

IAASB CAG PAPER



International Federation of Accountants

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Agenda Item

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Committee: IAASB Consultative Advisory Group

Meeting Location: London

Meeting Date: September 20-21, 2007

**Draft Minutes of the Public Session of the Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
CONSULTATIVE ADVISORY GROUP (CAG)**

**Held on June 29, 2007
Brussels, Belgium**

PRESENT

Members

David Damant	Chair
Ju Xinhua	Asian Financial Executives Institutes
Gerald Edwards	Basel Committee on Banking Supervision
Marc Pickeur	Basel Committee on Banking Supervision
Kristian Koktvedgaard	BUSINESSEUROPE
Rebecca Todd McEnally	CFA Institute
Elena Lobanova	Dean of the Graduate School of Financial Management, Russia
Linda de Beer	Eastern Central and Southern African Federation of Accountants
Jean-Philippe Rabine	European Commission
Federico Diomeda	European Federation of Accountants and Auditors for SMEs
Hilde Blomme	Fédération des Experts Comptables Européens
Philip Johnson	Fédération des Experts Comptables Européens
Robert Roussey	Information Systems Audit and Control Association
Bengt Hallqvist	Instituto Brasileiro de Governanca Corporativa
Wayne Upton	International Accounting Standards Board
Sam Gutterman	International Actuarial Association
George White	International Bar Association
Claude Lamoureux	International Corporate Governance Network
Susan Koski-Grafer	International Organization of Securities Commissions
Tomokazu Sekiguchi	International Organization of Securities Commissions
Pat Sucher	International Organization of Securities Commissions
Filip Cassel	International Organization of Supreme Audit Institutions
T Herrera	Institute of Internal Auditors
Heriot Prentice	Institute of Internal Auditors
Rifaat Karim	Islamic Financial Services Board
Hayanari Uchino	Japan Securities Dealers Association
David Morris	North American Financial Executives' Institute
John Hegarty	World Bank
Erik van der Plaats	World Bank

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Observers

Tom Ray U.S. Public Company Accounting Oversight Board

By Invitation

Sean Gilbert Global Reporting Initiative
Rick Cottrell Chairman, Consultative Advisory Group, South Africa
Ben Scicluna IFAC Small and Medium Practices Committee

IAASB

John Kellas Chairman
Denise Esdon Deputy Chair
John Fogarty Member (By telephone for Written Representations only)

Public Interest Oversight Board

Stavros Thomadakis Chairman
Aulana Peters Member

IFAC Staff

Jim Sylph Executive Director, Professional Standards
Alta Prinsloo IAASB Deputy Director
Kathleen Kerrigan IAASB Manager
Helene Kennedy Chief Communications Officer

APOLOGIES

Members

Conchita Manabat Asian Financial Executives Institutes
Nelson Carvalho Chairman of the Standards Advisory Council of the International Accounting Standards Board
Jean-Luc Peyret European Financial Executives Institutes
John Carchrae International Organization of Securities Commissions
Mohini Singh Institute of International Finance
Yoseph Asmelash United Nations Conference on Trade and Development
Thomas Krantz World Federation of Exchanges

Observers

Hisashi Yamaura Japanese Financial Services Agency

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Introduction (Agenda Item B)

Mr. Damant opened the meeting and welcomed the Representatives, IAASB members and staff, Mr. Cottrell (chair of the South African Consultative Advisory Group), Mr. Gilbert (representing Global Reporting Initiative), Ms. Kennedy (Chief Communications Officer of IFAC), Mr. Scicluna (representing the IFAC Small and Medium Practices Committee), and the public observers.

Mr. Damant confirmed that the minutes of the previous meeting reflected the comments received from the Representatives. The minutes were approved.

Communication (Agenda Item C)

To RECEIVE a presentation by Helene Kennedy (Chief Communications Officer, IFAC) on aspects of the IFAC communication strategy relevant to the IAASB.

Ms. Kennedy gave a presentation on the IFAC Communication Strategy relevant to the IAASB. A copy of the presentation is attached to these minutes. The Representatives commented as follow:

- Mr. Damant supported the IFAC Communication Strategy and noted that the various communications (IFAC News, IAASB eNews, etc.) are helpful to stay up to date. Mr. Scicluna and Ms. Koski-Grafer praised the usefulness of the eNews communications.
- Ms. de Beer was of the view that the theme of audit quality should be embedded in every communication from IFAC and the IAASB, for example, by stating how a particular auditing standard enhances the credibility of financial reporting.
- Mr. Sekiguchi suggested that translation of communications into other languages including Japanese be considered. He also suggested communication with country-specific media bodies, to further enhance the awareness of IFAC activity. Ms. Kennedy noted that IFAC continues to evaluate additional languages for communication purposes. She explained that IFAC relies on its member bodies to identify opportunities to communicate the activities of IFAC more broadly.
- Mr. Roussey suggested that technology be used to assist with the implementation of standards. For example, a video recording of an IAASB task force chair explaining a new standard could be posted on the IFAC website. Ms. Koski-Grafer suggested it would be helpful if the web pages of the individual IFAC standard-setting boards could be made more visible on the IFAC website home page.
- Ms. Kennedy noted that, if the Representatives have presentations or releases from their respective organizations relevant to the work of IFAC or the IAASB that they wish to disseminate more broadly, they are welcome to forward them to her for posting on the IFAC website.

IAASB Strategy Review (Agenda Item D)

To DISCUSS matters raised during the IAASB Strategy Review Forum held on June 28 and to RECEIVE points developed by Representatives in consultation with their member organizations regarding the IAASB Strategy and Work Program.

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Mr. Kellas briefly introduced the topic. He noted that, based on key assumptions, the IAASB should be able to commence approximately new 12 projects during 2009-2011. The IAASB will continue to identify opportunities to work with national standards setters and firms; however, the fact that the IAASB meets only four to six times per year affects the number of projects that the IAASB can undertake.

Mr. Kellas explained that the next step in the IAASB strategy review will be the approval of a consultation paper by the IAASB in September. The consultation paper forms the final stage of the consultation process. Based on the initial consultations, it will present the proposed strategy for 2009-2011, possible actions to implement the proposed strategy and the basis for the possible actions. Due to the extensive nature of the initial consultations, the comment period may be shorter than that of an exposure draft of a proposed standard.

Mr. Hallqvist suggested that the IAASB confirm whether the detailed proposals for specific activities / projects are consistent with the vision of where the IAASB intends to be in five to seven years.

Discussion of Matters Raised during the IAASB Strategy Review Forum Held on June 28

Mr. Kellas summarized the proposals noted during the Forum the Forum. He invited the Representatives to add additional views.

IMPLEMENTATION OF STANDARDS

- The Representatives provided the following comments on proposals with regard to implementation assistance:
 - It was reasonable for the IAASB to consider a later effective date for the clarity redrafted International Standards on Auditing (ISAs). Mr. Johnson suggested that the implementation be deferred to December 15, 2009. Mr. Rabine supported an effective date that is not too far away so as to not jeopardize the possible implementation of ISAs in the European Union.
 - It was also reasonable for the IAASB to consider establishing a stable platform for a specified period (for example, at least two years after the effective date of the clarity redrafted ISAs) whereby any new standards developed would have implementation delayed to a later time. Mr. Kjørtvedgaard was of the view that preparers find it difficult to absorb frequent changes to auditing and accounting standards, even if they are limited to every three years.
 - The IAASB should establish a follow up process to assess the effectiveness of the implementation of new standards in order to determine whether there is a need for further refinement to achieve the intended effect of a new standard. The IAASB should consider the length of time that should elapse between the issue and review of a new standard – a period of at least two years was proposed. Mr. Upton noted that the IASB was considering a similar process. Messrs. Edwards and Morris and Ms. Sucher noted that preparers, auditors, regulators and audit oversight bodies should be consulted on the implementation of new standards. Mr. Kjørtvedgaard noted that preparers should be asked for their input on the costs vs. benefits of implementing a new standard. Mr. Kellas noted that IFAC is

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currently evaluating how best to perform a regulatory-impact assessment at the international level.

- Mr. Kellas noted that it is not clear what the requests for implementation guidance entail. Some participants in the initial consultations were of the view that implementation guidance should include audit programs and checklists – a view that the IAASB does not support. He was of the view that it would be useful for the IAASB to gather information on what implementation guidance is available and, perhaps, assume a facilitation role. Some representative supported this. Ms. de Beer was concerned that implementation guidance developed at national level may result in different interpretations of the same standard. Messrs. Rabine and Ray were concerned that the development of implementation guidance by the IAASB may undermine the statement that the IAASB develops principles-based standards. Mr. Ju noted that the IASB's involvement in the implementation of IFRSs in China was particularly helpful. The IASB reviewed the consistency between the Chinese financial reporting standards and IFRSs and also reviewed the translation of the standards.
- Mr. Kellas noted that the initial consultations indicated that other IFAC boards and committees, as well as IFAC member bodies, national standard setters and organizations such as the World Bank have important roles to play in assisting with the implementation of the standards. There were also calls for IFAC to assume a training role. Messrs. Scicluna and Sekiguchi were of the view that less established IFAC member bodies would benefit from the assistance from IFAC, while established IFAC member bodies may not need such assistance. Ms. Koski-Grafer also noted the benefits that might be achieved through collaboration between IFAC member bodies. Mr. Roussey was of the view that it is in IFAC's interest to establish a function that focuses on training. Mr. Hegarty noted that the World Bank is planning to assist countries in Central and Southeastern Europe with implementation. Mr. Edwards and Ms. de Beer suggested that IFAC establish a group to explore the matter of training.

CONCEPTUAL FRAMEWORK / AUDIT QUALITY

- Mr. Damant was of the view that the development of a conceptual framework is a daunting task. He commented that the expected benefits of such a framework would be unlikely to justify the time it will take to develop.
 - Ms. de Beer and Mr. Hegarty noted the importance of first identifying the matters to be addressed in such a framework (e.g., professional judgment, audit quality, etc.) Mr. Gutterman and Ms. Koski-Grafer were of the view that it would be helpful if at least some conceptual matters could be incorporated in proposed ISA 200 (Revised and Redrafted), "Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing."
 - Ms. Sucher suggested an assessment of what has already been published in this area as a first step.
 - Mr. Johnson noted the European Group of Auditors' Oversight Bodies (EGAOB) is of the view that a conceptual framework will be helpful. FEE was recently asked by the European Commission to prepare a paper on inherent limitations of the audit in light of the work done on proposed ISA 200 (Revised and Redrafted).

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AN ALTERNATIVE ASSURANCE SERVICE FOR SMES

- Mr. Kellas noted that the initial consultations indicated that revision of the standard on review engagements and the standard on compilation engagements may address the question of an alternative assurance service for SMEs (and other entities where an audit is not required). He also noted that there was support for the project currently undertaken by the Institute of Chartered Accountants in England and Wales (ICAEW), and a suggestion that regional accounting organizations and the World Bank further research the matter of an alternative assurance service. Participants in the initial consultations agreed that the marketplace dictates the required level of assurance. The establishment of thresholds for audits by local jurisdictions may be an indication of whether there is a need for an alternative assurance service. Ms. de Beer supported the revision of the review and compilation standards. She was also of the view that the concept of, and demand for, an alternative assurance service should be further explored. Ms. de Beer and Mr. Hegarty were concerned about the independence of auditors of SMEs when they also prepare the financial statements. They suggested that the IAASB CAG Chairman coordinate discussion of this matter with the Ethics CAG.

OTHER PROJECTS

- Messrs. Damant, Lamoureux and White and Ms. Koski-Grafer supported the idea that the IAASB would undertake a project to study the auditor's involvement in documents used to generate public capital, such as profit announcements, prospective financial information, prospectuses and pro forma financial information, and determine whether some type of pronouncements would be helpful. Mr. Hallqvist drew attention to the importance of recognizing that it is the investors, not management, who are the true employers of the auditors.

Points Developed by the Representatives

Points developed by the Representatives included the following:

- Development of guidance for auditors on valuation models. A copy of the Basel Committee on Banking Supervision's comment letter on proposed ISA 540 (Revised and Redrafted), "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures" was distributed at the meeting. In light of the increasing use of fair values, Mr. Edwards encouraged the IAASB to draw on the expertise of major market participants (such as banks, investment banks, and insurers), audit firms, regulators, academics, etc. to develop guidance for auditors on modeling processes and how they translate into valuations. Mr. Upton was of the view that it will be important to coordinate with the IASB and the Financial Accounting Standards Board (FASB) in the United States to minimize duplication of guidance. Mr. Roussey supported this view, referring to the Statements of Positions issued by the American Institute of Certified Public Accountants as an effective combination of accounting and auditing issues.
- Revision of standards that has been redrafted only. Ms. Sucher suggested that the IAASB ask respondents to the exposure drafts of proposed redrafted standards whether the redrafted standards may be in need of revision. Mr. Kellas noted that, although the initial consultations identified some standards for revision, there was no clear consensus on the standards to be revised. Ms. Koski-Grafer noted that the interplay between ISA 240 (Redrafted), "The

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Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" and ISA 330 (Redrafted), "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment" is one example of an area that may need further refinement.

- Emerging issues. Some Representatives noted that it may be useful to undertake more research projects, in coordination with academics and other organizations, to generate project proposals on emerging issues such as the usefulness of the auditor's report.
 - Ms. Sucher referred to CESR's survey on additional matters that may be communicated in the auditor's report. Ms. Koski-Grafer noted that the matter of the auditor's report was also raised at a recent IOSCO roundtable.
 - Mr. Roussey noted that academics have done research in the past on the implications of using long-form reports. Mr. Lamoureux was of the view that firms are reluctant to differentiate them from a standard auditor's report. Mr. Johnson explained that the form of the auditor's report is often governed by national law or regulation. Mr. Ray cautioned against an auditor's report that attempts to overcome shortcomings in the financial reporting framework.

Informal Survey

Mr. Sylph invited the Representatives to provide their views as to how the future actions / projects of the IAASB should be prioritized. The results, which were compiled subsequent to the meeting, clearly indicated that the IAASB should retain its current focus on the development of ISAs.

Written Representations (Agenda Item E)

To RECEIVE a report on the significant comments received on the exposure draft of proposed ISA 580 (Revised and Redrafted), Written Representations.

Mr. Fogarty provided a brief overview of the significant comments received on the exposure draft of proposed ISA 580 (Revised and Redrafted), "Written Representations." The Representatives commented as follows:

- Mr. Damant noted that concern was expressed at the IAASB Strategy Review Forum about the phrase "having made appropriate inquiries."
- Mr. Sekiguchi noted that, while IOSCO has not yet submitted a comment letter, it was generally in agreement with many of the significant comments made by others. IOSCO was pleased to see that the exposure draft explains that a written representation alone is not sufficient appropriate audit evidence; however, it was concerned about the term "corroborate" in the objective, as it may imply that written representations provide a higher form of evidence than what is intended. He encouraged the Task Force to consider whether there are cases where, in the auditor's professional judgment, it may not be necessary to disclaim an opinion on the financial statements when the general written representations are unreliable or management refuse to provide them. He also noted that the "adequate for that purpose" in the requirement for a general written representation about internal control could be viewed as conflicting with legal frameworks in particular jurisdictions and may be misunderstood as

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imposing a requirement for management to assess the effectiveness of internal control in such jurisdictions.

- Ms. Sucher asked about the Task Force's preliminary position with regard to the comments on the term "corroborate." Mr. Fogarty noted that responses were mixed. Some respondents were of the view that written representations are not audit evidence, while other respondents were of the view that the term "corroborate" was confusing or incorrect. The Task Force will consider the appropriateness of the term; however, the principle that written representations are necessary, but not sufficient, audit evidence will remain.
- Mr. Hallqvist asked about the implications for the auditor when a written representation is fraudulent. Mr. Kellas explained that written representations alone are not sufficient appropriate audit evidence. Written representations do not relieve the auditor from obtaining other audit evidence to confirm the underlying position of management.
- Ms. Blomme was of the view that the proposed ISA should provide more flexibility, allowing the auditor to apply professional judgment. Messrs. Koktvedgaard and Rabine supported this view, in particular in light of differences in national law or regulations which may govern management's responsibilities.
- Mr. Morris noted that the IAASB CAG Working Group had no specific points to be discussed.

IAASB CAG Self-Assessment (Agenda Item F)

<i>To RECEIVE a preliminary report on the findings of the IAASB CAG self-assessment.</i>
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Mr. Damant noted that the topic had been discussed during the Private Session. He invited the Representatives to raise any further matters that they may have. The Representatives commented as follow:

- Ms. Koski-Grafer asked whether the present practice of structuring the CAG agenda to be rather full of detailed questions and technical discussions could have the effect of limiting some Representatives' participation during meetings. Noting the value of the wide range of perspectives in the CAG membership, and the fact that sometimes some members do not speak in a meeting, she suggested that each CAG meeting agenda allot time for unstructured free discussion for individual CAG members to raise new issues and other matters relevant to marketplace developments that could affect the IAASB's strategic direction. Mr. Edwards supported this suggestion, noting that it will provide the Representatives an opportunity to raise matters in addition to those highlighted by the IAASB task force.
- Mr. Hallqvist noted that a potential topic for future discussion could be the relationship between management, including those charged with governance, and the auditors. Such discussion should include matters relating to the terms of the audit engagement. Ms. Koski-Grafer noted that such a discussion would allow the Representatives to talk about developments in their organizations that may be relevant for planning future CAG agendas.
- Mr. Damant noted that the perceived burden of detailed technical discussions may ease as the IAASB progresses the Clarity project. He asked whether it may be a solution to meet for three rather than two days. There was support for one three-day and one two-day meeting in 2008.

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Mr. Scicluna noted that a three-day meeting will require meeting materials to be distributed well in advance of the meeting. Mr. Damant reminded the Representatives that the IAASB CAG agenda is in part dependent on the timetable for distributing the material for the IAASB meeting that precedes the IAASB CAG meeting. Mr. Pickeur suggested that, where possible, the IAASB CAG and Ethics CAG meetings be held back to back. Ms. Koski-Grafer commented that she was not suggesting that technical discussions were a burden, but rather proposing that they be supplemented with an opportunity for some broader, unstructured CAG-member-initiated consultative input.

Closing

Mr. Damant thanked Mr. Kellas and the other IAASB members for their contribution to the meeting. He also thanked Mr. Sylph and his staff for their support. He then closed the meeting.