

**Draft Minutes of the 32st Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
Held on September 15-19, 2008 in Miami**

Voting Members

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

Technical Advisors

Wolfgang Böhm (Mr. Ferlings)
Cédric Gélard (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)
Chuck Landes (Mr. Fogarty)

Apologies:

Kelly Ånerud (Mr. Larsson)
Asad Ali Shah (Mr. Yusuf)

Non-Voting Observers

Present: Norio Igarashi, Jean-Philippe Rabine, and Jennifer Rand
Apologies: David Damant

Public Interest Oversight Board (PIOB) Observers

Present: Michael Hafeman

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 Mr. Hafeman, observing on behalf of the Public Interest Oversight Board (PIOB).

Apologies were received from Mr. Damant (Chair of the IAASB Consultative Advisory Group (CAG)) and Ms. Ånerud (technical advisor to Mr. Larsson).

Mr. Kellas welcomed Chuck Landes (from the American Institute of Certified Public Accountants (AICPA)) as the new technical advisor to Mr. Fogarty. He also noted that this is the last meeting for Ms. Manasses (technical advisor to Ms. Jones). Mr. Kellas thanked Ms. Manasses for her contributions to the board.

Mr. Kellas indicated that Messrs. Ng and Turner (from the Canadian Institute of Chartered Accountants) and Mr. Agulhas (from the Independent Regulatory Board for Auditors (IRBA)) would be providing staff support for a number of items on the agenda. Mr. Kellas noted that Mr. Agulhas has been appointed acting Chief Executive Officer of the IRBA and congratulated Mr. Agulhas on his recent appointment.

Mr. Kellas noted that this is Ms. Prinsloo final IAASB meeting before she takes on her new role as the Director of Operations for IFAC, which will become effective on January 1, 2009. Mr. Kellas commended Ms. Prinsloo on the excellent support she has provided to the IAASB and thanked Ms. Prinsloo for her contributions during her time with the board. Mr. Kellas also noted that Linda Lach has been contracted to provide technical assistance to the IAASB from November 2008.

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

Mr. Kellas indicated that the September 2008 IAASB Consultative Advisory Group (CAG) meeting had a full agenda, and representatives were given the opportunity to comment on all the ISAs up for approval at this meeting. Mr. Kellas noted that in general, the CAG was supportive of the directions being taken on most of the projects. He indicated that Task Force chairs will advise the IAASB of the comments of the CAG when the respective standards are discussed.

Mr. Kellas noted that ISAs 200 (Revised and Redrafted),¹ 320 (Revised and Redrafted),² 450 (Revised and Redrafted),³ 530 (Redrafted),⁴ 610 (Redrafted),⁵ 705 (Revised and Redrafted)⁶ and 706 (Revised and Redrafted)⁷ have been scheduled for the PIOB's review at its September 2008 meeting. The ISAs will be issued as final standards after the PIOB has reviewed due process applied. Mr.

¹ ISA 200 (Revised and Redrafted), "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing."

² ISA 320 (Revised and Redrafted), "Materiality in Planning and Performing an Audit."

³ ISA 450 (Revised and Redrafted), "Evaluation of Misstatements Identified during the Audit."

⁴ ISA 530 (Redrafted), "Audit Sampling."

⁵ ISA 610 (Redrafted), "Using the Work of Internal Auditors."

⁶ ISA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report."

⁷ ISA 706 (Revised and Redrafted), "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report."

Kellas further noted that the ISAs to be approved at this meeting will be presented to the PIOB for review at the December 2008 PIOB meeting. He added that the PIOB will meet in February 2009 to review due process on the final ISAs approved at the December 2008 IAASB meeting. This will enable the IAASB to issue the final standards, press releases and other communications in March 2009. Mr. Kellas noted that depending on the outcomes of this meeting, an interim communication may be issued to provide an update on the Clarity project and also to remind and encourage constituents to take such steps as are necessary for effective implementation of the clarified ISAs, including translation and amendment of manuals and processes and training in view of the pending completion of the Clarity project in December 2008.

Mr. Kellas provided an update on the progress of the Emissions Assurance project. He reported that roundtables will be held in Toronto in September 2008 (jointly with the Canadian Institute of Chartered Accountants) and in Brussels in December 2008 (jointly with the Federation des Experts Comptables Europeens). He requested that the names of relevant individuals based in Europe who should be invited to attend the roundtable in Brussels be submitted to the Task Force.

Mr. Kellas reported that in August 2008, the AICPA's Auditing Standards Board (APB) approved its first final converged and clarified standard; the APB's version of ISA 206 (Revised and Redrafted)⁸, and also approved its version of ISA 200 (Revised and Redrafted) for exposure.

MINUTES OF PREVIOUS MEETING

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

2. Comparative Information—Corresponding Figures and Comparative Financial Statements

Ms. Hillier introduced the topic, explaining that the purpose of the session is to consider the significant comments received on the exposure draft of proposed ISA 710 (Redrafted)⁹ (“ED-ISA 710”), and the Task Force's related recommendations. She indicated that 36 comment letters were received. Overall, respondents were supportive of ED-ISA 710. Many expressed the view that it was an improvement over the extant ISA. The IAASB CAG considered significant comments received on ED-ISA 710 at its September meeting. The SMP Committee also commented on the proposed ISA submitted for review at this IAASB meeting.

Ms. Hillier summarized the main issues raised by respondents and led a review of the revised draft of the proposed ISA. Except as noted in the following, the IAASB agreed with the recommendations of the Task Force as set out in the agenda material for the meeting.

NATURE OF COMPARATIVE INFORMATION

In response to concerns from a few respondents that in their respective jurisdictions, it is law or regulation that dictates the responsibilities of the auditor in relation to comparative information in the financial statements rather than the applicable financial reporting framework, the Task Force proposed to amend the discussion of the nature of comparative information in the Introduction of the ISA to clarify this point. A few members of the IAASB noted, however, that in some circumstances,

⁸ ISA 206 (Revised and Redrafted), “Communication with Those Charged with Governance.”

⁹ Proposed ISA 710 (Redrafted), “Comparative Information—Corresponding Figures and Comparative Financial Statements.”

the responsibilities of the auditor in relation to the comparative information are agreed through the terms of engagement. Some IAASB members further commented that section is not sufficiently clear on distinguishing the essential audit reporting differences between the two approaches of reporting comparative information namely, the corresponding figures approach and the comparative financial statements approach.

After further deliberation, the IAASB decided to amend the guidance to explain that the approach to be adopted is often specified by law or regulation, but may also be specified in the terms of engagement. The IAASB also concluded that the essential reporting differences are best described by explaining that for corresponding figures, the auditor's *opinion* on the financial statements refers only to the current period; whereas for comparative financial statements, the auditor's *opinion* refers to each period for which the financial statements are presented. The IAASB agreed to redraft the ISA accordingly.

PRIOR PERIOD FINANCIAL STATEMENTS AUDITED BY A PREDECESSOR AUDITOR

A respondent commented that as adjustments made to the prior period financial statements audited by a predecessor auditor are not audited by the extant auditor, the auditor's report should state accordingly. The respondent added that in all cases, the auditor's report should include an Other Matter paragraph in order to indicate that the predecessor auditor has reported on the financial statements of the prior period before the amendment. In response to the respondent's comments, the Task Force proposed some amendments to clarify the guidance. This included amending the illustrative wording for the paragraph that can be included in the auditor's report in these circumstances to include additional wording that is used in some jurisdictions to clarify the extent of the current auditor's involvement. However, the Task Force believed that changing the ISA to be more prescriptive is out of the scope of this project to redraft the ISA. A few IAASB members noted that depending on the jurisdiction, there are alternative ways in which the extent of the predecessor auditor's involvement could be communicated. After further deliberation, the IAASB concluded that the proposed amendments to clarify the guidance were useful but that more substantive changes were beyond the scope of clarity redrafting.

DECISION TREE

In response to a respondent's comment that ED-ISA 701 could be made clearer and easier to understand by inclusion of an illustrative roadmap such as a decision tree or chart, the Task Force proposed that decision trees depicting the auditor's reporting responsibilities when corresponding figures are presented and when comparative financial statements are presented be included in the ISA by way of an additional appendix. Some IAASB members were of the view that the decision trees are helpful additions to the ISA and aid understanding of what is otherwise a fairly complex standard. Other IAASB board members were concerned that auditors may overly rely on the decision trees as a consequence. Specifically, it was commented that it would be both undesirable and inappropriate if auditors were to fully rely on the decision trees in complying with the requirements of the ISA at the expense of reading and understanding the ISA in its entirety. On a similar note, a few IAASB members commented it is important that the decision trees faithfully reflect the requirements of the ISA and yet doing so negates being able to portray the decision process concisely

The IAASB discussed the possible location of the decision trees. For the reasons above, some IAASB members felt that it may not be appropriate for the decision trees to be located in the ISA and

suggested other alternatives such as in the Basis for Conclusions for ISA 701 (Redrafted). On a related point, one IAASB member raised that similar illustrative roadmaps may be useful in other ISAs and if included in this ISA, for comprehensiveness, consideration should also be given to including similar roadmaps in other ISAs where appropriate.

After further deliberation, the IAASB agreed not to include the proposed decision trees in the ISA. The IAASB felt that if included, auditors may rely on the decision trees as opposed to reading the ISA in its entirety which, in the IAASB's view, should be avoided. Additionally, it felt that whilst it is necessary for the decision trees to reflect fully the requirements of the ISA, this may result in their becoming more complex which would go against the original intent for their inclusion. The IAASB further concluded that it is more appropriate to consider the provision of such tools when the IAASB considers implementation support initiatives after completion of its clarity project.

OTHER MATTERS

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

- To amend the wording of the objective to refer to obtaining sufficient appropriate audit evidence about whether the comparative information has been *presented* (rather than *prepared*) in accordance with the requirements for comparative information in the applicable financial reporting framework. The IAASB agreed that this better conveyed the auditor's responsibilities in relation to comparative information.
- The word 'restated' (including alternative specifications such as restatement) should be replaced by 'amended' when used in relation to the financial statements as a whole, to be consistent with the terminology used in ISA 560. In addition, the phrase 'auditor's report' should be replaced by 'auditor's opinion'. These amendments are required so as to maintain consistency with the relevant accounting requirements and the remainder of the clarified ISAs, where appropriate.
- To amend the wording of the requirement in paragraph 11 to clarify that judgment is applied in determining the effect of an unresolved matter with regard to the corresponding figures on the current period's financial statements.
- To delete the illustrative report in Example E in the Appendix as the related requirements are relatively straightforward and, therefore, the example report added little to their understanding.

With regard to the requirement for the auditor to request written representations from management for all periods referred to in the auditor's opinion, a respondent commented that guidance relating to the obtaining of written representations regarding any restatement made to correct a material misstatement in prior period financial statement that affect the comparative information should be restated as a requirement. The IAASB agreed as it felt that obtaining such written representations is a common and necessary procedure performed by the auditor in these circumstances in meeting the requirements of ISA 580 and, therefore, amended the requirement accordingly.

APPROVAL

After agreeing all necessary changes to the draft, all the IAASB members unanimously approved the redrafted ISA. 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.

3. External Confirmations

Mr. Crawford introduced the discussion of the revised draft of the proposed ISA 505 (Revised and Redrafted),¹⁰ summarizing the IAASB's discussions on the topic at the June 2008 meeting. He noted that there was general support at the September 2008 IAASB CAG meeting for how the Task Force proposed to address the matter of requiring the auditor to determine whether to use external confirmations, and the treatment of negative confirmations. He also noted that the IFAC SMP Committee was generally supportive of the Task Force's approach to the issues as set out in the issues paper. Mr. Kellas highlighted a suggestion from the IAASB CAG for the IAASB to consider further work in the area of electronic confirmations in future under the broad rubric of electronic evidence.

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

In considering how best to retain the substance of the requirement in the extant ISA 505 for the auditor to determine whether the use of external confirmations is necessary, and the most appropriate location for that requirement, the Task Force proposed that a requirement to "identify those assessed risks of material misstatement at the assertion level for which external confirmation procedures are to be performed as further audit procedures" be established and appended to paragraph 7 of ISA 330 (Redrafted),¹¹ which mandates specific considerations for the auditor when designing further audit procedures to respond to assessed risks at the assertion level. Some IAASB members were of the view that positioning the proposed requirement in paragraph 7 of ISA 330 (Redrafted) seemed inappropriate as this paragraph deals with broader considerations when responding to assessed risks. Further, the reference to *identification* of the relevant assessed risks in the proposed requirement seemed to imply a documentation requirement. It was suggested that, while ISA 330 (Redrafted) seemed to be the appropriate place for the proposed requirement, it would be better placed after paragraph 20 in that ISA as the subsection pertaining to that paragraph focuses more on the design of substantive procedures to respond to assessed risks.

After further deliberation, the IAASB determined that the requirement should be reworded as a requirement for the auditor to "consider whether external confirmation procedures are to be performed as substantive audit procedures," and that it be placed after paragraph 20 in ISA 330 (Redrafted). This appropriately elevates the profile of external confirmations as substantive procedures without establishing a presumption that they be used for all assertions. In addition, the IAASB determined that the application material in the proposed ISA 505 (Revised and Redrafted)

¹⁰ Proposed ISA 505 (Revised and Redrafted), "External Confirmations."

¹¹ ISA 330 (Redrafted), "The Auditor's Responses to Assessed Risks."

describing the relevance of external confirmations should be moved to ISA 330 (Redrafted) in support of that requirement so as to amplify the relevant guidance available for the auditor when considering whether to use external confirmations.

OTHER MATTERS

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

- The proposed requirement that the auditor document or accumulate the results from individual external confirmation requests should be deleted, as the performance of external confirmation procedures necessarily entails documenting the results, which would be covered by the general documentation requirements of ISA 230 (Redrafted).¹²
- The guidance explaining the requirement for the auditor to determine that confirmation requests are properly addressed should be clarified to indicate that this involves testing the validity of some or all of the addresses on the confirmation requests before they are sent out, as opposed to testing whether the appropriate confirming parties are identified.
- In relation to guidance dealing with circumstances where a confirming party uses a third party service provider to coordinate responses to confirmation requests, the explanatory material indicating the usefulness of an assurance report (such as in accordance with proposed ISAE 3402)¹³ regarding the service provider's underlying controls in assisting the auditor in evaluating the effectiveness of these controls, should be deleted on the grounds that this seemed to imply that an ISAE 3402 report would be the only way for the auditor to obtain the necessary comfort regarding such controls.
- In relation to the illustrative alternative audit procedures the auditor may perform for non-responses in connection with:
 - *Accounts receivable balances*, the reference to these procedures providing audit evidence for the cut-off assertion should be deleted as this statement did not appear to be entirely consistent with proposed ISA 500 (Redrafted).¹⁴
 - *Bank balances*, the proposed procedure to directly access information held by a third party concerning the entity's account should be deleted, as it was unclear how such information might be accessed.

APPROVAL

After agreeing all necessary changes to the revised draft, all the IAASB members unanimously approved ISA 505 (Revised and Redrafted). The IAASB assessed whether there was 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 was not necessary. Mr. Sylph advised the IAASB that it had adhered to its stated due process in finalizing the ISA.

¹² ISA 230 (Redrafted), "Audit Documentation."

¹³ Proposed ISAE 3402, "Assurance Reports on Controls at a Third Party Service Organization."

¹⁴ Proposed ISA 500 (Redrafted), "Audit Evidence."

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.

4. Agreeing the Terms of Audit Engagements

Mr. McPhee introduced the discussion of proposed ISA 210 (Redrafted)¹⁵ and related conforming amendments to other ISAs. He noted that 43 comment letters were received on the exposure draft of proposed ISA 210 (Redrafted) (“ED-ISA 210”). Overall, respondents were supportive of ED-ISA 210. Many expressed the view that it was an improvement over the extant ISA.

The IAASB CAG discussed significant issues at its September meeting. The SMP Committee also commented on the proposed ISA submitted for review at this IAASB meeting.

Mr. McPhee noted that significant issues include the references to management, those charged with governance and the entity, and the responsibility of management for internal control. He led the IAASB through a review of the proposed ISA and related conforming amendments to other ISAs with reference to the significant comments noted in the agenda material. Except as noted in the following, the IAASB agreed with the recommendations of the Task Force as set out in the agenda material.

REFERENCES TO MANAGEMENT

The Task Force proposed that paragraph 4(a) of ISA 210 (Redrafted) indicates that, *for purposes of the ISAs*, references to “management” should be read as “management or those charged with governance, or both, as appropriate.” Some IAASB members did not agree that this simplified the ISAs. In the case of proposed ISA 265,¹⁶ for example, there is a significant distinction between management and those charged with governance. Furthermore, the IAASB CAG Representatives were concerned that a reference to management only may mentally direct the auditor towards management rather than those charged with governance.

The IAASB agreed that ISA 210 (Redrafted) should follow the same approach as that in ISA 580 (Revised and Redrafted);¹⁷ that is, it should indicate that, *for purposes of ISA 210 (Redrafted)*, references to “management” should be read as “management and, where appropriate, those charged with governance.”

MANAGEMENT’S RESPONSIBILITY FOR INTERNAL CONTROL

The Task Force considered it essential to maintain the premise that management is responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework. However, based on the comments on ED-ISA 210, the Task Force proposed that the description of management’s responsibility for internal control be amended to clarify that it is for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In addition, the

¹⁵ Proposed ISA 210 (Redrafted), “Agreeing the Terms of Audit Engagements.”

¹⁶ Proposed ISA 265, “Communicating Deficiencies in Internal Control.”

¹⁷ ISA 580 (Revised and Redrafted), “Written Representations.”

Task Force proposed to separate management's responsibility for internal control from its responsibility for the preparation of the financial statements, as the maintenance of internal control is a means to the end of preparing financial statements. As a result, it was proposed that the premise refer only to management's responsibility for: (1) the preparation of the financial statements; and (b) providing the auditor with all relevant information. The premise would be agreed to in the engagement letter, and its fulfillment confirmed in the representation letter; while responsibility for internal control would be agreed to in the engagement letter but it is not necessary (and not explicitly referred to in ISA 580 (Revised and Redrafted)) for its fulfillment to be confirmed in the representation letter. The Task Force was of the view that the inclusion of management's responsibility for internal control in the engagement letter will continue to support the reference to internal control in the description in the auditor's report of the respective responsibilities of management and the auditor.

A number of points were raised by IAASB members. There was concern that the proposed words "as management determines is necessary" (paragraph 5(c)) may enable management to say that it does not consider internal control to be necessary. Mr. Kellas reported that this point was similar to one made by an IAASB CAG Representative who was concerned that the application material may be read as implying that whatever management determines is necessary will be acceptable to the auditor. It was also suggested that the ISA could clarify that, irrespective whether an audit is performed, management has to maintain internal control to enable it to prepare the financial statements. Another concern related to the interaction between the requirement for the auditor to agree with management its responsibility for internal control and the requirement for the auditor to communicate deficiencies in internal control in accordance with ISA 265. Having discussed these possible reservations, and in particular considered further wording that was drafted to try to avoid the implication that whatever management does would be acceptable, the IAASB nevertheless considered that the proposed words were appropriate.

With regard to the Task Force's proposal to separate management's responsibility for internal control from its responsibility for the preparation of the financial statements, an IAASB member noted that the ISAs provide for a controls-based audit and, as a consequence, it is necessary that management's responsibility for internal control forms part of the premise on which an audit is conducted. IAASB members was also of the view that it was undesirable to split the responsibility for the preparation of the financial statements from the responsibility for internal control in this way, as the first cannot be fulfilled without fulfilling the second. As a result, the IAASB agreed that the reference to management's responsibility for internal control should remain in the premise, but as a separate term.

Consequential on the above, one IAASB member observed that the objectives of ISA 580 (Revised and Redrafted) include obtaining written representations from management that it believes that it has fulfilled *the fundamental responsibilities that constitute the premise on which an audit is conducted*, while the related required written representations are limited to fulfillment of the responsibility for the preparation of the financial statements and the responsibility for providing the auditor with all relevant information. If the reference to management's responsibility for internal control is to form part of the premise, the objectives of ISA 580 (Revised and Redrafted) would need to be amended to refer to the relevant responsibilities rather than the premise.

The IAASB agreed that:

- The premise on which an audit is conducted should include the fact that management and, where appropriate, those charged with governance acknowledge and understand that they have responsibility for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- The objectives of ISA 580 (Revised and Redrafted) should be amended to refer to the relevant responsibilities as opposed to the premise;
- The application material should indicate that an audit does not act as a substitute for the maintenance of internal control necessary for the preparation of financial statements; and
- The definition of internal control and related application material in paragraph A16 should be deleted. Internal control is described in ISA 315 (Redrafted).¹⁸

In addition, consequential changes to ISA 210 (Redrafted) and the related conforming amendments to other ISAs should be considered.

OTHER MATTERS

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

- The responsibility for management to provide the auditor with additional information that the auditor may request from management (paragraph 5(b)(ii)b) should be amended to indicate that the information *is for purposes of the audit*.
- The responsibility for management to provide the auditor with unconditional access to persons within the entity from whom the auditor determines is necessary to obtain audit evidence (paragraph 5(b)(ii)c) should be amended to require unrestricted as opposed to unconditional access.
- Paragraph 10, which requires the agreed terms of the audit engagement to include the expected form and content of any reports to be issued by the auditor, should be amended to indicate that the terms of the audit engagement should include *reference to* the expected form and content of any reports to be issued by the auditor. The auditor will not know the form and content of his/her report before he/she has conducted the audit. The example of an audit engagement letter in Appendix 1 of the ISA should be amended accordingly.
- The reference to “*obtains* a lower level of assurance” in paragraph 14 should be replaced with “*conveys* a lower level of assurance.”
- The requirement that the auditor withdraw from the engagement where the auditor is unable to agree to a change of the terms of the engagement and is not permitted by management to continue the original engagement, should not be conditional on the withdrawal being legally permitted. This is because, if there were indeed a situation where withdrawal is not legally permitted, management would have no choice but to allow the auditor to continue the original engagement. In addition, the condition was effectively redundant because of the overriding principle that ISAs do not override the requirements of law of regulation.

¹⁸ ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment.”

- The linkage between the two paragraphs (paragraphs 18 and 19) in the section Financial Reporting Framework Prescribed by Law or Regulation—Other Matters Affecting Acceptance should be improved.
- The reference to assurance engagements and the International Framework for Assurance Engagements in paragraph A1 should be retained, as it provides context for the application material that follows.
- The reference to “completeness and sophistication” in paragraph A18 should be deleted. Paragraph A18 explained that the completeness and sophistication of an entity’s internal control will reflect the needs of management, the complexity of the business, the nature of the risks to which the entity is subject, and relevant laws and regulation. Concern was expressed that the reference may imply judgment on the part of the auditor.
- The application material in paragraph A21 should be expanded to clarify that, although the auditor is permitted to include in the engagement letter only the agreement of management that it acknowledges and understands its responsibilities (i.e., when law or regulation describes in sufficient detail the terms of the audit engagement), the auditor may nevertheless consider it appropriate to include the terms of the audit engagement and reference to the relevant law or regulation in an engagement letter for the information of management. This is because the engagement letter serves as an agreement of the respective responsibilities of the auditor and management.
- The guidance to include in the engagement letter the agreement of management to inform the auditor of facts that may affect the financial statements of which management may become aware during the period from the date of the auditor’s report to the date the financial are issued should be moved from paragraph A24 to A23. This is an example of a matter to be included in the engagement rather than an additional point that may be included.

NEXT STEPS

Given the relatively significant wording changes arising from the discussion on the Thursday, September 18, the IAASB asked the Task Force to present a revised draft of the ISA and the related conforming amendments showing only the wording changes agreed during the September 18 discussion for final approval at the December 2008 meeting. This would allow sufficient time for all members to satisfy themselves with the final wording changes in the context of the whole of ISAs 200 (Revised and Redrafted) and 580 (Revised and Redrafted).

5. Analytical Procedures

Mr. McPhee introduced the topic, explaining that the purpose of the session is to consider the significant comments received on the exposure draft of proposed ISA 505 (Redrafted)¹⁹ (“ED-ISA 520”), and the Task Force’s related recommendations. He indicated that 34 responses were received. Overall, respondents were supportive of ED-ISA 520. The IAASB CAG considered significant comments received on ED-ISA 520 at its September meeting. No substantive comments were received.

¹⁹ Proposed ISA 520 (Redrafted), “Analytical Procedures.”

Mr. McPhee summarized the main issues raised by respondents and led a review of the revised draft of the proposed ISA. In addition to editorial changes, the IAASB agreed the following:

- The scope and the objective would be better tailored to refer to analytical procedures done near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements. This more clearly notes the timing of the procedures and reiterates the notion that in the context of ISA 520 (Redrafted) analytical procedures are done as a standback to ensure the auditor's conclusions are appropriate.
- Reference to "planned substantive procedures" should be changed to "particular substantive procedures," as the auditor is required to determine whether to use analytical procedures in complying with ISA 330 (Redrafted) and a few IAASB members found it confusing that an auditor might plan to use analytical procedures and then later determine they were unsuitable.
- A conforming amendment to ISA 315 (Redrafted) was agreed, in order to describe analytical procedures used as risk assessment procedures and also to highlight SME considerations.

APPROVAL

After agreeing all necessary changes to the revised draft, all the IAASB members unanimously approved ISA 520 (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.

6. Quality Control

Mr. Cowperthwaite introduced the topic, summarizing the June 2008 IAASB discussion of significant comments received on the exposure draft of proposed ISA 220 (Redrafted)²⁰ and ISQC 1 (Redrafted)²¹. He indicated that the IFAC Small and Medium Practices (SMP) Committee has commented that the revised drafts of the proposed standards are a significant improvement over the June versions, and that it believes the IAASB has made a reasonable effort to make ISQC 1 (Redrafted) workable for SMPs and sole practitioners. The SMP Committee has asked, however, that the IAASB to pay particular attention to ISQC 1 (Redrafted) in the context of SMPs at an early stage of its future post-implementation review exercise.

Mr. Cowperthwaite also indicated that the IAASB Consultative Advisory Group (CAG) has discussed at its September meeting the significant comments received on the exposure draft and the proposals of the Task Force set out in the IAASB's agenda material. He referred to the comments of the IAASB CAG at relevant points as he led a review of the proposed revised draft of the standards.

²⁰ Proposed ISA 220 (Redrafted), "Quality Control for an Audit of Financial Statements."

²¹ Proposed ISQC 1 (Redrafted), "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements."

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

Mr. Cowperthwaite explained that the Introduction section of proposed ISQ 220 (Redrafted) sets out the Task Force's proposals in response to the IAASB's decision at its June meeting that there should be a strong linkage between ISA 220 (Redrafted) and ISQC 1 (Redrafted). Further, it includes material in response to the suggestion that the ISA should emphasize that audit quality and the quality control systems in place that contribute to audit quality are the responsibilities of both the auditor and the audit firm and that ISA 220 (Redrafted) is premised on the condition that the firm has established and maintained an appropriate system of quality control. He noted that the key issue for deliberation is whether and how reference to ISQC 1 (Redrafted) in ISA 220 (Redrafted) should be made; not all jurisdictions that adopt ISAs will also adopt ISQC 1 (Redrafted), and such reference may therefore create a barrier to adoption of the ISAs.

The IAASB concluded that a strong link between ISA 220 (Redrafted) and ISQC 1 (Redrafted) is essential, for several reasons. Firstly, there is a strong public interest to have a firm's system of quality control work effectively with ISA 220 (Redrafted). ISQC 1 (Redrafted) is fully compatible with ISA 220 (Redrafted). The compatibility of quality control systems at the firm and engagement levels, however, may not exist were the firm to follow a different system of quality control.

Secondly, there is a strong public interest to encourage firms to establish a robust system of quality control, thereby reinforcing the need for quality control and an appropriate "tone at the top" supporting what the auditor needs to do at the engagement level. This is particularly important when engagement teams are entitled to rely on that system. The linkage in ISA 220 (Redrafted) to ISQC 1 (Redrafted) supports this aim.

Thirdly, if there is no link to ISQC 1 (Redrafted), there is a potential for firms to adopt systems of quality control that are not as robust as that required under ISQC 1 (Redrafted).

Finally, the extant ISA 220 was written, and its effectiveness premised, on the basis that firms have established a quality control system in accordance with ISQC 1. ISA 220 and ISQC 1 were intended to co-exist, and ISA 220 was never intended to be read on a stand-alone basis. There is a potential risk, therefore, that removing the link to ISQC 1 (Redrafted) would weaken the relevant requirements of ISA 220 (Redrafted) 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 (Redrafted).

Nevertheless, the IAASB agreed that, subject to appropriate conditions, it is not in the public interest to create unnecessary barriers to the adoption of ISAs by restricting jurisdictions to the adoption of ISQC 1 (Redrafted), or limiting possible development of ISQC 1 (Redrafted), for example where a jurisdiction believes additional requirements are appropriate in the circumstances. Accordingly, the IAASB concluded that some limited flexibility is appropriate to allow for a system that meets the aims of all the requirements of ISQC 1 (Redrafted), while not undermining the notion that the system

needs to be effective and that the requirements of ISQC 1 (Redrafted) provide that which is necessary for that purpose.

The IAASB therefore agreed to retain reference to ISQC 1 (Redrafted) in ISA 220 (Redrafted), but to do so in a more flexible manner that indicates that the ISA is premised on the basis that the firm is subject to ISQC 1 (Redrafted) or to national requirements that are at least as demanding. It also agreed that ISA 220 (Redrafted) should explain that national requirements that deal with the firm's responsibilities to establish and maintain a system of quality control are at least as demanding as ISQC 1 (Redrafted) when they address all the elements of a quality control system referred to in ISQC 1 (Redrafted) and impose obligations on the firm that achieve the aims of the requirements set out in ISQC 1 (Redrafted). In taking this view, the IAASB acknowledged that most of the requirements of ISQC 1 (Redrafted) are for the establishment of policies and procedures that are designed to achieve certain aims.

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

- The proposed reference to 'audit quality' in the Introduction section of the ISA should be removed. There are a number of factors that contribute to audit quality, and the concept includes matters in addition to systems of quality control and quality control procedures implemented on individual engagements. The Task Force's proposal therefore goes beyond the extant ISA and the scope of redrafting the standard in accordance with the Clarity conventions.
- The proposed reference to 'an appropriate system of quality control' in the Introduction section should also be removed. The reference implies an obligation on the auditor to evaluate the firm's system of quality control or the firm's compliance with ISQC 1 (Redrafted). This goes beyond the extant ISA. Further, it suggests that a deficiency in the firm's system of quality control precludes the auditor from claiming compliance with ISA 220 (Redrafted), which may not necessarily be the case. The IAASB therefore agreed that ISA 220 (Redrafted) should be consistent with the extant ISA in making clear that the engagement team has a responsibility to implement quality control procedures at the engagement level, within the context of the firm's system of quality control, and that it is entitled to rely on the firm's system of quality control unless information provided by the firm or other parties suggests otherwise.

Evaluating Compliance with Relevant Ethical Requirements

The IAASB remained concerned about the proposed requirement for the engagement partner to evaluate whether members of the engagement team have complied with relevant ethical requirements. It was noted that the requirement appears too prescriptive and imposes an obligation on the engagement partner that is essentially a firm-level responsibility.

The IAASB concluded the requirement should be sufficiently specific to direct the engagement partner to implement the appropriate quality control procedures at the engagement level, while not imposing an obligation that is unattainable. The IAASB therefore agreed that the substantive aim of the requirement should be for the engagement partner, throughout the audit engagement, to remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. The IAASB agreed to redraft the paragraph accordingly.

Considerations Relevant Where a Member of the Engagement Team with Expertise in a Specialized Area of Accounting or Auditing Is Used

The IAASB agreed in principle with the recommendation of the ISA 620 Task Force to introduce certain new guidance material in ISA 220 (Redrafted) concerning the direction, supervision and review of an engagement team member with expertise in a specialized area of accounting or auditing, in response to comments received on exposure of proposed ISA 620 (Revised and Redrafted)²². The IAASB concluded, however, that the proposed wording of the material should be refined to allow flexibility in the matters that may be considered by the engagement partner, recognizing that circumstances (and therefore the extent of direction, supervision and review required) may differ in individual engagements. It also agreed that the proposed wording should be simplified.

Monitoring

The IAASB expressed concern that the proposed requirement addressing the engagement partner's responsibility relating to the results of the firm's monitoring process suggests that the auditor has an obligation to explore how the firm has rectified all identified deficiencies in the firm's system of quality control. The IAASB agreed to make clear that the engagement partner is responsible for considering whether deficiencies noted in the information about the results of the firm's monitoring process affect the audit engagement, and that the application material in ISA 220 (Redrafted) should explain that in considering deficiencies that may affect the audit engagement, the engagement partner may have regard to measures the firm took to rectify the situation that the engagement partner considers are sufficient in the context of that audit.

Other Matters

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

- The definition of "engagement team" should be conformed to that in the latest IFAC Code of Ethics for Professional Accountants. The sub-definition of "auditor's expert" should be replaced with a reference to ISA 620 (Revised and Redrafted).
- The application material providing guidance on the definitions of "firm," "network" or "network firm" should make clear that related definitions in relevant ethical requirements may differ from those set out in the ISA. Further, it should explain that in complying with the requirements of the ISA, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.
- The requirement that the engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report, should be retained in the ISA. This makes clear the responsibility of the engagement quality control reviewer, notwithstanding the fact that this is implied in the definitions of "engagement quality control review" and "engagement quality control reviewer."

²² Proposed ISA 620 (Revised and Redrafted), "Using the Work of an Auditor's Expert."

- The requirement addressing the matters evaluated by the engagement quality control reviewer should be presented as drafted in the exposure draft of ISA 220 (Redrafted), with the wording of the requirement aligned with the text of the extant ISA.
- The guidance explaining the requirement for the engagement quality control review to be completed before dating of the auditor's report should be amended to clarify that it relates specifically to the case of an audit of financial statements of listed entities or when an engagement meets the criteria for an engagement quality control review. Further, the guidance should make clear that documentation of the engagement quality control review may be completed after the date of the auditor's report as part of the assembly of the final audit file, with reference being made to the requirements and guidance of ISA 230 (Redrafted).

PROPOSED ISQC 1 (REDRAFTED)

In addition to drafting changes to align ISQC 1 (Redrafted) with ISA 220 (Redrafted) and other editorial suggestions, the IAASB agreed the following:

- Reference to 'the firm' should be replaced by 'personnel within the firm responsible for establishing and maintaining the firm's system of quality control' in the requirement for an understanding of the entire text of ISQC 1 (Redrafted), as the former is too broad in scope.
- The public sector consideration relating to independence included in the exposure draft of proposed ISQC 1 (Redrafted) should be retained as it is applicable to the proper application of the requirements to which it relates. However, the guidance should be amended to make clear that threats to independence may still exist regardless of any statutory measures designed to protect it, and therefore, in establishing the policies and procedures required by ISQC 1 (Redrafted), the public sector auditor may have regard to the public sector mandate and address any threats to independence in that context.

APPROVAL

After agreeing all necessary changes to the revised drafts, all the IAASB members unanimously approved ISA 220 (Redrafted) and ISQC 1 (Redrafted). The IAASB assessed whether there is a need to re-expose the standards. 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 standards.

ISA 220 (Redrafted) is effective for audits of financial statements for periods beginning on or after December 15, 2009. Systems of quality control in compliance with ISQC 1 (Redrafted) are required to be established by December 15, 2009. The issue of the final ISA 220 (Redrafted) and ISQC 1 (Redrafted) is subject to confirmation from the PIOB that due process has been followed.

7. Audit Evidence

At its June 2008 meeting, the IAASB approved the issue of proposed ISA 500 (Redrafted) as a final standard subject to:

- (a) Approval of conforming amendments in relation to experts and external confirmations, as proposed in exposure drafts of proposed ISA 620 (Revised and Redrafted) and ISA 505 (Revised and Redrafted);

- (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.

As noted elsewhere in these minutes, conforming amendments in relation to experts and external confirmations were approved at this meeting. The IAASB was also advised by Mr. Sylph that the IAASB had adhered to its stated due process in finalizing the proposed ISAs 620 (Revised and Redrafted) and 505 (Revised and Redrafted). Mr. Sylph further advised the IAASB that it had adhered to its stated due process in finalizing ISA 500 (Redrafted).

The IAASB therefore confirmed that ISA 500 (Redrafted) 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.

8. Experts

Mr. Ferlings introduced the proposed ISA 620 (Revised and Redrafted) (“ED-ISA 620”) noting that additional comments had been received from the IAASB CAG and the EC.

QUALITY CONTROL

The IAASB discussed the role of the firm’s quality control policies and procedures in determining the nature, timing and extent of audit procedures regarding the work of an auditor’s expert. It was noted that this matter was dealt with at a number of different points in the application material, in particular the application material dealing with the definition of an auditor’s expert, and the competence, capabilities and objectivity of the auditor’s expert. The IAASB agreed to merge and clarify this material and link it directly with the requirement to consider quality control in determining the nature, timing and extent of audit procedures (paragraph 8(e)). It was also agreed that the revised application material should focus on the application of ISQC 1 rather than ISA 220, and should include a statement that reliance on the firm’s quality control policies and procedures does not reduce the auditor’s responsibility to meet the requirements of the ISA.

CONFIDENTIALITY

The IAASB discussed the issue, raised by the IAASB CAG, of whether it is necessary to obtain the entity’s approval before engaging an auditor’s external expert. It was noted that an entity may be concerned about a particular expert having access to the entity’s information because of interests or relationships that expert may have with, e.g., the entity’s competitors. It was agreed that the auditor should not be required to obtain the entity’s approval as that could potentially allow the entity to have undue influence over the auditor’s selection of external experts. It was agreed, however, that: the need for auditor’s experts to observe confidentiality requirements should be separately identified in the requirement dealing with the auditor’s agreement with the expert; the application material dealing with this requirement should note that the entity may have requested that specific confidentiality provisions be agreed with auditor’s external experts; and the application material dealing with inquiry of the entity about any known interests or relationships that may affect an auditor’s expert’s objectivity should be given additional prominence.

“IN WRITING WHEN APPROPRIATE”

The IAASB discussed the reasons for, and implications of, having the conditional phrase “in writing when appropriate” in the requirement regarding agreement with the auditor’s expert. The IAASB agreed that this phrase should remain in the requirement because it properly reflects the auditor’s obligation given that the ISA covers a wide range of circumstances in which the work of an auditor’s expert may be used: from a brief consultation on a narrowly defined issue, to much more wide ranging matters, such as actuarial calculations to estimate the liabilities of a life insurance enterprise. The IAASB also agreed to: introduce additional guidance noting matters that affect whether it is appropriate for the agreement to be in writing; and move the application material regarding the role of internal protocols etc as evidence of the agreement, from the section on documentation to the section dealing with the agreement.

DOCUMENTATION

The IAASB considered whether a requirement to document conclusions regarding the adequacy of the work of the auditor’s expert is necessary. The situation with respect to experts was compared with that of internal audit. The IAASB noted that ISA 610 contains a requirement to document conclusions regarding the adequacy of the work of internal audit. However, the parallel between the two cases was not as close as to require the requirements to be identical: in the case of internal audit, for example, it was usually the case that the auditor was seeking to rely on work undertaken for a different purpose. Further, given the wide range of circumstances covered by ISA 620, the necessary documentation may be highly variable, particularly at the lower end of the scale, e.g. a brief consultation on a narrowly defined issue. Accordingly, the IAASB agreed that an absolute documentation requirement was not appropriate. It also agreed that a conditional requirement, akin to that for having the agreement with the expert in writing, is not necessary because if were appropriate for a matter to be documented in the circumstances of the engagement, then it would already be required to be documented by a proper interpretation of ISA 230.

OTHER MATTERS

In addition to editorial changes, the IAASB agreed:

- The definition of an auditor’s internal expert should include auditor’s experts from any network firm, regardless of whether that firm shares common quality control policies and procedures with the auditor’s firm.
- The introduction section of the ISA should refer to the fact that: ISA 220 (Redrafted) deals with situations where the engagement team includes a member with expertise in a specialized area of accounting or auditing; and ISA 500 (Redrafted) deals with the auditor’s use of the work of a management’s expert.
- The application material should refer to the fact that in some jurisdictions, law or regulation may require that an auditor’s external expert be treated as a member of the engagement team, and that such experts may therefore be subject to relevant ethical and other professional requirements as determined by that law or regulation.
- The requirement to evaluate the relevance and reasonableness of an auditor’s expert’s assumptions and methods should note that it relates to relevance and reasonableness in the

circumstances, so it is clear that the auditor is not expected to apply the same level of expertise to that evaluation as would be expected if the auditor were also an expert in the relevant field.

- Additional application material should be added in the conforming amendments to ISA 500 clarifying that when the entity uses in its own estimation methods price data regarding private transactions not otherwise available to the entity, the person supplying that information would not be considered a management's expert. If that data is used as audit evidence, the requirement of ISA 500 (Redrafted) to consider the reliability of that data nevertheless applies.

APPROVAL

After agreeing all necessary changes to the draft, all the IAASB members unanimously approved ISA 620 (Revised and Redrafted) and the proposed conforming amendments to ISA 500 (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 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.

9. Audit Evidence—Specific Considerations for Selected Items

Mr. Crawford introduced the topic, explaining that the purpose of the session is to consider the significant comments received on the exposure draft of proposed ISA 501 (Redrafted)²³ (“ED-ISA 501”), and the Task Force’s related recommendations. He indicated that 39 comment letters were received. Overall, respondents were supportive of ED-ISA 501. Many expressed the view that it was an improvement over the extant ISA. The IAASB CAG considered significant comments received on ED-ISA 501 at its September meeting. The SMP Committee also commented on the proposed ISA submitted for review at this IAASB meeting.

Mr. Crawford summarized the main issues raised by respondents and led a review of the revised draft of the proposed ISA. Except as noted in the following, the IAASB agreed with the recommendations of the Task Force as set out in the agenda material for the meeting.

SCOPE OF THE ISA

In response to concerns from some respondents that the scope of the ISA did not clearly reflect its intent and how it related to other ISAs, the Task Force proposed that the scope paragraph specify the selected items addressed by the ISA. The Task Force also proposed to make clear in the scope paragraph that the ISA address *certain but not all* considerations which may be relevant when obtaining sufficient appropriate audit evidence with respect to the specific matters addressed by the ISA. Some members commented that introduction of the words ‘certain but not all’ in the redrafted scope paragraph seems to suggest a deficiency in the ISA in that it addresses only *certain* considerations of the relevant financial statement account balances and disclosures.

²³ Proposed ISA 501 (Redrafted), “Audit Evidence Regarding Specific Financial Statements Account Balance and Disclosures.”

After further deliberations, the IAASB agreed to a redrafted scope paragraph which refrained from using the words ‘certain but not all’.

MATERIALITY

In response to concerns raised by some respondents that references to materiality has been dealt with inconsistently in ED-ISA 501, the Task Force proposed that a ‘material’ qualifier be added to the requirement on ‘Segment Information’ to bring it in line with the remainder of the ISA. The Task Force proposed that a ‘material’ qualifier also be included in the objective paragraph to maintain consistency and linkage with the requirements in the ISA. Some IAASB members noted that it is unnecessary to refer to ‘material’ in the requirements of individual ISAs in light of the ISAs dealing with risk assessment and materiality. It was added that inclusion of a ‘material’ qualifier in the objective paragraph is inappropriate in light of the requirements in the ISA on obtaining sufficient appropriate audit evidence regarding the completeness of litigation and claims involving the entity.

After further deliberation, the IAASB agreed that ‘material’ qualifiers are not required in the objective and the requirement on ‘Segment Information’. Nevertheless, the IAASB agreed to retain the ‘material’ qualifiers currently present in the requirements on ‘Inventory’ in order to avoid the misunderstanding that the IAASB has intentionally changed the scope of the requirements which is not the case.

SPECIFICITY OF REQUIRED PROCEDURES

Some respondents raised that the elevations of ‘how-to’ guidance material as requirements in ED-ISA 501 appears to be a deviation from the original intent of the ISA to mandate the performance of selected procedures relating to the specific items rather than requiring how these audit procedures should be carried out. In response to these concerns, the Task Force proposed redrafting those instances in which the focus of the requirement is on prescribing specific audit procedures as opposed to requiring audit procedures be performed in order to achieve desired outcomes.

With regard to the requirement for the auditor to perform specific audit procedures when attending physical inventory counting, some IAASB members felt that by redrafting to articulate the principle for the performance of the procedures, which requires the specific audit procedures to be restated as application materials, it resulted in a weakening of the ISA. In addition, it was also felt that the redrafted requirement appeared to have lost the simplicity and clarity of the form it took in ED-ISA 501.

After further deliberation, the IAASB agreed that the requirement in ED-ISA 501 be re-instated with minor restructuring for enhancing clarity of the paragraph.

SEEKING COMMUNICATION WITH THE ENTITY’S EXTERNAL LEGAL COUNSEL

Some IAASB members raised that in certain jurisdictions, auditors face difficulties in complying with the requirement to seek direct communication with the entity’s external legal counsel through a letter of inquiry when the auditor identifies a risk of material misstatement regarding litigation and claims identified or believes that other litigation and claims may exist. It was raised that in these jurisdictions, there may be a blanket prohibition on legal counsels (for example, by the legal professional bodies to which they belong) on responding to inquiries letters from auditors seeking confirmation of litigation and claims involving the entity.

After some deliberation, the IAASB concluded that auditors should be permitted to perform appropriate alternative audit procedures under these circumstances and agreed to amend the requirement accordingly so as to accommodate such circumstances.

OTHER MATTERS

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

- The phrase “condition” should be reinstated in the materials which describe physical inventory. It was felt that “physical condition”, as proposed by the Task Force, changes the meaning of the phrase in the extant ISA and unnecessary limits the application of the relevant requirements.
- In relation to the requirement which addresses the auditor’s inability to attend physical inventory counting, the phrase “unforeseen circumstances” should be reinstated. It was felt that deleting the phrase changes the intent of the extant requirement which was to address the auditor’s response when unable to attend physical inventory counting due to unforeseen circumstances. In addition, it was felt that it is inappropriate to extend the requirement to circumstances when an inventory count is not performed as the requirement does not address all considerations relevant to these situations.
- The requirement to “[examine] source documents” relating to legal expense accounts should be reinstated as guidance material. It was felt that the audit procedure is not performance in all cases and that its performance is conditional on the auditor’s assessment of the need to do so.
- The phrase ‘external legal counsel’ in ED-ISA 501 should be reinstated in all references to the entity’s legal counsel. It was felt that deletion of the word ‘external’ was not in line with the original intent of the ISA which is written primarily with external legal counsels in mind.
- In relation to the requirement for the auditor to obtain written representations from management or those charged with governance regarding litigation and claims facing the entity, the part of the requirement which addresses the need for appropriate accounting and disclosure with the applicable financial reporting framework should be redrafted to align to the remainder of the ISAs.

APPROVAL

After agreeing all necessary changes to the draft, the IAASB members voted to approve the redrafted ISA with one member abstaining. Ms Hillier expressed that she is satisfied the Clarity drafting conventions have been appropriately applied in the redraft of ISA 501. However, Ms. Hillier noted that she has reservations about the resulting procedural nature of the redrafted standard, which is a deviation from IAASB's aim to have principles-based standards and also, in her view, from the original intent of the extant ISA, and at the same time, if it is to be a procedural standard, the lack of comprehensiveness of the requirements to adequately address the selected items dealt with by the ISA.

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.

10. Auditor's Reports on General Purpose Financial Statements

Ms. Hiller introduced the discussion of proposed ISA 700 (Redrafted).²⁴ She noted that significant comments on the exposure draft were discussed at the March IAASB Consultative Advisory Group (CAG) and June IAASB meetings. Subsequent to the June IAASB meeting, the IAASB members were invited to review a revised version of the proposed guidance on financial reporting frameworks described by reference to another established framework, which had been rewritten based on comments received at the June IAASB meeting. The Task Force had taken the comments received (which were summarized in the agenda papers) into account in developing the proposed revised guidance included in proposed ISA 700 (Redrafted) for this meeting.

FINANCIAL REPORTING FRAMEWORK DESCRIBED BY REFERENCE TO ANOTHER ESTABLISHED FRAMEWORK

In advance of the meeting, Mr. Kellas and Ms. Hillier met representatives of the International Accounting Standards Board (IASB) and of the International Organization of Securities Commissions (IOSCO) to discuss the proposed revised guidance. The proposed revised guidance was also discussed at the September IAASB CAG meeting.

It was clear that the IASB would not have approved any relevant amendment to IAS 1²⁵ before this meeting; nor is it yet clear that the approach proposed by the IASB will be acceptable in the light of responses received to its own consultation.

The IOSCO representatives noted that the recommendation²⁶ issued by its Technical Committee to issuers was designed to promote transparency in all cases, whereas the proposed ISA with its inevitable focus on an evaluation by the auditor of whether users might be misled by inadequate disclosure in the circumstances of the particular entity acknowledged that there may be cases where no disclosure could be accepted.

The IAASB CAG Representatives agreed that this matter of transparency needs to be addressed in the public interest; however, the majority did not support dealing with the matter in ISA 700 (Redrafted), and advised the IAASB against doing so. The reasons for this stance varied, but included concern about the subjectivity of the particular proposals and wider concern that this was a matter for relevant regulators to resolve as the auditor ought to form the opinion within the context of the applicable financial reporting framework. They believed that further dialogue amongst the various stakeholders is needed.

After giving full consideration to all of the input received, the Task Force concluded that there was not sufficient support from stakeholders to proceed with the proposed approach and recommended to

²⁴ Proposed ISA 700 (Redrafted), "Forming an Opinion and Reporting on Financial Statements."

²⁵ International Accounting Standard (IAS) 1, "Presentation of Financial Statements."

²⁶ *Statement on Providing Investors with Appropriate and Complete Information on Accounting Frameworks Used to Prepare Financial Statements* issued by the Technical Committee of IOSCO on February 6, 2008.

the IAASB that the proposed guidance be deleted from ISA 700 (Redrafted). Ms. Hillier noted that the deletion of the proposed guidance would not affect the approval of the proposed redrafted ISA as this had been proposed new guidance.

Mr. Kellas noted that this matter was originally raised by representatives from the audit firms who had been increasingly finding the use of modified IFRS in practice and requested assistance in determining the audit reporting implications, if any. The IAASB therefore has to determine to what extent it should pursue it in the future. He noted that the IAASB CAG Representatives were of the view that it is not a matter that can be resolved by the audit profession on its own. The IAASB CAG Chair is contemplating pursuing the matter with the regulatory community. He also noted that during the discussion with representatives of IASB it was proposed that a joint letter might be sent to IOSCO, suggesting that the recommendation²⁷ issued by its Technical Committee become a requirement.

Two IAASB members spoke directly on the matter. Both acknowledged the views of the IAASB CAG, and the dilemma faced by the Task Force in light of the lack of mandated disclosures through accounting standards or regulation for preparers. Mr. Fogarty agreed that in the circumstances the IAASB could not resolve the matter on its own, but suggested that the IAASB remain alert to opportunities to assist in this regard. He was also skeptical as to whether the regulatory community on its own would resolve the matter. He expressed the hope that, should criticism of relevant disclosures be made at some future date, it would be remembered that the IAASB had made considerable efforts to develop guidance for auditors in the absence of mandated disclosures for preparers, but that stakeholders had not been supportive. Mr. Ferlings expressed similar concerns.

The IAASB agreed that other bodies are the more appropriate ones to pursue the matter, but that the IAASB should monitor future developments and be prepared to contribute further if and when it is appropriate to do so.

The IAASB agreed that the proposed revised guidance (paragraphs A11-A14 and A36-A40) should be deleted, and that the IAASB's deliberations in this regard should be fully documented in the Basis for Conclusions.

FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH TWO FINANCIAL REPORTING FRAMEWORKS

Ms. Hillier noted that, as requested at the June IAASB meeting, the Task Force reconsidered the guidance from paragraph 7 of IAPS 1014²⁸ in ISA 700 (Redrafted) regarding circumstances when the financial statements disclose the extent of compliance with another financial reporting framework. The Task Force concluded that the guidance remains appropriate but could be clarified. The Task Force proposed that the guidance on financial statements that represent compliance with two financial reporting frameworks (paragraph A36) be linked to the guidance on supplementary information that cannot be clearly differentiated from the financial statements (paragraph A53). In addition, the Task Force proposed to delete the phrase "the financial statements fail to comply with

²⁷ See footnote 26.

²⁸ International Auditing Practice Statement (IAPS) 1014, "Reporting by Auditors on Compliance with International Financial Reporting Standards."

the applicable financial reporting framework” (paragraph A36(a)), as it may be interpreted to imply that there is an explicit requirement for the disclosure in the framework. The IAASB agreed with the Task Force’s proposed changes.

DATE OF APPROVAL OF THE FINANCIAL STATEMENTS

Ms. Hillier highlighted inconsistencies between the text dealing with the date of approval of the financial statements in ISA 560 (Redrafted)²⁹ and that in ISA 700 (Redrafted), and explained the Task Force’s proposal in this regard. The IAASB agreed that the ISAs should be amended to indicate that the date of approval of the financial statements for purposes of ISAs is the date on which those with the recognized authority conclude that all the statements that comprise the financial statements, including the related notes, have been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.

APPROVAL

After agreeing all necessary changes to proposed ISA 700 (Redrafted), all the IAASB members unanimously approved the ISA. 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.

11. Special Reports

Ms. Smith introduced the discussion of proposed ISA 800 (Revised and Redrafted),³⁰ proposed ISA 805 (Revised and Redrafted)³¹ and proposed ISA 810 (Revised and Redrafted).³² She noted that significant comments on the exposure drafts were discussed at the March IAASB Consultative Advisory Group (CAG) and June IAASB meetings. Subsequent to the June IAASB meeting, the IAASB members were requested to review the proposed revised ISAs.

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

The IAASB agreed that the Emphasis of Matter / Other Matter paragraphs in the illustrative auditors’ reports in the appendix to the proposed ISA should be changed to read as follows: “Without modifying our opinion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to ...”

²⁹ ISA 560 (Redrafted), “Subsequent Events.”

³⁰ Proposed ISA 800 (Revised and Redrafted), “Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks.”

³¹ Proposed ISA 805 (Revised and Redrafted), “Special Considerations—Audits of Single Financial Statement and Specific Elements, Accounts or Items of a Financial Statement.”

³² Proposed ISA 810 (Revised and Redrafted), “Engagements to Report on Summary Financial Statements.”

ISA 805 (REVISED AND REDRAFTED), “SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT”

The IAASB agreed that the Basis for Conclusions should explain the effective date of the proposed ISA for audits of single financial statements or of specific elements, accounts or items of a financial statement *prepared as at a specific date* (paragraph 4).

In addition, the IAASB agreed that:

- The illustrative auditors’ reports in the appendix to the proposed ISA should be changed as agreed for ISA 800 (Redrafted), and
- The circumstances described for Illustration 3 should indicate that only the use of the auditor’s report is restricted.

ISA 810 (REVISED AND REDRAFTED), “ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS”

Ms. Smith noted that an IAASB member felt strongly that there should be some obligation on the auditor to consider events between the date of the auditor’s report on the audited financial statements and the date of the auditor’s report on the summary financial statements. The IAASB debated whether to include additional guidance in the proposed ISA. Reference was made to the fact that: (1) the auditor is reporting on whether the summary financial statements are a fair summary of the audited financial statements or whether the summarized financial statements are consistent, in all material respects, with the audited financial statements and not whether the summary financial statements achieve fair presentation; (2) when the auditor’s report on the summary financial statements is dated later than the date of the auditor’s report on the audited financial statements, the ISA requires the auditors’ reports on the summary financial statements to clearly indicate that the summary financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor’s report on the audited financial statements; and (3) the *Code of Ethics for Professional Accountants* provides for the auditor not to be associated with misleading information. The IAASB agreed not to change the proposed ISA.

The IAASB agreed that the following sentence in paragraph A9 should be deleted as the matter is covered by the guidance in the first part of the paragraph: “Having agreed the form of opinion with management . . . , it is not appropriate to change the form of opinion in the belief that a different form may avoid the need for a modified opinion.”

APPROVAL

After agreeing all necessary changes, all the IAASB members present unanimously approved ISA 800 (Redrafted) and ISA 805 (Redrafted). Sixteen of the eighteen IAASB members approved ISA 810 (Redrafted) with Ms. Esdon and Mr. Grant voting against the ISA.

Ms. Esdon voted against the ISA because of concerns with the auditor’s report on the summary financial statements, specifically its length and complexity, and the fact that the ISA allows for two phrases to express the auditor’s opinion in the report but does not indicate that the phrases are equivalent, even though the work effort for both phrases is the same

Mr. Grant was of the view that: (1) the ISA is unnecessarily complex in the context of existing legal requirements in some countries; (2) there is a danger that the ISA will cause confusion as to the nature of work an auditor performs on summary financial statements included in prospectuses as the ISA does not state that it does not apply to such summary financial statements; and (3) the standard should not be classified as an ISA.

Mr. Kellas suggested that the IAASB in the future consider the question of the application of the ISAs to information in documents offering securities to the public. He noted that it may be helpful to note somewhere in the ISAs that, while they may be useful when reporting on information included in documents offering securities to the public, they are not developed for such a purpose.

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 ISA is subject to confirmation from the PIOB that due process has been followed.

12. Communicating Deficiencies in Internal Control

Mr. Cowperthwaite introduced the discussion of the significant comments received on the exposure draft of the proposed ISA 265. He indicated that overall, respondents were supportive of the proposed ISA. He highlighted a number of significant comments that the Task Force had received from the IFAC SMP Committee. He also noted that the IAASB CAG had discussed the topic earlier in September and that he would be highlighting the significant comments from CAG Representatives during the discussion. He summarized the main issues raised on exposure and led a review of the revised draft of the proposed 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.

LOCATION OF THE IDENTIFICATION REQUIREMENT

At the September meeting, an IAASB member commented that the proposed ISA did not appear to be solely a communication standard because it seemed to comprise two distinct parts, i.e. a part dealing with the identification of deficiencies in internal control, and a part dealing with their communication. It was noted that the guidance relating to the identification part seemed to be of an operational nature and therefore more suited to being in ISA 315 (Redrafted) than in a communication ISA. It was noted that if the identification requirement were taken out of ISA 315 (Redrafted), it would be unclear how the auditor would identify deficiencies in internal control as part of the risk assessment. In addition, it was pointed out that while guidance in ISA 330 (Redrafted)³³ indicates that the existence of deficiencies in internal control may lead the auditor to vary the nature, timing and extent of audit procedures, under the proposal there would be no requirement in ISA 330 (Redrafted) for the auditor to evaluate whether such deficiencies in fact exist.

³³ ISA 330 (Redrafted), paragraph A2.

Accordingly, it was suggested that it would be more logical that the requirement relating to identification be moved back to both ISAs 315 (Redrafted) and 330 (Redrafted), where it is presently situated.

Another IAASB member questioned whether the identification requirement might be the cause of confusion among some readers as to whether this ISA is a performance or a communication standard. It was suggested that the requirement might perhaps be unnecessary given that the same result appears to be achieved through the condition in the immediately succeeding requirement, i.e. “if the auditor has identified one or more deficiencies in internal control” An IAASB member noted, however, that the intended effect of the identification requirement is to draw together all the deficiencies identified during the audit for the purpose of determining whether they are significant or not. The IAASB asked the Task Force to consider the matter further in the light of the comments.

DEFICIENCIES THAT ARE NOT CLEARLY INCONSEQUENTIAL BUT ARE NOT REPORTABLE

In response to comments on exposure, the Task Force proposed to introduce a 4th category of deficiencies in internal control, being deficiencies that are not inconsequential but are not of sufficient importance to merit management’s attention. A number of IAASB members were of the view that this proposal could have the potential of creating further inconsistency in reporting, and cause confusion among practitioners as to what the ISA requires. Further, it was questioned whether it would be in the public interest for the auditor to have identified a deficiency that is not inconsequential and then not report it to anyone. It was noted that the determination of what is inconsequential is where the application of the auditor’s judgment truly becomes key. Thus, if the auditor has concluded, based on professional judgment, that a deficiency is inconsequential, the auditor would not communicate it. It was suggested that if the scope of the requirement to communicate to management were to be viewed in that light, it would be important for the ISA to explain how the auditor would make the judgment as to whether a deficiency is inconsequential. The IAASB asked the Task Force to consider the matter further in the light of the comments.

LEGAL OR REGULATORY REQUIREMENT TO COMMUNICATE MATERIAL WEAKNESSES

At the September meeting, the Task Force recommended that the terminology proposed in the exposure draft should be retained as it had the support of the overwhelming majority of the respondents. A few IAASB members commented that the meaning of the concept of a significant deficiency should not vary depending on the nature and scope of the audit. It was noted that while there may be a need to establish a further category of deficiencies in internal control when there is a requirement in law or regulation (e.g. a public reporting requirement under an integrated audit), that should not in itself create a need for a different definition of the term ‘significant deficiency’. It was also noted that retaining the proposal in the exposure draft would further the goal of international convergence, as the same term and definition are already used in the United States for audits of both listed and unlisted entities, and that this terminology had travelled well to other jurisdictions, including Europe. In addition, it was noted that in the United States, the absence of objective criteria in the definition of significant deficiency has had the beneficial effect of encouraging greater communication between the auditor and those charged with governance and management. After deliberating the matter further, the IAASB agreed that the terms and definitions in the exposure draft should be retained.

Nevertheless, given that this approach to terminology would not directly address the legal requirement under the EU Statutory Audit Directive for the auditor to communicate material weaknesses in internal control to those charged with governance, the IAASB asked the Task Force to consider whether guidance could be provided in the application material to explain how the auditor might interpret such a legal requirement in the context of the requirements and guidance in the ISA. The IAASB agreed that such guidance should not make any presumptions as to whether or not material weaknesses under the Statutory Audit Directive (or any other term under the applicable legal or regulatory requirement) are a subset of significant deficiencies.

OTHER MATTERS

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

- To make it clear that the auditor is not required to perform specific procedures to identify deficiencies in internal control, the scope paragraph should indicate that the proposed ISA does not establish additional requirements regarding the examination of internal control over and above the requirements of ISAs 315 (Redrafted) and 330 (Redrafted).
- The statement in the scope paragraph that the ISA does not apply where the auditor has been engaged to express an opinion on the effectiveness of internal control should be deleted, as it may be read as implying that the auditor has no obligation to communicate significant deficiencies because the auditor has performed an audit of internal control.
- To avoid the definition of the term ‘significant deficiency’ appearing overly subjective, it should be more closely linked to the guidance in the application material that explains the factors that affect the significance of a deficiency, including whether the possible future consequences of the deficiency could lead to material misstatements in the financial statements.
- To sharpen the focus of the communication requirements, the proposed ISA should first require the communication of significant deficiencies to those charged with governance and then deal separately with the requirement to communicate significant deficiencies and other deficiencies in internal control to management.
- The requirement to communicate to management should be subject to the proviso that it is not inappropriate to communicate directly to management in the circumstances, and that condition should be included in the requirement as opposed to being demoted to the application material.
- Guidance relating to compensating and/or redundant controls should be deleted as it introduces unnecessary complexity in the context of an audit performed in accordance with the ISAs, given that the decision about what needs to be reported is essentially subjective.
- In the context of the guidance explaining that a deficiency in internal control on its own may not be sufficiently important to constitute a significant deficiency, the Task Force should reconsider the appropriateness of using as illustration an IT subsystem consisting of a combination of controls, given that a deficiency in an IT general control is always considered a significant deficiency.
- The Task Force should reconsider the guidance suggesting that the documentation of discussions of identified deficiencies in internal control with management would be addressed by the general requirement of ISA 230 (Redrafted) for the auditor to document discussions of significant matters

with management, as it is unclear under what circumstances a deficiency would be a significant matter but not a significant deficiency.

WAY FORWARD

The IAASB asked the Task Force to consider its comments and to prepare a revised draft of the proposed ISA for distribution to participants for comment in advance of the December 2008 IAASB meeting, prior to presenting the proposed ISA for approval at that meeting.

13. Service Organizations

Ms. Esdon introduced the discussion of significant comments received on the exposure draft of proposed ISA 402 (Revised and Redrafted)³⁴ (ED-ISA 402). She indicated that respondents were generally supportive of ED-ISA 402 and noted it was a significant improvement from the extant standard. The IFAC Small and Medium Practices Committee (SMP Committee) did not raise any significant matters relating to the audits of smaller entities. The analysis of significant comments was discussed also at the September 2008 IAASB CAG meeting and the relevant points are noted below.

SHARED SERVICE CENTERS

A question was posed in ED-402 as to whether the ISA could be adapted for shared service centers. Ms. Esdon noted that while the majority believed it could be adapted, it was suggested that further could be done to explain the interaction with ISA 600 (Revised and Redrafted).³⁵ A question arose at the CAG meeting about whether the proposed wording describing the circumstances in which the ISA could be adapted was appropriate. The Task Force intends to review similar references in other ISAs to determine how best to refer to the ability to adapt the ISA. One CAG Representative thought that more requirements and guidance would be needed in order to adapt the ISA, but did not provide specific examples.

Ms. Esdon explained that the changes made to the definition were done to address the situation in which a component auditor is faced with having to issue an opinion on the whole component, usually a statutory entity, and would need to obtain information about the controls at a shared service center or carry out substantive procedures on a shared service center. Some IAASB members thought limiting the adaptation of the ISA to statutory audits only was too limiting. However, there was also a concern that any reference to the ISA's applicability may promote the ISA as being more useful than it actually will be in practice, since there are many other issues, in particular when the entire accounting function is under the control of a shared service center, that are not addressed in the ISA.

In general, the IAASB members had mixed views as to whether any reference to shared service centers was necessary. It was suggested in the absence of another standard specifically dealing with shared service centers, wording that cited that there was useful guidance in this ISA, rather than implying that if this ISA was adapted it would be sufficient, could be developed.

³⁴ Proposed ISA 402 (Revised and Redrafted), "Audit Considerations Relating to an Entity Using a Third-Party Service Organization."

³⁵ ISA 600 (Revised and Redrafted), "Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)."

SMALL- AND MEDIUM-SIZED ENTITY ISSUES

Some respondents commented that ED-ISA 402 seemed to express a preference for the use of Type A and Type B reports, to the extent that if they did not exist, the user auditor would demand the service organization engage a service auditor. This was not the intent of ED-ISA 402 and changes have been made to the proposed ISA to balance it in terms of the procedures that a user auditor may undertake, and highlighting that while a Type A or Type B report might not be available for SMEs, a user auditor may have more direct access to the service organization.

OTHER MATTERS RAISED BY THE CAG REPRESENTATIVES

One Representative believed further emphasis should be placed on the fact that a Type A or Type B report is not likely to constitute sufficient appropriate audit evidence by itself. Another Representative thought the Appendix was difficult to translate and suggested more generic terms be used if the Appendix is to be retained.

The question of whether the requirement for the user auditor “to be satisfied as to the service auditor’s professional competence and independence” was sufficiently strong arose during the CAG meeting, in light of the fact that the auditor is required to evaluate the competence of an auditor’s external expert in ISA 620 (Revised and Redrafted). The view of the Task Force, Ms. Esdon explained, is that this wording is appropriate given that the user auditor’s access to the service auditor is not the same as when an auditor would be hiring an auditor’s expert, and to impose more on the user auditor would lead to extreme difficulty in practice. A CAG Representative also suggested that further guidance be added to discuss whether a pricing service could meet the definition of a “service organization,” or whether a pricing service was more in that nature of an expert. Ms. Esdon noted that it would depend in the circumstances.

The Task Force will determine whether any further changes are necessary in light of the comments received from the IAASB CAG in presenting the revised draft for approval as a final ISA at the December meeting.

DEFINITIONS AND REQUIREMENTS AS SET FORTH IN THE REVISED ISA

In addition to the matters discussed above, the Task Force was asked to consider the following:

- Whether the changes made in paragraph 3 of the ISA made it more clear what types of organizations would fall into the definition of a service organization. In particular, a few members expressed concern with the use of the phrase “affect the user entity’s information system” as compared to “are part of a user entity’s information system.” It was also suggested that rather than information technology, the example of safeguarding of assets could be used.
- Whether the definition of “other auditor” is necessary and, if so, whether further guidance could be added to address the types of reports another auditor may provide.
- Whether further application material could be developed to acknowledge that experts, such as IT experts, may be needed to understand the service organizations if the systems are particularly complex.
- Whether it is necessary to limit the definition of complementary user entity controls to those controls that are described in the description within a Type A or Type B report.

- Whether the definition of control objectives should be included in this ISA.
- Whether further application material could be developed in discussing Type B reports to remind the auditor that the evidence provided by a Type B report must be evaluated to determine if it is sufficient and, if not, that further procedures will need to be performed to obtain sufficient appropriate audit evidence.

WAY FORWARD

The IAASB asked the Task Force to present a revised draft of the proposed ISA for approval at the December 2008 IAASB meeting. As the changes to the Application and Other Explanatory Material were not discussed due to time constraints, the IAASB was asked to forward any additional comments they may have to the attention of the Task Force so that these can be considered in preparing for the December meeting.

14. Fair Values

Mr. Fogarty provided the IAASB with an update on the activities of the Task Force, noting the most substantial progress had been made on the alert on the application of the existing standards in audits of fair values. If possible, the release of this alert will coincide or follow the expected release of material from the International Accounting Standard Board's Expert Advisory Panel. He explained the proposed alert will be staff guidance and non-authoritative.

The IAASB CAG, some of whom are members of the Task Force, has been very supportive of the direction that the IAASB is going.

The IAASB will also have an opportunity to share experiences learned in the Task Force's activities at a Symposium to be held in connection with the Forum of Firms meeting in October. This will be an educational, knowledge-sharing session about issues encountered and lessons learned during the credit crisis.

One IAASB member questioned whether the IAASB's Terms of Reference allow for the issuance of a document like an alert and, if so, whether this could be a vehicle used for future communications. Mr. Sylph noted that this was within the remit of the IAASB and the alert would be issued with cautionary language indicating that this is a staff-prepared document, similar to what had been issued by the PCAOB. This is in contrast to an International Auditing Practice Statement, which would be an IAASB-approved document subject to due process. The alert provides a means of disseminating information broadly and in a timely manner about the existing requirements in the ISAs that are currently effective.

It was also suggested that academics would benefit from the release of further guidance by the IAASB.

Mr. Kellas also noted that a formal letter had been sent to the Financial Stability Forum updating them of our progress to date, as they had issued a recommendation that the IAASB do work in this important area.

The Task Force will continue to update the IAASB as its activities progress.

15. PIOB Observer Remarks

Mr. Hafeman shared his overall assessment of the meeting. He congratulated the IAASB, its task forces and staff for the significant progress that had been achieved on the clarity project at the meeting. He acknowledged the significant efforts that have been made by various stakeholders to keep up with the pace of, and to contribute to, the IAASB's work. He was of the view that the significant issues brought before the IAASB had received sufficient attention during the meeting and that the focus on the public interest had not been lost during the IAASB's deliberations. He emphasized the need for active participation in the Board deliberations by all IAASB members.

Nonetheless, he expressed disappointment regarding the outcome on two specific matters, i.e., the IAASB's decision to not include the proposed flowcharts illustrating the auditor's reporting under the corresponding figures and comparative financial statements models in the appendix of the proposed ISA 710 (Redrafted), and its decision to not address the issue of a financial reporting framework described by reference to another established framework in the proposed ISA 700 (Redrafted). With regard to the former, he took comfort that such flowcharts would be considered for inclusion in implementation support material. With regard to the latter, he was of the view that by not addressing the matter in the standard, the IAASB had missed an opportunity to further the public interest. However, he indicated that he would discuss with the PIOB whether the matter should be added to the IAASB's future work plan.

16. Next Meeting

The next meeting of the IAASB has been scheduled for December 8-11 in Brussels, Belgium.

17. 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.