



# SHAPING NEW SOLUTIONS TO GLOBAL ISSUES

2013 IAASB® ANNUAL REPORT

IAASB

International Auditing  
and Assurance  
Standards Board®



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This electronic version of the IAASB 2013 Annual Report contains hyperlinks to the IAASB website which provides further information about the projects, publications, and other matters referred to herein.

# THE INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

The **International Auditing and Assurance Standards Board** (IAASB) is an independent standard-setting body that serves the public interest by setting, under its own authority, high-quality international auditing, review, other assurance, quality control, and related services standards. The IAASB also seeks to facilitate adoption and implementation of international standards. These objectives contribute to enhanced quality and consistency of practice throughout the world, and strengthened public confidence in the global auditing and assurance profession.

The IAASB sets its international standards under the oversight of the **Public Interest Oversight Board** (PIOB), and with the advice of the **IAASB's Consultative Advisory Group**, which provides public interest input into the development of its standards.

The IAASB consists of a full-time chairman and 17 volunteer members from around the world. The 18 **board members** comprise nine practitioners<sup>1</sup> with significant experience in the field of auditing and other assurance services and nine non-practitioners (including the chairman) who are not members or employees of an audit firm. Three of the non-practitioners are public

members: individuals who are expected to reflect, and are seen to reflect, the wider public interest. All board members and their technical advisors are required to sign an annual statement declaring that they will act in the public interest and with integrity in discharging their responsibilities.

The IAASB ordinarily meets at least four times a year for a full week at each meeting. Additionally, the board may hold short teleconferences to consider specific issues.

In developing its standards, the IAASB is required to be, and is dedicated to being, transparent in its activities and to adhere to **due process** as approved by the PIOB. Board meetings and teleconferences are open to the public. Current IAASB exposure drafts, consultation papers, and all comment letters provided thereon are available on the IAASB website. Current and past agenda papers and meeting minutes, as well as audio recordings of the IAASB's meetings, meeting highlights, and audio podcast summaries of meetings are available on the **IAASB website**.

The structures and processes that support the operations of the IAASB are facilitated by the **International Federation of Accountants**<sup>®</sup> (IFAC<sup>®</sup>).



Back Row (left to right):

Cédric Gélard, Brendan Murtagh, Marc Pickeur, Dan Montgomery (Deputy Chair), Tomokazu Sekiguchi, Prof. Arnold Schilder (Chairman), Jean Blascos, Jonas Hällström, John Wiersema, Valdir Coscodai, Bruce Winter, Chuck Landes

Front Row (left to right):

Jianshen Chen, Jon Grant, Caithe Mc Cabe, Merran Kelsall, Prof. Annette Köhler, Arch Archambault

*For a full listing of IAASB Members, Technical Advisors, Observers, and Staff, and further information, see page 13 of this report.*

<sup>1</sup> A non-practitioner is a person who is not a member or employee of an audit practice firm. In respect of individuals who have been members or employees of such firms, these individuals are normally subject to a cooling-off period of three years.



# REPORT OF THE IAASB CHAIRMAN

PROF. ARNOLD SCHILDER

One corollary of the global financial crisis is that many parties—from investors, analysts, directors, and politicians, to central banks, regulators, standard setters, and auditors—recognize the global nature of the issues that impact financial reporting and the need for global solutions. The status quo is being challenged and important questions are being asked: What can be done better to enhance audit quality and financial reporting? How can the public's confidence in credible financial reporting be restored?

Such questions often are not intended to be negative. Rather, they demonstrate society's great expectations of the role of audit—indeed, the global accountancy profession itself.

For the IAASB, these questions reinforce the public interest importance of having a single, robust set of global standards for audit, other assurance, related services, and quality control, which can be applied in both the private and public sectors.



This is an exciting, yet challenging, time for the IAASB. The board has been working hard to address the calls for change from its stakeholders. Many of the issues in reporting and assurance today, however, cannot be solved by the IAASB alone. Therefore, as the board strengthens and improves its international standards, it continues to engage in and stimulate collaboration among interested stakeholders towards global and holistic solutions.

## RESPONDING TO A CHANGING AUDIT ENVIRONMENT

### *A Framework for Audit Quality*

In December 2013, the IAASB approved its new publication, **A Framework for Audit Quality**. The essential goals for this Framework are to raise awareness of the key elements of audit quality; encourage stakeholders to reflect on ways to improve audit quality; and facilitate greater dialogue among stakeholders on the topic. It is a comprehensive publication, developed with input from the board's Consultative Advisory Group (CAG), public consultation and outreach, the advice of individuals from the regulatory community, and our fellow Ethics and Education standard-setting boards, which assisted our working group.

I am pleased to note the positive reactions received on the Framework from various stakeholders. The IAASB will continue to contribute to the discussion on this important topic in various ways, including through its new webpage, "**Focus on Audit Quality**," which was launched in early 2014 to provide supplemental material supporting awareness and use of the Framework.



### *Enhanced Auditor Reporting*

The public interest need for increased transparency about the audit and for more informative auditor's reports remains strong. The IAASB's auditor reporting project therefore remained a top priority in 2013.

With the benefit of extensive global input, the IAASB reached an important milestone in July with the release of its auditor reporting exposure draft package. Among several other key changes, the proposals included a new International Standard on Auditing™ (ISA™) that will require communication of key audit matters in auditor's reports for listed entities, and which may be applied for audits of all other entities.

I am pleased with the support received on the direction of these proposals—and I am particularly grateful for the valuable and constructive feedback that will help further guide the board as it explores practical considerations in moving forward. Planned implementation support and a post-implementation review will no doubt help solidify the new and revised reporting ISAs in practice.

Auditor communication of key audit matters is no doubt the most innovative aspect of the auditor reporting project—described by some as a 'step-change'. It will make the auditor's work more transparent and relevant to users. It will stimulate discussion and analysis on the areas noted in auditor's reports. It will reinforce the dialogue and interactions with the many users of auditor's reports, and therefore hopefully positively influence perceptions about audit quality, as noted in our Framework. For me, the concept also rightly puts the auditor back in the public forum—where the Roman name 'auditor' comes from: first listen, then speak out in public where important.

It is encouraging to listen to auditors who have tested the proposals when developing their feedback to the board's proposals, and those who already have put forth real-life examples of how such communication can be done. They indicate that the engagement partner and the audit team often will have an intuitive assessment of the areas of most significance or difficulty. Of course, the answer to "how should key audit matters best be communicated" will take some time, but already the public marketplace has in place some best-in-class examples of how it can be done. Auditors that we have met are proud about what they now are stimulated to do, and what they can demonstrate given their expertise, quality and relevance.

The IAASB remains fully committed to finalizing its new and revised standards in 2014, which will change the landscape for auditor reporting for generations to come. In doing so, we continue to learn from and share our perspectives with policy makers that are also active in this space—the U.S. Public Company Accounting Oversight Board, European Commission (EC), UK Financial Reporting Council (UK FRC), regulatory bodies in France, the Netherlands, and others. More broadly, it is important that all stakeholders embrace the spirit of this important initiative and focus on ensuring its success.

In 2013, the IAASB also deliberated the feedback on its proposals addressing auditor responsibilities relating to other information. We learned from the feedback to these proposals that there is more work to be done to fully reflect our intentions, and the board has done just that, with **revised proposals** released in early 2014 for public comment.

### *Auditing Financial Statement Disclosures*

Disclosures are a fundamental part of financial statements and are increasingly qualitative in nature. Users are attaching greater importance to them in order to understand an entity and its financial statements. In 2013, the IAASB determined that there are areas in the ISAs where enhancements could be made with respect to addressing disclosures in the audit of financial statements. The IAASB made significant progress in 2013 in analyzing the issues and developing **proposals** for release in 2014.

### **ADOPTION AND IMPLEMENTATION OF THE CLARIFIED ISAs**

We have come a long way since the adoption of the clarified ISAs. Since 2008, we have been active in outreach with many international and national regulatory bodies, auditor oversight and inspection authorities, and national standards setters in support of adoption and implementation of the clarified ISAs. Our efforts have been fruitful. I am pleased to see a continued increase—from 88 in 2012 to 92 in 2013—in the number of jurisdictions that use, or are committed to using in the near future, the clarified ISAs. As of the release of this report, this number is over 100!



I am also pleased to note specific reference to the ISAs and other relevant IAASB standards in the May 2014 European Union Audit Directive and Audit Regulation. We encourage timely progress on the remaining assessments required of the EC for final adoption of the ISAs in Europe, and we will of course assist as appropriate.

### **MORE THAN JUST AUDITS**

Audits of financial statements are not the only assurance service for which international standards are important in the public interest. For this reason, the IAASB has devoted significant efforts to enhancing its suite of standards other than ISAs since the completion of the Clarity project.

In 2013, the IAASB released International Standard on Assurance Engagements™ (ISAE™) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* which provides an umbrella assurance standard for a wide range of reasonable assurance and limited assurance engagements. Our work on this standard has incorporated the experience and insights gained when developing recent topic-specific ISAEs, such as the new ISAE on Greenhouse Gas Statements and other assurance standards, so it is appropriately robust while also being capable of serving as the basis for new engagements as the assurance field continues to evolve.

To this end, we have been actively monitoring the work of many groups to identify and assess trends in reporting and the need for new assurance standards. For example, the work of the International Integrated Reporting Council (IIRC), in particular, its framework for Integrated Reporting is of great interest. Integrated reporting is a significant development in emerging reporting practices, and inevitably will lead to questions about the public interest need for assurance on such information.

### **LIAISON AND COLLABORATION**

We remain vigilant for opportunities to facilitate adoption and support effective implementation of the IAASB's standards. The final **report** on our ISA Implementation Monitoring project was released in July 2013. It summarizes our active dialogue with audit firms, the international and national regulatory and audit oversight communities, and national standards setters about where further enhancements in our standards may be

necessary. Our meetings with organizations such as the International Forum of Independent Audit Regulators (IFIAR) and the International Organization of Securities Commissions (IOSCO) have been constructive and informative, as has been our annual national auditing standards setters meeting. Dialogue with investors, analysts, preparers, those charged with governance, accounting firms, and others has also enabled us to obtain further public interest input on the IAASB's projects and initiatives. Such input is integral to finding meaningful and workable solutions to some of the very challenging issues that face the profession today.

Our liaison efforts with the International Accounting Standards Board (IASB) also continue. The work of both the IAASB and the IASB have benefited from active dialogue between the boards, in particular on topics such as the auditability of new IASB proposals, disclosures, materiality, and going concern.

### TOWARDS THE FUTURE

We remain committed to our public interest mandate, especially as the environments for audit, other assurance, and related services engagements evolve. Though there is much to be done to bring our current work program to substantial completion over the next year, I am confident that, with the input received to date, we are well positioned to achieve this.

In 2013, we commenced our planning for the next five years and released for public comment a consultation paper on the IAASB's Proposed Strategy and Work Program for 2015-2019. It incorporates feedback from the IAASB's March 2013 stakeholder survey, the results of the IAASB's recently completed post-implementation review of the clarified ISAs, and the outcomes of the IAASB's extensive outreach program.

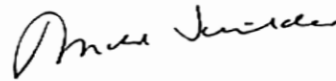
In the past, the IAASB's strategy has been developed for a three-year time period. We have decided to change this strategy period to five years, commencing in 2015, to enable stakeholders to better understand our medium- to longer-term priorities.

New member appointments, as well as further details of the IAASB's projects during the year, are included on page 13 in the Report of the IAASB Technical Director.

### ACKNOWLEDGEMENTS

I thank all members, technical advisors, observers, and staff of the IAASB for their unwavering commitment to the IAASB's work, with special thanks to my Deputy Chair, Dan Montgomery. I also thank those members whose terms ended in 2013: John (Arch) Archambault, Jianshen (Jason) Chen, Jon Grant, and Caithlin McCabe. I extend my gratitude to the PIOB, which has observed, and commented on, the work of the IAASB, and to Prof. Linda de Beer, independent Chair of the IAASB Consultative Advisory Group (CAG), and all those representatives in the IAASB CAG who have contributed to the work of the IAASB.

I would also like to especially thank Executive Director, Professional Standards and External Relations Jim Sylph, for his advice and support over many years. Jim will be retiring from his position in 2014 and his presence will be missed. But we are delighted about his successor, James Gunn. Jim: very well done. James: warm welcome in this new role – and thanks to your great team.



Prof. Arnold Schilder  
Chairman



# REPORT OF THE IAASB TECHNICAL DIRECTOR



**JAMES L. GUNN**

The IAASB continues to engage in a broad range of standard-setting and related initiatives aimed at enhancing the quality and consistency of practice internationally. I summarize below the IAASB's many accomplishments in 2013 that, in my view, help strengthen the public's confidence in the global auditing and assurance profession.

## NEW INTERNATIONAL STANDARDS AND OTHER PUBLICATIONS

### *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

In 2013, the IAASB finalized ISAE 3000 (Revised). ISAE 3000 (Revised) serve as the umbrella assurance standard for a wide range of reasonable and limited assurance engagements and its revision is both timely and relevant in light of developments in the broader reporting context.

The standard has enhanced requirements and guidance in several areas, from the practitioner's engagement acceptance considerations and responsibilities when using the work of others, to risk assessment and engagement reporting. These enhancements serve to safeguard the quality and consistency of assurance engagements that are increasingly being delivered to serve a wide variety of user needs, including those of small- and medium-sized entities (SMEs).

The revised standard is written within the context of attestation engagements only, a decision arrived at after substantive exploration of how differing concepts and terminology in attestation and direct engagements might be aligned, and how those changes may affect

Details of the IAASB's outputs and activities across its projects and other initiatives for the year are shown in the table on page 12.

usability of the ISAE by public and private sector practitioners. The board also gave consideration to the overall balance of the ISAE in light of these changes, in particular its understandability and applicability in practice. Nonetheless, ISAE 3000 (Revised) can be applied to reasonable assurance and limited assurance direct engagements, adapted as necessary in the engagement circumstances.

Accompanying the release of the revised standard was an updated International Framework for Assurance Engagements, and conforming amendments to the topic-specific ISAEs. The standard is effective for assurance engagements where the assurance report is dated on or after December 15, 2015.

### *Using the Work of Internal Auditors*

The IAASB released ISA 610 (Revised 2013), which includes new requirements and guidance addressing the external auditor's use of internal auditors to provide direct assistance to the external auditor in an audit. Where such use is not prohibited by law or regulation, the ISA helps ensure that direct assistance is obtained only in appropriate circumstances, with appropriate limitations and safeguards, and that the auditor's responsibilities are clearly set out. The material pertaining to direct assistance is effective for audits of financial statements for periods ended on or after December 15, 2014.



## Audit Quality

Audit quality encompasses the key elements that create an environment which maximizes the likelihood that quality audits are performed on a consistent basis. It is in the public interest that those key elements are identified and globally understood. Accordingly, the IAASB approved its new *Framework for Audit Quality* in December 2013.

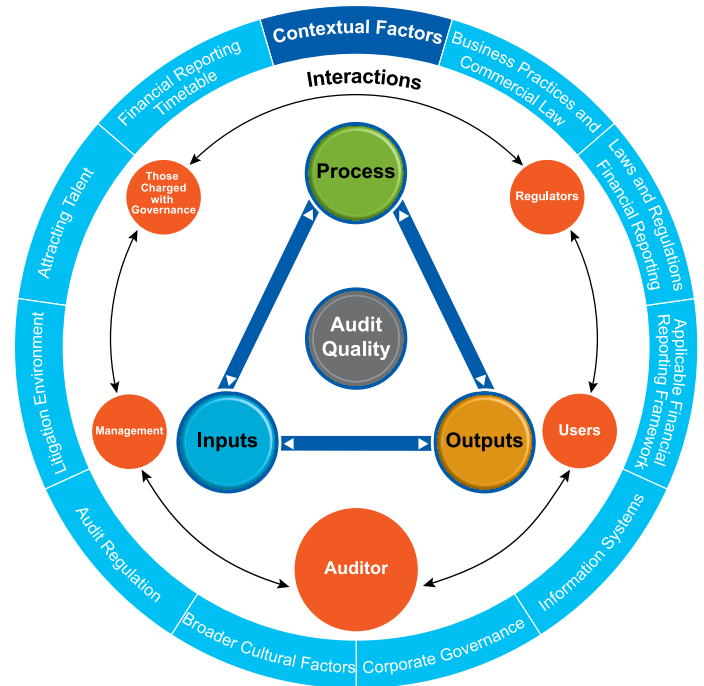
The *Framework* acknowledges that the quality of an individual audit rests with auditors, but nonetheless is influenced by several factors. It distinguishes the inputs, processes, and outputs that contribute to audit quality at the engagement, audit firm, and national levels. It also demonstrates the importance of appropriate interactions among stakeholders and the relevance of various contextual factors.

The *Framework* is intended to raise awareness of the key elements of audit quality and facilitate greater dialogue on the topic among key stakeholders. The IAASB hopes that the *Framework* will encourage stakeholders to challenge themselves to think about whether there is more they can do to increase audit quality in their particular environments.

The release of the *Framework* does not conclude the IAASB's work on this very important topic. The board will continue to take steps to promote stakeholder consideration of the *Framework* and, after a period of time, to understand how, and in what way, it is being used. I am pleased to already see reference to its use by several bodies as they explore their audit quality related initiatives.

### ISA Implementation Monitoring

In 2013, the IAASB released its **final report** summarizing findings of its ISA Implementation Monitoring project. Input on the IAASB's post-implementation review came from regulators and audit oversight bodies, accounting firms, national standard setters and IFAC member bodies, as well as from specific jurisdictions and small and medium-sized practices. The findings in the report indicate that the clarified ISAs are generally understood and the revised ISAs appear to have achieved the IAASB's goals in revising them. The report also includes feedback about how the IAASB could improve individual ISAs. This feedback will weigh heavily in the IAASB's future standard-setting activities.



Framework for Audit Quality  
(February 2014)

## EXPOSURE DRAFTS AND CONSULTATION DOCUMENTS

### Auditor Reporting

The auditor reporting proposals featured in the IAASB's July 2013 exposure draft will result in substantive changes to how auditors approach communication to users of their reports. These changes are critical to the perceived value of the financial statement audit, and thus to the continued relevance of the auditing profession.

Included in the exposure draft is proposed new ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*. This proposed standard establishes requirements about what the auditor's report should include regarding key audit matters, and how those matters are determined. During the exposure period, the IAASB encouraged audit firms (and public sector equivalents, as applicable) to "field test" the application of proposed ISA 701 and thereby gain experience about how it may operate in practice.

Among other enhancements, the IAASB's proposals included requirements for auditors to include specific statements about going concern in their auditor's reports, to make an explicit statement about the auditor's independence from the audited entity and, for listed entities, to disclose the name of the engagement partner in the auditor's report. The exposure draft also



included examples of auditor's reports that illustrate the application of the proposed new and revised ISAs in various circumstances.

The comment period for the auditor reporting exposure draft ended in November 2013, with **139 responses** received from all quarters of the world. As always, the IAASB will extensively study and fully consider the input received in further improving its auditor reporting proposals for use in audits globally.

#### *IAASB Future Strategy and Work Program*

At the end of 2013, the IAASB approved and released a consultation paper to obtain global views on its future direction and work plan. As of the date of this report, the comment period for the board's consultation paper has closed, and work to study and analyze the input received is well underway. The IAASB expects to issue its final **Strategy for 2015-2019 and the IAASB's Proposed Work Program for 2015-2019** by the end of 2014.

### **ONGOING STANDARD-SETTING ACTIVITIES AND INITIATIVES**

#### *Addressing Disclosures in the Audit of Financial Statements*

Addressing financial reporting disclosures has always been an integral part of an audit of financial statements in accordance with the ISAs. Today's financial statement disclosures, however, provide more decision-useful information that is often more narrative and subjective in nature. The IAASB's disclosures project is therefore intended to determine whether and how the ISAs may be enhanced to address disclosures in the audit of financial statements. This has proven to be a challenging—yet highly relevant—initiative.

The board's work on this topic benefited from the feedback received on the IAASB's 2011 Discussion Paper and from liaison and outreach with stakeholders, including accounting standard setters that are also actively exploring initiatives relating to disclosures.

Feedback on, and review of, ISA requirements indicate that appropriate risk-based attention is given to disclosures. However, while the requirements in the ISAs appear to be appropriately robust and sufficient to meet the auditor's objectives, many of the issues identified relate to practical considerations in applying the requirements in light of nature of new disclosures. Accordingly, the board's focus has been on developing new guidance to reinforce consistent and proper application of existing requirements in relation to auditing disclosures—from when the auditor plans the audit and assesses the risks of material misstatement to when the auditor evaluates misstatements and forms an opinion on the financial statements.

#### *Other Information*

During 2013, the IAASB deliberated on feedback received on its 2012 exposure draft on proposed ISA 720 (Revised) addressing the auditor's responsibilities relating to other information. The vast majority of respondents, from investors, to regulators and auditors, favored the IAASB's proposed revisions to the existing standard—some noting that the board's proposal is 'a timely recognition of the shifts in corporate reporting'. However, there were equal concerns that the IAASB's first proposal expanded the auditor's involvement with respect to other information beyond what was appropriate, and what could be reasonably accomplished, in the context of the financial statement audit. Some perceived that assurance was to be obtained on the other information or that the scope of the audit was being expanded, which were not the IAASB's intentions for this standard.

In early 2014, the IAASB approved and released an exposure draft for public comment, which further refined its proposals related to other information. The IAASB's revised proposals seek to achieve an appropriate balance between—on one hand—'raising the bar' for auditor efforts, and—on the other hand—aligning the standard with the objectives of an audit and being practical and operational. The revised proposals, much like the original, continue to feature a new requirement to include a statement in the auditor's report that is intended to provide greater transparency about the auditor's work on other information as part of the financial statement audit.

## COMMUNICATION AND INTERACTIONS WITH STAKEHOLDERS

The IAASB continued to focus its communications initiatives and interactions in 2013 on keeping stakeholders informed of its standard-setting projects and initiatives and promoting the adoption and effective implementation of its standards. The IAASB's activities in communicating with stakeholders are listed on pages 14–16.

The IAASB's liaison efforts have included maintaining and further developing the relationships with international and national regulator and audit oversight bodies, including European Audit Inspection Group (EAIG), EC, Financial Stability Board (FSB), IFIAR, IOSCO, and the US PCAOB. The board has also had routine interactions with representatives of other stakeholder groups, including investors, accounting firms, preparers, audit committees, and others. The IAASB also hosted its annual national auditing standard setters meeting in 2013, bringing together over 15 jurisdictions to discuss matters relevant to the IAASB's key projects, and areas for collaboration and convergence.

## APPOINTMENTS

I note with pleasure that in 2013 Prof. Arnold Schilder was reappointed as chairman of the IAASB for the period 2015–2017, his third three-year term in this position. I am also pleased to note that Dan Montgomery was reappointed as IAASB Deputy Chair for 2014.

The IAASB welcomes the following new appointments and re-appointments to the board, beginning January 1, 2014:

- Jean Blascos, France (re-appointed)
- Karin French, United States
- Marek Grabowski, United Kingdom
- Merran Kelsall, Australia (re-appointed)
- Jianhua Tang, China
- Megan Zietsman, United States.

I am also pleased to note that Prof. Linda de Beer was re-appointed as the chairman of the IAASB CAG on the recommendation of the members of the IAASB CAG. The reappointment of Prof. de Beer extends her leadership, the first term of which commenced on October 1, 2010, for an additional 18-month period that will end on March 31, 2015.

The above appointments were approved by the PIOB.

## WITH THANKS...

IAASB and IAASB CAG meetings have benefited from the valuable independent perspectives of the PIOB leadership in 2013. The PIOB's oversight and counsel ensures that the IAASB's work is conducted, and is seen as being conducted, in the public interest and following due process. The IAASB also continued to benefit from the insights and advice of its IAASB CAG at all stages of its projects in 2013.

I would like to extend my sincere gratitude to Prof. Schilder and Deputy Chair Dan Montgomery for their leadership of the board. My thanks also to the IAASB members and their technical advisors who, with commitment and common purpose, have achieved so much in a demanding year. I am also deeply grateful to Jim Sylph for his insights and advice and to my technical and support staff. Their continued dedication and excellent service to the IAASB and its public interest mandate cannot go unnoticed. My successor will be well served by this talented team.



James L. Gunn  
Technical Director

The **Clarity Center** serves as a comprehensive resource for auditors and others interested in the clarified ISAs. For an overview and guide to the resources that have been developed to support implementation of the clarified ISAs click [here](#).

Those interested in following specific projects are encouraged to monitor their status by visiting the **IAASB's website**, in particular, the **Projects** and **Meetings** pages. The IAASB also now releases podcast (audio) summaries of IAASB meetings accessible shortly after each meeting via the IAASB's website. Also, the IAASB website includes a **project timetable** detailing current initiatives and the meetings at which they are expected to be discussed. In addition, the IAASB publishes "At a Glance" publications for its proposed and new standards, and also publishes a quarterly eNews publication to keep its stakeholders informed of developments.

To subscribe to the IAASB eNews, [click here](#).

## APPENDIX TO REPORT OF IAASB TECHNICAL DIRECTOR – OVERVIEW OF THE IAASB'S 2013 OUTPUTS AND ACTIVITIES

INITIATIVES	2013 OUTPUTS
<b>Initiatives Relating to Financial Statement Audits</b>	
Internal Audit	Final ISA 610 (Revised 2013), <i>Using the Work of Internal Auditors Changes relating to Direct Assistance</i>
Auditor Reporting	Exposure Draft: <i>Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)</i>
Audit Quality	<i>A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality</i>
ISA Implementation Monitoring	Report on Phase II Findings: <i>The Clarified ISAs—Findings from the Post-Implementation Review</i>
<b>Initiatives Relating to Other Assurance and Related Services</b>	
Assurance Engagements Other than Audits or Reviews of Historical Financial Information	International Standard on Assurance Engagements (ISAE) 3000 (Revised), <i>Assurance Engagements Other Than Audits or Reviews of Historical Financial Information</i> including an amended International Framework for Assurance Engagements
<b>Other</b>	
Strategy and Work Program	Consultation Paper: <i>The IAASB's Proposed Strategy for 2015-2019 and Proposed Work Program for 2015-2016</i>
INITIATIVES	2013 ACTIVITIES
<b>Initiatives Relating to Financial Statement Audits</b>	
Other Information	Review of comment letters and deliberations on proposed revisions to International Standard on Auditing (ISA) 720 (Revised), <i>The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon</i>
Financial Statement Disclosures	Deliberations to develop new standards and guidance on auditing financial statement disclosures
IASB Liaison	Discussions with IASB and submission of <b>comment letters</b> on relevant IASB projects
<b>Initiatives Relating to Other Assurance and Related Services</b>	
Innovation, Needs and Future Opportunities	Monitoring emerging developments beyond those affecting the financial statement audit, including those of the IIRC
<b>Initiatives Relating to Further Engaging Stakeholders</b>	
Communication and Outreach Activities	Discussions with investors, regulators, firms, national standard setters and other stakeholders about adoption and implementation of IAASB standards

## IAASB MEMBERS, TECHNICAL ADVISORS, OBSERVERS AND STAFF AS AT DECEMBER 31, 2013

BOARD MEMBERS	TERM ENDS	COUNTRY	TECHNICAL ADVISOR
Prof. Arnold Schilder, Chairman <sup>+(R)</sup>	2017	Netherlands	
Dan Montgomery, Deputy Chair <sup>^(R)</sup>	2014	United States	Denise Weber
John (Arch) Archambault <sup>^</sup>	2013	United States	Karin French
Jean Blascos <sup>^(R)</sup>	2013	France	Susan Jones
Jianshen (Jason) Chen <sup>^</sup>	2013	China	Ge Zhang
Valdir Renato Coscodai <sup>^</sup>	2015	Brazil	Alejandro Gonzalez
Cédric Gélard <sup>^</sup>	2014	France	Isabelle Tracq-Sengeissen
Jon Grant <sup>+</sup>	2013	United Kingdom	Marek Grabowski
Jonas Hällström <sup>+(P)</sup>	2015	Sweden	Aleksandra Popovic
Merran Kelsall <sup>+(R)</sup>	2013	Australia	Richard Mifsud
Prof. Annette Köhler <sup>+</sup>	2014	Germany	Wolfgang Böhm
Chuck Landes <sup>+</sup>	2015	United States	Hiram Hasty
Caithlin Mc Cabe <sup>^</sup>	2013	Australia	Brantley Blanchard
Brendan Murtagh <sup>^</sup>	2014	United Kingdom (Ireland)	Sue Almond
Marc Pickeur <sup>+(P)</sup>	2014	Belgium	Jacques Vandernoot
Tomokazu Sekiguchi <sup>+(P)</sup>	2014	Japan	Sachiko Kai
John Wiersema <sup>+</sup>	2015	Canada	Greg Shields
Bruce Winter <sup>^</sup>	2014	Canada	Jon Rowden

+ Non-practitioner ^ Practitioner (P) Public Member (R) This member was re-appointed in 2013.

### OBSERVERS

Juan Maria Arteagoitia	EC
Prof. Linda de Beer	IAASB Consultative Advisory Group
Prof. Norio Igarashi	Japanese Financial Services Agency

### IAASB STAFF

James M. Sylph	Executive Director, Professional Standards and External Relations
James L. Gunn	Technical Director
Kathleen Healy	Deputy Director
Nancy Kamp-Roelands	Deputy Director
Brett James	Senior Technical Manager
Sara Ashton	Senior Technical Manager
Beverley Bahlmann	Senior Technical Manager
Diane L. Jules	Technical Manager
Jasper van den Hout	Technical Manager
Ameerah Brailsford	Executive Assistant
Elaine German	Administrative Assistant



Back row (left to right): Ameerah Brailsford, Jasper van den Hout, James L. Gunn (Technical Director), Beverley Bahlmann, Brett James, Elaine German

Front row (left to right): Diane L. Jules, Kathleen Healy (Deputy Director), Nancy Kamp-Roelands (Deputy Director), Sara Ashton

Not pictured: James M. Sylph (Executive Director, Professional Standards and External Relations)

# COMMUNICATING WITH STAKEHOLDERS

## MEETINGS, CONFERENCES, AND EVENTS

### ACCOUNTING AND AUDITING STANDARD SETTERS

Presentation to the Accounting Standards Oversight Council and Auditing and Assurance Oversight Council at their joint meeting, Montreal, Canada

Roundtable on Auditor Reporting hosted by Canadian Auditing and Assurance Standards Board, Toronto, Ontario

Meeting with representatives of the Cour des Comptes (French National Audit Office), Paris, France

Meetings with representatives of the FSB, Basel, Switzerland

Presentation, *Disclosure and Its Audit Implications* to the IASB at their Forum on Disclosures in Financial Reporting, London, UK

Meeting with representatives of IIRC, New York, USA and London, UK

Meetings with representatives, including Chairman, Chief Auditor and Staff of the US PCAOB, Washington DC and New York, USA

US PCAOB Open Board Meeting to Consider a New Auditing Standard to Enhance the Auditor's Reporting Model, Washington DC, USA

US PCAOB Standing Advisory Group Meetings, Washington DC, USA

### REGULATORS AND AUDIT OVERSIGHT BODIES

Meeting with representative from the Basel Committee on Banking Supervision Accounting Task Force and Auditing Subgroup on Supervisor Relationships, Basel, Switzerland and London, UK

Meeting with Compagnie Nationale des Commissaires aux Comptes Leadership, Paris France

Meeting with staff of the Canadian Public Accountability Board, Ontario, Canada

Meeting with representatives of the European Securities and Markets Authority, Paris, France

Presentation to the International Association of Insurance Supervisors, Accounting and Auditing Issues Subcommittee, Teleconference

Meeting with representatives from the Instituto de Censores Jurados de Cuentas de España, Madrid, Spain

Meeting with the IFIAR Standards Coordination Working Group, Paris, France

Meeting with representatives from the IOSCO, Madrid, Spain

Meetings with IOSCO Auditing Subcommittee Meeting, Washington DC, USA and Teleconference

Meetings with IOSCO Committee 1, Washington DC, USA

Presentation to the Business Accounting Council of the Japanese Financial Services Agency, Tokyo, Japan

Meeting with UK FRC leadership, New York, USA and London, UK

### PREPARERS, INVESTORS, GOVERNANCE ORGANIZATIONS, AND OTHERS

Presentation to participants at the Roundtable on Auditor Reporting hosted by Association of Chartered Certified Accountants and UK FRC, London, UK and Brussels, Belgium

Presentation to participants at the British Accounting & Finance Association's Auditing Special Interest Group Annual Audit & Assurance Conference, Cambridge, UK

Presentation to participants at the World Congress Audit and Accounting Forum hosted by Baker Tilly International London, UK

Meeting with representatives of US Center for Audit Quality (CAQ), Washington DC, USA

Meetings with representatives of the CFA Institute, New York, USA

Presentation to participants at the Danish Accounting Forum, Copenhagen, Denmark

Meeting with the EAIG, Paris, France

Presentation to participants at the Roundtable hosted by the European Union MEP, *The Added Value for Coordination between Internal and External Auditing for European Business*, Brussels, Belgium

Meeting with the Global Auditor Investor Dialogue, Teleconference

Meeting with Chief Executive of the Holland Financial Center, Amsterdam, Netherlands

Participation in the International Corporate Governance Network and CAQ Roundtable on Audit Quality, Milan, Italy and New York, USA

Presentation, *Emerging Issues in Audit Quality: How to Enhance External Audit Quality*, to the International Monetary Fund and Hawkamah Institute for Corporate Governance in the United Arab Emirates Conference, Dubai, UAE

Presentation, *The Auditor's Role Relating to Information Communicated to Financial Statement Users*, to the New York Society of Securities Analysts' 18th Annual International Financial Reporting Conference Seminar, New York, USA

Meeting with representatives of the Office of the Superintendent of Financial Institutions, Toronto, Canada

Presentation to participants at the United Nations Conference on Trade and Development, International Standards of Accounting and Reporting (UNCTAD-ISAR), Geneva, Switzerland

Presentation, *The Audit Committee, the Keystone of the Financial Reporting and Audit Process, From Policy to Practice*, to participants at the Financial Reporting Reform Conference, hosted by World Bank Centre, Bucharest, Romania

Presentation, *The Audit Committee, A Key Link in the Financial Reporting and Audit Process*, to participants of the Financial Reporting Reform Conference on Audit Committees hosted by World Bank Centre, Warsaw, Poland

Presentations to participants at the Contabilidad y Responsabilidad para el Crecimiento Económico Regional (CReCER), *Integrating Approaches to Financial Reporting for Progress Regional Economic Growth: An Exchange between Public and Private Sector*, Cartagena, Colombia

Presentation to participants the 12th Annual Conference at the Fédération des Experts Comptables Méditerranéens, Tirana, Albania

Meeting with Fédération des Experts-comptables Européens, Federation of European Accountants Audit Working Party, Brussels, Belgium

Presentation to participants at the Instituto dos Auditores Independentes do Brasil (IBRACON) 3rd Annual Auditing and Accounting Conference, São Paulo, Brazil

Presentation to participants at 60th Anniversary Celebration Annual Conference of the Intituit van de Bedrijfsrevsoren (IBR-IRE), Brussels, Belgium

Meeting with representatives from Institut der Wirtschaftsprüfer, Düsseldorf, Germany

Seminar for the Korean Institute of Certified Public Accountants, Seoul, South Korea

Seminar for members of the Myanmar Accountancy Council and Myanmar Institute of Certified Public Accountants and invited guests of the Auditor General, Central Bank, Securities Regulator and Insurance Supervisor, Yangon, Myanmar

Presentation to Nordic Federation at their Annual Meeting, Bornholm, Denmark

Presentation to participants at the Symposium of the Zeitschrift für Unternehmens – und Gesellschaftsrecht (leading Law Journal in Germany), Frankfurt, Germany

## IFAC MEMBER BODIES

Presentation, *The Role of the External Audit: An IAASB Perspective*, to students and faculty at Amsterdam Business School, Amsterdam, Netherlands

Presentation on Auditor Reporting at the Annual Congress of Accounting, São Paulo, Brazil

Keynote speech at the Annual Symposium of Austrian Institute of Public Auditors, Vienna, Austria,

Meeting with representatives of the Conselho Federal de Contabilidade and other key leaders of the Brazilian accounting profession, New York, USA

Meeting with representatives of the Conselho Federal de Contabilidade, Brasília, Brazil

## GOVERNMENTS AND PUBLIC SECTOR ORGANIZATIONS

Meetings with the Head of Audit Unit and senior staff of the EC, Brussels, Belgium and New York, USA

Meeting with representatives of European Parliament including, Rapporteur for the Committee on Legal Affairs, Brussels, Belgium and New York, USA

Meetings with Staff supporting the European Parliament Rapporteur for the Committee on Legal Affairs, Brussels, Belgium

Meeting with Chair of Working Party of the Council of the European Union, Teleconference

Meeting with representatives of the Financial Services Commission in South Korea, Seoul, South Korea

Presentation, *Financial Regulators and Auditors: Building a Constructive Dialogue* to the Financial Sector Exchange Forum , Vienna, Austria

Meeting with Financial Supervisory Services in South Korea, Seoul, South Korea

International Organization of Supreme Audit Institutions (INTOSAI) Financial Auditing Subcommittee Meeting, Abu Dhabi, UAE

INTOSAI Professional Standards Committee Steering Committee Meeting, Stockholm, Sweden

Meeting with LHM Casey McGrath Leadership, Dublin, Ireland

Meeting with representatives from the World Bank, Washington DC, USA

Meeting with Senior Staff of the World Bank Vietnam, Hanoi, Vietnam

Presentation to World Bank Vietnam Regional Offices via videoconference

Meeting with Chair of Working Party of the Council of the European Union (Lithuanian Presidency), Brussels, Belgium

Meeting with Chair of Working Party of the Council of the European Union, Dublin, Ireland

## ACCOUNTING FIRMS

Meetings with Global Assurance Leadership of Deloitte, Dublin, Ireland, Paris, France and New York, USA

Meeting with Ernst and Young Global Assurance Executive Committee, and Global PPD Group, Amsterdam, Netherlands and New York, USA

Presentations, *Update on IAASB's Activities*, to IFAC's Forum of New York, USA and Vienna, Austria

Meeting with the Global Public Policy Committee, Paris, France

Presentation to participants at the PKF International Auditing and Accounting Conference, Amsterdam, Netherlands

Meetings with Global Assurance Leadership of PricewaterhouseCoopers, London, UK

Meetings with the Standards Working Group of the Six Largest Accounting Firms, Teleconference and New York, USA

## ACADEMIC AND RESEARCH ORGANIZATIONS

Presentations to participants at the American Accounting Association Annual Meeting, Anaheim, California, USA

Speech at the 8th Annual Baruch College Auditing Conference, New York, USA

Presentation to participants at the 7th European Auditing Research Network (EARNet) Symposium, Trier, Germany

International Association for Accounting Education and Research Program Advisory Committee Meeting, London, UK

Presentation to University of Santiago, Santiago, Chile

## REGIONAL ORGANIZATIONS AND EVENTS

Presentation to participants at a Seminar on Scalability of ISAs sponsored by the Polish SME/Small and Medium Practices (SMP) Assurance Services Development Committee, Warsaw, Poland

Joint IAASB-IASB Event with Commonwealth of Independent States addressing Adoption and Implementation of International Standards in the Former Soviet Republics in Europe and Central Asia, London, UK

Seminars and meetings with national standard setters, audit oversight bodies and other stakeholders of the Former Soviet Republics, Central Asia and London regions

Seminar for Council Members of the Vietnam Accounting Association, Hanoi, Vietnam

Meeting with Vice Minister of Finance of Vietnam and Minister of Finance Executive Staff, Hanoi, Vietnam

Seminar for members of the Vietnam Association of Certified Public Accountants, Hanoi, Vietnam

## RESPONSES TO PUBLIC CONSULTATIONS

- IASB's Exposure Draft (ED) on Insurance Contracts
- IASB's ED, *Leases*
- IASB's ED, *Financial Instruments: Expected Credit Losses*
- IASB's ED, *Classification and Measurement: Limited Amendments to IFRS 9*





# REPORT OF THE IAASB'S CONSULTATIVE ADVISORY GROUP CHAIRMAN

PROF. LINDA DE BEER

## THE INDEPENDENT ROLE OF THE CAG

The Consultative Advisory Group (CAG) comprises more than 30 Member Organizations<sup>2</sup> that are in some way or another recipients of or stakeholders in the audit service. Therefore our membership is a very mixed bag of user groups, regulators, financial executives, international public interest organizations and other professional bodies such as lawyers, valuation experts and actuaries. Because the CAG is truly independent from the IAASB and the audit profession, it is perfectly placed to offer strategic and technical advice on audit and assurance related matters that require global solutions. The fact that we do not make decisions, do not have to reach a consensus or even a majority view and do not serve as a governance structure in the first instance, make the CAG's input very robust and frank, albeit diverse.

## TOWARDS GLOBAL SOLUTIONS

Even though it has been more than half a century since the phrase "expectation gap" has seen the light, it is still as relevant today. The expectation gap – the assurance that the statutory audit is expected or perceived to give, minus the assurance that it is designed to give and thus actually giving – has in recent years led to a new term, namely the "information gap". Users might have come to terms with the fact that a statutory audit provides assurance on the financial statements, not on the viability of the business model, the absence of fraud, the strength of internal controls or an array of other perceived matters. However, users are arguing that auditors, in performing the financial statement audit,

obtain valuable insights into the entity, of which at least some thereof should be shared with investors, who are still the auditors' primary clients.

Both the current projects of the IAASB and the CAG agenda in 2013 were strongly focused on addressing these matters. To this end the IAASB embarked on a number of projects, auditor reporting being the most pertinent, to design an international solution to address, inter alia, the information gap.

### *Auditor Reporting*

The IAASB's auditor reporting project is running parallel to similar national initiatives including that in the United States and in Europe. Even though the outcomes of the various national initiatives may not be completely similar, the CAG is encouraging the IAASB to strive for a level of alignment because the work of entities and auditors are becoming increasingly global and interconnected.



<sup>3</sup> See listing of CAG member organizations at page 20.



The auditor reporting project progressed well in 2013. Once it is finalized, auditors will have a vehicle, through their auditor's reports to provide useful entity specific information to users by way of key audit matters. The overall success of this project will be assessed by users who will judge the ability of the IAASB to also address the more difficult and controversial matters, including disclosure of the engagement partner's name in the audit report, and flagging in the auditor's report whether material uncertainties exist with respect to going concern.

#### *Other Information (ISA 720)*

This is another project that could respond to the expectation gap. ISA 720 aims to enhance the auditor's role as far as other information accompanying the financial statements is concerned. Stakeholders have a certain perception as to what auditors provide assurance on, or at least consider in providing assurance on the financial statements. Such perceptions are not necessarily aligned with the current requirements in the ISAs. Therefore, this project is very important in synchronizing stakeholders' expectations with the auditor's work effort.

The IAASB made further progress with this project during 2013 and plans to finalize a new ISA 720 in conjunction with its auditor reporting project.

#### *Disclosures*

The IAASB's disclosures project follows a similar theme to ISA 720. In my view, this project will assist in synchronizing stakeholders' expectations with the auditor's work effort in-so-far as the disclosures accompanying financial results are concerned. The project intends to further enhance the auditor's focus on disclosures at the early stages of the audit already, which, in turn, may result in additional focus by preparers on the quality of their financial statement disclosures. Even before its approval, this project was keenly motivated by the user community and others on the CAG. The CAG was comfortable that significant progress was made in this project in 2013.

#### *Emerging Issues*

In addition to considering matters put to us by the IAASB, based on its current work program, we also take time at the CAG to lift our heads and assess what else might be of importance in our strategic and technical advice to the board. To this end we have, at every meeting, an open session, where we listen to presentations from various jurisdictions and constituencies as to their current focus areas. At sessions held during 2013, we heard from the Japanese regulator about the work it is doing to enhance the auditor's role with respect to fraud in a financial statement audit. We also heard from the regulator and the accountancy body in the United States to understand what legislative and other changes are being considered where auditing is concerned. Similarly, we continue to gain insights from other parts of the world, such as the EC, as well as from the various stakeholder groups, most notably the investor community.



## THE YEAR AHEAD

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In 2014, the IAASB plans to revisit its strategy for the next five-year cycle, with an emphasis on the work program for 2015 and 2016. This process has already commenced and CAG has taken a keen interest in the board's strategy.

Audit quality and the role of professional skepticism in achieving it will remain important areas of focus for the CAG. The CAG is also looking with interest to the IAASB's future plans, which include addressing the needs of banks and other financial institutions to ensure that the ISAs sufficiently address aspects of importance to these key sectors of the global economy. In addition, the CAG will encourage the IAASB to keep its eye on where business, and the reporting world, is moving in order to ensure the auditing profession can pro-actively and appropriately respond to new needs and risks. Areas such as cloud computing and big data come to mind.

In my 2012 report I referred to the expectation by users for auditors to obtain assurance that goes beyond the traditional focus on historical financial information. This will become a greater focus area of the board in years to come as it calls for robust international standards to guide auditors in the execution of these duties.

The IAASB's anticipated release of ISAE 3000 (Revised) in early 2014 will lay the foundation for these types of assurance services. However, more innovation is needed in order to appropriately address the call for assurance on new world reporting, the most prominent being Integrated Reporting. Integrated Reporting is a synchronization of financial- and non-financial information of a historical and forward looking nature, packaged through the eyes of the reporting entity's strategy. If such information is called for by users for economic decision making, users will also be calling for assurance on such information. The IAASB is uniquely positioned to respond to this, and similar calls for global solutions.

## IN CONCLUSION

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The CAG, as a body of independent advisors to the IAASB, makes a significant contribution, both through its Members Organizations and the individual Representatives to ensure the highest quality and level of input to the work of the IAASB. This is always done with a strong focus on public interest.

I would like to thank the CAG Member Organizations and the Representatives and Observers for their continued commitment and contributions. I also must thank the IAASB Chairman, members, and staff for their commitment to thoughtfully consider and respond to the input from the CAG.



Prof. Linda de Beer,  
Chartered Accountant (South Africa)  
IAASB CAG Chairman

# IAASB CAG MEMBER ORGANIZATIONS AND OBSERVERS

## MEMBER ORGANIZATIONS

Asian Financial Executives Institutes	International Corporate Governance Network
Associação Brasileira de Instituições Financeiras de Desenvolvimento	International Organization of Securities Commissions
Basel Committee on Banking Supervision	International Organization of Supreme Audit Institutions
BUSINESSEUROPE	International Monetary Fund
CFA Institute	International Valuation Standards Council
European Commission	Islamic Financial Services Board
European Federation of Accountants and Auditors for SMEs	Japan Securities Dealers Association
European Financial Executives Institutes	National Association of State Boards of Accountancy
Fédération des Experts Comptables Européens	North American Financial Executives Institutes
Gulf States Regulatory Authorities	Organisation for Economic Cooperation and Development
Information Systems Audit and Control Association	Sri Lanka Accounting and Auditing Standards Monitoring Board
Institute of Internal Auditors	United Nations Conference on Trade & Development
International Accounting Standards Board	World Bank
International Actuarial Association	World Federation of Exchanges
International Association of Insurance Supervisors	
International Bar Association	

## OBSERVERS

Financial Services Agency, Japan
International Monetary Fund
US Public Company Accounting Oversight Board



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