

**Draft Minutes of the 57<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD  
Held on April 15–19, 2013 in New York, USA**

**Voting Members**

Present: Arnold Schilder (Chairman)  
Dan Montgomery (Deputy Chair)  
Arch Archambault  
Jean Blascos  
Jianshen Chen  
Cédric Gélard  
Jon Grant  
Jonas Hällström  
Merran Kelsall  
Annette Köhler  
Charles Landes (April 15–18)  
Caithlin Mc Cabe  
Brendan Murtagh  
Marc Pickeur  
Tomokazu Sekiguchi  
John Wiersema  
Bruce Winter

Apologies: Valdir Coscodai

**Technical Advisors**

Sue Almond (Mr. Murtagh)  
Brantley Blanchard (Ms. Mc Cabe)  
Wolf Böhm (Ms. Köhler)  
Karin French (Mr. Archambault)  
Marek Grabowski (Mr. Grant)  
Hiram Hasty (Mr. Landes)  
Susan Jones (Mr. Blascos) (April 16–19)  
Sachiko Kai (Mr. Sekiguchi)  
Richard Mifsud (Ms. Kelsall)  
Alexandra Popovic (Mr. Hällström)  
Jon Rowden (Mr. Winter)  
Greg Shields (Mr. Wiersema)  
Isabelle Tracq-Sengeissen (Mr. Gélard)  
Jacques Vandernoot (Mr. Pickeur)  
Denise Weber (Mr. Montgomery)

Ge Zhang (Mr. Chen)

**Non-Voting Observers**

Present: Linda de Beer, Juan Maria Arteagoitia, Norio Igarashi

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

Present: Michael Hafeman and Claudia Deodati

**IAASB Technical Staff**

Present: James Gunn (IAASB Technical Director), Beverley Bahlmann, Keesha Campbell, Kathleen Healy, Brett James, Diane Jules

## 1. Opening Remarks and Minutes

### WELCOME AND INTRODUCTIONS

Prof. Schilder welcomed the participants and observers to the meeting. He noted that Board member apology was received from Mr. Coscodai. He welcomed Mr. Hafeman, observing the meeting on behalf of the PIOB, and Ms. Deodati, PIOB Director of Oversight. He also welcomed Ms. de Beer, observing on behalf of the IAASB Consultative Advisory Group (CAG), and Messrs. Arteagoitia and Igarashi, observing on behalf of the European Commission (EC) and Japanese Financial Services Agency (FSA), respectively.

Prof. Schilder referred to the successful CAG meeting held the previous week, noting the CAG was encouraging in its comments particularly in relation to auditor reporting. Ms. de Beer agreed, noting that there was a lively debate at the CAG meeting, which is useful immediately before the Board meeting to ensure the comments of the CAG are fresh in the memories of all. She also noted there were a few underlying messages for the IAASB about being proactive on relevant topics, including professional skepticism and particularly where matters of public interest are at stake. She also explained that the CAG had received a presentation from the Japanese FSA relating to their recent improvements to the auditor's work relating to fraud in addition to what is addressed in the ISAs. The Basel Committee on Banking Supervision's document on the role of external audit was also noted at the CAG. It is important for the Board to consider these and to monitor national developments as part of its strategy process.

Prof. Schilder referred to the topics on the meeting's agenda, most of which were discussed with the CAG the previous week. He thanked the Task Forces and staff for their hard work in preparing the meeting papers. He also noted that Mr. Barry Melancon, President and CEO of the American Institute of Certified Public Accountants (AICPA), has agreed to share with the IAASB his views about the longer-term challenges and opportunities facing the accounting profession.

### RECENT DEVELOPMENTS

Prof. Schilder reported that there were now eighty-eight jurisdictions using, or committed to using, the clarified ISAs, as Italy had recently been added. He also noted that, in Poland, the KIBR Council approved the resolutions on adoption of ISAs, ISQC 1 and other International Standards. This approval is now to be submitted to the public oversight body in Poland for its consideration and approval.

Prof. Schilder noted the ongoing efforts of the International Accounting Standards Board (IASB) Liaison Working Group, including their recent comment letter in response to the IASB's ED addressing amendments to IFRS 9. He thanked Mr. Sekiguichi for his leadership in developing the recent comment letter.

Prof. Schilder highlighted the publication in March 2013 of the IAASB's strategy survey, open for comment through May 7, 2103, as well as the release of ISA 610 (Revised 2013).<sup>1</sup> He also drew the IAASB's attention to recent outreach activities,<sup>2</sup> and highlighted plans for a May 2013 joint IAASB-IASB event addressing adoption and implementation of international standards in the former Soviet Republics in Europe and Central Asia, in which Messrs. Montgomery, Grant and Gunn will participate. He also noted plans for Mr. Murtagh to participate in the IFAC Small and Medium Practices Forum in Uganda.

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<sup>1</sup> ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

<sup>2</sup> A full list of outreach activities since the February 2013 IAASB meeting was presented as an appendix to **Agenda Item 1** of the April 2013 IAASB meeting materials.

## MINUTES OF THE PREVIOUS MEETING

The minutes of the public session of the February 2013 IAASB meeting were approved as presented.

## 2. Auditor Reporting

Prof. Schilder opened the session by noting that in recent outreach meetings, including the Forum of Firms meeting, there has been overall support for the IAASB moving forward towards an exposure draft of the auditor reporting proposals in June. Mr. Montgomery commented on how far the Board's deliberations had come in such a short period of time, attributing the progress to the great work of the two Drafting Teams (DTs), including the Technical Advisors to DT members, and Staff. Mr. Montgomery encouraged Board members to continue to make their views known on positions taken by the DTs, and suggest alternatives for both wording and conceptual issues where possible.

### KEY AUDIT MATTERS (KAM) – DRAFT OF PROPOSED ISA 701<sup>3</sup>

#### *Scope*

Mr. Montgomery explained that the material in the Scope section was developed in response to comments from the CAG to make clear the purpose of the auditor communicating KAM in the auditor's report. DT-701 was of the view that this approach was preferable to trying to address users' needs in the objectives of the standard.

The IAASB suggested the Scope section could be further simplified and asked the DT to further consider the following:

- Whether the standard needed to be specific that KAM were matters of most significance in planning and performing the audit, or simply matters of most significance in the audit. In this regard, IAASB members had mixed views, with an IAASB member suggesting a focus on the output (i.e., forming the opinion on the financial statements as a whole) would provide greater clarity for auditors. Other IAASB members were of the view that investors sought to understand the issues and critical judgments underlying the audit that was performed, which could be considered inputs to forming the opinion.
- Whether the concept of significance in the audit related solely to the significant judgments of the auditor, including whether a focus on this would adequately address matters of significance to users' understanding of the financial statements. Mr. Montgomery noted that DT-701 had intentionally moved away from a primary focus on enhancing users' understanding of the financial statements based on responses to the Invitation to Comment (ITC), which indicated that doing so was management's responsibility. However, he acknowledged that more often than not the most significant matters in the audit will relate to the most significant matters in the financial statements.
- Whether application material addressing users and their needs could be repositioned to link more closely to the Scope section.
- Whether the Scope section should acknowledge the possibility that, in addition to law or regulation, national auditing standards may require auditors to communicate KAM.

An IAASB member was of the view that it would be inappropriate for the standard to imply that KAM are subject to agreement by those charged with governance (TCWG) and that, instead of basing the

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<sup>3</sup> Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

determination of KAM on matters communicated with TCWG, that separate understandable and enforceable criteria were necessary. In this member's view, because "matters of most significance" is a relative threshold, the proposed criteria should be linked more to the degree of effort or difficulty faced by the auditor. However, the majority of the IAASB continued to support basing KAM on those matters communicated with TCWG, because users have indicated greater transparency about such communications would be beneficial and the matters that are required communications with TCWG under the ISAs include significant findings from the audit, which generally would be the most important matters in the audit.

#### KAM for Audits of Financial Statements of Entities other than Listed Entities

The IAASB continued to support proposed ISA 701 being applied when entities other than listed entities communicate KAM in the auditor's report.

The IAASB asked DT-701 to further consider the following:

- How both the Scope section and possibly ISA 210<sup>4</sup> could be amended to acknowledge auditors discussing the possibility of providing KAM at the time the audit engagement letter is agreed. IAASB members had mixed views whether the auditor needed to agree with management and TCWG that the auditor would communicate KAM in the auditor's report, with a number of IAASB members suggesting it would be inappropriate for the auditor to be precluded from communicating KAM if management and TCWG did not agree or if the auditor decided to do so after the terms of engagement had been agreed. On balance, the majority of the IAASB agreed that the terms of engagement should make clear that the auditor of a non-listed entity has the ability to communicate KAM in the auditor's report if not otherwise required to do so.
- In light of these changes to the Scope section, how the ISA could be further simplified to acknowledge that the objectives and the requirements apply in their entirety when auditors of financial statements of entities other than listed entities communicate KAM.
- How the ISA could acknowledge public sector considerations relating to KAM, due to the additional reporting that is more common in the public sector based on the audit mandate of particular jurisdictions and the fact that public sector auditors may not have the ability to agree on the terms of the audit engagement.
- How the Explanatory Memorandum (EM) could explore whether it would be appropriate to require auditors of entities of financial statements of entities other than listed entities who decide to communicate KAM in one year to continue to communicate KAM in subsequent years.

#### *Objective*

The IAASB supported revising the objective to make it clearer that the auditor's determination of KAM is separate from the process of forming an opinion on the financial statements. This is because, as noted in proposed ISA 701, communicating KAM is not a substitute for a modified opinion in accordance with proposed ISA 705<sup>5</sup> when required by the circumstances of the specific audit engagement.

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<sup>4</sup> ISA 210, *Agreeing the Terms of Audit Engagements*

<sup>5</sup> Proposed ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

### *Determining KAM*

Mr. Montgomery introduced the topic, noting the bullets supporting the requirement in paragraph 11 were intended to establish parameters for the auditor's decision-making. DT-701 was of the view that focusing on areas of significant risk, the degree of difficulty encountered in obtaining evidence, the difficulty of the judgment involved, and whether a significant deficiency in internal control was identified, would be responsive to user demands. However, Mr. Montgomery noted that these are only factors, and not indicative that a matter is required to be communicated as a KAM if it meets one or more of these factors. It was noted this construct is similar to that used in ISA 315 (Revised)<sup>6</sup> relating to the auditor's identification of significant risks.

The IAASB agreed the following:

- The requirement should not make reference to "the nature and extent of communications with those charged with governance" but this could be explained in application material.
- A reference to significant risks in the requirement is appropriate, in light of the European Commission (EC) proposals, comments received from the CAG, and the fact that users have expressed interest in knowing how the auditor addressed significant risks in the audit. It may also be necessary to refer to areas assessed as having a higher risk of material misstatement as well.
- In determining KAM, the auditor's decision-making should focus on the matters that "kept the auditor awake at night." These would generally be the areas of focus in performing the audit, particularly significant risks, areas in which the auditor encountered significant difficulty, and circumstances that necessitated significant modification of the planned approach to the audit. IAASB members who were less supportive of a factor linked to significant deficiency in internal control noted that such a deficiency was likely to result in a change in audit approach.

In addition to editorial comments, the IAASB asked DT-701 to further consider the following in relation to application material supporting this requirement:

- How it could be clarified that the determination of KAM is likely to occur throughout the audit as matters are communicated with TCWG, rather than as a separate new process after the auditor had formed the opinion on the financial statements.
- Whether it is appropriate for the standard to provide guidance regarding the number of matters that might be expected to be communicated as KAM and, if so, what an appropriate range would be based on feedback from the ITC. IAASB members were generally of the view that the communication in the auditor's report should not be a lengthy list of matters, as this would likely be of less use to investors and others, and that the auditor's process is to narrow the matters communicated with TCWG to a smaller number of matters.
- How the ISA should address the possibility of the auditor communicating sensitive matters, such as fraud risks, and information that is not already disclosed in the financial statements. It was noted that users would not have the benefit of two-way communication, which could prove challenging to the auditor in determining how best to communicate these matters. Finally, reference was made to the fact that law, regulation or ethical standards, including those relating to confidentiality, may

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<sup>6</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

have implications on the extent of public communication that would be appropriate in relation to particular matters.

- How the ISA could acknowledge that KAM are in part based on the entity and its environment and explain the possibility that KAM could differ from year to year, but may in fact be the same absent any significant changes in facts or circumstances. It was also suggested that clarification was needed as to how the auditor would communicate KAM when comparative financial information is presented.

#### Matters of Audit Scope and Strategy

Mr. Grabowski provided an update on the UK Financial Reporting Council's consultation on proposed requirements for the auditor to communicate, in addition to significant risks, information about materiality and the scope of the audit. He noted the view that investors want to be able to engage with the Audit Committee about the audit and its effectiveness about both matters of significance in performing the audit and matters of audit scope and strategy.

Mr. Montgomery noted that feedback from the ITC indicated users were primarily interested in the areas addressed in paragraph 11 of proposed ISA 701. An IAASB member confirmed this view based on outreach conducted in her jurisdiction.

#### When the Auditor Expresses a Qualified or Adverse Opinion

Mr. Montgomery explained that DT-701 is of the view that the auditor should communicate KAM when the auditor has expressed a qualified or adverse opinion. Mr. Montgomery noted that a CAG Representative suggested adverse opinions for listed entities were rare, and therefore perhaps communicating KAM should be prohibited for adverse opinions in addition to disclaimers of opinion. The IAASB agreed that KAM should be required even when a qualified or adverse opinion is expressed but suggested proposed ISA 701 could be enhanced to explain the relationship between the matters for which the auditor has determined a modification to the opinion is necessary and other KAM. For example, an IAASB member suggested it would be necessary to explicitly explain in the auditor's report that the matter explained in the Basis for Qualified (or Adverse) Opinion was a KAM.

#### When the Auditor Disclaims an Opinion

Mr. Montgomery noted DT-701's view that it is necessary for proposed ISA 701 to prohibit the auditor from communicating KAM when the auditor disclaims an opinion on the financial statements. DT-701 believed that communicating KAM is inconsistent with the inability to form an opinion on the financial statements as a whole and could be misleading if users interpret KAM in such circumstances as positive assurance on particular items. He noted, however, that a few CAG Representatives were of the view that, in certain circumstances, in particular in the public sector, communicating KAM may still be appropriate even when the auditor disclaims an opinion on the financial statements. IAASB members had mixed views on the amount of audit work that may have been performed in a disclaimer situation, noting that it may vary based on the reason for the disclaimer. On balance, the IAASB supported the prohibition in proposed ISA 701 but asked the DT to further consider the following:

- Whether the requirement in proposed ISA 705 when the auditor disclaims an opinion to communicate other matters for which a qualified or adverse opinion would have been necessary remains appropriate. On balance, IAASB members favored retaining this requirement because

such information signals to users other areas that are materially misstated in the financial statements.

- How the application material in proposed ISA 701 could better describe why the auditor is prohibited from communicating KAM when the auditor has disclaimed an opinion. IAASB members were generally of the view that communicating KAM may provide more credibility to the financial statements than is appropriate in a disclaimer situation (i.e., that users should not be relying on those financial statements or making decisions on the basis of them).
- Whether the auditor's report should explain why the auditor is not communicating KAM in such circumstances. An IAASB member was of the view that users may need to be informed that there were KAM but that these are not being provided in the auditor's report.

#### When the Auditor Determines There Are No KAM

Mr. Montgomery noted that DT-701 had mixed views on whether the ISA should acknowledge the circumstance when the auditor has determined, in the auditor's professional judgment, that there are no KAM to communicate in the auditor's report. IAASB members had similar mixed views, noting that the concept of "most significance" implies that there would always be at least one matter and that determining that there were no matters to report would be expected to be rare. Mr. Montgomery noted that of the existence of dormant listed entities in some jurisdictions was raised at the CAG as a circumstance demonstrating that it may not be rare to have no KAM to communicate for a listed entity. On balance, the IAASB agreed to retain a proposed requirement addressing this circumstance and illustrative wording in the auditor's report.

The IAASB asked DT-701 to further consider how such a conclusion would be expected to be documented, including the auditor's communication with TCWG about this conclusion.

#### *Documentation*

The IAASB was of the view that, while a documentation requirement was likely to be necessary in light of the anticipated concerns of audit regulators, the determination of KAM is a significant judgment that would already be required to be documented in accordance with ISA 230.<sup>7</sup> The IAASB asked DT-701 to revisit the proposed requirement and further consider whether additional application material in ISA 230 may be useful.

Some IAASB members expressed concern that it would be difficult to impose a documentation requirement that would result in the auditor having to explain why every matter communicated with TCWG was or was not determined to be a KAM. Other IAASB members noted that if there were topics that were the subject of robust discussion with TCWG (and would be documented in accordance with ISA 260),<sup>8</sup> regulators might question why such matters were not determined to be KAM and therefore documentation would be useful. It was suggested that the EM could further explore the topic of documentation to solicit views on the practicality of such a requirement in proposed ISA 701.

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<sup>7</sup> ISA 230, *Audit Documentation*

<sup>8</sup> ISA 260, *Communication with Those Charged with Governance*

### *Communicating KAM*

IAASB members considered the nature of introductory language that would be required in the KAM section of the auditor's report. While it was noted that such information would be standardized, such contextual information would be useful to ensure users of the auditor's report understood the nature and purpose of such communication because KAM is a new concept. In particular, there was support for explaining that the auditor does not express an opinion on individual matters and that KAM in the auditor's report is not intended to be a comprehensive list of all matters communicated with TCWG. The IAASB agreed such information should be presented before the description of individual KAM, and that no additional information related to KAM was needed in the description of the auditor's responsibilities.

Mr. Montgomery explained that the proposed requirement in paragraph 16 of proposed ISA 701 was intended to be principles-based in order to enable auditors to determine the appropriate amount of detail to include in the auditor's report, depending on the matter and the disclosures in the financial statements. IAASB members suggested it was necessary for the standard to explain that the description in the auditor's report should include, where applicable, a reference to management's disclosures and information to explain why the auditor considered the matter to be of most significance in the audit.

In addition to editorial comments, the IAASB asked DT-701 to further consider the following:

- Whether the standard should be more specific to drive a minimum level of consistency (e.g., a description of the topic or issue, why it was important, and how the matter was addressed in the audit). Some IAASB members, however, expressed the view that it was not necessary to require auditors in all cases to describe audit procedures, based on feedback to the ITC that such information was less useful and may be difficult to do in a succinct manner. Some IAASB members thought users might benefit from a conclusion or a statement that the auditor was satisfied in regard to the matter, while others were of the view this would be inappropriate, as the auditor's conclusion is the opinion on the financial statements as a whole.
- How the ISA can explain that, when management's disclosures are robust, the auditor's description of KAM may draw out the most important aspects of these disclosures.
- How the EM can further solicit views as to the anticipated time and cost that will be incurred by auditors in implementing proposed ISA 701 and developing the communication of individual KAM, as well as the implications on management and TCWG.

### *Illustrative Examples*

Mr. Montgomery explained that the revised illustrative examples were intended to demonstrate how the proposed requirements would be applied, and recognize the flexibility that is needed depending on the matter being communicated. He noted that some concern had been expressed during outreach that evaluating the appropriateness of the examples was difficult without a reference to financial statement disclosures, but that DT-701 and Staff had referred to such disclosures when developing the examples.

### *Discontinued Operations*

IAASB members were generally of the view that this was the least helpful example. There was also a view that the minimalistic description of the auditor's work may give the incorrect impression that the auditor did very little to address the matter, and that users were likely to find less value without any specific auditor insight. Some IAASB members suggested that a different example might be more



appropriate, e.g., recoverability of receivables, litigation, or related parties. It was also suggested that an example of a matter that is not explicitly disclosed in the financial statements may be useful.

#### Goodwill

IAASB members supported the specificity in this example that the assumptions relating to goodwill were affected by certain economic conditions. It was suggested that the example could be further refined to explain that small changes in assumptions would give rise to an impairment, and that further detail could be given about the auditor's work as to the adequacy of the disclosures.

#### *CAG Chairman's Remarks*

Ms. de Beer noted that there has always been very strong support for the auditor reporting project from the CAG. She explained that on balance the comments made by the CAG have been very supportive, encouraging the Board to move forward with the June ED.

The CAG supported the material in the Scope section of proposed ISA 701 and acknowledged that users are looking to the auditor to provide further insight in helping them better understand the company, and that the auditor explaining areas of focus in the audit would provide this insight. Ms. de Beer explained that there is a strong view from some CAG Representatives that KAM should be required for more than listed entities, but there is also recognition that NSS could expand this requirement and that the Board's future post-implementation review will assist it over time in determining whether the requirement should be broader.

In relation to the prohibition of KAM when the auditor disclaims an opinion, a few CAG Representatives were of the view that disclaimers may not be rare in public sector entities or developing nations (although KAM may not be required for these entities). It would be preferable for the IAASB to focus on explaining the need for the auditor to provide a more comprehensive explanation in the Basis for Disclaimer of Opinion section of the auditor's report as to why the auditor is disclaiming an opinion on the financial statements.

Ms. de Beer noted that a concern was raised from the International Monetary Fund (IMF) Representative that, in some cases, a possible KAM may relate to matters not disclosed in the financial statements and hence the auditor is not able to communicate the issue as a KAM (e.g., a pervasive lack of corporate governance or when the auditor had difficulty communicating with TCWG). Therefore, it was suggested the standard may need to address such circumstances. It also was recognized that, in relation to certain matters, management or TCWG may be reluctant to have the auditor communicate those matters in the auditor's report, but that the auditor should not be permitted to omit communication because a matter is too sensitive to disclose. Omissions should only be allowed due to restrictions established by law or regulation.

Ms. de Beer noted the CAG's view that KAM should be a limited number of matters, with guidance in the standard to ensure that auditors would not include a lengthy list of standardized disclosure in the auditor's report.

In relation to the examples, she noted that the CAG felt that examples should be more crisp and consistent. The current examples might not be helpful enough to users to add new insights as they might become boilerplate.

*PIOB Observer's Remarks*

Mr. Hafeman expressed concern that the need for auditors of financial statements of entities other than listed entities to obtain the approval of TCWG in order to communicate KAM was unfair to both the auditor and to users of the financial statements and risked widening the expectation gap. In his view, auditors would be put under unfair pressure, particularly by TCWG of problematic entities, and users would never know whether the reason an auditor's report did not include KAM was because the auditor chose not to do so or was pressured by TCWG, who did not agree to the inclusion. Mr. Hafeman supported including KAM in all auditors' reports, rather than only for listed entities.

ISA 260 PROPOSED REVISIONS

Mr. Montgomery noted the IAASB's previous view that certain revisions to ISA 260 may be needed to underpin auditor reporting. On this basis, DT-701 proposed amendments to ISA 260, in particular to explain the interaction between communication with TCWG and KAM and ensure that the matters that may be determined to be KAM would have already been communicated with TCWG in accordance with ISA 260 and other ISAs. In addition, DT-701 had considered recent proposals by the US Public Company Accounting Oversight Board and the EC relating to communication with TCWG to determine if any such material could be useful in a revised ISA.

Mr. Montgomery noted that the CAG was supportive of the possibility of proposing changes to ISA 260 in particular if they would improve audit quality, but that the IFAC Small and Medium Practices Committee had expressed concern that auditors of financial statements of entities other than listed entities (who would not be required to communicate KAM) would be unduly burdened by a number of the proposed changes. In response to this point, CAG Representatives were of the view that such changes would not be a significant burden because much of the communication about significant risks in particular is currently done in practice, and could be applied on a proportionate basis, and also because the flexibility remains that such communication could be oral or in writing.

It was noted that findings from the ISA Implementation Monitoring project did not suggest that a widespread revision to ISA 260 was necessary. The IAASB recognized the likely need to propose certain changes to ISA 260, but suggested such changes should be limited to those that are related to the determination of KAM in accordance with paragraph 11 of proposed ISA 701.

In relation to significant risks, the IAASB saw merit in requiring explicit communication about significant risks to TCWG, but did not support requiring such communication to be in writing in all cases. The IAASB asked DT-701 to further consider the nature and extent of the proposed changes to ISA 260 for further consideration at the June 2013 IAASB meeting, in particular the linkage between the requirements in proposed ISA 701 and the requirements in paragraphs 15–16 of extant ISA 260.

*PIOB Observer Remarks*

Mr. Hafeman was of the view that, because this project involves such a significant reconsideration of auditor reporting, it is understandable that there would be effects on the other ISAs. Also, in the context of the audit quality initiative, there have been a number of potential improvements that are outside the scope of the IAASB's activities, such as the role of TCWG. Therefore, in Mr. Hafeman's view, it seems natural and appropriate, as well as a good opportunity to raise the bar for TCWG, if ISA 260 is enhanced. Ms. de Beer agreed, noting that while the IAASB had agreed not to require KAM for all entities, strengthening communication with TCWG for all entities would improve audit quality and provide a basis should the IAASB move to a broader requirement in the future.

## GOING CONCERN (GC)

Mr. Winter introduced the topic, acknowledging it was the subject of much discussion with the IAASB CAG. He also briefed the IAASB on DT-700's interactions with accounting standard setters, in particular the International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB). Mr. Winter explained that the IAASB was being asked to agree to the proposed wording of the illustrative statements related to GC to be included in the auditor's report, so that DT-700 could develop corresponding reporting requirements to operationalize it through limited amendments to ISA 570.<sup>9</sup>

### *Consideration of an Overall Approach for Developing Auditor Reporting Proposals Relating to GC*

The IAASB discussed three possible options for developing reporting requirements relating to GC:

- Option A – Continue to pursue improvements in auditor reporting on GC using the premise of extant ISA 570;
- Option B – Exclude GC from the scope of the auditor reporting project, awaiting the finalization of accounting standards to inform a broader ISA 570 revision project; and
- Option C – Proceed with auditor reporting on GC, and attempt to predict likely changes to accounting standards and factor in potential improvements to auditor reporting that could result from them.

The majority of IAASB members expressed support for Option A. Several members suggested that it was also important to simultaneously monitor the accounting standard setters' GC projects in order to be well positioned to respond in a timely way to changes in accounting for GC, within the context of a broader ISA 570 revision project if appropriate. Specifically, IAASB members noted that:

- Option A is a necessary incremental step that the IAASB should take to address stakeholders' call for change with respect to GC, but it is important for the IAASB to ensure it is in a position to develop the changes that might be necessary to ISA 570 in light of potential changes to the accounting standards. Accordingly, a number of IAASB members suggested that DT-700 consider a phased approach that incorporates Option A, but also allow for monitoring the activities of the accounting standard setters.
- The EM to the ED should emphasize that the IAASB has been actively liaising with accounting setters to monitor the developments with respect to GC so as to remain accountable and transparent to stakeholders, and acknowledge the strong view by respondents to the ITC that a holistic approach to GC was necessary.

In response to queries about the pace of the IASB's progress, and the nature of the changes being considered, Mr. Winter noted that, while the final outcome of the revisions to the accounting standards remains uncertain, continual close interactions will be integral to planning for potential further changes to ISA 570. Mr. Grant added that the current developments at the IASB have been thoughtful.

An IAASB member expressed support for Option B, suggesting the IAASB would be better placed to allow the accounting standard setters to clarify certain concepts in accounting for GC (e.g., clarify the definition of a material uncertainty (MU) and the related disclosures required to be included in the financial statements) before considering changes to the ISAs. The member noted that investors and others have called for "early warnings" about GC matters, which cannot be accomplished without

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<sup>9</sup> ISA 570, *Going Concern*

changes to the underlying accounting standards. In the member's view, any statement in the auditor's report about GC without these changes could potentially expand the expectation gap.

*DT-700's Recommendation for Illustrative Wording for Auditor Reporting on GC*

Mr. Winter explained that, based on the feedback provided by the CAG, DT-700 had revised the illustrative wording to be included in the auditor's report about GC in advance of the IAASB meeting. In response to the updated wording circulated during the meeting as a supplemental agenda item, IAASB members expressed the following views.

*When a MU Is Not Identified*

IAASB members were generally supportive of the updated illustrative GC wording presented by DT-700, but provided several editorial comments to improve it. For example, it was suggested that the description of management's responsibility with respect to GC could be positioned first. Though there was acknowledgement that GC was a very technical topic, some IAASB members suggested that the statements could be written in "plain English" so as to be generally understandable to users. An IAASB member noted the importance of proposed ISA 570 (Revised) acknowledging the need for auditors to adapt the illustrative wording when accounting frameworks other than International Financial Reporting Standards (IFRSs) were used.

*When a MU Is Identified*

IAASB members were also supportive of the updated illustrative wording to be included in the auditor's report when a MU is identified, but provided several suggestions for improving it, including suggestions about the placement of the statement to give it appropriate prominence. Additionally, the IAASB asked the DT to further consider the interaction between the statement about MU and the statement about the appropriateness of management's use of the going concern basis of accounting (i.e., whether the statement regarding the management's use of the going concern basis of accounting is appropriate when a MU has been identified).

*IAASB CAG Chairman's Remarks*

Ms de Beer indicated the CAG was supportive of Option A as a way forward. She also noted that the calls for having explicit information in the auditor's report about GC is not only from stakeholders in Europe (e.g., the EC), but also the much wider investor community. With respect to the illustrative wording, the CAG suggested that DT-700 revise and clarify the proposed wording as presented in the agenda materials to avoid comingling and confusing certain general GC concepts. Ms. de Beer suggested that DT-700 obtain feedback from the IASB staff on the illustrative wording when IFRSs are used, in particular on the statement that describes management's responsibility, to ensure it is appropriate.

*PROPOSED ISA 700 (REVISED)*

Mr. Winter introduced the topic, noting that this was the first time that proposed ISA 700 (Revised) was presented to the IAASB for a full read. IAASB members provided several suggestions to improve the readability of the standard, focusing on the operability of the requirements and application material of proposed ISA 700 (Revised) and exchanged views about outstanding issues, including those related to the topics below.

*Consistency, Relevance and Flexibility, Including the Effect of Law, Regulation and National Auditing Standards on Auditor Reporting*

IAASB members continued to express mixed views on this topic. Some IAASB members were of a view that proposed ISA 700 (Revised) should have relatively more prescriptive requirements to promote further consistency in global auditor reporting, thereby allowing the ISA auditor's report to be easily recognizable. In contrast, other IAASB members noted that further prescriptiveness in an auditor reporting standard could hinder the adoption of the ISAs globally and may unduly restrict auditors' ability to communicate relevant information to users in a manner that is appropriate within the context of their national reporting and corporate governance frameworks.

On balance, the IAASB agreed that proposed ISA 700 (Revised) could best promote consistency by having prescriptive requirements that specify the elements to be included in the auditor's report, which would be identifiable by mandatory headings and subheadings, while allowing for variation in wording based on national circumstances. Accordingly, IAASB members suggested paragraph 4 of proposed ISA 700 (Revised) could better articulate the board's views about the need for the right balance between having requirements that promote consistency in global auditor reporting and the need for flexibility to accommodate reporting requirements as a result of national law or regulation.

*Auditor's Report Prescribed by Law or Regulation*

While some IAASB members were of a view that the right balance had been reached with requirements in proposed ISA 700 (Revised), others suggested that DT-700 revisit the requirements related to situations when law or regulation prescribes the content or layout of the auditor's report, or when dual reference is made to ISAs and national auditing standards (i.e., paragraphs 46 and 47) to:

- Clarify the intent of the requirements in a manner that is less prescriptive (i.e., reduce the number of required elements necessary to be in the auditor's report in order for a reference to the ISAs to be included); and
- Determine whether further flexibilities could be permitted.

*Enhanced Descriptions of the Responsibilities of Management, TCWG and the Auditor*

IAASB members were generally supportive of the requirements related to expanded descriptions of responsibilities of management, TCWG, and the auditor included in the auditor's report, and exchanged views about allowing the description of the auditor's responsibilities to be relocated to an Appendix or reference made to a website of an appropriate authority.

*Relocation of Description of Auditor's Responsibilities*

Mr. Grabowski updated the IAASB on the UK FRC's experience, having for some time allowed auditors to make reference to an UK FRC link that contains a description of the audit and audit scope. In response to questions about version control and due process that is put in place to ensure the continued accuracy of the wording at the website link, Mr. Grabowski noted that each report is directed to a separate UK FRC link that corresponds to the year of the audit. Mr. Gunn queried whether the IAASB will then be expected to include a description of the auditor's responsibilities for an ISA audit on its website, and to develop a process to determine whether or not alternate descriptions are consistent with the underlying requirements of the ISA.

IAASB members expressed the following views:

- Some IAASB members were of a view that the principle of relocation should be the same whether a reference is made to a website or to an appendix. Accordingly, they suggested that the proposed requirement be revised to permit auditors the option to refer to a website *provided that the website is one of an appropriate authority that is established by law or regulation* rather than *only when law or regulation permits the auditor to do so*.
- Some IAASB members challenged the need to have more prescriptive requirements about what is stated in the description of the auditor's responsibilities section when it is in the auditor's report (i.e., within the body or in an Appendix) versus when it is on a website.

#### Description of Responsibility for Oversight of Financial Reporting Process

Some IAASB members questioned the need to include a requirement to describe the responsibility for oversight of the financial reporting process, in light of the fact that in many jurisdictions that role is satisfied by the company's management.

#### *Disclosure of the Name of the Engagement Partner (EP)*

IAASB members expressed a range of views on the topic as follows:

A number of IAASB members challenged the rationale for having the requirement applicable to listed entities only, noting that a case could be made for having the public interest and transparency benefits of such a requirement be made available to audits of all entities. Among others, the following points were noted:

- There is an investor expectation that the name of the EP will be included in the auditor's report. At least two board members added that IAASB should accordingly have the requirement be for all entities, unless it is prohibited by a law or regulation within a specific jurisdiction.
- There was also a suggestion to drop the "otherwise publicly disclosed" clause, as well as the "harm's way" exemption.

Those who did not support requiring disclosure of the name of the EP noted the following:

- Some IAASB members suggested that the IAASB remain entirely silent on the issue of naming the EP and, as is the case with extant ISA 700, allow jurisdictions to develop requirements for naming the EP in their auditors' reports within the context of their national circumstances, in particular their legal liability regimes. An IAASB member added that the IAASB should take steps to encourage but not require the inclusion of such information in the auditor's report.
- An IAASB member noted that having the name of the EP in the auditor's report could leave users to draw inappropriate conclusions with respect to the engagement.

Concern was expressed by a number of IAASB members that the varying views on this topic could potential derail the auditor reporting project.

DT-700 considered the feedback expressed during the meeting and re-affirmed its view that the requirement for disclosure of the name of EP in the auditor's report should be limited to listed entities only. DT-700 also agreed that the requirement and application material included in the agenda material could be simplified (e.g., remove reference to "otherwise publicly disclosed"). IAASB members agreed to

move forward with having a requirement for naming the EP in the auditor's report for audits of financial statements of listed entities only.

#### *IAASB CAG Chairman's Remarks*

Ms. de Beer noted that generally the view from the CAG is for more consistency and hence less flexibility in the presentation (ordering) of the auditor's report. She explained that the CAG was of a view that the IAASB could allow some flexibility with respect to the actual wording within the report. However the requirements should be drafted in a manner that promotes consistency in the elements that are included and the layout of those elements, allowing exceptions for only law or regulation.

With respect to making reference to the description of the auditor's responsibility to a website of an appropriate authority where law or regulation permits, Ms. de Beer indicated that CAG Representatives expressed mixed views. There was a view among some that the wording on the website should be exactly the same as what is included in the auditor's report, while others were supportive of the approach in proposed ISA 700 (Revised) that allowed for a more comprehensive description of the audit. With respect to naming the EP, Ms. de Beer noted that the CAG was very supportive of having the name of the EP included in the auditor's report and did not support the "harm's way exemption". Ms. de Beer further noted that the a number of CAG Representatives were of a view that the IAASB should take a leadership role in setting standards that are best in the public interest, considering NSS have the ability to remove particular requirements, if considered necessary based on their national circumstances.

#### *PIOB Observer's Remarks*

On the topic of naming the EP in the auditor's report, Mr. Hafeman encouraged the IAASB to take the public interest into account in determining a way forward. He reinforced the views expressed by the CAG and some IAASB members who indicated that having the name of the EP in the auditor's report enhances transparency and serves to enhance the confidence of users in the auditor's report. He noted supervisory agencies focus on individual auditors, rather than the firm, and that actuaries are commonly required as individuals to sign their reports, making them accountable for their work.

Mr. Hafeman explained his view that the disclosure of the name of the EP is an important and difficult topic, and that ascertaining the public interest can sometimes be difficult and involve trade-offs among the interests of various stakeholders and risks of unintended consequences. He explained that such assessments might not lead everyone to the same conclusion about what is best, even if all are striving to act in the public interest. The topic of disclosure of the name of the engagement partner is certainly one in which different conclusions are possible about what would best serve the public interest. He outlined the simple criteria suggested by the PIOB's sixth public report and suggested this might be useful for the IAASB to keep in mind.<sup>10</sup>

Mr. Hafeman urged the IAASB to consider whether changes in the standards would create more relevant information or enhance the ability of users to trust the information, and to carefully consider the PIOB's

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<sup>10</sup> "So how can the accountancy profession contribute to the public interest? The PIOB believes that the accountancy profession can best do so by providing account-related information in which the public has confidence. This information will be most helpful if it is relevant to the users and is trusted by them as a faithful representation of the performance of the reported activities. Audits and other assurance services play an important role in meeting these criteria, by providing an objective and professional view in which users may have confidence."

criteria and how they might be achieved, taking full account of the short-term and long-term benefits, costs, and possible unintended consequences of the alternatives.

#### COMMUNICATING BREACHES OF INDEPENDENCE REQUIREMENTS

The IAASB considered whether breaches of independence requirements should be communicated in the auditor's report in all circumstances that would not otherwise require the auditor to terminate the audit engagement (i.e., the auditor has concluded that action can be taken to satisfactorily address the consequences of the breach). The IAASB also considered the potential implications of any breaches of independence requirements on the proposed statement of ethical requirements in the auditor's report.

While the IAASB acknowledged that some users, including regulators, may wish to know more about breaches of independence requirements, the IAASB concluded that the impediments of doing so likely outweighed the value, in particular because:

- Reporting of all breaches would be impracticable, as minor breaches of independence requirements are not uncommon. It was noted, however, that the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) does not establish thresholds for what may constitute either a minor or a significant breach of independence requirements.
- In order to issue an auditor's report (which is explicitly required by proposed ISA 700 (Revised) to be titled "Independent Auditor's Report"), a firm is required to evaluate the significance of any breach and its impact on the firm's objectivity and ability to issue an audit report. TCWG and, in some cases, regulators have an important role to play in concurring with the auditor's evaluation of its objectivity and have the benefit of two-way communication that does not exist with users.
- Despite the perceived value of increased transparency about breaches, investors may draw incorrect conclusions about the auditor's ability to issue an auditor's report if all breaches were required to be communicated publicly, even when those charged with governance and the auditor had agreed that the breach had been appropriately addressed.

The IAASB also noted that, when a breach of independence requirements was identified, the auditor would not in fact be able to claim compliance with independence requirements. Accordingly, the IAASB asked DT-700 to revisit the proposed statement and what it was intended to achieve, and consider whether the auditor could make a more direct statement that the auditor was independent under the applicable ethical code. Ms. de Beer noted that the CAG raised similar views.

The IAASB also considered whether ISA 260 should be revised to require communication about independence with TCWG for all entities, rather than only listed entities, in light of increased focus on the issue of auditor independence. While the IAASB recognized there may be merit in doing so, it agreed that this would not be an inconsequential change in practice and could be seen as beyond the scope of the auditor reporting project. It was also noted that, since the requirement to communicate about breaches of independence requirements to TCWG is already established by the IESBA Code, reporting on independence to TCWG is essentially required when an issue is noted (i.e., on an exception basis). This may be more appropriate rather than establishing an overarching requirement for all entities (which would presumably need to be in writing to be consistent with extant ISA 260).



## WAY FORWARD

Mr. Montgomery thanked the IAASB members for their comments, and noted the DTs would present revised drafts of the ISAs discussed at this meeting, as well as drafts of proposed ISA 570 (Revised), proposed ISA 705 (Revised), proposed ISA 706 (Revised) and other conforming amendments, for approval at the June 2013 meeting.

### 3. ISA Implementation Monitoring

Mr. Grant introduced the topic, reminding the IAASB that a high-level summary of the findings setting out key points had been presented at the February 2013 IAASB meeting. He added that, since that meeting, the International Organization of Securities Commissions (IOSCO) had submitted their letter containing a number of suggestions for changes to the ISAs. He noted that this letter confirmed information previously provided, and accordingly, in Mr. Grant's view, does not result in major changes to the preliminary report. Mr. Grant noted that the findings from this project, together with recommendations from the Task Force, would be useful input to the development of the Consultation Paper (CP) on the IAASB's future strategy and work program.

Mr. Grant noted that he had met with the IASB to obtain further understanding on their process for monitoring implementation of their standards. He committed to providing this information to the Steering Committee to further inform its deliberations on the future strategy.

A few IAASB members questioned how the general comments highlighted in the preliminary report would be addressed by the IAASB going forward. Mr. Grant explained that not all letters had included general comments, and therefore it would be difficult to draw conclusive findings from these. However, he noted these comments provide important context for understanding respondents' views and would potentially impact the way in which the IAASB may respond to the findings. He also added that general comments on documentation, where possible, would be included in any specific recommendations for changes to specific standards.

IAASB members generally supported the preliminary report, and asked the Task Force to:

- Consider whether there is an alternative way of presenting "less important" themes, as this characterization may diminish the importance of the input.
- Review the consistency in the allocations based on the number of comments received.

Concern was expressed about the coordination of changes arising from several current IAASB projects, including possible changes from this project. Prof. Schilder acknowledged that this was a challenge, and noted that the Steering Committee would need to consider this further.

### IAASB CAG CHAIRMAN'S REMARKS

The preliminary findings report was presented to the CAG at its April 2103 meeting. Ms. de Beer emphasized that the purpose of the CAG discussion was not to obtain detailed comments on the preliminary report, but rather for the CAG to consider and give input to the key messages that need to be further considered by the IAASB as part of its future strategy deliberations. She noted that the CAG Representatives had supported the preliminary findings being used as input in the future strategy debate. Ms. de Beer added that the CAG had highlighted the need for ongoing monitoring of the IAASB's standards to understand the issues that will evolve over time. Mr. Grant noted the same point was raised by the IFAC SMP Committee.

## WAY FORWARD

Mr. Grant thanked the IAASB for their comments, and noted that a revised draft of the report would be circulated for IAASB comments before the June 2013 meeting, at which time the IAASB would be asked to approve the final report.

### 4. **Assurance Engagements Other than Audits or Reviews of Historical Financial Information – ISAE 3000**

Ms. Mc Cabe introduced the topic, noting that the Task Force continued to advance the drafting of ISAE 3000 in response to comments received on exposure and the IAASB's input to the project at its December 2012 and February 2013 meetings. She noted that the IFAC SMP Committee was broadly supportive of the Task Force proposals, but had noted that educational materials, outside of the ISAE, would assist SMPs in educating themselves about the standard. The SMP Committee had also noted that further attention could be given to the proportionality of the ISAE to smaller practitioners and entities.

Ms. Mc Cabe explained that, at its April 2013 meeting, the IAASB CAG had supported the IAASB's strategic review of ISAE 3000, but that there was support from some Representatives for illustrative reports, possibly via a template rather than a fully detailed illustrative report. She also noted that some Representatives who were previously concerned about the independence of a practitioner in a direct engagement were more satisfied with the additional explanatory material drafted by the Task Force.

Ms. Mc Cabe highlighted that she had presented on the topic of direct engagements to the IESBA Planning Committee to aid them in understanding how the practitioner in a direct engagement is independent. She also noted that the IESBA Planning Committee believed that this topic may warrant more discussion at an IESBA board meeting.

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

#### IAASB CAG CHAIRMAN'S REMARKS

Ms. de Beer noted that the project had progressed significantly and that the CAG was broadly supportive of the direction. She noted that the CAG's concerns with the independence considerations in direct engagements had been pursued with the IESBA at its CAG meeting. She added that the need to amend the Framework had been raised at the CAG on many occasions.

She emphasized that there is still significant support among CAG Representatives for the inclusion of examples, or at a minimum an illustrative report.

She further noted that outreach and education would be necessary for the effective adoption and implementation of proposed ISAE 3000 (Revised).

Ms. Mc Cabe noted that, at the February 2013 IAASB meeting, the Task Force had provided an educational session to the IAASB on direct engagements. She highlighted that some respondents to the Exposure Draft (ED-3000) believed that ED-3000 drew too heavily on attestation language, and would therefore be hard to apply to direct engagements. Ms. Mc Cabe explained that the IAASB would need to consider the disposition of direct engagements, and outlined four options to address direct engagements:

- Option 1—Restarting the project to include a full revision of the Framework,<sup>11</sup> rather than the existing prohibition of reconsidering conceptual matters;
- Option 2—Continuing to address direct engagements via revision of ISAE 3000, in line with the project proposal and the IAASB's decisions to date;
- Option 3—Retaining only minimal reference to direct engagements and removing requirements and guidance that specifically address direct engagements. This would result in, in effect, an attestation standard that also could be applied, adapted as necessary, to direct engagements; and
- Option 4—Cancellation of the project.

Ms. Mc Cabe added that, since February 2013, the Task Force had reached out to Mr. Hällström and Mr. Ian McPhee (Auditor General of Australia and former IAASB member) to seek further views on the appropriate way forward for ISAE 3000 in respect of direct engagements. She noted that both Mr. Hällström and Mr. McPhee preferred Option 2. Ms. Mc Cabe explained that the Task Force concluded that it was in the public interest to pursue Option 2.

#### *PIOB Observer's Remarks*

Mr. Hafeman noted that the options were reasonable but covered a broad range of possibilities. He emphasized the need for high-quality standards to be principles-based, technically sound and clearly written. He noted that he did not believe that the current draft was "high-quality" yet as, based on his experience, the focus of direct engagements is often on policies, procedures, and controls and that this focus was not evident in the current draft. He added that the proposed definition of "misstatements" was also not useful to direct engagements. He also noted that each option comes with some advantages and disadvantages, and that Option 2 is appropriate if the standard is technically sound, clearly written and applicable in practice.

#### *IAASB Discussion*

Some members strongly supported Option 2, noting that, while further work was needed, a standard addressing both direct and attestation engagements would be of great use to practitioners in both the public and private sectors. An IAASB member noted that direct engagements are common in the public sector and, while many do not perform these as assurance engagements, there is growing interest in doing so. Another IAASB member noted that, in her outreach to the public sector, it had been noted that the proposed ISAE could be used to produce high-quality direct engagements, although further work may be needed on the objectives. It was also noted by these members that:

- ISAE 3000 was intended to be an umbrella standard, which covers all assurance engagements. If direct engagements are removed from the ISAE, then the IAASB will no longer have a single umbrella standard.
- If direct engagements are not specifically addressed in ISAE 3000, then it may be some time before the IAASB considers commencing a project addressing direct engagements. This would leave practitioners conducting direct engagements without an effective standard in the meantime.
- High-quality direct engagements can be performed under the proposed standard. Further, having an International Standard addressing direct engagements will improve practice in many jurisdictions.

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

- Further development of the application material, in consultation with direct practitioners, would be a pragmatic way of dealing with the complexity in ISAE 3000.
- There is an urgent need for an umbrella standard addressing both types of assurance.

Other IAASB members disagreed with Option 2 and supported Option 3, noting that the ISAE was difficult to understand due to the inclusion of both direct and attestation engagements. They also noted that the language and terminology necessary to support both types of engagements made the language overly complex. An IAASB member noted that he was still not sure if valuation services constituted a direct engagement, and did not see the need for a standard addressing direct engagements in the member's jurisdiction if these were not included. Another IAASB member noted that direct engagements were different from attestation engagements and drafting an umbrella standard to cover both was proving difficult, particularly given that many assurance practitioners lacked experience in direct engagements. An IAASB member indicated, amongst other matters, that in his view the standard is flawed as it relates to direct engagements because it imposes an attest mindset on those engagements. As examples, he quoted the "objective of the practitioner" and the "definition of an assurance engagement" from the proposed standard. In his view, the corresponding paragraphs in the proposed standard are difficult to understand and rely on attestation concepts which do not apply to direct engagements. He noted that these paragraphs have pervasive impacts on the standard as a whole. He also noted the majority of public sector respondents to the exposure draft also raised concerns. He also commented that the extant standard is rarely used in practice by direct engagement practitioners. In his view, this would likely not change as a result of the current project, given its terms of reference. In the member's view, it is unlikely that the existing project could deliver a high-quality direct engagement standard without revision of the fundamental concepts embodied in the Framework. While acknowledging the significant disadvantages associated with it, he supported option 3.

It was also noted that:

- The IAASB could, in the future, consider developing a separate standard addressing direct engagements in recognition of their importance. Such a standard would be more understandable than trying to incorporate it within ISAE 3000.
- The public sector practitioners may be able to initiate further work on direct engagements to better inform any future IAASB projects on direct engagements.

After extensive debate, the IAASB agreed that the ISAE 3000 Task Force should follow Option 3, that is, that ISAE 3000 should be drafted to address attestation engagements, but also permit application of the ISAE to direct engagement, subject to appropriate adaptation in the engagement circumstances. In making this decision, the IAASB noted the difficulty in finalizing a standard addressing both attestation and direct engagements in a reasonable time period, and the potential for the final standard to be difficult to apply in practice. The IAASB also noted that consideration of any future work on a standard specifically addressing direct engagements can be undertaken in the development of the IAASB's *Strategy and Work Plan, 2015–2019*. Ms. Mc Cabe led a paragraph by paragraph review of the draft ISAE, highlighting the main changes resulting from the decision to pursue Option 3, specifically the removal of all the material drafted by the Task Force specific to direct engagements.

#### OTHER COMMENTS

The IAASB made the following additional comments:

- The Task Force should clarify that the assurance conclusion can be expressed either in terms of the underlying subject matter and criteria, or in terms of a statement made by the responsible party.
- While the Task Force was not able to identify any particular way in which the timing of procedures would necessarily vary between limited and reasonable assurance, reference to the “nature, timing, and extent” of procedures being different for limited assurance should remain, as it is likely to vary in some engagements.
- References to “meaningful assurance” should be aligned with other IAASB standards.
- The Task Force should give further consideration to whether the references to “suitable criteria” and “applicable criteria” can be aligned to emphasize the importance of suitable criteria.
- The Appendix, which described the forms of modified conclusions that may arise in certain types of engagements, should be removed as it did not allow for the diversity of engagement circumstances that may be encountered in practice.
- The Task Force should consider whether additional communication about ISAE 3000 and how direct engagements may be performed under ISAE 3000 would be helpful when the final standard is issued.

#### CONCLUSION AND WAY FORWARD

Prof. Schilder thanked the Task Force and the IAASB, noting that it was difficult to apply the concept of the public interest to a challenging topic like direct engagements. In particular, he noted the need to balance the need for high-quality and understandable standards against the need for a standard that would improve the quality of direct engagements. He highlighted that the IAASB's decision to pursue Option 3 recognized that direct engagements may need a specialized approach that cannot be achieved in an umbrella standard. Prof. Schilder added that the discussion had involved a valid and frank exchange of views and that it was important to respect and value different viewpoints. He thanked the members for being prepared for the discussion and the Task Force for its hard work.

Ms. Mc Cabe thanked the members for their comments. She noted that proposed ISAE 3000 (Revised) will be submitted for approval at the September 2013 IAASB meeting.

#### 5. Disclosures

Mr. Archambault introduced the topic, reminding the IAASB that the Task Force's analysis of the potential areas for improvement in certain ISAs with respect to auditing disclosures was presented in December 2012. At that time, the Task Force had suggested that changes to the requirements and application material to particular ISAs would be beneficial.

Mr. Archambault noted that he had attended the IASB Disclosures Forum in January 2013, as a participant in the panel discussion. He added that there were many stakeholders represented at this forum, and that the discussions and views would be collated in a feedback statement by the IASB.

Mr. Archambault explained that to move the topic forward, the Task Force had focused on the planning stage of the audit to identify potential changes to the ISAs. Remaining stages of the audit would be addressed at a subsequent IAASB meeting. He emphasized that the potential changes were not intended to commit the IAASB to any specific actions at this stage, but rather to determine the views of the IAASB on the approach being taken by the Task Force, and also to inform the Board about the deliberations of the Task Force as it moved forward in this area. It was also noted that changes to the ISAs would be

considered in the context of other ongoing IAASB projects to the extent practicable, in order to coordinate changes made to the same standards arising from the various IAASB initiatives.

#### APPROACH TO IDENTIFYING POTENTIAL CHANGES IN THE ISAs

Mr. Archambault described the approach taken by the Task Force in developing the potential changes to the ISAs:

- As a starting point, the Task Force captured, in narrative form, the “thought process” an auditor might undertake when planning the audit with respect to disclosures. This narrative guide incorporated:
  - Relevant existing requirements and guidance in the ISAs;
  - The experience and expectations of the Task Force members in this area; and
  - As appropriate, new or expanded guidance in areas where heightened attention may be needed, in particular as highlighted in the responses to the Discussion Paper (DP).<sup>12</sup>

Mr. Archambault noted that this narrative guide would not be discussed in detail at the meeting, but that its use would further be considered as the project progresses.

- The Task Force used the narrative guide to identify potential areas of new application material, which beneficial to include in the ISAs to address the issues that respondents to the DP had raised.

The IAASB was largely supportive of the approach being taken by the Task Force, with a few members emphasizing specific areas to address, including disclosures that are not being generated directly by the accounting system, applying materiality to qualitative disclosures and how to demonstrate in the standards that there is a wide range of evolving disclosures.

#### POTENTIAL CHANGES TO THE ISAs

Mr. Archambault explained that the potential changes to the ISAs that had been presented included changes to:

- ISA 300:<sup>13</sup> To emphasize the role and timing of planning for auditing disclosures, highlighting that the focus should be at a very early stage.
- ISA 315: To include specific references to disclosures in existing application and other explanatory material, particularly in relation to understanding the entity and its environment, and aspects of internal control. The Task Force had concluded, on balance, not to include the comprehensive list of categories of disclosures drawn from the DP, but would revisit this decision if necessary as the project progressed.
- ISA 320: To provide additional consideration for auditors as to whether qualitative disclosures were material, and clarify that the concept underlying the definition of performance materiality applies to all types of disclosures. It was also noted that the potential changes as identified did not yet contemplate changes to the requirements, but that the Task Force would further consider this matter.

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<sup>12</sup> IAASB Discussion Paper, *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*

<sup>13</sup> ISA 300, *Planning an Audit of Financial Statements*

- ISA 260: To identify disclosure-specific areas to be communicated to TCWG at the planning stage of the audit.

Mr. Archambault added that the potential changes related to the planning stage of the audit were predominantly in the nature of additional application and explanatory material, as opposed to new or revised ISA requirements, in line with comments received to the DT.

The IAASB provided suggestions for further Task Force consideration on the potential changes presented, including:

- Adding more emphasis in ISA 300 to focus on disclosures at an early stage, possibly even a new requirement. However, others were not certain that ISA 300 was the correct place for this emphasis, and considered ISA 315 as a more suitable place for doing so;
- Providing greater emphasis in the ISAs to urge the engagement team to think more about disclosures (e.g., at the engagement team discussion);
- Providing additional explanation about the wide range of disclosures, emphasizing that they arise from different sources;
- Reassessing the potential changes to ISA 320, in particular the positioning within the standard of the potential changes as presented; and
- Various other isolated changes in the ISAs considered to date, to further emphasize disclosures, particularly in ISA 315.

Concern was expressed about the potential changes to the auditor's application of materiality, including performance materiality, to qualitative disclosures. Some IAASB members had the view that this related to the relevance of the disclosure, rather than applying the concept of materiality. Mr. Archambault responded that the Task Force would further consider this, and may solicit views on the applicability of materiality to qualitative disclosures from others with ongoing projects related to disclosures.

#### ASSERTIONS FOR PRESENTATION AND DISCLOSURE

Mr. Archambault explained that the responses to the DP had indicated that further guidance on applying the assertions for presentation and disclosure should be considered. He added that the Task Force had agreed to further explore this area.

Mr. Archambault noted that the ISAs currently do not provide guidance on how to apply the assertions to disclosures, and do not explain that each assertion may not be relevant to every type of disclosure. He added that the Task Force had:

- Deliberated on how to apply each of the assertions to the different types of disclosures, with difficulties in this area being accentuated by the different views expressed by the Task Force members; and
- Considered whether these assertions should be the same as the qualitative characteristics of the financial reporting standards.

The IAASB noted that this was a difficult area to address and supported the Task Force's efforts in considering whether changes were necessary. However, different views for changing the assertions were expressed by IAASB members, as well as on the extent of changes proposed. The IAASB asked the Task Force to further consider the following:

- That any changes proposed should assist auditors to sensibly and practically apply the assertions for presentation and disclosure.
- That the assertions should be simplified, even if it resulted in a more fundamental change to the assertions. Others had the view that the assertions should remain, but that the explanation of what they were should be made more relevant to current types of disclosures. Others had the view that fundamental changes to the assertions may not significantly enhance audit quality.
- Separating presentation from disclosure, as they were different by nature, because disclosures encompassed a much broader set of information. Others had the view that they were closely related and should remain as one assertion.
- Considering the wording of the fundamental qualitative characteristics of financial information in the financial reporting standards when deliberating changes to the assertions. However, this did not mean re-characterize the auditing assertions to be the same as the financial reporting qualitative characteristics, as they were used for a different purpose.
- Considering whether to introduce the "stand-back" review (i.e., whether the financial statements achieved fair presentation, or represented a true and fair view) into the assertions.

It was also noted that the IAASB should not move ahead of the IASB in this area, in light of the IASB's Conceptual Framework project currently underway.

#### IAASB CAG CHAIRMAN'S REMARKS

Ms. de Beer noted that, notwithstanding that the topic was not discussed at the April 2013 CAG meeting, an overarching theme at the CAG was the need for an emphasis on professional skepticism, which may have particular relevance to the areas that the Task Force would be considering as the project progresses.

#### PIOB OBSERVER'S REMARKS

Mr. Hafeman noted that, while disclosures can be accurate, they may not be useful and urged the Task Force to consider the role of the auditor in assessing the usefulness of the disclosures, particularly when considering the assertions.

#### WAY FORWARD

Mr. Archambault thanked the IAASB for their input and views on the potential changes, and noted that the Task Force will present its proposals for the rest of the audit process in a similar way in September 2013.

### 6. **Presentation**

Mr. Melancon thanked the IAASB for inviting him to share his views about the trends facing the accounting profession that are likely to be relevant in the future. He expressed support for the IAASB's work on auditor reporting and other relevant topics related to attestation engagements. He explained that the AICPA has focused analyzing the implications to the US accounting profession. Among other things, he mentioned the implications of "templosion" – the implications of speed on everything, explaining that traditional professions such as accounting can become out of sync with market developments.

He highlighted the need for the profession to stay nimble and design services responsive to emerging developments in order to seize opportunities for growth. He noted developments such as "big data", cloud computing and an increased desire for connectivity, emerging currencies such as bitcoin, security and



privacy issues, and microenterprises as areas that may require attestation or assurance services or increased focus by groups such as the AICPA, IAASB and IFAC. Mr. Melancon also stressed the need for balance to respond to not only regulatory pressures and the calls for public interest, but also to ensure the profession remains relevant and dedicates the necessary time to exploring areas of interest by other stakeholders, including the demand for new services.

Mr. Melancon responded to queries from IAASB members, specifically noting the following:

- The profession has to be willing to experiment and fail, which can be challenging but is necessary to ensure its continuing relevance and prevent others outside of the profession performing attestation engagements.
- Because most organizations are challenged by resource constraints, it is necessary to re-evaluate traditional structures to progress projects and ideas faster, despite the likely resistance to such changes. He noted the AICPA has worked in recent years to change from a committee-based structure to use resource and expert panels to think outside the box and bring a wide range of expertise to move projects through phases, while still being mindful of the need for due process. The use of XBRL continues to be an important development to be monitored, as there is likely to be greater demand for assurance as the use of XBRL increases, in particular as users of XBRL data may be concerned about its authenticity.
- Integrated reporting has been on the AICPA's radar screen for some time, and the recent release of the Integrated Reporting Framework is a welcome development. He suggested the IAASB needs to be engaged as global CEOs, large firms, and other parts of the global financial reporting supply chain are beginning to think about demand for assurance on integrated reporting. He suggested that assurance practitioners have core skills relating to measurement, recognition and reliability, and needs to use this expertise to be progressive in areas of increasing demand to avoid missing opportunities to lead.
- Liability is a huge inhibitor to innovation, and the impact of liability is unlikely to be resolved, in particular in the US. However, he suggested that accounting firms and others need to strive to minimize liability issues and look to tolerate increased risk

Prof. Schilder thanked Mr. Melancon for an informative presentation and discussion.

## **7. Innovation, Needs and Future Opportunities (INFO) Working Group**

Mr. Gunn introduced the topic, noting that the objective of the session was to approve the Terms of Reference for the INFO Working Group.

The IAASB agreed with the recommendations of the Task Force as set out in the agenda material. However, the IAASB agreed that the public interest should also be explicitly mentioned as a consideration in identifying areas of focus for the Working Group to explore.

IAASB members commented that the Terms of Reference could also note that the INFO Working Group is focused on considering new areas for assurance, rather than improvements on existing standards, and that the Working Group should not consume excessive staff resources. After discussing the issue, the IAASB acknowledged the importance of these points but agreed that no specific amendment was needed to the Terms of Reference.

## INITIAL AREAS OF FOCUS

Given its global and longer-term relevance, Mr. Gunn noted that Integrated Reporting (<IR>) has been identified as a specific area of focus for the Working Group to explore, but that the Task Force would also consider inclusion of other areas of focus, including sustainability reporting, corporate governance statements, internal control, and XBRL.

The IAASB questioned if the INFO Working Group would respond to the *Consultation Draft of the International <IR> Framework*. Prof. Schilder responded by noting that IAASB leadership had met recently with IIRC leadership, but were not planning on responding to the consultation draft at this stage. Ms. Kelsall noted that she is liaising with the IIRC's working group that is investigating assurance issues arising from <IR>.

Mr. Gunn noted that the Terms of Reference were intended to be broad to incorporate issues relevant to SMPs and SMEs and other specific groups such as public sector practitioners. He also noted that the IAASB has committed to reviewing the implementation of ISAE 3402,<sup>14</sup> and consideration of any other implementation monitoring activities should take place in the context of the discussion of the IAASB's *Strategy and Work Program, 2015–2019*.

## IAASB CAG CHAIRMAN'S REMARKS

Ms. de Beer noted that the CAG supported the approval of the Terms of Reference. She highlighted that Representatives questioned whether the Terms of Reference could also:

- Give further emphasis to the needs of SMPs and small- and medium-sized entities (SMEs);
- Make a more prominent reference to the public interest (as noted above) and public protection; and
- Incorporate an implementation monitoring project for assurance standards similar to the ISA Implementation Monitoring Project.

She also noted that it would be important for the IAASB to begin considering assurance issues in light of the IIRC's Consultation Draft of the International <IR> Framework. The CAG also shared some ideas on possible interactions to gain knowledge, such as surveys and inspection reports. She specifically highlighted the presentation done by the Japanese regulator on fraud.

## APPROVAL

It was agreed that staff should finalize the remaining editorial changes to the Terms of Reference with the Chairman and Deputy Chair. The IAASB then unanimously approved the Terms of Reference with affirmative votes from the 17 IAASB members present.

## 8. ISA 720 – Other Information (OI)

Mr. Gélard introduced the topic, noting that 69 comment letters had been received to date on the ED of proposed ISA 720 (Revised)<sup>15</sup> (ED-720), and that some additional responses are expected. He noted that the Task Force's preliminary analysis of respondents comments indicated support in principle for the objectives of the IAASB in revising ISA 720, but there were also strong concerns expressed in key areas, including:

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<sup>14</sup> ISAE 3402, *Assurance Reports on Controls at a Service Organization*

<sup>15</sup> Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*

- An overall lack of clarity combined with complex proposals, which would be difficult to operationalize consistently in practice.
- An expansion of the scope of the audit, which would require significant additional work, but may also increase the expectations gap.
- Lack of a clear demarcation, including concerns with the definitions of “initial release” and “inconsistency”.
- The continuation of the auditor’s responsibility for other information beyond the date of the auditor’s report, which was seen as unreasonable or unworkable in particular if the auditor is required to report on OI, despite this being required by extant ISA 720.
- The appropriateness of the relationship between the work effort described in the application material and the requirement to “read and consider”.
- The need for more guidance about the auditor’s approach to documents or information made available to users via the internet.

The IAASB commented as follows, highlighting areas for further consideration by the Task Force:

- The proposal in ED-720 to read for inconsistencies with the auditor’s understanding of the entity and its environment, not just the audited financial statements, is an improvement over extant ISA 720. Mr. Gélard highlighted that the Task Force had not fully considered the comments in this respect, but that investors were generally supportive. He noted that the Task Force needs to further understand the reasoning of those who were less supportive. Prof. Schilder noted that broad support by some respondents must be balanced against more specific concerns by other stakeholders about the lack of clarity and practicality, as well as the risk of increasing the expectations gap.
- Ensuring the proposed ISA is clear with respect to the auditor’s required and expected work effort is central to progressing ISA 720, as some respondents believed that the work effort would be difficult to apply consistently. Mr. Gélard agreed, noting that the clarity of the work effort also affected the clarity of reporting to users in the auditor’s report.
- A focus on clearly describing which documents are in scope and which are out of scope is necessary, as ED-720 was not clear in all cases. Mr. Gélard agreed, noting that proposed ISA 720 (Revised) needs to use principles to describe the scope of documents covered by the standard, as a listing of documents would not be practical given the wide variation in regulatory and reporting regimes around the world.

Mr. Gélard thanked the IAASB for their comments.

#### WAY FORWARD

The IAASB asked the Task Force to present key issues at the June 2013 IAASB meeting.

#### 9. **PIOB Observer’s Remarks**

Mr. Hafeman congratulated the IAASB on a well-organized and effectively-chaired meeting. Although several of the topics were particularly challenging, he was of the view that good progress was achieved. The hard work of the Task Forces, drafting teams, and staff—both before and during the week—was essential to the ability to achieve such progress. Mr. Hafeman remarked that the wide and active

participation of most board members in the discussions was encouraging, as was the attention to the input of the CAG and other stakeholders.

Mr. Hafeman reported that the PIOB met most recently at the end of February. The PIOB concluded that ISA 610 (Revised 2013) and related conforming amendments was duly approved by the IAASB, in accordance with due process. In addition, the PIOB agreed to the IAASB exploring, through consultation with its stakeholders, a change to the period covered by the IAASB's future strategy and work program, provided that there is an opportunity to review the strategy during its time span. Mr. Hafeman noted the PIOB also participated in a roundtable on oversight of the International Public Sector Accounting Standards Board (IPSASB) and meetings with the Monitoring Group (MG) and the MG and IFAC together. The PIOB now publishes a quarterly update, which is available on its website and by email distribution.

Mr. Hafeman also noted that, in March 2013, the PIOB made public its response to the public consultation process launched a year earlier on its work program for 2012 and beyond. The PIOB offered a set of recommendations regarding public interest protection, the nature of independent due process oversight, oversight models, communications policy, the respective roles of the MG and the PIOB, and diversification of PIOB financing. The MG also made public its recommendations in response to its parallel consultation, along with a summary of the roundtable discussion on IPSASB oversight.

The PIOB will next meet at the end of June. Attending for the first time will be new appointees Ms. Julie Galbo, Deputy Director General of the Danish Financial Supervisory Authority, a nominee of the European Commission, and Mr. Nic van der Ende, Coordinating Senior Policy Officer Accountancy of the Dutch Central Bank, nominated by the Basel Committee on Banking Supervision.

## 10. Closing Remarks

### UPDATE ON STEERING COMMITTEE

Prof. Schilder reported on the discussions at the prior evening's Steering Committee meeting. Among other matters, he noted the following:

- Discussion with representatives of the International Accounting Education Standards Board (IAESB) on its work to revise IES 8.<sup>16</sup>
- An update from Ms. Kelsall in relation to her liaison activities with the IIRC's technical collaboration working group exploring assurance issues.
- Agenda planning for the June IAASB meeting.
- Planning for the next Steering Committee (scheduled for June 23) to begin discussions related to the development of the future strategy and work program.

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<sup>16</sup> International Education Standard (IES) 8 (Revised), *Professional Development for Engagement Partners Responsible for Audits of Financial Statements*

## FUTURE DATES

The following dates were noted for the 2014 IAASB meetings:

- March 17–21, 2014
- June 16–20, 2014
- September 15–19, 2014
- December 1–5, 2014

IAASB participants were asked to plan for the possibility that one of these meetings may be held in Europe, with the remainder of the meetings to be held in New York.

The CAG meetings will be held on March 11–12 and September 8–9, 2014.

## PIOB AND MG RECOMMENDATIONS

As noted by Mr. Hafeman, in March 2013 the MG released its Statement on Governance and Feedback on Public Consultation, in coordination with the PIOB's release of a final report following his strategy review. Prof. Schilder noted that the two matters that will affect the IAASB's actions are its responses to the Operational Improvements 1 and 2 of the MG report. IAASB staff is beginning to consider how best to achieve these requirements and will coordinate with chairs and staff of the other independent standard-setting boards to further consider how best to develop a consistent approach.

## REFLECTIONS ON BROAD FUTURE CHALLENGES

Prof. Schilder explained his personal view that the IAASB was facing a number of challenges that will need to be considered by the Steering Committee and IAASB, including:

1. Auditor Reporting – Facilitating effective implementation of the new auditor reporting standards, the success of which in practice is critical to the continuing perceived value and relevance of the profession.
2. Improvements to ISAs re: ISA Implementation Monitoring findings – Meeting the expectations of stakeholders in relation to addressing issues identified by the ISA Implementation Monitoring project. Also, consideration will need to be given to identifying and dealing with further issues as global implementation progresses.
3. Opportunities and challenges identified by the Innovation, Needs, and Future Opportunities (INFO) Working Group – Identifying key projects, influencing others, and monitoring relevant developments.
4. Audits within publicly important sectors – e.g., audit of banks and systematically important financial institutions.
5. Ready for 'Standards for the Future' – Need for future clarity-type project?
6. Complex financial reporting and auditing issues – Responding to the calls for a more "holistic approach" to addressing these issues with other relevant stakeholders, such as the IASB.
7. Providing guidance and implementation support, so that the standards do, and are seen to, work around the world in all contexts. Also determining what more the IAASB can do, on its own and collectively with others such as NSS, IFAC, etc.

8. Identifying and resourcing initiatives to support the Audit Quality Context Factors, such as identifying, stimulating and supporting effective “interactions”.
9. Staff capacity – Challenges in filling open staff positions and the need for reflection about collaboration and coordination with others that is effective and efficient.
10. Modus operandi of the IAASB – Consideration needs to be given to whether the Board is operating in the most effective and efficient way, and whether the right things are being focused on.
11. Direct engagements

Mr. Hafeman noted the PIOB will follow each of these key initiatives with interest, with particular focus on how they will be balanced within the future strategic plan.

#### 11. **Next Meeting**

The next meeting of the IAASB is scheduled for June 24–28, 2013 in New York, USA.