Agenda Item 1-A

Draft Minutes of the 53rd Meeting of the

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

Held on June 11-15, 2012 in Edinburgh, Scotland

	Voting Members	**Technical Advisors**
Present:	Arnold Schilder (Chairman)	Sue Almond (Mr. Murtagh)
	Dan Montgomery (Deputy Chair)	Brantley Blanchard (Ms. McCabe)
	Arch Archambault	Wolf Böhm (Ms. Köhler)
	Jean Blascos	Ricardo DeLellis (Mr. Coscodai)
	Jianshen Chen (June 11, 13-15)	Marek Grabowski (Mr. Grant)
	Valdir Coscodai	Jonas Hällström (Mr. Jönsson)
	Cédric Gélard	Hiram Hasty (Mr. Kinney)
	Jon Grant	Susan Jones (Mr. Blascos)
	Gert Jönsson	Sachiko Kai (Mr. Sekiguchi)
	Merran Kelsall	Richard Mifsud (Ms. Kelsall)
	William Kinney	Jon Rowden (Mr. Winter)
	Annette Köhler	Isabelle Tracq-Sengeissen (Mr. Gélard)
	Caithlin McCabe	Jacques Vandernoot (Mr. Pickeur)
	Brendan Murtagh	Rick Wood (Mr. Archambault)
	Marc Pickeur	Ge Zhang (Mr. Chen)
	Tomokazu Sekiguchi	
	Bruce Winter	
	Abdullah Yusuf	
Apologies:		Pervez Muslim (Mr. Yusuf)
		Denise Weber (Mr. Montgomery)

Non-Voting Observers

Present: Juan Maria Arteagoitia, Linda de Beer (IAASB Consultative Advisory Group (CAG) Chairman), and Norio Igarashi

Public Interest Oversight Board (PIOB) Observer

Present: Jane Diplock

IAASB Technical Staff

Present: Jim Sylph (Executive Director) (June 11-12), James Gunn (Technical Director), Beverley Bahlmann, Keesha Campbell, Kathy Healy, Brett James, Diane Jules, and Joanne Moores

1.   **Opening Remarks and Minutes**

WELCOME AND INTRODUCTIONS

Prof. Schilder welcomed the participants and public observers to the meeting. He welcomed, in particular, Ms. Diplock, observing for the first time on behalf of the PIOB, and Mr. Arteagoitia, observing on behalf of the European Commission (EC).

Apologies were received from Mr. Muslim and Ms. Weber.

Prof. Schilder highlighted the public interest importance of the two documents up for approval, i.e., proposed International Standard on Review Engagements (ISRE) 2400 (Revised)[1] and the proposed Invitation to Comment (ITC) on Auditor Reporting. He emphasized the importance of IAASB members' contributions focusing on pivotal issues, with constructive suggestions about possible solutions to identified issues. He thanked the task forces, subcommittees and staff for their hard work in preparing the meeting papers.

RECENT DEVELOPMENTS

Prof. Schilder highlighted the recent issuance of new International Standard on Assurance Engagements (ISAE) 3410,[2] and the *IAASB Strategy and Work Program 2012-2014* after PIOB confirmation of due process followed. He conveyed the Board's appreciation to the co-Chairs of the ISAE 3410 project, Ms. McCabe and Prof. Simnett, for leading the project to completion.

Prof. Schilder also noted the recent publication of the 2011 IAASB annual report.

Prof. Schilder reported that the International Accounting Standards Board (IASB) Liaison Working Group had recently submitted a comment letter to the IASB regarding its Exposure Draft (ED), *Revenue from Contracts with Customers*. He also noted that Mr. Gunn has been invited to input to IASB's process for "fatal flaw" review of pre-ballot proposed or final draft International Financial Reporting Standards (IFRSs).

RECENT PRESENTATIONS AND OUTREACH

Prof. Schilder reported on the main outcomes of the April 2012 IAASB-National Auditing Standards Setters (NSS) meeting in New York. He highlighted the participation of Russia in the meeting for the first time. He noted that the meeting had focused on auditor reporting, among other topics.

Prof. Schilder also highlighted a number of recent presentations and outreach activities by IAASB leadership and Board members, including constructive meetings with representatives of the EC as well as members and senior staff of the U.S. Public Company Accounting Oversight Board (PCAOB).

Mr. Jönsson briefly reported on implementation activities of the clarified ISAs in the public sector, International Standards of Supreme Audit Institutions (ISSAIs), including development of audit manuals and learning programs, planned for later this year.

MINUTES OF THE PREVIOUS MEETING

The minutes of the public session of the March 2012 IAASB meeting were approved as amended.

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[1]   Proposed ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

[2]   ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

2. **Review Engagements**

Mr. Cowperthwaite introduced the topic, providing a brief background to the project. He noted the comments provided on the agenda material by the IFAC SMP Committee (SMPC). He then explained the main changes reflected in the draft ISRE 2400 (Revised).

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

THE ENGAGEMENT TO REVIEW HISTORICAL FINANCIAL STATEMENTS

In response to comments on exposure, the Task Force added application material explaining the nature of a review engagement in the introductory section of the proposed ISRE. This material explained the linkage between the procedures performed and evidence obtained, and the concept of limited assurance as applied in a review. However, some IAASB members questioned whether the explanation was sufficient to convey the essence of the review engagement as an evidence-based assurance engagement, and the value of a review engagement for the users of the financial statements.

An IAASB member believed that the references in the proposed ISRE to obtaining sufficient appropriate evidence were not helpful if they did not convey how much evidence is needed to support the expression of the practitioner's conclusion. Other IAASB members pointed out that this question is not unique to review engagements, and has proven difficult to answer fully for other assurance engagements also, including in the case of the audit of financial statements.

Another IAASB member thought that the description of the review engagement would perhaps be clearer for the readers of the standard if explanations about how all the relevant concepts relate to one another were located in one place, i.e., in the introductory section of the ISRE. The IAASB agreed and asked that the Task Force move the relevant paragraphs <u>from</u> ~~into~~ the application material in<u>to</u> the introductory section of the proposed ISRE.

LIMITED ASSURANCE – USE OF THE TERM SUFFICIENT APPROPRIATE EVIDENCE

In its discussion in March 2012, the IAASB agreed that it must be clear in the ISRE that a review engagement is an evidence-based assurance engagement. The Board agreed also that the term "sufficient appropriate evidence" describes the conceptual linkage between the procedures performed and evidence obtained, which is the basis the practitioner uses to form a conclusion on the financial statements.

Some IAASB members were concerned, however, that the meaning of the term sufficient appropriate evidence is recognizable in the context of an audit but is less clear for a review. In response, the Task Force proposed a definition of sufficient appropriate evidence for the draft ISRE to explain the intended meaning of the term in the context of a review. After further reflection, however, the IAASB felt that this explanation was appropriate application material for the definition of limited assurance. Accordingly, the IAASB requested that it be moved to the application material.

ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND REVIEW ENGAGEMENTS

In response to comments on exposure regarding the section of the proposed ISRE addressing engagement acceptance and continuance, the Task Force proposed amendments to clarify the circumstances when it would be appropriate to perform a review.

A few IAASB members suggested that review engagements should have restricted application (for

example, to entities below certain size thresholds) and that they should be excluded as an option for larger entities or regulated public interest entities such as banks. Other IAASB members disagreed and pointed out that reviews are already established as a form of assurance engagement that can be used in various market or user contexts depending on a jurisdiction's legal infrastructure (in North America, for example, review engagements are commonly performed for both large and small entities).

A number of IAASB members thought it inadvisable to attempt to draw a bright line for the use of review engagements, as the ISRE is intended to be a standard for international use. Instead, restrictions on the use of reviews are more appropriately left to national standard setters or national regulators to decide, as appropriate for their national environments.

The IAASB agreed that the requirement in the proposed ISRE that a practitioner not accept a review engagement if the practitioner is not satisfied that it would be appropriate in the circumstances adequately addressed this situation. Under this requirement, in order to make a decision about accepting an engagement, the practitioner takes into account the context and relevant legal requirements of the particular jurisdiction.

Another IAASB member raised a concern that readers of the ISRE could interpret the words "rational purpose" in the requirements on engagement acceptance and continuance differently from how it is intended to be read, i.e., taking the practitioner's perspective (as explained in the *International Framework for Assurance Engagements* (the Framework)). The IAASB agreed, and also thought it would be helpful if there were some examples in the application material illustrating situations the practitioner might encounter where, viewed from the practitioner's perspective, it is unlikely that there would be a rational purpose for performing a review.

The IAASB agreed that the requirement to obtain an understanding of the purpose for which the financial statements are prepared, and of the intended users of the financial statements, should be incorporated in the section of the proposed ISRE addressing the acceptability of the financial reporting framework, as these considerations are closely interrelated with the practitioner's consideration of the purpose of the financial statements and the type of financial reporting framework used. The IAASB also agreed that the term "intended users" should be explained in the application material, in line with the description contained in the Framework.

PERFORMING THE REVIEW ENGAGEMENT

The Practitioner's Understanding

In response to Board comments at the March 2012 IAASB meeting, the Task Force introduced an additional requirement stating those areas that the practitioner must address in obtaining an understanding of the entity and its environment, and of the applicable financial reporting framework.

IAASB members discussed whether the areas listed in the requirements, and in the related application material, are sufficient to guide the practitioner in obtaining the understanding needed to design and perform the review of the entity's financial statements. The majority of IAASB members supported these requirements. However, on further discussion, the IAASB agreed that the words "sufficient to" in describing the requirement to obtain the understanding should be replaced by "thereby providing a basis for …." This amendment addressed both a concern that the former wording is more demanding than the corresponding requirement for an audit engagement, and a concern that it will be difficult in practice to comply with a requirement that is conditioned on knowing the level of understanding that is sufficient for the purpose stated in the requirement.

In addition, the IAASB agreed it would be helpful to acknowledge in the application material that, in the case of smaller entities, practices surrounding management's oversight of the entity's accounting records and financial reporting systems may differ.

Designing and Performing Procedures

In response to comments on exposure, the Task Force clarified that the procedures the practitioner designs and performs may extend to performing other procedures in addition to inquiry and analytical procedures. The IAASB agreed that in designing and performing the procedures for the review, the practitioner may believe that performing other procedures would be effective or efficient in the context of achieving the objectives of the review. The IAASB requested that the application material reflect this circumstance as a possibility when the practitioner designs the procedures for the review, with an example of a situation where that could occur.

A few IAASB members believed it is important that the requirement to design and perform inquiry and analytical procedures be expressed in the appropriate context, for example, as a part of the practitioner's strategy to reduce engagement risk to the appropriate level. After further consideration, the IAASB agreed the requirement should be directly referenced to obtaining sufficient appropriate evidence as the basis for a conclusion on the financial statements.

WRITTEN REPRESENTATIONS

Some IAASB members questioned whether the requirements regarding obtaining written representations from management, as presented in the agenda materials, were intended to be stricter than the corresponding requirements in the ISAs in terms of the practitioner's required response when management does not provide all the representations requested by the practitioner.

IAASB members considered the possible effects of a failure by management to provide one or more requested representations on the review as follows:

- If the practitioner requires the representations to complete the evidence needed to form the practitioner's conclusion on the financial statements as a whole, failure to obtain one or more requested representations could mean the practitioner has not obtained sufficient appropriate evidence to be able to form a conclusion; or

- The failure or refusal by management to provide one or more of the requested representations could have adverse implications for the practitioner's assessment of the integrity of management as a source of evidence for the review, and of the quality of evidence obtained in the review.

The IAASB determined that the requirements of the ISRE addressing this situation should be more closely aligned with the requirements of the ISAs. Specifically, in the situation where management does not provide the required or requested representations (other than those relating to acknowledgement of management's responsibilities), the practitioner should be required to:

- Consider the effects of the failure to provide the specific representation(s), including effects on the reliability of representations and evidence in general; and

- Take appropriate actions, including determining the possible effect on the practitioner's conclusion.

The IAASB also agreed to include additional application material drawn from ISA 580[3] explaining the effect on the review when management fails to provide the written representations as requested.

IAASB CAG CHAIRMAN'S REMARKS

Ms. de Beer noted that comments raised in the Board debate were symptomatic of the underlying concerns regarding levels of assurance, how such levels are described and explained, and the discomfort by some with negative assurance opinions. She noted that these ~~are~~ matters had been discussed at a CAG level as well and that these should not wait for a post-implementation review to be appropriately identified and addressed. She emphasized, however, that it was critical for the standard to be issued as there is an urgent need for it.

In connection with the content and wording of the report for review engagements, Ms. de Beer commented that Representatives of the CAG had expressed the concern that references to audit within a review engagement report could be confusing and should, as far as possible, be avoided.

She also noted Representatives' view that review engagements need to be clearly distinguishable from each other and from an audit. She noted in particular the concern regarding the potential difficulty of having both the proposed ISRE 2400 (Revised) and ISRE 2410[4] in effect if there were insufficient explanatory guidance to help practitioners to understand the relationship between these standards and their different application contexts.

OTHER MATTERS

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

- The section addressing subsequent events should be positioned before the section on written representations.

- An example should be included of the situation where the practitioner would perform other procedures after evaluating the evidence obtained from inquiry and analytical procedures performed, and the procedures addressing specific circumstances.

- Application material should be added to support the requirements on documentation by reference to the requirement contained in ISQC 1[5] about completing the assembly of final engagement files on a timely basis.

CONSIDERATION OF THE NEED FOR FURTHER CONSULTATION

The IAASB noted that the development of the proposed ISRE took into account international best practices, including reference to existing standards on review engagements in various jurisdictions where such engagements are commonly performed. Importantly, the IAASB noted that the Task Force included practitioners from a number of different jurisdictions experienced in performing engagements to review financial statements, including reviews for smaller entities, who contributed to the development of the proposed ISRE. It was noted also that these participants had not raised any significant concerns regarding the applicability or practicality of the proposed ISRE.

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3   International Standard on Auditing (ISA) 580, *Written Representations*

4   ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

5   International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audit and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

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 ISRE through, for example, the issue of a consultation paper, the holding of a public forum or roundtable, or ~~the conduct of~~conducting a field test of the proposed standard.

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. Cowperthwaite 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 ISRE as a final standard with 17 affirmative votes out of the 18 IAASB members present and one abstention.

Mr. Pickeur abstained. He expressed the view that the concept of "limited assurance" in a review of financial statements is not clear in the ISRE, and so would not be well understood. Specifically, he believed that the guidance provided in the ISRE on the concept of sufficiency and appropriateness of evidence for a review engagement is inappropriate, and that practitioners will consequently find it difficult to understand and implement the concept of a review engagement in practice, or to implement it in a consistent manner. Furthermore, with reference to the form of reporting used in review engagements, and acknowledging that it is in the public interest that there should be a clear distinction between audit engagements and review engagements, he believed that there is still potential for reviews to be confused with audits. His abstention from voting was to record his lack of conviction that the standard submitted for approval sufficiently addresses these areas. He did acknowledge, however, that the proposed ISRE submitted for approval is much improved over the version that had been exposed for comment. Finally, he noted that as review engagements are likely to become more common but are not overseen by audit regulators, he would have preferred, as a matter of policy, an approach that would have solved the issues raised before publication of the standard.

The IAASB assessed whether there was a need to re-expose the ISRE. 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 ISRE.

The IAASB set the effective date for ISRE 2400 (Revised) to be for reviews of financial statements for periods ending on or after December 31, 2013.

3. **Auditor Reporting**

Mr. Montgomery introduced the topic, briefing the IAASB on the objective of the session and purpose of the draft ITC, as well as feedback received from the April 2012 National Auditing Standard Setters (NSS) Liaison meeting. He then led a discussion of the matters presented in the agenda material.

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

AUDITOR COMMENTARY

Mr. Montgomery briefed the IAASB on the Task Force's views regarding how the existing concepts of Emphasis of Matter (EOM) and Other Matter (OM) paragraphs in the ISAs could be leveraged and expanded to meet the objective of Auditor Commentary (AC), and the Task Force's view that reporting on going concern (GC) and other information (OI) would be best placed in separate sections in the auditor's report.

The IAASB supported the Task Force's overall view regarding the relationship between EOM and OM paragraphs and AC. The IAASB, however, was generally of the view that the explanation of the AC concept in the ITC could be improved. In particular, by merely building upon existing concepts in the ISAs, there would be a risk that the IAASB could be seen as not being as responsive as expected to the calls for change when in fact the AC concept would represent a significant step forward. The IAASB agreed the following with regard to the revised ITC:

- The ITC should acknowledge that there may no longer be a need to retain the separate concepts of EOM and OM paragraphs in light of the more holistic concept of AC. This matter, including the current requirements in the ISAs for EOM and OM paragraphs, could be further considered by the IAASB when advancing its standard-setting proposals.

- The ITC should provide further linkage between users' views as to what would have the most value and how AC could be provided, for example, through a simple pointer to disclosures in the financial statements, additional context to the matters highlighted, or a discussion of "matters of audit significance" relating to how the audit was conducted. The IAASB agreed that a focus on "most important matters," derived from matters communicated to those charged with governance, was appropriate in determining the objective of AC. This could include what some users refer to as "close calls" (i.e., difficult or contentious matters noted during the audit), recognizing that AC should not call into question the auditor's opinion on the financial statements as a whole.

- The ITC should emphasize the matters to be considered by the auditor in determining whether to include AC and provide a clear description of the framework for achieving the objective of AC in light of known user demands. The IAASB noted that feedback from the ITC would further inform its deliberations regarding the relevant considerations for auditors and associated guidance to help auditors make informed judgments in determining the information to include in their auditors' reports.

- The ITC should explicitly note that it would be unlikely for the auditor of a public interest entity (PIE) to conclude that there is "nothing to report" in AC, because this would be tantamount to the auditor concluding that there are no matters worthy of highlighting to enhance users' understanding of the audited financial statements or the audit. The IAASB agreed to explore whether to require the auditor of a PIE to include an explicit statement that the auditor has nothing to report if the auditor determined that there are no matters to include in AC, and whether a documentation requirement would be appropriate in such circumstances.

- While appropriate to refer to a range of two to ten matters being addressed in AC for a PIE, the ITC should note that the number of matters will depend on the nature, size and complexity of the entity. The reference to the range was intended to mitigate the concern of some IAASB members that auditors may include far more than would be necessary to meet user expectations. It was noted that studies of the implementation of the French "justification of assessments" model had identified as usual practice a range of one to eight matters being addressed.

- The discussion of the impediments to providing AC should highlight that: (i) there may be legal or ethical implications for the auditor providing AC; (ii) there may be unintended consequences if AC makes reference to OI; and (iii) some users may inappropriately rely on AC as a substitute for reading the financial statements. In this regard, Ms. Diplock was of the view that the IAASB should seek to balance the way in which the value and impediments are described, recognizing that users have already indicated they would value AC and that the IAASB should not prejudge the debate.

- The questions in the ITC relating to AC should focus on whether the concept of AC is responsive to calls for the auditor to provide more information in the auditor's report, the value and impediments of AC, and whether a focus on the auditor's judgment in determining the matters to be addressed in AC is appropriate.

Public Interest Entities

The majority of the IAASB supported the Task Force's suggestion to require AC for PIEs, and to leave AC for all other entities to the auditor's discretion. However, citing the challenges of agreeing a definition of a PIE, a few IAASB members were of the view that it would be better for *all* auditors to consider the information needs of users in the context of the individual audit engagement, the access that these users may have to the entity or the auditor, and the overall objective of AC, rather than require AC only for PIEs. Ms. Diplock was of the view that the demand for greater transparency from auditors has arisen because of the global financial crisis; therefore, it would be appropriate to focus first on PIEs, particularly as auditors should have users as their primary audience.

The IAASB agreed that if there should not be a requirement for AC for all entities, auditors of those entities not required to provide AC should not be prohibited from doing so. The IAASB agreed that an explicit question should be included in the ITC regarding AC for PIEs and whether there may be other possible criteria for determining when AC should be provided.

Illustrative Examples

The IAASB revised the illustrative examples included in the agenda material in light of its discussion on the objective of AC and areas cited of interest to users. The IAASB was of the view that, while these examples should align with the underlying accounting concepts in International Financial Reporting Standards (IFRSs), it would be important that they not be drafted using overly technical language that might not be understood by users.

The IAASB believed the examples in the illustrative auditor's report should correlate to the varying degree of detail that could be provided in AC (see 2nd bullet in the AC section above). In this regard, the IAASB further refined the examples to better address matters of audit significance, including discussion of certain matters that may not be disclosed in the audited financial statements. The IAASB considered whether the example of matters of audit significance or one of the other examples should explicitly make reference to "significant risks," but concluded that, because this is an auditing term not defined elsewhere in the auditor's report, doing so was unnecessary.

The IAASB also agreed to:

- Include a description of specific audit procedures performed in a particular area of the audit in two examples, and the results of these procedures in one of the examples;

- Explain in the ITC the IAASB's rationale in developing the examples included in the illustrative report; and

- Include an explicit question in the ITC about whether respondents believe that a discussion of the auditor's procedures and results therefrom within AC would be useful.

INVOLVEMENT OF OTHER AUDITORS

The IAASB generally supported how the issue of disclosure of the involvement of other auditors had been described in the draft ITC, although some expressed the view that such a disclosure runs counter to the "sole responsibility" principle in ISA 600.[6] The IAASB also was of the view that it would be helpful to understand from users who wanted this disclosure what information would be most appropriate and whether it should be required. Nevertheless, the IAASB agreed that the ITC should indicate that the IAASB saw merit in transparency in this area.

The IAASB agreed the following with regard to the revised ITC:

- An example disclosure about the involvement of other auditors should be included as a "matter of audit significance" in the AC section of the illustrative auditor's report. This example would be better characterized as explaining the breakout between affiliated and non-affiliated firms, as not all readers of the auditor's report may be familiar with the concept of a "member firm in the network."

- A specific question should be raised as to whether this treatment was appropriate or whether respondents would see merit in such a disclosure being mandated for all audits involving other auditors, with specific consideration given to the value and impediments of the suggested disclosure.

- Explanation of the alternative disclosures considered, specifically the disclosure of names and locations of other auditors, should be added for context. Some IAASB members were of the view that users may be more concerned about which specific other firms had participated in the audit, where they were located, whether they had been subject to an inspection regime, and why the work had been performed by other auditors.

REMAINDER OF THE ITC

In addition to editorial changes, the IAASB agreed the following in relation to the revised ITC.

Introduction to the ITC

The IAASB agreed that, within the introduction, further emphasis should be given to the planned roundtables, potential improvements to corporate governance, and public sector perspectives relating to auditor reporting. The IAASB also was of the view that the ITC should refer to "suggested improvements" or "changes to auditor reporting," rather than "proposals," given that responses to the ITC will inform the IAASB's future standard-setting proposals (i.e., the planned June 2013 exposure draft).

Illustrative Auditor's Report

In addition to the changes in the illustrative examples of AC, the IAASB agreed the following changes to the illustrative auditor's report:

- A cross-reference to the description of management's responsibilities with respect to GC should be included in the GC section. In addition, the subheadings within the management's responsibilities should be simplified.

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6   ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- Changes to the description of the auditor's responsibilities should be made to align with ISA 320[7] and to clarify the auditor's responsibilities for risk assessment and response in relation to fraud.

- The bullets in the auditor's responsibilities section should be reordered.

- The disclosure of the engagement partner name should be positioned before the signature.

- The ITC should note that conforming changes would be needed to the illustrative report in the case of a group audit to make reference to the entity's consolidated financial statements and its subsidiaries. However, the IAASB agreed that such change should not be included in the illustrative report since it was intended to highlight how the IAASB's suggested improvements might look for audits of all entities, not only group audits.

Going Concern

The IAASB supported auditor reporting on GC, as a means of making explicit in the auditor's report the auditor's work effort required by ISA 570[8] in relation to both the appropriateness of the entity's use of the going concern assumption and the identification of material uncertainties related to going concern. The IAASB also recognized the need to consider whether further guidance was necessary in relation to material uncertainties, and the importance of working with the IASB in this regard, as well as monitoring other initiatives relating to GC. There was some concern that the IAASB's suggested improvements for the auditor to report on GC, especially as to whether material uncertainties had been identified, may lead to an increase in the expectations gap if users were to interpret the statements on GC differently (i.e., as a guarantee of the entity's future viability) than what the IAASB intended. The IAASB was of the view that the wording in the illustrative report may help to mitigate this. The IAASB agreed that an explicit question should be included in the ITC as to the appropriateness of these statements.

While recognizing the need to ensure that auditors do not provide entity-specific information that had not been disclosed by management, the IAASB was of the view that there may be a role for auditors to highlight potential issues relating to GC based on their work under ISA 570. The ITC was amended to note that the provision of additional information by the auditor when the auditor reaches a conclusion that no material uncertainty exists is seen as helpful by some users because it would provide additional transparency about the auditor's work effort. The IAASB agreed that an explicit question should be included in the ITC to solicit feedback on the value and impediments of the auditor doing so.

Questions for Respondents

The IAASB did not support the presentation of the questions in the agenda material, preferring that the questions apply to all respondents rather be grouped by particular stakeholder groups. In revising the questions, the IAASB agreed the following:

- The questions should be phrased in a consistent manner across sections, allowing for open-ended responses on the value and impediments of the IAASB's suggested improvements.

- The questions would be better placed after the illustrative auditor's report to appropriately focus respondents, and should include references to where the detailed discussion is included in the ITC.

- Additional questions on key areas (as noted above) should be included to draw out responses on these areas.

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[7]   ISA 320, *Materiality in Planning and Performing an Audit*

[8]   ISA 570, *Going Concern*

Appendix 5 and the Description of the "Building Blocks" Approach

The IAASB supported including Appendix 5, subject to editorial changes, to highlight how the suggested improvements could be further tailored to national financial reporting regimes. In this regard, the IAASB believed that feedback from respondents on the balance between consistency and relevance in auditor reporting would further inform the IAASB's determination as to whether to mandate the ordering of elements in the auditor's report. The IAASB also believed it was appropriate for the ITC to highlight the need to understand whether the IAASB's suggested improvements to auditor reporting would be appropriate for entities of all sizes in both the public and private sectors.

IAASB CAG Chairman's Remarks

Ms. de Beer noted that the CAG was very supportive of the concept of AC as a means of delivering value to users, and agreed on an initial basis that a focus on PIEs was appropriate. Ms. de Beer noted the CAG's strong view that users want insight into the key audit risks and findings. Potential tension that may result between auditors and management/those charged with governance as a result of a requirement to provide AC could prove that such AC would be of interest to users and may, over time, change management behavior and improve management disclosures. She noted that a number of CAG Representatives were of the view that AC should be the auditor's effort to highlight the most important matters to users in a one-minute conversation, and that it should not be boilerplate or overly technical. She reiterated the CAG's view that a discussion of the auditor's procedures in AC would likely not be of value to users, and the CAG's belief that for PIEs there would likely always be something on which the auditor should report based on the objective of AC. Ms. de Beer also noted the CAG's support for the possibility of the auditor providing additional disclosure in the auditor's report about the auditor's judgments in relation to going concern.

Ms. de Beer noted that the ITC should describe the potential requirement of AC for PIEs and seek to obtain feedback as to the value and impediments of AC, including the challenges of defining a PIE. A view is held by some CAG Representatives that there may be value in AC for SMEs, especially on certain aspects were the size of the entity is irrelevant to the importance of the information and no extra audit effort is required. AC is intended to provide additional information that users may not be able to otherwise access. She supported the IAASB's decision to separate reporting on GC and other information from AC.

On the discussion of disclosure about the involvement of other auditors, Ms. de Beer noted that the CAG did not have a unanimous view. She believed the CAG would support the IAASB's decision to explore the issue further in the ITC, and that the example disclosure was pitched at the right level to seek feedback. She compared the discussion of the involvement of other auditors to that of the description of the auditor's procedures in AC – granular disclosure may be valued by some but matters at a higher level would likely draw interest from others (i.e., simply knowing others were involved in the audit may have value).

Conclusion

The IAASB unanimously and wholeheartedly approved the issuance of the ITC, subject to a final editorial review by Mr. Montgomery and staff. A comment period until October 8, 2012 should be provided to allow ample time for responses and to align with the final roundtable planned in Kuala Lumpur on that date. The three roundtables will be highlighted in the ITC, with further information to be provided on the IAASB's website. Prof. Schilder briefed the IAASB on the number of meetings and extent of work that had gone into the development to the ITC, and thanked the Task Force for meeting the challenge of developing it in

the anticipated timeline. Prof. Schilder encouraged the Board members to be proactive in stimulating discussion on the ITC in their respective organizations and jurisdictions.

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

Mr. Kinney introduced the topic, providing a brief background to the variety of engagements covered by ISAE 3000.[9] He also provided a high level overview of comments received on the Exposure Draft of proposed revised ISAE 3000[10] (ED-3000), as relevant to the issues presented to the IAASB at this meeting.

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

TREATMENT OF CONCEPTUAL ISSUES

Mr. Kinney highlighted that the IAASB did not intend that the revision of ISAE 3000 introduce change to the fundamental concepts of assurance. However, comments from some respondents were directed at the fundamental concepts of assurance, indicating some desire for a comprehensive reconsideration of the concepts of assurance and the content of ISAE 3000. Mr. Kinney explained the Task Force's view that, notwithstanding the cost and time constraints of reconsidering conceptual issues at this stage, doing so would constitute a change in the scope of the project. Accordingly, the Task Force's recommendation was that the revision of ISAE 3000 should continue to address only matters of clarification to these conceptual issues.

The IAASB broadly supported the Task Force's recommendation. An IAASB member questioned whether an engagement where the practitioner determines the particular measurement or disclosure criteria to be applied is an assurance engagement. Another IAASB member suggested that consideration be given to further clarifying the concept of suitable criteria, as ED-3000 did not appear to adequately describe the concept. The IAASB asked the Task Force to consider these matters further.

LIMITED ASSURANCE

An IAASB member expressed concern about how the meaning of limited assurance has been explained in the IAASB's assurance literature, noting that the concept did not appear adequately defined in ISAE 3000 or other limited assurance standards. The IAASB asked the Task Force to further reflect on the matter of the definition and noted that practitioners' comment letters, in particular, may address how they approach the challenges of the definition of limited assurance. Mr. Kinney noted that the Task Force would welcome suggestions from the Board for improvements.

REPORTING

In relation to reports on ISAE 3000 engagements, the IAASB asked the Task Force to consider whether and how to provide illustrative reports, as requested by some commentators. It was also noted that the Task Force would need to consider the implications of the Auditor Reporting project.

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[9]   ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

[10]   Proposed revised ISAE 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

INCLUSION OF DIRECT ENGAGEMENTS

Mr. Kinney noted that respondents were asked if ED-3000 properly defined, and explained the difference between, direct engagements and attestation engagements. Respondents were also asked whether ED-3000 contained objectives, requirements and other material appropriate to both types of engagements. He highlighted that the majority of respondents generally supported the definitions and material in ED-3000 for both direct and attestation engagements, subject to minor clarifications. He added that some respondents expressed the view that ED-3000 was difficult to read and interpret in practice due to the inclusion of both attestation engagements and direct engagements in a single standard. Others, however, found the requirements and guidance pertaining to direct engagements to be insufficiently tailored.

Mr. Kinney explained that the Task Force is of the view that direct engagements should continue to be within the scope of ISAE 3000. ISAE 3000 as a single umbrella standard for all assurance engagements, other than audits or reviews of historical financial information, would support the continued development of innovative assurance standards applicable to any underlying subject matter. He added that separate standards on attestation and direct engagements would be substantially similar, and that the Task Force believes that material addressing direct engagements can be more clearly differentiated from that relevant to attestation engagements within ISAE 3000. He noted that this could be achieved, for example, by a columnar approach similar to that taken in ISAE 3410.

An IAASB member noted that ISAE 3000 would be helpful to public sector auditors in developing their own standards on direct engagements, even if they chose not to adopt it directly. In this regard, it was suggested that the IAASB could consider whether it could develop a performance audit standard in due course.

The IAASB supported retaining direct engagements in ISAE 3000, noting that separating direct engagements would be inefficient and costly, and would deny the IAASB the opportunity to learn from public sector direct engagements as ISAE 3000 is finalized. The IAASB asked the Task Force to focus on the following areas in further considering the revised draft ISAE 3000:

- Independence when conducting direct engagements, in particular the need to continue to co-ordinate with the IESBA;

- Presentation of the direct engagement material, for example whether alternative methods of presentation could assist in distinguishing direct from attestation engagements within ISAE 3000, although mixed views were held regarding how useful a columnar approach would be.

PIOB OBSERVER'S REMARKS

Ms. Diplock noted that the finalization of ISAE 3000 (Revised) would increase the confidence of users in non-audit engagements, such as and assist in the move towards integrated reporting. She also noted that the IAASB would need to ensure that ISAE 3000 remains flexible, as it would not be possible to predict the nature of all future assurance engagements.

WAY FORWARD

The IAASB asked the Task Force to present a revised draft of proposed ISAE 3000 for consideration at the September 2012 IAASB meeting.

5. **Disclosures**

Mr. Archambault introduced the topic, providing a summary of the activities to date related to the initiative, including the issuance in January 2011 of the Discussion Paper[11] and in January 2012 of related Feedback Statement. He also reminded the IAASB that a new project on auditing disclosures is included in the Board's Strategy and Work Program 2012-2014.

Mr. Archambault summarized the Working Group's preliminary thinking on a few selected key matters in preparation for the development of the project proposal. These included whether to continue considerations around certain aspects of materiality, which may be further affected by the outcomes of various projects and initiatives in this area by the Financial Accounting Standards Board (FASB), IASB, European Financial Reporting Advisory Group (EFRAG), and Financial Stability Board (FSB); and if it was agreed that changes to the ISAs would be required, how those changes would be effected. He further explained that there were three possible courses of action to effect the changes, i.e., making the changes in the individual standards; relocating all existing requirements and guidance, together with any new amendments or enhancements, in one new standard; or the development of a new standard which would contain the conceptual issues relating to auditing disclosures, with much of the detail still left in existing standards. Mr. Archambault noted that, subject to the Steering Committee's recommendation, the plan was to present a project proposal for approval at the September 2012 IAASB meeting.

Mr. Archambault noted that input on the nature and scope of the proposed project was obtained from the NSS liaison group at its April 2012 meeting. In addition, he had also had discussions with the CAG Working group on Disclosures in May 2012 to obtain their views and additional input on some of the key issues.

Preliminary views and input from the IAASB members on the selected issues presented included:

- Even though materiality is first and foremost a financial reporting concept, work on addressing issues identified should, where possible, commence notwithstanding the uncertainty around the timing and outcome of the work of the accounting standard setters and others.

- There were mixed views on what the nature of the work would be. An IAASB member suggested that developing its own thinking in this area could assist the Board in providing input to the accounting standard setters as they worked on their projects. In addition, it was suggested that the development of an International Auditing Practice Note (IAPN) in this area would facilitate further thinking about whether there were areas where standard setting would be required, although such an IAPN would be a short term deliverable. Mr. Archambault noted that much of the input received to date had suggested that an IAPN would not go far enough and that there was an expectation by many that standard setting would be necessary.

- A few other IAASB members agreed with not commencing standard setting activities immediately. Continuing liaison with the accounting standard setters and monitoring of their developments were seen by some as important. In this regard, it was suggested that the IAASB's work should track the work of the accounting standard setters to take account of their developments. Another IAASB member added that consideration should be given to how to work collaboratively with the accounting standard setters to address some of the issues raised, in particular by actively participating in their discussions to influence the outcomes rather than merely monitoring their work.

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[11] Discussion Paper, *The Evolving Nature of Financial Reporting: Disclosure and its Audit Implications*

- It was noted that before any decisions are made about how to amend or enhance the standards, a thorough understanding of the changes that would need to be made would be required.

- In relation to options for how the changes or enhancements would be effected, several IAASB members expressed preference for the "conceptual" standard approach, in addition to considering whether individual standards would need selected enhancements. It was noted that moving the content relating to the audit of disclosures from the existing standards to a stand-alone standard would result in the audit of disclosures becoming an "add-on" to the audit, rather than as an integral part of the audit. An IAASB member also expressed the view that it would be preferable to not make major changes to the existing standards if possible.

IAASB CAG CHAIRMAN'S REMARKS

Ms. de Beer noted that the CAG Disclosures Working Group had indicated that it was important for the IAASB to continue work in this area, notwithstanding that the accounting standard setters were still in the preliminary stages of their work in this area. The absence of a comprehensive framework for disclosures, and the related auditability issues identified, strengthened the case for the need for auditors to have guidance in this area to ensure consistent practice.

Many CAG member bodies have concerns regarding the non-authoritative status on IAPNs – to this end guidance in the form of a standard would probably have much greater support from the CAG.

PIOB OBSERVER'S REMARKS

Ms. Diplock cautioned that the accounting standard setters may have fragmented outcomes, and therefore the IAASB should proceed, in an iterative way, with addressing issues identified in relation to both materiality and auditability, which would be vital to addressing public confidence in the financial statements.

WAY FORWARD

The IAASB asked the Disclosures Working Group to continue its work on developing the project proposal for presentation at the September 2012 IAASB meeting.

6. **PIOB Observer's Remarks**

Ms. Diplock thanked the IAASB for the warm welcome she had received and the opportunity and flexibility to comment on the issues presented. She provided a brief update on the May 2012 PIOB meeting, highlighting the following:

- Confirmation of due process followed for the IAASB Strategy and Work Plan 2012-2014, ISAE 3410, and the International Accounting Education Standards Board's (IAESB) clarified International Education Standard No. 7, *Continuing Professional Development*;

- Confirmation of the appointment of a new observer, Mr. Chris Hemus, to the CAG representing the International Monetary Fund for a three-year term beginning July 2012;

- Acknowledgement of IFAC's Compliance Advisory Panel's (CAP) initial consultation with the PIOB regarding the CAP's project to revise IFAC's Statements of Membership Obligations; and

She also highlighted the issuance of the PIOB's seventh public report.

Ms. Diplock then shared her observations of the Board meeting, noting the professionalism and collegiate atmosphere exhibited during the meeting, and the quality and rigor of the Board's deliberations of the issues presented. She acknowledged the IAASB's consideration and understanding of issues impacting the public interest, particularly from the perspectives of flexibility, international operability, timeliness and relevance to the global market place. She also acknowledged the Board's process to produce readable, clear and accessible standards, noting in particular that the technical issues at this meeting had been debated in a lively and robust manner, and that adequate consideration had been given to challenging matters of public interest.

Ms. Diplock encouraged the Board to continue to be responsive to public interest concerns in a timely manner. In this regard, she complimented the Board on the timeliness of the Auditor Reporting ITC. She also highlighted for the IAASB's future consideration the need to address the definition of limited assurance in a timely manner. Finally, Ms. Diplock complimented Prof. Schilder on his leadership of the IAASB in serving the public interest.

Prof. Schilder thanked Ms. Diplock for her remarks.

7. Next Meeting

The next meeting of the IAASB is scheduled for the week of September 17-21, 2012 in New York, United States.

8. Closing Remarks

Ms. McCabe expressed support for the structure of the meeting agenda and encouraged the Board to consider such practice for future meetings.

Mr. Gunn reported that Mr. James will be relocating to Melbourne, Australia, but will continue to be part of the technical staff.

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