

**Draft Minutes of the 47<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD  
Held on September 19-23, 2011 in Beijing, China**

### **Voting Members**

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

### **Technical Advisors**

Ricardo DeLellis (Mr. Coscodai)  
(September 19-22)  
Jan Thijs Drupsteen (Mr. Kassam)  
Denise Esdon (Mr. Montgomery)  
Marek Grabowski (Mr. Grant)  
(September 19-20, 22-23)  
Jonas Hällström (Mr. Jönsson)  
Hiram Hasty (Mr. Kinney)  
Susan Jones (Mr. Blascos)  
Sachiko Kai (Mr. Sekiguchi)  
Richard Mifsud (Ms. Kelsall)  
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) (September 19)

---

### **Non-Voting Observers**

Present: Linda de Beer, Norio Igarashi and Juan Maria Arteagoitia (September 19, 21-23)

---

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

Present: Charles McDonough (September 19-20)

---

### **IAASB Technical Staff**

Present: James Gunn (Technical Director), Beverley Bahlmann, Brett James, 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. McDonough as the PIOB observer.

Prof. Schilder thanked the Chinese Institute of Certified Public Accountants (CICPA) for its support for this Board meeting in Beijing. He noted the enormous progress China has made on its revised Chinese Standards on Auditing and their full convergence with the clarified ISAs, which was announced as part of the 2010 joint IAASB-Chinese Auditing Standards Board (CASB) statement about a year ago regarding convergence with international standards. He also acknowledged former Board member Jianhua Tang's contribution to the Board's work. Prof. Schilder added that with Mr. Tang's significant support, he and Mr. Gunn had the opportunity to participate in an important CICPA conference in 2009 and met Vice Minister Wang Jun and other dignitaries.

### SEPTEMBER 2011 IAASB CONSULTATIVE ADVISORY GROUP (CAG) MEETING

Prof. Schilder provided a brief report-back on the IAASB CAG meeting earlier in September 2011. He highlighted in particular a constructive discussion on professional skepticism, noting that the briefing paper that staff had prepared on the topic had been well received by the CAG Representatives. Ms. de Beer added that the CAG had found the paper stimulating, not only by flagging how the ISAs address professional skepticism, but also by highlighting some of the concerns and difficulties experienced with this area. She encouraged the Board to consider publishing the paper in some appropriate form.

### RECENT PRESENTATIONS AND OUTREACH

Prof. Schilder briefly reported that he and Ms. Hillier had recently met the European Audit Inspection Group (EAIG). He noted the EAIG's satisfaction in how the IAASB had responded to concerns expressed by stakeholders on the project to revise ISA 610.<sup>1</sup> He also noted that the meeting provided an opportunity for the EAIG to present collective inspection findings regarding firms' application of ISQC 1<sup>2</sup> and ISA 620.<sup>3</sup> Prof. Schilder expressed the view that this interaction with the EAIG augured well for the Board's ongoing working relationship with the auditor oversight community.

Prof. Schilder also highlighted his recent presentation at the CReCER Conference in Argentina, and thanked Mr. DeLellis especially for his support in arranging meetings with firms and regulators. Prof. Schilder noted that Argentina has announced its intention to adopt the clarified ISAs from 2013.

Mr. Cowperthwaite briefly reported on his recent participation at the National Conference on Audit Standards organized by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (CNDCEC) in Italy. He noted that with Italy converging with the ISAs in the near

---

<sup>1</sup> ISA 610, *Using the Work of Internal Auditors*

<sup>2</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>3</sup> ISA 620, *Using the Work of an Auditor's Expert*

future, the main aim of the conference was to raise awareness of the coming changes. A particular concern expressed at the conference in this regard was providing adequate support for small- and medium-sized practices (SMPs) in undertaking small- and medium-sized entity (SME) audits, which make up the majority of audits in Italy.

#### RECENT DEVELOPMENTS

Prof. Schilder congratulated Ms. Hiller on being awarded the Fellow Chartered Accountant (FCA) designation, the highest designation that the Canadian Institute of Chartered Accountants (CICA) confers. He added that Ms. Hillier's work as the IAASB Deputy Chair and Board Member was one of a number of reasons why she had earned this designation.

Prof. Schilder also congratulated Ms. Wong on her recent promotion to Senior Technical manager, noting that she would be relocating to Melbourne, Australia, from September 2011. In addition, Prof. Schilder welcomed Ms. Bahlmann as a recent addition to the technical staff.

Finally, Prof. Schilder noted that through a cooperative effort, Argentina, Mexico and Spain had recently completed a unified Spanish translation of the clarified ISAs. This was a significant and important achievement for the Spanish-speaking world.

#### MINUTES OF PREVIOUS MEETINGS

The minutes of the public session of the June 2011 IAASB meeting were approved as presented.

## **2. Status and Authority of IAPs**

Mr. Fogarty introduced the topic, summarizing the Task Force's recent activities and outlining its revised proposals. He highlighted that there continued to be debate within the Task Force about the appropriate way forward, given the view held by some Task Force members regarding the need for the IAASB to retain an ability to issue authoritative guidance.

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

#### CREATION OF IAPNs AND REMOVAL OF IAPs

The IAASB considered the Working Group's proposals to re-name and re-characterize the category of authoritative pronouncement known as International Auditing Practice Statements (IAPs) to a new category of non-authoritative material, International Auditing Practice Notes (IAPNs). Some IAASB members expressed support not only for creating the new category of IAPNs and withdrawing all extant IAPs, but also for preserving the category of IAPs. These IAASB members were of the view that there may be a future use for the IAP vehicle. They noted that IAPs could be granted the same level of authority as application material in the ISAs, and this could provide the IAASB with more options for authoritative material outside of the ISAs or where there is a need for authoritative guidance across a range of ISAs.

After further deliberation, the IAASB concluded that:

- (a) Any solution should establish a clear distinction between the authoritative standards and non-authoritative material intended to assist practitioners; and

- (b) The IAASB's response should reflect the most effective approach to the matters to be addressed, i.e., if there is a need to change practice then the authoritative standards are the appropriate vehicle to do so; however, if there is a need to influence practice, then it would be appropriate to use a vehicle that would allow for a timely and flexible response.

Accordingly, the IAASB determined that the existing category of pronouncements known as IAPSs should be withdrawn and that a new category of non-authoritative documents known as IAPNs should be established. The IAASB agreed that this outcome would respond to the need for it to be able to provide auditors with a source of timely and useful material, and for it to have flexibility to do so, while also making it clear that future authoritative guidance would be contained within the ISAs themselves.

With the establishment of IAPNs, the IAASB acknowledged that it would need to be willing, as and when authoritative material is needed, to make amendments to the ISAs in response to specific issues. The IAASB, however, agreed to maintain an open mind as to whether authoritative guidance might be needed in the future.

#### AMENDED PREFACE<sup>4</sup>

In addition to editorial changes, the IAASB agreed that the amended Preface should:

- Further emphasize that IAPNs are directed at providing assistance to auditors, and highlight that firms can also use the IAPNs in developing their training programs and internal guidance; and
- More clearly specify the hierarchy of the IAASB's pronouncements. In this regard, the IAASB agreed to separate the description of the authority of its International Standards from that of its non-authoritative material, being IAPNs and staff publications.

The IAASB also resolved that the Steering Committee should further consider the development process for future IAPNs as they would not necessarily be subject to the due process attaching to authoritative material.

#### CONSIDERATION OF THE NEED FOR FURTHER CONSULTATION

Mr. Fogarty confirmed that discussion of the project within the Working Group, the IAASB CAG and IAASB did not identify matters requiring consultation beyond exposure. However, there was a minority view by a few CAG representatives who questioned whether the removal of the IAPS category and the creation of the IAPN category did not warrant re-exposure. He also confirmed that the nature of the subject and proposals were such that field testing would not be relevant or necessary. The IAASB concurred with this assessment. Accordingly, the IAASB determined that there was no need to further consult on the proposals through, for example, the issue of a consultation paper, the holding of a public forum or roundtable, or the conduct of a field test of the proposals.

---

<sup>4</sup> *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*

#### CONSIDERATION OF FURTHER ISSUES

The IAASB considered and concluded that there were no further issues raised by respondents, in addition to those summarized by the Working Group, that should have been discussed by the IAASB. Mr. Fogarty confirmed that there were no significant matters identified by the Working Group as a result of its deliberations since the beginning of this project, and the Working Group's considerations thereon, that were not brought to the IAASB's attention.

#### APPROVAL

##### *Preface*

After agreeing all necessary changes to the Preface, the IAASB approved the amended Preface with the affirmative votes of 18 out of the 18 IAASB members present.

##### *Withdrawal of Extant IAPSSs*

Mr. Fogarty noted that respondents to the exposure draft *Proposals Relating to the Withdrawal of Existing IAPSSs and Clarification of the Status and Authority of New IAPSSs* (ED-Authority) had generally supported the proposed withdrawal of the extant IAPSSs. The IAASB reaffirmed its view that it would not be in the public interest for the extant IAPSSs to remain effective as they are out of date. Accordingly, with the affirmative votes of 18 out of the 18 IAASB members present, the IAASB approved the withdrawal of the extant IAPSSs.

#### CONSIDERATION OF THE NEED FOR RE-EXPOSURE

The IAASB assessed whether there was a need to re-expose the amended Preface. In particular, the IAASB considered whether the removal of the category of IAPSSs could be seen as a significant change as this eliminates an existing vehicle for authoritative guidance outside of the ISAs. Some IAASB members were of the view that the IAASB had already extensively consulted on the matter of the status and authority of IAPSSs. Accordingly, its decision to issue, if and when appropriate, IAPNs to provide useful but non-authoritative guidance, or to amend the ISAs for new authoritative guidance, was responsive to the feedback received on exposure.

Other IAASB members expressed the view that further consultation on the removal of the category of IAPSSs would be more confusing than helpful, and could undermine or delay the urgent and important guidance contained in IAPN 1000.<sup>5</sup> It was argued that the aim of the project was to address the ambiguity about what constitutes authoritative guidance, and this had been achieved with the creation of the category of IAPNs and the removal of the category of IAPSSs. It was also noted that re-exposure would raise the same issues that had already been identified in ED-Authority and thus further consultation would not likely result in new or different views from those received in response to ED-Authority. The IAASB therefore determined that re-exposure was not necessary.

Mr. Gunn advised the IAASB that it had adhered to due process in finalizing the amended Preface and concluding on the withdrawal of extant IAPSSs.

---

<sup>5</sup> IAPN 1000, *Special Considerations in Auditing Complex Financial Instruments*

### **3. Special Considerations in the Audit of Financial Instruments**

Mr. Fogarty introduced the topic, outlining the Task Force's proposed enhancements to the revised draft IAPN 1000, including improvements relating to the structure and readability of the document. He noted that, in accordance with the proposals regarding the establishment of the category of IAPNs, the title of the document was now proposed to be IAPN 1000.

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

#### **IAPN 1000**

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

- The uses of financial instruments should be further disaggregated so that it is clear that financial instruments may be used for both trading and investment purposes.
- The description of liquidity risk should refer to the risk of not being able to buy or sell a financial instrument at an appropriate price in a timely manner due to the financial instrument not being marketable.
- The IAPN should further describe the role of those charged with governance and management to provide users with a greater understanding of how these roles interact with controls over financial instruments. In addition, the IAPN should state those controls are more likely to be effective when appropriate accounting policies, including valuation policies, are established in accordance with the applicable financial reporting framework.
- Further elaboration should be provided regarding the range of measurement uncertainty within level 2 of the fair value hierarchy to illustrate the effect of the observability of inputs, the complexity of the financial instrument, its valuation, and other factors.
- The IAPN should include "model adjustments" as one of the adjustments that may need to be made in some financial reporting frameworks to account for the uncertainties associated with the pricing or cash flows of the financial instrument.
- A brief description of an asset backed security, and how it operates should be added.
- The material relating to management's use of third-party pricing sources should be further refined, including explaining:
  - Why management may use third-party pricing sources, such as to corroborate their own fair value measurements.
  - The factors that may be relevant when management uses a third-party pricing source.
  - Possible approaches to gathering evidence regarding information from third-party pricing sources.
- The IAPN should explain why obtaining prices from multiple sources may be useful, but that, when considering financial instruments that have inputs classified at levels 2 or 3 of the fair value hierarchy, obtaining prices from multiple sources is unlikely to provide sufficient appropriate audit evidence on its own.
- Further material on fraud risks, particularly regarding market conditions that may facilitate fraud, should be included.

- The material regarding assertions should be clarified, particularly with regard to the description of procedures to address assertions, and the use of dual purpose tests.

#### DRAFT AMENDMENTS TO ISA 500<sup>6</sup> AND ISA 540<sup>7</sup>

Mr. Fogarty explained that the Task Force had revised the proposed amendments to ISA 500 and ISA 540 in relation to third-party pricing sources pursuant to the June 2011 IAASB discussion. He noted that the Task Force recognized that some stakeholders may see merit in further amendments to these ISAs to incorporate additional elements of IAPN 1000 beyond those proposed in the agenda papers.

He also highlighted that the CAG had raised a number of concerns in relation to the proposed amendments. In particular, some CAG representatives were of the view that further study and debate might provide greater clarity on the way forward regarding third-party pricing sources. It was also suggested by the CAG that there may be other matters contained within IAPN 1000 that may warrant consideration for inclusion in the ISAs.

After further deliberation, the IAASB agreed to defer consideration of the proposed amendments to these ISAs pending further study of the matter.

#### CONSIDERATION OF THE NEED FOR FURTHER CONSULTATION

The IAASB noted that it had already issued a consultation paper in October 2009 seeking views on a number of matters requiring consideration in relation to its plan to revise IAPS 1012.<sup>8</sup> In addition, the nature of the project (i.e., one that is not intended to set new requirements for auditors), and discussions of the project within the Task Force, IAASB CAG and IAASB, did not indicate a need to conduct field testing of the proposals. Additionally, the Task Force had included experts in the field who were able to provide input on the practical issues and implications of the IAPN.

On the basis of these considerations and its previous discussions on the project, the IAASB concluded that there was no need to further consult on the proposed IAPN through, for example, the issue of a consultation paper, the holding of a public forum or roundtable, or the conduct of a field test of the proposals.

#### CONSIDERATION OF FURTHER ISSUES

The IAASB considered and concluded that there were no further issues raised by respondents, in addition to those summarized by the Task Force, that should have been discussed by the IAASB. Mr. Fogarty confirmed that there were no significant matters identified by the Task Force as a result of its deliberations since the beginning of this project, and the Task Force's considerations thereon, that were not brought to the IAASB's attention.

---

<sup>6</sup> ISA 500, *Audit Evidence*

<sup>7</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

<sup>8</sup> IAPS 1012, *Auditing Derivative Financial Instruments*

#### APPROVAL

After agreeing all necessary changes to the document, the IAASB approved IAPN 1000 with the affirmative votes of 18 out of the 18 IAASB members present.

The IAASB also assessed whether there was a need to re-expose the IAPN. The IAASB agreed that the changes made to the exposure draft were in response to the comments received from respondents. Accordingly, the IAASB determined that re-exposure was not necessary. Mr. Gunn advised the IAASB that it had adhered to its stated due process in finalizing the IAPN.

#### EFFECTIVE DATE

Mr. Fogarty noted that while IAPSs traditionally have not had effective dates, ED-Authority had asked for respondents' views as to whether they believed an effective date was needed for proposed IAPS 1000<sup>9</sup> in light of the proposed authority of IAPSs. Mr. Fogarty highlighted the Board's preliminary view at the June 2011 meeting that an "effective date" for the document was not needed, and the Board's instruction to the Task Force to explore options in relation to communicating a date by which firms and national standard setters (NSS) could be encouraged to disseminate it.

After further consideration of the matter, the IAASB determined that providing an effective date for the IAPN or a date for dissemination by NSS would not be appropriate or consistent with its decision to create non-authoritative IAPNs.

#### **4. Assurance Engagements to Report on Pro Forma Financial Information Included in a Prospectus – ISAE 3420**

Mr. Swanney introduced the topic, providing brief background to the project. He noted a brief report-back to the IAASB CAG earlier in September 2011 but no further discussion of the project with the CAG as there were no new issues to be raised. He then explained the main changes reflected in the revised draft ISAE 3420.<sup>10</sup>

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

#### DISCLAIMER LANGUAGE IN THE REPORT

In response to the March 2011 IAASB discussion regarding proposed disclaimer language in the report, the Task Force proposed that such disclaimer language be reworded to the effect that it is not possible to express an audit opinion or review conclusion on pro forma financial information (PFI) because such financial information does not represent an entity's actual financial position, financial performance or cash flows. The Task Force also proposed that this disclaimer language be included in the introductory section as part of the explanation of the nature of a reasonable assurance engagement performed in accordance with the standard. Some IAASB members expressed the view that the disclaimer was unhelpful as it might be seen as precluding the possibility that other types of engagement could be performed in some jurisdictions that would

---

<sup>10</sup> Proposed ISAE 3420, *Assurance Engagements to Report on Pro Forma Financial Information Included in a Prospectus*

focus on the provision of assurance on the pro forma column. Other IAASB members felt that the disclaimer language was redundant given the presence of other explanatory material in the introductory section that sets out clearly those items on which the practitioner is not reporting. A view was also expressed that the proposed disclaimer language might not be understood by users and could be confusing.

The IAASB agreed that the proposed disclaimer language should be deleted from the report and the introductory section. Instead, the IAASB determined that cautionary language should be added to the report describing the purpose for which PFI is presented and stating, in the light of that purpose, that the practitioner does not provide any assurance that the actual outcome of the event or transaction at the selected date would have been as presented.

#### APPLICABLE CRITERIA VS. BASIS STATED

In an attempt to avoid confusion between the terms “applicable criteria” and “basis stated” pursuant to the March 2011 IAASB discussion, the Task Force proposed that the definition of “basis stated” be deleted and that the definition of “applicable criteria” be expanded to state that the criteria are accompanied by “explanatory notes describing how the criteria have been applied in illustrating the effects of the particular event or transaction.” An IAASB member questioned the appropriateness of this change, believing that the resulting definition was now confusing and would no longer be consistent with how criteria are described in ISAE 3000.<sup>11</sup> A view was also expressed that the Task Force’s proposed use of the term “applicable criteria” in the wording of the opinion itself was not appropriate as ISAE 3000 uses the term in a generic sense. Another IAASB member was of the view that a separate definition of “basis stated” was not needed as the basis stated is in fact part of the suitability of the applicable criteria. In particular, it was noted that for the criteria to be deemed suitable, the proposed standard required that they include as a criterion that appropriate disclosures be provided to enable the *intended users to understand the information conveyed*.

After further deliberation, the IAASB determined that the definition of applicable criteria should not be changed and that a separate definition of “basis stated” was not needed. The IAASB also agreed that the generic words “applicable criteria” in the opinion within the illustrative report should be placed in square brackets to signify that they are a placeholder for a proper elaboration of the criteria used.

#### SUBJECT MATTER, CRITERIA AND SUBJECT MATTER INFORMATION

In response to comments on exposure, the Task Force had proposed that the draft ISAE be re-characterized in terms of assurance on the *proper compilation* of the PFI, without changing the intended scope of the standard. Some IAASB members questioned whether this change had inadvertently shifted the subject matter of the standard from the process to the PFI. It was also argued that if the subject matter information was the process, it would be necessary for the practitioner to perform work on the relevant controls. Other IAASB members, however, disagreed. In particular, it was argued that the practitioner’s opinion appropriately reflects the total effect of how the responsible party has put the numbers together through considering the appropriateness of the source of the unadjusted financial information and factual support for the

---

<sup>11</sup> ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

pro forma adjustments, and applying those adjustments to the unadjusted financial information. Therefore, the work effort went beyond considering purely the process. It was also argued that the criteria play a critical role in describing what is being measured.

An IAASB member noted that the title was worded in terms of reporting on the PFI, and this created uncertainty as to the subject matter on which the practitioner is reporting. Another IAASB member was of the view that it was not the opinion that was confusing but rather the Task Force's proposed revised description of the nature of a reasonable assurance engagement under the standard.

After further deliberation, the IAASB agreed the following:

- An explanation of the subject matter, criteria, and subject matter information should be provided not in the final standard but in the Basis for Conclusions, as follows:
  - Subject matter: the steps involved in the compilation of the PFI as described in the introductory section of the proposed ISAE.
  - Criteria: the applicable criteria as defined in the proposed ISAE.
  - Subject matter information: an assertion by the responsible party as to the proper application of the criteria to the subject matter, as reflected in the presentation of the PFI.
- In support of the above:
  - The definition of the term “pro forma financial information” should be expanded to explain that “in the ISAE, it is presumed that PFI is presented in columnar format consisting of (a) the unadjusted financial information; (b) the pro forma adjustments; and (c) the resulting pro forma column.” This would emphasize that the PFI refers to the entire presentation of the financial information in a columnar format and not just the pro forma column.
  - The practitioner should be required to obtain a written representation from the responsible party that the PFI has been compiled, in all material respects, on the basis of the applicable criteria.
- The description of the nature of a reasonable assurance engagement in the introductory section should be clarified as follows:

A reasonable assurance engagement to report on the compilation of pro forma financial information involves performing the procedures set out in this ISAE to assess whether the applicable criteria used by the responsible party in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The resulting pro forma column (see paragraph 11(c)) reflects the proper application of those adjustments to the unadjusted financial information.

This description should also be provided in the report except that the term “pro forma column” should be replaced with “pro forma financial information.”

- The title of the standard should be amended to read “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus.”

#### OTHER MATTERS

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

- The reference to ISRS 4410<sup>12</sup> in the explanatory material in the introductory section that explains that the ISAE does not deal with non-assurance compilation engagements should be deleted to avoid any potential inadvertent confusion, given potential changes to the scope of ISRS 4410 in the project to revise that standard.
- The definition of the term “published audit or review report” should be deleted as that term is not used in the proposed standard.
- The phrase “whether the pro forma financial information has been properly compiled by the responsible party” should be replaced with the phrase “whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria” throughout the proposed standard.
- The requirements relating to engagement acceptance that address circumstances when the entity’s or, where applicable, the acquiree’s historical financial information has never been audited or reviewed should be deleted. This is because of the potential for confusion with the requirement for the practitioner to perform procedures regarding the appropriateness of the source from which the unadjusted financial information has been extracted when there is no audit or review report on that source. Instead, there should be requirements at the engagement acceptance stage for the practitioner to consider whether the practitioner can obtain a sufficient understanding of the entity and any acquiree, and their accounting and financial reporting practices, in these circumstances to perform the engagement.
- Where an audit or review report on the source from which the unadjusted financial information has been extracted has been issued by another practitioner, the application material should emphasize that there is no lesser need for the reporting practitioner to be satisfied that the source from which the unadjusted financial information has been extracted is appropriate. This emphasis should also be made in the application material addressing similar circumstances regarding the acquiree financial information.
- The reference to “properly compiled” in the first alternative wording of the opinion should be deleted and the opinion reworded in terms of “the pro forma financial information has been compiled, in all material respects, ... .”
- Conforming amendments to ISAE 3420 should be considered once the proposed revised ISAE 3000 is finalized.

#### CONSIDERATION OF THE NEED FOR FURTHER CONSULTATION

The IAASB noted that the development of the ISAE took into account international best practices, leveraging existing standards on the topic in a number of jurisdictions. Importantly, the IAASB noted that the Task Force was composed mainly of expert practitioners in the field who

---

<sup>12</sup> ISRS 4410, *Engagements to Compile Financial Statements*

contributed significantly to the development of the proposed standard. These experts had not raised any significant concerns regarding the applicability or practicality of the proposed ISAE.

On the basis of these considerations and its previous discussions on the project, the IAASB concluded that there was no need to further consult on the proposed ISAE through, for example, the issue of a consultation paper, the holding of a public forum or roundtable, or the conduct of a field test of the proposals.

#### CONSIDERATION OF FURTHER ISSUES

The IAASB considered and concluded that there were no further issues raised by respondents, in addition to those summarized by the Task Force, which should have been discussed by the Board. Mr. Swanney confirmed that all significant matters identified by the Task Force as a result of its deliberations since the beginning of this project, and the Task Force's considerations thereon, have been brought to the IAASB's attention.

#### APPROVAL

After agreeing all necessary changes to the document, the IAASB approved the proposed ISAE as a final standard with 16 affirmative votes out of the 18 IAASB members present or represented by proxy, and one vote against and one abstention.

Mr. Archambault voted against issuing the proposed ISAE as a final standard because of concerns he had in a number of areas. He felt that there was insufficient guidance regarding the appropriateness of the source of the unadjusted financial information, and a lack of guidance to assist practitioners in performing risk assessments. He also felt that the section on materiality was incomplete and that the standard overall was unclear regarding what the practitioner should do to confirm that the entity's process of compilation is appropriate. Accordingly, he was of the view that the Board had not done enough to assist practitioners in understanding what work should be carried out when undertaking an engagement under the standard.

Mr. Kinney expressed the view that the standard fits reasonably well with ISAE 3000. However, he abstained because he questioned whether it was appropriate for the IAASB to spend time on ISAEs that will be applied in a small number of jurisdictions that have unique regulatory requirements. He felt that developing standards to address specific regulatory needs would unduly strain the IAASB's resources. Accordingly, by lodging his abstention, he was registering a protest vote as he felt that the Board was going down the wrong path.

The IAASB assessed whether there was a need to re-expose the ISAE. The IAASB agreed that the changes made to the exposure draft were in response to the comments received from respondents and did not fundamentally change the principles in the ED or represent other changes of substance. The IAASB therefore determined that re-exposure was not necessary. Mr. Gunn advised the IAASB that it had adhered to its stated due process in finalizing the ISAE.

The IAASB set the effective date for ISAE 3420 to be for assurance reports dated on or after March 31, 2013.

## **5. The Auditor's Responsibilities Relating to Other information in Documents Containing and Accompanying Audited Financial Statements and the Auditor's Report Thereon**

Mr. Gélard introduced the topic, noting that it had been discussed at the September 2011 IAASB CAG meeting. He also noted that comments had been received from the IFAC SMP Committee. He indicated that he would refer to the CAG's and the SMP Committee's comments as appropriate during the discussion. Mr. Gélard then led a review of the significant issues and draft revised ISA 720.<sup>13</sup>

### SCOPE AND OBJECTIVE

Mr. Gélard explained the two options proposed by the Task Force for scoping draft revised ISA 720 in relation to documents accompanying the initial release of the audited financial statements and the auditor's report thereon. He noted that a number of Representatives of the CAG had expressed support for Option A while a number of others had preferred Option B. IAASB members expressed overwhelming support for extending the scope of the ISA only to such "accompanying" documents that have a primary purpose of providing commentary to enhance the intended users' understanding of the audited financial statements and the financial reporting process (Option B in Agenda Item 11-A of the September 2011 IAASB meeting). Further in discussing the objective of the auditor under revised ISA 720, the IAASB iterated its support for requiring the auditor to respond to matters in the other information that are inconsistent with the auditor's understanding of the entity and its environment acquired during the course of the audit; a widening of the auditor's objective under extant ISA 720. The Task Force was instructed to develop the ISA based on these concepts.

### THE AUDITOR'S CONSIDERATION OF FINANCIAL DATA IN THE OTHER INFORMATION

Mr. Gélard explained the Task Force's proposal regarding the auditor's consideration of financial data in the other information. A number of IAASB members were of the view that the requirement needed clarification as what was being asked of the auditor was ambiguous. In particular, it was noted that, without appropriate boundaries around the nature and scope of the procedures that should be performed, it would be unlikely that the requirement would be capable of consistent interpretation in practice. Further, if the requirement was interpreted broadly, there would be a question as to whether it would be practicable in all circumstances.

The IAASB discussed the nature of financial data in the other information. The IAASB noted that even though some financial data may be partly reconcilable to the audited financial statements, some or all components of the reconciliation may not be extracted directly from the entity's audited financial statements but may be derived from the underlying accounting records or may be based on complex models. As a result, this financial data would not be *directly* reconcilable to the audited financial statements. The IAASB asked the Task Force to further consider which types of financial data should be subject to tests of extraction or reconciliation.

---

<sup>13</sup> ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*

#### MATTER(S) THAT AFFECTS OTHER INFORMATION

Mr. Gélard explained the proposed description in the draft ISA of the matters that the auditor should be concerned with when performing procedures relating to other information. IAASB members expressed concern that the Task Force's proposed expansion of the matters for which the auditor should be alert when considering other information may be too broad, especially when placed into a definition, given the work effort required under ISA 720. However, the IAASB reiterated its support for revising ISA 720 to enhance the rigor of the auditor's procedures in relation to other information through, for example, better leveraging the auditor's knowledge of the entity and its environment acquired during the course of the audit. IAASB members provided suggestions for the Task Force to consider whether such material would be better placed as guidance in the revised ISA.

Some IAASB members also noted that it is important that the proposed requirements be operational in practice, for example, in relation to auditor judgments about the reasonableness or appropriateness of management's judgment. The IAASB asked the Task Force to consider the matter further.

#### EVALUATING AND RESPONDING TO MATTERS THAT MAY INDICATE INCONSISTENCIES IN THE OTHER INFORMATION

Mr. Gélard explained the proposed actions required of the auditor in the event that the auditor identifies other information that is inconsistent with the auditor's understanding of the entity and its environment. IAASB members noted that while the IAASB had not received indications that the requirements of extant ISA 720 were no longer sound, there was a need to consider whether the actions required of the auditor continue to be appropriate in view of the proposed changes to the auditor's responsibilities from those prescribed in extant ISA 720. In particular, it was suggested that consideration be given to whether the approach in ISA 265<sup>14</sup> of tailoring the auditor's responses to matters identified depending on their "significance" might similarly apply in the case of other information based on the premise that more judgment is involved in determining a material inconsistency with the auditor's understanding of the entity and its environment. The IAASB agreed that this approach may be helpful in setting appropriate expectations regarding matters that can be recognized by the auditor and the actions required to be taken in such circumstances.

#### OBTAINING OTHER INFORMATION

IAASB members expressed the view that further clarification was needed to the requirement for the auditor to make appropriate arrangements with management to obtain documents that are within the scope of proposed revised ISA 720. In particular, it was questioned whether there would be an implied obligation on the auditor to obtain the documents that are within the scope of the ISA prior to the date of the auditor's report and, if so, whether this would have any implications on the terms of the audit engagement. The IAASB asked the Task Force to consider clarifying the proposed requirement.

---

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

## OTHER MATTERS

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

- The description of documents that contain the audited financial statements and the auditor's report thereon should be revised as it currently did not accurately reflect the intention that only an entity's initial release of the financial statements and auditor's report are intended to be in the scope of the revised ISA 720.
- The purposes of the auditor's procedures under ISA 720 should be clearly stated upfront to help establish the context of the standard at an early stage, and therefore enhance its clarity.
- The rationale for excluding securities offerings from the scope of the revised ISA should be clarified.
- Further guidance should be provided regarding the concept of "financial reporting process" referred to in the definition of key features of documents that are within the scope of the revised ISA, to explain its meaning and application in the context of the ISA.
- While the auditor's responsibilities under the proposed ISA should not extend to translations of the documents within the scope of the ISA, clarification should be provided that there may be circumstances where the auditor may be required by law, regulation or terms of contract to perform work on such translated documents.

## WAY FORWARD

The IAASB asked the Task Force to present a revised draft of the proposed ISA for its consideration at the December 2011 IAASB meeting.

### **6. ISA Implementation Monitoring**

Mr. Grant introduced the topic, highlighting that there had been extensive outreach to, and significant input from, stakeholders over the preceding two years regarding the proposed post-implementation review plan. He hoped that the plan was now a clear, appropriate and practical way to obtain information for the purposes of this project. He noted that the plan, which was previously presented in June 2011, had been updated as follows:

- The inclusion of an appendix setting out the IAASB's goals for the revised ISAs and ISQC 1 covered by the post-implementation review (this was prepared with input from a number of Board members, former Board members and staff who were involved in the projects at the time); and
- The plan now made clear that the audit reporting ISAs are included in the review.

Mr. Grant briefed the IAASB on the CAG discussion on the project earlier in September 2011, including the CAG's consideration of the objectives of the project, the timetable (gathering information in 2012 and analyzing it in 2013), and whether more needed to be done to encourage responses from non-practitioners.

Ms. de Beer commented that while the CAG was generally comfortable with the proposed approach, there was a view that for some countries 2012 may still be early for the feedback, especially as the translated ISAs in some instances only became available in 2011. She noted the

CAG's view that stock exchanges and external stakeholders, such as audit committee members, users and regulators should also be specifically targeted for input.

Mr. Grant noted that the IFAC SMP Committee was supportive of the proposals and had no further comments.

An IAASB member suggested that the Task Force should proactively engage with the audit inspection groups to elicit responses. Another IAASB member suggested that firms be asked whether they had encountered difficulties when implementing the clarified ISAs in their methodologies, particularly whether there were any aspects of the standards that were not being applied consistently within their respective firms. It was also emphasized that it would be important to obtain information from oversight bodies regarding their inspection findings.

#### APPROVAL

After agreeing editorial changes to the proposed plan, the IAASB approved the Phase II plan through the affirmative votes of 18 out of the 18 IAASB members present.

### **7. IAASB Strategy and Work Program**

Prof. Schilder introduced the topic, reporting briefly on a meeting that Ms. Hillier, Mr. Gunn and he had with the European Audit Inspection Group (EAIG) earlier in September 2011. The meeting provided an opportunity for constructive dialogue on matters of mutual interest. Prof. Schilder shared an EAIG presentation regarding key findings from inspections based on a survey of EAIG members. He noted that these findings highlighted certain standards on which the IAASB may need to focus, including ISQC 1.<sup>15</sup> In this regard, he had drawn the EAIG's attention to the inclusion of a proposed initiative relating to ISQC 1 in the draft Strategy and Work Program, 2012-2014 (Strategy) being considered by the Board in September 2011 and had noted that this might provide appropriate context for the IAASB to engage in further dialogue with the EAIG on the topic. Further dialogue in this area was also anticipated with the International Forum of Independent Audit Regulators (IFIAR).

Prof. Schilder also briefed the IAASB on the September 2011 IAASB CAG discussion on the Strategy, noting strong support from the CAG for the proposals in the draft Strategy. CAG representatives had raised a number of specific points for the Steering Committee's further consideration, including whether the Strategy could strike a better balance relative to audits of financial institutions more broadly and not just banks. Prof. Schilder also reported on the CAG discussion on a staff-prepared briefing paper on the topic of professional skepticism. The general CAG sentiment was that there would be great benefit in the IAASB developing an appropriate publication to highlight some of the important auditor considerations regarding professional skepticism in an audit of financial statements. He also highlighted strong support from the International Accounting Standards Board's (IASB) CAG Representative for the IAASB-IASB liaison initiative, and the CAG's encouragement for the IAASB to step up its liaison efforts with the IASB.

Ms. de Beer added that some CAG Representatives had emphasized the importance of building flexibility in the Strategy to enable the IAASB to respond in a timely manner to developments in

---

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

the financial reporting environment. She also highlighted significant support from the CAG for the overall direction of the draft Strategy. With regard to the IASB liaison initiative, Ms. de Beer remarked that the IASB work program does not make any reference to this liaison. She expressed the view that the IAASB should raise this matter with the IASB to ensure this initiative is equally important to both boards.

Prof. Schilder then provided an overview of the significant proposals in the draft Strategy highlighting in particular strong support from respondents for:

- The current work program, and for the IAASB to partner, and continue broad dialogue, with stakeholders;
- Provision in the draft Strategy for projects on ISAs but with the Board keeping an open mind as to what these projects might be, subject to relevant developments;
- The proposed establishment of a Strategy Working Group to assist the Board in proactively monitoring, and advancing thinking on potential standard-setting implications arising from developments in important emerging areas such as integrated reporting, and in considering other matters relating to the Board's longer term strategy; and
- Proposed projects or initiatives relating to preliminary announcements, ISRS 4400<sup>16</sup> and the proportionality of application of ISQC 1.

IAASB members expressed strong support for the proposed direction and overall balance of the Strategy.

In addition to editorial matters, IAASB members variously suggested the following for the Steering Committee's further consideration:

- Further emphasizing that the Strategy incorporates sufficient flexibility for the Board to respond to emerging developments on a timely basis.
- Whether the messaging regarding a potential project in relation to the audit of banks may need refinement given the strong indication from the Basel Committee on Banking Supervision that it was planning to undertake a project focusing on the relationship between auditors and banking supervisors.
- Whether the Strategy should include a specific project on ISA 540<sup>17</sup> that would address broader developments in addition to specific guidance relating to third-party pricing sources.
- Specifically mentioning that the Board plans to commission a Staff Questions and Answers (Q&A) publication on professional skepticism for release in early 2012.
- Including an annual improvements project to deal with a potentially significant volume of detailed comments that may arise from Phase II of the ISA Implementation Monitoring project.
- Whether the Strategy should include a specific project on practitioner association, recognizing that consideration would be needed as to whether such a project would fall

---

<sup>16</sup> ISRS 4400, *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*

<sup>17</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

within the remit of the IAASB or the International Ethics Standards Board for Accountants (IESBA). In this regard, Ms. de Beer suggested that consideration be given to establishing a more formal liaison between the IAASB and the IESBA that would facilitate consideration of matters such as this that are of mutual interest.

- Focusing further on the significant implementation needs that exist in developing and emerging economies, including within the public sector in those economies, but also recognizing that responsibility for supporting implementation does not rest with IAASB alone.
- Recognizing the importance of a period of stability in the ISAs for practitioners, but at the same time acknowledging that the IAASB is attentive to broader developments that may indicate a public interest need for further enhancement to the ISAs.
- Explaining why the Board did not plan to undertake a project to revise ISAE 3400.<sup>18</sup>

#### WAY FORWARD

The IAASB asked the Steering Committee to present a revised draft of the Strategy for consideration and approval at the December 2011 IAASB meeting. To facilitate Board assessment of the degree of flexibility within the Strategy and the balance of the future agendas, the IAASB asked Staff to prepare a forward project timetable over the strategy cycle to support the Board's deliberations at that meeting.

#### 8. Compilation Engagements

Mr. Cowperthwaite introduced the topic, noting that the revised draft ISRS 4410<sup>19</sup> incorporates the IAASB's preliminary input on a number of significant issues discussed at the June 2011 IAASB meeting and the Task Force's recommendations from a full review of the comments received on the exposure draft of the proposed standard (ED-4410). He noted that the topic had been discussed at the IAASB CAG meeting earlier in September 2011, and that he would highlight significant CAG comments at appropriate points during the discussion. Mr. Cowperthwaite then led a review of the draft ISRS.

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

#### REQUIREMENTS RELATING TO SIGNIFICANT JUDGMENTS

In response to comments on exposure, the Task Force proposed to delete the requirement in paragraph 29 of ED-4410 relating to significant judgments required for the preparation and presentation of financial information in accordance with the applicable financial reporting framework. Some IAASB members disagreed with the deletion of that requirement, on the grounds of their belief that it is important that the practitioner discuss those significant judgments with management when compiling financial information. An IAASB member noted that, in engagements performed for smaller entities, the practitioner will typically provide extensive assistance to management in making those judgments. Other IAASB members felt that

---

<sup>18</sup> ISAE 3400, *The Examination of Prospective Financial Information*

<sup>19</sup> Proposed revised ISRS 4410, *Compilation Engagements*

paragraph 29 of ED-4410 could, on a literal interpretation, be read as requiring the practitioner to discuss and agree every one of management's significant judgments reflected in the compiled financial information, therefore also triggering a potentially substantial documentation requirement to record that activity.

The IAASB asked the Task Force to consider how to strike an appropriate balance on this issue, recognizing that:

- Practitioners may, in some cases, provide assistance or even extensive assistance to management in formulating significant judgments as reflected in the compiled financial information; and
- Management has responsibility for those judgments, notwithstanding the practitioner's assistance.

#### USE OF THE TERM "MATERIAL MISSTATEMENT"

Mr. Cowperthwaite reported that the IAASB CAG considered it appropriate for the term "misstatement" to be used in the context of compilation engagements, with the meaning defined in the IAASB's *Glossary of Terms* (Glossary), since the term is well recognized and understood by professional accountants. In contrast, the phrase "not materially false or misleading" that appears in the IESBA Code<sup>20</sup> is not defined or described in the Code, and therefore may be interpreted differently by different parties. The IAASB agreed that the phrase "material misstatement" is preferable to "materially false or misleading" in the draft ISRS, and for that purpose asked the Task Force to include the Glossary definition of "misstatement," adapted as necessary for a compilation engagement, in the draft ISRS.

#### REPORTING REQUIREMENTS AND ILLUSTRATIVE PRACTITIONERS' REPORTS

Given the intention to include illustrative reports in the proposed standard, IAASB members commented that each illustrative report should correctly mirror the reporting requirements of the ISRS. For that reason, IAASB members did not favor the "short-version" illustrative report shown in the agenda materials.

IAASB members also offered suggestions to improve the clarity of the wording of the illustrative reports and the presentation of the different elements of the report.

The IAASB asked the Task Force to consider how to clearly word and present the required elements of the report in the illustrative reports.

#### OTHER MATTERS

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

- Consider moving the application material regarding the scope of the ISRS, particularly the caution about association when a practitioner is considering an engagement that would exclude provision of the report required under the standard, to the introductory section for

---

<sup>20</sup> International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code)

greater visibility. IAASB members agreed that this guidance is particularly important to the practitioner's understanding of when to apply the ISRS.

- Conform the requirement to “read and consider” the compiled financial information to the way such a requirement is drafted in other engagement standards, where the obligation is only to “read” and application material is provided, where necessary, to explain what that means in the context of the particular requirement.
- Clarify that the practitioner dates the practitioner's report when management has accepted responsibility for the compiled financial information *and* the engagement is completed in compliance with the ISRS. The requirements should also be clear about how the practitioner documents management's acceptance of the compiled financial information.

#### WAY FORWARD

The IAASB asked the Task Force to present a revised draft of the proposed ISRS 4410 for its consideration and approval as a final standard at the December 2011 IAASB meeting.

### **9. Using the Work of Internal Auditors**

Ms. Hillier introduced the topic, providing an overview of the remaining significant matters raised by the IAASB in the light of respondents' comments on the Exposure Draft (ED) of proposed revised ISA 610 and related amendments to ISA 315.<sup>21</sup> She indicated that a similar overview was presented to the IAASB CAG earlier in September 2011. She also noted that comments had been received from the IFAC SMP Committee which the Task Force would further consider.

Ms. Hillier reported that in June 2011, the International Ethics Standards Board for Accountants (IESBA) was briefed on respondents' comments as these pertain to ethical matters relating to the ED proposals. The IESBA had agreed to set up a task force to further consider the ethical matters raised by the respondents. Ms. Hillier indicated that the IESBA's final resolution of these matters likely would not be known until after its consideration of the IESBA ISA 610 Task Force's recommendations at the October 2011 IESBA meeting. She then led a review of the draft revised ISAs.

#### GENERAL COMMENTS

The IAASB expressed overall support for the draft revised ISA 315. The IAASB also broadly supported the direction of the draft revised ISA 610, noting that it now appeared more balanced in terms of cautioning against over and undue use of the work of internal auditors for purposes of the audit but at the same time providing for the work of the internal audit function to be used by the external auditor in a constructive and complementary manner where appropriate.

#### IESBA TASK FORCE'S INPUT

Ms. Hillier briefed the IAASB on the IESBA Task Force's input regarding the adequacy of the requirements relating to direct assistance from the perspective of safeguards to the threats to

---

<sup>21</sup> Proposed ISA 610 (Revised), *Using the Work of Internal Auditors*, and proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

objectivity that may arise when internal auditors provide direct assistance to the external auditor. The IAASB supported the project Task Force's recommendations except as noted below.

Ms Hillier noted that there were mixed views on the proposal to require the external auditor to communicate the external auditor's planned use of direct assistance from internal auditors to those charged with governance as part of the external auditor's communications on the planned scope and timing of the audit. She noted, in particular, that to seek the concurrence of those charged with governance prior to engaging the direct assistance of internal auditors was not viewed as being as robust a safeguard as suggested. In this regard, it was noted that some regulators had observed evidence of pressure on audit fees coming from audit committees.

On this basis, the IAASB did not support a requirement for the external auditor to seek pre-approval from those charged with governance. However, the IAASB agreed that communication of planned use, consistent with the overarching concepts in ISA 260,<sup>22</sup> would facilitate the appropriate dialogue. There was also support for elevating the related application material to the requirements section.

#### REPERFORMING WORK OF THE INTERNAL AUDIT FUNCTION

Some IAASB members commented that further guidance was needed to explain the concept of reperformance and its application in the context of the relevant requirements in the revised draft ISA 610. In particular, it was questioned whether examining similar items not actually examined by the internal audit function would achieve the same objective as examining items already examined by that function. The IAASB asked the Task Force to clarify this matter further.

#### OTHER MATTERS

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

- The circumstances in which the requirements of the ISA would not apply should be further clarified.
- Further clarification should be provided regarding the reference to "overall body of work of the internal audit function that the external auditor plans to use."
- The proposal to prohibit the external auditor from using internal auditors to provide direct assistance to perform procedures that *require judgment* in performing the relevant audit procedure or evaluating the audit evidence should be reconsidered, as it appears overly stringent. In particular, such a requirement could result in the external auditor not being able to use internal auditors to provide direct assistance on almost all audit procedures as most procedures require some form of judgment to be exercised.
- It should be explained that even in jurisdictions where the external auditor is prohibited by law or regulation from obtaining direct assistance from internal auditors, it is relevant for group auditors in those jurisdictions to be aware that component auditors in other jurisdictions may not be subject to the same prohibition and, if that were the case, the group auditors may need to address the prohibition in their group engagement team's letter of engagement.

---

<sup>22</sup> ISA 260, *Communication with Those Charged with Governance*, paragraph 15

## WAY FORWARD

The IAASB asked the Task Force to present revised drafts of the proposed ISAs 610 and 315 for approval as final standards at the December 2011 IAASB meeting.

### **10. Audit Quality**

Mr. Grant briefed the IAASB on the progress of the Audit Quality (AQ) project since the June 2011 IAASB meeting, outlining improvements that the Task Force had made to the AQ Framework paper since then. He reported on the outcome of a focus group meeting between representatives of the Task Force and a small number of experienced academics in August 2011 that Mr. Kinney had arranged. Mr. Grant noted that amongst the comments received from the academics were suggestions for the Task Force to:

- Consider structuring the Framework along the country level, firm level and engagement level dimensions;
- Reorganize the “threats and safeguards” appendices as “key issues” for each of the main stakeholder groups; and
- Consider elaborating on the issue of the “auditability” of Generally Accepted Accounting Principles (GAAP).

Mr. Grant also reported on the IAASB CAG discussion on the draft Framework paper earlier in September 2011, noting generally broad support from CAG Representatives for the paper’s treatment of the topic and the paper’s overall balance in addressing the various considerations relevant to the topic. He highlighted the main comments received from the CAG, including:

- Concerns from a CAG Representative, who criticized the paper for dealing with systemic issues rather than focusing on AQ at the engagement level;
- Concerns from some of the CAG Representatives regarding the treatment of efficiency in the Framework, as they felt that the emphasis should instead be placed on effectiveness; and
- Views from a number of CAG Representatives that poor contextual factors cannot be used as an excuse for a poor quality audit, and that the Framework should focus on factors that auditors can control.

Ms. de Beer confirmed the CAG’s broad support for the project and the direction being taken. She observed that it is difficult to discuss AQ without linking the topic back to engagement level quality. She expressed the view that the paper should address AQ at the engagement level instead of dealing with systemic issues. She noted that it should theoretically be possible to perform a high quality audit regardless of the external environment. She therefore suggested that there may be benefit in decoupling engagement level quality from the broader contextual considerations. She also highlighted a number of other CAG comments, including a view that there could be some confusion between AQ and audit risk (which she felt was more related to engagement level quality), and a suggestion for the Task Force to consider the reverse side of AQ in terms of the audit failures.

In response to an IAASB member’s question regarding whether the Task Force had identified ways in which the Framework could be used other than to facilitate dialogue with stakeholders,

Mr. Grant expressed the view that the “threats and safeguards” appendices to the Framework paper would be key. He also observed that the Framework could potentially help to stimulate greater harmonization around the world regarding the roles and responsibilities of those charged with governance. In addition, he highlighted auditor competencies as one area where firms could potentially introduce greater rigor and consistency in their approaches, given that IES 8<sup>23</sup> presently applies only to IFAC Member Bodies. Another IAASB member expressed support for the academics’ idea of developing “key issues” for stakeholders’ consideration, and suggested that consideration be given to developing a guide for how the Framework could be used by stakeholders, perhaps tailored to the individual stakeholder groups.

Mr. Grant concluded by noting that the draft Framework paper had been distributed to other stakeholders such as IFIAR, the International Organization of Securities Commissions (IOSCO), the World Bank, and the International Corporate Governance Network (ICGN) for their informal views. In this regard, Prof. Schilder noted that at a meeting that Ms. Hillier, Mr. Gunn and he had with the ICGN earlier in September 2011, there was brief discussion of the project and the ICGN representatives were supportive of the holistic approach to the project.

#### WAY FORWARD

To guide the Task Force’s way forward, the Task Force will seek the Board’s input on selected directional issues at the December 2011 IAASB meeting.

### 11. Disclosures

Ms. Hillier introduced the topic, noting that the comment period for the Discussion Paper *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications* had closed. She reported on the Working Group’s recent meeting to consider the comments received from respondents and to explore the way forward.

Ms. Hillier then briefed the IAASB on the main themes that came across from the responses reflecting both accounting and auditing issues. She highlighted that many of those issues would require a collaborative response from the standard setters and regulators. She also highlighted suggestions from respondents where they felt more guidance was needed in the ISAs, although there were no indications from these comments that the ISAs were flawed. With respect to the auditing issues raised by respondents, Ms. Hillier indicated that the Working Group would need to further consider the comments received and what appropriate responses might be.

Ms. Hillier added that a wealth of information has been received. The Working Group therefore was of the view that there would be benefit in finding a mechanism to feed back the key messages from the comments. She explained the Working Group’s proposal for the IAASB to issue a “Feedback Statement” as an effective way to do this, noting that issuing such a document would be very useful given how varied and informative the responses had been. She highlighted in particular the many comments relating to the IASB’s work, and noted that the Working Group would be exploring ways to capture the relevant detail from the responses for purposes of sharing with the IASB.

---

<sup>23</sup> International Education Standard (IES) 8, *Competence Requirements for Audit Professionals*

An IAASB member questioned whether this message was also given to the IAASB CAG as it would be useful for the CAG to also provide input to the IASB so that the IASB received the message from more than one source. Ms Hillier confirmed that a similar update had been given to the IAASB CAG at its meeting earlier in September 2011.

#### WAY FORWARD

The IAASB asked the Working Group to proceed as proposed and to present a fuller analysis of the comments received on the Discussion Paper at the December 2011 meeting.

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

Mr. McDonough made a personal introduction to let the IAASB know his background and enduring interest in standard setting and the profession. He noted that the PIOB was looking at its involvement with the IFAC Public Interest Activity Committees (PIACs) and its formal methodology for oversight. He noted that the PIOB has placed extensive reliance on direct observation and that he has come to see its value, adding that his observation of the IAASB meeting helped him gain direct insight into a number of issues. He expressed the view that:

- The Board is well-constituted;
- The discussions are vibrant;
- The composition and performance of task forces should be just as robust, but attendance at PIAC meetings alone does not allow conclusions to be drawn in that regard: and
- CAG inputs are important.

He commented that one issue that is less obvious when observing the IAASB meeting is the comment letter process. During the meeting, there was little reference back to comment letters received. He noted that the PIOB would be considering how to best track the impact of these letters, and the manner in which the IAASB takes them into account.

In addition to monitoring the process, Mr. McDonough explored the notion of other aspects of public interest. For instance he noted the following:

- In relation to the speed with which the IAASB deals with issues, he emphasized that there can be a trade-off between speed and quality, but noted that it is not in the public interest if there are undue delays in dealing with important matters.
- He highlighted the expectations gap as an opportunity. He noted that although different roles relevant to the accountancy profession are increasingly assigned to different bodies which are not controlled by "the profession" (e.g. the setting of accounting and auditing standards), there still is only one profession. He questioned whether the profession as a whole is becoming less relevant. He also added that it should be asked what should be done to re-energize the profession and the services it provides. Mr. McDonough then questioned why auditors were so reluctant to take on new roles in order to close the expectations gap. He expressed the view that the IAASB should move more quickly on issues such as those covered by ISA 720, where research carried out by the Task Force along with the CFA Institute had revealed very clear user expectations and where quick wins were possible. He added that more fundamental changes to the audit reporting model could be left until later,

and have a lower priority attached to them. He highlighted ISA 720 as an example of a topic where the Board's real efforts should be focusing on the transformative.

Prof. Schilder thanked Mr. McDonough for his constructive comments.

### **13. Next Meeting**

The next meeting of the IAASB is scheduled for the week of December 5-9, 2011 in Los Angeles, USA.

### **14. Closing Remarks**

Prof. Schilder thanked the CICPA for its hospitality and for assisting with the meeting arrangements. He also thanked the IAASB members, technical advisors, observers and staff for their contributions to the meeting. He then closed the meeting.