Agenda Item 1-A

<mark>Marked From November 25, 2013 Version</mark>

Draft Minutes of the 59th Meeting of the

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

Held on September 16–20, 2013 in New York, USA

	Voting Members	**Technical Advisors**
Present:	Arnold Schilder (Chairman)	Sue Almond (Mr. Murtagh)
	Dan Montgomery (Deputy Chair)	Brantley Blanchard (Ms. Mc Cabe)
	Arch Archambault	Wolf Böhm (Ms. Köhler)
	Jean Blascos	Karin French (Mr. Archambault)
	Jianshen Chen	Alejandro Gonzalez (Mr. Coscodai)
	Valdir Coscodai	Marek Grabowski (Mr. Grant)
	Cédric Gélard	Hiram Hasty (Mr. Landes)
	Jon Grant	Susan Jones (Mr. Blascos)
	Jonas Hällström	Sachiko Kai (Mr. Sekiguchi)
	Merran Kelsall	Richard Mifsud (Ms. Kelsall)
	Annette Köhler	Alexandra Popovic (Mr. Hällström)
	Charles Landes	Jon Rowden (Mr. Winter)
	Caithlin Mc Cabe	Greg Shields (Mr. Wiersema)
	Brendan Murtagh	Isabelle Tracq-Sengeissen (Mr. Gélard)
	Marc Pickeur	Jacques Vandernoot (Mr. Pickeur)
	Tomokazu Sekiguchi (Sept. 16–19)	Denise Weber (Mr. Montgomery)
	John Wiersema	Ge Zhang (Mr. Chen)
	Bruce Winter	

Non-Voting Observers

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

Public Interest Oversight Board (PIOB) Observer

Present:	Chandrashekhar Bhave

IAASB Technical Staff

Present:	James Gunn (IAASB Technical Director), Beverley Bahlmann, Kathleen Healy, Brett James, Diane Jules
Apologies:	Jim Sylph (IFAC Executive Director, Professional Standards and External Relations)

1. **Opening Remarks**

Prof. Schilder welcomed the participants and observers to the meeting. He noted that all Board members and Technical Advisors were in attendance, and welcomed Mr. Coscodai's new Technical Advisor, Mr. Alejandro Gonzalez, from the Mexican Institute of Certified Public Accountants.

Prof. Schilder welcomed Mr. Bhave, observing the meeting on behalf of the PIOB, and Mr. Igarashi, observing on behalf of the Japanese Financial Services Agency. He noted apologies from Ms. de Beer, Chairman of the IAASB Consultative Advisory Group (CAG), and Mr. Arteagoitia, the European Commission (EC) observer. He noted that, due to Ms. de Beer's loss of a family member, Mr. Morris served as Acting Chair of the September 2013 CAG meeting, as agreed with the PIOB.

Prof. Schilder provided an overview of the agenda for the meeting, and thanked the Task Forces and staff for their hard work in preparing the meeting papers.

RECENT DEVELOPMENTS

Prof. Schilder noted that the CAG had discussed all of the topics on the current meeting's agenda, and feedback from the September 2013 CAG meeting would be raised throughout the meeting by him and Task Force Chairs. He highlighted that the CAG received a report back about the IAASB's Auditor Reporting Exposure Draft (ED), as well as a presentation from Mr. Baumann of the US Public Company Accounting Oversight Board (PCAOB), and he was pleased to note the similarities between the IAASB and PCAOB proposals. Prof. Schilder noted that the CAG also received a presentation from Mr. Barry Melancon of the American Institute of Certified Public Accountants, similar to a session held with the IAASB in June 2013.

Prof. Schilder noted the various publications released since the last IAASB meeting. He highlighted the availability of the Spanish version of the Auditor Reporting ED and commented on its importance in catering to the needs of the IAASB's Latin American constituents.

Mr. Gunn introduced Ms. Nancy Kamp-Roelands, the new IAASB Deputy Director, and noted that he expects to be able to fill the remaining two Staff positions by the end of October. Prof. Schilder congratulated Mr. Gunn on these developments, observing the significant efforts of Staff throughout the year in light of these vacancies. Mr. Gunn noted his thanks to the Staff as well.

2. **Minutes**

The minutes of the public session of the June 2013 IAASB meeting were approved as presented. Mr. Gunn acknowledged feedback from some IAASB members about the timeliness of the minutes. He noted this should improve in due course with the addition of the new staff resources.

3. **Assurance Engagements Other than Audits or Reviews of Historical Financial Information – ISAE 3000 (Revised)**

Ms. Mc Cabe introduced the topic, noting the changes to the draft ISAE 3000 (Revised) from the April 2013 IAASB meeting and the approach taken by the Task Force to the proposed conforming amendments to the *International Framework for Assurance Engagements* (the Assurance Framework) and other ISAEs. She noted that the IFAC Small and Medium Practices (SMP) Committee supported

approval of the ISAE; nevertheless, it suggested that explanatory promotional and education material outside of the ISAE would further assist its proportional application.

REMARKS ON BEHALF OF THE IAASB CAG

Ms. Mc Cabe summarized the CAG's comments, noting that the CAG was in principle very supportive of the project and understood the difficulties faced in finalizing it. In relation to the matter of direct engagements, she noted that the CAG might have had some preference for including material on direct engagements in ISAE 3000 (Revised), but nonetheless understood the rationale for excluding specific material. She also noted that there was support in the CAG for the direction, but also a clear recommendation to reconsider the wording of the text indicating that ISAE 3000 (Revised) would apply to direct engagements, including suggesting a softening of the text.

Prof. Schilder agreed with this summary. He also noted that some CAG Representatives had suggested that outreach during the IAASB's development of its future Strategy may be useful in determining whether further work is needed on direct engagements and the Framework. He also highlighted that some CAG Representatives would still have had a preference for an illustrative report to be included in ISAE 3000 (Revised), but nonetheless understood the IAASB's logic in not including one.

APPLICATION TO DIRECT ENGAGEMENTS

The IAASB considered the Task Force proposal that ISAE 3000 (Revised) apply to attestation engagements but also direct engagements, adapted as necessary. Some IAASB members did not support this proposal, noting that ISAE 3000 (Revised) is drafted with specificity around attestation engagements, but not direct engagements; given this, it is difficult to suggest that the ISAE be required to be applied to direct engagements. Some IAASB members also noted that ISAE 3000 (Revised) would not be able to be applied easily to direct engagements due to the use of concepts such as "misstatement" and "subject matter information." On the other hand, some IAASB members believed that ISAE 3000 (Revised) could be applied to direct engagements, as the concepts therein could be used in direct engagements, and that the ISAE should be applied to direct engagements given that some national auditing standard setters have direct engagement standards that operate under the ISAE.

After further discussion, the IAASB concluded that the ISAE may be applied, adapted and supplemented as necessary in the engagement circumstances, to direct engagements. The IAASB noted that it would not be appropriate to require application without providing requirements or guidance specifically addressing direct engagements.

REASONABLE ASSURANCE

An IAASB member noted that, in his view, clarifying the definition of reasonable assurance and the differences between reasonable and limited assurance was within the scope of the project. He also suggested that the IAASB might further develop the concept of reasonable assurance by, for example, describing reasonable assurance as "a high but not absolute" level of assurance, as a few respondents suggested. The IAASB noted that this matter has previously been discussed and concluded on, that it would represent a fundamental change to both the Framework and ISAE 3000 that would be beyond the scope of the project, and that therefore further deliberation was not necessary.

LIMITED ASSURANCE

An IAASB member was of the view that the application material explaining that, in some cases, the consequence to intended users of receiving an inappropriate conclusion may be so great that a reasonable assurance engagement is needed should be elevated as a requirement. Other IAASB members noted that such material should not be in the requirements, as it would require practitioners to understand the consequences to users of receiving an inappropriate conclusion, which would not be possible in many engagements. After further debate, the IAASB agreed to not make a change, noting that the ISAE already had a requirement for the practitioner to determine that the engagement had a rational purpose; in this regard, an engagement that clearly did not meet users' needs would not have a rational purpose.

CRITERIA

Some IAASB members noted that the requirement addressing the practitioner's response when it is discovered, after the engagement has been accepted, that some or all of the applicable criteria are unsuitable or some or all of the underlying subject matter is not appropriate for an assurance engagement, may be confusing and overly complicated. The IAASB agreed that this requirement should be streamlined to require that, if withdrawal is not possible, a qualified or adverse conclusion, or disclaimer of conclusion, is to be issued, as appropriate in the circumstances. The IAASB also agreed to include additional related application and explanatory material.

An IAASB member noted that the requirement for the practitioner to determine whether suitable criteria exists as part of the preconditions for an assurance engagement should highlight that the determination is based on a preliminary knowledge of the engagement circumstances; at this stage of the engagement, the practitioner may not have all the information necessary to make a final determination. The IAASB noted that this applies to all the preconditions and, therefore, agreed to change the introduction to the list of preconditions to incorporate the suggestion.

A few IAASB members questioned whether the requirement for the practitioner to determine whether the criteria areis suitable for the engagement circumstances is needed, in light of the related requirement pertaining to the preconditions for an assurance engagement. After further discussion, the IAASB agreed to retain the requirement, noting that respondents to the ED highlighted the importance of this determination to the conduct of assurance engagements under the ISAE.

REPORTING

A few IAASB members noted that the ISAE did not explain the wording that could be used for an adverse conclusion or disclaimer of conclusion, which may make application difficult for practitioners not familiar with the ISAs. The IAASB agreed that application material should be added to describe possible wording for such reports.

In relation to the statement in the assurance report on compliance with ISAE 3000 (Revised), the IAASB agreed that the ISAE should also highlight that a statement that contains imprecise qualifying or limiting language (for example "the engagement was performed by reference to ISAE 3000") may mislead users of assurance reports.

The IAASB also agreed to include examples of different ways of phrasing conclusions so that practitioners could understand the differences between them, particularly the differences between

conclusions phrased in terms of the underlying subject matter and applicable criteria and those phrased in terms of the subject matter information and the applicable criteria.

INTERNAL AUDIT FUNCTION

An IAASB member noted that, while the concept of an internal audit function was developed in the ISAE, the draft did not contain a supporting definition of internal audit function as is included in ISA 610 (Revised 2013).[1] It was also noted that the definition of "engagement team" was not aligned with the changes made to the definition used in the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code), which excludes individuals within the internal auditor function who are providing direct assistance from the engagement team. The IAASB agreed to include a definition of "internal audit function," as this would support practitioners' application of the new requirements. The IAASB concluded not to change the definition of engagement team, as ISAE 3000 (Revised) does not address direct assistance by an internal auditor. It was also noted that the definition used in the IESBA Code specifically references ISA 610 (Revised 2013), which would not be appropriate for an ISAE.

The IAASB also agreed to expand the requirements pertaining to determineing whether the work of the internal audit function is adequate for the purposes of the engagement.

DEFINITIONS

It was noted that the definition of "risk of material misstatement" contained additional language linking risk of material misstatement with engagement risk. The IAASB agreed to align the definition with the ISAs, as far as is practical, noting that the additional material did not enhance understanding of the concept.

It was also noted that some of the definitions in the ISAE differ from those used in the ISAs, such as "misstatement", which would create duplicate entries in the *Glossary of Terms*. Mr. Gunn noted that Staff will consider whether there is merit in preparing a glossary of terms for the ISAEs.

OTHER MATTERS

Amongst others matters:

- The IAASB agreed to remove the to reference to "providing" or "conveying" assurance from ISAE 3000 (Revised), the Assurance Framework, and the other ISAEs subject to conforming amendments, as this language does not fit with the concept that the practitioner obtains assurance and conveys a conclusion in a report.

- It was noted that references to the information needs of intended users implied that the practitioner needed to understand all users' needs, which would not be possible in many engagements. The IAASB agreed to amend such references to refer to "intended users as a group" as this would be consistent with terminology used elsewhere in the ISAE and also with the approach adopted in the ISAs.

THE ASSURANCE FRAMEWORK

Ms. Mc Cabe highlighted the main changes to the Assurance Framework, noting that the proposed conforming amendments were intended to reflect changes resulting from the revision of ISAE 3000. She

---

[1]   ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

noted that reconsideration of the purpose of, and fundamental concepts within, the Assurance Framework was not part of the project.

Purpose of the Assurance Framework

An IAASB member noted that the purpose of the Assurance Framework is unclear and, in his view, should more clearly highlight that its purpose is to provide a common base for the IAASB to refer to in developing assurance standards. Another IAASB member agreed, and also noted that in his view the proposed conforming amendments were too specific and detailed for a "framework". After further discussion, the IAASB agreed to not change the purpose of the Assurance Framework, which was not a matter envisioned as part of the scope of the project. The IAASB noted that further changes to the Assurance Framework would necessitate a delay in issuing ISAE 3000 (Revised), which is not in the public interest. Noting the non-authoritative status of the Assurance Framework, the IAASB also agreed to remove material that suggested that a reasonable or limited assurance engagement may be conducted under the Framework.

In relation to certain material that was seen to be too detailed to be suitable for the Assurance Framework, after considering various options, the IAASB agreed to remove paragraphs addressing responses when a precondition is not met and when an Emphasis of Matter or Other Matter paragraph is needed, as both issues are addressed in ISAE 3000 (Revised).

Direct Engagements

Ms. Mc Cabe noted that material specific to direct engagements had been retained in the Assurance Framework to facilitate understanding of assurance engagements generally. A few IAASB members disagreed with the inclusion of some of the material on direct engagements in the Framework, noting that the IAASB had removed similar language from ISAE 3000 (Revised). Other IAASB members were of the view that such material is helpful. After further debate, the IAASB agreed to retain the material on direct engagements, but to also further streamline it to focus on the critical distinctions with attestation engagements.

CONFORMING AMENDMENTS TO ISAE 3402,[2] ISAE 3410,[3] AND ISAE 3420[4]

Ms. Mc Cabe noted that the proposed conforming amendments to ISAE 3402, ISAE 3410 and ISAE 3420 were limited to those necessary to enable these standards to operate under ISAE 3000 (Revised), but did not extend to minor edits to each ISAE so that common wording mirrors ISAE 3000 (Revised) exactly or to remove duplication between the subject-matter specific ISAEs and ISAE 3000 (Revised). She noted that this approach was consistent with that adopted in the ED of proposed ISAE 3000 (Revised), but that additional changes were proposed to closely align the reporting requirements and illustrative examples with ISAE 3000 (Revised). She also outlined additional changes that had been made as a result of the finalization of ISAE 3000 (Revised).

Ms. Mc Cabe added that conforming amendments had not been proposed to ISAE 3400[5] as a result of ISAE 3000 (Revised), as ISAE 3400 had not been updated to take account of developments in other

---

[2]   ISAE 3402, *Assurance Reports on Controls at a Service Organization*

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

[4]   ISAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*

standards, including extant ISAE 3000, since it was issued. She highlighted that making limited conforming amendments from the finalization of ISAE 3000 (Revised) may suggest that the standard has been subject to a more significant update thatn has been the case. The IAASB noted that a future review of the use of ISAE 3400, in light of ISAE 3000 (Revised), may be undertaken to inform the IAASB's consideration of any future action with respect to that ISAE.

OTHER MATTERS

Except as outlined above and various editorial changes, the IAASB agreed the recommendations of the Task Force as set out in the agenda material.

DUE PROCESS CONSIDERATIONS

The IAASB agreed with the Task Force's recommendation that field testing of the proposals, or a consultation paper or roundtable to solicit further views on an issue, is not warranted given the feedback received on exposure and the scope of the revision to strengthen and clarify extant ISAE 3000 based on experiences from the implementation of extant ISAE 3000. The IAASB also agreed that there were no issues raised by respondents, in addition to those summarized by the Task Force, that it considered should have been discussed. Ms. Mc Cabe confirmed that the Task Force has raised with the IAASB all significant issues it has deliberated. Mr. Gunn advised the IAASB that it had adhered to its stated due process in finalizing the ISAE and related conforming amendments.

APPROVAL

ISAE 3000

After agreeing all necessary changes to ISAE 3000 (Revised), the IAASB approved the ISAE as a final standard with 17 affirmative votes out of the 18 IAASB members present.

Mr. Grant abstained, as he believed that further work was needed on the definition of reasonable assurance in light of respondents' comments. He noted that the Task Force has addressed this in the issues paper and the IAASB seems to be concluding that this is a conceptual issue outside the scope of the project. He noted that the extent of changes to the Assurance Framework indicated to him that changes have been made to other conceptual issues and that the IAASB should have gone further to make changes to reasonable assurance. He noted that the definition of reasonable assurance is fundamental to how the ISAE will be applied and to the value to users of reports produced under the standard. He also expressed concern that the material related to direct engagements will be confusing. He commended the Task Force for the hard work and Ms. Mc Cabe for her leadership over recent meetings. He noted that, while he has some reservations about aspects of the standard, ISAE 3000 (Revised) is an improvement on the ED.

Re-Exposure

The IAASB noted the Task Force's assessment that there is not a need for re-exposure of the ISAE, as the changes made to the ED were in response to the comments received from respondents and did not fundamentally change the principles in the ED or represent other significant changes of substance that were not aired on exposure. In this regard, the Task Force noted that, while the scope of the ISAE had changed in relation to application to direct engagements, the IAASB has adequately explored the options

---

5   ISAE 3400, *The Examination of Prospective Financial Information*

available to it in finalizing the ISAE. The IAASB voted on the matter, and no members voted in favor of re-exposure.

Conforming Amendments to the Assurance Framework

After agreeing all necessary changes to the conforming amendments to the Assurance Framework, the IAASB approved the conforming amendments with 14 affirmative votes out of the 18 IAASB members present.

Mr. Grant voted against the conforming amendments to the Assurance Framework, as he did not believe the volume of changes was necessary or appropriate. He noted that he thought the Assurance Framework was intended to be principles-based and to help with understanding the range of IAASB documents. He also noted that the Assurance Framework could be educational but was now becoming extremely technical. Finally, he noted that, as with his comments on ISAE 3000 (Revised), he was concerned by the material on reasonable assurance.

Mr. Sekiguchi voted against the conforming amendments to the Assurance Framework for several reasons. First, he noted that he was unclear about the objective of the Assurance Framework, and he believed that this is fundamental before making changes to the Assurance Framework. He believed it should be clarified that the Assurance Framework is designed to guide the development of ISAs and other standards. Second, he noted that, depending on the objective of the Assurance Framework, the manner or style of writing, such as the use of present tense, would differ greatly. Mr. Sekiguchi believed that the question as to whether the Assurance Framework should continue to use the present tense for areas to which practitioners' work efforts directly relate is important for the IAASB to answer. Third, with the proposed changes made to the Assurance Framework, he was unsure whether the Assurance Framework strikes the right balance in terms of granularity. If the Assurance Framework should be designed to guide the development of ISAs and other standards, he believed that several paragraphs would be unnecessary. Finally, he added that the board's discussion about the direct engagements shows a lack of clarity about what is meant by the "subject matter information" for such engagements, and regretted having to make a conclusion before sharing reaching a common understanding about such an important concept among board members.

Mr. Wiersema explained that he abstained from voting because of his concerns with the manner in which direct engagements are described in the framework and the fact that he had not participated in past Board discussions which are relevant to his concerns. He noted that he voted in favor of ISAE 3000 (Revised) in part because paragraph 2 of the standard addressed his concerns by stating that ISAE 3000 (Revised) "may" be applied to direct engagements, "adapted and supplemented" as necessary. The framework deals with direct engagements, but does not contain a similar exclusion and acknowledgment, as a result of discussions that took place before he joined the Board.

Mr. Pickeur abstained from voting on the conforming amendments to the Assurance Framework, as he was not sure that the amendments made did not change the nature of the Assurance Framework, and was not sure that the Assurance Framework is fit for ISAs or International Standards on Review Engagements.

Conforming Amendments to ISAE 3402, ISAE 3410 and ISAE 3420

The conforming amendments to ISAE 3402 and 3410 were approved with the affirmative votes of 17 out of 17 IAASB members[6] in attendance, and the conforming amendments to ISAE 3420 were approved with the affirmative votes of 16 out of 17 members in attendance.

Mr. Archambault abstained from the vote on the conforming amendments to ISAE 3420. Mr. Archambault noted that he voted against ISAE 3420 when it was issued and, as such, he did not believe it would be appropriate to vote for or against these conforming amendments.

4. **Audit Quality**

Mr. Grant introduced the topic, then provided an overview of the feedback received from the 76 respondents to the January 2013 Consultation Paper (CP). He also highlighted some of the recent developments relating to the audit quality project including:

- The PCAOB's project on audit quality, in particular in relation to the development of quantitative measures and a definition for audit quality. Mr. Grant noted that, though different words were used in the PCAOB's initial documents, he was of a view that the concepts being described by the two boards were not that different.

- An audit quality reporting project that was being undertaken by the US Center for Audit Quality (CAQ) noting similarities to the transparency reporting that is currently ~~on the way~~required in Europe. He also noted that the CAQ's perspectives on a definition of audit quality[7] are broadly consistent with the IAASB's Audit Quality Framework (AQ Framework).

- A publication by the Institute of Chartered Accountants of England and Wales, which focuses on the reliability of financial statements. Mr. Grant noted that a part of the publication discusses audit firm reliability.

Mr. Grant also noted that the International Accounting Education Standards Board and IESBA planned to discuss issues relevant to the IAASB's audit quality project at their next~~future~~ meetings.

REMARKS ON BEHALF OF THE IAASB CAG

Mr. Grant noted that 8 of 11 CAG Representatives who expressed views about the length of the document were not supportive of the Task Force's recommendation to move the detailed descriptions of the input factors to a separate guide. Instead they suggested that the IAASB utilize one document, citing the importance of being able to see the entire document as a whole and avoiding the possibility of having material in the guide being ignored, or viewed as having a different status than the AQ Framework.

A number of ~~The~~ CAG Representatives had also suggested that efforts be made to raise awareness of the AQ Framework after it has been issued through outreach activities, including webcasts and roundtables. It was also suggested that a summarized version of the document be made available. Professor Schilder noted that there was an "At-A-Glance" document that had been prepared at the time the CP was issued and that he had used this document in various presentations, including two

---

6   One IAASB member was not in attendance on the day of voting on these conforming amendments at the September 2013 IAASB meeting and was therefore ineligible to vote.

7   The CAQ shared their perspectives on the PCAOB's definition of audit quality ~~project~~ in a May 13, 2013 letter to Greg Jonas, PCAOB's Director of Research and Analysis. This letter is available at: http://www.thecaq.org/docs/audit-committees/caqauditqualitylettertopcaobmay13-2013

roundtables organized by the International Corporate Governance Network (ICGN) and CAQ, and it had been very well received.

A CAG Representative had commented that it was unclear how the AQ Framework would be used by SMPs. Mr. Grant noted that further efforts could be taken to develop tools to assist SMPs with the use of the AQ Framework, but that this was not something that the Task Force had the time and expertise to currently undertake.

Several CAG Representatives also suggested that the AQ Framework prominently feature a definition of audit quality. It was suggested that the elements in the AQ Framework description of audit quality could be leveraged in developing such a definition, but that certain terms, such as "concept" and "elements" should be revisited.

LENGTH OF THE AQ FRAMEWORK

Mr. Grant noted that many respondents to the CP had specifically expressed concern about the length of the AQ Framework, with some noting that the length would detract readers, especially non-auditors, from reading and using the document. He presented the Task Force's recommendation to move the detailed descriptions of the inputs factors from the main document, and to move them to a new separate document called a "guide." Mr. Grant noted that the Task Force's recommendation would also help address concerns about the balance and status of the document, but presented the following alternatives for the IAASB's consideration:

- Having one document, where the detailed descriptions of the input factors were again incorporated as part of the main document (as was presented in the CP); or

- Having one document, where the detailed descriptions of the input factors were included as an Appendix.

The IAASB was generally supportive of the Task Force's intent to make the AQ Framework more concise, noting the concerns about its length. The IAASB expressed a preference for having a single document, and agreed the detailed descriptions of input factors should be moved to an Appendix versus a separate guide, for the following reasons:

- It would be difficult to understand the content in a stand-alone guide without having the context set forth in the main AQ Framework. work

- Having two documents did not reduce the overall length of the AQ Framework, but merely changed its presentation.

- A "one-stop-shop" was preferred over having to navigate multiple documents, as there would be an increased likelihood that important and relevant information may be overlooked or unread.

To deal with concerns about the length, the IAASB also asked the Task Force to further explore ways to streamline the existing wording within the AQ Framework. A number of IAASB members also suggested the addition of an executive summary.

STATUS AND TITLE OF THE AQ FRAMEWORK

Mr. Grant noted that a number of respondents to the CP , in particular auditors, raised questions about authority of the AQ Framework and suggested the IAASB further clarify whether the document was intended to be authoritative or not. Mr. Grant indicated that the Task Force proposed adding a paragraph

describing the non-authoritative nature of the document into the AQ Framework itself and had debated the desirability of noting the status of the Framework in the considered several suggestions made by respondents, including those relating to revising the *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*. The Task Force also suggested a minor change to the title to include a subtitle that would appear after the main title, *A Framework for Audit Quality* to be *A Discussion of Key Elements that Create an Environment for Audit Quality.*

The IAASB agreed to not revise the Preface for purposes of the AQ Framework, but acknowledged a future need for considering what could be done to clarify the non-authoritative nature of certain IAASB documents. account for other IAASB documents that might be prepared that do fit into the currently defined categories. There was general support to have the AQ Framework included in the IAASB's *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements.* Prof. Schilder noted that more could be done to clarify the non-authoritative status of the document and the future work that may need to be done by IAASB and other organizations such as the World Bank, ICGN, other standard-setting boards, and IFAC, to promote and use the AQ Framework.

Mr. Grant noted that a number of respondents to the CP raised questions about use of the word 'Framework' although few alternatives had been suggested. The Task Force favored retaining the title used for the CP but adding a subtitle, "*A Discussion of Key Elements that Create an Environment for Audit Quality.*" However, IAASB members had split differing views on the Task Force's recommendation of a revised title, and retaining the use of the word "fFramework" in the title as follows:.

- Some IAASB members were of the view that describing the document using the word "Framework" was not appropriate because the word "framework" denotes a set of principles on which to build standards—which was not the intent of this document. There was also a concern raised that it could be confusing for the IAASB to have two frameworks – the Assurance Framework and AQ fFramework. Suggestions for different terms were made by IAASB members. It was also suggested that the Task Force refer to the AQ Framework simply as a Discussion pPaper. or a document, with the updated title/subtitle. Mr. Grant acknowledged a similar view was noted by a few respondents to the CPED, and one with the suggestedion that the word "vision" be used instead of "framework." Mr. Grant noted that the Task Force would discuss present options for a revised title for the IAASB's consideration at its December 2013 meeting.

- On the other hand, those IAASB members who were comfortable with the title and reference to an AQ Framework noted that many of the people with whom the IAASB is trying to engage on the topic of audit quality would not place significant emphasis on what the document is called. They cautioned the Task Force from moving away from the title in the CP in light of a significant degree of global awareness and acceptance of the current title. It was also noted that the IAASB CAG did not express concerns with the title of the document.

Some IAASB members expressed concern about how the AQ Framework would be perceived, in particular how it is seen to interact with ISA 220[8] and ISQC 1,[9] identifying a risk that some, in particular regulators, may interpret the AQ Framework as part of the quality control standards. Prof. Schilder suggested that the Task Force consider refinements to the language. He noted that there may be an opportunity, including the cultural aspects used in the AQ Framework. He was supportive of certain

---

[8] ISA 220, *Quality Control for an Audit of Financial Statements*

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

~~members' suggestions~~ to publish a document mapping out the elements of the AQ Framework to the ISAs and ISQC 1, ~~noting that this could be done~~ as part of a<u>ny project to revise</u> ~~revision of~~ ISQC 1.

BALANCE OF THE AQ FRAMEWORK

Mr. Grant noted that mixed views exist among respondents <u>to the CP</u> about the balance of the document as follows:

- About one-third of respondents thought the balance, as presented, was appropriate;

- About one-third thought that there should be more discussion about the responsibilities of non-auditors, especially management; and

- About one-third thought that the section on contextual factors should be at the start of the document; and thought that ~~were~~ some important contextual factors ~~that~~ were missing.

~~Mr. Grant noted that respondents were of the view that more should be done to describe factors that have a more direct impact on audit quality, rather than focus on contextual factors impacting financial reporting quality, as was done in the CP.~~ He ~~then~~ noted that the Task Force decided not to <u>recommend a significant</u> change to <u>the</u> balance ~~format~~ of the document, but <u>did believe that it would be beneficial to</u> ~~recommended moving the detailed descriptions of the input factors to a separate guide, and~~ included a new section on contextual factors directly impacting audit quality, <u>such as</u> ~~with sections dealing with~~ corporate governance, regulation, the litigation environment, education and training, and the financial reporting timetable. Mr. Grant indicated that several respondents <u>to the CP</u> also highlighted fee pressures as a major issue that impacts audit quality, particularly in some developing nations. <u>He also noted that moving the detailed descriptions of the input factors to a separate guide or to an appendix would assist those who had concerns about the balance.</u>

IAASB members were generally supportive of the Task Force's approach with respect to the balance of the document, but asked the Task Force to consider ~~the following~~:

- ~~The difference between the terms "audit quality" and "a quality audit" as used in the AQ Framework. Suggestions were provided to clarify the linkage between the two terms, leveraging the content from the wording of the Foreword that formed part of the CP. An IAASB member suggested that the AQ Framework address how the concepts of "audit quality" and "a quality audit" interact with the requirements in ISQC 1.~~

~~H~~<u>h</u>ow to improve the diagram depicting the AQ Framework to better illustrate the interactions among various groups. Mr. Grant noted that the Task Force was of the view that there was an opportunity to improve the diagram by including the interactions and contextual factors around the outside of the original diagram, and changing the positioning of the circles depicting the auditor, inputs, process and outputs.

REFERENCES TO AUDITS OF SMALLER ENTITIES AND PUBLIC SECTOR AUDITS

Mr. Grant noted that some respondents were of the view that the special considerations for audits of smaller entities and public sector audits included as a separate section at the end of the CP implied that the AQ Framework did not apply to financial statement~~s~~ audits of all entities. The IAASB agreed to integrate the paragraphs dealing with the special considerations for audits of smaller entities and public sector audits into the main document. It was noted that the IFAC SMP Committee was supportive of this approach.

DEFINITION OF AUDIT QUALITY

Mr. Grant noted that a number of respondentsses to the CP, including the International Organization of Securities Commissions (IOSCO), indicated that the AQ Framework should include a definition of audit quality. He noted that the Task Force explored the definitions suggested by the respondents, as well as the one currently being explored by the PCAOB. Mr. Grant noted that the PCAOB's definition aims to define audit quality from an output perspective whereas. He added that the PCAOB's approach contrasts with that of the IAASB, as the IAASB's AQ Framework examines audit quality from both an inputs and an outputs perspective.

IAASB members Aacknowledged that defining the term "audit quality" is difficult. An IAASB member noted that academics have also taken an approach similar to the one recommended by the Task Force – describing "dimensions" of audit quality rather than defining it. The IAASB reemphasized its position that the AQ Framework should discuss what constitutes audit quality but should not define audit quality. Drafting suggestions included:a definition of audit quality was not needed as part of the AQ Framework and:

- Suggested further clarifying that the difference between the terms "audit quality" and "a quality audit" as used in the AQ Framework. A suggestion was made to use the wording of the Foreword that formed part of the CP. start with a discussion about the factors that create an environment in which a quality audit can be done, followed by a discussion of what constitutes a quality audit so as to clarify that AQ Framework describes, but does not define, audit quality.

- Suggested that the order of discussion of 'a quality audit' and 'audit quality' be reversed.

- Acknowledged that defining the term "audit quality" is difficult. An IAASB member noted that academics have also taken an approach similar to the one recommended by the Task Force – describing "dimensions" of audit quality rather than defining it. It was suggested that the AQ Framework describes attributes of an "ideal quality audit", taking into accounts factors such as governance and audit fees, and explicitly mention that when certain conditions are met it generally leads to a quality audit. Mr. Grant responded that by selecting some, and not all, of the attributes and factors described in the AQ Framework the IAASB would be unintentionally weighting them and placing more importance on some rather than others.

OTHER SUGGESTIONS TO IMPROVE THE AQ FRAMEWORK

Mr. Grant walked through the pages of a revised version of the AQ Framework and the IAASB members provided several suggestions to improve it including: The IAASB asked the Task Force to:

- Clarify Expanding the section that addresses concerns about information flow between auditors and regulators being just one-way – that is, flowing from just the auditor. Specifically, the IAASB asked the Task Force to consider additional language to indicate that auditors benefited from being better informed by regulators. It was also suggested that there be explicit mention of insurance regulators.

- Retaining the discussion of broader cultural factors and the impact it has on audit behaviors, and therefore audit quality.

- Acknowledginge that there are a number of information systems beyond just the accounting system that impacts financial reporting.

- Expand<u>ing</u> <s>on</s> the section that addresses audit fees and the responsibilities of the audit committee to better demonstrate the impact of audit fees, and linkage between the auditor and the audit committee.

- Condens<u>ing</u><s>e and revise</s> the wording used in the Appendix to summarize the challenges of defining audit quality.

WAY FORWARD

Mr. Grant thanked the IAASB for the very helpful comments and asked for any additional <s>written</s> comments <u>on detailed drafting</u> to be provided to Staff after the meeting. He noted that the Task Force intends to ask the IAASB to <s>consider</s> approv<u>e</u><s>al of</s> the AQ Framework at the December 2013 IAASB meeting.

5. **Disclosures**

Mr. Archambault introduced the topic, reminding the IAASB of the objectives of the project, and the IAASB's initial view that the requirements relating to auditing disclosures in most ISAs were sufficient and therefore that minimal changes to requirements in the ISAs may be required, with the exception of ISA 320[10] and ISA 700.[11]

Mr. Archambault explained that the Task Force had developed proposed changes to all the relevant ISAs, with the exception of any enhancements relating to issues or concerns around sufficient appropriate audit evidence for disclosures, which the Task Force was still in the process of considering. He also added that the Task Force continued to have the view that the changes were better placed in the individual ISAs, rather than a new ISA on auditing disclosures, to emphasize that auditing disclosures should be considered throughout the audit and not as an isolated part of the audit process.

Mr. Archambault emphasized that the proposed changes to be discussed were enhancements to the ISAs, and that the Task Force continued to develop the "educational guide", the status of which was still to be further considered.

Mr. Archambault discussed the proposed changes to the ISAs, highlighting that the proposed changes to the ISAs had been made:

- To help drive auditor behavior and improve audit quality with regard to auditing disclosures;

- Taking into account the definition of "financial statements" in the *Glossary of Terms,* which explicitly mentions the related notes, which ordinarily comprise a summary of significant accounting policies and other explanatory information. The Task Force therefore considered it unnecessary to add copious references to the notes to the financial statements throughout the ISAs to emphasize disclosures. Rather, the Task Force is proposing to add references in a few areas where the Task Force felt that the additional emphasis was merited; and

- With the view that such changes would be considered as a "package", rather than isolated changes to individual ISAs.

Concern was expressed by a few IAASB members about "opening" up a number of ISAs while some of these ISAs were already subject to revision (e.g., ISA 700), or were planned as future projects (e.g., ISA

---

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

[11]   ISA 700, *Forming an Opinion and Reporting on Financial Statements*

315[12]), which could result in changes in those standards being implemented at different times. Mr. Archambault also highlighted the IFAC SMP Committee's concern over disrupting the "stable platform" by making changes in a number of ISAs. Mr. Archambault acknowledged these concerns, and explained that the implementation date for the changes related to auditing disclosures would likely need to be considered in light of other projects underway at that time.

Mr. Archambault noted that the IFAC SMP Committee expressed support for the changes in the application and other explanatory material, as guidance would be helpful in the audits of small- and medium-sized entities (SMEs). However, the IFAC SMP Committee expressed concern over the addition of "notes to the financial statements" in some places, as the definition of financial statements included the related notes, suggesting this may result in confusion when the reference was not made.

REMARKS ON BEHALF OF THE IAASB CAG

In addition to detailed comments on the proposed changes to the requirements in ISA 320 and ISA 700, Mr. Archambault provided an overview of the comments received at the September 2013 CAG meeting, noting that CAG Representatives:

- Generally agreed with the changes being presented in the individual ISAs rather than the development of a new ISA;

- Questioned whether all issues and concerns raised in the responses to the Discussion Paper (DP)[13] had been considered. Mr. Archambault responded that, with the exception of further Task Force deliberations about sufficient appropriate audit evidence for disclosures, all other matters had been considered. He also added that the Task Force was continuously challenging itself about being responsive to the issues and concerns raised;

- Suggested that more be included about the experience of the auditor in evaluating disclosures, in particular that such work would be unlikely to be done by less experienced engagement team members;

- Questioned what actions are required when the auditor "considers" certain factors, as the word has different meanings or interpretations in different jurisdictions. This was particularly relevant in ISA 320 relating to narrative disclosures;

- Generally agreed with the development of educational material to supplement the changes to the ISAs; and

- Supported the changes to the assertions, including the development of additional guidance on how to apply them. However, it was questioned whether the revision should encompass all the assertions, not only for presentation and disclosure, as they were inextricably linked.

---

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

[13] The January 2011 IAASB Discussion Paper, *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*

ISA 210,[14] ISA 240[15] AND ISA 260[16]

The IAASB considered proposed changes to the application and other explanatory material in ISAs 210, 240 and 260. In addition to editorial and other changes, IAASB comments and reactions to these proposed changes included:

- With reference to the change in the engagement letter relating to management providing evidence for disclosures, whether there was the need for the engagement letter to recognize management's responsibility to provide evidence more broadly than for disclosures; and

- With reference to the consideration of fraud or error during the engagement team discussion, whether the relevant issue was more related to bias in the disclosures rather than fraud and, if so, whether this would be better placed in ISA 315 (Revised). Mr. Archambault explained that, although relatively uncommon, there were cases where financial reporting fraud, such as including irrelevant information to obscure important disclosures, may necessitate a specific consideration by the audit engagement team.

ISA 300[17]

Mr. Archambault noted that the Task Force had further considered how best to emphasize disclosures earlier in the audit process. As a result, some changes that had previously been proposed to ISA 315 had been moved to ISA 300.

Comments from both the responses to the DP and previous discussions with the IAASB had highlighted the need for the ISAs to include material on consideration of information in disclosures that is not necessarily generated by the general ledger system. Mr. Archambault explained that proposed changes had been made to focus auditors on this different source of information, by reference to information generated by "systems outside of traditional financial reporting systems". A few IAASB members expressed concern about the use of this phrase, since some found it confusing, as any system generating information generated to support the disclosures would be viewed as part of the financial reporting system, a view echoed by the CAG and IFAC SMP Committee. As an alternative, an IAASB member suggested that referring to the "sources" of the information may be useful. Other editorial comments were also noted by IAASB members.

ISA 315 (REVISED)

Mr. Archambault reminded the IAASB that proposed enhancements to the application and other explanatory material in ISA 315 (Revised) had previously been discussed, and that further changes had been made to respond to the comments and concerns previously raised.

A few members expressed concern about the matters that may be considered in the engagement team discussion due to the appropriate timing for such work (e.g., overall views on the completeness, understandability and accuracy of disclosures). It was also suggested that some of these matters were more broadly applicable to the audit engagement, rather than only to disclosures. A few members did not agree with the articulation of some of the factors that may influence the identification and assessment of

---

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

15   ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

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

17   ISA 300, *Planning an Audit of Financial Statements*

risks of material misstatement. An IAASB member also suggested the Task Force further consider the material around controls, in particular around the control environment and risk assessment. Mr. Archambault noted that the Task Force would consider further changes to clarify the intent of the guidance.

Assertions in ISA 315 (Revised)

Mr. Archambault explained that the Task Force had considered whether the extant assertions in ISA 315 (Revised) were useful and relevant to auditors given the nature of disclosures in today's environment. He noted that this was a very difficult area to explore and that varying views had been expressed on how to enhance the assertions by both the Task Force and IAASB members, when discussed at the April 2013 IAASB meeting. He explained that the intent of the proposed changes to the assertions was to make clear that the assertions about presentation and disclosure applied to both the face of the financial statements as well as to the notes, and provide further guidance to make them more relevant to the evolving types of disclosures.

In addition to observations of an editorial nature, IAASB members commented as follows:

- An IAASB member questioned the use of the term "disclosures", both in this context and in other places in the ISAs where the term had been used, in particular whether "disclosures" was referring to the basic elements of the financial statements (i.e., the notes to the financial statements) as opposed to a broader definition (i.e., the information that had been presented in the financial statements, including on the face). In addition, because the assertion also embedded the concept of "presentation", this relationship would need to be considered when clarifying the meaning of "disclosures". A few IAASB members agreed that disclosures applies to all elements of the financial statements, but that there may be confusion arising from the enhancements proposed as the underlying requirement in ISA 315 (Revised) appeared not to be that broad.

- An IAASB member expressed concern over the deletion of "occurrence and rights and obligations", as this would still apply to some disclosures.

- Some IAASB members questioned the terminology used in the proposed changes such as "primary financial statements", a point also raised by the IFAC SMP Committee, as well as reference to concepts that were not related, such as understandability and balance.

An IAASB member suggested that understanding how the assertions were used in practice may provide insight about how to better describe them in the ISA. He questioned whether risk assessments for disclosures are being done at the assertion level, taking into account materiality. He added that not requiring a risk assessment for disclosures at such a granular level may help with the stand-back review of the financial statements at the evaluation stage, which is done in totality. However, he also noted that, if the aim was to conclude on individual disclosures, then the risk assessment at the assertion level was essential to do so. Mr. Archambault responded that, in his view, risk assessments are carried out at the financial statement and assertion levels, which includes relevant disclosures, and that he was hesitant to suggest that this was not the case by isolating disclosures from account balances and transactions. In his view, if the evaluation process was the point at which to include the assertions for disclosures, this would push the effort to the end of the audit and this would negate the Task Force's efforts to encourage auditors to focus on disclosures at the beginning of an audit. Another IAASB member added that firms had recently modified the evaluation of misstatements to include some specific assertions, and added that it may result in those firms modifying the risk assessment process at a more granular level going

forward. This IAASB member added it would be useful to monitor the firms' use of assertions at both the risk assessment and evaluation phase.

ISA 320

The IAASB considered proposed changes to ISA 320 to address how the concept of materiality (including performance materiality) applies in relation to both quantitative and qualitative disclosures. An IAASB member noted that the role of ISA 320 is to provide guidance on how to calculate the numbers relating to materiality and performance materiality. However, ISA 315 is the standard that operationalizes the use of materiality, and therefore, in his view, it would be more appropriate in ISA 315 to make the distinction between amounts and narrative disclosures, rather than in ISA 320. A few other IAASB members also agreed and suggested that more attention to narrative disclosures at the risk assessment stage may be warranted. Mr. Archambault responded that the Task Force would reconsider the best place for these changes.

An IAASB member noted that, when developing ISA 320, the Board had previously debated about whether or not the auditor could plan to detect qualitative misstatements and had concluded that the auditor could not.

An IAASB member queried whether it was worth opening up ISA 320 and ISA 450[18] before the outcomes of the International Accounting Standards Board's (IASB) work in this area were known. Mr. Archambault explained that the changes that were being proposed would be useful to auditors and would not be affected by the work of the IASB. This was confirmed by Mr. Sekiguchi, IAASB-IASB Liaison Working Group Chairman, who further explained that the IASB was in process of exploring short-, medium-, and longer-term changes relating to disclosures, including clarifying the use of materiality relevant to disclosures, and to potentially provide educational material. He added that, in his view, the IASB changes would not be expected to impact the auditing standards directly as the definition of "material" would not be affected.

ISA 330[19]

Mr. Archambault explained the Task Force's view that there were no changes needed to the requirements of ISA 330, and that the proposed changes to the application and other explanatory material were predominantly to focus auditors on planning for disclosures at the appropriate time, taking into account that they may be prepared by management at a later stage in the audit. There were also changes proposed for consistency with other changes proposed in the ISAs, such as to the assertions, which would be appropriately amended as these other changes, if any, were finalized. The IAASB did not comment on any of the proposed changes.

ISA 450

Mr. Archambault explained that the proposed changes to the application and other explanatory material in ISA 450 were to support the proposed changes that were made relating to narrative disclosures in ISA 320 and to provide further guidance for auditors when considering misstatements in narrative disclosures.

IAASB members questioned the specific content of some of the changes, for example to consider whether the disclosures met the disclosure objectives of the financial reporting requirements, as some

---

18   ISA 450, *Evaluation of Misstatements Identified during the Audit*

19   ISA 330, *The Auditor's Responses to Assessed Risks*

jurisdictions did not have such requirements. In addition, in some areas, IAASB members had the view that the considerations would be relevant more broadly than only to narrative disclosures. An IAASB member also questioned the consistency of the representations of what a misstatement could mean with the examples of what a misstatement could be. A few IAASB members had the view that the work effort relating to narrative disclosures was in the risk assessment process, and that more consideration of the requirements and guidance in ISA 315 (Revised) was warranted.

ISA 700

Mr. Archambault explained that concerns had been raised in the responses to the DP relating to the "stand-back" review in ISA 700. To respond to the concerns, the Task Force had proposed changes to the requirements in ISA 700 to align the evaluation of the financial statements with the revised assertions, as well as to the application material to emphasize that the evaluation includes the information in the notes to the financial statements.

A few IAASB members were of the view that the intent of the requirement in the ISA had been changed as a result of trying to align it with the assertions, and suggested the Task Force should reconsider whether some of the extant aspects, such as considering whether the information was relevant, should be retained. Mr. Archambault explained that the CAG had noted concerns about excessive disclosures, and suggested further consideration be given to this, in particular considering whether additional guidance in this area may more clearly help auditors understand the work effort required.

Mr. Archambault agreed that the Task Force would reconsider the requirements and guidance in light of the comments and what was trying to be achieved.

WAY FORWARD

Mr. Archambault thanked the IAASB for their comments, noting the Task Force would present further revisions to the proposed changes in the ISAs for the IAASB's consideration at its December 2013 meeting.

6. **Strategy**

Prof. Schilder introduced the topic, noting that the draft CP for the *IAASB's Future Strategy 2015–2019 and Related Work Program* was developed based on responses from the 2013 Stakeholder Survey, as well as input from outreach and other key stakeholders, including the Basel Committee on Banking Supervision, national auditing standards setters (NSS) and regulators.

Relating to the draft CP, Prof. Schilder noted that:

- The PIOB has expressed support for the Strategy to be extended to a 5-year period, with 2-year work programs, subject to a mid-period review. He also noted that the substantial majority of responses to the Stakeholder Survey had also supported this change.

- The proposed future Strategy set out the context for the direction of the strategy and work programs, including the identification of the strategic themes illustrating how the IAASB would focus its activities over the strategic period.

- The proposed Work Program illustrates how the IAASB proposes to allocate its resources, and represents a shift in the balance of efforts between the different types of standards the IAASB develop from the current Strategy and Work program, with a focus on ISAs and ISQC 1 in the early

part of the strategy period. Responses to the Stakeholder Survey and others had emphasized the importance of addressing key issues identified by the ISA Implementation Monitoring Project, but consideration had also been given to the need for the IAASB to facilitate adoption and implementation of new and revised ISAs, in particular those resulting from the Auditor Reporting project. Notwithstanding the shift in balance, he explained that the IAASB, through its Innovation, Needs, and Future Opportunities Working Group, would continue to monitor emerging developments in assurance and related services, in particular those related to Integrated Reporting.

- Current IAASB projects and others that are expected to commence in 2014 would likely impact the ability of the IAASB to commence new projects in 2015.

- The ~~Task Force~~Steering Committee had considered alternative approaches to the number of projects that could be undertaken, taking into account the available resources, both in terms of Board time as well as Staff, to balance the needs of many different stakeholders. The proposed Work Program included commencement on activities to address issues and concerns in a number of areas, with some projects expected to extend into the latter part of the strategy ~~project~~period, as they were substantial in nature. In some cases, more work would be needed to identify the scope of standard-setting activities, if any, or determine the best course of action, including considering who may be best placed to undertake the work.

- In a few specific areas, consideration was given to the use of "limited scope amendments" as a means of addressing specific matters, which were limited in scope, more rapidly. This would be a new approach for the IAASB, but one where discipline would need to be maintained to keep deliberations focused on the issue at hand, and not allow the limited scope to expand.

REMARKS OF BEHALF OF THE IAASB CAG

Prof. Schilder noted that the CP had also been presented to the CAG, and the Representatives were broadly supportive. However, some concerns had been expressed about the Work Program being too ambitious, although others noted that it was not too unrealistic as to be unachievable. The CAG noted that the priorities should be clearly identified, with a clear message that the IAASB would be flexible if the need to re-prioritize arose. Prof. Schilder added that the CAG had acknowledged the extensiveness of some of the projects, such as professional skepticism and ISA 315, in particular the wide-ranging developments affecting that standard. Other substantive comments from the CAG included:

- A suggestion to further clarify the strategic themes, in particular in relation to outreach and collaboration, to ensure the IAASB's standards are understood and what areas could more specifically be addressed (for example, in emerging markets);

- Consideration for a more structured relationship with regulators, such as the International Forum of Independent Audit Regulators (IFIAR) and IOSCO;

- Consideration of whether the Strategy could more clearly set out the IAASB's strategic vision for 2020;

- The need to deal with professional skepticism at an early stage in the future strategy;

- Support for a project on ISQC 1, including a root cause analysis of the issues and concerns that had been identified; and

- The need for urgent work in the area of audits of banking and financial institutions.

PROPOSED STRATEGY FOR 2015–2019

A few IAASB members expressed concern that the CP did not clearly reflect the strategic direction of the IAASB for the 5-year period; rather, it appeared more operational in nature. In addition, they were of the view there was not a clear distinction between the Strategy and the Work Program, and therefore it was not clear how future Work Programs would operate within the five-year Strategy. In these members' view, amplification of more strategic matters would enhance the CP to formulate a more strategic document that would apply over the 5-year period. For example, it was suggested that the Strategy could include more about the objectives that the IAASB intends to achieve in the 5-year period, including how the output could be measured against the objectives. A few IAASB members also suggested the IAASB first needed to explore what could realistically be done under its current constraints, as well as what could be achieved if changes were made to how the Board operates, and articulate considerations about how the IAASB could involve others to expand the Board's capacity, recognizing the wide range of demands from the IAASB's stakeholders.

Prof. Schilder responded that the Steering Committee had begun considering the modus operandi of the Board, and how it could operate more effectively and efficiently, for further consideration by the IAASB. One objective of doing so would be to consider whether others could assist and who would be best placed to help in relation to particular projects or other activities. However, these considerations were still at a very early stage and therefore it would be difficult to include anything too definitive in the CP beyond making clear that the IAASB was in the process of further considering its modus operandi.

A few IAASB members noted that further clarification of the strategic themes was needed as there was overlap in some areas. The Steering Committee was also asked to further clarify the factors used in selecting projects for inclusion in the Work Programs. Finally, in response to feedback from the IFAC SMP Committee, the Steering Committee was asked to consider whether further reference could be made to the IAASB's activities relevant to SMEs and SMPs.

PROPOSED WORK PROGRAM

The IAASB was generally supportive of the possible priorities and actions identified in the Work Program, but expressed concern about the proposed approach of commencing work on a number of topics concurrently, including the use of "limited scope amendments".

In particular, IAASB members expressed concern about the time some of the proposed projects may take, and questioned whether "limited scope amendments" would be effective. An IAASB member noted that, by commencing with "limited scope amendments", notwithstanding that output from these may be relatively quick; the output from the second, more substantial phase of the project may only be realized in the latter part of the strategy period, which may not be seen as being very responsive overall. In addition, some IAASB members were concerned that the IAASB may find it difficult to limit its deliberations on a limited scope issue.

Related, a few IAASB members were concerned that this approach may result in a standard being "opened up" more than once in a relatively short time period, which could result in challenges to those implementing the ISAs. It was suggested that further consideration would need to be given to coordinating the effective dates of the changes from the new proposed projects, in particular when "limited scope amendments" had been developed, and also with those from current ongoing projects expected to carry over into 2015, such as changes arising from the Disclosures project. IAASB members agreed it would be necessary to balance the calls from SMPs in particular for the IAASB to maintain a

"stable platform" with the calls for change from regulators and audit oversight bodies in response to the findings of the ISA Implementation Monitoring project. Prof. Schilder noted that, as projects are finalized, the IAASB would consider the most appropriate effective dates for any changes arising from the project, taking into account other changes that may be expected from other ongoing projects.

A few Board members noted the absence of a "rapid response" mechanism to address emerging issues on a more timely basis. Mr. Gunn noted that this concept had previously been considered by the IAASB, but the need for due process in standard setting, in particular required public consultation, would make a rapid response difficult to achieve in practice. An IAASB member questioned whether "interpretive" guidance could be considered. However, it was acknowledged that the status and authority of such guidance may be problematic and that changes in the ISAs may be preferable, in particular if a topic was of such significance that it needed to be addressed urgently.

Mr. Gunn noted that the Steering Committee had sought to find a balance to the wide range of input and request for IAASB action. The intent of using "limited scope amendments" was to address known issues in a particular standard on a timely basis. He explained that the alternative would be for the IAASB to identify fewer projects in its Work Program for 2015–2016 and complete those projects before moving on to other topics, with priority given to areas in which the most concerns had been expressed. Prof. Schilder noted that more structured dialogue with regulators and other stakeholders was needed to understand their views on commencing on a number of initiatives with a longer completion period, versus a few projects in key areas but more substantive reviews of those areas completed on a more timely basis. He added that the Steering Committee would further consider the most appropriate approach, taking into account the IAASB's views.

In addition to editorial comments on the Work Program, the IAASB asked the Steering Committee to consider:

- Making clear what initial activities on a project may be, such as further research, root cause analysis, or additional outreach, to more clearly defined the scope of the proposed projects. In this regard, it was noted that, in some cases, standard-setting may not be the only outcome, for example if more consistent application of an ISA could be achieved by education or other actions to enhance audit practice. Mr. Gunn confirmed that any new project would be subject to the IAASB's approval of a project proposal, which would require consideration of whether standard setting was an appropriate response.

- Clarifying what the IAASB intends to do in relation to preliminary announcements, recognizing the challenges that arise from different legal and reporting requirements in various jurisdictions. An IAASB member had the view that this project should be prioritized, while another believed it should rather address the auditor's association with ~~other~~ all types of financial information, including preliminary announcements.

- Whether work in emerging areas such as integrated reporting was planned to commence soon enough, in light of current developments, recognizing the need for engagement with the International Integrated Reporting Council.

- Whether the possibility of developing an assurance standard for direct engagements should be mentioned in the proposed Work Program.

- Whether Appendix 3 could be further clarified, in particular to explain the balance of work between the Staff and the Board and activities that may be undertaken before the IAASB officially commences a project with the approval of a project proposal.

WAY FORWARD

Prof. Schilder thanked the IAASB for their comments and input, and added that the Steering Committee would further reflect on how to clarify and enhance the CP, which would be presented for approval at the December 2013 IAASB meeting.

7. **ISA 720 – Other Information**

Mr. Gélard introduced the topic, noting that the revision of ISA 720[20] is part of the overall project to revise the auditor's report. He highlighted that the Task Force had taken the IAASB's comments from the June 2013 IAASB meeting into account and noted that discussion about the objective of ISA 720 (Revised) were central to progressing the project.

Mr. Gélard and Prof. Schilder highlighted that the IFAC SMP Committee thought the scope was clear, but that it was not clear when the obligation ceased.

REMARKS ON BEHALF OF THE IAASB CAG

Mr. Gélard summarized the CAG's comments, noting that Representatives considered that the proposals were clearer and simpler than the ED of ISA 720 (Revised) (ED-720).[21] He noted that some Representatives questioned the need to specifically scope in documents that contain information similar to that contained in an annual report, as they believed an appropriately expanded definition of annual report would be sufficient. He highlighted that most of the Representatives supported the exclusion of the securities offering documents from ISA 720 (Revised), even though there was some support for covering securities offering documents in countries where there are no specific local requirements for the auditor or professional accountant to do work on the securities offering documents, perhaps without a reporting obligation.

In respect of the work effort, Mr. Gélard noted that some Representatives would prefer the standard to require a minimum set of procedures be performed in every case, similar to the PCAOB's proposed standard. However, he noted that others supported the principles-based approach proposed by the Task Force. He highlighted that some Representatives strongly supported the term "read and evaluate" as being more active, in that it suggests the need to perform procedures, rather than the term "read and consider", while others believed that the term "evaluate" did not translate well. Also, there was support for the fact that the standard continues to require the auditor to read the other information even when received after the date of the auditor's report. Prof. Schilder added that it was highlighted at the CAG meeting that IFIAR has previously expressed the view that ISAs should have greater specificity in the requirements.

Mr. Gélard noted that Representatives supported the "reporting by exception" approach proposed by the Task Force, although some Representatives noted that the reporting may differ from one entity to another, depending on whether the entity produces the other information before or after the date of the

---

[20]   ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

[21]   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*

auditor's report. Prof. Schilder added that the proposal to require the auditor to read other information issued after the date of the auditor's report, but not report on this work, triggered discussion at the CAG.

OBJECTIVE

Some IAASB members believed that ISA 720 (Revised) should be focused on the auditor's ethical obligations to avoid association with misleading information. An IAASB member believed that users may want auditors to do more work on other information to provide them with more credible other information, but this should be a separate assurance engagement done at the request of those charged with governance. That IAASB member noted that if those charged with governance are not obtaining the assurance services required by users, then regulators should consider requiring such assurance engagements. The IAASB member added that if users do not want "assurance," then the IAASB needs to be clear as to what they do want, as a lack of clarity risks increasing the expectations gap. However, another IAASB member disagreed, noting that drafting ISA 720 (Revised) in terms of avoiding association with misleading information will lead to a high threshold for problems with the other information, and therefore would not meet users' expectations for auditors to challenge management on its other information. Another IAASB member supported these points, noting that the US has a voluntary assurance engagement on management commentary already and there has been no demand for this service. Other IAASB members noted variously that it would be difficult to provide transparency on the auditor's work on the other information without providing some degree of assurance or comfort to users, and that any procedures beyond "read and consider" would be more than is necessary to support the auditor's ethical obligations.

Some IAASB members noted that investors are looking for a statement as to what the auditor has done and found with respect to other information, but are not aware of the cost involved, and do not wish to pay for such a service. However, another IAASB member disagreed, noting that investors are not aware of cost issues and the expansion of the work effort in ISA 720 (Revised) may lead to the view that the expanded work effort is part of the financial statement audit, rather than a separate element.

Other IAASB members supported the proposed objective, noting that it supported investors' views about wanting auditors to engage with management about the other information. An IAASB member noted that stakeholders with whom he had consulted understood and agreed that an informed reading is fundamental to the auditor's work on other information. He highlighted that these stakeholders struggled with the concept of using the ISA 720 (Revised) work effort to look for material misstatements in the financial statements. He added that some observers wanted ISA 720 (Revised) to be closer to the extant focus on material inconsistencies.

In relation to the ordering of the objectives, some IAASB members noted that the standard should focus on the other information first, rather than the less common situation where work on the other information leads to auditor to suspect a material misstatement in the financial statements. However, other IAASB members disagreed, noting that the auditor's primary responsibility with respect to other information was to obtain evidence to support the auditor's opinion on the financial statements, and that any comfort that users may derive from the auditor's work on other information was a byproduct of the audit of financial statements.

In summarizing the discussion, Prof. Schilder noted that a majority of the IAASB agreed that the project was intended to achieve four objectives: clarifying and refining the scope of the ISA; adding the notion of an informed reading, which includes the auditor's understanding of the entity and its environment; being clear about whether procedures need to be performed and, if so, what procedures are expected; and

providing transparency about the auditor's involvement with the other information via a statement in the auditor's report. He added that the revised ISA 720 (Revised) would be codifying best practice, but also strengthening the standard by making expectations clear. Prof. Schilder also noted that this project reflected, in part, the need to enhance confidence in the audit process in light of concerns about the auditor's actions or inactions in the lead up to the global financial crisis.

SCOPE

The IAASB broadly supported the scope of the ISA being based on the annual report, noting that regulators could provide additional specificity about documents to be addressed if they wish. IAASB members variously noted that the auditor's ability to specify the documents that were within the scope of their work in the auditor's report lessened the risk of misleading users and that the move to "annual reports" would give NSS clarity and flexibility.

The IAASB noted the following for the Task Force's consideration:

- The definitions of "other information" and "annual report" may appear, in some circumstances, to be circular and unnecessarily lengthy. For example, including "a document(s) that contains information similar to that typically contained in an annual report" in the definition of other information may be seen to capture documents that would already be included within the definition of an annual report. Accordingly, the Task Force should consider whether the definitions can be redrafted to make them more succinct and avoid any duplication, and also whether the application material can be enhanced to support the definitions. An IAASB member also noted that the Task Force should consider whether a simpler definition, such as is used in the extant *Glossary of Terms,* would be clearer.

- The reference in the definition of annual report to "owners or similar stakeholders" would be more consistent with other IAASB literature if it were changed to "intended users." Mr. Gélard noted that the audience of some published reports was not clear, and therefore shifting to intended users may lead to a lack of clarity in the definition.

- The Task Force should clarify the material discussing the types of information that are commonly included or excluded. Mr. Gélard noted that the auditor was required to read the entirety of any document within the scope of ISA 720 (Revised) as it was not practicable to restrict the application of ISA 720 (Revised) to only certain types of information within an annual report.

- The Task Force should clarify the application material addressing websites, as the proposed drafting left too much possibility of inconsistent interpretations.

- The list of common features of annual reports should include descriptions of risks and uncertainties.

- The Task Force should consider the application of the proposed scope to smaller entities' disclosure practices, which may include, for example, a letter from the entity to their bank accompanying their audited financial statements. Such a letter may be issued without the auditor being aware of its existence, and therefore the Task Force should consider whether the scope of the ISA should be restricted to documents that the auditor is aware of when the auditor's report is issued.

The IAASB also discussed whether documents prepared for a regulatory regime; such as may be common in the banking industry should be within the scope of ISA 720 (Revised). An IAASB member was of the view that this should be within the scope of the ISA, whereas another IAASB member believed that

this would significantly expand the scope of ISA 720 (Revised) beyond what auditors are doing in practice. The IAASB asked the Task Force to further consider the issue.

WORK EFFORT

Some IAASB members questioned whether references to performing procedures were better placed in the application material to align with the objective, which only mentions an objective of "reading" the other information. An IAASB member noted that the use of professional judgment in determining the procedures made it difficult to be accountable for what procedures were required. Mr. Gélard responded by noting that some CAG Representatives, particularly regulators, supported a minimum set of procedures in the requirements. He noted that the objective's reference to "read" was intended to mean an "informed read" or an "intelligent read" and, as such, would imply some level of procedures. Other IAASB members supported the Task Force's proposals, noting that ED-720 had a long list of procedures in application material and respondents were concerned that it looked like a hidden requirement, which therefore led the Task Force to propose a requirement for the auditor, in some cases, to perform procedures.

An IAASB member noted that the PCAOB's proposed standard is very similar at a high level, but it articulates the auditor's approach in a very different way. He believed that the IAASB should wait to see the responses to the PCAOB's proposal to gain a greater understanding of both the PCAOB and IAASB approaches before finalizing proposed ISA 720 (Revised). He noted that the PCAOB's approach of using the audit evidence as a point to compare with the other information was preferable to the term "understanding of the entity and its environment", as audit evidence is more concrete than knowledge, and it will be impossible for anyone to know what the auditor's knowledge was at a particular point in time. However, another IAASB member preferred the term "consider," as used in the Task Force's proposals, rather than "evaluate," as "consider" better matched the expected work effort.

Some IAASB members believed that the work effort and reporting requirements may be seen as requiring the auditor to obtain limited assurance about the other information. Mr. Gélard responded by noting that the procedures required were to support an informed reading and would fall below the threshold of "meaningful" assurance, which is the lower limit for a limited assurance engagement. Staff noted that the Task Force had proposed changes to the language required to be included in the auditor's report to avoid any similarity with a reasonable or limited assurance conclusion.

An IAASB member expressed a preference for the approach adopted in extant ISA 720, which was based on the auditor's identifying material inconsistencies between the audited financial statements and the other information, noting that this was something that practitioners understood.

The IAASB asked the Task Force to further consider whether:

- The application material could be more specific and illustrative about who reads the other information, as in larger engagements such work effort may be spread across engagement teams around the world and involve different levels of seniority.

- An alternative to the term "material misstatement of fact" could be developed, as the term did not align with the content of the definition which goes beyond factual matters.

- The application material supporting the requirement to perform procedures necessary in the circumstances may be seen as leading to an agreed-upon procedures engagement.

Mr. Gélard summarized the discussion by noting that the Board broadly did not seem to support a minimum set of procedures, preferring instead an approach focused on the auditor's use of professional judgment. He acknowledged that the Task Force would need to clarify the links between the requirement to read and the requirement to perform the procedures necessary in the circumstances.

REPORTING

Mr. Gélard highlighted that investors had supported the reporting provisions of ED-720, noting that they found security in knowing what the auditor has read.

The IAASB commented as follows:

- The Task Force should reconsider whether, if the other information is received after the date of the auditor's report, reissuance of the auditor's report gives rise to an open obligation to continue reissuing the auditor's report if the other information remained uncorrected.

- An IAASB member believed that, in light of the reporting obligation, written representations about other information should be mandatory. Another IAASB member disagreed, noting that requiring written representations would set the wrong tone for the auditor's work on other information. Mr. Gélard noted that the Task Force has recommended not requiring written representations in ISA 720 (Revised), as ISA 580[22] gives sufficient guidance and the auditor was not obtaining assurance over the other information.

- An IAASB member did not support the statement "we have nothing to report" in the auditor's report as he believed it sounded like a positive statement.

- A few IAASB members questioned whether there was sufficient guidance addressing smaller entities and not-for-profits, noting that in some of these entities the annual report may not be issued for months after the date of the auditor's report. An IAASB member noted that the proposed ISA was unclear on what the reporting obligation was when no other information was received. Mr. Gélard responded by noting that the proposed ISA includes in scope documents that are "intended to be read" with the audited financial statements, and that a document issued months later was unlikely to be intended to be read with the audited financial statements. Mr. Gélard added that the ISA required the auditor to discuss with management what other information they plan to issue and to make arrangements to obtain it from them on a timely basis.

- An IAASB member questioned whether the description of the auditor's knowledge could be amended to better explain the concept to users, although it was acknowledged that trying to explain the auditor's responsibilities to obtain an understanding of the entity and its environment would be difficult to do succinctly.

- An IAASB member questioned how the ISA would address multiple sets of annual reports for a single entity that are prepared for different purposes (e.g. where separate annual reports are required for a corporate regulator, securities regulator, banking regulator, and, if listed in a foreign jurisdiction a foreign regulator). This member was of the view that only the annual report issued under the companies' law should be in scope but that ISA 720 (Revised) as drafted would be seen as requiring the auditor's report to be updated for each annual report as it is issued. Mr. Gélard noted that the definition of annual report is tied to the annual report that is provided to owners (or

---

[22] ISA 580, *Written Representations*

similar stakeholders), and that NSS may need to make the applicability of ISA 720 (Revised) clear when faced with multiple annual reports.

- An observer believed that the statement of the auditor's responsibility to read the other information gave the impression that the work on other information led to an assurance conclusion, as the auditor's report also includes a responsibilities section.

OTHER MATTERS

The IAASB also noted that the Task Force should consider the following:

- Whether the terms "audited financial statements" and "financial statements" are used appropriately throughout the ISA.

- Whether the auditor's knowledge with respect to one engagement can be meaningfully segregated from the remainder of their knowledge, as is implied by the phrase "understanding…during the course of the audit" that is used throughout the ISA.

WAY FORWARD

Mr. Gélard thanked the IAASB for its comments. The IAASB asked the Task Force to present a further draft of ISA 720 (Revised) for approval at the December 2013 IAASB meeting.

8. **Other Matters**

BOARD MEMBERS

Prof. Schilder announced the incoming board members for 2014: Ms. Karin French, Mr. Marek Grabowski, Mr. Jianhua Tang and Ms. Megan Zietsman. He noted that 2014 will be the last year of service for Messrs. Archambault, Chen and Grant and Ms. Mc Cabe. He also announced that Mr. Montgomery has been re-appointed as Deputy Chair.

STEERING COMMITTEE MEMBERS

Prof. Schilder thanked Ms. Mc Cabe and Messrs. Grant and Sekiguchi for their service to the Steering Committee. He announced that Mmes. Kelsall and Köhler and Mr. Winter will be joining the Steering Committee in 2014.

AUDITOR REPORTING

Prof. Schilder briefed the IAASB on discussions with Mr. Montgomery and senior staff about the Auditor Reporting project, noting plans for further discussion in advance of the close of the comment period with, among others, assurance leaders at the largest accounting firms to understand field testing, the Global Public Policy Committee, the IFAC SMP Committee, NSS, ICGN, and the Global Auditor Investor Dialogue. He noted plans to further liaise with the PCAOB as they moved forward on their auditor reporting proposals. He explained that consideration had been given to the possibility of formally extending the comment period to align with the PCAOB's comment deadline of December 11, 2013 but that the decision had been made not to do so, in order to be in a position to bring substantive issues to the IAASB and the CAG at their respective March 2014 meetings. An IAASB member expressed disappointment that the dates would not be aligned.

9. **PIOB Observer's Remarks**

Mr. Bhave congratulated the IAASB for the successful conduct of the meeting. He noted that the views of the CAG, and the public interest, had been given due consideration and had been taken seriously.

He shared his reflections on the standard setting process, noting the increased volume and complexity of the auditing standards. He challenged the IAASB to think about the essence of what each standard is intended to achieve as a way of developing standards that continue to serve the public interest. He was of the view that increased volume and complexity, especially when the standards are principle-based, will not serve the public interest

10. **Next Meeting**

The next meeting of the IAASB is scheduled for December 9–13, 2013 in New York, USA.

11. **Closing**

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