

**Draft Minutes of the 44<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD  
Held on March 14-18, 2011 in Paris, France**

### **Voting Members**

Present: Arnold Schilder (Chairman)  
Diana Hillier (Deputy Chair)  
Arch Archambault  
Jean Blascos  
Jianshen Chen (March 15-18 only)  
Valdir Coscodai  
Phil Cowperthwaite  
Cédric Gélard  
Jon Grant  
Gert Jönsson  
Ashif Kassam  
Merran Kelsall  
William Kinney  
Caithlin McCabe  
Daniel Montgomery  
Tomokazu Sekiguchi  
David Swanney  
Abdullah Yusuf

### **Technical Advisors**

Ricardo DeLellis (Mr. Coscodai)  
Jan Thijs Drupsteen (Mr. Kassam)  
Denise Esdon (Mr. Montgomery)  
Marek Grabowski (Mr. Grant)  
Jonas Hällström (Mr. Jönsson)  
Hiram Hasty (Mr. Kinney)  
Susan Jones (Mr. Blascos)  
Sachiko Kai (Mr. Sekiguchi) (March 16-18)  
Richard Mifsud (Ms. Kelsall)  
Pervez Muslim (Mr. Yusuf)  
Jon Rowden (Ms. Hillier)  
Tania Sergott (Ms. McCabe)  
Greg Shields (Mr. Cowperthwaite)  
Isabelle Tracq-Sengeissen (Mr. Gélard)  
Rick Wood (Mr. Archambault)

Apology: Ge Zhang (Mr. Chen)

### **Non-Voting Observers**

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

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

Present: Kai-Uwe Marten (March 14-15); Michael Hafeman (March 16-18)

### **IAASB Technical Staff**

Present: James Gunn (Technical Director), Brett James, Kathy Healy,<sup>1</sup> Joanne Moores, Michael Nugent,<sup>2</sup> Ken Siong, and Jessie Wong

<sup>1</sup> Via teleconference for the IAPS item only

<sup>2</sup> Via teleconference for the ISAE 3000 item only

## **1. Opening Remarks and Minutes**

### WELCOME AND INTRODUCTIONS

Prof. Schilder welcomed the participants and public observers to the meeting. In particular, he welcomed:

- Kai-Uwe Marten as PIOB observer from March 14-15, noting that Michael Hafeman would be the PIOB observer for the remaining part of the week; and
- Juan Maria Arteagoitia, as the new European Commission (EC) observer.

Apologies were received from Messrs. Igarashi and Zhang (as Technical Advisor (TA) for Mr. Chen). Mr. Fogarty would be in attendance via teleconference for the presentation on the agenda item on the status and authority of International Auditing Practice Statements (IAPs).

Prof. Schilder welcomed new Board members Messrs. Blascos and Chen (joining the meeting on March 15) and Ms. Kelsall, and congratulated Messrs. Archambault and Grant, and Ms. McCabe on their reappointment as Board members. He also congratulated Ms. Hillier on her appointment as IAASB's Deputy Chair. Prof. Schilder also welcomed TAs to the new or reappointed Board members, Messrs. Hasty (TA to Mr. Kinney), Mifsud (TA to Ms. Kelsall), Wood (TA to Mr. Archambault), and Ms. Jones (TA to Mr. Blascos).

Prof. Schilder noted the heavy agenda for the week and expressed his gratitude to the task forces and staff for their efforts in developing the agenda material.

### RECENT AND UPCOMING MEETINGS

Prof. Schilder highlighted a number of outreach meetings with stakeholders during the week, including representatives of the Compagnie Nationale des Commissaires aux Comptes (CNCC), Haut Conseil du Commissariat aux Comptes, Organization for Economic Cooperation and Development (OECD), and member organizations of the IAASB CAG, including the European Financial Executives Institutes and OECD.

He noted that a list of recent and other upcoming outreach meetings and presentations would be circulated by staff to the IAASB later in the week.

### RECENT DEVELOPMENTS

Prof. Schilder noted the appointment of the new PIOB Chairman, Mr. Wymeersch, as well as new PIOB members Messrs. Bhave, McDonough and Ward with effect from March 1, 2011. He noted that he would have an opportunity to meet the new PIOB members in June 2011.

Prof. Schilder reported that Representatives of the IAASB Consultative Advisory Group (CAG) met on March 8-9, 2011 in New York. He noted the constructive and stimulating discussions on the various agenda items, including on the topics of auditor reporting and audit quality.

Prof. Schilder also reported that the IAASB Fair Values Working Group was finalizing a comment letter in response to the International Accounting Standards Board's (IASB) exposure draft (ED) on hedge accounting, for submission on behalf of the IAASB later in the week.

In relation to IAASB publications, Prof. Schilder noted that the IAASB annual report was expected to be published towards the end of the month.

Finally, Prof. Schilder announced board meeting dates and proposed locations for 2012 as follows:

- March 12-16: New York, USA
- June 11-15: Edinburgh, Scotland
- September 17-21: Tokyo, Japan
- December 10-14: North America (to be determined).

#### MINUTES OF PREVIOUS MEETING

The minutes of the public session of the December 2010 IAASB meeting were approved as presented.

## **2. Assurance Engagements Other than Audits or Reviews of Historical Financial Information**

Prof. Kinney introduced the topic, highlighting the key changes in the proposed ISAE 3000<sup>3</sup> from the December 2010 IAASB meeting. Amongst other matters, he noted the proposed distinction between reasonable and limited assurance, explaining that the description of limited assurance, in particular, is now based on the limited nature of the procedures performed in order to assist readers in understanding the level of assurance obtained. He also reported that the Task Force's deliberations have been informed by comments from the IFAC Small and Medium Practices (SMP) Committee, which highlighted the need to consider limiting the extent of requirements and including illustrative examples of direct reports.

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

#### OBJECTIVES OF THE PRACTITIONER AND MISSTATEMENTS

The IAASB considered whether the proposed objectives were achievable in all engagements covered by ISAE 3000, in particular direct engagements. An IAASB member expressed concern that, in direct engagements where the practitioner's conclusion is the subject matter information, proposed ISAE 3000 makes no distinction between a misstatement in the subject matter information and a failure (in a reasonable assurance engagement) of the practitioner to detect a material misstatement.

The IAASB deliberated this concern and concluded that misstatements, as defined, can occur in both attestation and direct engagements because the outcome of the measurement or evaluation of the subject matter against the criteria can be wrong. The IAASB acknowledges that, in a direct engagement, a misstatement that arises from the practitioner's measurement or evaluation cannot be distinguished from the failure by the practitioner to detect this misstatement. However, from a reader's perspective, the subject matter information conveyed is nevertheless misstated. Therefore, the IAASB concluded that the definition of "misstatement" and the practitioner's objectives are appropriate for both types of assurance engagements. Nevertheless, the IAASB asked that the explanatory memorandum (EM) to the ED draw attention to this matter, including whether

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<sup>3</sup> Proposed revised ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

respondents believe that the practitioner's objective is appropriate in light of the definition of a misstatement.

#### DEFINITION OF PRACTITIONER

The IAASB considered whether the proposed ISAE 3000 should be written to include application by competent practitioners other than professional accountants in public practice, which may include, for example, public sector auditors. An IAASB member expressed the view that ISAE 3000 should be limited to professional accountants in public practice as other practitioners might not have the necessary background, training and experience to be able to properly apply the standard. Further, application of ISAE 3000 by such practitioners may lead to inconsistencies in application and confusion amongst users of assurance reports regarding the education, ethics, and quality control requirements of the practitioner. The IAASB concluded that the public interest would be better served if all competent practitioners were able to use ISAE 3000 to benchmark their work effort on assurance engagements. This includes practitioners other than professional accountants in public practice who already may be performing assurance engagements of the type envisioned under ISAE 3000. The IAASB noted that the EM should also include a question asking whether respondents believe the definition of "practitioner" is appropriate.

#### TRIGGER FOR ADDITIONAL PROCEDURES

In regard to the trigger point for additional procedures, the IAASB discussed defining or describing the meaning of "not likely" or "likely" in relation to the practitioner's obligation to design and perform additional procedures sufficient to conclude that the matter(s) is "not likely" to cause the subject matter information to be materially misstated. It was decided that any additional definition or description that involved a quantitative approach would imply a level of precision that is rarely, if ever, achievable in practice.

#### OTHER MATTERS

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

- Due to the importance of ethical and quality control standards to an assurance engagement, the introductory section of proposed ISAE should draw to the attention of competent practitioners other than professional accountants in public practice the requirements pertaining to compliance with relevant ethical and quality control standards.
- The definitions of reasonable and limited assurance should place emphasis on the form on the practitioner's conclusion and, for limited assurance engagements, highlight both the limited set of procedures undertaken and the need to communicate the limited assurance obtained. The IAASB also agreed that the EM should ask respondents whether they believe the proposed standard is effective in communicating both reasonable and limited assurance.
- The definition of attestation engagements should specifically incorporate engagements where the practitioner presents the subject matter information in the assurance report.
- The term "entity," which was found to be unclear in many instances, should be replaced as appropriate with responsible party, the measurer or evaluator, the engaging party or appropriate party.

- The acceptance and continuance conditions should include a requirement that the practitioner is satisfied that the engagement team collectively have the appropriate competence and capabilities to perform the engagement.
- The requirement to include an informative summary of the work performed in the assurance report should highlight the importance of this summary in limited assurance engagements in enabling users to understand the assurance conveyed by the practitioner's conclusion.
- In direct engagements where the practitioner develops the applicable criteria, it may be appropriate for the practitioner to discuss the choice of criteria with the appropriate party(ies).
- The application material should give public sector examples of when some of the preconditions may be assumed to be present.
- The proposed ISAE should include further guidance on materiality considerations in limited and reasonable assurance engagements. In particular, it should explain that, for the same intended users, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement because materiality is based on the information needs of users.
- All definitions, including those in the appendix, should be included in the definitions sections and rationalized to remove superfluous definitions.

The IAASB also debated whether, for both limited and reasonable assurance engagements, an understanding of internal control is needed to inform the practitioner's consideration of the nature, timing and extent of the procedures to be performed. The IAASB concluded that an understanding of internal control is not always necessary in limited assurance engagements as practitioners in a limited assurance engagement ordinarily have a lesser depth of understanding than for a reasonable assurance engagement. The IAASB noted that the EM should also draw attention to this matter.

#### CONSEQUENTIAL AMENDMENTS TO THE INTERNATIONAL FRAMEWORK FOR ASSURANCE ENGAGEMENTS

Prof. Kinney noted that, as requested by the IAASB at its December 2010 meeting, the Task Force has focused on proposing amendments to the Framework<sup>4</sup> to bring it into conformity with the proposed ISAE 3000.

The IAASB agreed that the Framework should be further amended to reflect the decisions made in respect of the proposed ISAE 3000. In addition to editorial and structural changes, the IAASB agreed the following:

- To provide a greater understanding of the importance of ethics in assurance engagements, the Framework should provide further descriptions of the content of the IESBA Code, particularly around independence.
- The descriptions of attestation engagements should:
  - Specifically mention circumstances when the subject matter information is presented by the practitioner in the assurance report; and

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<sup>4</sup> *International Framework for Assurance Engagements*

- Include assurance reports where the conclusion is worded in terms of the underlying subject matter and criteria.
- The need for professional judgment in determining the exact nature, timing and extent of procedures should be highlighted due to the variation in different engagements.
- “Short form” and “long form” reporting should be explained in the Framework to provide a basis for their inclusion in IAASB standards.
- The categorization of underlying subject matters should refer to underlying subject matters or subject matter information that may have components in more than one category, for example, integrated reporting.

The IAASB also agreed to remove paragraphs that were too detailed for a Framework document.

#### CONSEQUENTIAL AMENDMENTS TO ISAE 3402<sup>5</sup> AND THE ED OF ISAE 3410<sup>6</sup>

The IAASB requested changes to the proposed consequential amendments to ISAE 3402, specifically: to revert the wording of the effective date paragraph to that of extant ISAE 3402; and to reject proposed changes to the requirement addressing changes in the scope of an engagement, which were considered unnecessary.

The IAASB concluded that consequential amendments should not be proposed to ISAE 3400<sup>7</sup> as ISAE 3400 had not been updated to take account of developments in other standards, including extant ISAE 3000, since it was issued. The IAASB noted that the consultation on its Strategy and Work Program<sup>8</sup> asked for input on whether to revise or withdraw ISAE 3400.

The IAASB agreed the proposed consequential amendments to proposed ISAE 3410 as a result of proposed changes to ISAE 3000. The IAASB did not propose consequential amendments for proposed ISAE 3420<sup>9</sup> as the IAASB is actively considering comments received on exposure.

#### APPROVAL

After agreeing all necessary changes to the document, all 18 IAASB members present or represented by proxy approved the proposed revised ISAE 3000 for exposure with a comment period until September 1, 2011 together with the proposed consequential amendments to ISAE 3402 and ISAE 3410.

After agreeing all necessary changes to the proposed consequential amendments to the Framework, 17 of the 18 members present or represented by proxy approved the exposure of these proposed consequential amendments in the ED of proposed ISAE 3000. Mr. Kassam abstained from voting on the proposed consequential amendments to the Framework on the grounds that he had not had sufficient time to consider the proposed amendments.

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<sup>5</sup> ISAE 3402, *Assurance Reports on Controls at a Service Organization*

<sup>6</sup> Proposed ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

<sup>7</sup> ISAE 3400, *The Examination of Prospective Financial Information*

<sup>8</sup> *Proposed Strategy and Work Program for 2012–2014*

<sup>9</sup> ISAE 3420, *Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus*. The comment period for ISAE 3420 closed on September 30, 2010.

### **3. Presentation on Auditor Reporting in France**

Mr. Gélard briefed the IAASB on developments in France that led to the legal requirement for statutory auditors to include “justifications of assessments” in auditors’ reports. Referring to the examples of French auditors’ reports provided in the agenda materials, he explained how the introduction of this requirement seven years ago has affected the form and content of auditors’ reports in France. He then explained that the CNCC had recently commissioned an independent survey in France to obtain information about user perceptions of auditor reporting and, in particular, whether and to what extent statutory auditors’ justifications of assessments are perceived as beneficial by users and other stakeholder groups.

Mr. Gélard then introduced the survey consultant, Mr. Philippe Manière, for his presentation to the IAASB of the survey findings. Mr. Manière briefed the IAASB on the scope of, and approach to, the survey, including the profile of the survey participants. He noted that while the survey responses produced a wide variety of opinions, reflecting the interviewees’ respective experiences, the “justification of assessments” is almost unanimously considered to be a “useful” feature of auditor reporting. Mr. Manière also described some concerns and practical difficulties that were noted by the survey respondents in connection with the use of the “justification of assessments.” He also cited from the survey findings that, for a significant proportion of respondents, the use of the justification has largely gone unnoticed. He highlighted some factors that are thought to be the underlying reasons for that.

Prof. Schilder thanked Mr. Manière for his informative and helpful presentation, and complimented the CNCC for having undertaken this initiative. He also noted the relevance of the survey findings as input to the IAASB’s project on auditor reporting.

### **4. Consultation Paper (CP) on Auditor Reporting<sup>10</sup>**

Prof. Schilder introduced the topic, noting that at its March 2011 meeting the IAASB CAG had expressed strong support for this IAASB initiative to advance the public debate on auditor reporting through an international consultation.

Ms. de Beer reported the key themes from the CAG discussions, including:

- Recognition of strong investor expectations about the need for auditor reporting to evolve to become more relevant and useful;
- The CAG’s strong support for the approach used in developing the proposed CP; and
- Acknowledgment that the IAASB’s development of the CP is timely given the significant public debate on the topic.

Mr. Montgomery then briefed the IAASB on the Working Group’s approach to developing the CP and the key themes reflected therein. He noted that comments had been received from the IFAC SMP Committee, and that he would refer to those during the discussion as appropriate. He then led a review of the proposed CP.

Except as outlined below, and in addition to editorial matters, the IAASB agreed the Working Group’s general approach to developing the proposed CP.

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<sup>10</sup> Proposed Consultation Paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change*

The IAASB asked the Task Force to consider the following in further refining the draft CP:

- Structure and Tone
  - Identifying more clearly the issues that the IAASB is seeking to address through the consultation. In particular, the explanation of those issues should be set out not only in relation to auditor reporting, but also in the wider context of the corporate financial reporting model.
  - Framing the section of the CP that discusses possible options for change that the IAASB considers worthy of exploring further in a way that is clearly responsive to the issues identified, while not limiting the discussion to options that are within the scope of the current financial reporting and assurance model.
- Issue Identification
  - Providing a balanced overview of the broader context for the issues identified with reference to the “expectations gap” and the “information gap” perceived by users. In particular, the CP should better explain how these concepts relate to each other, and how they differ in the context of auditor reporting. In this regard, consideration should be given to expanding the explanation of the “expectations gap” in relation to auditor reporting.
  - Highlighting at an earlier point in the CP considerations regarding small- and medium-sized entity perspectives, and the likelihood that those perspectives could reveal different views.
- Exploring Options for Change
  - Presenting the possible options for change in a more balanced manner so as not to inadvertently give the impression that the IAASB has a preference for exploring any particular option.
  - Further refining the content of the sub-sections that address options for change, particularly as they relate to change involving an enhanced corporate governance reporting model, and use of other assurance and related services on information that is not within the current scope of the financial statement audit.
- Implementation Challenges
  - Expanding the discussion of potential challenges in implementing the areas of possible change that are explored. In particular, sufficient background should be provided to enable respondents to comment on the likely impact of such changes as well as possible implementation challenges arising in their national or regulatory environments.

#### WAY FORWARD

The IAASB asked the Task Force to circulate an updated version of the proposed CP for its consideration in April 2011 with a view to determining whether a revised draft of the CP can be tabled for approval at a tentatively-scheduled Board meeting via teleconference on May 5, 2011.

Ms. de Beer emphasized from the CAG’s perspective the importance of issuing the CP as soon as practicable to ensure that responses from the consultation will be available in a timeframe that

will facilitate co-ordination with other policy initiatives being undertaken on the topic.

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

Mr. G elard introduced the topic, noting that it had been discussed at the March 2011 IAASB CAG meeting. He also noted that comments had been received from the IFAC SMP Committee (SMPC). He indicated that he would refer to CAG and SMPC comments as appropriate during the discussion. Mr. G elard then led a review of the significant issues and draft revised ISAs 720<sup>11</sup> and 560.<sup>12</sup>

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

### DOCUMENTS IN THE SCOPE OF ISA 720

Mr. G elard explained the Task Force's proposal for ISA 720 to specify key distinguishing features of annual reports and documents intended to accompany audited financial statements and the auditor's report. A few IAASB members observed that offering documents may, in some cases, display all of these features and consequently would be interpreted as falling within the scope of revised ISA 720, which was not intended. An IAASB member also suggested further clarification to the scope of documents covered as there are instances where an entity publishes an extensive "CSR" document separately but simultaneously with an annual report and asserting that these documents should be seen as integrated. Accordingly, it was therefore suggested that further clarification was needed to the description of these key features. An IAASB member suggested that paragraph A1 of extant ISA 720 contains useful explanatory material in this regard. Another IAASB member questioned whether it was appropriate for the proposed description to be located in the scope section, as ISAs do not generally reach that level of specificity within their scope sections. Drawing on the approach adopted in ISA 260<sup>13</sup> in relation to the requirement to determine the appropriate persons within the entity's governance structure with whom to communicate, it was suggested that the description could be dealt with via a broad requirement for the auditor to identify documents prepared by the entity that are within the scope of ISA 720.

Additionally, the IAASB agreed the following:

- The proposed description should accommodate circumstances where the entity intends to make the other information available in advance of, as opposed to along with, the initial release of the audited financial statements and the auditor's report.
- The standard should emphasize that it does not impose an obligation on the auditor to express a conclusion on, and therefore obtain assurance as to, the accuracy, reliability or completeness of the other information.

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<sup>11</sup> ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*

<sup>12</sup> ISA 560, *Subsequent Events*

<sup>13</sup> ISA 260, *Communication with Those Charged with Governance*

- The proposed description should make clear that responsibility for preparing the documents referred to rests with management.

The IAASB asked the Task Force to refine the approach to the description in the light of these comments.

#### STRENGTHENING THE AUDITOR'S APPROACH TO OTHER INFORMATION

Mr. Gélard explained the Task Force's proposals to make explicit the procedures that the auditor might undertake depending on the nature of the other information, and actions that the auditor should take when issues are identified. The IAASB noted the need to clarify that the proposed requirement for the auditor to perform procedures to reconcile the other information to the audited financial statements would only apply to material items. A few IAASB members were concerned about the use of the term "misrepresentation," noting that such term may adopt a specific meaning in law, regulation or other professional standards, and that such meaning could vary by jurisdiction. It was suggested that the Task Force explore the use of a more appropriate term.

Concerns were also raised regarding the inclusion of omissions as a misrepresentation of other information as this would imply specific auditor responsibilities for such matters under revised ISA 720. Some IAASB members felt that this may extend the auditor's responsibilities too far. The IAASB asked the Task Force to consider the matter further and if the proposal were to be retained, to consider providing additional application material to guide auditors.

#### OTHER MATTERS

The IAASB also considered the following:

- The IAASB was generally of the view that the proposed amendments to ISA 560 are not necessary as they do not further clarify the ISA. However, the IAASB asked the Task Force to consider whether there would be merit in both emphasizing the external auditor's consideration of the other information when planning the audit, and clarifying the linkage with ISA 720 in ISA 700.<sup>14</sup>
- Whether the auditor's report should include a reference to the auditor's work effort in relation to the other information. The IAASB noted that the Auditor Reporting Working Group is currently considering this matter.

#### PRELIMINARY ANNOUNCEMENTS AND AUDITOR ASSOCIATION

Mr. Gélard highlighted the Task Force's recommendation that the IAASB consider the matter of preliminary announcements separately from the current revision of ISA 720. Given the inherent differences between annual reports and preliminary announcements, the IAASB agreed that inclusion of preliminary announcements in the scope of ISA 720 would risk blurring the ISA's focus on documents that have a clear relation to *audited* financial statements. The IAASB further noted that if and when a decision to undertake a project relating to preliminary announcements is made, further research on national requirements pertaining to such documents would need to be undertaken.

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<sup>14</sup> ISA 700, *Forming an Opinion and Reporting on Financial Statements*

Mr. G elard further highlighted the Task Force recommendation that the IAASB consider undertaking work to address the wider topic of association. The IAASB acknowledged the topic, noting that it should be further considered in the context of respondents' comments on its *Proposed Strategy and Work Program for 2012-2014*.

#### STAKEHOLDER SURVEYS

Mr. G elard explained the Task Force's view that there is merit in surveying the views of a sample of stakeholders to gauge how clear the proposed description of key features of documents in the scope of ISA 720 is, prior to finalizing the ED of the proposed standard. IAASB members commented as follows:

- Proposed revised ISA 720 will apply equally to audits of public sector entities, particularly where such entities are well-established. Consideration should therefore be given to extending the exercise to these entities. It was suggested that consideration be given to approaching the International Organization of Supreme Audit Institutions (INTOSAI) for assistance in reaching out to such entities nationally.
- Consideration should be given to approaching a cross section of different stakeholder groups at a national level, for example, practitioners, national auditing standard setters and regulators, as appropriate, to see if there is consistency of understanding of the proposals being targeted for the exercise.
- It would be desirable for the timing of such an exercise to be planned in such a way as to allow ample time for the Task Force to obtain and consider the results in advance of the IAASB's consideration of the revised draft ISA 720.

#### WAY FORWARD

The IAASB asked the Task Force to present a revised draft ISA 720 with a view to approval for exposure at the September 2011 IAASB meeting.

### **6. Status and Authority of IAPSS**

Mr. Fogarty introduced the topic, noting that the Working Group will present a full analysis of respondents' comments on the ED addressing the proposed statement of authority<sup>15</sup> for new IAPSSs and the proposed withdrawal of existing IAPSSs, and the Working Group's recommendations in response, at the June 2011 IAASB meeting. However, while the Working Group had not yet had the opportunity to consider the responses to the ED, staff has prepared an update in order to brief the IAASB in advance of the fuller discussion in June. He indicated that a similar overview was presented to the IAASB CAG at their March 2011 meeting.

#### Preliminary Review of General Reaction to the ED

Mr. Fogarty noted that, broadly, the majority of the 38 respondents to the ED did not believe the proposals met the objective of clarifying the status and authority of IAPSSs and believe further clarification is necessary. However, there were divergent views expressed about the course of action that should be taken. Some respondents, including regulators, included those who believe

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<sup>15</sup> For inclusion in the *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services* (the Preface)

that the IAPSs should have stronger authority. On the other hand, others supported a lesser level of authority. He indicated that, whatever approach is decided regarding the status and authority of new IAPSs, it will be necessary for the IAASB to be clear in its intent in producing such material.

Mr. Fogarty outlined a number of key challenges to be resolved by the Working Group and IAASB, including the following:

- The status of the obligation for the auditor to read and consider the IAPS, including how and where this is articulated (i.e., in the Preface or in ISA 200).<sup>16</sup>
- The request for the IAASB to clarify the relationship between application material in the ISAs and guidance in an IAPS.
- The perceived inconsistency in the auditor having an obligation to consider the IAPS but not responsibility to demonstrate achievement of that obligation, and the question of whether a documentation requirement is needed.

In addition, Mr. Fogarty noted that some respondents believed that moving from the “comply or explain” model currently imposed by the Preface lessens the auditor’s obligation with respect to IAPSs. Finally, he indicated that questions have also been raised about how IAPSs fit into the hierarchy of other outputs issued by the IAASB and staff, and whether national auditing standard setters (NSS) and jurisdictions can state that they have adopted the ISAs if the IAPSs have not been adopted.

Mr. Fogarty noted the Working Group would also consider the responses received on the IAASB’s proposals to withdraw the six extant IAPSs and further develop the factors to be considered in the development of new IAPSs. He also noted that the topic of IAPS status and authority is scheduled for discussion at the April IAASB-NSS meeting.

Mr. Fogarty concluded by noting that resolution of the issue of status and authority of IAPSs at the June IAASB meeting would be essential to progress towards finalization of proposed IAPS 1000.<sup>17</sup>

## **7. ISA Implementation Monitoring**

Mr. Grant briefed the IAASB on the Task Force’s activities since the June 2010 Board discussion on the project. He outlined the key matters for the Board’s consideration regarding the development of the plan for Phase 2 of the project, i.e.:

- The process for the development and finalization of the Phase 2 plan;
- The objective in undertaking the post-implementation review; and
- The nature and timing of the activities for gathering relevant information from various stakeholders, and process for evaluating that information.

Mr. Grant emphasized the importance of commencing the information-gathering work in 2012 to dovetail with the IAASB’s medium-term strategy for 2015 and beyond. He noted that there

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<sup>16</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>17</sup> Proposed IAPS 1000, *Special Considerations in Auditing Complex Financial Instruments*

would be opportunity to consult national auditing standard setters and the Forum of Firms in April 2011 on detailed aspects of the plan, and outlined the approach to seeking final Board approval for publication of the plan in September 2010. This would allow sufficient time for stakeholders to consider the plan in advance of the information-gathering activities in 2012.

Subject to refinement to the objective, the IAASB generally supported the proposed approach to Phase 2. In addition, IAASB members commented as follows:

- The implementation review should be undertaken on a timely basis, notwithstanding the fact that not all countries would have implemented the clarified ISAs or would have had sufficient experience using them by 2012. In this regard, consideration should be given to seeking information from those national regulators that would have carried out inspections where the clarified ISAs have been used, as well as from the quality assurance processes of professional bodies in countries where the ISAs have been used on an early basis, particularly in relation to SME audits.
- Formal consultation on the plan should not be necessary prior to its finalization, given that the implementation review is intended to inform the IAASB's standard-setting activities and the fact that the Task Force has already undertaken consultation on an informal basis.
- It would be important for the review to focus on those areas where the IAASB would be keen to obtain feedback, particularly in relation to:
  - The structure of the clarified ISAs; and
  - Those ISAs that have been revised in order to enhance the quality of audits (for that purpose, it would be appropriate to include ISA 315).<sup>18</sup>
- An important aspect of planning for the review would be to identify the IAASB's goals in revising particular ISAs during the Clarity project. In this regard, it would be helpful to obtain input from Board Members and Technical Advisors who were involved in the various ISA revision projects.
- It may be necessary to consider the specific changes that were made to the ISAs to facilitate adoption and implementation, for example, changes to facilitate:
  - Translation; and
  - Implementation in particular legal environments, including in relation to the enactment of the ISAs into law and their enforceability.
- It would be important for the Task Force to carefully consider the approach to objectively analyze the information obtained given that the responses would likely be varied. In particular, the benchmarks used would be key, as clarity in the elements of the process would be important for transparency and credibility of the review. In this regard, it was noted that it would be difficult to establish the appropriate benchmarks in advance given the likely wide range of information different stakeholders would provide.
- It would be important to seek feedback from the firms to assess the consistency of understanding of the clarified ISAs. In this regard, firms could be asked to undertake self-

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<sup>18</sup> ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

assessments and identify any areas of the standards that may need further clarification or for which additional application material would be helpful to facilitate effective implementation.

- It would also be important to seek ways to obtain information from users such as those charged with governance, who may have a greater appreciation of the clarified ISAs given their interaction with auditors and their oversight of the audits.
- In planning for the information gathering, it would be important to design questions that are as open as possible in order to allow respondents to frame their responses as widely as possible.

Mr. Grant thanked the IAASB for the helpful input to the Task Force's further efforts to develop the Phase 2 plan.

Mr. Sekiguchi then gave a presentation on the implementation of the clarified ISAs in Japan, outlining the regulation and supervision of the audit, the standard-setting process, the plan for implementation, and the challenges encountered during implementation. Prof. Schilder thanked Mr. Sekiguchi for the information and perspectives conveyed in the presentation.

#### WAY FORWARD

The IAASB asked the Task Force to present the detailed plan for Phase 2 for consideration at the June 2011 IAASB meeting.

### **8. Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus**

Mr. Swanney introduced the topic, summarizing the background to the project. He introduced Mr. Kevin Desmond, one of the practitioner members of the TF, who was attending this session to provide any necessary expert support for the discussion. Mr. Swanney provided an overview of the responses to the ED of proposed ISAE 3420, noting that while there was strong support for the proposals in the ED, a number of respondents had raised concerns that were generally expected. He also reported that at the March 2011 IAASB CAG meeting, CAG representatives were supportive of the Task Force's proposals on the significant matters raised on exposure. He then led a review of the significant comments received on exposure.

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

#### OBJECTIVE AND FOCUS OF THE PRACTITIONER'S WORK

Mr. Swanney explained that in response to comments on exposure, the Task Force proposed that the standard be recharacterized as addressing reasonable assurance engagements on the proper compilation of pro forma financial information (PFI) instead of on the process to compile PFI. An IAASB member was of the view that the proposed standard would be largely jurisdiction-specific, and that it would be conceptually difficult to understand as it seemed to address a subject matter that falls between the process and the PFI itself. Another IAASB member was of the view that while the standard would help to promote consistency in practice, not many jurisdictions would seem prepared to adopt it.

Several other IAASB members, however, disagreed, noting that these comments had been discussed at length by the Board previously. They expressed strong support for the Task Force's proposals, noting that the change away from the focus on process was helpful. It was observed that it would be unrealistic for the Board to aim for a standard that would be universally applicable given the varying legal and regulatory frameworks and market practice around the world. Instead, it was argued that the public interest would be better served by making available a standard that can be used in a significant part of the world (i.e., the European Union) as well as in a number of other jurisdictions. It was also noted that while the "process" approach in the ED was a well-intentioned attempt by the Board to widen the standard's international applicability as much as possible, it was clear from the ED responses that this was perceived to result in greater confusion. An IAASB member questioned whether there was a lack of consistency between the practitioner's work effort and the form of the opinion, as the work effort is defined through specific procedures (especially the "column 1" information), whereas the wording of the practitioner's opinion appeared to imply that assurance engagement risk is reduced to an acceptably low level in terms of the pro forma financial information itself.

After further deliberation, the IAASB agreed to proceed on the basis proposed by the Task Force, subject to the Task Force reflecting further on the title of the proposed standard.

#### WORDING OF THE OPINION

In response to ED comments that the "proper compilation" alternative wording for the opinion did not make any reference to materiality, Mr. Swanney pointed to the Task Force's proposal that such reference be dealt with through the inclusion of a definition of the term "properly compiled" in the section of the report describing the practitioner's responsibilities. Mr. Swanney explained that this would achieve the same effect as including the words in the opinion, given that this definition makes an explicit reference to the practitioner's consideration of materiality. An IAASB member was of the view that in including the reference to materiality in the definition of "properly compiled" instead of in the opinion, the standard might be seen to be shifting the responsibility to consider materiality from the practitioner to the responsible party. Another IAASB member expressed concern that the reference to materiality was not in the opinion proper as this did not seem consistent with the draft revised ISAE 3000. It was, however, pointed out that there is in fact no explicit requirement in the proposed revised ISAE 3000 for the opinion to include a reference to materiality.

After deliberating possible wording changes to the definition of "properly compiled" and to the wording of the report in response to these comments, the IAASB asked the Task Force to reflect further on the matter, taking into account the Board's deliberations on the project to revise ISAE 3000 and the approach to reporting used in the ISAs.

#### HISTORICAL FINANCIAL INFORMATION OF THE ENTITY OR OF THE ACQUIREE THAT HAS NEVER BEEN AUDITED OR REVIEWED

In response to comments on exposure, Mr. Swanney explained the Task Force's proposal to include a precondition to engagement acceptance that the practitioner determine that the relevant law or regulation requires prior historical financial information of the entity or that of an acquiree to have been published in accordance with such law or regulation or to be included in the prospectus, and that such financial information be audited or reviewed. While expressing

support for the proposal, an IAASB member was of the view that further clarification was needed regarding how far back the audit or review should go, as the related guidance in the application material seemed to assume that the entity's financial statements for the immediately preceding period would have been audited or reviewed. Another IAASB member was concerned that the precondition would be unduly restrictive, as a shell company used to acquire different businesses might not itself have prior financial statements that have been audited or reviewed.

Other IAASB members felt that the circumstances this precondition was intended to address would not be as rare as suggested, and that there would be no useful outcome if law or regulation did not impose the requirements specified in the precondition. After further deliberation, the IAASB asked the Task Force to reflect further on the practicality and wording of the precondition.

#### DISCLAIMER LANGUAGE IN THE REPORT

An IAASB member questioned why the phrase "accordingly, we do not express an opinion on the pro forma financial information" was deleted from the illustrative report as this seemed to convey a clear message regarding the nature of the engagement. Another IAASB member pointed out that the disclaimer wording "we have not performed an audit or review of the pro forma financial information" seemed to imply that one could in fact perform an audit or review of the PFI. It was, however, argued that the practitioner's opinion is in fact a proper compilation opinion on the PFI but not an audit or a review opinion as might be expressed on historical financial statements. Many IAASB members supported this view, noting that the PFI is not susceptible to an audit in its conventional meaning as the information is hypothetical in nature. A few IAASB members suggested considering whether the disclaimer language is necessary given that the report already explains the nature of the engagement. An IAASB member highlighted that wording in the report that is particularly important from users' perspectives is that which emphasizes that the PFI does not represent the entity's actual financial position, financial performance and cash flows.

The IAASB asked the Task Force to consider the matter further in the light of these comments.

#### CONSIDERATION OF WHETHER TO DEVELOP A STANDARD ON REPORTING ON PFI

The IAASB generally agreed that the nature and extent of work effort set out in the proposed standard are appropriate for a reasonable assurance engagement to report on the proper compilation of PFI included in a prospectus. Nevertheless, the IAASB acknowledged that different engagements might be possible assuming a different level of work effort on the source of the unadjusted financial information or on the pro forma adjustments. Given its other priorities, the IAASB accepted the Task Force's recommendation that a project to develop a standard on another form of reporting on PFI not be explored at this time. The IAASB asked that the Task Force explain in the Basis for Conclusions document in due course why the Board decided not to explore other types of engagement regarding PFI and why the Board agreed to proceed with the finalization of the proposed ISAE 3420.

#### OTHER MATTERS

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

- Reconsider the definition of the term “properly compiled,” as it appears to state only that the compilation has been performed in accordance with the basis stated but not that the basis itself is appropriate.
- Reconsider the definition of the term “practitioner” in the light of the Board’s deliberations on the ISAE 3000 project.
- Reconsider whether the proposed standard has adequately dealt with circumstances where the source of the unadjusted financial information or of the acquiree financial information has been audited or reviewed by another practitioner.
- In relation to the description of the nature of a reasonable assurance engagement to report on the proper compilation of PFI, within the introductory section:
  - Consider whether this description can be more clearly linked to the requirements.
  - Consider whether the phrase “give appropriate effect,” as used in the description in referring to pro forma adjustments giving appropriate effect to the identified basis, can be clarified.

#### WAY FORWARD

Professional Schilder thanked Mr. Kevin Desmond for his participation in the meeting, and acknowledged the contribution of the practitioner and correspondent members of Task Force in advancing the Board’s work on this project.

The IAASB asked the Task Force to present a revised draft of the proposed ISAE 3420 for its consideration and approval as a final standard at the September 2011 IAASB meeting.

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

Ms. Hillier introduced the topic, noting that the Task Force will present a full analysis of respondents’ comments on the ED of proposed revised ISAs 315 and 610,<sup>19</sup> and propose responses to them, at the June 2011 IAASB meeting. However, in light of the responses received, the Task Force decided to engage in dialogue with the IAASB, IAASB CAG and other stakeholders regarding significant issues before proposing a way forward.

Ms. Hillier provide an overview of the significant issues raised by respondents on the ED of proposed revised ISAs 315 and 610. She indicated that a similar overview was presented to the IAASB CAG at their March 2011 meeting.

#### USING THE WORK OF THE INTERNAL AUDIT FUNCTION

Ms. de Beer noted that the Representatives of the CAG were forthcoming with their views on this topic and a few themes came through clearly:

- Representatives debated whether external auditors believed that the internal audit function constitutes a part of the entity’s internal control and the implications of this on the external auditor’s ability to use the function’s work. Representatives noted, however, that the importance of this debate lies in determining how the external auditor may appropriately

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<sup>19</sup> ISA 610, *Using the Work of Internal Auditors*

incorporate the work of the internal audit function into the audit, and the role of the external auditor's professional judgment.

- Representatives debated whether discussions regarding audit efficiency should include considerations relating to audit costs. While varying views were expressed it was felt that in today's economic climate, in practice, cost is ordinary taken into account by entities and external auditors alike.
- In some sectors, management has expressed the desire for the external auditor to use more of the work of internal audit function (where one exists) in the audit. There are concerns amongst some stakeholders (for example, regulators) that in these cases, it may result in the inappropriate use of the function's work, particularly in areas of significant risks.

#### DIRECT ASSISTANCE

Ms. Hillier noted that of those respondents who raised concerns about the proposals relating to direct assistance in the ED, the majority questioned the compatibility of such practices with the relevant independence provisions in the IESBA Code.<sup>20</sup> Ms. Hillier noted that the Task Force will be consulting with the IESBA as it formulates recommendations to respond to these comments.

IAASB members variously noted the following:

- If direct assistance is permitted, the boundaries within which the external auditor may obtain such assistance from internal auditors should be set out clearly and the ISA may be further strengthened with the inclusion of clearly defined "no-go" zones.
- Using internal auditors to provide direct assistance on the audit is current practice and that even in the absence of requirements and guidance in the ISAs, such practices would still remain. It was also noted that in the event direct assistance is prohibited, external auditors would have to coordinate with the internal audit function to perform the specific procedures in advance of the audit. This may inadvertently result in the external auditor having less control over the work performed in comparison to when the procedures are performed by the internal auditors under the direction, supervision and review of the external auditor.
- It was suggested that introduction of a requirement for the external auditor to document key judgments exercised when obtaining direct assistance from internal auditors may help to address some of the concerns expressed by the regulatory community.
- Concerns over direct assistance may in part have arisen due to perceptions that the proximity of internal auditors to the external auditor under such circumstances has negative effects on the external auditor's independence. It may be useful to address this matter in the revised ISA.

#### BALANCE BETWEEN REQUIREMENTS AND APPLICATION AND OTHER EXPLANATORY MATERIAL

Ms. Hillier noted that the Task Force has reflected on the extent to which respondents collectively suggested elevating application material to requirements and envisaged that if all

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

such comments were adopted, the application material remaining would likely be minimal. Ms. Hillier indicated that in revising the ISAs, it would be important to be mindful of the need to keep the ISAs principles-based while ensuring their clarity, completeness and enforceability.

#### WAY FORWARD

Ms. Hillier noted that the IAASB is scheduled to deliberate respondents' comments in their entirety and to consider the Task Force's recommendations at its June 2011 meeting.

### **10. Audit Quality**

Mr. Grant introduced the topic, summarizing the December 2010 IAASB discussions and noting the issuance of the thought piece *Audit Quality: An IAASB Perspective* in January 2011. He summarized the outcome of the discussion on the project at the March 2011 IAASB CAG meeting, noting strong support from CAG representatives for the proposed way forward. Ms. de Beer noted that in supporting the development of an international audit quality framework, CAG Representatives emphasized the importance of reaching out to stakeholders on this project. She added that the thought piece was well received by the CAG. Prof. Schilder reported that he had received similar positive feedback on the thought piece from representatives of stakeholders he met in recent outreach.

Mr. Grant also reported on the outcome of a recent discussion on the project amongst Prof. Schilder, Ken Dakdduk (IESBA Chairman), Mark Allison (Chairman of the International Accounting Education Standards Board (IAESB)), and Mr. Gunn and himself. In particular, both the IESBA and IAESB Chairmen expressed interest in the project and agreed on collaboration with the IAASB by offering to nominate a member from their respective Boards to participate the Task Force.

Finally, Mr. Grant highlighted comments from the IFAC SMP Committee. These included suggestions to consider the impact of the complexity of financial reporting frameworks on audit quality, and whether the input, output and context factors for SMPs are different from those for larger entities.

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

#### OBJECTIVES OF THE PROJECT

Mr. Grant summarized the revised objectives for the project, outlining some of the purposes for which the proposed framework could be used in the public interest. An IAASB member suggested that the public interest rationale for the project would be clearer if the objectives explicitly referred to the public interest. Another IAASB member was of the view that there should be an explicit link to relevant IAASB standards in the objectives. Other IAASB members, however, disagreed on the latter point on the ground that the Board has settled for a holistic approach to the project. Accordingly, they were of the view that over-emphasizing the Board's standards in the objectives would not be appropriate.

After further deliberation, the IAASB agreed that the objectives should reflect the holistic approach to the project and emphasize the public interest as follows:

“To establish in the public interest an international framework that describes audit quality holistically, including:

- (a) The influences of input, output and context factors;
- (b) Stakeholders’ varying perspectives on audit quality; and
- (c) The importance of relationships between auditors and other key participants in the financial reporting supply chain (i.e., management, those charged with governance, investors and regulators), which influence audit quality.”

#### PROPOSED PLAN FOR THE WAY FORWARD

Mr. Grant outlined the approach to, and timeline for, the development of the consultation draft of the proposed framework. He noted also the possibility of exploring collaboration with national auditing standard setters in reaching out to audit committee members and investors to understand their perspectives on audit quality. Mr. Grant emphasized the importance of striking an appropriate balance regarding consultation with stakeholders before and after issuance of the consultation paper, noting that the most effective collaboration with stakeholders would likely take place once the consultation paper had been issued.

#### WAY FORWARD

The IAASB asked the Task Force to present a first consultation draft of the proposed framework for its consideration at the June 2011 IAASB meeting.

### **11. Definition of Professional Accountant**

Mr. Gunn introduced the topic, explaining the background to, and rationale for, this IFAC initiative to seek to clarify the definition of the term “professional accountant.” He noted that the IFAC Task Force leading the initiative was seeking input on the proposed definition from each of IFAC’s various committees and standard-setting boards, given the relevance of the term to their work. He then asked for the IAASB’s reactions to the proposals, including any implications for its standard-setting work.

An IAASB member noted that it was unclear from the proposed definition whether individuals in practice were intended to be included. Accordingly, clarity was needed in this regard. Another IAASB member cautioned against the possibility of unintended consequences, as some qualified accountants in public practice might not fall within the proposed definition. Mr. Gunn explained that individuals who qualified in the field of accountancy but then did not maintain their qualifications for various reasons, such as because of a career shift to another profession, would not be included. Another IAASB member was of the view that the proposed definition would be an improvement over the existing one as it would capture professional staff on audit engagements who are not members of an IFAC member body. In this regard, Mr. Gunn explained that the IFAC Task Force had not yet fully explored “Level 3” of the proposed definition, which would enable a distinction to be made between a professional accountant and an accounting technician.

Some IAASB members questioned whether the matter would be better dealt with at the national level. Mr. Gunn explained that the decision as to who should apply the standards should be a

matter for NSS to determine. The initiative to revise the definition of professional accountants was intended to assist NSS in making such decision.

An IAASB member was of the view that the issue of confusion with the extant definition does not arise so much for the IAASB as the Board's standards have tended to address auditors as opposed to professional accountants more broadly. The issue, however, would seem of greater importance for the IAESB and the IESBA. Another IAASB member expressed concern that the issue was getting a wider profile than needed, given that it was being addressed by IFAC as opposed to the individual standard-setting boards that might have challenges with the extant definition. In this regard, Mr. Gunn explained that this initiative represents a starting point for IFAC to address the broader matter of the process to adopt in dealing with the issue.

IAASB members also commented on the following matters:

- The reference to “enforcement” in the proposed definition should be reconsidered, as the more appropriate concept would appear to be that of monitoring.
- Consideration should be given to how the proposed definition interacts with that of the term “practitioner” in proposed revised ISAE 3000.
- The proposed definition may not fully address qualified practitioners in the public sector, as some public sector accountants are not subject to enforcement, other than in the context of their employment relationship, and may not be able to join an IFAC member body.
- Consideration should be given to clarifying what was intended by the criterion “held to a high professional standard,” as “high” may prove difficult to define. In this regard, it was suggested that a link to relevant ethical requirements might be appropriate.
- There is a risk that without the proposed definition being linked with the IFAC Statements of Membership Obligations, the underlying presumption that those applying IAASB standards comply with the IESBA Code (or requirements as strict) would no longer be supportable.
- Consideration should be given to reflecting in the definition the core competence of the professional accountant, i.e., expertise in financial reporting, as the competencies mentioned in the proposals appear too broad.

Ms. De Beer commented that the IAASB CAG discussion on the topic had highlighted that IFAC's standard-setting boards are maturing. She added that regulators might find the proposed definition useful in determining the applicability of the standards to specific groups.

#### WAY FORWARD

Mr. Gunn thanked the IAASB for its comments, noting that staff would convey them back to the IFAC Task Force for further consideration.

## 12. EC Observer Remarks

Mr. Arteagoitia briefed the IAASB on recent EC activities, including the February 2011 international conference on accounting and auditing pursuant to the EC's October 2010 “Green Paper.”<sup>21</sup> He noted that EC staff was in the process of preparing a follow-up to the Green Paper

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<sup>21</sup> EC Green Paper, *Audit Policy: Lessons from the Crisis*

and that it was too early to report on any specific outcomes from the consultation. Nevertheless, he highlighted EC Commissioner Barnier's view that the status quo is not acceptable. In addition, he noted that any specific proposals would be subject to appropriate impact assessments pursuant to the European Union's (EU) better regulation principle.

Mr. Arteagoitia expressed concern regarding comments during Board discussions earlier in the week that suggested that the Board cannot be too ambitious due to the challenge of reaching solutions that will be universally accepted. He reminded the Board of stakeholders' expectations of international standards as representing the best and highest standards.

Referring to the Board discussion on auditor reporting, he acknowledged the delicate issues under consideration. Nevertheless, he noted that some may be of the view that auditors should not be deciding the content of auditors' reports. He indicated the Monitoring Group's close interest in this debate and noted that the Board's credibility would be seen in the light of the actions the Board may take after its consultation on the topic.

In relation to oversight of the profession, Mr. Arteagoitia noted that the EC had finalized in January 2011 equivalence agreements with a number of jurisdictions with oversight practices similar to the EU's that will enable reciprocity. In addition, he noted that the EC had reached agreement with a number of jurisdictions regarding the adequacy of privacy laws that will allow the safe exchange of information between the EC and regulators in those jurisdictions.

Mr. Arteagoitia also noted that the EC had commissioned a study in December 2010 regarding how EU Member States have implemented the EU's Eighth Directive. This study would also gather data on the EU's audit market that will help inform any specific proposals that the EC may develop by the end of the year.

Finally, he reported that all EU Member States save one have now established audit oversight bodies, a significant achievement given the complexity and cost of implementing the Eighth Directive's requirement for effective oversight bodies to be established in all Member States.

Prof. Schilder thanked Mr. Arteagoitia for his remarks. In the context of the EC Green Paper consultation, Prof. Schilder shared comments from Commissioner Barnier that acknowledge the importance of the ISAs for audit quality and the IAASB's significant contribution in this regard, notwithstanding the need for the EC to consider a number of issues before making a determination regarding ISA adoption. Prof. Schilder also summarized key highlights from the responses to the Green Paper, including broad support for ISA adoption in the EU, as reported by the EC Representative, Mr. Jan Robberecht, at the March 2011 IAASB CAG meeting.

### **13. Presentation from Former PIOB Chairman**

Prof. Stavros Thomadakis shared reflections regarding international oversight of standard setting relative to the IAASB from his perspective as former Chairman of the PIOB over the past 6 years. Amongst other matters, he noted the following:

- International oversight of standard setting has a short past but a long future;
- Collaborative efforts from all parts of the international standard-setting and oversight structure have demonstrated that high-quality outputs can be produced that are aligned with the public interest;

- Equally, the quality of oversight depends on all parts of the architecture working together;
- The evolution of the standard-setting structure towards the current hybrid design incorporating equal numbers of practitioners and non-practitioners, as well as the present diversity in board composition, reflect a constant search for, and effort towards, improvement;
- The robust due process for standard setting that is now in place reflects the priority attention that the PIOB has given to the evolution of the design of due process over the years;
- The PIOB's encouragement of broader input from stakeholders into the CAG process has appropriately led to a broader representation of private and sectoral interests within the CAG; and
- Given the importance of the Board's strategic plan, the PIOB should have a greater focus on this going forward.

Prof. Schilder thanked Prof. Thomadakis for his insights. Prof. Schilder acknowledged Prof. Thomadakis's leadership of, and contribution to, the PIOB over the years, noting that it has now become an important window on international standard setting to the outside world. Prof. Schilder conveyed the IAASB's best wishes to Prof. Thomadakis for the future.

#### **14. Presentation from IFIAR Chairman**

Mr. Paul George, Chairman of the International Forum of Independent Audit Regulators (IFIAR) gave a presentation on IFIAR's history and recent developments. He provided an overview of IFIAR's formation in 2006, the rationale for why it was established, and the growth of its membership over the subsequent years. He then outlined a number of key areas where progress will be sought at IFIAR's April and September 2011 plenary meetings, including:

- The appointment of officers and members to IFIAR's Advisory Council;
- The adoption of core principles in such areas as inspections and operations to encourage best practice amongst IFIAR member bodies;
- Consideration of the most effective and efficient meeting formats given the significant growth in the IFIAR membership;
- Consideration of how IFIAR can better report publicly on its activities;
- Consideration of upgrading IFIAR's role on the Monitoring Group from observer to full member; and
- Consideration of IFIAR's involvement as a facilitator in the audit-related activities of the Financial Stability Board.

In addition, Mr. George gave an update on recent activities of IFIAR working groups, including the Investors Working Group, the Global Public Policy Committee (GPPC) Working Group, and the Standards Coordination Working Group.

In response to a question from Ms. de Beer as to why IFIAR was not an observer to the IAASB or IAASB CAG, Mr. George shared his perspective regarding IFIAR's challenge in reaching collective views on standard-setting matters given the diversity of its membership but

acknowledged ongoing efforts in that direction. He was also of the view that some caution is needed in IFIAR not getting too close to the standards given its role as an audit regulator.

Prof. Schilder thanked Mr. George for the informative presentation, and complimented IFIAR on the tremendous progress it has achieved over a short period of time. Prof. Schilder noted that he looked forward to opportunities for closer dialogue and interaction between IAASB and IFIAR.

## 15. IAASB Member Presentation

Mr. Gélard gave an overview of his country, France, as well as the French accountancy profession. He outlined, amongst other matters:

- The country's history, demography and culture;
- The structure of the profession in France, including similarities and differences between the two professional bodies CNCC and Conseil Supérieur de l'Ordre des Experts-Comptables (OEC); and
- Legal requirements relative to audits and auditors.

In addition, he highlighted a number of innovations from the country in the field of auditing, including joint audits and the justification of assessments in auditors' reports.

Prof. Schilder thanked Mr. Gélard for the informative presentation.

## 16. PIOB Observers' Remarks

~~Mr~~Prof. ~~Martin~~Marten complimented the IAASB and its guest speakers on their productive and stimulating contributions to the Board's discussions.

Referring to the discussions on the Auditor Reporting consultation paper, ~~Mr~~Prof. Martein emphasized the importance of obtaining investors' and the public's input on the issues, especially their expectations. The questions in the consultation paper are therefore particularly critical and should be directed at obtaining views from these stakeholders.

Referring to the topic of ISA implementation monitoring, ~~Mr~~Prof. Martein provided a brief overview of the newly created European Audit Inspection Group (EAIG), and indicated that topics on its agenda include inspection findings relating to a number of individual ISAs. Prof. Schilder noted the IAASB's interest in having a dialogue with the EAIG to learn more.

Mr. Hafeman complimented the IAASB on the successful outcome of its deliberations on the ED of ISAE 3000. He observed wide and active participation by the Board members in the debates, and complimented the new Board members for their productive contributions at their first meeting.

Referring to the discussions on ISAE 3420, Mr. Hafeman commented that even though most practitioners who perform such engagements will already be familiar with many technical and practical matters, which might suggest the IAASB could be less explicit, the public interest is better served when standards are sufficiently clear even to first-time practitioners. Similarly, users of reports from such engagements cannot be expected to read the standard, and it will not always be the case that they are familiar with the nature of such engagements. Accordingly, he was of the view that the practitioner's report should provide information sufficient to readers to understand what has been done and the outcome of the engagement.

Referring to the discussion about the definition of professional accountant, Mr. Hafeman noted that the current definition has exposed some areas where the lack of a clear definition has caused problems. He noted, for example, that in the member body application process for membership of IFAC, questions are asked about whether the applicant observes the SMOs. The current definition, however, makes it difficult for these questions to be answered definitively. He also noted, for example, that the existing definition is also problematic for the IAESB, which must decide who should be covered by its education standards. He further noted that there may be some need for a definition of an accounting technician.

Mr. Hafeman provided a brief update on developments at the PIOB, including new appointments. He also briefed the IAASB on the focus of the forthcoming PIOB report. He noted that every PIOB report has some discussion of aspects of the public interest, though this one attempts to explain what is meant by “public interest.” This includes that the accountancy profession is acting in the public interest if it creates a net benefit for the public.

Prof. Schilder thanked Messrs. Martin and Hafeman for their comments.

### **17. Next Meetings**

Provisionally, the IAASB will meet by teleconference on May 5, 2011 to address the Auditor Reporting consultation paper.

The next physical meeting of the IAASB is scheduled for the week commencing June 20, 2011 in New York, USA.

### **18. Closing Remarks**

Prof. Schilder thanked the IAASB members, technical advisors, observers and staff for their contributions. He also thanked the CNCC and the OEC, and in particular Mr. Gélard and Ms. Tracq-Sengeissen, for their support in holding the meeting in Paris. Finally, Prof. Schilder thanked Mr. Sekiguchi and Ms. Kai for their participation at this meeting despite the recent earthquake events in Japan. He then closed the meeting.