Minutes of the 7th Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
Held on October 12-17, 2003
At the Offices of the Japanese Institute of Certified Public Accountants, Tokyo

Members

Present:
Dietz Mertin (Chair)
Denise Esdon (Vice Chair) (until October 15)
John Archambault
Philip Ashton
Roger Dassen (from October 13)
Ana Maria Elorrieta
Jan Bo Hansen
Gen Ikegami
Suresh Kana (from October 13)
John Kellas
Ian McPhee
Edmund Noonan
Ian Plaistowe (from October 13)
Roger Simnett
Roberto Tizzano (from October 13)
Gérard Trémolière
Zhiguo Yang

Technical Advisors

Bernard Agulhas (Mr Kana)
Wolfgang Böhm (Mr Mertin)
Cédric Gérald (Mr Trémolière)
Jon Grant (Mr Plaistowe)
Diana Hillier (Mr Ashton)
Susan Jones (Mr Noonan)
Paul Lohnes (Mr Desautels)
Richard Mifsud (Mr McPhee)
Emilio Palma (Mr Tizzano)
Sylvia Smith (Mr Kellas)
George Tucker (Ms Esdon)
Hans Verkruijsse (Mr Dassen)
Yuichi Yamamoto (Mr Ikegami)
Xi Wu (Mr Yang)

Absent:
Denis Desautels
John Fogarty (Mr Hansen)

IFAC Technical Staff

Present:
Jim Sylph (Technical Director)
Sylvia Barrett
Michael Nugent (October 15-16)
Alta Prinsloo

Prepared by: Sylvia Barrett, Michael Nugent and Alta Prinsloo (November 2003)
1. Opening, Minutes and Proxies
Mr Mertin opened the meeting to the public.

Mr Mertin indicated that Messrs Desautels, Kana, Plaistowe and Tizanno had given proxies to their respective technical advisors.

The minutes of the public session of the meeting held on July 21-25, 2003 in New York were considered and approved.

2. Audit Risk
Mr Kellas presented the proposed Audit Risk Standards for approval to be issued as final Standards.

STRUCTURE AND LENGTH
Mr Kellas noted that, based on the comments received, the Task Force seriously considered the structure and length of the proposed Standards. The proposed Standards were edited to eliminate unnecessary repetition and to delete or move guidance of a purely explanatory nature to appendices. Much of the guidance on internal control, however, was considered necessary to provide context to the basic principles and essential procedures and, consequently, most of the guidance has been retained in the body of the proposed Standards.

The inclusion of new guidance (for example, small entity audit considerations) and further clarification of basic principles and essential procedures (for example, those relating to the understanding of internal control) has unfortunately increased the overall length of the proposed Standards, though it is hoped that the additional clarity will be sufficient compensation.

SMALL ENTITY CONSIDERATIONS
Based on the decision of the IAASB to include small entity audit considerations in the body of individual ISAs, the Task Force has included appropriate considerations in the proposed Standards. As the Standards are the first to be prepared on this basis, they provide a basis for the IAASB to consider the appropriateness of its decision.

Mr Kellas noted that the small entity audit considerations included in the proposed Standards did not focus on the fact that matters are simpler for smaller entities, but on how to apply the requirements in the audit of a smaller entity.

ISA 200, OBJECTIVE AND GENERAL PRINCIPLES GOVERNING AN AUDIT OF FINANCIAL STATEMENTS
Mr Kellas highlighted the significant changes that were processed based on the comments received.

Amongst other matters, the following were noted:

- The Auditor’s Report Task Force is also proposing changes to ISA 200 and it is assumed that the Auditor’s Report Task Force will use ISA 200, as amended for the proposed Audit Risk Standards, as its starting point. The IAASB Staff has to consider how best to deal with the fact that two versions of an approved Standard will be in issue at a specific point in time.
The use of the term “applicable financial reporting framework” as opposed to “identified financial reporting framework” is in line with the direction taken by the Auditor’s Report Task Force. No comments were received in this regard during the exposure period.

The Materiality Task Force is struggling with the concept of the allocation of materiality and suggested that it be dealt with in ISA 315, “Understanding the Entity and Its Environment and Assessing the Risks of Materiality Misstatement.” However, the Audit Risk Task Force was of the opinion that it could not be covered in ISA 315, as the matter has to be resolved by the Materiality Task Force.

AUDIT EVIDENCE

Mr Kellas highlighted the significant changes that were processed based on the comments received. Significant comments included the following:

- The fact that there was only one bold type paragraph in the ED. Mr Kellas explained that the Standard is primarily explanatory and conceptual and that its main purpose is not to mandate specific requirements. The Task Force has, however, included two additional paragraphs in bold type in the current draft.
- The assertions drew a lot of comment. Respondents were of the opinion that it was not necessary to change the formulation of the assertions, as it will require changes in methodologies. Mr Kellas indicated that, although the use of assertions at an appropriate level of detail is a requirement, a new paragraph makes it clear that the assertions may be expressed in different ways. It is not expected that, provided the form of assertions used by a firm deals with all aspects of the assertions in the proposed Standard, any change in methodology will be required on this ground alone.

UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

Mr Kellas highlighted the significant changes that were processed based on the comments received. The section on internal control was the most contentious section and the Task Force received a number of comments, which included the following (and which the Task Force believes it has successfully dealt with having regard to the comments):

- The scope of work to be performed by the auditor was not clear.
- Too much of the auditor’s decisions/work are based on internal control.
- Too much text is explanatory and can be put in an appendix or deleted.
- The Task Force has not successfully achieved the objective of assuming automated systems rather than manual systems.

One IAASB member indicated that COSO II is currently being developed and that, in addition to internal control, it also covers the risk management process. The PCAOB is expected to issue a document on internal control that will be based on COSO II. Mr Kellas responded that the Task Force is of the opinion that COSO II does not change the substance of the guidance provided in the proposed Standard.

One IAASB member continued to question the length of the proposed Standard, and the sufficiency of small entity audit considerations. He also questioned the appropriateness of the IAASB’s decision to withdraw IAPS 1005, “The Special Considerations in the Audit of Small Entities,” as it would not be easy for small practitioners to identify the relevant guidance in the
proposed Standards. He suggested that consideration is given to including the guidance in another format.

Another IAASB member noted that small practitioners had remarked that it is better to have more guidance, as they do not have the resources necessary to implement shorter Standards.

Some IAASB members also suggested that the IFAC Education Committee develop guidance for small practitioners. Mr Sylph indicated that such an activity does not fall within the scope of the Committee’s activities. He also noted that three independent organizations that develop guidance for small practitioners are awaiting this material. They will likely develop implementation guidance independent of the IAASB.

Mr Mertin noted that it is not a large / small entity issue, but a question of how detailed the ISAs should be. There is a feeling that the existing ISAs are too general and too brief. However, he was concerned that the proposed Standard may indicate a move away from the principles-based approach. He noted that this may be a result of the combination of the IAASB’s principles-based approach and the US Auditing Standards Board’s more detailed approach.

Mr Mertin also indicated that the decision to withdraw IAPS 1005 was discussed with the Consultative Advisory Group and representatives from the Small- and Medium Size Practices Task Force, and that both agreed on the inclusion of small entity audit considerations in the body of the ISAs. The IAASB had agreed to this and the discussion should not be opened again. However, the IAASB should consider in future how detailed ISAs should be.

THE AUDITOR’S PROCEDURES
Mr Kellas noted that few changes of substance were required as a result of the comments received. Changes mostly related to the transfer of text to other Standards and the elimination of duplicate guidance.

PUBLIC SECTOR PERSPECTIVES
Comments in relation to the Public Sector Perspectives prepared by the IFAC Public Sector Committee (PSC) were also noted. Mr Kellas noted that the IAASB Staff will discuss these with the PSC Staff.

EFFECTIVE DATE
The Task Force proposed an effective date of periods beginning on or after December 15, 2004. It was acknowledged that this is different from the effective dates of other ISAs; however, some jurisdictions allow floating year-ends. Issuing the proposed Standards in November 2003 will give auditors a full year to prepare for implementation.

CONFORMING CHANGES
The Task Force has considered the conforming changes prepared by the IAASB Staff. It was debated whether the conforming changes should be approved by the IAASB in a main meeting. Given the importance of the Standards, it was agreed that the conforming changes should be considered by the IAASB at its December 2003 meeting.

APPROVAL
The Task Force considered the comments received from the IAASB and brought the proposed final Standards back for approval at the end of the week.
Subject to the processing of minor changes, the IAASB approved the proposed Standards as follows:

- **ISA 200**: Approved unanimously.
- **Audit Evidence**: Approved unanimously.
- **Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement**: Approved by 17 members. Mr Trémolière abstained. He indicated that, although he has no real concern about the substance of the Standard, he is of the opinion that the Standard is more rules-based than principles-based, it is too long, and the level of detail is too great. The Standard will be perceived as written for large companies audited by large firms, and it may not appropriate for small practitioners.
- **The Auditor’s Procedures**: Approved unanimously.

The implementation of the Standards by small practitioners was again discussed in great detail. It was noted that the ISAs were becoming increasingly complex and that all practitioners, small and large, will find them more difficult to understand and implement. However, large practices are better placed with resources that could turn them into methodologies. Mr Mertin agreed that the matter was important and recommended that the Planning Committee consider it. He also suggested that it should be a main subject on the agenda of the next National Standard Setters Network meeting.

Mr Mertin noted that the project is an excellent example of how a joint task force could work and a demonstration of convergence. Mr Mertin thanked Mr Kellas for his very successful work. Mr Kellas thanked the members of the Task Force and the IAASB Staff for their excellent support.

### 3. Auditor’s Report

Mr Ashton presented for approval as an exposure draft a proposed revised ISA 700, “The Independent Auditor’s Report on General Purpose Financial Statements” and conforming changes to the following ISAs:

- **ISA 200**, “Objective and General Principles Governing an Audit of Financial Statements”
- **ISA 210**, “Terms of Audit Engagements”
- **ISA 560**, “Subsequent Events”
- **ISA 580**, “Management Representations”
- **ISA 701**, “Modifications to the Independent Auditor’s Report”
- **ISA 800**, “The Auditor’s Report on Special Purpose Audit Engagements.”

Mr Ashton reminded the IAASB of the reasons for undertaking the project. When ISA 700, “The Auditor’s Report on Financial Statements” was revised to require an indication of the country of origin of the financial reporting framework, a large number of respondents requested a full revision of the ISA. The proposal to conduct a full revision of ISA 700 was built around 20 comments, which later were reduced to the ten issues addressed by the task force. Mr Ashton also noted that the project is also a priority for the IAASB Consultative Advisory Group.

At the July 2003 IAASB meeting, it was agreed that the task force should give further consideration to the question of what should fall within the scope of ISA 700 and ISA 800. The task force confirmed its earlier proposal that ISA 700 should cover the auditor’s reports on a complete set of general purpose financial statements, which is defined as financial statements
prepared to meet the common information needs of a wide range of users. The task force acknowledges that the IASB definition of general purpose financial statements may be subject to some debate; however, it is of the opinion that it would be confusing, and even misleading, for the IAASB to adopt a different definition.

ISA 200, OBJECTIVE AND GENERAL PRINCIPLES GOVERNING AN AUDIT OF FINANCIAL STATEMENTS
The IAASB reviewed the proposed amendments to ISA 200 by paragraph. Amongst other comments, the following were noted:

- ISA 200 is an “umbrella ISA” and the general principles should cover both ISA 700 and ISA 800.
- The fact that not all frameworks for general purpose financial statements necessarily include information about an entity’s financial position, financial performance and cash flows.
- The possibility of explaining the term “true and fair” / “present fairly” in ISA 200 and indicating when it will be used in the auditor’s report. (However, the majority of the IAASB members were of the opinion that the document should be exposed in its current format.)
- From the outset of the project it has been proposed that the ISAs continue to use the phrase “prepared in accordance with the applicable financial reporting framework” in the auditor’s opinion, although the Assurance Framework uses the phrase “prepared in conformity with the applicable financial reporting framework.” The majority of IAASB members agreed with the proposal to continue to use the existing phrase.
- The terms “management” and “those charged with governance” are defined in the Glossary of Terms; however, the document uses “management” for both. The Materiality Task Force also experienced difficulty with the definitions, as it wanted to refer to those with final responsibility for approval of the financial statements, who could be management or those charged with governance. The Materiality Task Force had written to Mr Mertin in this regard.
- There was confusion regarding the categories of acceptable financial reporting frameworks for general purpose financial statements. For example, some members questioned whether the criteria for “established financial reporting standards in a particular jurisdiction” were sufficiently rigorous. Members were also confused about the category of “specifically developed financial reporting frameworks” and questioned whether there should be some sort of benchmark, such as “authoritative” or “generally accepted” for that category as well.
- The fact that ISA 200 sets “comprehensiveness” and “authoritativeness” as criteria to measure “specifically developed financial reporting framework,” whereas the proposed Assurance Framework refers to “suitable criteria.” The Task Force was requested to consider providing a link between suitable criteria and the criteria as per ISA 200.

ISA 210, TERMS OF AUDIT ENGAGEMENTS
Mr Ashton noted that the proposed amendments to ISA 210 are essentially conforming changes. Amongst other comments, it was noted that the proposed amendments should cover both ISA 700 and ISA 800.

ISA 700, The Independent Auditor’s Report on General Purpose Financial Statements
The IAASB reviewed the proposed ISA 700 by paragraph. Amongst other comments, the following were noted:
• Whether the term “in all material respects” should be retained when referring to the fair presentation of the financial statements in accordance with the financial reporting framework. The Task Force agreed to reinstate the reference when referring to “presents fairly” opinions.
• The Task Force should clarify how legal and regulatory requirements relate to the definition of a “financial reporting framework.”
• The Task Force agreed to reconsider the sentence at the end of paragraph 17 regarding the need for auditors to adopt the layout and wording used in the ISA. Some members believed this requirement should be a bold-lettered principle. Others were concerned that this would restrict innovation in national standards.
• The Task Force should consider the reference to “components” of the financial statements, as it may have a different meaning in different jurisdictions and is also defined in the context of group financial statements in the Glossary of Terms.
• The sentence in the introductory paragraph regarding readers of the financial statements should be deleted.
• The description of management’s responsibilities should be paralleled with that of the auditor’s responsibilities and the auditor’s opinion. While the specific aspects of management’s responsibilities and the wording used to describe them may vary depending on the legal obligations of management in a particular jurisdiction, the majority of the IAASB members were of the opinion that there should be a standard, generic description of management’s responsibilities in the auditor’s report.
• The Task Force was requested to consider whether guidance relating to circumstances when the auditor is conducting the audit in accordance with ISAs and national auditing standards, which was in a number of places in ISA 700, could not be dealt with in a separate section in the ISA.
• The description of the auditor’s responsibilities still contains “code” words. The Task Force was requested to reconsider the reference to “tests.” Consideration should be given to including the concept of professional judgment. Some IAASB members were concerned about the description of the auditor’s responsibility with regard to internal controls and the Task Force was requested to reconsider it.

ISA 701, MODIFICATIONS TO THE INDEPENDENT AUDITOR’S REPORT
Mr Ashton explained that, while the proposed revisions to ISA 700 include a new description of management’s responsibility, the Task Force is of the opinion that it would not be appropriate to keep the description in circumstances when the auditor is expressing a disclaimer. Rather, a single sentence of responsibility, i.e. the financial statements are the responsibility of management, is more appropriate in those circumstances. Some IAASB members were of the opinion that the responsibilities as described in ISA 700 remain the responsibilities of management, whether or not management has fulfilled them.

ISA 560, SUBSEQUENT EVENTS
A minority of IAASB members were of the opinion that ISA 560 should require the auditor to document the date on which the auditor has obtained sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion. It was debated whether the date of the auditor’s report could be later than the date on which the auditor has obtained sufficient appropriate audit evidence. It was noted that the date of the auditor’s report was not the date of signing the auditor’s report, but the date on which sufficient appropriate audit evidence has been obtained. As a result, the auditor’s report may be dated at a date earlier than the date of signing the report. The Task Force was requested to consider including a related question in the exposure draft.
ISA 580, MANAGEMENT REPRESENTATIONS

The IAASB agreed that the proposed amendments were not conforming changes and that they should be deleted. It was agreed that the IAASB should consider reprioritizing the project to revise ISA 580.

ISA 800, THE AUDITOR’S REPORT ON SPECIAL PURPOSE AUDIT ENGAGEMENTS

IAASB members were of the opinion that it is important to clarify the difference between auditor’s report that fall within ISA 700 and those that fall within ISA 800, as well as differences in the auditor’s reports. In some jurisdictions it may be that many more auditor’s reports will fall within ISA 800 in which case the title of the ISA may need to be reconsidered.

REVISIONS CONSIDERED AT END OF WEEK

At the end of the week, the task force presented revisions of the proposed ISA 200 and ISA 700, and an overview of the significant changes to the proposed ISAs discussed earlier in the week.

In addition to editorial and structural changes, the following comments were noted in regard ISA 200:

- It is not clear whether an auditor’s report on a single financial statement is covered by ISA 700. The concern related to the definition of a “complete set of financial statements,” and whether a single financial statement is intended to satisfy the definition of a general purpose financial statement. It was noted that the intention of the guidance is to recognize a single financial statement as a general purpose financial statement if the applicable financial reporting framework permits it.
- Whether it is appropriate to place emphasis on general purpose financial statements of profit-oriented entities, as ISA 700 is intended to address both profit and not-for-profit entities and no further guidance on not-for-profit entities is provided.
- The process for establishing other financial reporting frameworks should be clarified to indicate consultation with the public.
- Whether auditors will understand how financial statements prepared in accordance with an “other financial reporting framework” that falls within ISA 700 differs from special purpose financial statements that fall within ISA 800.
- Guidance on how an auditor should deal with situations where more than one financial reporting framework may be applicable in the jurisdiction should be provided.

In addition to editorial and structural changes and suggestions to clarify the guidance, the following comments were noted in regard ISA 700:

- Revise the guidance to have the auditor “adopt,” instead of “amend,” descriptions of matters addressed in the standards and guidance where financial statements have been prepared in accordance with a different financial reporting framework.
- As the proposed “International Framework for Assurance Engagements” no longer encourages management to develop their own financial reporting framework, management should not be encouraged to “revise” the framework when deficiencies are encountered.
- Clarify that, where a true and fair view override exists within the applicable financial reporting framework, the guidance provided within the framework should be followed when applying the override.
- A majority of IAASB members agreed with the proposed approach of prescribing wording for management’s responsibilities. IAASB members who disagreed with the approach expressed
concern that management may not agree with how the ISA describes their responsibilities, particularly because responsibilities may differ among jurisdictions. In particular, the IAASB debated the description of management’s and the auditor’s responsibilities regarding “internal control.” As some jurisdictions require an opinion on the operating effectiveness of internal control, the description may create an expectation that the auditor is providing an audit opinion on internal control. A majority of IAASB members agreed to retain the proposed wording describing management’s and the auditor’s responsibilities for internal control. The suggestion to clarify that, accordingly, the auditor does not express an opinion on internal control, was not agreed to.

Mr Ashton requested confirmation that the IAASB agreed with the overall approach proposed for ISA 700 and ISA 800. Three IAASB members disagreed with the approach on the basis that the guidance was not sufficiently clear. Mr Mertin requested IAASB members to separately communicate other issues they may have to the task force.

The task force intends to present the proposed ISA 700 and the related conforming changes to be approved as an exposure draft in December 2003.

4. Audit of Group Financial Statements

PROPOSED IAPS

Mr Kana provided an update on the project and presented a proposed IAPS “The Audit of Group Financial Statements.” The proposed IAPS incorporated the text of the proposed revised ISA 600 “Using the Work of Another Auditor,” with likely bold type paragraphs identified by shading. The IAASB reviewed the document by paragraph and, amongst other matters, noted the following:

- The proposed IAPS repeats material from the ISAs. It was acknowledged that a degree of repetition is appropriate to ensure the document can be read on a “stand alone” basis.
- While no fixed rules could be made about the appropriate level of the group auditor’s participation in the audit of the group financial statements, or the procedures that need to be undertaken in all instances, the underlying concept is that the less participation the group auditor has, and the tighter the reporting timelines, the more important the type of procedures become (as described in paragraph 13).
- Concern was expressed that the current wording of paragraph 24, which deals with the group auditor’s understanding of the components and their environments, goes beyond the requirements of the new Audit Risk Standards. It also seems to require too active a role for the group auditor in identifying risks at the component level.
- The conceptual underpinning of the allocation of materiality for purposes of performing work on components’ financial information was discussed. It was noted that the guidance is not consistent with major firm’s methodology. It was agreed that the final sentence of paragraph 18 should be retained, and that it should be reconsidered once the Materiality Task Force has finalized the revision of ISA 320.
- The categorization of components and the different scopes of work that could be performed on components’ financial information was discussed. It was agreed that the different scopes of work should be clarified and simplified. It was mentioned that only 3 categories seem necessary, i.e. full audit (which is not mentioned in the current diagram), limited materiality audit and specified procedures. It was also suggested that the description of what comprises a “component of individual significance” in paragraph 41 should be expanded.
• The Task Force was asked to review the use of the terms “network firm,” “related auditor” and “other auditor,” e.g. whether paragraph 78 should impose an expectations that in some circumstances the group auditor would need to go beyond the network firm’s controls in considering such matters as training and recruitment at specific offices. Also, the definition of “related auditor” should be reviewed, in particular the relationship between the quality control policies cited in the definition and those of ISQC 1, “Quality Control for Audit, Assurance and Related Services Practices” needs to be clarified, and the definitions of “related auditor” and “other auditor” should include that they are performing work on a component’s financial information.

DIVISION OF RESPONSIBILITY

The IAASB considered proposed standards and guidance on “Division of Responsibility.” The IAASB agreed that unless national standards enable and national law or regulation permits the group auditor to refer to the other auditor in the auditor’s report on the group financial statements, the group auditor takes sole responsibility for the audit opinion on the group financial statements and does not refer to the other auditor in the auditor’s report on the group financial statements.

It was also noted that, since engagements in which responsibility can be divided will be governed by national law or regulation, it is unnecessary to provide detailed requirements, and that only paragraphs 1 and 2 of the proposed section on division of responsibility should be retained. After a lengthy discussion, it was agreed to retain the proposed section in its existing format and to deal with the matter in the explanatory memorandum that will accompany the exposure draft.

FORMAT OF STANDARDS AND GUIDANCE

Mr Kana reported to the IAASB that the Task Force had considered the proposed bold type requirements and that it is proposing to prepare a proposed revised ISA 600 and an IAPS. A summary of the principles to be covered in bold type paragraphs was distributed and the task force was advised to proceed as proposed.

NEXT STEPS

The Task Force intends to present the proposed revised ISA 600 and IAPS to the IAASB in December 2003 for approval to be issued as exposure drafts.

5. The Special Considerations in the Audit of Small Entities

Ms Prinsloo provided an update on the project to revise IAPS 1005, “The Special Considerations in the Audit of Small Entities,” noting that twenty-two comment letters had been received and that a compilation of comments received and IAASB Staff’s proposed disposition was included in the agenda papers.

The IAASB considered an Issues Paper that summarized the significant issues arising from the comments received and IAASB staff’s proposed disposition thereof. The following points were raised on the issues presented:

• Should IAPS 1005 be withdrawn? The IAASB noted that in future ISAs may become even more complex as a consequence of the increasing complexity in business and as such the demand for IAPS 1005, or a like document, could increase. It therefore decided to keep under review the decision to withdraw IAPS 1005 in favor of incorporating small entity audit consideration into individual ISAs. As a result, the proposed amendment to the Preface was
not considered. The IAASB agreed with the proposed text that explains that IAPS 1005 provides guidance on ISAs issued until March 2003.

- **Transitional arrangements.** The IAASB agreed with the proposal that the exposure drafts of proposed revised ISAs should contain a conforming change that indicates the withdrawal of the relevant text in IAPS 1005, and that IAPS 1005 should be updated to indicate that the small entity audit considerations relating to a revised ISA issued subsequent to March 2003 are covered in the revised ISA.

- **Provision of other services.** The IAASB agreed to delete the guidance in paragraphs 104 to 113, which was based on the revised Section 8 of the IFAC Code of Ethics for Professional Accountants, and instead to include a reference to the Code that notes that practitioners should ensure that other services are permitted.

- **Management representations and going concern.** The IAASB confirmed that failure to obtain a management representation letter, which is required in terms of the ISAs, will constitute a scope limitation, and that the auditor has to consider the impact thereof on the auditor’s report. The IAASB agreed not to expand the guidance on going concern.

- **Other comments.** The IAASB agreed that comments received that related to matters outside the scope of the revision should be retained on the relevant ISAs’ update dossiers rather than being acted on now.

The proposed revised IAPS 1005 was reviewed by paragraph. The IAASB agreed to the addition of a “road map” regarding which ISAs are addressed in the IAPS and which ISAs include small entity audit considerations, as well as to a small number of editorial amendments.

The IAASB unanimously approved the proposed revised IAPS 1005 for issue as a final IAPS.

**6. Translation of IAASB Standards and Practice Statements**

Mr Sylph introduced the proposed “Policy Statement – Translation of IAASB Standards and Practice Statements,” which had been prepared by IAASB Staff to assist National Professional Accountancy Bodies and others with the translation of international standards and related practice statements. He noted that the proposed policy statement had been discussed with translators from the accounting institutes in three countries and representatives of the auditing standard-setters of EU countries.

It was noted that other IFAC Committees were likely to need a similar policy. It was therefore suggested that a high level policy should be issued by IFAC and, where there are further technical issues specific to a particular committee, they should be covered in a subsidiary document issued by that committee. For IAASB, such a document will cover the “List of Key Words.”

The following points were raised:

- After discussion of whether the English text should always be reproduced side-by-side with the translated text, it was agreed to either delete the related paragraph or change the word “recommended” to “suggested” or “encouraged.”

- An ongoing resource commitment from IAASB will be necessary to carry out the policy.

- The policy should require that, where a translation is undertaken, applicable ISAs and IAPSS be translated in their entirety (rather than just the bold type paragraphs or the ISAs without the IAPSSs). However, the difficulty of countries such as Japan, where the language does not allow for a literal translation, was acknowledged. In this context the wording with respect to the objective of a translation is to be revised.
• It was noted that in a legal sense, the text that prevails in, say, France, is the French text. This needs to be clarified in the policy.
• Paragraph 21(b), dealing with evidence supporting a statement that translations performed before the adoption of the policy had been performed following a process similar to that required by the policy, should elaborate on what type of evidence is envisaged.
• The term “translation conducted under the auspices of the IAASB” should be replaced with wording such as “using a translation process approved by the IAASB.”
• The “Lexicon of Words and Phrases used in IAASB Pronouncements” is to be updated by the Revisions Committee and approved by the IAASB.

NEXT STEPS
The Technical Director is to report back after the November 2003 IFAC Board meeting with regard to the IAASB’s suggestion of an IFAC wide policy on translation. If that suggestion is adopted, the IAASB subsidiary document is to be circulated to the IAASB after approval by the IAASB Chair and Technical Director.

7. INTOSAI / IAASB Memorandum of Understanding
Mr Sylph and Ms Prinsloo presented a revised proposed INTOSAI/IAASB Memorandum of Agreement. The majority of the IAASB members were of the opinion that the proposed cooperation with INTOSAI will improve the public sector considerations reflected in the ISAs. The IAASB agreed to reconsider the memorandum for approval at its December 2003 meeting, subject to the Chair and IAASB Staff discussing with INTOSAI the following proposed changes to the memorandum:

• The memorandum should not be specific as to the position of the public sector considerations, i.e. it could be within the body of ISAs or in a separate section at the end of an ISA.
• The difference between the public sector considerations to be included in ISAs (IAASB pronouncements) and the guidance to be provided in the practice notes (INTOSAI pronouncements) should be explained. Also, it should be made clear that the practice notes are prepared by INTOSAI without any IAASB involvement.
• A clearer indication of IAASB Staff’s involvement in appointing Reference Panel experts to IAASB Task Forces should be provided.
• There may not be sufficient time for the Task Force chair to consult with the Reference Panel expert before IAASB approval of an exposure draft or final pronouncement (paragraph 17). The memorandum should be flexible in this regard.
• An additional paragraph, indicating that the memorandum, including the project structure and cooperation process, will be reviewed from time to time.

The IAASB members agreed that Reference Panel experts could be invited to participate in IAASB Task Forces in advance of approving the proposed memorandum, and that IAASB Staff should prepare a plan for the experts’ involvement in existing projects and the handover from the IFAC PSC to the IAASB.

8. Convergence of International and National Auditing Standards
An IAASB member enquired as to the status of the proposed policy statement on convergence of international and national auditing standards. IAASB Staff was of the opinion that, for the following reasons, a need for the policy statement no longer existed:
Convergence of national standards with International Standards and related Practice Statements issued by the IAASB will be driven by the proposed Statement of Membership Obligations (SMO) 3, “International Standards on Auditing and Other IAASB Pronouncements.”

Member bodies’ compliance with the SMOs will be monitored by the proposed IFAC compliance function.

Practical implementation issues will be addressed by national standard setters.

The IAASB did not agree with the IAASB Staff. The completion of the policy statement is important and urgent in the light of the EU’s 2005 adoption of the ISAs. Mr Mertin indicted that a proposed policy statement will be submitted for consideration by the both the Planning Committee and the IAASB in December 2003.

9. Assurance Engagements

Mr Dassen presented the proposed “International Framework for Assurance Engagements” (Framework) and ISAE 2000, “Assurance Engagements on Subject Matters Other Than Historical Financial Information.” The documents had been revised based on comments received from the exposure draft process and the Task Force’s deliberation of issues. Mr Dassen reported that the list of respondents in the appendix to IAASB Agenda Paper 2 should note that a comment letter was also received from “The Compagnie Nationale des Commissaires aux Comptes and the Conseil Supérieur de l’Ordre des Experts-Comptables.”

Mr. Grant indicated the UK Auditing Practices Board (APB) had expressed concern in its comment letter that ISAE 2000 does not provide sufficient guidance to address a broad range of assurance engagements. The APB intended to issue subject-matter specific assurance standards instead, and recommended that the IAASB also develop such standards. Mr Dassen indicated that, as subject-matter standards have not yet been developed, the Task Force believes issuing ISAE 2000 is appropriate to protect the public interest and will be helpful to practitioners. The IAASB supported:

- Finalizing ISAE 2000, noting that creating a general standard followed by more specific standards is how auditing standards had developed; and
- The prioritization of subject-matter specific standards.

The IAASB considered the Framework and ISAE 2000 by paragraph. In addition to editorial and structural revisions, the following comments were noted for the Task Force’s further consideration:

- Expressing the objectives of an assurance engagement more positively by focusing on the practitioner’s conclusion about conformance with criteria.
- Given the complexity of certain subject matters, whether it is necessary to clarify the extent of responsibility the practitioner assumes vis-à-vis experts. One IAASB member suggested the Task Force consider whether it is appropriate to provide guidance on the concept of joint responsibility.
- Expanding the discussion to accommodate a number of the issues raised in the FEE Issues Paper “Principles of Assurance: Fundamental Theoretical Issues with respect to Assurance in Assurance Engagements,” such as whether the approach to subject matter and criteria should be modified to accommodate concepts derived from modern measurement theory.
• Clarifying the reference to “meaningful level of assurance” as the floor for limited assurance engagements, or changing the floor to refer to, e.g., “providing relevant information.”
• Revising examples where possible to reflect assurance engagements other than financial statement audits.
• Whether, when an engagement is designed to meet the needs of specific intended users or for a specific purpose, the assurance report should state that fact.
• Whether it is appropriate in all jurisdictions to exclude expert witness engagements from the ambit of the Framework.
• Whether an engagement letter should be required for all assurance engagements that fall under ISAE 2000.
• Should an assurance report on a subject matter for which there is no specific ISAE, state that fact, e.g. “… in the absence of a specific standard on xyz, we have performed this engagement in accordance with ISAE 2000, the general standard for assurance engagements …”
• Making it explicit that there could be some assurance engagements that meet the definition but do not have all the elements identified in the Framework.
• One IAASB member noted repetition between the Framework and ISAE 2000. The Task Force believes it is preferable to have the repetition in ISAE 2000 to avoid the risk of certain important matters being overlooked.
• One IAASB member queried whether it is always appropriate to add an emphasis of matter in the assurance report when the responsible party’s assertion correctly states that the subject matter does not conform to the identified criteria.

It was noted that the Task Force will continue to liaise with the IFAC Ethics Committee.

The Task Force intends to present the Framework and ISAE 2000 to the IAASB in December 2003 for approval to be issued as final Standards.

10. Improving the Clarity of IAASB Standards

Mr Mertin reported that he and Mr Sylph met with IOSCO on October 8, 2003 to discuss the Task Force’s proposals for improving the clarity of IAASB Standards as included in the agenda material. He indicated that IOSCO representatives believe that the Clarity of Standards Project is progressing in the right direction and they were pleased that the IAASB is considering the concept of equal authority. Mr Mertin apprised the IAASB of other relevant points raised by IOSCO during that meeting.

Mr Mertin directed the IAASB’s attention to the US PCAOB’s Proposed Rule 3101 regarding the terms it proposes to use in its auditing and related professional practice standards, and asked the IAASB for their general comments on the proposals. Two members commented that the PCAOB’s approach of establishing a conceptual basis for the use of certain words is helpful as it clarifies how such words are to be used when drafting standards and for translation purposes. Mr. Mertin noted that it is important that the concept of an override of a basic principle or essential procedure based on the auditor’s judgment continues to apply. The PCAOB’s proposed use of “must” and “shall” suggests such an override would not be permitted. The Task Force was asked to consider elements of PCAOB’s proposal that makes sense for IAASB Standards and which may assist convergence of standards.

The IAASB noted that the November 6, 2003 response deadline did not provide much time to prepare a response, but agreed that IAASB Staff should submit a response communicating the following:
The IAASB is following the PCAOB’s proposals on the use of terms with interest. The IAASB is interested in aligning the terms used by the IAASB and the PCAOB. The IAASB is concerned about the practical implications of requiring auditors to document noncompliance with “should” statements. The fact that the PCAOB’s proposals may impact the international community, and that its approach of a 30-day response period may indicate a lack of awareness of this.

Mr Sylph referred to the revised proposals for improving the clarity of IAASB Standards and requested comments from the IAASB.

The IAASB questioned whether the characterization “fundamental principles and procedures” erroneously implies the existences of secondary (subsidiary) principles, which is not the case. The Task Force was asked to reconsider only identifying “fundamental principles,” as there are not fundamental procedures but rather procedures derived from fundamental principles.

Some members also expressed concern that, with the introduction of equal authority, practitioners may be confused as to whether a specific statement represents a fundamental principle, fundamental procedure, or explanatory guidance. The Task Force was asked to reconsider how to clarify the interrelationship between these concepts, and to consider how bold type lettering would be effected if consideration is given to identifying only “fundamental principles” and establishing new categories of unconditional (“must,” “shall,” etc.) and presumptively mandatory (“should”) requirements along the lines of the PCAOB’s proposal.

Mr. Grant indicated that the APB has discussed how the clarity of standards could be improved through structure and presentation, and by clarifying the relationship between standards and statements. The Task Force was asked to consider whether the recommendation of the British Standards Institute for UK APB standards might be of assistance.

The Task Force was requested also to consider the view expressed by some members that the phrase “equal authority” is not necessarily helpful in expressing the intention that the whole standard reflects a single authority. It was also noted that it should be made clear that “equal authority” does not mean that the entire text of a standard carries “equal obligation.”

The Task Force was asked to further consider how appendices are to be used (recognizing that flexibility is necessary) and the authority of, and language conventions used in, Practice Statements.

The Task Force indicated that a proposed exposure draft will be presented for approval at the December 2003 IAASB meeting.

In relation to on-going improvement in the clarity of IAASB Standards, Mr. Sylph reported that the proposed Assurance Framework and ISAE 2000 will be reviewed by a “plain English” expert.

11. Documentation

Mr Dassen commented that the Documentation Task Force is proceeding with the project, and requested that comments on the Issues Paper included in the agenda papers be provided to him or Ken Siong.
12. New IAASB Chair and Members

Mr Mertin announced that the IFAC Board’s Nominating Committee had confirmed the following recommendations to the IFAC Board:

- The appointment of Mr Kellas as next IAASB Chair.
- The appointment of Messrs Fogarty (USA) and Dutt (Malaysia), and nominees from Brazil, Germany and Lebanon as new IAASB members to replace retiring IAASB members Ms Elorrieta and Messrs Kana, Mertin, Noonan and Yang.

13. Next Meeting

Arrangements for the December 8-12, 2003 meeting in Berlin were distributed. The meeting will start at 9:00 am on December 8 and close at 16:00 pm on December 12.

14. Closing Remarks

Mr Mertin thanked Mr Ikegami and the JICPA for hosting the meeting and assisting with the meeting arrangements. Mr Mertin closed the meeting.