

# IAASB CAG PAPER



**International Federation of Accountants**

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## Agenda Item **D.1**

**Committee:** IAASB Consultative Advisory Group

**Meeting Location:** Washington, D.C.

**Meeting Date:** September 9-11, 2009

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

**Held on March 9-10, 2009  
Dubai, United Arab Emirates**

#### **PRESENT**

##### **Members**

David Damant	Chair
Marc Pickeur	Basel Committee on Banking Supervision
Matthew Waldron	CFA Institute
Jean-Luc Peyret	European Financial Executives Institutes
Hilde Blomme	Fédération des Experts Comptables Européens
Philip Johnson	Fédération des Experts Comptables Européens
Elena Lobonova	Graduate School of Financial Management
Bengt Hallqvist	Instituto Brasileiro de Governanca Corporativa
Sam Gutterman	International Actuarial Association
Henning Goebel	International Association of Insurance Supervisors
George White	International Bar Association
Allison Patti	International Organization of Securities Commissions
Pat Sucher	International Organization of Securities Commissions
Filip Cassel	International Organization of Supreme Audit Institutions
Rifaat Karim	Islamic Financial Services Board
Hayanari Uchino	Japan Securities Dealers Association
David Morris	North American Financial Executives Institutes
Ajith Ratnayake	Sri Lanka Accounting and Auditing Standards Monitoring Board
Simon Bradbury	World Bank
John Hegarty	World Bank
Linda De Beer	World Federation of Exchanges
Thomas Krantz	World Federation of Exchanges

##### **Observers**

Richard Fleck	CAG Chair – International Ethics Standards Board for Accountants
Greg Scates	U.S. Public Company Accounting Oversight Board
Bernard Scicluna	IFAC SMP Committee

##### **IAASB**

Prof. Arnold Schilder	Chair
John Fogarty	Deputy Chair

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Caithlin McCabe	Member (via teleconference for Agenda Item B)
Prof. Roger Simnett	Task Force Co-chair (via teleconference for Agenda Item B)
David Swanney	Member
Abdullah Yusuf	Member (Tuesday)

#### **Public Interest Oversight Board**

David Brown

#### **IFAC Staff**

Jim Sylph	Executive Director, Professional Standards
James Gunn	IAASB Deputy Director
Kathleen Healy	IAASB Technical Manager
Michael Nugent	IAASB Technical Manager (via teleconference for Agenda Items B and G)

#### **APOLOGIES**

##### **Members**

Xinhua Ju	Asian Financial Executives Institutes
Conchita Manabat	Asian Financial Executives Institutes
Gerald Edwards	Basel Committee on Banking Supervision
Kristian Koktvedgaard	BUSINESSEUROPE
Nelson Carvalho	Chairman of the Standards Advisory Council of the International Accounting Standards Board
Vickson Ncube	Eastern Central and Southern African Federation of Accountants
Jan Robberecht	European Commission
Federico Diomeda	European Federation of Accountants and Auditors for SMEs
Robert Roussey	Information Systems Audit and Control Association
Lori Cox	Institute of Internal Auditors
David Schraa	Institute of International Finance
Wayne Upton	International Accounting Standards Board
Christianne Wood	International Corporate Governance Network
Yoseph Asmelash	United Nations Conference on Trade and Development
John Carchrae	World Bank

##### **Observers**

Norio Igarashi	Japanese Financial Services Agency
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**MARCH 9, 2009<sup>1</sup>**

### OPENING REMARKS

Mr. Damant opened the IAASB CAG session by welcoming Prof. Arnold Schilder, the new Chair of the IAASB, and Mr. Fogarty, the new Deputy Chair of the IAASB. He also welcomed Mr. Brown as the representative of the Public Interest Oversight Board (PIOB), and Mr. Fleck, Chair of the CAG of the International Ethics Standards Board (IESBA) CAG. Mr. Damant also noted that joining the IAASB CAG on behalf of IOSCO is Ms. Allison Patti.

### MINUTES OF THE PREVIOUS MEETING

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

### Assurance on Carbon Emissions Information (Agenda Item B)

*To DISCUSS matters highlight by the Task Force or brought forward by CAG Representatives.*

Ms. McCabe introduced the topic, noting that because this project involves expertise beyond financial statement auditing, a Project Advisory Panel (PAP) comprised mostly of emissions specialists had been set up to advise the Task Force. The views of a range of stakeholders, including regulators and preparers of emissions inventories, had been obtained at four roundtables held in Australia (2), North America and Europe, some of which had also been attended by IAASB members and technical advisors. Feedback from the roundtables indicated strong support for this project, with participants calling for swift action to produce a standard. The IAASB at its December 2008 meeting endorsed this view, asking the Task Force to present a draft proposed ISAE for a “first read” at the June IAASB 2009 meeting.

Prof. Simnett explained the example greenhouse gas (GHG) inventory included as Agenda Item B-1, noting in particular: the different greenhouse gases that are accounted for under the Kyoto Protocol as CO<sub>2e</sub> (carbon dioxide equivalents), the difference between Scope 1, 2 and 3 emissions, that the current project is not expected to deal with “carbon offsets,” and that the International Accounting Standards Board’s (IASB’s) project on emissions is dealing with the financial statement effect of emissions trading, whereas the IAASB project is dealing with assurance on the emissions inventory itself. The Representatives commented as follows:

- Mr. Damant asked whether the various jurisdictions with emissions trading schemes (ETSs) are working with each other. Prof. Simnett responded that the major jurisdictions that have, or are developing, an ETS are liaising through the newly formed International Carbon Action Partnership, which is expected to encourage a more uniform approach over time.
- Mr. Scicluna inquired about whether there are benchmarks for emission levels. Prof. Simnett noted that in a regulated ETS, the level of allowable emissions was set by the regulator; if an entity is reporting voluntarily, there is no generally accepted benchmark. Mr. Damant noted

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<sup>1</sup> The minutes present the discussions in the order that they were taken. This may not be the same as that indicated on the agenda.

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that whether an acknowledged benchmark existed or not would not likely affect the assurance process.

- Mr. Gutterman asked about the extent of judgment involved in auditing an emissions inventory, for example, if very rigid rules are used to calculate emissions then judgment required may be minimal. Prof. Simnett responded that financial statement auditing skills are directly relevant for many of the judgments that are required, for example, determining the boundaries of the reporting entity. Other judgments, for example, evaluating alternative measurement methods, will be affected by the criteria applied, some of which will be more fixed than others, particularly with respect to regulated schemes. Mr. Gutterman noted the relevance to this ISAE of the principles of ISA 540.<sup>2</sup>
- Mr. Morris inquired about how line items such as waste were calculated, and whether systems existed to capture the relevant data. Prof. Simnett noted that waste is a Scope 3 emission and is often not disclosed. When it is disclosed, the auditor would need to be satisfied about the tonnage of waste and the emission factor applied to it.
- Mr. Pickeur asked about the potential for double counting, for example, if an entity reported emissions related to business travel would that also be reported by the relevant airline? Prof. Simnett responded that business travel would be accounted for by the entity as a Scope 3 emission, but the airline would account for it as Scope 1. So one cannot add different Scopes from different entities. This apparent double counting is still useful, however, as it allows each entity to account for and manage the different types of emissions in which it plays a part.
- Mr. Johnson noted the importance of completeness of the emissions inventory and asked how the assurer would test for understatement. Prof. Simnett noted that the risk assessment and response processes incorporated in ISA 315<sup>3</sup> and ISA 330<sup>4</sup> are applicable to emissions assurance. For example, while understatement will often be the dominant risk, in some cases it may be overstatement (e.g., where an inventory is being used to establish a basis upon which permits will subsequently be issued).
- Mr. Cassel asked whether it is management or those charged with governance who are responsible for the emissions inventory. Prof. Simnett responded that, similar to financial reporting, either may be responsible depending on the jurisdiction.
- Mr. Cassel inquired whether the auditors who perform emissions engagements are generalists or specialists. Prof. Simnett noted that the engagement partner may be either a generalist or a specialist, but it is particularly important that a multidisciplinary team be involved to ensure sufficient appropriate evidence is obtained. Mr. Damant noted that this is similar to, for example, use of an actuary in a financial statement audit of an insurance company.

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<sup>2</sup> ISA 540 (Revised and Redrafted), “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.”

<sup>3</sup> ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment.”

<sup>4</sup> ISA 330 (Redrafted), “The Auditor’s Responses to Assessed Risks.”

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- Ms Sucher noted the importance of narrative disclosures to explain how different line items had been quantified, and asked about reporting in jurisdictions that may not require as rigorous disclosure as other jurisdictions. Prof. Simnett agreed that given the variety of methods that can be used to quantify emissions, narrative disclosures are important to prevent the emissions inventory from being misleading. He noted that the disclosures in the example included with the agenda papers may not be adequate in this regard. He also noted that ISAE 3000 includes a requirement to express a modified opinion when unsuitable criteria are likely to mislead intended users, and that the ISAE on emissions will include guidance on assessing the suitability of criteria and on the uncertainty associated with quantification of emissions.
- Mr. Sylph inquired about the number of ETSs that are currently active, and what requirements they have with respect to assurance. Prof. Simnett responded that there are approximately 40 schemes around the world, most of which require some form of assurance. Some require reasonable assurance, others require limited assurance; some require the assurer to be a financial statement auditor, others do not. He noted that an international standard will be important in fostering a consistent approach, particularly as the number of ETSs grows.

Ms. McCabe introduced the issue of levels of assurance, noting that the IAASB, which is currently of the view that both reasonable assurance and limited assurance should be dealt with in the ISAE, had noted that if a practitioner could not issue an unmodified reasonable assurance report because, for example, the system used to capture emissions information was inadequate, then an unmodified limited assurance report could not be issued either. She also noted that the position to be adopted with respect to limited assurance will be influenced by the work of the Task Force revising ISRE 2400.<sup>5</sup>

- Ms. Sucher noted her view that reasonable assurance should be the focus for the ISAE, but that limited assurance should not be ruled out. She observed that limited assurance could be used as a “top up” between reasonable assurance engagements, similar to interim financial reporting in some jurisdictions. Ms. McCabe agreed that limited assurance could be used in this way, in which case the auditor would have detailed audit-based knowledge of the entity analogous to an ISAE 2410<sup>6</sup> engagement.
- Ms. Blomme agreed with Ms. Sucher that both reasonable assurance and limited assurance engagements should be allowed for in the ISAE, particularly with respect to Scope 3 disclosures, because time and cost constraints may prohibit reasonable assurance in all cases.
- Ms. Sucher asked about how the development of this ISAE will link with the proposed revision of ISAE 3000. Ms. McCabe noted that this is an important question that the IAASB would discuss at its upcoming March meeting.
- Mr. Morris inquired whether assurers other than professional accountants, for example, engineers, were reporting on a reasonable assurance or limited assurance basis. Ms. McCabe responded that both levels of assurance were currently being used by both professional accountants and others. In some cases, assurers who are not professional accountants were referring to ISAE 3000 in their reports, but it was not always clear whether they had

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<sup>5</sup> ISRE 2400, “Engagement to Review Financial Statements.”

<sup>6</sup> ISRE 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.”

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equivalent training, assurance experience, etc. While professional accountants are not likely to be subject matter experts with respect to emissions, they have a solid grounding in the assurance process, as well as systems of quality control, and ethical requirements that others will not always have. It may therefore be questionable whether assurance by others, at either the reasonable or limited level, offers the same credibility as that by a professional accountant working with a multidisciplinary team.

The Representatives commented as follows on other sections of the agenda papers:

- Ms. Blomme noted that criteria set by a regulator may be suitable for the regulator, but not for other users.
- Mr. Gutterman noted the importance of the principles in ISA 620 (Revised and Redrafted)<sup>7</sup> to this ISAE, and also indicated that the ISAE should be clear whether it applies to, for example, actuaries who are part of the assurance team.
- Mr. Hallqvist noted that some countries do not appear to be actively attempting to reduce their emissions and asked how widespread this was. Prof. Simnett responded that ETSs are, or will soon, cover large parts of the world including Europe, Japan, North America, and Australia. ETSs do not appear to be common in South America. The development of some schemes may be slowed by the global financial crisis, but there is still much impetus.
- Mr. Fleck asked what expertise the Task Force had with respect to emissions. Prof. Simnett responded that one Task Force member is an engineer who specializes in emissions. While the others are professional accountants, one has worked full time on emissions for a number of years, one is sustainability assurance expert, and one is the global leader on emissions assurance for a Big 4 firm. The Task Force also draws on the expertise of PAP members, and has received the input of many stakeholders, including regulators and preparers of emissions inventory, through the roundtables. CAG members were invited to forward to staff, details of experts who they thought may be appropriate for the Task Force to consult.
- Ms. Sucher noted the EU ETS is well advanced and that the UK last year issued guidance on verification. Prof. Simnett agreed with Ms. Sucher, and noted other jurisdictions are issuing guidance that will also be helpful to the Task Force.

Ms. Blomme and Mr. Gutterman expressed their interest in joining the CAG Working Group on this topic.

#### Report Back on IAASB Projects (Agenda Item C)

<i>To NOTE how the respective IAASB Task Forces and the IAASB have considered the CAG Representatives' comments.</i>
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Mr. Damant noted the discussion of this Agenda Item and Agenda Item D marks the end of IAASB's Clarity Project and the activities of the associated CAG Working Groups. The use of report backs was developed as a means of tracking comments, and will continue to increase in importance as the CAG is asked to comment on the IAASB's adherence to due process.

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<sup>7</sup> ISA 620 (Revised and Redrafted), "Using the Work of an Auditor's Expert."

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*Using the Work of an Auditor's Expert (ISA 620 (Revised and Redrafted)) – Final ISA approved by the IAASB in September 2008*

Mr. Fogarty explained that many of the points raised by the Representatives in prior discussions dealt with the IAASB's decision to exclude experts in accounting and auditing from the definition of an "auditor's expert," which are not treated as part of the engagement team. In the IAASB's view, expertise in accounting and auditing is central to the concept of an audit and these individuals should be considered part of the engagement team subject to the requirements of ISA 220 (Redrafted),<sup>8</sup> including independence requirements.

The Representatives commented as follows:

- Ms. De Beer indicated that her concern had previously been with how external accounting experts should be viewed in the context of the engagement team. Mr. Johnson noted a continuing concern about whether accounting experts engaged by small and medium practices (SMPs) for a particular engagement are to be considered members of the engagement team. Mr. Fogarty explained that if such individuals are only consulted on an engagement, they are excluded from the definition of an engagement team; however, if they perform audit procedures on the engagement they would be subject to independence requirements under the scope of ISA 220 (Redrafted). Mr. Sylph noted this matter may be an area where a staff Q&A in the Clarity Center could be helpful.
- Mr. Johnson noted that SMPs should be encouraged to involve accounting experts if needed, but acknowledged some accounting experts may not wish to be subject to independence requirements. It may be that, if such auditing requirements establish barriers to consultation, the independence requirements may need to be clarified.

*Communicating Deficiencies in Internal Control to Those Charged with Governance and Management (ISA 265) – Final ISA approved by the IAASB in December 2008*

Mr. Fogarty explained that the final ISA now defines "significant deficiencies" in a manner consistent with how the term is used in the standards of the Public Company Accounting Oversight Board (PCAOB). In finalizing the definition, the IAASB felt it important to provide a consistent definition while not specifying it to a point that might lead to serious difficulties in application. He also noted that the IAASB concluded that the definition of "material weakness" should be left to individual jurisdictions to avoid competing definitions. Mr. Fogarty also explained that the standard now includes guidance indicating that the scope of communication of significant deficiencies is a matter for discussion between auditors and those charged with governance.

The Representatives commented as follows:

- Mr. White supported the direction the IAASB had taken in the developing the definition and its decision to provide additional guidance explaining that, while other definitions may exist, the underlying concept is the same. Mr. Johnson noted that the inclusion of this additional guidance would seem to mitigate concerns previously expressed by the European

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<sup>8</sup> ISA 220 (Redrafted), "Quality Control for an Audit of Financial Statements."

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Commission (EC). Mr. Damant noted it is often helpful for additional guidance to be incorporated when there is some debate around an issue.

- Mr. Hallqvist noted his view that communication of significant deficiencies should be to an independent audit committee. Mr. Johnson cautioned that entities other than public interest entities may not have audit committees; in his view, the standard adequately covers the communications that would take place with others involved in governance of an entity.

*Service Organizations (ISA 402 (Revised and Redrafted)<sup>9</sup>) – Final ISA approved by the IAASB in December 2008*

Mr. Fogarty highlighted the two areas with which CAG had the most concern in prior discussions: the applicability of the ISA to shared service centers, and the potential burden on small and medium sized entities (SMEs). The IAASB concluded that it was not possible to deal with shared service centers in a meaningful way and therefore agreed to remove references to them in the final ISA. In regard to SMEs, the IAASB agreed to clarify that reports from a service auditor may be used in SME audits, but may not always be available. However, the IAASB remains of the view that user auditors in SME engagements are still required to obtain sufficient appropriate audit evidence relating to controls at a service organization when such service organizations are significant to the user entity.

The Representatives commented as follows:

- Ms. Sucher noted that IOSCO remains concerned about the use of the phrase “the auditor shall be satisfied” in the standards, as it may cause difficulties in translation. Mr. Fogarty explained the IAASB agreed to the use of this phrase in the ISA since the user auditor does not work directly with a service auditor and must base a conclusion on less certain information than would be available if the user auditor were directly involved and communicating with the service auditor.
- Mr. Scicluna requested clarification of the independence requirements related to service auditors. Mr. Fogarty explained that service auditors are required to be independent of the service organization on which he or she is reporting, but is not required to be independent of all user entities that may use the service organization as this would be impracticable.

*Financial Reporting Frameworks Described by Reference to International Financial Reporting Standards (ISA 700 (Redrafted)<sup>10</sup>) – Final ISA approved by the IAASB in September 2008*

Mr. Fogarty explained that the IAASB agreed with the CAG’s view that the ISAs could not in themselves effectively resolve the need for transparency when financial reporting frameworks are described by reference to IFRS by including guidance on the audit implications in ISA 700 (Redrafted). He referred the Representatives to the documentation of the discussions on the subject in Agenda Item C.1. Mr. Damant reiterated his view that it is not the auditor’s role to

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<sup>9</sup> ISA 402 (Revised and Redrafted), “Audit Considerations Relating to an Entity Using a Service Organization.”

<sup>10</sup> ISA 700 (Redrafted), “Forming an Opinion and Reporting on Financial Statements.”

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correct serious deficiencies in the entity's financial reporting framework. He noted that he has written to a number of relevant parties to encourage them to resolve these issues.

The Representatives had no comments.

*External Confirmations (ISA 505 (Revised and Redrafted)) – Final ISA approved by the IAASB in September 2008*

The Representatives had no comments.

#### Report Back on Clarity Project (Agenda Item D)

##### REPORT BACK

*To NOTE how the IAASB has considered the CAG Representatives' comments and to RECEIVE an update on the Clarity Project.*

Mr. Gunn explained that the IAASB's Clarity Project has been successfully completed, and that the IAASB intends to publish the final clarified standards in the *Handbook of International Standards on Auditing and Quality Control* in May. He also noted that a new Clarity Center has also been established on the IAASB's website to provide stakeholders with access to individual standards and other relevant resources. Mr. Gunn expressly thanked Mr. Damant and the Representatives for their role in this important achievement. Mr. Damant also noted the significant contribution of the former IAASB Chair, Mr. John Kellas.

##### *Clarity Consistency Review*

Mr. Gunn explained that at its December 2008 meeting, the IAASB considered Staff's proposed editorial changes to the final clarified standards as part of its overall review of the consistency of drafting. He noted that there were no changes of substance to the standards as a result of this exercise. Mr. Gunn also explained that minor conforming amendments to application material of ISA 250 (Redrafted),<sup>11</sup> ISA 220 (Redrafted) and ISA 620 (Revised and Redrafted) were agreed at the same meeting.

The Representatives had no comments.

*Agreeing the Terms of Audit Engagements (ISA 210 (Redrafted)) – final ISA approved by the IAASB in December 2008*

The Representatives had no comments.

*Quality Control (ISA 220 (Redrafted) and ISQC 1 (Redrafted))<sup>12</sup> – final ISA and ISQC approved by the IAASB in September 2008*

The Representatives commented as follows:

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<sup>11</sup> ISA 250 (Redrafted), "Consideration of Laws and Regulations in an Audit of Financial Statements."

<sup>12</sup> ISQC 1 (Redrafted), "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements."

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- Mr. Scicluna asked whether firms would be permitted to adopt an equivalent to ISQC 1 (Redrafted). Mr. Gunn explained that ISA 220 (Redrafted) allows for this if the equivalent standard is at least as demanding as ISQC 1 (Redrafted).

*Audit Evidence—Specific Considerations for Selected Items (ISA 501 (Redrafted)) – final ISA approved by the IAASB in September 2008*

The Representatives had no comments.

*Analytical Procedures (ISA 520 (Redrafted)) – final ISA approved by the IAASB in September 2008*

The Representatives had no comments.

*Comparative Information—Corresponding Figures and Comparative Financial Statements (ISA 710 (Redrafted)) – final ISA approved by the IAASB in September 2008*

The Representatives had no comments.

#### Implementation Support (Agenda Item E)

*To DISCUSS the Staff proposal for implementation support on the Clarity ISAs.*

Mr. Gunn introduced the topic, noting IAASB's recognition of the need to assist in efforts to implement the Clarity ISAs. He explained that IAASB's initiative to develop "ISA Modules" to help raise awareness about the major changes to the standards and how they are expected to affect audit practice. Each module will consist of two elements: a video module to communicate the important messages in the ISAs and the rationale behind the main changes, and a slide deck to provide details of the major changes. The modules are meant to be useful to the broadest range of stakeholders, including firms and those responsible for training trainers. The IAASB's efforts in this area will be especially useful to SMPs and countries that may not have the resources available to undertake a similar initiative. The modules will be made available free of charge for national adaptation and translation purposes. Mr. Gunn noted it will not be possible for the IAASB to develop modules for all the ISAs; current plans are to develop six modules in 2009, as outlined in the agenda material.

The Representatives commented as follows:

- Ms. Sucher suggested the IAASB be cautious that anything regarded as "implementation support" does not become a de facto standard or interpretation of a standard. She also was of the view that training is the responsibility of IFAC Member Bodies and national institutes, not the IAASB. Mr. Hegarty agreed with this view, but believed there is a role for the IAASB to promote the Clarity project in its entirety. Mr. Gunn explained that the modules will not provide guidance beyond that which is contained in the standards themselves, and that the focus is to help build awareness of the Clarity ISAs. In support of Mr. Gunn, Mr. Johnson noted that building awareness of the Clarified ISAs is a matter of importance in light of enormous task faced by those adopting the ISAs for the first time.

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- Mr. Waldron expressed support for this initiative. He noted the CFA Institute's willingness to assist the IAASB in other areas where it could help enhance users' awareness of the degree of confidence they can place in an ISA audit.
- While supporting the development of modules for the ISAs listed in the agenda material, Ms. Sucher was of the view that modules should also be developed for ISA 315 (Redrafted) and ISA 330 (Redrafted)<sup>13</sup>. She noted that these are key standards with which problems are often noted (i.e., in inspection reports and also when being implemented by SMPs). Messrs. Johnson, Pickeur and Scicluna supported this view generally.
- While noting that work with national translation and other implementation support initiatives may not be within the IAASB's remit, Mr. Hegarty was of the view that the IAASB should look for ways to promote the activities of others in the areas of translation, training and implementation in the new Clarity Center on IAASB's website.
- Mr. Hegarty was also of the view that this work should also be coordinated with IFIAR and the SMP Committee. Mr. Pickeur shared a similar view with regard to IFIAR. Mr. Sylph indicated that Prof. Schilder and he have been invited to the September 2009 IFIAR meeting and will look for ways to further develop IAASB's relationship with IFIAR. Mr. Ratnayake was of the view that IFIAR would support the approach that the IAASB is taking in support of the Clarity ISAs implementation effort.
- Mr. Scicluna expressed support for this proposed modules, noting that initiatives such as this are more useful to SMPs than larger firms given the resources the latter are able to dedicate to implementation and training. To this point, Mr. Johnson was concerned that the selection of the ISAs for which modules will be developed seems to focus on areas of more relevant to audits of public interest entities. He encouraged the IAASB to look for ways to use expertise in the larger IFAC Member Bodies to support the smaller IFAC Member Bodies in developing training materials and promoting implementation.
- Mr. Pickeur did not believe it was clear for whom the modules were being developed – those that were using the extant ISAs (therefore needing an update on the main changes from the extant) or those that were first-time adopters of ISAs (therefore needing wider explanation of the principles of the standards and the work effort to be undertaken). Mr. Gunn explained that the modules endeavor to provide benefit to both; the video portion of the module speaks to the main aims that a standard is trying to achieve, while the slide deck provides more explanation as to how the requirements are changing from the existing standard.
- Mr. Johnson indicated that the issue of documentation should be addressed, whether in the ISA 200 (Revised and Redrafted)<sup>14</sup> module or as a separate module.
- Mr. Morris suggested that, in light of the decision taken in ISA 402 (Revised and Redrafted) regarding shared service centers, further guidance could be developed in this area and disseminated through this initiative. Mr. Sylph explained that since the matter of shared

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<sup>13</sup> ISA 330 (Redrafted), "The Auditor's Responses to Assessed Risks."

<sup>14</sup> ISA 200 (Revised and Redrafted), "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing."

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services centers is not dealt with in the ISAs, there is little that can be said in the modules without going beyond the content of the ISAs themselves.

- Mr. Fleck cited previous successes in the UK at disseminating information by liaising with training organizations.
- Mr. Pickeur indicated his view that there should be a module for each of the ISAs. Mr. Gunn explained that this was not possible from a budgetary standpoint.

Mr. Sylph noted that the IAASB has expressed generally support for this Staff initiative, and that the challenge will be to ensure the modules are broadly disseminated so that they can be of the most use.

Representatives were encouraged to further consult with their Member Organizations and submit any feedback to the IAASB.

#### **Project Proposal – Revisions to ISAE 3000<sup>15</sup> – Assurance Engagements (Agenda Item G)**

*To DISCUSS a project proposal on revisions to the assurance standard.*

Mr. Nugent introduced the topic, noting that ISAE 3000 was issued five years ago. While the standard is used fairly extensively (for example, 35 national standards are either equivalent or subject-matter specific building on the concepts of ISAE 3000), a recent survey has indicated there are areas in which the standard could be improved to enhance its use in practice. For example, in Mr. Nugent's view there is merit to incorporating key points in the ISAs into ISAE 3000, so that when subject-matter specific ISAEs are drafted, this material is not duplicated in the individual ISAEs, but rather expanded upon as necessary.

Mr. Nugent explained that the project proposal plans for a significant amount of consultation in light of the complexity of the topic and the various ways in which it could be approached; the intent is to determine whether round tables or consultation papers could be used. A final revised ISAE 3000 is planned for 2012.

Mr. Sylph noted it will be important for the IAASB to understand how national standard setters expand upon specific ISAs within topic-specific ISAEs to determine whether individual ISAs should be addressed in ISAE 3000 or topic-specific standards such as assurance on carbon emissions information.

The Representatives commented as follows:

- Ms. Sucher agreed with the comments in the agenda material that areas which are likely to warrant inclusion in ISAE 3000 are requirements regarding the use of experts, planning, documentation and reporting. Mr. Damant was of the view that separate ISAEs for each of these topics may not be practical. He suggested reference to the ISAs could be made in a manner similar to the additional application material included in the ISAs for SMEs and public sector audits.

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<sup>15</sup> ISAE 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information."

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- Ms. Blomme suggested a separate ISAE is needed in the area of corporate governance, while noting that in the absence of a topic-specific standard ISAE 3000 would apply.
- Mr. Pickeur was of the view that further consultation would be necessary to determine the challenges practitioners encounter in trying to apply ISAE 3000 in a variety of situations. Mr. Nugent noted this matter had been raised in the preliminary survey, and agreed this is a significant. In his view, the revision of ISAE 3000 could separate the standard into the areas on which an auditor could apply it, for example, behavior, achievements, performance, compliance and reporting on controls, to provide broader guidance to those using the standard.

Mr. Damant reported that Mr. Diomeda, who could not attend the meeting, sent in the following written correspondence in advance regarding ISAE 3000 and the review and compilation standards to be discussed in the next session:

EFAA welcomes proposals to update the above international standards for non-audit engagements and to clarify their presentation.

It is vital that any changes to such standards do not increase the costs of engagements beyond that which is appropriate in the marketplace in relation to small and medium-sized enterprises.

That marketplace is deserving of having a comprehensive range of standards for all the assurance-related engagements carried out by professional accountants. Such standards should be consistent and allow report readers (including audit report readers) to both fully understand the individual engagement, including its level of assurance, and to appreciate the benefits of involvement of a professional accountant. To facilitate this, the IAASB should revise all its non-audit engagement standards (and the Assurance Framework) together.

While ‘an audit is an audit,’ EFAA recognizes that there may be a need for different standards for non-audit engagements carried out by the auditors of large public interest entities and similar engagements for SMEs. EFAA urges the IAASB to consider the structure of its suite of non-audit engagement standards as well as their individual content.

#### **Project Proposal – Revisions to the Review and Compilation Standards (ISRE 2400 and ISRS 4410<sup>16</sup>) (Agenda Item H)**

*To DISCUSS a project proposal to revise the review and compilation standards.*

Prof. Schilder introduced the project proposal, and gave a brief overview of the matters included in the project proposal that were highlighted in the agenda material. Mr. Damant noted this area has been of interest to the IAASB CAG for some time.

The Representatives commented as follows:

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<sup>16</sup> ISRS 4410, “Engagements to Compile Financial Statements.”

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- Mr. Johnson encouraged the IAASB to lead the effort in establishing a credible alternative service to the audit, as the increase in audit exemptions may lead to a proliferation of services provided. For example, in Europe the audit exemptions are leading to a large percentage of companies that are exempt from audit, with the needs of the marketplace driving the services being provided. There is a risk that there could be individual solutions in the member states leading to a fragmentation of different services. It will therefore be important for the IAASB to quickly decide what the output of the project will be. Mr. Peyret supported Mr. Johnson's views, noting it will be essential for the IAASB to determine the likely output as soon as possible.

Representatives were encouraged to further consult with their Member Organizations and submit any feedback to the IAASB.

#### Effectiveness Review (Agenda Item F)

*To DISCUSS the Terms of Reference for a task force to develop and implement a process to carry out reviews of the effectiveness of the implementation of IAASB standards and to OBTAIN the Representatives' input with regard to this process.*

Mr. Gunn introduced the topic, and explained that while the IAASB has considered the draft Terms of Reference for the task force for this initiative, it has not yet deliberated the scope of the exercise or how it might best be carried out.

The Representatives commented as follows:

- Mr. Bradbury noted the IAASB will need to determine how it will use the findings from the effectiveness review – while the agenda material indicates that standards will not be reopened, it is important not to prejudge whether this will be necessary. Ms. Sucher also suggested that, while it may not be necessary to immediately change a standard as a result of the findings from this review, the IAASB should consider whether these findings could result in clarifications being made to a particular standard.
- Mr. Gutterman was of the view that the effectiveness review and the matter of responding to emerging and urgent issues are very much related. He believed the IAASB should remain open to the need to revise standards should a significant issue arise, for example, in connection with the adequacy of the standard on fraud.
- Mr. Krantz welcomed the initiative. He suggested that consultation should be undertaken to determine whether and how bodies such as the IASB and the Financial Stability Forum undertake similar reviews, in particular, whether individual standards or the full suite of standards is reviewed.
- Ms. Sucher suggested that specific standards such as ISA 315 (Redrafted) and ISA 330 (Redrafted) could be reviewed as a starting point.
- Mr. Johnson was of the view that timing of this project will be critical. While the IAASB can develop a process to be implemented, the project will not be feasible until national standard setters (NSS) and firms have had experience with the standards, which would likely be after two audit cycles.

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Representatives were encouraged to further consult with their Member Organizations and submit any feedback to the IAASB.

### Strategy and the Current Environment (Agenda Item I)

*To DISCUSS matters in an open session reflecting on the IAASB's strategic priorities.*

Prof. Schilder provided an overview of the status of actions on the activities and projects identified in the 2009-2011 Work Program as well as other initiatives that have commenced that were not specifically identified as 2009 initiatives. He noted that since the consultations on the IAASB's future priorities, there have been a number of significant developments in the environment, for example the expansion of the sub-prime crisis into a global economic recession and the revelation of a number of major financial frauds, that may have possible standards-setting implications.

He invited the Representatives to share their views on whether there are activities or projects missing from the current Work Program that now should be considered (or re-considered) in light of the current environment and the public interest, while bearing in mind that there are Staff resource constraints to be considered. Mr. Damant noted that this is a consideration of significant on-going importance and Representatives were encouraged to further consult with their Member Organizations and submit any feedback to the IAASB.

The Representatives commented as follows:

- Mr. Krantz noted that the World Federation of Exchanges feels strongly that consideration needs to be given as to whether financial statement disclosures are understandable and adequate, even though the disclosures may be compliant with the applicable financial reporting framework. He suggested that it is important for IFAC and the IAASB to leverage their relationships with the IASB and NSS to explore how this message can be acted upon, and for the IAASB to consider what more auditors can do with respect to the complexity and adequacy of disclosures in entities' financial statements. Mr. Waldron supported this view. Mr. Sylph expressed reservation about whether this issue is within IAASB's remit; financial statement disclosure rules are promulgated in the relevant financial reporting framework and the auditor has a responsibility to opine on whether the financial statements are prepared in accordance with that framework.
- Ms. De Beer suggested that in looking at disclosures, auditors should be asked to step-back and consider whether there is something fundamentally missing from them. However, the question is on what basis does the auditor have to require management to provide additional disclosure that the auditor believes would be useful to users when such disclosure is not required by the financial reporting framework? She also suggested that there may be some disconnect between the work of the IAASB and IASB; for example, the IAASB has not provided further guidance on IFRS 7 (though it is partially addressed in revised ISA 540) and it is unclear who is taking responsibility for reporting and disclosure on sustainability. Mr. Damant noted that the point appears to be that the liaison between IAASB and IASB should be strengthened. Prof. Schilder noted that the IAASB Steering Committee has on its agenda what steps can be taken to further strengthen this relationship.

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- Mr. Gutterman supported the view that there may be something more that the auditor can do with respect to the quality of disclosures and whether the disclosures are meaningful and useful, though the critical question is where would the role of the auditor end? He suggested that the auditor may be able to engage in useful dialogue with management on the topic of quality of disclosures.
- Ms. Sucher supported the view that there may be some role for auditors to stand back and consider whether the disclosures are comprehensible. She also noted that important disclosures are also provided outside the financial statements and suggested that the IAASB revisit whether ISA 720 is ‘fit for purpose.’ Prof. Schilder remarked that the need for transparency has made disclosures more comprehensive but not necessarily more comprehensible. He also noted that the question of whether ISA 720 should be revised is on IAASB’s future agenda.
- Mr. Pickeur noted that the Basel Committee on Banking Supervision has published a document on its website on the topic of audit quality for banks. Amongst other matters, the document highlights the needs for meaningful disclosures as opposed to standard “boiler plate” disclosures. He was of the view that the IAASB needs to focus efforts on developing relevant standards and guidance for audit of banks and other financial services institutions. He also noted the importance of the IAASB having some form of rapid response mechanism in order to react to developments in the environment. In this regard, he found IAASB’s recent Staff Audit Practice Alerts to be helpful and encouraged the IAASB to consider other possible vehicles to help get guidance to practitioners.
- Mr. Cassel noted that from an INTOSAI perspective it is important for IFAC and IAASB to continue to monitor developments in the environment to see what may be of particular relevance to today’s auditor, and what role auditors can play in providing useful information to the public. He also noted the usefulness of IAASB’s recent Staff Audit Practice Alerts.
- Mr. Waldron was of the view that consideration should be given to enhancing ways in which convergence of auditing standards can be achieved. Mr. Sylph noted that much progress has been made with respect to international adoption of, or convergence with, ISAs and that this continues to be a major area of focus for the leadership of IFAC and the IAASB.
- Mr. Waldron also encouraged the IAASB to consider an effective communications policy to ensure that fundamental messages about the roles and responsibilities of auditor get into the public domain.
- Mr. Fleck was of the view that the question of whether the auditor’s report in its present form is effective in communicating the value added by an audit. He noted that the UK is piloting a new form of auditor report that allows more flexibility in communicating key messages. Mr. Sylph noted that the IAASB has on its agenda to consider the result of the four academic research projects commissioned on users’ perception of the standard auditor’s report. He noted that consideration will be given to the work of the UK as recommendations for the way forward are developed.

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### International Association of Insurance Supervisors (Agenda Item J)

*To DISCUSS the IAIS's plans to issue a paper regarding the relationship between the actuary and the external auditor in the preparation and audit of an insurer's financial reports and to CONSIDER whether the IAASB should participate in its development.*

Mr. Goebel gave a brief presentation discussing the IAIS's draft Issues Paper on the *Roles of and Relationship between the Actuary and the External Auditor in the Preparation and Audit of Financial Reports*. A copy of this presentation is attached as Appendix 1.

Mr. Sylph explained that the IAASB will consider whether, and if so how, it should respond to the draft Paper or otherwise participate in its development to ensure that it accurately represents the IAASB's position as set forth in the ISAs.

The Representatives commented as follows:

- Mr. Gutterman noted the International Actuarial Association may wish to issue a similar paper. He also questioned why the IAASB would not simply issue a comment letter on the draft Paper. Mr. Sylph indicated that he understands that the IAIS would welcome some form of endorsement of the Paper if that were appropriate in the circumstances.
- Mr. Damant commented that similar questions arise in the case of other specialist areas, such as real estate and complex financial instruments.

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#### Project Proposal – XBRL (Agenda Item M)

*To RECEIVE a briefing on XBRL and DISCUSS a project proposal on XBRL.*

Ms. Healy introduced the project proposal for IAASB to develop a pronouncement dealing with the expected work effort of the auditor when audited financial statements are accompanied by XBRL data, and the reporting implications in such circumstance. She explained that as more entities begin to file their audited financial statements using XBRL, users might expect that the auditor's report covers the XBRL data and that the auditor has performed specific procedures on this data or the controls surrounding XBRL data; in many cases at present, however, the auditor is not involved with the XBRL data. A failure to adequately communicate the assurance, if any, that is being provided on the XBRL data to users therefore risks widening the expectations gap.

Ms. Healy highlighted the different approaches to the project that could be taken, as outlined in the agenda material. She also noted that the project will focus initially on consultation with stakeholders to obtain information about national developments relating to XBRL and input on the approach to the project being considered by the IAASB.

The Representatives commented as follows:

- Mr. Krantz noted that if he were looking at financial statement information presented in XBRL form he would assume that the auditor had obtained some assurance about the accuracy and reliability of the XBRL data. He would anticipate that other users would assume the same. He therefore believes that as a minimum the auditor should perform some work on

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financial data tagged in XBRL format with the extent of the auditor's work thereon explained in the auditor's report. However, he was of the view that a broader approach should be taken to the project and that a new assurance standard should be developed for engagements to report on XBRL data.

- Ms. De Beer expressed support for the proposed direction of the project, where no XBRL data accompanying the financial statements is released unless it has been subject to some review by the auditor. She was of the view that the most immediate need of users is to know whether or not assurance is being provided on XBRL tagged data.
- Mr. Peyret expressed support for the proposed direction of the project. He was of the view that XBRL enhances the reliability of financial information particularly in cases where the reporting entity is required to consolidate a number of subsidiary accounts. He indicated that the European Financial Executives Institute will continue its dialogue with regulators towards a requirement for financial statements to be filed in XBRL format.
- Mr. Cassel expressed support for the proposed direction of the project. He was of the view that XBRL will ultimately be the primary form in which financial statements are filed. He recommended that the project should also include consideration of the use of electronic signatures. He also suggested that there may be an opportunity for XBRL to enhance practice by minimizing the period between the date of the auditor's report and when that report is actually signed by the auditor and the financial statements approved by management. In this regard, he stressed the importance of the project's linkage with ISA 560,<sup>17</sup> ISA 700 and ISA 720.<sup>18</sup>
- Mr. Waldron expressed support for the proposed direction of the project. Because users will be using XBRL data more and more to analyze financial information, he believes it extremely important that the IAASB take steps to accelerate the development of standards that would require the auditor to obtain some level of assurance on XBRL tagged data. Mr. Johnson supported this view.
- Mr. Johnson was of the view that XBRL is the future of financial reporting and that profession needs to be involved at this relatively early stage of the global XBRL movement. He was also of the view that global guidance developed by the IAASB is preferable to different national solutions. He explained that the main challenge in developing a global solution relates to the fact that jurisdictions are moving at different paces with respect to reporting in XBRL; some jurisdictions will remain 'paper societies' for a longer period while others will move variously along a continuum of both paper and electronic mediums. Mr. Uchino supported this view, noting that it will be important that the IAASB survey national circumstances and take into consideration the fact that countries may be at different stage of development. Mr. Johnson noted that he co-chairs a FEE task force on XBRL and that it would be pleased to work closely with IAASB as it moves forward on this important project.

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<sup>17</sup> ISA 560 (Redrafted), "Subsequent Events."

<sup>18</sup> ISA 720 (Redrafted), "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements."

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- Ms. Patti was of the view that preparers, practitioners and the public are generally not well educated about XBRL, and that the IAASB itself should be satisfied that it is fully educated on XBRL before making any standard-setting decisions. For example, she explained that XBRL data produced through a ‘bolt-on’ process to a legacy system will have different audit implications than the case where the XBRL tagging process is embedded in financial reporting system. Mr. Scates supported this view, and suggested that the IAASB survey firms about the nature and level of assurance, if any, they are currently providing on XBRL data, the level of assurance that they would not be capable of providing, and their views on the major risks and cost implications of different assurance approaches. Messrs. Fogarty and Morris noted that an important objective of the project will be to create an understandable explanation of XBRL.
- Mr. Sylph indicated that a key issue the IAASB will face is whether to focus on addressing contemporary issues such as that of ‘bolt on’ versus ‘embedded’ XBRL processes, or to seek to develop a broader solution that anticipates the future form of financial reporting under XBRL. Messrs. Johnson and Krantz were of the view that the IAASB may need to consider both, as different jurisdictions will be at different stages of development for some time. There are specific needs that must be addressed now, but resolving them will not be the end of the work of the IAASB as there will be continuing developments in XBRL and therefore continuing demands on the profession. Mr. Morris supported this view, noted that the US banking sector has been using XBRL for many years but is still principally operating a ‘bolt on’ approach.

A CAG Working Group has been formed for this project. The Representatives were asked to communicate their interest in joining the group to Mr. Damant and Mr. Gunn.

#### Monitoring Group Review (Agenda Item N)

*To OBTAIN Representatives’ input with regard to the Monitoring Group Review of IFAC’s Reforms.*

Mr. Hegarty outlined the process that the Monitoring Group (MG) intended to follow in response to the provision in the 2003 IFAC Reforms that a review of the Public Interest Activity Committees (PIACs) and Public Interest Oversight Board would be performed after five years had passed. The main focus of the review will be the effectiveness of the PIOB and PIACs, including the extent to which the reforms as originally designed have been put in place, as well as whether the agreed-upon reforms are still sufficient. The focus of the review is forward-looking to determine whether any processes need to be refined.

Initially, self-assessments will be conducted by IFAC, the PIACs and the PIOB based on criteria developed by the MG. The Task Force will prepare a draft report on the basis of these self-assessments for public consultation via the IOSCO website. Mr. Hegarty reported that the MG intends to draft the report by June 2009, with the recommendations finalized by spring 2010.

Mr. Sylph reported that the IFAC Board has set up a small subgroup led by Deputy President, Gören Tidström, to begin considering the self-assessment. This group has confirmed that all the recommendations set forth by the IFAC reforms have been adopted. He noted the IFAC Board will be challenged to gather information from each of the PIACs individually and summarize the

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results. It is anticipated that all 3 PIACs are likely to have the same policies and procedures. It will be necessary to coordinate the timing of the various PIAC and CAG meetings to ensure the issues are vetted among the groups.

Mr. Sylph indicated that further discussion by the CAG is anticipated for September 2009 as a structured opportunity to consider their Member Organizations' input into the process, however, the Member Organizations are also encouraged to respond publicly to the request for comment.

#### Responding to Emerging and Urgent Issues (Agenda Item O)

*To OBTAIN Representatives' input with regard to the process by which the Public Interest Activity Committees could respond to emerging issues or matters that require rapid responses.*

Mr. Gunn introduced the topic, noting that the agenda material sets out a preliminary outline of a possible framework for the IAASB in addressing emerging and urgent issues on a rapid response basis. He explained that the main issue to be resolved is the trade-off between the timeliness with which a response can be issued and the process that should followed in its development to maintain quality.

The Representatives commented as follows:

- Regarding the issue of authoritative material on a rapid response basis, Ms. Sucher noted that IOSCO was of the view that irrespective of the urgency of an issue, some form of public consultation would be necessary to ensure the quality and acceptability of the IAASB's response. Mr. Pickeur supported this view.
- Regarding the issue non-authoritative material on a rapid response basis, Ms. Sucher noted the importance of having quality assurance procedures built into development process. Mr. Pickeur suggested that a form of "negative assurance" approach could be used, for example, that the IAASB did not object to the content of a document. Ms. Patti cautioned that even when guidance is labeled "non-authoritative," some perceived form of authority is attached because it is issued by the IAASB.
- Mr. Gutterman questioned whether it is necessary and appropriate to establish a separate "emerging issues" task force for purposes of rapid responses. He suggested that the IAASB Steering Committee could be used to serve the same function. Mr. Pickeur was of the view that there is a role for the CAG to be involved to solicit the views of its Member Organizations. Mr. Ratnayake supported this point, particularly in the context of non-authoritative guidance.
- Because a number of jurisdictions will be incorporating ISAs into law, Mr. White encouraged the IAASB to make clear what the interaction would be between the ISAs and any authoritative guidance issued on a rapid response basis. Mr. Fleck supported this view.
- Mr. Cassel expressed the view that due process is relatively less important in circumstances when new guidance simply elaborates on matters that are already in principle addressed by an ISA, in contrast to situations where new guidance is developed relating to the application of an ISA to a new situation. Mr. White held a similar view. He noted that there is a distinction between changing a standard versus adopting a pronouncement that clarifies an existing standard – the former would require a higher threshold of due process. He also suggested the

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IAASB consider a process whereby material that is developed in response to an emerging or urgent issue is at some point either incorporated in the authoritative body of the standards through full due process or withdrawn.

- Mr. Bradbury encouraged the IAASB to work with the other PIACs to ensure whatever mechanism developed can be used by all of the PIACs. He also expressed some concern that that IAASB and its staff resources are limited and initiatives like this (as well as implementation support and the effectiveness review) may affect other work that can be undertaken. Mr. Sylph agreed, but noted that the intent would be to use such a mechanism sparingly, and there are clear benefits to formalizing the procedures to be followed so that there is certainty about the responsibilities of the IAASB in the event it is called upon to address an issue on a rapid response basis.

Mr. Brown noted that the PIOB will have a keen interest in further IAASB discussion in this area, as any departure from due process will need to be carefully considered by the PIOB. Representatives were encouraged to further consult with their Member Organizations and submit any feedback to the IAASB.

#### Assurance Reports on Pro Forma Financial Information (Agenda Item P)

*To DISCUSS matters highlighted by the Task Force or brought forward by CAG Representatives.*

Mr. Damant welcomed Mr. Swanney, Chair of the IAASB Pro Forma Financial Information Task Force. Mr. Swanney introduced the topic, and briefly explained the significant issues and the Task Force's recommendations highlighted for consideration by the IAASB CAG.

#### *Meaning of "Properly Compiled"*

Mr. Swanney noted that the Task Force believes that the objective of an assurance engagement in relation to pro forma financial information should be to report on whether that information has been properly compiled. In addition, reporting on the proper compilation of the pro forma financial information should concern the process of putting the information together and not the provision of assurance on the information itself. He also noted that as law or regulation or market practice in some jurisdictions may use the term "properly prepared" in place of "properly compiled" to describe the matter on which the practitioner is reporting, the Task Force believes it would be appropriate to provide guidance in the ISAE to explain how these two terms interrelate. In the Task Force's view, these two terms should have the same meaning for the purposes of the ISAE.

The Representatives commented as follows:

- Ms. Blomme was of the view that it will be very important that there be coordination between this project and IAASB's projects to revise ISAE 3000, ISRE 2400 and ISRS 4410 to ensure consistency between them in terms of use of concepts and terminology.
- Mr. Fleck was of the view that users want to know that the compilation of the pro forma financial information has been done properly. He therefore supported the Task Force's view that the focus of the engagement should be on providing assurance on the process of compiling the pro forma information and not on the pro forma information itself. Mr. Damant supported this view.

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- With regard to use of the term “properly prepared” versus “properly compiled” to describe the matter on which the practitioner is reporting, Mr. Damant was of the view that the latter is far better as it suggests a narrower remit. Mr. Fleck supported this view.
- Mr. Johnson was of the view that the terms “compiled” and “prepared” are fundamentally different, and to imply that they are the same would be misleading. Mr. Fleck supported this view, noting that the term “prepared” is used in some jurisdictions with a unique connotation.
- Mr. Morris was of the view that neither term does justice to the nature of work actually performed when compiling pro forma financial information. He suggested that the proposed standard elaborate on the meaning of the term “pro forma financial information.”

#### *Nature and Level of Assurance Provided in an Engagement to Report on Pro Forma Financial Information*

Mr. Swanney noted that widespread general expectation is that reasonable assurance is what is expected in most markets and what countries require in engagements to report on pro forma financial information. Nevertheless, a minority of jurisdictions requires or permits limited assurance engagements on proper compilation of pro forma financial information. The Task Force is of the view that the ISAE should cater for this type of engagement in addition to reasonable assurance engagements so as to enable the standard to achieve broad applicability.

The Representatives commented as follows:

- Mr. Waldron was of the view that users would expect that reasonable assurance has been obtained. Messrs. Fleck, White and Damant supported this view, noting that pro forma financial information is commonly used in connection with transactions that involve an important interaction with the investment community, i.e., the investment community will be investing on the basis of the pro forma financial information.
- Mr. Fleck was of the view that if national legislation or regulation requires some level of assurance lower than reasonable assurance, then this is an issue to be addressed at the national level. In his opinion, the fact that there are a few jurisdictions where reasonable assurance is not required is not a sufficient justification for the IAASB to develop a less-stringent international standard.
- Mr. White expressed support for the Task Force’s recommendation. He was of the view that the standard should focus on reasonable assurance, as the starting point. However, it should allow for limited assurance where that is required by local legislation or regulation. In such cases, the standard should require explicit disclosure in the practitioner’s report that limited assurance, rather than reasonable assurance, has been obtained and an explanation of the fundamental differences between these two levels of assurance. Ms. Blomme supported this view.

#### *Acceptability of Framework for Compilations*

Mr. Swanney summarized the Task Force’s view that determining the acceptability of the framework for compiling the pro forma financial information should be a condition for engagement acceptance, and that it would be appropriate to provide high-level benchmarks in the ISAE to assist the practitioner in evaluating the suitability of management’s criteria where no formal framework exists in the jurisdiction.

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The Representatives commented as follows:

- Mr. Fleck expressed support for the recommendations of the Task Force. He noted that the UK Auditing Practices Board (APB) has produced guidance for similar purposes. This guidance was approved by the UK Financial Services Authority and presented as an annex to the APB's standard on pro forma financial information to avoid the argument that the APB has been an arbiter of an accounting framework.

#### *Work Effort Regarding the Unadjusted Financial Information*

Mr. Swanney explained that the majority of Task Force believes that it is not feasible to mandate that the unadjusted financial information be audited or reviewed in all cases without creating a conflict with frameworks for the preparation of pro forma financial information in jurisdictions (such as the EU) where no such requirement exists in law or regulation. A minority of Task Force members, however, believe that the practitioner would not have a sufficient understanding of the compilation process and, therefore, a basis to report on whether the pro forma financial information has been properly compiled if the unadjusted financial information previously had not been audited or reviewed. However, a compromise approach could be to require the practitioner to perform sufficient procedures to gain an understanding of the financial and reporting practices associated with the unadjusted financial information, as well as other procedures necessary to support the expression of a positive opinion. Regardless of the work effort on the unadjusted information, however, the practitioner's report and the basis of preparation should disclose when the unadjusted financial information has not been derived from historical financial information that was audited or reviewed.

The Representatives commented as follows:

- Mr. Fleck was of the view that a requirement to disclose whether the underlying information is audited or not is key to avoid misleading information and misunderstanding by users.
- Messrs. Fogarty, Pickeur, Scates and Damant were of the view that it would seem peculiar to suggest that the practitioner obtain reasonable assurance on the process of compiling the pro forma financial information while the underlying financial information has not been audited or reviewed. Mr. Fogarty indicated that even with full disclosure the situation is likely to provide a false sense of security that the underlying data is better than it may actually be. Mr. Pickeur suggested that it is confusing to provide a higher level of assurance on the process of compilation than that obtained on the underlying information. Mr. Scates indicated that providing assurance on the compilation process where the underlying data is not audited or reviewed would increase the expectations gap. He was also of the view that there is a significant risk to the practitioner of being associated with information that has not been audited or reviewed. Mr. Damant indicated that the analogy is constructing a building on shifting ground.
- Ms. Blomme was of the view that the ISAE should not impose a condition in all cases that the unadjusted financial information be audited or reviewed. To do so would introduce a major conflict with EU legislation. She indicated that FEE will write to the Task Force explaining its views on the matter.

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- Mr. Morris noted that it is important for the Task Force to consider “carve-out” situations, for example where the financial statements of an entity as a whole have been audited but the transaction involves the carve-out of a single division of the entity and the financial information of that division has not been audited. Mr. Johnson supported this view, and suggested that the Task Force consider whether additional procedures by the practitioner should be required in such circumstances.

#### *Consistency of Accounting Policies*

Mr. Swanney noted that the Task Force believes that it should be a precondition for the acceptability of the framework that the criteria used for the compilation include a requirement that the pro forma adjustments that are made should be consistent with the issuer’s accounting policies. Without adherence to a fundamental principle of reporting on the basis of consistent accounting policies, the results of the compilation could be confusing and potentially misleading to users. It is recommended, therefore, that the practitioner’s work effort on the adjustments should include an evaluation of whether these have been made on a basis consistent with the accounting policies of the issuer.

The Representatives commented as follows:

- Mr. White was of the view that the Task Force’s proposal does not go far enough. He suggested that it should also be made clear in the practitioner’s report that while adjustments have been made to achieve consistency of accounting policies adopted by the issuer, the underlying financial statements of the non-issuing entity have not been audited on the basis of those accounting policies.

#### *“Assumptions” Underlying the Compilation of Pro Forma Financial Information and Related Work Effort*

Mr. Swanney noted that the term “assumptions” in the context of a compilation of pro forma financial information is different from forward-looking assumptions that may be made in the context of prospective financial information or accounting estimates. The Task Force believes that it would be appropriate to provide guidance to explain what “assumptions” generally mean in the context of the proposed ISAE, i.e., that they are the judgments that management has to make in establishing the basis of the compilation to illustrate the significant effects of the transaction.

The Representatives commented as follows:

- Mr. Damant noted that accuracy in terminology is particularly important in the context of adoption and translation of the standard in different jurisdictions. Mr. Fleck supported this view, and suggested that “basis for compilation” might be a more suitable phrase than “assumptions.”

#### *Responsibility for Evaluating Whether Pro Forma Financial Information Is Misleading*

Mr. Swanney noted that the Task Force is of the view that the practitioner should have an overall stand-back responsibility to consider whether the compilation process has resulted in pro forma financial information that is misleading.

The Representatives commented as follows:

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- Ms. Sucher expressed her personal view that the entire point of having a practitioner involved with pro forma financial information is to enhance the credibility of that information. She therefore supports the notion that there should be some responsibility to stand-back to consider whether the pro forma financial information is misleading, notwithstanding the difficulty in making this judgment. Mr. White supported this view, noting that the stand-back function is especially important in this context as the risk that the pro form financial information is contra-factual is greater than in an audit of historical financial statements.
- Mr. Fleck suggested that the Task Force consider examining the issue from the perspective of three categories: (i) whether the resulting information is consistent with understanding of the information obtained; (ii) whether subsequent events, such as significant changes in the environment, have occurred that may affect the overall reasonableness of the pro forma financial information; and (iii) whether the practitioner is potentially associated with misleading information.

#### *Other Issues*

Mr. Swanney highlighted significant issues and the Task Force's recommendations in connection with: (i) definitional characteristics of pro forma financial information; (ii) the required understanding of subject matter and engagement circumstances; and (iii) procedures to be undertaken in relation to pro forma adjustments. The Representatives had no comments.

#### **Project Proposal – Using the Work of Internal Audit (ISA 610 (Redrafted)) (Agenda Item Q)**

<i>To DISCUSS a project proposal to revise ISA 610 (Redrafted).</i>
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Mr. Gunn introduced the project proposal, and briefly explained the significant issues highlighted for consideration by the IAASB CAG. He noted that the Institute of Internal Auditors (IIA) has nominated a representative to participate in the project task force. He also noted that it will be important for the IAASB to solicit views during the project from stakeholders that may not normally comment on IAASB exposure drafts, including the internal audit community, preparers and those charged with governance.

The Representatives commented as follows:

- While the project proposal notes that the project task force will consider the appropriateness of “requiring external auditors to use internal auditors,” Ms. Patti did not believe this would be appropriate as a requirement. She suggested the proposal use phrasing such as “strongly encourage.”
- Mr. Pickeur supported the involvement of the IIA on the project task force. He and Mr. Fleck also agreed that involvement of a representative of the International Ethics Standards Board for Accountants was beneficial.
- Mr. Johnson noted that while objectivity of internal audit is fundamental, the standard will need to be applicable to circumstances in which internal auditors report to management as well as to those charged with governance.

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- Mr. Fleck noted that the UK Auditing Practice Board's recent Consultation Paper dealing with revised draft ethical standards for auditors may be useful to the project Task Force. He encouraged the IAASB to gather views from regulators who have encountered issues in this area.

A CAG Working Group has been formed for this project. The Representatives were asked to communicate their interest in joining the group to Mr. Damant and Mr. Gunn.

#### Fair Value Auditing Guidance Task Force (Agenda Item S)

*To DISCUSS matters highlighted by the Task Force or brought forward by CAG Representatives.*

Mr. Fogarty briefed the Representatives on the activities of the Fair Value Auditing Guidance Task Force to date, and introduced the matters highlighted for consideration by the IAASB CAG. Mr. Fogarty explained that the Task Force recommends the IAASB to plan to revise IAPS 1012<sup>19</sup> and to develop guidance for auditors about the use of confirmations when auditing investment funds.

The Representatives commented as follows:

- Mr. Damant expressed support for the recommendation to revise IAPS 1012, but was of the view that the project should be expanded to address the broader topic of auditing complex financial instruments.
- Mr. Gutterman reported that the CAG Working Group on this topic is in general agreement with the recommendations. He also suggested work on audits of models as an area requiring further attention.
- Mr. Waldron supported the view expressed in the agenda material that while the development of a plain man's guide and liaison with pricing services would be beneficial initiatives, concentrating on revising IAPS 1012 to help to add clarity to the audits of fair values generally seemed to have the most merit. Ms. Blomme also supported the prioritization of the revision of IAPS 1012. She noted that the IAPS has relevant guidance on auditing disclosures which could be updated to deal with IFRS 7.<sup>20</sup> In her view, the adequacy of disclosures is the most pressing issue in the European context. Mr. Krantz supported the project as a means to respond to calls from auditors encountering difficulty with valuations.
- Mr. Pickeur expressed his concern that the IAASB would not pursue further liaison with pricing services. He noted this is an area in which that the Basel Committee on Banking Supervision has some questions, in particular surrounding their controls and the use of pricing services by both preparers and auditors. He also suggested that IAPS 1006<sup>21</sup> was in need of revision and was currently not fit for purpose.

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<sup>19</sup> IAPS 1012, "Auditing Derivative Financial Instruments."

<sup>20</sup> IFRS 7, "Financial Instruments: Disclosures."

<sup>21</sup> IAPS 1006, "Audits of the Financial Statements of Banks."

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- Ms. Sucher, supported by Mr. Krantz, suggested that further guidance on what constitutes a market may be useful, as would guidance about different segments of markets and the auditor's response in relation to different kinds of financial instruments.
- Ms. Sucher supported the development of guidance on confirmations for investment funds, as there are risks around the perception that third-party evidence is the highest form of evidence when it may not be in particular circumstances. Ms. Blomme noted that guidance on private equity investment funds may be less relevant from a European perspective.
- Mr. Uchino cited concerns for governments to value "bad banks" and the need for transparency in the public sector. Mr. Schilder acknowledged a similar point was raised at the IFAC Chief Executives meeting from a public sector perspective, which may indicate that the International Public Accounting Sector Board is in a better position to address the topic than the IAASB.

#### **PIOB Remarks**

Mr. Brown thanked the Representatives for their preparation for the meeting and participation throughout. He noted the importance of the CAG from PIOB's standpoint, and that robust discussions such as those during this meeting give the PIOB comfort that the public interest is being served.

He congratulated the IAASB and its Staff for keeping to its timetable for the completion of the Clarity project and recognized the CAG's role in the process. He hoped that with the end of the Clarity project an opportunity would be presented for the PIOB and the CAG to address broader issues relating to the work of the IAASB.

Mr. Brown stressed that it is in the public interest for due process to be followed from the start of a project through all its stages, and believes the CAG has an important role in this respect. He referred to the discussions that had taken place relating to the development of a rapid response mechanism, and noted that this is a matter of great interest to the PIOB. In his view, there are trade-offs between the urgency of a response on a particular issue and the need to take the time to ensure such a response is the right one. Mr. Schilder supported Mr. Brown's view, noting that the IAASB places high priority in seeing that the PIOB is involved in determining the way forward on this matter.

#### **Presentation on the Financial Crisis and Regulatory Reform: Implications for the Middle East and North Africa Emerging Markets (Agenda Item T)**

The Representatives received a presentation from Dr. Nasser Saidi, Chief Economist of the Dubai International Financial Centre. A copy of this presentation is attached as Appendix 2 to these minutes.

#### **Closing**

Mr. Damant thanked the CAG Representatives for their contribution to the meeting. He noted that the next meeting is scheduled for September 2009 in Washington, D.C. The meeting will begin on the afternoon of September 9<sup>th</sup> and will continue through September 11<sup>th</sup>.

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Mr. Damant noted that tentative dates and locations for the 2010 CAG meetings are as follows: March 1-2, 2010 in Brussels or Madrid, and September 13-14, 2010 in London.

Mr. Hegarty noted this is his last meeting with the IAASB CAG, having been a member of the group for nearly 10 years. He praised Mr. Damant for strengthening the CAG via his personal communications and ongoing efforts at recruiting. He noted the work of the former Chair of the IAASB, Mr. Kellas, and the work of the PIOB, as contributing to the value of the CAG, and thanked the Representatives for their friendship throughout the years. Mr. Bradbury will continue to represent the World Bank on the CAG, with Mr. Carchrae as an alternate.

Mr. Damant thanked Messrs. Schilder, Fogarty, and Swanney for their contributions to the meeting, and Mr. Sylph and his staff for their support.

Mr. Damant closed the meeting.