

IAASB CAG PAPER



International Federation of Accountants

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Agenda Item

C.3

Committee: IAASB Consultative Advisory Group

Meeting Location: Toronto

Meeting Date: September 4-5, 2008

Report Back —IAASB Strategy and Work Program

Objectives of Agenda Item

1. The objective of this Agenda Item is to provide a brief report back on the proposals of Representatives on the *IAASB Strategy and Work Program, 2009-2011* discussed at the March 3-4, 2008 CAG meeting.

Report Back – March 3-4, 2008 CAG Proposals

2. Below are extracts from the minutes of the March 3-4, 2008 CAG meeting¹ related to the discussions on the *IAASB Strategy and Work Program, 2009-2011*, and an indication of how the IAASB responded to the Representatives' comments.
3. The *IAASB Strategy and Work Program, 2009-2011* was issued in July 2008.

Representatives' comments	IAASB Task Force/IAASB response
<i>Revision of ISAs (Redrafted, But Not Revised as Part of Clarity Project)</i>	
<p>The Representatives commented as follows:</p> <ul style="list-style-type: none">• Ms. Koski-Grafer noted that these ISAs should be revised over a period of time to ensure that at some point in time the IAASB has a complete set of up-to-date standards. She suggested that, in addition to ISA 720 (Redrafted), the IAASB consider revising ISA 210 (Redrafted),² ISA 250 (Redrafted)³ and ISA 510 (Redrafted)⁴.• Mr. Edwards asked whether a reasonable timetable for revising these ISAs could be developed, taking account of the IAASB's other	<p>See paragraphs 27-29 of the Basis for Conclusions: Strategy and Work Program, 2009-2011 at the link below, which read as follows:</p> <p>"27. The IAASB CAG was consulted on this matter. The IAASB CAG members were generally of the view that, over time, the ISAs that had not been revised since 2002 (see Appendix 1) should be considered for revision in order to maintain a set of up-to-date high quality standards for the audit of financial statements. They were of the view that, at this time, it is not</p>

¹ The minutes will be approved at the September 4-5, 2008 CAG meeting.

² ISA 210 (Redrafted), "Agreeing the Terms of Audit Engagements."

³ ISA 250 (Redrafted), "Consideration of Laws and Regulations in an Audit of Financial Statements."

⁴ ISA 510 (Redrafted), "Initial Audit Engagements—Opening Balances."

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<p>planned projects and the need to be able to respond to important emerging matters ...</p>	<p>necessary to revise all the ISAs, in particular at the expense of other actions.</p> <p>28. The IAASB concurred with this view. In developing the timetable for the Clarity project, the IAASB had determined that, based on the existing content of those ISAs and minimal new developments in certain areas, redrafting rather than revising them was appropriate.</p> <p>29. Based on the general and specific support for the proposal to revise proposed ISA 610 (Redrafted) [<i>Using the Work of Internal Auditors</i>] and proposed ISA 720 (Redrafted), <i>The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements</i>, the IAASB concluded to include their revision in the work program. In addition, the work program provides for another project to develop or revise an ISA, should this prove to be necessary. Any project to revise an ISA would take into account comments on the exposure draft issued as part of the Clarity project that went beyond the scope of the Clarity project."</p>
<p><i>Process for Assessing the Effectiveness of New Standards</i></p>	
<p>The Representatives commented as follows:</p> <ul style="list-style-type: none"> • Mr. Damant noted that the process could also be used to identify areas where translation of ISAs has led to ambiguity. Ms. Koski-Grafer supported this point. • Ms. Koski-Grafer was of the view that there should be greater mention of working with audit oversight bodies to identify areas for improvement within the ISAs. Ms. Blomme suggested that national standard setters be involved. Mr. Kellas responded that national standard setters may assist in identifying barriers to adoption of ISAs. Ms. Koski-Grafer noted that national standard setters may be able to assist the 	<p>See paragraph 57 of the Basis for Conclusions: Strategy and Work Program, 2009-2011 at the link below, which reads as follows: "The IAASB is of the view that the quality of the implementation of new standards is a matter for oversight bodies that monitor audit quality, and regulators. The assessment ... will therefore focus on the consistency with which auditors have implemented new standards in practice. It will be developed in consultation with the IAASB CAG, oversight bodies that monitor audit quality, regulators, national standard setters and audit firms. The first assessments are likely to include the implementation of the ISAs that deal with the auditor's identification, assessment and responses to risks of material</p>

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<p>IAASB to understand ISA “pluses.”</p> <ul style="list-style-type: none"> Mr. Koktvedgaard agreed that regulators should be involved, but stressed the need for them to promote the use of judgment in the interpretation of standards, and not to look for standards that were checklists. Mr. Asmelash suggested that the IAASB also obtain feedback from relevant stakeholders in developing nations. 	<p>misstatement, including fraud.”</p> <p>The strategy and work program provides for the IAASB to consult as necessary with the IFAC Developing Nations Committee on issues of relevance to developing nations regarding audit and quality control standards. See first bullet on page 16 of the IAASB Strategy and Work Program, 2009-2011 at the link below.</p> <p>Matters to be included in the scope of the assessments (e.g., translation related matters, “ISA pluses,” etc.) will be considered as part of developing the process.</p>
<i>Implementation Guidance, Including Fair Value Audit Guidance</i>	
<p>The Representatives commented as follows:</p> <ul style="list-style-type: none"> Mr. Damant was of the view that it might be practical to choose certain areas within the whole topic of fair value audit guidance rather than to embrace the whole subject in one document. He also noted that there is a view that the IAASB should develop such guidance only if a need arise as a result of the implementation of ISA 540 (Revised and Redrafted). He did not agree with this view for two reasons. First, the matter was in itself of very considerable complexity and importance, and required special study, even though it might have been appropriate for ISA 540 (Revised and Redrafted) not to go into more detail than it did as it was a worldwide standard applicable in so many jurisdictions. A second reason for pursuing the project on fair value audit guidance was provided by recent events in the capital markets as a result of the sub-prime crisis. Mr. Goebel was of the view that any guidance should be developed independently from ISA 540 (Revised and Redrafted), as preparers and auditors are concerned that guidance developed 	<p>The Fair Value Auditing Guidance Task Force has already begun its work. The Representatives' comments have been referred to the Fair Value Auditing Guidance Task Force for consideration.</p>

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<p>prematurely may undermine the standard.</p> <ul style="list-style-type: none"> Referring to the recent market turmoil, Mr. Edwards suggested that auditing firms take stock of their “best practice” audit procedures. These best practices should be drawn upon to enrich the IAASB’s fair value audit guidance, for example, on the audit of model-based estimates. He also noted that this approach would reflect well on the accountancy profession and the related standard setters. He underlined that the suggestion was made in a positive spirit and not to suggest “deficiencies” in audits or auditing standards as these have not come to light at this time. Mr. Gutterman supported this suggestion. Mr. Goebel also supported gathering information from auditors before concluding that guidance should be developed. Mr. Krantz suggested that the information gathered from auditors and others be published on the IAASB’s website, highlighting the challenges experienced and how they have dealt with them. Mr. Johnson questioned whether this would be possible. Mr. Scicluna was of the view that the development of guidance for preparers may address the challenges faced by auditors. He suggested that the IAASB liaise with the IASB in this regard. Mr. Johnson, who believed that the development of guidance is not appropriate at this time, was of a similar view. He noted that additional financial reporting disclosures will assist substantially in this regard. Mr. Johnson and Ms. Sucher supported the proposal that the next step should be to gather information from auditors to determine whether guidance is in fact necessary. Ms. Todd McEnally cautioned against complacency. She noted that recent issues in the marketplace pertained to interest rate swaps, which are common instruments that are marked- 	

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<p>to-market. As such, she believed that the need for guidance existed before the current environment. Mr. Damant agreed.</p> <ul style="list-style-type: none"> • Mr. Robberecht noted that the EC has drafted a communication to the European Parliament and Council that calls for cooperation between the IASB, IAASB, FSF and IOSCO. • Mr. Uchino noted that in many cases management may not understand the type of risk that they assume in dealing with complex financial instruments. In particular, smaller institutions – such as regional banks – may not have risk management or compliance departments... 	
<i>Alternative Assurance Service for SMEs</i>	
<p>The Representatives commented as follows:</p> <ul style="list-style-type: none"> • Mr. Diomeda noted that a number of jurisdictions are either raising or introducing thresholds for statutory audit exemptions. He wondered whether the IAASB's view that "an audit is an audit" may be a limitation to maintaining good quality in financial reporting by encouraging alternatives to audit or no audit at all. He suggested that the IAASB obtain feedback on how this view affects legislators in setting thresholds. • Mr. Scicluna noted that the IFAC Small and Medium Practices Committee supports the IAASB's proposal first to revise ISRE 2400⁵ and ISRS 4410,⁶ and then to determine whether there is a broader need to be addressed. • Mr. Damant noted that, while there had been strong support for something to be done in this area at previous IAASB CAG meetings, he 	<p>See paragraph 77 of the Basis for Conclusions: Strategy and Work Program, 2009-2011 at the link below, which reads as follows: "The IAASB agreed to revise and redraft ISRE 2400 and ISRS 4410. While there was no clear consensus in this regard, these standards are currently applied in many jurisdictions and, as indicated during the consultations, in need of revision. The IAASB is of the view that these revisions may alleviate the demand for an alternative assurance service for SMEs. However, the IAASB intends to continue to monitor the developments of national standard setters and others with regard to such a service. The IAASB CAG expressed support for this approach."</p>

⁵ International Standard on Review Engagements 2400, "Engagements to Review Financial Statements."

⁶ International Standard on Related Services 4410, "Engagements to Compile Financial Statements."

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<p>supported the IAASB's proposal to be aware of developments in this area while revising ISRE 2400 and ISRS 4410.</p>	
<i>Conceptual Framework</i>	
<ul style="list-style-type: none"> Mr. Johnson noted that FEE has raised this issue and that there seemed to be a demand from the oversight bodies in Europe to develop a conceptual framework. The project is on the agenda of FEE. He asked the IAASB to continue to consider embarking on a similar project. Mr. Asmelash was of the view that a conceptual framework may assist in understanding how the ISAs fit together. Mr. Diomeda suggested that the IAASB establish a small group to consider matters relating to a conceptual framework until such time as the IAASB has resources to develop such framework. Mr. Gutterman did not believe that the development of a conceptual framework should be a high priority. He suggested that the IAASB commission research to minimize the use of IAASB resources. Ms. Asmelash suggested that IFAC member bodies sponsor academic research in this area. Ms. Sucher expressed support for how it is positioned in the proposed strategic plan. Mr. Damant was of the view that work in this regard should not be undertaken until it is clear what is meant by a conceptual framework for auditing. There were several matters relevant to such a framework already covered in the IAASB pronouncements. Mr. Karim suggested that time be devoted at a future IAASB CAG meeting to understanding the logic for an auditing conceptual framework as a basis for considering IAASB CAG's view of its relative priority ... 	<p>See paragraphs 83-84 of the Basis for Conclusions: Strategy and Work Program, 2009-2011 at the link below, which read as follows:</p> <p>“83. The IAASB CAG Representatives and IAASB members held diverse views with regard to the development of a conceptual framework, and what was meant by the notion. Some IAASB members were of the view that the conceptual aspects of the standards are addressed sufficiently in proposed ISA 200 (Revised and Redrafted) and the <i>International Framework for Assurance Engagements</i>, while others were of the view that they should rather be separately addressed, or could be expanded on, in a conceptual framework or some variant or subset of such a framework. While some IAASB members questioned how a conceptual framework would be used by auditors in practice, others noted that it will assist the IAASB in developing principles-based standards. Some IAASB members agreed that a conceptual framework may have advantages; however, in light of the many demands on the resources of the IAASB, they were of the view that it should not be a priority.</p> <p>84. The majority of IAASB members agreed that the IAASB should consider whether to develop further certain key conceptual aspects of the ISAs, such as materiality, audit evidence and professional judgment. It is possible that the output of such an exercise may also include further implementation guidance.”</p>

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Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

IAASB *Strategy and Work Program, 2009-2011* (July 2008) http://www.ifac.org/Members/DownLoads/IAASB_Strategy_and_Work_Program_2009-2011.pdf

Basis for Conclusions: Strategy and Work Program, 2009-2011 (July 2008) [http://web.ifac.org/download/Basis for Conclusions - IAASB Strategy and Work Program 2009-2011.pdf](http://web.ifac.org/download/Basis_for_Conclusions_-_IAASB_Strategy_and_Work_Program_2009-2011.pdf)