck an appropriate tone and balance in responding to the significant comments on exposure. Some IAASB members expressed support for the Task Force's proposals, noting that they improved the overall clarity of the proposed standard. Other IAASB members, however, were of the view that the Task Force had gone too far in attempting to accommodate certain respondents' concerns. As a result, they felt that the revised draft conveyed an overly negative tone regarding external auditors' use of the work of internal auditors. It was suggested that a more balanced approach would be appropriate, highlighting not just the pitfalls from over or undue use of the work of internal auditors but also the possibility that using such work would be constructive and complementary to the external auditor's work in appropriate circumstances.

The IAASB asked the Task Force to reflect further on the tone and balance of the proposed standard.

DRAFT REVISED ISAS 315 AND 610

Ms. Hillier reported that there was strong support among respondents for the proposals in the proposed revised ISA 315, including the requirement for the external auditor to make inquiries of appropriate individuals within the internal audit function.

Ms. Hillier also noted that there was substantial support for the requirements and guidance in proposed revised ISA 610. However, some regulators and oversight bodies were concerned that the proposed ISA 610 allowed for significantly greater use of the work of the internal audit function

¹ Proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

² Proposed ISA 610 (Revised), *Using the Work of Internal Auditors*

by the external auditor such that there could be a risk of over or undue use of such work. These respondents were therefore of the view that some areas within the proposed ISA 610 would need to be strengthened. Ms. Hillier also reported that there were mixed views on the desirability of direct assistance.

The IAASB was generally supportive of the Task Force's proposed responses to the comments on exposure, in particular the redrafting of some of the areas in the ED for greater specificity. IAASB members also generally supported the Task Force's proposed elevation of some of the application material to strengthen the framework for the external auditor's judgments regarding whether, in which areas and to what extent the work of internal auditors can be used for purposes of the audit. Nevertheless, the IAASB asked that the Task Force clarify the following areas in relation to using the work of the internal audit function:

- That the phrase "application of a systematic and disciplined approach by the internal audit function" is intended to be scalable and, accordingly, subject to appropriate consideration of the size and nature of the entity;
- The meaning of the term "body of work of the internal audit function;" and
- That reperformance by the external auditor of some of the work of the internal audit function includes the external auditor's execution of procedures to examine *both* the items already examined by the internal audit function *and* other similar items not actually examined by the internal audit function.

USING INTERNAL AUDITORS TO PROVIDE DIRECT ASSISTANCE

Placement of Material Relating to Direct Assistance

IAASB members discussed the placement of material relating to direct assistance, either within revised ISA 610 or in a separate ISA. Some IAASB members felt that such material should be contained within revised ISA 610 mainly because of synergies between the external auditor's consideration of, and responsibilities relating to, using the work of the internal audit function and using internal auditors to provide direct assistance. It was also argued that a separate ISA on direct assistance would accord such practice a higher profile than desirable in view of the fact that some jurisdictions prohibit, or restrict to varying extent the practice. Other IAASB members felt that in the context of ISA adoption, a separate standard dealing with direct assistance may be viewed as a positive solution by those jurisdictions that prohibit or restrict the practice as it would allow them not to adopt that particular standard. The IAASB asked the Task Force to reflect on the matter further.

Framework for the External Auditor's Judgments

Some IAASB members disagreed with the Task Force's proposal to limit the direct assistance option to the performance by internal auditors of audit procedures on items of low risk on the audit. In particular, it was felt that prohibiting the use of internal auditors to perform procedures designed to respond to a significant risk of material misstatement is overly restrictive. The IAASB asked the Task Force to consider whether such a restriction should be more appropriately targeted.

OTHER MATTERS

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

- For simplicity, the title of the proposed revised ISA 610 should revert back to what was proposed in the ED.
- The objective should more clearly distinguish between the external auditor's use of the work of the internal audit function and use of internal auditors to provide direct assistance.
- References to internal auditors when they perform the activities of the internal audit function should be more clearly distinguished from those when they provide direct assistance on the audit.
- Agreements to be obtained by the external auditor to be able to use internal auditors to provide direct assistance on the audit should be in a written form.

WAY FORWARD

The IAASB asked the Task Force to present recommendations on remaining significant matters raised by the IAASB in relation to respondents' comments on the ED at the September 2011 IAASB meeting.

3. Presentation on Integrated Reporting

Prof. Simnett briefed the IAASB on the activities of the International Integrated Reporting Committee (IIRC) and the implications of IIRC's activities for the assurance profession. Among other things, Prof. Simnett emphasized that:

- Integrated reporting (IR) differs from current financial reporting as it includes information about non-financial performance, strategic considerations and future expectations.
- A discussion paper is expected in Q3 2011 to solicit feedback on the IIRC's framework for IR which would be accompanied by targeted consultations with various organizations, and roundtables.
- Regulators and others are very interested in integrated reporting, particularly South Africa.
- IIRC expects to brief the Group of Twenty (G-20) countries on IR.
- Pilot programs are on the way and include example reports.

ASSURANCE ON IR

Prof. Simnett noted that there was very little reference to assurance in the draft IR document, although auditors may ultimately be required to audit the new reporting process. He noted that the assurance profession could get involved early in the process to have influence in the IR process. In response, an IAASB member commented that firms may need the IAASB's leadership to get involved and to determine potential auditing issues at an early stage.

An IAASB member questioned why assurance was not being addressed at this stage. Prof. Simnett reiterated the need for auditors to be engaged early in the process to enhance the verifiability of the IR information.

STAKEHOLDER OUTREACH

Prof. Simnett indicated that the IIRC has a relationship with the IASB and investors. In response to a question about outreach to investors, Prof. Simnett indicated that there were outreach

activities to pension funds and working groups of IIRC that include investors. In response to a question about the role of regulators in the process, Prof. Simnett responded that while regulators are not in the process there is expected to be a big push at the next G-20 meeting.

Ms de Beer commented that a number of CAG members, including the International Corporate Governance Network (ICGN) as well as regulators, are very interested in this project. This matter has already been brought up at a CAG meeting and the CAG flagged that it is important for the IAASB to obtain an understanding of the impact of companies moving to integrated reporting on assurance that will be expected of auditors. She highlighted that in South Africa, the integrated report is intended to become the primary report.

Professor Prof. Schilder thanked Prof. Simnett for his informative and helpful presentation, and complimented the IIRC for having undertaken this important initiative. He also noted the relevance of the IIRC's activities to the IAASB's project on auditor reporting.

4. Status and Authority of IAPSS

Mr. Fogarty introduced the topic, giving an overview of respondents' general reactions to the ED of the proposed status and authority of International Auditing Practice Statements (IAPSSs).³ He noted that respondents found it generally unclear. While regulators favored more authoritative guidance on some topics, other respondents were concerned about how auditors would comply with IAPSSs and the challenges of incorporating IAPSSs into some legal frameworks. Mr. Fogarty also reported that both NSS and the IFAC SMP Committee strongly favored no authority for IAPSSs. Instead, they supported the use of IAPSSs to provide educational material and practical assistance to auditors.

Ms. de Beer reported that while the CAG had not discussed the Working Group's current proposal, it had commented on the need for more educational material specifically on financial modeling. The CAG was therefore supportive of the Task Force's decision to include guidance in this regard. Ms. de Beer also highlighted that the CAG had commented at a number of meetings that there is a huge need for this document, and therefore had stressed the importance of issuing it as soon as possible.

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

AUTHORITY OF IAPSS

The IAASB considered the Working Group's proposals that IAPSSs not be authoritative but instead provide educational material and practical assistance, and that the IAASB amend the application material in the ISAs if authoritative guidance were needed. The IAASB noted that the proposal for IAPSSs would avoid confusion between material within the IAPSSs and the application material in the ISAs, bring discipline to future IAPS projects and may lead to a shorter due process for such projects. The IAASB also generally supported the idea of amending ISAs, when necessary, to introduce additional authoritative guidance in response to practice issues. An IAASB member, however, expressed concern that the addition of application material

³ Exposure Draft, *Proposals Relating to the Withdrawal of Existing IAPSSs and Clarification of the Status and Authority of New IAPSSs*

addressing specific issues might inappropriately limit how auditors interpret requirements in varying circumstances. Another IAASB member suggested the possibility that new ISAs might instead be required for some IAPS projects, such as a revision of IAPS 1004.⁴

The IAASB discussed the Working Group's proposed wording for the Preface⁵ to encourage the dissemination of IAPSs. Several IAASB members viewed this as blurring the distinction with the application material in the ISAs, particularly through the use of the terms "strongly encourages" and "promulgate." Other IAASB members disagreed, noting that it would be important that IAPSs reach the auditors for whom they are intended, and that weakening the statement would not meet the expectations of some stakeholders. Some of these IAASB members were of the view that in the absence of an explicit statement of encouragement to disseminate the IAPSs, the amendments to the Preface might need to be re-exposed. Mr. Fogarty noted that some Working Group members supported a stronger statement than was in the Working Group's proposals, and that the proposed wording was aimed at addressing concerns by those who initially favored IAPSs having the same level of authority as application material in the ISAs.

The IAASB considered a draft of the statement encouraging dissemination of IAPSs, revised on the basis of the earlier deliberation. Some IAASB members supported the revised wording. Other IAASB members, however, were of the view that the statement continued to blur the distinction with the application material in the ISAs and might have unintended consequences. Those who disagreed with the revised statement also suggested that the Preface should only contain material describing the IAASB's publications and that encouragement to use IAPSs might be better placed in the IAASB's Terms of Reference and the IFAC Statements of Membership Obligations (SMOs). However, an IAASB member noted that while revising the SMOs might be appropriate in light of any changes to the Preface, the SMOs are of limited utility in encouraging the dissemination of IAPSs as they apply to IFAC Member Bodies only and not to audit firms.

An IAASB member noted that, at the April 2011 IAASB-NSS meeting, it was suggested that there might be a role for a new type of pronouncement for application material that spans more than one ISA. Mr. Fogarty suggested that this could possibly take the form of an ISA with only a few requirements.

Mr. Hafeman commented that the due process for all of IFAC's standard-setting boards applies to authoritative pronouncements, as indicated in the respective terms of reference of the boards. The terms of reference for the International Accounting Education Standards Board (IAESB) explicitly identifies International Education Practice Statements for Professional Accountants (IEPSs) as being in the authoritative category. The IESBA terms of reference clearly identifies the Code of Ethics and Interpretations as its only authoritative pronouncements. The IAASB terms of reference is unclear about whether IAPSs are in the authoritative category, but section 6 on due process indicates that both standards and practices statements will be subject to due process. He suggested that if option A were selected, the terms of reference would need to be amended. Although noting that the same level of due process might not be required for non-authoritative pronouncements, he encouraged them to seek input nevertheless. He also suggested that to more clearly describe the nature of the documents, and avoid confusion with the level of

⁴ IAPS 1004, *The Relationship Between Banking Supervisors and Banks' External Auditors*

⁵ *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*

authority of practice statements issued by the IAESB, it might be better to rename them along the lines of “educational notes.”

The IAASB asked the Working Group to consider the revised draft of the Preface further in the light of these comments.

WITHDRAWAL OF EXISTING IAPSS

Mr. Fogarty noted that respondents generally supported the proposed withdrawal of the existing IAPSSs. Accordingly, the Working Group would formally ask the IAASB to withdraw the existing IAPSSs without further review at the September 2011 IAASB meeting. In supporting the proposal to withdraw the extant IAPSSs, an IAASB member expressed concern with having IAPSSs remain effective that are out of date. Another IAASB member suggested that, as the IAPSSs may be retained by some NSS, the IAASB should retain them in some form until the NSS have withdrawn them.

EFFECTIVE DATES

Mr. Fogarty noted that, while IAPSSs traditionally have not had effective dates, there might be some circumstances where effective dates would be needed. Several IAASB members were of the view that an “effective date” would not be the right concept, but there might be some benefit in the inclusion of a date in an IAPS to encourage firms and NSS to disseminate it. Another IAASB member was of the view that a date was not needed.

WAY FORWARD

The IAASB asked that the Working Group circulate a revised draft of relevant sections of the Preface for its consideration in advance of the September 2011 IAASB meeting, and that the Working Group present revised proposals for approval at that meeting.

5. IAPS 1000

Mr. Fogarty introduced the topic, noting that respondents to the ED of proposed IAPS 1000⁶ were broadly supportive of the content of the document. He explained that the Task Force had focused on the most significant comments received and that these were primarily centered on the introductory section and the audit considerations in Section II of the document. He noted that the Task Force had not fully considered respondents’ comments on Section I of the document, which contains background and educational material, and that it planned to do so before the September 2011 IAASB meeting.

Mr. Fogarty then briefed the IAASB on how third-party pricing sources, such as pricing services and brokers, are used in practice, including how they relate to an entity’s use of models. Prof. Schilder acknowledged the educational benefit to the Board of Mr. Fogarty’s briefing and suggested that staff consider whether there may be merit in developing a future media module on the subject for the IAASB website.

⁶ Proposed IAPS 1000, *Special Considerations in Auditing Complex Financial Instruments*

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

DRAFT IAPS 1000

In addition to editorial and structural changes, IAASB members variously commented as follows:

- It may be preferable to use the term “measurement uncertainty” instead of “valuation uncertainty” or “estimation uncertainty,” to be consistent with the accounting terminology.
- In relation to the terms used to describe models, “models” could be seen as a subset of “valuation techniques.” Mr. Hafeman suggested that “models” could be further described as comprising methodologies, assumptions and data. The IAASB asked the Task Force to consider whether such a description could be incorporated into the IAPS.
- The addition of the term “challenging” to the phrase “questioning and challenging contradictory evidence” should be reconsidered as it does not add clarity given that auditors challenge management through questioning.
- The language on the fair value hierarchy should be evaluated for consistency with both U.S. and international accounting standards.
- Consideration should be given to whether the material on the responses to management’s use of a third-party pricing source is too definitive given that management may use third-party pricing sources in different ways.
- Consideration should be given to the fact that, in some cases, recent experience with the third-party pricing source may assist the auditor in evaluating the effectiveness of the pricing source’s service.
- ISAs do not assign greater or lesser importance to disclosures. Rather, the auditor considers assertions relative to disclosures in the same way as other assertions.
- In relation to the draft IAPS’ encouragement that auditors consider the data underlying disclosures, it was suggested that this should wait until the IAASB debates the topic of disclosures more broadly when considering the responses to the Discussion Paper on disclosures.⁷

Mr. Fogarty thanked the IAASB for its input and asked that Board members forward any significant concerns regarding the draft IAPS to the Task Force in advance of the September 2011 IAASB meeting, given the need to consult with the experts on the Task Force on complex issues.

DRAFT AMENDMENTS TO ISA 500⁸ AND ISA 540⁹

Mr. Fogarty outlined the proposed amendments to the application material of ISAs 500 and 540. These had been developed by the Task Force in response to the proposal regarding the status and

⁷ *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*

⁸ *ISA 500, Audit Evidence*

⁹ *ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

authority of IAPSs that authoritative guidance be included in the ISAs rather than the IAPSs. IAASB members commented as follows:

- The nature of the security, how material it is to the entity, alternative procedures available and the auditor's recent experience with the pricing service are relevant considerations in the auditor's determination of a response to an inability to gain an understanding of the valuation process undertaken by a third-party pricing source. Mr. Fogarty responded that the draft amendments attempted to reflect this by noting that some procedures could be undertaken at the asset class level rather than at the individual security level.
- Some IAASB members felt that the illustrative procedures provided may suggest that they should all be performed. Other IAASB members, however, were of the view that the example procedures were useful and that they did not perceive an obligation to perform all the procedures. These IAASB members also noted that other procedures may be appropriate in the circumstances.

The IAASB asked the Task Force to consider these comments further.

WAY FORWARD

The IAASB asked the Task Force to present a revised draft IAPS 1000 for approval as a final document at the September 2011 IAASB meeting. The IAASB also asked the Task Force to present revised amendments to ISAs 500 and 540 for approval for exposure at that meeting.

6. ISA Implementation Monitoring

Mr. Grant introduced the topic, summarizing the preliminary decisions taken at the March 2011 IAASB meeting in relation to the proposed post-implementation review. These decisions include the following:

- Information for the review would be gathered in 2012, notwithstanding that not all countries would have implemented the clarified ISAs at that time;
- The review would focus on the consistency of understanding of the ISAs, and whether the goals the IAASB had set itself when revising the ISAs have been achieved;
- To assist stakeholders in providing feedback and information to the IAASB for the review, the IAASB would include in the plan, those high-level 'key attributes' that are of particular interest to the IAASB in undertaking the review;
- The review would cover all the ISAs that have been recently revised, not just those revised as part of the clarity project; and
- The plan approved by the IAASB for the review would be published in electronic form to be posted on the IAASB's website.

Mr. Grant briefed the IAASB on the outreach activities that had been undertaken with various stakeholders since the IAASB's last discussion of the project in March 2011. He noted that presentations had been made to the National Auditing Standard Setters, the Forum of Firms, the Standards Co-ordination Working Group of the International Forum of Independent Audit Regulators, and to representatives of the World Bank and the IOSCO Auditing Sub-Committee. Mr. Grant noted that, in general, there seemed to be support for IAASB's planned approach. He

had also received some helpful suggestions regarding additional attributes that would be of interest for the review, including in relation to the audit of fair values and translation.

IAASB members commented on sections of the draft plan as follows:

Objective of the Post-Implementation Review

- In terms of the revised ISAs to be covered in the review, these should include:
 - ISA 210:¹⁰ although this standard was not itself the subject of a revision project, it was amended as a consequence of the revision of ISA 580.¹¹
 - The reporting ISAs as a group, including ISA 700:¹² although the IAASB is currently undertaking a separate consultation on auditor reporting, it was thought there is value to be gained from considering other aspects of the reporting ISAs not covered by that consultation, including, for example, the standards and guidance relating to forming the auditor's opinion.
- The attributes of interest to the IAASB review should include one about how useful the overall structure of the ISAs is in promoting an understanding of the requirements in the ISAs.
- In relation to the wording conveying what it is the IAASB intends to address in undertaking the review, it will be clearer to consistently use the word "goals" when referring to the goals the IAASB set itself when revising the ISAs, rather than the word "objectives."

Approach

- It was observed that the main focus or "target-audience" of the review is, in the first instance, those parties who use the ISAs – i.e., auditors, and those involved with auditing in both the public and the private sectors.
- However, IAASB should encourage feedback from a wide range of stakeholders. For example, audit committees are likely to have views about their experiences and perceptions on the implementation of ISAs 260¹³ and 265.¹⁴
- It was agreed that the IAASB CAG representatives would be asked for their views about how best to obtain wider stakeholder views as part of the post-implementation review.

Mr. Grant thanked the IAASB for its consideration of the draft plan.

¹⁰ ISA 210, *Agreeing the Terms of Audit Engagements*

¹¹ ISA 580, *Written Representations*

¹² ISA 700, *Forming an Opinion and Reporting on Financial Statements*

¹³ ISA 260, *Communication with Those Charged with Governance*

¹⁴ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

WAY FORWARD

The IAASB asked the Task Force to present the Phase 2 plan for consideration and approval at the September 2011 IAASB meeting

7. Audit Quality

Mr. Grant introduced the topic, summarizing recent preliminary discussions with, and outreach to, stakeholders on the project, including the IAASB CAG, NSS, the International Organization of Securities Commissions (IOSCO), the Forum of Firms, and the ICGN. He reported great interest in the project from the feedback received from stakeholders so far but also recognition of the challenges ahead. He also highlighted comments received from the IFAC SMP Committee.

Ms. de Beer briefed the IAASB on the significant comments made at the March 2011 IAASB CAG meeting, namely, that the CAG was in support of a framework (albeit named differently) on audit quality. Furthermore, the CAG had stressed the role of various stakeholders in this, and that audit quality can easily be confused with the quality of the regulatory framework, quality of accounting standards, reporting quality, etc. The CAG had also specifically mentioned that cost/benefits might be an inherent constraint to audit quality and that there is a need to make this point in a framework document. In addition, she suggested that the Task Force consider including CAG Representatives in the informal survey on stakeholder perspectives of audit quality (AQ), as a further opportunity to reach out to CAG member organizations in this project.

Mr. Grant then provided an overview of the proposed AQ framework (Framework) and outlined the plan and timeline for the way forward. He then led a review of the preliminary draft of the paper (Paper) on the Framework.

APPROACH TO THE PAPER AND LINKAGE WITH IAASB STANDARDS

IAASB members overall expressed strong support for the holistic approach to the Paper. IAASB members also generally expressed support for the appendices, noting that the identification of threats to AQ could assist stakeholders in better understanding how their actions (or inactions) could contribute to (or detract from) AQ. It was, however, noted that the Task Force would need to further consider the appendices as they seemed overly weighted towards the inputs.

Some IAASB members highlighted the need to carefully consider the overall length of the Paper as this may impact the Paper's accessibility and effectiveness. It was suggested that the Task Force reflect further on how best to package the Paper's content for consultation purposes.

An IAASB member commented that there would be benefit in showing a greater linkage to IAASB standards, particularly ISQC 1¹⁵ and ISA 220,¹⁶ as the Paper deals with areas such as firm leadership that are addressed in those standards. Overall, however, it was argued that doing so might convey the wrong impression about the power of the standards in those areas, or be seen as inappropriately promoting the standards.

¹⁵ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

¹⁶ ISA 220, *Quality Control for an Audit of Financial Statements*

RECOGNIZING THE DYNAMISM OF AUDIT QUALITY

A number of IAASB members were of the view that the Paper did not sufficiently convey the dynamic nature of the concept of AQ, although there were differing views on the messages to be conveyed. One IAASB member argued that there is a need to demonstrate the dynamic nature of interactions amongst key stakeholders, the evolving nature of AQ with changes in the environment in which audits are performed, and the need for continual improvement towards AQ. The nature of the industry and the business to which the financial reporting framework is applied will also change over time. Another IAASB member expressed the view that it is not only the varying nature of business that contributes to the dynamism, but also the varying nature of the audit process itself as engagement circumstances change. A further IAASB member was of the view that the dynamism of AQ transcends the audit process and encompasses broader considerations of the incentives (such as respect for the profession within a given culture) that influence auditors in adopting the appropriate behaviors, and the related structures that are necessary to support AQ. In addition, it was argued that it may not always be the same mix of factors that achieves AQ and that, instead, AQ will need to be considered in the context of the particular circumstances.

The IAASB asked the Task Force to reflect further on how best to capture the dynamic essence of AQ in the light of these comments.

OTHER MATTERS

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

- Consider whether the term “framework” is appropriate.
- Reconsider whether the AQ schematic in the introductory section effectively articulates the various elements of the Framework and the dynamism.
- Consider including “takeaways” at the end of each Framework section as a technique to highlight appropriate messages for stakeholders and a means to suggest actions that they may consider to contribute to AQ.
- Reflect on whether there may be useful considerations that may be drawn from the recommendations from recent governmental investigations into the auditing profession in a number of jurisdictions around the world.
- Consider addressing the influences of technology (from both entity and audit firm perspectives) and industry circumstances as these are important additional contextual factors.
- Further consider the linkage between efficiency and cost, and their impacts on AQ.
- Further consider the role of global firm networks in enhancing AQ.
- Consider providing additional considerations for smaller entity and public sector audits.

WAY FORWARD

The IAASB agreed the Task Force’s plan to further develop the Paper and share it with key stakeholder groups in Q3 and Q4 2011 with a view to presenting a revised draft of the Paper for

its consideration at the December 2011 IAASB meeting. The IAASB asked the Task Force to provide the Board with an update on progress at the September 2011 IAASB meeting.

8. Engagements to Compile Historical Financial Information

Mr. Cowperthwaite introduced the topic, noting the objective of providing the IAASB with an overview of, and obtaining its preliminary views on, select significant issues raised by respondents on the ED of proposed ISRS 4410 (Revised).¹⁷ He then led a discussion of those issues.

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

SCOPE OF THE ISRS

Mr. Cowperthwaite reported that the majority of respondents expressed support for the approach to the scope of the ISRS in the ED, which recognizes that situations where there should be mandatory application of the ISRS would differ across jurisdictions. However, a few respondents had argued that to promote best practice, application of the ISRS should be mandatory even when the practitioner is not engaged to provide a report. Some respondents, in particular, were of the view that practitioners should not be given the opportunity to ‘opt-out’ of applying the ISRS through agreement not to provide a report.

Some IAASB members commented that the proposed ISRS should clearly state that the standard does not mandate application of the ISRS since the appropriate circumstances in which to mandate application are best determined at the national level. It was emphasized in particular that mandating application of the ISRS at the international level would not be practical and would have the likely effect of limiting the uptake of the ISRS at the national level. Other IAASB members expressed the view that the practitioner’s association with the financial information from the perspective of third parties should be a determining factor for mandatory application, as is the case under the existing ISRS. It was suggested that at a minimum, additional explanation would be needed to highlight that when the practitioner is compiling financial information and is aware, or expects, that it will be used by third parties, the practitioner should provide a report as part of the engagement and apply the ISRS. The IAASB asked the Task Force to reflect on the matter further.

USE OF THE TERM “APPLICABLE FINANCIAL REPORTING FRAMEWORK”

IAASB members commented that the proposed ISRS should more clearly explain that the service to compile financial information is intended to be flexible regarding the basis of preparation used to compile the information. In particular, it should be made clear that the basis of preparation is primarily determined with reference to the intended purpose of the financial information and the entity’s circumstances. For example, the basis of preparation may range from using a financial reporting framework that specifies reporting requirements in relation to a complete set of financial statements, to using an established framework with certain modifications where the resulting financial information reflects the effects of those modifications. It was suggested that key considerations for the practitioner would be, regardless

¹⁷ International Standard on Related Services (ISRS) 4410, *Compilation Engagements*

of the intended use of the financial information: (a) the basis of preparation – including the financial reporting framework applied – should be clearly described for the users within the financial information itself; and (b) in consideration of both the basis of preparation used and the intended use of the financial information, the practitioner must not knowingly be associated with information that is materially false or misleading. The IAASB asked the Task Force to consider its comments further.

DISTINGUISHING COMPILATION ENGAGEMENTS FROM ASSURANCE ENGAGEMENTS

Mr. Cowperthwaite reported that the majority of respondents believed that the proposed ISRS sufficiently distinguishes the compilation engagement from assurance engagements. However, some respondents were concerned that the requirements of the standard may be over-engineered in some respects given the nature of the service, and that the practitioner's report is too similar to an assurance report.

IAASB members variously commented as follows:

- The requirements in certain sections of the ISRS, such as engagement acceptance and performance, could be streamlined.
- There is scope for confusion in using language that conveys that management is responsible for preparing the financial information, when in the compilation engagement the practitioner is engaged to assist management in the preparation of the financial information. It was suggested that what needs to be clear throughout the standard and in the illustrative reports is that management is responsible for the financial information. Further, in the wording of the standard and in the illustrative reports, as appropriate, the practitioner's involvement with the financial information should be characterized as assisting management with the preparation and presentation of the financial information.
- In relation to the practitioner's report:
 - There is over-emphasis in the illustrative reports on conveying what the practitioner has not done in the engagement. It was suggested that it would be better if the focus were on stating what the practitioner has done in providing the service, i.e. compiled the financial information based on information provided by management *without in any way attempting to verify the information provided by management*. However, the IAASB agreed that for the avoidance of doubt, the ISRS should retain in the illustrative reports both the statement that the engagement is not an assurance engagement and the disclaimer that the practitioner does not express an audit opinion or review conclusion.
 - It was suggested that the report should be as visibly different from an assurance report as possible. In particular, it was suggested that the style and structure of the illustrative reports could be more clearly differentiated by not mirroring the reporting conventions used in assurance reporting, as these may not be needed for compilation engagements.
 - It was suggested that the descriptions of the respective responsibilities of management and the practitioner should mirror those contained in the agreed terms of engagement.

- In the case of financial information intended for a special purpose, it was argued that the important fact to emphasize in the practitioner's report is when a restriction exists on the use and distribution of the financial information – and less so the basis of preparation, which is described in the financial information itself.

OTHER MATTERS

- In relation to the term “compile,” an IAASB member commented that this term does not have the same meaning as “assisting management” for the purpose of translation.
- In relation to the application of ISQC 1 to compilation engagements, the IAASB supported the Task Force's recommendation that separate guidance outside of the ISRS should be developed addressing the proportional application of ISQC 1 by smaller firms for related services engagements.
- With regard to considerations relating to the practitioner's independence, the IAASB discussed the options set out in the agenda materials, but supported retaining the position set out in the ED.

WAY FORWARD

The IAASB asked the Task Force to present a full analysis of respondents' comments on the ED and the Task Force's recommendations at the September 2011 IAASB meeting.

9. IAESB Presentation

Ms. Eileen Walsh, IAESB Member, and Mr. Greg Owens, IAESB Technical Advisor, provided an overview of the IAESB's objectives, mission and strategic initiatives. They emphasized the importance of seeking consistency in accounting education worldwide given the diversity of national approaches to accounting education. They then briefed the IAASB on the IAESB's project to revise International Education Standard (IES) 8,¹⁸ including key issues being addressed and the project timeline. They also outlined the IAESB's plan to develop guidance for the revised IES 8. An IAASB member emphasized the importance of the link between IESs and ISQC 1 and ISA 220, as the latter two standards do not elaborate on the meaning of competence.

Prof. Schilder thanked Ms. Walsh and Mr. Owens for the informative presentation, noting the importance of liaison between the IAASB and the IAESB.

10. Presentation on Update on Global Translations & Permissions

Ms. Kelly Ånerud, IFAC Senior Technical Manager, Translations and Permissions, briefed the IAASB on recent translation activities in relation to the clarified ISAs. She reported, amongst other matters, on the status of translation of the standards in Europe, IFAC's facilitation of translation of the standards in Spain and Latin America, and translation of IFAC's Translations and Permissions policy statements into the five official United Nations languages.

Ms. Ånerud highlighted a number of key challenges, including developing a sustainable solution to maintaining and updating the translated standards, and increasing IFAC Member Bodies'

¹⁸ IES 8, *Competence Requirements for Audit Professionals*

translation of other IFAC and IAASB publications such as other assurance standards, exposure drafts and implementation guidance.

Prof. Schilder thanked Ms. Ånerud for the informative presentation.

11. Presentation on AICPA Activities

Mr. Melancon, President and Chief Executive Officer of the AICPA, gave an overview of the U.S. profession and the AICPA. He briefed the IAASB on, amongst other matters:

- Demographic and educational trends and developments relating to the profession;
- The role of the AICPA's Audit Quality Centers, including the Center for Audit Quality (CAQ);
- The role of the AICPA's Private Companies Practice Section (PCPS) and the support provided for smaller practitioners;
- Regulation of the profession in the U.S. and the AICPA's role in that process, and the interactions of broader regulatory forces in the country;
- The role of the U.S. State Boards of Accountancy and how they operate;
- The AICPA's commitment to international harmonization and its support for the work of the IAASB and other IFAC committees;
- The AICPA's support for International Financial Reporting Standards (IFRSs) and the debate regarding a differential framework for private sector entities;
- The relationship between the AICPA and the PCAOB and the Government Accountability Office (GAO); and
- Key areas of strategic focus for the AICPA, including cloud computing and XBRL.

Prof. Schilder thanked Mr. Melancon for his informative and helpful presentation, and complimented the AICPA on its various initiatives.

12. PIOB Observer's Remarks

Mr. Hafeman noted the hard work of the Board and its task forces, and congratulated them on their progress on each of the agenda items. He observed that the meeting was chaired in an effective manner by Prof. Schilder, the task force chairs were well prepared to lead their respective sessions, and all IAASB members participated in the discussions.

Referring to the issue of direct assistance on the topic of Using the Work of Internal Auditors, Mr. Hafeman noted that an IAASB member had suggested that the agreements for the internal auditor to work under the direction of the external auditor and maintain confidentiality should be in writing. He was of the view that this suggestion did not attract support from other IAASB members. Accordingly, he suggested that they reconsider this issue because of the interest of regulators in being able to verify that the required agreements were actually obtained.

Finally, Mr. Hafeman reported that the PIOB would be meeting the following week to discuss, amongst other matters, a draft strategic plan and the nature of the public interest.

Prof. Schilder thanked Mr. Hafeman for his feedback.

13. Next Meeting

The next meeting of the IAASB is scheduled for the week commencing September 19, 2011 in Beijing, China.

14. Closing Remarks

Prof. Schilder thanked the IAASB members, technical advisors, observers and staff for their contributions to the meeting. He also acknowledged Josephine Jackson's contributions to the Board's work from 2008 to 2010 in her role as a Technical Advisor. Finally, Prof. Schilder thanked the AICPA for its support throughout the meeting. He then closed the meeting.