Minutes of the 31st Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
Held on June 16-20, 2008 in Athens

Voting Members

Present: John Kellas (Chairman)
Denise Esdon (Deputy Chair)
Phil Cowperthwaite
Craig Crawford
Josef Ferlings
John Fogarty (apologies June 20th)
Jon Grant
Diana Hillier
Susan Jones
William Kinney
Kjell Larsson
Caithlin McCabe
Ian McPhee
David Swanney
Jianhua Tang
Gérard Trémolière

Apologies: Kjell Larsson
Caithlin McCabe
Marcel Pheijffer
Abdullah Yusuf

Technical Advisors

Kelly Ånerud (Mr. Larsson)
Wolfgang Böhm (Mr. Ferlings)
Cédric Géland (Mr. Trémolière)
Ashif Kassam (Mr. Kinney)
Maria Manasses (Ms. Jones)
Richard Mifsud (Mr. McPhee)
Daniel Montgomery (Ms. Esdon)
Jon Rowden (Ms. Hillier)
Tania Sergott (Ms. McCabe)
Greg Shields (Mr. Cowperthwaite)
Sylvia Smith (Mr. Crawford)
Hans Verkruijsse (Mr. Pheijffer)
Sharon Walker (Mr. Fogarty)

Non-Voting Observers

Present: Norio Igarashi, Jürgen Tiedje, and Jennifer Rand
Apologies: David Damant

Public Interest Oversight Board (PIOB) Observers

Present: Stavros Thomadakis
Susana Novoa

IAASB Technical Staff

Present: Jim Sylph (Executive Director), James Gunn, Kathleen Kerrigan, Michael Nugent, Alta Prinsloo, Ken Siong, and Jessie Wong
1. Opening Remarks and Minutes

WELCOME AND INTRODUCTIONS

Mr. Kellas welcomed the participants to the meeting. He also welcomed Dr. Thomadakis and Ms. Novoa, observing on behalf of the Public Interest Oversight Board (PIOB), as well as observers from the Institute of Certified Public Accountants of Greece.

Apologies were received from Messrs. Damant (Chair of the IAASB Consultative Advisory Group (CAG)), Larsson, Pfeijffer, and Yusuf as well as Ms. McCabe.

Proxies were noted as follows: Ms. Walker for Mr. Fogarty, Mr. McPhee for Mr. Larsson, Mr. Verkruijsse for Mr. Pfeijffer, and Ms. Sergott for Ms. McCabe.

Mr. Kellas indicated that Messrs. Ng and Turner (from the Canadian Institute of Chartered Accountants) and Ms. Walker (from the American Institute of Certified Public Accountants) would be providing staff support for a number of items on the agenda.

Mr. Kellas noted that a very challenging week was expected, and urged IAASB members to focus on points of substance.

Mr. Kellas noted that ISAs 560 (Redrafted)\(^1\) and 580 (Revised and Redrafted)\(^2\) were issued as final standards in April 2008 after the PIOB had reviewed due process applied. The PIOB’s review of due process for the ISAs approved by the IAASB at its March 2008 meeting is scheduled for the PIOB’s July meeting. The IAASB’s 2009-2011 Strategy and Work Program is also scheduled for discussion at the PIOB’s July meeting, should the IAASB approve the document at this meeting. ISAs to be approved at this meeting will be presented to the PIOB for review of due process applied at the September 2008 PIOB meeting.

Mr. Kellas congratulated Ms. Prinsloo on her appointment to Director of Operations for IFAC, which will become effective at the end of the year. He also welcomed Jessie Wong, a new Technical Manager who will split her time between the IAASB and the IESBA. He thanked Ms. Walker for her contributions to the IAASB, as this is her last IAASB meeting.

MINUTES OF PREVIOUS MEETING

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

2. Auditor’s Reports on General Purpose Financial Statements

Ms. Hiller introduced the discussion of significant comments received on the exposure draft of proposed ISA 700 (Redrafted)\(^3\) (ED-ISA 700). She indicated that respondents were generally supportive of ED-ISA 700 and in agreement with the application of the clarity conventions. The IFAC Small and Medium Practices Committee (SMP Committee) did not raise any significant matters relating to the audits of smaller entities. A preliminary analysis of significant comments was discussed at the March 2008 IAASB CAG meeting.

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1. ISA 560 (Redrafted), “Subsequent Events.”
2. ISA 580 (Revised and Redrafted), “Written Representations.”
RESPONSES TO REQUESTS FOR SPECIFIC COMMENTS

Ms. Hillier noted that virtually all respondents supported the proposal to limit the scope of ISA 450 (Revised and Redrafted)\(^4\) to uncorrected misstatements, while proposed ISA 700 (Redrafted) deals with the evaluation of whether the financial statements as a whole are free from material misstatement. In addition, virtually all respondents supported the proposal to incorporate the guidance in International Auditing Practice Statement (IAPS) 1014,\(^5\) appropriately amended, in ED-ISA 700 and to withdraw the IAPS.

Financial Reporting Framework Described by Reference to International Financial Reporting Standards

Respondents indicated mixed support for the proposal to amend the ISA to address the implications for the auditor’s report of the increasing use of financial reporting frameworks described by reference to, but modified from, the International Financial Reporting Standards (IFRS). Some respondents were concerned that the proposed guidance set the threshold too low and would lead to a proliferation of either Emphasis of Matter paragraphs or qualified opinions. In addition, respondents were concerned that the focus on “misleading” could be interpreted as implying that the underlying financial information in the financial statements (e.g., the entity’s reported financial position, results and cash flows) was misleading – which was never the intent. Others were concerned that the proposals would necessitate onerous quantification of differences or posed practical difficulties if management did not have an obligation to make such disclosures. The IAASB CAG raised similar concerns during its discussions in March 2008.

Ms. Hillier drew the IAASB’s attention to a Statement on Providing Investors with Appropriate and Complete Information on Accounting Frameworks Used to Prepare Financial Statements issued by the Technical Committee of the International Organization of Securities Commissions (IOSCO) on February 6, 2008. The Statement provides guidance on disclosures that should be included at a minimum by publicly traded companies when their financial statements are prepared on the basis of national standards that are modified or adapted from IFRS.

Ms. Hillier also noted that the International Accounting Standards Board (IASB) has approved thirty-five of the forty-one amendments proposed as part of its Improvements project. The proposed amendment to International Accounting Standard (IAS) 1\(^6\) did not form part of the approved amendments. The IASB staff plans to reassess the scope and process for future improvements before taking the six excluded amendments to the IASB for re-deliberation. Absent unforeseen circumstances, the IASB staff expects to consider the proposed amendment to IAS 1 in the 3\(^{rd}\) quarter of 2008. The IASB will decide at that time whether to proceed with the proposal.

The IAASB debated the proposed guidance and asked the Task Force to reconsider the wording based on the following principles:

\(^4\) ISA 450 (Revised and Redrafted), “Evaluation of Misstatements Identified during the Audit.”
\(^5\) IAPS 1014, “Reporting by Auditors on Compliance with International Financial Reporting Standards.”
\(^6\) IAS 1, “Presentation of Financial Statements.”
• When any differences between the applicable financial reporting framework and the other framework do not affect the entity’s financial statements, no action is necessary. Thus, for most European Union (EU) entities today (that are now able to refer to the financial statements being prepared in accordance with both IFRS as adopted by the EU and, if they so wish, IFRS as issued by the IASB), there would be no implications for the auditor’s report.

• When there are differences that affect the entity’s financial statements, the focus should be on whether there is sufficient transparency regarding the differences to mitigate the risk that users could misunderstand the basis on which the financial statements are prepared. Quantification of the differences is not necessary.

• If the financial statements include disclosures about the differences, there would be sufficient transparency and no reference is necessary in the auditor’s report unless the auditor concludes, in the particular circumstances of the engagement, that it is necessary to draw users’ attention to the note in an Emphasis of Matter paragraph (as might be the case if, for example, the differences could have a fundamental effect on the financial information).

The Task Force was also asked to give further consideration to whether there is a point when the potential for misunderstanding is so significant that a modified opinion might be required. For example, this might be the case if the effect on the entity’s financial statements could be so significant that the description of the applicable financial reporting framework without further explanation could lead to a fundamental misunderstanding of the basis on which the financial statements are prepared. Some IAASB members viewed this as a consideration of whether the potential for misunderstanding could affect fair presentation.

IAASB COMMENTS ON ISA 700 (REDAFTED) AS PRESENTED

Ms. Hillier lead a review of proposed ISA 700 (Redrafted). In addition to the matter referred to above, and editorial changes, the IAASB considered and agreed the following:

• The need for a definition of “unmodified opinion” was questioned because it repeats the requirement for the auditor to express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework (paragraph 16). However, it was agreed to retain the definition in order for it to be included in the Glossary of Terms as the Glossary is important for translation purposes.

• The definition of “unmodified opinion” and a few requirements contained the following wording “… financial statements prepared, in all material respects, in accordance with the applicable financial reporting framework including, in the case of a fair presentation framework, that the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the applicable financial reporting framework.” It was noted that application material in ISA 200 (Revised and Redrafted) explains that the wording of the opinion differs depending on whether the financial statements are prepared in accordance with a fair presentation

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7 Proposed ISA 700 (Redrafted), “Forming an Opinion and Reporting on Financial Statements.”
8 ISA 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”
or a compliance framework. Therefore, it was agreed that the text should be aligned with the overall objectives of the auditor and the reference to a fair presentation framework deleted. To avoid any confusion, the IAASB also agreed to add footnotes to the relevant paragraphs that cross refer to the requirements in ISA 700 (Redrafted) that establish the wording of the opinion.

- It was noted that the requirement for the auditor to form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework (paragraph 10) repeated the overall objective of the auditor. The IAASB discussed moving this reference to the objectives section, but concluded that a requirement to form the opinion on the financial statements was needed in ISA 700 (Redrafted). It was agreed, however, that the reference to “in accordance with the overall objectives of the auditor” was unnecessary and should be deleted.

- It was noted that the proposed inclusion of the words “in the auditor’s judgment” in the following sentence is redundant as the auditor’s conclusion is based his or her judgment: “… if in extremely rare circumstances the auditor concludes that, in the auditor’s judgment, such financial statements are misleading …” (paragraph 19). It was agreed that these words should be deleted.

- Referring to paragraph 38, which mandated the inclusion of an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor’s report in specified circumstances, it was noted that similar requirements appear in ISA 706 (Revised and Redrafted). It was agreed that the requirement and related guidance are more appropriately dealt with in ISA 706 (Revised and Redrafted) and, therefore, should be deleted from ISA 700 (Redrafted).

- Concern was expressed about the clarity of the requirement to use a separate section of the audit report to address reporting responsibilities that are in addition to the auditor’s responsibility to express an opinion on the financial statements (paragraph 39). It was agreed that the requirement should be clarified by referring to other reporting responsibilities that are in addition to the auditor’s responsibility under the ISAs to report on the financial statements.

- Concern was expressed that the proposed amendment to the requirement relating to the date of the auditor’s report (paragraph 42(b)), may affect the clarity of the requirement. It was noted that it is not clear how the fact that “those with the recognized authority have taken responsibility for those financial statements” will be evidenced. It was agreed that the original text should be reinstated, i.e., “those with the recognized authority have asserted that they have taken responsibility for those financial statement.”

- It was agreed that the requirements and guidance on auditors’ reports prescribed by law or regulation (paragraphs 46) should precede the requirements and guidance on auditors’ reports for audits conducted in accordance with both auditing standards of a specific jurisdiction and the ISAs (paragraphs 44-45). In addition, it was agreed that the requirement relating to auditors’ reports prescribed by law or regulation should be amended to clarify that it is the law or regulation of the specific jurisdiction (paragraph 46).

• Concern was expressed that the text of the essential guidance (paragraph 47) and the requirement (paragraph 48) relating to supplementary information presented with the financial statements may be inconsistent. It was agreed that the section should be restructured, the essential guidance rewritten as a requirement, and the text amended as appropriate.

• The Task Force was asked to reconsider the guidance from IAPS 1014 in ISA 700 (Redrafted) (paragraph A34) to ensure that it remains consistent with the IAASB’s final position on the reporting implications of a framework described by reference to another applicable financial reporting framework. The Task Force was also asked to consider whether the guidance should be limited to fair presentation frameworks.

• It was noted that a respondent to ED-ISA 700 suggested that the ISA should include an illustrative example of an auditor’s report on consolidated financial statements. The IAASB agreed that such illustrative example would be useful.

WAY FORWARD

The IAASB asked the Task Force to present a revised draft of the proposed ISA for approval at the September 2008 IAASB meeting. In particular, the Task Force was asked to give further consideration to the comments on the paragraphs relating to financial reporting frameworks described by reference to another established financial reporting framework. The September discussion will primarily focus on the proposed amendments to this guidance.


Ms. Smith introduced the topics, noting that the SMP Committee had commented that overall it was highly satisfied with the proposed revised drafts of the ISAs. A preliminary analysis of significant comments was discussed at the March 2008 IAASB CAG meeting.

ISA 705 (REVISED AND REDRAFTEP), “MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR’S REPORT”

Ms. Smith noted that the comments received on exposure of proposed ISA 705 (Revised and Redrafted) (ED-ISA 705) reflected general support for the proposed ISA. She led the IAASB through a review of the proposed revised draft of the ISA with reference to the issues noted in the IAASB’s agenda material.

Except as noted in the following, the IAASB agreed with the recommendations of the Task Force as set out in the IAASB’s agenda material.

Definition of Pervasive

Ms. Smith noted that the Task Force agreed with the views of respondents that the definition of the term “pervasive” could be improved. The IAASB agreed that the definition should first discuss the meaning of the term in the context of misstatements. It should also be clarified to discuss the

10 ISA 705 (Revised and Redrafted), “Modifications to the Opinion in the Independent Auditor’s Report.”
meaning of pervasive in terms of the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. The phrase “in relation to disclosures” was added to align the revised ISA more closely with the close-off document as it related to pervasive effects that are fundamental to users’ understanding of the financial statements. Ms. Smith noted that the IAASB CAG had supported the reference to disclosures being fundamental to users’ understanding in its discussions of the ISA.

Other Matters

An IAASB CAG Representative expressed concern that the requirement for auditors to include in the auditor’s report disclosures that were omitted by management may be problematic in practice. The IAASB supported the Task Force’s view that this matter went beyond the application of the clarity conventions to the close-off document and concluded the requirement should be retained.

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

- To delete reference to the fact that the ISA can be adapted to apply to modifications of opinion involving less than a complete sets of financial statements, since proposed ISA 805 (Revised and Redrafted) provides a cross-reference to ISA 705 (Revised and Redrafted).
- To delete reference to the fact that the ISA does not apply to modifications of opinion involving summary financial statements, since such modifications are addressed in proposed ISA 810 (Revised and Redrafted).
- The term “modified opinion” should be defined to contrast it with the term “unmodified opinion” referred to in proposed ISA 700 (Redrafted).
- The phrase “having obtained sufficient appropriate audit evidence” should be added to the requirement for the auditor to express a qualified opinion when misstatements are material and not pervasive to the financial statements, to contrast it with a qualified opinion involving a scope limitation where the auditor is unable to obtain sufficient appropriate audit evidence.
- To re-locate application guidance relating to multiple uncertainties to the requirements to clarify that when multiple uncertainties exist, even though they are expected to be rare, it may be necessary for the auditor to disclaim an opinion on the financial statements.
- To clarify the circumstances when it would be inappropriate for the auditor to issue a disclaimer or adverse opinion on the financial statements as a whole and an unmodified opinion on a single financial statement or an element of those financial statements.

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11 Proposed ISA 805 (Revised and Redrafted), “Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.”

ISA 706 (REVISED AND REDRAFTED), “EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR’S REPORT”

Ms. Smith noted that the comments received on exposure of proposed ISA 706 (Revised and Redrafted) reflected general support for the proposed ISA. She led the IAASB through a review of the proposed revised draft of the ISA with reference to issues noted in the IAASB’s agenda material.

Except as noted in the following, the IAASB agreed with the recommendations of the Task Force as set out in the IAASB’s agenda material.

Other Matter Paragraphs

The IAASB concluded that the phrase “if the auditor considers it necessary” should be used in the requirements for the auditor to include an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor’s report. Further, the IAASB agreed that two appendices should be added to the ISA to reference the specific ISAs that contain requirements for the auditor to include these paragraphs, and that the Scope section should note that, when these circumstances exist, ISA 706 (Revised and Redrafted) specifies the form and placement of the paragraphs to be included.

Additionally, the IAASB agreed that the requirement to include an Other Matter paragraph in the auditor’s report in prescribed circumstances, including its presentation and position, should be dealt with solely in ISA 706 (Revised and Redrafted). As such, the material in paragraph 34 of ED-ISA 700 should be deleted in proposed ISA 700 (Redrafted), and subsumed in the requirement in paragraph 8 of ISA 706 (Revised and Redrafted). This results in conforming changes throughout the document referencing an Other Matter as any matter that is relevant to users’ understanding of the audit, the auditor’s responsibilities, or the auditor’s report. Additional application and other explanatory material relating to Other Matter paragraphs dealing with restrictions on distribution or use, or reporting on more than one set of financial statements should also be included in ISA 706 (Revised and Redrafted).

Other Matters

In addition to editorial changes, the IAASB agreed the following:
- The reference to proposed ISA 805 (Revised and Redrafted) and ISA 810 (Revised and Redrafted) should be deleted.
- The objective paragraph should be revised to incorporate the concept of the auditor’s judgment with regard to the inclusion of an Emphasis of Matter or Other Matter paragraph in the auditor’s report.

APPROVAL

After agreeing all necessary changes to the revised drafts, the IAASB members present or represented by proxies unanimously approved ISA 705 (Revised and Redrafted) and ISA 706 (Revised and Redrafted). The IAASB assessed whether there is a need to re-expose the ISAs. The IAASB agreed that the changes made to the exposure drafts were in response to the comments received from respondents, and accordingly, re-exposure is not necessary. Mr. Sylph advised the IAASB that it had adhered to its stated due process in finalizing the ISAs.
The ISAs are effective for audits of financial statements for periods beginning on or after December 15, 2009. The issue of the final ISAs is subject to confirmation from the PIOB that due process has been followed.

4. Using the Work of Internal Auditors

Mr. Crawford introduced the topic, summarizing the March 2008 IAASB discussion of significant comments received on the exposure draft of the proposed ISA. He then led a review of the proposed revised draft of ISA 610 (Redrafted).  

Except as noted in the following, the IAASB agreed with the recommendations of the Task Force as set out in the IAASB’s agenda material.

LINKAGE BETWEEN ISA 315 (REDRAFTED) AND PROPOSED ISA 610 (REDRAFTED)

In response to comments on exposure, the Task Force has proposed a conforming amendment to ISA 315 (Redrafted) to set up an appropriate linkage between ISA 610 (Redrafted) and ISA 315 (Redrafted). The proposed amendment to ISA 315 (Redrafted) includes a requirement that, in the event that the entity has an internal audit function, the auditor obtain an understanding of the following in order to determine whether the internal audit function is likely to be relevant to the audit:

(a) The nature of the internal audit function’s responsibilities and how it fits in the entity’s organizational structure; and

(b) The nature and scope of the specific work performed, or to be performed, by the internal auditors.

An IAASB member felt that the reference to “specific work performed” in the second part of this proposed requirement implies a greater work effort than is necessary for purposes of determining whether the internal audit function is likely to be relevant to the audit. The IAASB agreed that within the context of ISA 315 (Redrafted), it would be more appropriate for the auditor to focus on obtaining a general understanding of the activities performed, or to be performed, by the internal audit function in order to inform the auditor’s risk assessment and decision as to whether it is likely to be appropriate to use the work of the internal audit function.

Related to this point, the IAASB agreed that it would be helpful if the proposed guidance in ISA 315 (Redrafted) explained that the external auditor’s consideration of the activities performed, or to be performed by, the internal audit function may include review of the internal audit function’s audit plan for the period, if any, and discussion of that plan with the internal auditors. However, details of further matters to be considered by the auditor contained in the extant ISA 610 should be retained in ISA 610 (Redrafted) rather than in ISA 315 (Redrafted), since they are relevant to the specific use of the work of the internal auditors.

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13  Proposed ISA 610 (Redrafted), “Using the Work of Internal Auditors.”

14  ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment.”
The IAASB also agreed that further explanation was needed in ISA 315 (Redrafted) for the phrase “likely to be relevant to the audit”, which links ISA 315 (Redrafted) and the proposed ISA 610 (Redrafted), to ensure an appropriate understanding of the term and therefore when ISA 610 (Redrafted) would apply. After due deliberation, the IAASB agreed that the explanatory guidance for this term in ISA 315 (Redrafted) should reflect the principle that the internal audit function is likely to be relevant to the audit if the nature of the internal audit function’s responsibilities and activities are related to the entity’s financial reporting, and the auditor expects to use the work of the internal auditors to modify the nature or timing, or reduce the extent, of audit procedures to be performed. To ensure that the link between the two ISAs is also clear in ISA 610 (Redrafted), the IAASB agreed to the inclusion of explanatory guidance to the scope paragraph in ISA 610 (Redrafted) to explain the meaning of the term “likely to be relevant to the audit” as described in ISA 315 (Redrafted).

In relation to the proposed conforming amendments to ISA 315 (Redrafted), the IAASB agreed to delete the guidance suggesting that in some cases, even if the activities of the internal audit function are relevant to the audit, the external auditor may decide that the work of the internal auditors will have no effect on the nature, timing and extent of audit procedures to be performed. This deletion is necessary because it would be inconsistent to suggest that the auditor may have determined the internal audit function is likely to be relevant to the audit, and at the same time indicate that the auditor may ignore it.

Nevertheless, the IAASB concluded that some guidance is necessary to make clear that the auditor is not obligated to use the work of internal auditors, particularly if the findings from performing the procedures under ISA 610 (Redrafted) indicate that it would not be appropriate to do so. Accordingly, the IAASB agreed to introduce guidance in relation to the scope of ISA 610 (Redrafted) that explains that procedures performed in accordance with the ISA may cause the external auditor to re-evaluate the external auditor’s assessment of the risks of material misstatement. Consequently, this may affect the external auditor’s determination of the relevance of the internal audit function to the audit. Similarly, the external auditor may decide not to use the work of internal auditors to affect the nature, timing or extent of the external auditor’s procedures. Under these circumstances, further application of the ISA may be unnecessary.

As a result of further editorial changes to the proposed changes to ISA 315 (Redrafted), the IAASB agreed consequential amendments to the scope and objectives paragraphs of proposed ISA 610 (Redrafted).

OTHER MATTERS

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

- To better align with the requirements and more appropriately reflect the linkage with ISA 315 (Redrafted), the objectives in ISA 610 (Redrafted) should be reworded to state that they are to determine, where the entity has an internal audit function that the external auditor has determined is likely to be relevant to the audit:
  
  (a) Whether, and to what extent, to use specific work of internal auditors; and
  
  (b) If so, whether such work is adequate for the purposes of the audit.
• The definition of the term “internal audit function” should be aligned with the definition of “internal auditing” in the extant Glossary of Terms.

• The guidance stating that internal auditors may belong to an internal audit department or equivalent function should be incorporated into the definition of the term “internal auditors.”

• To support the stated objectives, there should be a requirement for the external auditor to determine whether the work of the internal auditors is likely to be adequate for purposes of the audit; and if so, the planned effect of the work of the internal auditors on the nature, timing and extent of the external auditor’s procedures. In addition, there should be a further requirement for the auditor to consider the nature and scope of the specific work performed, or to be performed, by the internal auditors.

APPROVAL

After agreeing all necessary changes to the draft, the IAASB members present or represented by proxies unanimously approved ISA 610 (Redrafted). The IAASB assessed whether there is a need to re-expose the ISA. The IAASB agreed that the changes made to the exposure draft were in response to the comments received from respondents, and accordingly, re-exposure is not necessary. Mr. Sylph advised the IAASB that it had adhered to its stated due process in finalizing the ISA.

The ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009. The issue of the final ISA is subject to confirmation from the PIOB that due process has been followed.

5. Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with ISAs

Mr. Kellas introduced the proposed revised draft of ISA 200 (Revised and Redrafted)15. He explained that it reflects the Task Force’s recommendations in response to the comments and suggestions received at the March 2008 IAASB and IAASB CAG meetings. He noted that the Task Force received comments from the SMP Committee and some IAASB members in advance of the meeting.

Mr. Kellas led a review of the proposed ISA, and the proposed conforming amendments to the “Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services” (“Preface”) and other final clarified ISAs.

Except as noted in the following, the IAASB agreed with the recommendations of the Task Force as set out in the IAASB’s agenda material.

RELATIONSHIP BETWEEN THE OVERALL OBJECTIVES AND THE FORM OF THE AUDITOR’S OPINION

Consistent with how the ISA describes the purpose of an audit, the proposed overall objective of the auditor to obtain reasonable assurance refers to the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. The IAASB noted that, while the phrase “prepared, in all

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15 Proposed ISA 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”
material respects” has been in the ISAs for many years, it is not generally used in the reporting ISAs; they refer to an opinion on whether the financial statements “are presented fairly, in all material respects, or give a true and fair value.” Mr. Kellas noted that a similar comment was received from the IAASB CAG. Further, the IAASB noted that the ISAs use the phrase “prepared and presented” in describing management’s responsibilities for the financial statements. A few IAASB members indicated that some practitioners in jurisdictions where the applicable financial reporting framework is a fair presentation framework struggle with this inconsistency in wording and are unclear whether an opinion on the preparation of the financial statement is, or is not, intended to include presentation of the financial statements.

The IAASB agreed to retain the phrase “prepared, in all material respects” in ISA 200 (Revised and Redrafted) in relation to the purpose of an audit and the overall objectives of the auditor. Even a minor change to this long-standing phrase is likely to raise questions about whether there is an intention to make a substantive change, which there is not. Nevertheless, the IAASB concluded that these concerns could be resolved by clarifying the relationship between the phrase “prepared, in all material respects” and the form of the opinion expressed by the auditor. Accordingly, the IAASB agreed new guidance paragraphs explaining that:

- The opinion expressed by the auditor is on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The form of the auditor’s opinion, however, will depend upon the applicable financial reporting framework and any applicable laws or regulations;
- Most financial reporting frameworks include requirements relating to the presentation of the financial statements; for such frameworks, preparation of the financial statements in accordance with the applicable financial reporting framework includes presentation;
- Where the financial reporting framework is a fair presentation framework, as is generally the case for general purpose financial statements, the opinion required by the ISAs is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view. Where the financial reporting framework is a compliance framework, the opinion required is on whether the financial statements are prepared, in all material respects, in accordance with the framework; and
- Unless specifically stated otherwise, references in the ISAs to the auditor’s opinion cover both forms of opinion.

PROFESSIONAL JUDGMENT

The Task Force’s proposed guidance that explains how professional judgment can be evaluated included the following statement: “…and [the judgment] is appropriate in the light of, and consistent with, the facts and circumstances that were known at the time the judgment was made.” While agreeing that the ISA should not imply in any sense the use of hindsight to evaluate judgments made, the IAASB was concerned that the proposed wording might suggest that reconsideration by the auditor of initial judgments, to take account of information obtained subsequently during the audit, is not necessary.

The IAASB concluded that the responsibilities of the auditor extend to the date of the auditor’s report and, accordingly, the guidance in ISA 200 (Revised and Redrafted) on the exercise of professional
judgment in planning and performing an audit should make this clear. The IAASB therefore agreed to clarify that professional judgment can be evaluated on the basis of whether it is appropriate in light of, and consistent with the facts and circumstances that were know to the auditor up to the date of the auditor’s report.

REFERENCE TO ETHICS

The IAASB revisited whether it is, or is not, appropriate or necessary to include reference to independence in the requirement to comply with relevant ethical requirements. The IAASB concluded that auditor independence is of sufficient importance to merit emphasis in the requirement as well as the related application material of ISA 200 (Revised and Redrafted), consistent with the position in the exposure draft.

The IAASB was encouraged to consider adding a qualifier (such as ‘where applicable’) to the statement in the ISA that “relevant ethical requirements ordinarily comprise Parts A and B of the International Federation of Accountants’ Code of Ethics for Professional Accountants (“IFAC Code”) related to an audit of financial statements together with national requirements that are more restrictive.” It was noted that some jurisdictions that wish to adopt the ISAs may find the current wording problematic.

The IAASB concluded that the statement, as drafted in the proposed ISA, should not be amended. It articulates appropriately the view of the IAASB that the requirements of the IFAC Code represent what should be established in support of an audit conducted in accordance with ISAs, while allowing some limited flexibility to accommodate differences in jurisdictions.

REQUIREMENT TO READ AND UNDERSTAND ENTIRE TEXT OF AN ISA

Some IAASB members, and the SMP Committee, expressed concern about the Task Force’s proposal to require that the auditor “shall read and understand the entire text of an ISA…” They were of the view that that wording suggests the need to read all the ISAs as part of every audit, and that it does not give recognition to other means by which the content of the ISAs may be communicated (e.g., through methodology).

The IAASB agreed that it was necessary that ISA 200 (Revised and Redrafted) should make clear the authority of the application guidance and other explanatory material in the ISAs to dispel any notion that such material is entirely optional. It accepted, however, that the proposed wording was not ideal and agreed the following alternative: “The auditor shall have an understanding of the entire text of an ISA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.” This emphasizes the essential point, while not suggesting that the auditor needs to read the ISAs in every audit instance, nor prescribing how the understanding of the entire text is to be obtained.

OTHER CHANGES

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

- The definition of “auditor” should explain that the term ‘auditor’ is used to refer the persons or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. These changes align better the definition with the
use of the term in the ISAs. In addition, the definition should refer readers to the public sector equivalents, where relevant, for the terms ‘engagement partner’ and ‘firm’.

- To amend the proposed second overall objective of the auditor to state that that objective is to report on the financial statements, *and communicate* as required by the ISAs. This improves the alignment of the overall objective with the requirements of the ISAs.

- To clarify that the word ‘equally’, in the statement that the ability to achieve an individual objective is equally subject to the inherent limitations of an audit, refers to the overall objectives of the auditor.

- To remove the reference to ‘sampling’ in the material explaining that the ISAs require the auditor to use testing and other means of examining populations in a manner that provides a reasonable basis for the auditor to draw conclusions about the population. This avoids suggesting that sampling is required in all cases.

- To retain only ISA 610 (Redrafted) as an example of an ISA that may not be relevant in the circumstances of the engagement, as one example is sufficient.

**APPROVAL**

After agreeing all necessary changes to the draft, the IAASB members present or represented by proxies unanimously approved ISA 200 (Revised and Redrafted) and the proposed conforming amendments to the Preface and other final clarified ISAs. The IAASB assessed whether there is a need to re-expose the ISA. The IAASB agreed that the changes made to the exposure draft were in response to the comments received from respondents, and do not introduce new principles or represent other changes of substance compared with the ED. Accordingly, the IAASB determined that re-exposure is not necessary. Mr. Sylph advised the IAASB that it had adhered to its stated due process in finalizing the ISA.

The ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009. The issue of the final ISA is subject to confirmation from the PIOB that due process has been followed.

6. **Audit Sampling**

Mr. Fogarty summarized the March 2008 IAASB discussion of significant comments received on the exposure draft of proposed ISA 530 (Revised and Redrafted)\(^\text{16}\) (ED-ISA 530). He indicated that in finalizing its review of the comments received on ED-ISA 530, the Task Force had noted a few comments of a very technical nature that were outside the scope of the project to redraft the extant ISA. He also acknowledged receipt of some comments from the SMP Committee, noting that these were of greater relevance to the proposed ISA 500 (Redrafted)\(^\text{17}\).

Mr. Fogarty then led a review of the proposed revised draft of ISA 530 (Redrafted). Except as noted in the following, the IAASB agreed with the recommendations of the Task Force as set out in the IAASB’s agenda material.

\(^\text{16}\) Proposed ISA 530 (Redrafted), “Audit Sampling.”

\(^\text{17}\) Proposed ISA 500 (Redrafted), “Audit Evidence.”
In addition to editorial changes, the IAASB agreed the following:

- The scope paragraph should clarify that the ISA applies when the auditor has decided to use audit sampling in performing audit procedures.

- The reference to “audit sampling being used to provide an appropriate basis for the auditor to draw conclusions about the population” should be changed throughout the ISA to a reference to “audit sampling being used to provide a reasonable basis for the auditor to draw conclusions about the population,” to be consistent with terminology used in other ISAs.

- The proposed requirement that the auditor “perform audit procedures on each item selected appropriate to the particular purpose of the audit procedure” should be clarified to mean a requirement that the auditor “perform audit procedures, appropriate to the purpose, on each item selected.”

- In relation to the evaluation of the results of audit sampling, the proposed rationale in the requirement that the auditor evaluate the sample results “to determine whether, in the case of tests of controls, the rate of deviation is less than the tolerable rate of deviation, and in the case of tests of details, the projected misstatement is less than tolerable misstatement,” should be deleted because, as explained in the application material, there may be more to this evaluation than a straightforward mathematical comparison between the rate of deviation/projected misstatements and the tolerable rate of deviation/tolerable misstatement.

- The reference to “risk assessment and other procedures” in the proposed requirement that the auditor evaluate whether, in light of the risk assessment and other procedures, the use of audit sampling has provided a reasonable basis for conclusions about the population tested, should be deleted as it makes the requirement broader in scope than the objective.

- The reference to reliance on audit evidence that is persuasive rather than conclusive as an example of non-sampling risk should be deleted as it is confusing.

- In relation to the application material on the nature and cause of deviations and misstatements, the proposed guidance to the effect that the smaller the size of the sample in which the misstatement or deviation occurs, the more persuasive the evidence the auditor will need to support the conclusion that the misstatement or deviation identified is an anomaly, should be deleted as it could be misinterpreted to mean that the larger the size of the sample, the easier it is for the auditor to explain away the anomaly.

**APPROVAL**

After agreeing all necessary changes to the draft, the IAASB members present or represented by proxies unanimously approved ISA 530 (Redrafted). The IAASB assessed whether there is a need to re-expose the ISA. The IAASB agreed that the changes made to the exposure draft were in response to the comments received from respondents, and accordingly, re-exposure is not necessary. Mr. Sylph advised the IAASB that it had adhered to its stated due process in finalizing the ISA.

The ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009. The issue of the final ISA is subject to confirmation from the PIOB that due process has been followed.
7. Audits of Special Purpose Financial Statements and Specific Elements Accounts or Items of a Financial Statement

Ms. Smith introduced the discussion of significant comments received on the exposure draft of proposed ISA 800 (Revised and Redrafted)\(^\text{18}\) (ED-ISA 800). She indicated that respondents were generally supportive of ED-ISA 800 and in agreement with the application of the clarity conventions. The SMP had indicated that there were no outstanding SME/SMP issues. A preliminary analysis of significant comments was discussed at the March 2008 IAASB CAG meeting.

Ms. Smith highlighted the matters addressed in the IAASB’s agenda material, including the recommendation to limit the scope of ISA 700 (Redrafted) to complete sets of general purpose financial statements, and the scope of ISA 800 (Revised and Redrafted)\(^\text{19}\) to special considerations in audits of complete sets of financial statements prepared in accordance with special purpose frameworks. Considerations relating to audits of single financial statements and of specific elements, accounts or items of a financial statement are addressed in a new ISA; that is, ISA 805 (Revised and Redrafted).

Ms. Smith led a review of the proposed revised drafts of the ISAs. In addition to editorial changes, the IAASB considered and agreed the following:

ISA 800 (REVISED AND REDRAFTED), “SPECIAL CONSIDERATIONS—AUDITS OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS”

- The Scope section should clarify that the ISAs in the 100-700 series apply to an audit of financial statements, and that ISA 800 (Revised and Redrafted) deals with special considerations in the application of those ISAs to an audit of financial statements prepared in accordance with a special purpose framework.
- The descriptions of fair presentation framework and compliance framework in the Definition section should be deleted as they are included in ISA 200 (Revised and Redrafted).
- The requirement for the auditor to obtain an understanding of any significant interpretations of a contract that management made in the preparation of the financial statements (paragraph 9) should be moved to the Considerations when Planning and Performing the Audit section.
- The placement in the auditor’s report of the description of the purpose for which the financial statements are prepared and, if necessary, the intended users should be flexible. The requirement in paragraph 13(a) and the illustrative auditors’ reports should be amended accordingly.
- The ISA should not prescribe the heading for the Emphasis of Matter paragraph alerting users of the auditor’s report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose (paragraph 14). It should require the auditor to include the paragraph under an appropriate heading.

\(^{18}\) Proposed ISA 800 (Revised and Redrafted), “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.”

\(^{19}\) ISA 800 (Revised and Redrafted), “Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks.”
• Project grants should be added to the examples of contracts in paragraph A1.
• The special consideration relating to materiality in paragraph A11 should be reconsidered as the proposed amendment has changed the intent of the original paragraph.
• The guidance on restriction of use or distribution (paragraph A15) should clarify that, in addition to alerting users of the auditor’s report that the financial statements are prepared in accordance with a special purpose framework, the auditor may consider it appropriate to indicate that the auditor’s report is intended solely for the intended users. Depending on law or regulation, the distribution of the auditor’s report may also be restricted.
• An illustrative auditor’s report on a complete set of financial statements prepared in accordance with a special purpose framework, which is a fair presentation framework, should be added to the appendix.
• One of the illustrative auditors’ reports in the appendix should include an Other Matter paragraph dealing with the fact that the auditor has reported on more than one set of financial statements prepared by the entity.

ISA 805 (REVISED AND REDRAFTED), “SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT”
• The Scope section should clarify that the ISAs in the 100-700 series apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. ISA 805 (Revised and Redrafted) deals with special considerations in the application of those ISAs to an audit of a single financial statement or of a specific element, account or item of a financial statement. If prepared in accordance with a special purpose framework, ISA 800 (Revised and Redrafted) also applies to the audit.
• In the case of audits of single financial statements or of specific elements, accounts or items of a financial statement prepared as at a specific date, that do not form part of a complete set of financial statements on which an audit is being performed in accordance with ISAs, the ISA is effective for engagements to report on such information as at a date on or after December 14, 2010.
• Paragraph 9 should be amended to clearly indicate the special considerations in determining the acceptability of the financial reporting framework applied by the entity in the preparation of the financial statements. As presented, it seemed to duplicate the requirements in proposed ISA 210 (Redrafted).20
• The essential guidance and requirement relating to reporting on the entity’s complete set of financial statements and on a single financial statement or on a specific element of those financial statements (paragraph 14) should be redrafted so that it does not include the word “should” and is focused on the requirement.
• The requirement relating to modified opinions in the auditor’s report on the entity’s complete set of financial statements (paragraph 16) should refer to “complete set of financial statements as a
whole” as opposed to “entire financial statements.” In addition, it should clarify that, if the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the entity’s complete set of financial statements as a whole, the auditor is not permitted to include in the same auditor’s report an unmodified opinion with respect to the same financial reporting framework on a single financial statement or on a specific element of those financial statements. This is because such unmodified opinion on the single financial statement or on the specific element would contradict the adverse opinion or disclaimer of opinion on the entity’s complete set of financial statements as a whole.

- The guidance on form of opinion (paragraph A11) should be redrafted to explain that the auditor’s decision as to the expected form of opinion is a matter of professional judgment. It may be affected by whether use of the phrases “presents fairly, in all material respects,” or “gives a true and fair view” in the auditor’s opinion on a single financial statement or on a specific element of a financial statement prepared in accordance with a fair presentation framework is generally accepted in the particular jurisdiction.

- The guidance that explains that the materiality determined for a single financial statement or for a specific element of a financial statement may be lower than the materiality determined for the entity’s complete set of financial statements and that this will affect the nature, timing and extent of the audit procedures should be expanded to indicate that it will also affect the evaluation of uncorrected misstatements.

WAY FORWARD

The IAASB asked the Task Force to consider its comments and present a revised draft of the proposed ISA for approval at the September 2008 IAASB meeting. It was agreed that the September discussion should focus on the changes based on the IAASB’s comments.

8. Engagements to Report on Summary Financial Statements

Ms. Smith introduced the discussion of significant comments received on the exposure draft of proposed ISA 805 (Revised and Redrafted)21 (ED-ISA 805) (now ISA 810). She indicated that respondents were generally supportive of ED-ISA 805 and in agreement with the application of the clarity conventions. The SMP Committee did not raise any significant matters relating to the audits of smaller entities. A preliminary analysis of the significant comments was discussed at the March 2008 IAASB CAG meeting.

Ms. Smith highlighted the matters addressed in the IAASB’s agenda material, and led a review of the proposed revised draft of the ISA.

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

- It was noted that the objectives of the auditor could be simplified by deleting the reference to “are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria” (paragraph 3(a)). It was agreed that the second objective should read: “The objectives of the auditor are to … (b) form an opinion on the

summary financial statements based on an evaluation of the conclusions drawn from the evidence obtained …”

• Concern was expressed about the proposed deletion of the reference to “any other procedures that the auditor may consider necessary in the circumstances” in paragraph 9 of the ISA. It was noted that the opinion is that of the auditor and that the ISA could not limit the procedures that the auditor performs to obtain evidence on which to base that opinion. It was agreed that the reference should be reinstated, perhaps in paragraph 8.

• The Task Force recommended that the ISA provide for the following phrases to be used in the auditor’s unmodified opinion on summary financial statements: (a) The summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with [the applied criteria]; or (b) The summary financial statements are a fair summary of the audited financial statements, in accordance with [the applied criteria]. A few IAASB members expressed concern. They were of the view that the phrases were not equivalent. The majority of IAASB members, however, agreed that, given the responses to ED-ISA 805 and the fact that the views of the IAASB members are divided, the ISA should allow for flexibility in this regard. It was therefore agreed that:
  o Paragraph 9 should be amended to require that the auditor’s opinion use one of the recommended phrases when the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, and unless otherwise required by law or regulation.
  o New application material should explain that the auditor’s decision as to which of the phrases to use may be affected by generally accepted practice in the particular jurisdiction.

• It was agreed that, in line with a proposed amendment to ISA 700 (Redrafted), paragraph 16(a) should be amended to refer to the fact that those with the recognized authority have asserted that they have taken responsibility for the summary financial statements.

• It was agreed that references to other ISAs should be revised, as the ISAs do not apply to an engagement to report on summary financial statements. To achieve this in relation to the reference to ISA 720 (Redrafted), a new requirement should be added and the application material (paragraph A19) amended accordingly. Furthermore, the requirement and guidance should deal with other information included in a document containing the summary financial statements, as opposed to unaudited supplementary information, i.e., to parallel ISA 720 (Redrafted).

• It was noted that paragraph A10, which provided guidance on timing of work and events subsequent to the date of the auditor’s report on the audited financial statements, repeated the text of the related requirement (paragraph 13). The IAASB asked the Task Force to consider whether to redraft or delete the paragraph.

WAY FORWARD

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ISA 720 (Redrafted), “The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements.”
The IAASB asked the Task Force to consider its comments and present a revised draft of the proposed ISA for approval at the September 2008 IAASB meeting. It was agreed that the September discussion should focus on the changes based on the IAASB’s comments.

9. Audit Evidence

Mr. Fogarty introduced the proposed revised draft of ISA 500 (Redrafted). He noted that the response from IOSCO on ED-ISA 500, which was received after the agenda material for the previous meeting had been prepared, has been considered by the Task Force in preparing the materials for this meeting. He also noted that comments have been received from the SMP Committee.

INFORMATION PRODUCED BY THE ENTITY

The IAASB discussed the intended scope of the requirement to evaluate the reliability of information produced by the entity. In particular, the IAASB considered whether this requirement applies to all underlying accounting records or is aimed only at, for example, supporting schedules such as depreciation schedules; how it relates to methodologies that focus on assertions; and whether ordinary audit procedures applied to such information would fulfill this requirement or whether separate procedures focusing specifically on reliability would be necessary in all cases.

The IAASB agreed that the wording of the requirement (which makes the nature and extent of the required evaluation contingent on the purposes for which the auditor uses the information) and the related application material (which notes, for example, that the procedures required by the ISA can be performed concurrently with other audit procedures) satisfactorily address the matters discussed, and that further elaboration in the ISA on this issue is unnecessary.

OTHER MATTERS

The IAASB agreed to a number of editorial changes.

APPROVAL

The draft discussed at the meeting included, in italicized text, conforming amendments in relation to experts and external confirmations, as proposed in exposure drafts of proposed ISA 620 (Revised and Redrafted)23 (ED-ISA 620) and ISA 505 (Revised and Redrafted)24 (ED-ISA 505). This text was included so the IAASB could see the impact on ISA 500 (Redrafted) of these conforming amendments should they be approved when ISA 620 (Revised and Redrafted) and ISA 505 (Revised and Redrafted) are finalized. The italicized text did not form part of proposed ISA 500 (Redrafted) that the IAASB was asked to approve at this meeting.

After agreeing all necessary changes to the draft, the IAASB members present or represented by proxies unanimously approved ISA 500 (Redrafted), excluding the italicized text discussed above.

23 Proposed ISA 620 (Revised and Redrafted), “Using the Work of an Auditor’s Expert.”
24 Proposed ISA 505 (Revised and Redrafted), “External Confirmations.”
The IAASB assessed whether there is a need to re-expose the ISA. The IAASB agreed that the changes made to the exposure draft were in response to the comments received from respondents, and accordingly, re-exposure is not necessary.

The issue of the final ISA is subject to:

(a) Approval of the italicized text discussed above;

(b) Advice from the Executive Director that the IAASB had adhered to its stated due process in finalizing this ISA, ISA 620 (Revised and Redrafted) and ISA 505 (Revised and Redrafted);

and

(c) Confirmation from the PIOB that due process has been followed

10. Experts

Mr. Ferlings introduced the discussion of significant comments received on ED-ISA 620. He noted that an additional comment letter (IOSCO) has been received subsequent to the preparation of the IAASB’s agenda material by the Task Force. He also noted that comments have been received from the SMP Committee.

DEFINITIONS

The IAASB discussed the importance of the definitions in determining how the requirements of this ISA, proposed ISA 220 (Redrafted), proposed ISQC 1 (Redrafted), and the IFAC Code relate to each other. The IAASB agreed the definitions should be simplified to the extent possible.

The IAASB noted the support of respondents for excluding specialists in an area of accounting or auditing from the scope of the ISA, and confirmed that this distinction should be retained. It also discussed a draft footnote proposed by the Task Force that indicated that the ISA may be of assistance in implementing quality control policies and procedures when the auditor uses the work of such a specialist. The IAASB considered that the footnote has the potential to confuse readers and, as it is not necessary, it should be deleted.

The IAASB also agreed to delete the definition of expert as it is not separately used and it can be incorporated in the definitions of “auditor’s expert” or “management’s expert.”

DETERMINING THE NEED FOR AN AUDITOR’S EXPERT

The IAASB discussed whether the ISA should continue to cover consultation with an expert as well as using an expert to perform audit procedures. It was agreed that the ISA should continue to cover consultation. It was noted that application of a “sliding scale” would mean that the nature, timing and extent of procedures in relation to such work would differ significantly from those situations when an expert was used to perform audit procedures.


26 Proposed ISQC 1 (Redrafted), “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements.”
The IAASB also discussed the distinction between consultation with an expert, and discussion with an expert that is intended only to increase the auditor’s own capacity to deal with matters within the expert’s field of expertise. The IAASB asked the Task Force to consider whether this distinction should be discussed in the application material, and noted that a key determinant may be whether the expert is informed of the facts of a particular situation or only asked for generic advice. In the latter case, discussion with the expert is likely to be educative in nature and therefore not be covered by the ISA. The Task Force was also asked to consider whether the application material should provide further guidance on the factors that the auditor may find relevant when determining whether an auditor’s expert is needed.

**DOCUMENTATION, AND WRITTEN AGREEMENT**

The IAASB noted that a few respondents had suggested introducing specific documentation requirements. The IAASB asked the Task Force to consider whether the auditor should be required to document:

(a) The auditor’s agreement with the auditor’s expert when that agreement is not in writing; or

(b) The evaluation of the adequacy of the auditor’s expert’s work (analogous to the requirement added to ISA 610 (Redrafted) regarding documentation of the auditor’s evaluation of the internal audit function).

The IAASB agreed that the other matters that respondents had suggested be included in such a requirement would already be required to be documented, if it were appropriate to do so, in accordance with ISA 230 (Redrafted).\(^{27}\) It may be appropriate, however, to include some of these matters in the application material of proposed ISA 620 (Revised and Redrafted).

With respect to the auditor’s agreement with the auditor’s expert, the IAASB asked the Task Force to consider whether the application material should:

(a) More specifically discuss the circumstances in which it is appropriate for that agreement to be in writing; and

(b) More clearly distinguish between those considerations that relate to determining whether the agreement should be in writing, and those that relate to what should be documented when the agreement is not in writing.

**MANAGEMENT’S EXPERTS**

The IAASB discussed whether the requirement dealing with management’s experts that had been included as a conforming amendment to ISA 500 (Redrafted) should instead be used as the genesis of a new ISA, in part because of the unbalancing effect it could be thought to have on ISA 500 (Redrafted). The IAASB agreed that this requirement, and its related application material, will be an important component of the complete set of clarified ISAs, and whether it is in ISA 500 (Redrafted) or a separate ISA would not affect the quality of the complete set. Further, it was agreed that in light of the clarity timetable, it would not be feasible to try to create a new ISA dealing with

\(^{27}\) ISA 230 (Redrafted), “Audit Documentation.”
management’s experts, and that ISA 500 (Redrafted) is the most appropriate place for this requirement at this time.

The IAASB also discussed whether, within ISA 500 (Redrafted), the requirement should be retained as part of the more general requirement regarding the auditor’s use of information prepared by the entity, or included as a separate requirement. It was noted that a separate requirement is likely to be better as it would allow for a clearer identification of the circumstances in which the requirement is to be applied, and a clearer differentiation from other information prepared by the entity that the auditor may use. The Task Force was asked to further consider the drafting of a separate requirement.

OTHER MATTERS

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

- It is not necessary to introduce a rebuttable presumption that an auditor’s expert will be required when a management’s expert has been used.
- The fact that an expert’s methods and assumptions may include models should be recognized in the application material, but it need not be mentioned each time methods and assumptions are mentioned.
- The discussion of taxation should make it clearer that people who are used because of their knowledge of tax law should be considered experts.
- Changes to this ISA and those to proposed ISA 220 (Redrafted) and proposed ISQC 1 (Redrafted) should be checked for consistency.

The IAASB also asked the Task Force to consider further the following:

- Whether the phrase “using the work of an expert” should remain or be changed to “using the expertise of an expert,” and whether there is a need to clarify the difference between the “work” of an expert and the expert’s “findings.”
- Whether the word “significant,” as used in relation to the auditor’s expert’s assumptions, methods and source data (paragraph 12), should be interpreted as significance to the work of the expert, or significance to the use of that work by the auditor.
- Whether the text dealing with those auditor’s experts who also have accounting or auditing expertise should be deleted or retained.
- Whether the requirements relating to agreement with the expert should include a specific reference to confidentiality of information.

WAY FORWARD

The IAASB asked the Task Force to consider its comments and present a revised draft of the proposed ISA for approval at the September 2008 IAASB meeting.

11. IAASB Strategy and Work Program

Mr. Kellas introduced the topic, noting that the strategy had been revised in response to concerns raised at the March 2008 IAASB meeting that it did not adequately explain the IAASB’s focus. A
revised draft had been circulated to the IAASB members prior to the meeting and relatively few changes were suggested.

The one matter that was outstanding at the request of an IAASB member was the consideration as to whether the proposed work program gives enough weight to conceptual issues. This member was of the view that any project to develop conceptual issues should move forward on the IAASB’s agenda. IAASB members were asked for their views on the priority of the project and any other matters. They commented as follows:

- Another IAASB member who supported developing a conceptual framework believed this would benefit the auditing profession and would assist in ensuring the ISA remain principles based. Mr. Kellas was of the view that the boundaries set in the current program allow for more recognition of conceptual issues (for example, raising the possibility that work could be done on the topic of audit evidence) without committing the IAASB to the development of a conceptual framework.

- An observer noted his strong support of the IAASB undertaking a project to develop impact assessments, noting this was consistent with the work the International Accounting Standards Board is doing.

The IAASB did not raise any additional comments on the proposed strategy and work program.

PIOB REMARKS

Dr. Thomadakis noted that there are some elements in the work program that are in unchartered territory for the IAASB, especially in the area of implementation. The IAASB is trying to draw a line in response to a number of views expressed during the consultation process which have also been heard by the PIOB. While he did not give his view on where this line should be drawn, he asked for confirmation whether this notion of new tasks was viewed similarly by the IAASB, in particular in the area of implementation and to a certain extent in the area of adoption. He also questioned whether there would be an organizational counterpart as a result of the strategy, in particular whether the IAASB views that there may be organizational changes needed in the medium term.

In response, Mr. Kellas thought that it depends on what is meant by the organizational consequences. For example, the IAASB intends to develop a process to assess the effectiveness of the IAASB’s standards, and before concluding on how to do this assessment, will obtain feedback from regulators and others. While the IAASB’s processes may or may not have an impact on some of the things the IAASB and its staff do, it is not clear whether there are further organizational impacts that the IAASB can predict without implementing the strategy. At present, he did not envisage that the implementation of the strategy would lead to a significant organizational change in terms of the way the IAASB works, the level of staff support or the conduct of the IAASB meetings. It may have implications as for the balance of how the IAASB spends its deliberation time (for example, report backs and discussions on whether or not to take decisions on certain issues may be more common).

In the case of adoption and implementation issues, it may be necessary for the IAASB to expand the group of national standard setters with whom it interacts to get further input.

Dr. Thomadakis noted the PIOB will likely question this further; in his view reading about implementation and noting the discussion about the changes to the composition of the IAASB, he believes there are a number of issues that will need to be dealt with.
He also inquired as to whether the IAASB had given a particular weight to each of the four major headings (e.g., Development of Standards, Adoption, Implementation, and Communication) and how the IAASB viewed the relative weights.

Mr. Kellas noted that the strategy document itself, and in particular the planned activities and projects in the work program (e.g., the table on pages 14-22) reflect the IAASB’s consideration of the relative priority of each of the actions to be undertaken. To this point, the table not only indicated how the IAASB intends to spend its time but the relative importance, bearing in mind that while certain projects, such as the work on fair values, are extremely important, this does not mean that the project can necessarily be done quickly. The timetable reflects both the importance and the way resources can be allocated to reflect this importance.

Ms. Esdon reminded the IAASB that the strategy and work program does acknowledge that the IAASB is open to responding to new issues, and if such new issues are deemed to be more important than the projects as currently slated, the work program can be adjusted accordingly.

**APPROVAL**

The IAASB members present or represented by proxies unanimously approved the proposed Strategy and Work Program 2009-2011. The issue of the final Strategy and Work Program is subject to confirmation from the PIOB that due process has been followed.

**12. Materiality and Misstatements**

Ms. Esdon introduced the topic, noting that the SMP Committee had commented that overall it was highly satisfied with the proposed revised drafts of the ISAs. She then led a review of the revised drafts.

**ISA 320 (REVISED AND REDRAFTED), “MATERIALITY IN PLANNING AND PERFORMING AN AUDIT”**

Ms. Esdon explained that at the March 2008 IAASB meeting, the Task Force was asked to (a) clarify that performance materiality is an amount or amounts set at less than materiality for the financial statements as a whole and, if applicable, it also refers to the amount or amounts set at less than the materiality level or levels for particular classes of transactions, account balances or disclosures, and (b) to amend a paragraph in the application and other explanatory material by deleting an example and explaining that the determination of performance materiality is also affected by the auditor’s expectations in relation to misstatements in the current period.

After discussing the proposed changes, the IAASB agreed the following in addition to editorial changes:

- The references to “*total* of uncorrected and undetected misstatements” should be replaced with “*aggregate* of uncorrected and undetected misstatements,” as “total” refers to the addition of amounts while “aggregation” refers to the net accumulation of amounts.
- Text from ISA 200 (Revised and Redrafted) should be aligned with the text approved during this meeting.
- The application material under the heading Performance Materiality, should be amended to clarify further that performance materiality, as defined, may be one or more amounts. It should
also clarify that performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Similarly, performance materiality relating to a materiality level determined for a particular class of transactions, account balance or disclosure is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in that particular class of transactions, account balance or disclosure exceeds the materiality level for that particular class of transactions, account balance or disclosure.

ISA 450 (REVISED AND REDRAFTE D), “EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT”

Ms. Esdon explained that an issue relating to the timing of the written representation required by ISA 450 (Revised and Redrafted) and the date of written representations required by ISA 580 (Revised and Redrafted) was raised subsequent to the March 2008 meeting.

ISA 450 (Revised and Redrafted) requires the auditor to communicate misstatements accumulated during the audit with management, to request management to correct all such misstatements, and to obtain a written representation from management that it believes the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. ISA 450 (Revised and Redrafted) also requires the auditor to communicate uncorrected misstatements with those charged with governance, to include the written representation from management about uncorrected misstatements in such communication, and to request those charged with governance to correct uncorrected misstatements. ISA 580 (Revised and Redrafted) requires the auditor to obtain the written representations as near as practicable to, but not after, the date of the auditor’s report.

The requirement to include the written representation from management about uncorrected misstatements in the communication with those charged with governance could be interpreted as requiring such written representation at the time the communication with those charged with governance occurs; and again at a date as near as practicable to, but not after, the date of the auditor’s report if time has elapsed since the first representation was obtained or if any corrections were made by those charged with governance. The intent of ISA 450 (Revised and Redrafted), however, was not to request a written representation from management about uncorrected misstatements at two different times during the audit.

The IAASB accepted the Task Force’s proposal that this issue be addressed by moving the requirement to obtain a written representation from management about uncorrected misstatements to follow the requirement to communicate uncorrected misstatements with those charged with governance, and by deleting the requirement that the communication with those charged with governance includes such written representation. The written representation will therefore deal with the misstatements remaining after corrections by management and, if applicable, those charged with governance and can be obtained as near as practicable to, but not after, the date of the auditor’s report.
AGENDA ITEM 1-A

APPROVAL

After agreeing all necessary changes to the revised drafts, the IAASB members present or represented by proxies unanimously approved ISA 320 (Revised and Redrafted) and ISA 450 (Revised and Redrafted). The IAASB assessed whether there is a need to re-expose the ISAs. The IAASB agreed that the changes made to the exposure drafts were in response to the comments received from respondents, and accordingly, re-exposure is not necessary. Mr. Sylph advised the IAASB that it had adhered to its stated due process in finalizing the ISAs.

The ISAs are effective for audits of financial statements for periods beginning on or after December 15, 2009. The issue of the final ISAs is subject to confirmation from the PIOB that due process has been followed.

13. External Confirmations

Mr. Crawford introduced the discussion of significant comments received on ED-ISA 505. He indicated that in general, respondents expressed support for the proposed ISA. He summarized the main issues raised on exposure and led a review of the proposed revised draft of the ISA. Except as noted in the following, the IAASB agreed with the recommendations of the Task Force as set out in the IAASB’s agenda material.

DETERMINING WHETHER TO USE EXTERNAL CONFIRMATIONS PROCEDURES

Mr. Crawford summarized the position taken by the IAASB in developing ED-ISA 505 with respect to the auditor’s determination of whether to use external confirmation procedures. He indicated that some respondents, however, were of the view that the proposed removal of the requirement in paragraph 2 of the extant ISA 505 for the auditor to determine whether the use of external confirmations is necessary to obtain sufficient appropriate audit evidence weakens the proposed revised ISA relative to the extant. Accordingly, these respondents suggested that an explicit requirement for the auditor to consider the use of external confirmation procedures should be included in ISA 505 (Revised and Redrafted). The Task Force was of the view that no new arguments had been raised to warrant reconsideration by the IAASB of its position. Nevertheless, the Task Force introduced additional guidance in the revised draft of the proposed ISA to alert the auditor to consider the use of external confirmations, as well as weaknesses associated with their usage.

Some IAASB members were of the view that depending on the circumstances, external confirmation procedures may be the most appropriate audit procedures to obtain sufficient appropriate audit evidence regarding existence and other assertions relating to certain balances, such as accounts receivable and bank balances. Accordingly, there should be a rebuttable presumption in the ISA to require the auditor to use external confirmation procedures in certain circumstances and to document the reason(s) for deciding not to use external confirmations in those circumstances. Other IAASB members, however, noted that there are many situations when external confirmation procedures may not be the most effective audit procedure. Concerns were also raised by some members about introducing a requirement for the auditor to document reasons for not performing a particular audit procedure. Further, some IAASB members questioned whether it is possible to operationalize a requirement for the auditor to determine whether to use external confirmations, as to do so could result in a perfunctory compliance exercise at best. Rather, the auditor’s decision to use external confirmations should be driven by the auditor’s assessment of risks. An IAASB member noted that
the public’s perception and expectation that external confirmations are normally performed during
the conduct of the audit to obtain sufficient appropriate audit evidence should not be overlooked. The
proposed ISA therefore should not deter auditors from using external confirmation as an audit
procedure.

The IAASB asked the Task Force to consider its comments, and to explore whether an appropriate
requirement, consistent with the extant ISA, could be developed for the auditor to determine whether
the usage of external confirmations is necessary to obtain sufficient appropriate audit evidence. The
Task Force was also asked to consider the appropriate location for such a requirement.

USE OF NEGATIVE CONFIRMATIONS

Mr. Crawford noted that ED-ISA 505 did not prohibit the use of negative confirmation requests in an
audit of financial statements, but did limit the extent to which an auditor may use negative
confirmations to obtain sufficient appropriate audit evidence. Some respondents were of the view,
however, that the ISA could go further in limiting the use and highlighting the weaknesses of external
confirmations. On the other hand, some respondents were concerned that the proposed conditions
limiting the use of external confirmations were too stringent. The Task Force is of the view that ED-
ISA 505 achieved an appropriate balance between encouraging the use of external confirmation
procedures and alerting auditors to the weaknesses associated with using external confirmations as
audit evidence, and that respondents’ comments did not provide substantial reasons for amending
ED-ISA 505. Nevertheless, the Task Force proposes that the conditions limiting the use of negative
confirmations should be redrafted to provide more flexibility regarding the use of negative
confirmations.

Some IAASB members were of the view that under almost all circumstances, negative confirmations
should not be the sole substantive audit procedure performed to obtain sufficient appropriate audit
evidence. Other IAASB members, however, felt that by having the ISA stipulate the conditions that
need to be met in order for the auditor to rely on negative confirmation as the sole substantive audit
procedure, it is clear that other additional audit procedures are normally expected in order to obtain
sufficient appropriate audit evidence. In addition, it was noted that further tightening of the
requirement in the ISA than the IAASB intended may preclude the use of negative confirmations.

The IAASB asked the Task Force to consider its comments in the light of the responses to the ED on
this topic. The Task Force was also asked to consider redrafting the requirement to take the form ‘the
auditor shall not use negative confirmations unless’ as opposed to ‘the auditor shall only use negative
confirmations when’. As it is currently drafted, there is a risk that the intent of the proposed
requirement will be lost during the process of translation. Further, the Task Force was asked to
reconsider the drafting of the criterion ‘the auditor expects that recipients of negative confirmation
requests will not disregard such confirmation requests’.

ELECTRONIC CONFIRMATIONS

Mr. Crawford noted that several respondents were of the view that the ISA should contain guidance
on the usage of electronic confirmations, as this form of audit procedure is becoming increasingly
common. The Task Force did not believe that additional guidance is required, as the requirements
and guidance in ED-ISA 505 can be applied in principle when considering any electronic form of
audit evidence, including electronic confirmations. Further, guidance on obtaining electronic audit
evidence is beyond the scope of the ISA.
The IAASB was of the view that it would nevertheless be appropriate to provide some guidance on use of electronic confirmations. It was noted that the use of technology in the conduct of the audit will become increasingly prevalent and, accordingly, it is appropriate for the ISA to reflect developments in practice. Accordingly, the IAASB asked the Task Force to consider the addition of appropriate guidance relating to the use of electronic confirmations, for example, in relation to matters that the auditor might consider in deciding to use this form of confirmation.

OTHER MATTERS

The IAASB suggested a number of editorial changes for consideration by the Task Force.

WAY FORWARD

The IAASB asked the Task Force to consider its comments and present a revised draft of the proposed ISA for approval at the September 2008 IAASB meeting.

14. Fair Value Auditing Guidance Update

Mr. Fogarty introduced the topic, and noted that interviews had been conducted on behalf of the Fair Value Auditing Guidance Task Force with representatives from the 4 largest accounting firms. Those interviewed had a high degree of consistency of experience, and were primarily from the US, UK and Canada.

Mr. Fogarty indicated that a few recurring themes have arisen during the interviews:

- Preparers and auditors cite difficulties in obtaining appropriate information to support an understanding of how fair values are determined when there is no observable market price and little information available to support the valuation, such as when pricing services and broker quotes were used.

- All participants indicate difficulties auditing valuing assets without readily available market prices.

- While the firms are able to develop an approach to obtaining information from pricing services used in valuations, these efforts are unlikely to be sustainable for future audit seasons.

Mr. Fogarty indicated that three main areas have been suggested for further exploration by the Task Force:

- Education and awareness – Those interviewed believe that preparers and auditors are working to improve in relation to the skills, confidence, education, and familiarity with terms and approaches to prepare a valuation, on both the preparer and auditor side, however, more could be done in these areas. They suggest there is a need for dissemination of basic reference material. While the firms have training activities underway, a plain man’s guide to such information would be helpful.

- Pricing services – There is a need for information on how pricing services compute prices, in particular the methods used to compile them. Clients that are bigger customers of pricing services have more access to this information, but there could be a role for the IAASB to help facilitate a broader dissemination of this information.
• Alerts similar to what was done by the Global Public Policy Committee, U.S. Public Company Accounting Oversight Board, and the UK Auditing Practices Board – This could promote awareness of current challenges with fair values and also remind others that fair values are also relevant with regard to endowments, universities and hospitals.

Those who were interviewed believe that the auditing standards themselves are adequate, and it would not be necessary for another standard to be developed. If the Task Force and the IAASB conclude that one or more of the above actions are appropriate, it may not be necessary for a formal project proposal to be developed.

Regarding timing, it was suggested that any activities be undertaken as soon as possible so as to be available for the next audit season. The development of any basic reference material would likely need to involve more than IFAC staff.

An IAASB member suggested there could be further action related to the transparency of hedge funds. Mr. Fogarty noted that, in the US, there are auditing interpretations that give guidance to the auditor about actions that should be taken if the investments of the hedge fund are not disclosed. The Task Force intends to discuss whether further guidance in this area is necessary.

Another IAASB member suggested it would be appropriate in an alert to emphasis the need for the auditor to understand management’s process as a starting point for auditing fair value accounting estimates. This could include an understanding of the relationship between management and pricing services, and a discussion of how management assesses the risks associated with a particular investment prior to investing.

The Task Force was also asked to consider whether there is an opportunity to work jointly with the accounting standard setters in the development of any further guidance, perhaps on matters such as the underlying accounting system which derives the numbers used in fair value calculations.

Dr. Thomadakis applauded the diligence with which the IAASB was proceeding. He suggested the dialogue be broadened to obtain views from smaller practitioners and the pricing services. He encouraged the IAASB to remain alert as to whether any authoritative guidance may be necessary in the future, in particular if any auditing failures result from the current environment.

WAY FORWARD

Mr. Fogarty indicated that the Task Force intends to conduct another teleconference to update those who participated in an initial information gathering meeting in February 2008. Updates will be given at both the Transnational Auditors Committee meeting and the Monitoring Group meeting later this month, and the Task Force is open to considering the views of other auditors (e.g., those outside the 4 largest firms already interviewed) should they wish to communicate any. The Task Force will provide the IAASB with another update at its September 2008 meeting, which will communicate the activities the Task Force believes should be undertaken.

15. Quality Control

Mr. Cowperthwaite introduced the discussion of significant comments received on the exposure drafts of the proposed ISA 220 (Redrafted) (ED-ISA 220) and proposed ISQC 1 (Redrafted) (ED-ISQC 1), and the Task Force’s related recommendations. He indicated that respondents were
generally supportive of the proposed redrafts and the application of the clarity conventions. He summarized the main issues raised on exposure and led a review of the proposed revised drafts of the standards.

Except as noted in the following, the IAASB agreed with the recommendations of the Task Force as set out in the IAASB’s agenda material.

**PROPOSED ISA 220 (REDRAFTED)**

*Link with ISQC 1*

In response to comments from respondents that the inclusion of direct references to ISQC 1 in the scope and requirements sections of ED-ISA 220 could be problematical because not all jurisdictions that adopt ISAs will also adopt ISQC 1, the Task Force proposed to delete such references and move them to application material.

Some IAASB members noted that this change would weaken the relevant requirements as the auditor’s quality control responsibilities in an audit of financial statements are specifically based on the quality control framework established by ISQC 1. They were also of the view that this change would undermine the effectiveness of the proposed ISA; ISA 220 (Redrafted) is not meant to stand-alone and its effectiveness is based on ISQC 1.

It was suggested that the phrase “or equivalent” (or similar) could be added to cater for those cases where ISQC 1 is not adopted. It was noted, however, that the meaning of this phrase is undefined and potentially problematic. An IAASB member also suggested that an approach consistent with how references are made to relevant ethical requirements could be adopted. It was noted, however, that ISA 220 was developed specifically to accompany ISQC 1, and that IFAC Member Bodies have an obligation to ensure that their members comply with ISQC 1 under IFAC’s Statements of Membership Obligations.

After further deliberation, the IAASB agreed that there should be a strong linkage between proposed ISA 220 (Redrafted) and ISQC 1 (Redrafted), and asked the Task Force to consider how best that linkage should be expressed.

*Objective*

In response to concerns from some respondents that the use of the term “reasonable assurance” in the objective of ED-ISA 220 might be confused with the auditor’s objective to obtain reasonable assurance as it relates to the audit, the Task Force proposed to delete the term from the objective and, instead, focus the objective on an obligation for the auditor to *implement* appropriate quality control procedures at the engagement level.

An IAASB member noted that the resulting objective was now no longer outcome-based. In addition, other IAASB members argued that there is a need for some parallel between ISA 220 (Redrafted) and ISQC 1 (Redrafted) in relation to how the term is used. They noted that it is the system of quality control that helps the auditor obtain reasonable assurance, and that the auditor relies on that system to achieve reasonable assurance regarding quality control at the engagement level.
After further deliberation, the IAASB reaffirmed its view that the concept of reasonable assurance is appropriate in the objective, as it clarifies in part that absolute assurance at the engagement level is not required.

**Definition of Engagement Quality Control Review**

In response to concerns from respondents that defining the engagement quality control review as a process that must take place before the date of the auditor’s report would create practical difficulties, the Task Force proposed to revert back to the wording used in the extant ISA, i.e. that the engagement quality control review is a process that occurs before the auditor’s report is issued. It was pointed out that this change would effectively introduce a date that is not defined in the ISAs, contrary to the clarification objective the IAASB had sought to achieve through the redraft, which was to use a date that is already defined.

Some IAASB members noted that with the proposed change, some could interpret the definition as meaning that the engagement quality control review could be completed up to 60 days *after* the auditor’s report has been signed, which would not be appropriate. It was argued that the potential practical difficulties that auditors might encounter should not be a justification for weakening the requirement.

After further deliberation, the IAASB agreed that the proposal in ED-ISA 220 should be retained as ISA 700 requires that the auditor’s report be dated when the auditor has obtained sufficient appropriate evidence on which to base the auditor’s opinion. To address practical issues, the IAASB suggested that the Task Force should consider providing guidance regarding how the auditor applies the requirement. This might include, for example, an explanation to the effect that the engagement quality control review should be completed before the auditor’s report is signed but that audit documentation relating to the review may, if necessary, be completed shortly after the date of the auditor’s report. The IAASB further suggested that a link between proposed ISA 700 (Redrafted) and the requirement in proposed ISA 220 (Redrafted) regarding the completion of engagement quality control review should be established.

**Definition of Firm**

The Task Force proposed to align the definition of the term “firm” with the definition contained in the IFAC Code. It was noted that the definition of this term should, in principle, be the same in both the Code and the proposed ISA.

Some IAASB members were concerned that this change is being proposed without having been exposed. The IAASB asked the Task Force to undertake an analysis of the effect of adopting the IFAC Code’s definition.

**Evaluating Compliance with Relevant Ethical Requirements**

In response to comments on exposure, the Task Force proposed to amend the requirement that the engagement partner evaluate whether members of the engagement team have complied with relevant ethical requirements to a requirement that the engagement partner be satisfied about such matter. The Task Force also proposed to re-position to application material the proposed requirement that this evaluation be achieved by the engagement partner through inquiry and observation, and by remaining alert for evidence of non-compliance.
Some IAASB members disagreed with the proposal to change the requirement from an obligation to *evaluate* the matter to an obligation to *be satisfied* about it. It was noted that a focus on *evaluation* is appropriate because the engagement partner will be able to do certain things to support that evaluation. It was also noted that the “be satisfied” construct would impose too absolute an obligation. After further deliberation, the IAASB determined that the term “shall be satisfied” is not appropriate and asked the Task Force to consider redrafting of the proposed requirement.

**Other Matters**

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

- The phrase “none of whom is part of the engagement team” should be reinstated in the definition of the term “engagement quality control reviewer” to make clear that the engagement quality control reviewer cannot be part of the engagement team if the review is to be, and be seen to be, objective.

- The definition of the term “external expert” should be conformed to that in proposed ISA 620 (Revised and Redrafted).

- The requirement that the engagement quality control review include an objective evaluation of the significant judgments made by the engagement team should be amended to place the obligation on the individual performing the task as opposed to the task itself (to avoid repeating a requirement that is already in ISQC 1), e.g. “the engagement quality control reviewer shall make an objective evaluation of ….” A similar clarification should be made to the requirement specifying what the engagement quality control review should involve to make clear who should fulfill that responsibility.

- In relation to the requirement that the engagement partner consider the results of the firm’s monitoring process, it should be made clear that the requirement is not intended to suggest that the engagement partner needs to ‘second-guess’ measures taken by the firm to rectify a deficiency in the system.

**PROPOSED ISQC 1 (REDAFTED)**

*Coherence of Objective and Requirements*

A few respondents had suggested that the objective in ED-ISQC 1 should cover more than just the establishment of a system of quality control. In particular, it was suggested that concepts such as “maintenance” and “operating effectiveness” should also be articulated in the objective. The Task Force recommended that no change be made, as the obligation to “establish” a system of quality control already encompassed a requirement to include all the necessary elements of such a system, including monitoring.

An IAASB member was of the view that the objective and the obligation imposed for the firm to comply with the requirements of the standard, as set out in the revised draft, do not give appropriate recognition to the fact that the firm’s system of quality control is self-monitoring and self-correcting. It was noted compliance within such a quality control system is different from compliance within the context of auditing standards; in a quality control system, there are likely to be inadvertent breaches or deficiencies, or policies and procedures that need to be strengthened, though compensating action can be taken to address a particular deficiency and mitigate its effect, enabling the firm to meet the
objective of the firm’s system of quality control. Accordingly, whilst it is possible to say that a firm has policies and procedures designed to comply with ISQC 1 (Redrafted), it may not be possible to assert that the firm has performed all the procedures as set out in the requirements. In this regard, some requirements imposed specific actions on the firm or specific individuals within the firm (with no specific regard to firm policies and procedures); others, however, specified actions based on the associated policies and procedures that the firm should establish. The IAASB asked the Task Force to reconsider the objective and the wording of requirements that specify specific actions in the light of the above comments.

Other Matters

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

- The definitions in the proposed ISQC should be conformed to those in the proposed ISA 220 (Redrafted). In addition:
  - The definition of “engagement team” should refer to related services engagements also and not just assurance engagements, as the scope of ISQC 1 covers both types of engagement.
  - The Task Force should reconsider whether to reinstate the stated purpose of monitoring, i.e. that it is a process “designed to enable the firm to obtain reasonable assurance that its system of quality control is operating effectively.”

- The IAASB also asked the Task Force to consider whether all applicable definitions in the Glossary of Terms should be added to ISQC 1 (Redrafted). The Task Force should consider further clarifying both the requirement that a selection of completed engagements be inspected on a cyclical basis and the requirement that the firm communicate at least annually the results of the monitoring of its quality control system, as some may misinterpret the latter to imply a requirement to undertake file inspections at least annually.

- In relation to considerations specific to smaller practices, the Task Force should reconsider whether it is necessary for guidance to be provided to explain that for sole practitioners, some of the requirements may not be relevant, as in those specific cases it will be obvious when requirements are not relevant.

Way Forward

The IAASB asked the Task Force to consider its comments and present revised drafts of proposed ISA 220 (Redrafted) and ISQC 1 (Redrafted) for approval at the September 2008 IAASB meeting.

16. PIOB Observer Remarks

Dr. Thomadakis shared his overall assessment of the meeting. He was of the view that the meeting had been effective, with a large part of the discussions focused on substantive issues. He noted that the IAASB had maintained a thoughtful stance on issues of principle, and had given appropriate consideration to issues of scope, consistency and implementation of the standards.

He acknowledged the careful attention that the IAASB had given to due process, and its diligence in considering the need for re-exposure on individual approved standards. However, he expressed some concern about the absence of the IAASB CAG Chair from the meeting.
Dr. Thomadakis indicated that the PIOB would continue to monitor the progress of the clarity project. Also, the PIOB would consider the IAASB’s approved *Strategy and Work Program 2009-2011* at its July 2008 meeting and would be paying particular attention to the IAASB’s initiatives regarding implementation.

With regard to the fair value auditing guidance project, he reiterated the need to expand the pool of professionals consulted beyond practitioners in the larger firms.

Finally, in relation to the report of the Working Procedures Task Force, he highlighted the PIOB’s interest in the approach to be taken for implementation of the proposals.

17. **Next Meeting**

The next meeting of the IAASB has been scheduled for September 15-19 in Miami, USA.

18. **Closing Remarks**

Mr. Kellas expressed his appreciation for the contributions of all members to the deliberations during the week and for Staff’s support in preparing the materials. He then closed the meeting.