

IAASB CAG PAPER



International Federation of Accountants

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Agenda Item

A

Committee: IAASB Consultative Advisory Group

Meeting Location: Dubai

Meeting Date: March 9-10, 2009

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

Held on September 4-5, 2008

Toronto, Ontario

PRESENT

Members

David Damant	Chair
Xinhua Ju	Asian Financial Executives Institutes
Gerald Edwards	Basel Committee on Banking Supervision
Marc Pickeur	Basel Committee on Banking Supervision
Kristian Koktvedgaard	BUSINESSEUROPE
Matthew Waldron	CFA Institute
Jan Robberecht	European Commission
Federico Diomeda	European Federation of Accountants and Auditors for SMEs
Jean-Luc Peyret	European Financial Executives Institutes
Hilde Blomme	Fédération des Experts Comptables Européens
Philip Johnson	Fédération des Experts Comptables Européens
Robert Roussey	Information Systems Audit and Control Association
Bengt Hallqvist	Instituto Brasileiro de Governanca Corporativa
Wayne Upton	International Accounting Standards Board
Sam Gutterman	International Actuarial Association
Henning Goebel	International Association of Insurance Supervisors
George White	International Bar Association
Susan Koski-Grafer	International Organization of Securities Commissions
Tomokazu Sekiguchi	International Organization of Securities Commissions
Pat Sucher	International Organization of Securities Commissions
Lori Cox	Institute of Internal Auditors
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
Linda De Beer	World Federation of Exchanges
Thomas Krantz	World Federation of Exchanges

Observers

Greg Scates U.S. Public Company Accounting Oversight Board

Prepared by: Kathleen Kerrigan and James Gunn (October 2008)

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

IAASB

John Kellas	Chair
Denise Esdon	Deputy Chair (Friday)
Phil Cowperthwaite	Member
Craig Crawford	Member (Friday)
Diana Hillier	Member (Friday)

Public Interest Oversight Board

Dr. Aulana Peters

IFAC Staff

Jim Sylph	Executive Director, Professional Standards
James Gunn	IAASB Deputy Director
Kathleen Kerrigan	IAASB Technical Manager

APOLOGIES

Members

Conchita Manabat	Asian Financial Executives Institutes
Nelson Carvalho	Chairman of the Standards Advisory Council of the International Accounting Standards Board
Vickson Ncube	Eastern Central and Southern African Federation of Accountants
Elena Lobonova	Graduate School of Financial Management
David Schraa	Institute of International Finance
Mohini Singh	Institute of International Finance
Christianne Wood	International Corporate Governance Network
Rifaat Karim	Islamic Financial Services Board
Filip Cassel	International Organization of Supreme Audit Institutions
Yoseph Asmelash	United Nations Conference on Trade and Development
John Hegarty	World Bank

Observers

Norio Igarashi	Japanese Financial Services Agency
Harold Monk	Small and Medium Practices Committee

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

SEPTEMBER 4, 2008¹

Mr. Damant opened the IAASB CAG sessions following the end of the joint session of the IAASB and IESBA CAGs.

Using the Work of an Auditor's Expert (Agenda Item B)

To REVIEW a summary of significant comments on the exposure draft of proposed ISA 620 (Revised and Redrafted) and the Task Force's recommendations.

Mr. Damant welcomed Mr. Ferlings, Chair of the ISA 620 Task Force, who participated by teleconference. Mr. Ferlings introduced the topic, noting that the IAASB had discussed significant comments on exposure draft of proposed ISA 620 (Revised and Redrafted)² at its June 2008 meeting. He briefly explained the significant comments received on exposure and the Task Force's recommendations highlighted for consideration by the IAASB CAG.

Definition of Auditor's Expert

Mr. Ferlings explained that the definition of auditor's expert in the exposure draft of proposed ISA 620 (Revised and Redrafted) excludes experts in accounting or auditing. The vast majority of respondents who commented on this matter agreed with the IAASB's approach. A few respondents were opposed to any distinction between experts based on their accounting or auditing expertise. At its June 2008 meeting, the IAASB confirmed its view that ISA 620 (Revised and Redrafted) must distinguish expertise in accounting or auditing from other expertise. If accounting and auditing experts were not specifically excluded from the definition of auditor's expert, then all the auditor's professional staff performing audit procedures on an engagement (i.e., the entire engagement team) would need to be considered experts. This would be contrary to the intent of ISA 620 (Revised and Redrafted). The IAASB recognized that the work of experts in specialized areas of accounting or auditing will need to be used on many audits. However, it is not practicable to attempt to draw a clear distinction between expertise in a *specialized area* of accounting or auditing, and the "*ordinary*" expertise that should be possessed by the engagement team.

The Representatives commented as follows:

- Mr. Ratnayake supported the position of the Task Force. He was of the view that it would not be appropriate to treat an expert in accounting or auditing as an expert under proposed ISA 620 (Revised and Redrafted). He was also of the view that if the engagement partner believes there is need for specialized accounting or auditing expertise, then such expertise needs to be part of the engagement team.
- Mr. Gutterman noted that there are certain specializations in accounting and auditing that are not ordinarily thought of as being included within the general competencies expected of the engagement team. He was therefore of the view that it would be helpful if the ISA addressed

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

² ISA 620 (Revised and Redrafted), "Using the Work of an Auditor's Expert."

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

how the work of experts in specialized areas of accounting or auditing are addressed in an audit.

- Mr. Roussey noted that smaller practices are likely to engage an external accounting or auditing expert for assistance, for example in accounting for complex derivative financial instruments. He was therefore of the view that many of the requirements of ISA 620 (Revised and Redrafted), for example determining whether the expert has appropriate credentials, should apply equally to accounting and auditing experts. Mr. Koltvedgaard and Ms. De Beer also found it unclear as to why the ISA excludes experts in accounting and auditing and why they should be treated differently. Mr. Ferlings explained that proposed ISQC 1 (Redrafted)³ and ISA 220 (Redrafted)⁴ establish obligations on the engagement partner to determine whether the engagement team has the necessary competencies to perform the audit. Where an external accounting or auditing expert is engaged for this purpose and performs auditing procedures on the engagement, the expert is treated as a member of the engagement team subject to the provisions of ISQC 1 (Redrafted) and ISA 220 (Redrafted). Nothing, however, precludes the auditor from applying relevant requirements in ISA 620 (Revised and Redrafted) as part of the auditor's considerations when engaging an external accounting or auditing expert. In response, Mr. Roussey questioned the extent to which external accounting or auditing experts are willing to be treated as part of the engagement team in light of possible liability issues and independence requirements.
- Ms. De Beer reported that the stock exchange in South Africa now requires auditing firms to use an International Financial Reporting Standards (IFRS) advisor. Most smaller practices, however, do not have an in-house IFRS advisor, and so are required to engage an external IFRS advisor. She asked whether such an advisor would be required to be treated as a member of the engagement team. Mr. Ferlings explained that if the IFRS advisor is providing advice but not performing audit procedures, the advisor would not be part of the engagement team. Mr. Kellas noted, however, that such an advisor would also not be covered by ISA 620 (Revised and Redrafted) since the advisor is an expert in accounting.
- Ms. De Beer nevertheless was of the view that the ISA needs to be more flexible as smaller practices will inevitably often need to contract out specialized accounting skills. Further, she was of the view that using an external IFRS expert on a specific issue is no different from using a geologist as an expert. Mr. Ferlings explained that the other extreme is to include all experts in accounting and auditing, including those within the firm, in the definition of auditor's expert. This would not seem appropriate. In response, Ms. De Beer suggested that a useful dividing line could be based on the status of the accounting specialist: if the expert is in-house, then the expert should be treated as part of the engagement team; if external, then the auditor should apply ISA 620 (Revised and Redrafted) and not treat the expert as a member of the engagement team subject to the firm's quality review.
- Mr. Peyret supported Ms. De Beer's observations. He also noted that it is difficult to distinguish between 'providing advice' and 'performing auditing procedures on the

³ ISQC 1 (Redrafted), "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements."

⁴ ISA 220 (Redrafted), "Quality Control for an Audit of Financial Statements."

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

engagement' in relation to a complex accounting matter. Further, one should not underestimate the need to consider auditing procedures in determining whether IFRS has been applied properly. Mr. Ferlings acknowledged that there are significant challenges in an audit under IFRS, and explained that these cannot be resolved by auditing standards. In his view, the engagement partner must fully understand the accounting requirements in order to be in a position to form an opinion on the financial statements. He also suggested that auditors will overtime develop the necessary competencies in IFRS. He explained that the Task Force is recommending to the IAASB that a summary of the relevant requirements of ISA 620 (Revised and Redrafted) be included in the application material of ISA 220 (Redrafted), to recognize the fact that when the work of an expert in a specialized area of accounting or auditing is used, considerations similar to those in ISA 620 (Revised and Redrafted) will be applicable to a greater or lesser extent depending on the circumstances.

- While accepting that there is a level of core competency expected of the engagement team before an engagement should be accepted, Mr. Upton observed that the challenge is often in relation to new, one-off specific accounting standard addressing a complex matter where the auditor needs to engage external expertise to help design audit procedures and ensure that the accounting is right; with but this one exception, the auditor otherwise has the necessary competencies in relation to all of the other aspects of the audit. However, as far as he is aware, under no circumstances would external experts accept being part of the engagement team.
- Mr. Kottvedgaard noted that achievement of international convergence of standards and their uniform application may ultimately require some form of global interpretation body to which the firm or the auditor need to consult on a complex matter in a particular circumstance. He was therefore of the view that there may be merit in providing guidance in the ISA for the auditor to consult with such an external body. Mr. Upton supported this comment, noting that the circumstance of local interpretation of IFRS is the worst conceivable situation.

Mr. Damant summarized the discussion, noting that all of the Representatives that have commented, except Mr. Ratnayake, have expressed doubt about the position of the Task Force.

Management's Experts

The Representatives commented as follows:

- Mr. Gutterman indicated that Working Group has no additional comments. It is of the view that the revised draft in regard to guidance on management's experts is a significant improvement over the exposure draft.
- Mr. White said that it was not clear that the reasons for distinguishing accounting expertise from other expertise in the case of the auditor's expert could be applied in the case of a management's expert. It was therefore difficult to understand why it was appropriate to exclude accounting expertise from the definition of management's experts. Messrs. Morris and Roussey supported this view, indicating that the definition should be broadened to include accounting expertise. Mr. Roussey also suggested that guidance should be included in the

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

proposed conforming amendments to ISA 500 (Redrafted)⁵ on how the auditor evaluates the competencies of management's experts, including those with accounting expertise, for example in the case where management uses an expert to develop a model for valuing derivative financial instruments for accounting purposes.

- Ms. Sucher was of the view that the definition of management expert is very broad and could conceivably cover all forms of expertise outside accounting that help lead to the preparation of the financial statements. She suggested that the Task Force revisit whether the definition, read on a stand-alone basis, could inadvertently be interpreted too broadly. She was also of the view that it would be helpful to refine the definition to help focus the auditor on areas where an expert is used and there is likely to be a need for the auditor to perform specific procedures. Mr. Ferlings noted the focus of the auditor's work auditor is guided by the auditor's assessed risks of material misstatement; the auditor need not perform specific procedures when management uses an expert in an area where there is no assessed risk of material misstatement.

Agreement with the Expert

The Representatives commented as follows:

- Mr. Robberecht indicated that the European Commission (EC) is of the view that the ISA should require the agreement between the auditor and the auditor's expert to be in writing in all cases and documented in every audit file. This position was explained in the EC's comment letter on the exposure draft. Mr. Koktvedgaard agreed with this view.
- Mr. Koktvedgaard was of the view that practical issues exist in relation to confidentiality and cases where management is not made aware of the identity of the auditor's expert. In some specific areas, the importance of business secrets might be such that management is not willing to share information with an external expert. Mr. Robberecht agreed with Mr. Koktvedgaard's comments, and suggested that it may be appropriate for the auditor to communicate to management the auditor's use of an external expert. Mr. Ferlings was of the view that the engagement partner's primary consideration is ensuring that the right expertise is brought to bear on an engagement.

Documentation

The Representatives commented as follows:

- Ms. Sucher noted that the ISAs in general are inconsistent in regard to documentation requirements. Nevertheless, she was of the view that it would be appropriate to include a documentation requirement in proposed ISA 620 (Revised and Redrafted) consistent with that in ISA 610 (Redrafted).⁶ These ISAs are similar in nature and therefore should be consistent in terms of the required documentation of the use of the work of an expert and the auditor's conclusions about the adequacy of such work. She also noted that representatives of the Canadian Public Accountability Board (CPAB) indicated in their presentation the previous

⁵ ISA 500 (Redrafted), "Audit Evidence."

⁶ ISA 610 (Redrafted), "Using the Work of Internal Auditors."

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

day that several oversight and inspection bodies have identified documentation of the auditor's use of the work of an expert as requiring improvement in practice. Messrs. Robberecht and Scates supported Ms. Sucher's comments.

- Mr. Robberecht was of the view that the definition of auditor's experts omits the fact that in some jurisdictions the auditor may be required by law or regulation to include the auditor's expert as part of the engagement team.

Approval of Minutes of Previous Meeting and Report Back on IAASB Projects (Agenda Item C)

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.

REPORT BACKS

<i>To NOTE how the respective IAASB Task Forces and the IAASB have considered the CAG Representatives' comments.</i>
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Related Parties (ISA 550 (Revised and Redrafted) – Final ISA approved by the IAASB in March 2008)

The Representatives commented as follows:

- Mr. Damant noted that ISA 550 (Revised and Redrafted) establishes requirements for the auditor to understand an entity's related party even when the financial reporting framework does not have standards to specifically address related parties. This was justified as the existence of a related party may in any case affect the nature of the transactions under audit.
- Mr. Roussey liked what had been done in respect of common control but asked how this might affect the accounting (and in particular consolidation) where there were family relationships. Mr. Kellas noted that the accounting would continue to be done in accordance with the financial reporting framework applicable in the particular jurisdiction, and the auditor would evaluate whether the concept of common control applies in the circumstances.
- Ms. Koski-Grafer indicated that in her view some aspects of the report back on this ISA, and some of the others in the meeting's agenda materials, do not communicate clearly how the IAASB considered the Representatives' comments and the rationale for why particular requested changes were not made in finalizing the standard.

IAASB Strategy and Work Program – Final documents approved by the IAASB in June 2008

Mr. Kellas noted the Public Interest Oversight Board (PIOB) confirmed that there were no additional projects to be added to the work program in light of what had been included; as a result, the final IAASB 2009-2011 Strategy and Work Program document was approved and issued in July 2008.

Mr. Damant noted that, while the final Strategy and Work Program has been agreed and issued, if necessary the IAASB can make changes to respond to issues as they may arise. He thanked the Representatives for participating in the development of the Strategy and Work Program.

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

The Representatives commented as follows:

- Mr. Koltvedgaard suggested that while there are a number of activities in the Strategy and Work Program aimed at assisting auditors of small- and medium sized entities (SMEs), the IAASB should consider whether all the requirements in the ISAs are relevant to a cost effective audit, in particular for unlisted entities. In his view, more could be done to emphasize the need for the auditor to exercise professional judgment in applying the requirements of the ISAs. In addition, he raised the example of the standards as issued by the US Public Company Accounting Oversight Board (PCAOB) as compared with those issued by the US Auditing Standards Board (ASB) as a situation in which there are differing standards for listed and non-listed entities. Mr. Kellas, supported by Mr. Scates and Dr. Peters, was of the view that these standards were not seen as competing with each other and were similar in terms of requirements. Mr. Damant indicated the IAASB's proposed future action to revisit its standards on review and compilation engagements would give the IAASB insight on whether an alternative assurance service should be developed.
- Mr. Johnston believed lesser requirements for SMEs would dilute the brand of an audit. In his view, the more desirable approach would be to further educate smaller practices on how the ISAs can be used effectively, for example, by applying the risk assessment standards properly and thereby, in some cases, reducing more time-consuming substantive testing.
- Mr. Hallqvist believed that audit is an investment in the future. Mr. Krantz supported this view, noting that an audit imposes discipline on management.

Prospectuses

Mr. Kellas noted that the IAASB's discussion on the project proposal to commence work on an assurance standard for reporting on pro forma financial information had raised a concern that international differences may impair the ability of the IAASB to developing a standard that is globally applicable. The IAASB therefore agreed in approving the project proposal that the project task force should identify any significant jurisdictional differences that may prevent the development of an international standard, together with recommendations as to how the IAASB should proceed.

A CAG working group will be formed for this project. The Representatives were asked to communicate their interest in joining the group to Mr. Damant and Mr. Gunn.

Carbon Emissions

Mr. Damant noted the IAASB's work on carbon emissions is likely to be the first in a line of projects relating to sustainability, which may well involve a substantial amount of consultation for each particular subject as practice in this area is still developing.

Mr. Krantz noted that some states in the United States are beginning to develop reporting requirements about the financial impact of global warming. In his view, there is likely to be a concern in the future about how these disclosures are audited.

A CAG working group will be formed for this project. The Representatives were asked to communicate their interest in joining the group to Mr. Damant and Mr. Gunn.

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

Clarity Project (Agenda Item D)

REPORT BACK AND UPDATE

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

Overall Objectives of the Independent Auditor and Conduct of an Audit in Accordance with ISAs (ISA 200 (Revised and Redrafted)) – Final ISA approved by the IAASB in June 2008

The following was noted with regard to the report back on ISA 200 (Revised and Redrafted):

- Mr. Damant indicated the importance of ISA 200 (Revised and Redrafted) in that it is the overarching standard to all the ISAs. Mr. Kellas indicated that a few CAG Representatives were hopeful that the draft discussed by the CAG in March 2008 would not be substantively changed by the IAASB in finalizing the standard; this was ultimately the case. He also noted that the comments of the CAG Representatives were raised at the March 2008 IAASB meeting and addressed in the IAASB's June 2008 meeting material.
- Mr. Hallqvist indicated that he is still uncomfortable that the ISA does not make it absolutely clear for whom the auditor works. The ISA does not refer to the ultimate customer of an audit – the investor and shareholders; rather the ISA appears focused on the financial statements and what the auditor produces. In his opinion, this lack of clarity is a fundamental issue. Mr. Damant suggested that Mr. Hallqvist invite the CAG Working Group on Corporate Governance and Investor Matters to formulate a suggestion as to the way the IAASB could insert this consideration in its future work. Mr. Kellas concurred that investors and shareholders are the ultimate beneficiaries of the audit, and noted that the IAASB has made a few changes throughout the ISAs in this regard. For example, the clarified ISAs generally make reference to the users of the report, and all references to 'client' in the older ISAs have been replaced with 'entity' to avoid any misleading inference.
- Ms. Koski-Grafer referred to the minutes of the comments of some CAG Representatives that urged the IAASB to reflect in the ISA that the ultimate objective of audits of listed companies is to enhance the credibility of the financial statements. She noted that her comments at the meeting went to the point that enhanced credibility of listed companies' financial statements promotes market confidence in the integrity of financial reporting and thereby supports the effective functioning of the capital markets. She also referred to the minutes of her comments that suggested the content of the application material paragraph explaining the content of ISAs should be moved to the Requirements section as that information is essential to having a proper understanding of the requirements. In both cases, she was of the view that the report back is not directly responsive to the comments made, though the report back seems to imply that the IAASB has responded fully to all the points made. She urged greater care be taken in drafting the report backs, paying particular attention to the nuance of specific wording which could be either defensive or more ideally, objective and explanatory. She also suggested that the report backs should be neutral in tone, with clear and logical explanation of whether the comments of the CAG Representatives were, or were not, accepted and the rationale involved for the technical position taken. Mr. Damant indicated that he and Staff will review the approach being taken to the report backs and explore how the nature of responses may be

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

refined, and he also said it would be helpful if Ms. Koski-Grafer could supply a few examples of the report back text that illustrated the points she was making to the staff.

- Mr. Damant noted that some CAG Representatives urged the IAASB to significantly shorten the discussion on inherent limitations. He commented that the IAASB did not seem to accept this suggestion. Mr. Kellas explained that the IAASB took the point that the material in the ISA was unnecessarily lengthy due to duplication in some aspects, and noted that the IAASB did eliminate the noted redundancies. The IAASB did not believe the CAG was suggesting that a fundamental re-write of the material was required. Further, Mr. Kellas noted that the EC recommended that the ISA should include discussion of all inherent limitation in a single place. This recommendation was adopted, and limited the extent to which the IAASB could reduce the overall length of the material.
- Ms. Sucher was of the view that the IAASB has taken on board many of the comments on inherent limitations. She also noted that the IAASB has appropriately balanced the discussion on limitations by explaining further what the auditor can, and cannot do, in an audit of financial statements. She is of the view the ISA has improved considerably in the right direction.
- Mr. Hallqvist was of the view that both the auditor and those charged with governance recognize the fact that there remain risks of material misstatement in the financial statements irrespective of the efforts taken to assure this is not the case. This reality drives constructive and diligent behavior, whereas too great an emphasis on the inherent limitations of an audit does not. He indicated that the International Corporate Governance Network has written to European Commissioner for the Internal Market and Services stating its opposition to the European proposal to establish limited auditor liability.

Mr. Damant indicated that in 2009 the CAG may be asked, on the occasion on which the CAG plans to discuss a draft pronouncement for the last time before it goes to the IAASB for final approval, to indicate its view in relation to the way in which the IAASB has addressed the comments of the CAG Representatives, and on whether elements of due process relating to the required interaction by the IAASB with the CAG has been followed. Ms. Koski-Grafer commented that it may not be possible to respond in an absolute sense as there are always some points that may require further discussion and other areas for improvement. Mr. Damant responded that the CAG must form a definitive position at that point if it is to support the PIOB's deliberation on due process. Dr. Peters commented that, in her view, it is important for the PIOB to understand the position of the CAG in relation to whether it believes the IAASB has taken into account the comments of the CAG Representatives. Mr. Damant indicated that he will prepare for purposes of discussion at the March 2009 CAG meeting a note of procedure outline exactly what is to be asked of CAG Representatives in this regard.

ISAs for which No Report Backs Were Presented

Mr. Damant noted that the CAG Representatives had no significant comments on ISA 320 (Revised and Redrafted),⁷ ISA 450 (Revised and Redrafted),⁸ ISA 500 (Redrafted) and ISA 530

⁷ ISA 320 (Revised and Redrafted), "Materiality in Planning and Performing an Audit."

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

(Redrafted).⁹ The final ISAs were approved by the IAASB in June 2008.

Using the Work of Internal Auditors (ISA 610 (Redrafted)) – final ISA approved by the IAASB in June 2008

The Representatives had no comments on the report back on ISA 610 (Redrafted).

Going Concern (ISA 570 (Redrafted)) – final ISA approved by the IAASB in March 2008

The Representatives had no comments on the report back on ISA 570 (Redrafted).

Initial Audit Engagements—Opening Balances (ISA 510 (Redrafted)) – final ISA approved by the IAASB in March 2008

The Representatives had no comments on the report back on ISA 510 (Redrafted).

Auditor's Reports (ISA 700 (Redrafted))¹⁰ (except for the discussion of reference to IFRS addressed as part of Agenda Item J), ISA 705 (Revised and Redrafted)¹¹, ISA 706 (Revised and Redrafted)¹², ISA 800 (Revised and Redrafted)¹³, ISA 805 (Revised and Redrafted)¹⁴ and ISA 810 (Revised and Redrafted)¹⁵ – except for ISAs 705 and 706 (Revised and Redrafted) which were approved by the IAASB in June 2008, final ISAs are to be approved by the IAASB in September 2008

The Representatives had no comments on the report back on the noted reporting ISAs.

Consideration of Laws and Regulations in an Audit of Financial Statements (ISA 250 (Redrafted)) – final ISA approved by the IAASB in March 2008

The following was noted with regard to the report back on consideration of laws and regulations in an audit of financial statements:

- Mr. Roussey indicated that as a matter of record, the minutes of the March 3-4, 2008 IAASB CAG meeting do not reflect accurately his comments. He is of the view that the auditor should be guided to inquire of the effect of non-compliance that the auditor identifies which management was not aware. Accordingly, the report back does not directly respond to this point. He did not suggest further action is needed.

⁸ ISA 450 (Revised and Redrafted), "Evaluation of Misstatements Identified during the Audit."

⁹ ISA 530 (Redrafted), "Audit Sampling."

¹⁰ ISA 700 (Redrafted), "Forming an Opinion and Reporting on Financial Statements."

¹¹ ISA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report."

¹² ISA 706 (Revised and Redrafted), "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report."

¹³ ISA 800 (Revised and Redrafted), "Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks"

¹⁴ ISA 805 (Revised and Redrafted), "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement"

¹⁵ ISA 810 (Revised and Redrafted), "Engagements to Report on Summary Financial Statements"

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

- Ms. Koski-Grafer referred to the minutes of her comments that the members of the IOSCO Standing Committee 1 were hoping for the ISA to include something more than the passive responsibility implied by part (c) of the proposed objective. That is, as part of obtaining an understanding of the entity and assessing the risks of material misstatement of the financial statements, the auditor will look harder in the case of laws and regulations that are particularly relevant to the business of the entity. She also referred to Ms. Sucher's comment that the ISA should be revised. In both cases, she was of the view the report back is not clear in explaining whether the comments of the CAG Representatives were, or were not, accepted, and the reasons why.

Update on the Clarity Project

Mr. Kellas noted the following with respect to the status of the IAASB's Clarity project:

- The IAASB is on track to complete the project by its December 2008 meeting.
- IAASB Staff has begun its review of the complete set of clarified ISAs for consistency of drafting. It is not anticipated that this exercise will result in any substantive changes to the ISAs. The IAASB will discuss Staff's proposed changes at its December 2008 meeting.
- The IAASB intends to issue a communication after its September 2008 meeting to update the public about the progress made on the Clarity project. This communication will also alert users of the ISAs as to which standards have more significant changes.
- IAASB Staff is currently discussing what further education effort regarding the Clarity project should be undertaken. One possibility is the development of material in the form of slides and speaking notes, or perhaps video presentations made by IAASB members, that explain the IAASB's rationale in revising particular standards and the substantive changes made. No decision has been taken by the IAASB to date.

The Representatives commented as follows:

- Mr. Robberecht encouraged the IAASB to ensure as part of its review of the consistency of the ISAs that footnotes within the ISAs do not contain substantive text which otherwise could be included in the body of an ISA. He also noted that the EC does not support reference to ISQC 1 (Redrafted) or the IFAC Code of Ethics for Professional Accountants within the ISAs.
- Ms. Koski-Grafer suggested that it would be helpful if the IAASB were to prepare and review a list of all the objectives of the clarified ISAs as part of its consistency review.

REVIEW OF SIGNIFICANT COMMENTS ON CLARITY EDS TO BE APPROVED AT THE SEPTEMBER IAASB MEETING

Agreeing the Terms of Audit Engagements (ISA 210 (Redrafted))

Mr. Kellas introduced the topic, noting that, as a result of developments in other ISAs, this ISA now deals with the fundamental topics of management responsibilities and the premise on which an audit is based as well as agreeing the terms of engagement.

The premise on which an audit is based is that management is responsible for the preparation and fair presentation of the financial statements. That responsibility includes the responsibility for

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

internal control that enables the financial statements to be prepared. In addition, the premise includes the concept that management and those charged with governance will make all information available to the auditor.

The auditor and the entity agree in advance as to management's responsibilities and, at the end of the audit, the written representations are the confirmation by management and those charged with governance that they have fulfilled those responsibilities. Respondents to ISA 580 (Revised and Redrafted)¹⁶ were concerned that the representation regarding internal control could be seen as a requirement for management to make an assertion as to the effectiveness of internal control. As a result, the IAASB agreed that that ISA should require management to confirm only the preparation and fair presentation of the financial statements and the completeness of information made available to the auditor. As the premise is constructed (in ISA 200 (Revised and Redrafted)), however, the preparation and fair presentation includes responsibility for internal control, and it may therefore be argued that the required representation about preparation and fair presentation implicitly includes a representation as to the internal control. This had not been the IAASB's intention in approving ISA 580 (Revised and Redrafted).

Nevertheless, the IAASB considers that it is important to establish that the responsibility for internal control lies with management, not the auditor. Accordingly, in redrafting proposed ISA 210 (Redrafted), the Task Force is proposing to remove the references to internal control from the premise; and to require in the terms of engagement agreement to the premise and to a separate term about responsibility for internal control to support preparation of the financial statements. As a result there will be a clear separation between the responsibilities in the premise (to which management agrees and whose fulfillment it subsequently confirms), and that for internal control (to which management agrees, but for which there is no subsequent confirmation of fulfillment).

The Representatives commented as follows:

- Mr. Hallqvist asked how the ISA dealt with the auditor's responsibility to ensure they have complete information. Mr. Kellas noted that respondents to the exposure draft had expressed concern that the responsibility of management to provide complete information to the auditor should not be expressed in such a way as to suggest that the auditor has no responsibility to be proactive in seeking the information needed for the audit. Mr. Kellas explained that the draft had been amended to take account of that concern.
- Mr. Robberecht noted the EC's initial support of the new direction in the ISA and said that the Member States would be discussing the ISA in the near future. He questioned whether the difference between the preconditions to an audit and the premise was sufficiently clear. He was also unsure about the current draft's indication that management needs to "provide the auditor with additional information that the auditor may request of management"; this may suggest that the auditor can ask for any information they desire, whether relevant to the financial statements or not. Mr. Kellas' view was that it was unlikely an auditor would request information that is not relevant to the audit. Mr. Kellas also explained that the preconditions to the audit are that the financial reporting framework is acceptable and that the premise has been accepted.

¹⁶ ISA 580 (Revised and Redrafted), "Written Representations," approved by the IAASB in December 2007.

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

- Mr. White questioned how the auditor would deal with circumstances in which the internal control system is insufficient and the auditor cannot obtain sufficient appropriate audit evidence to conduct the audit. Mr. Kellas was of the view that this would lead to a qualification or disclaimer of the opinion unless management decided to revise the internal control system prior to the audit. Mr. White noted that paragraph A18 of the ISA¹⁷ may suggest that an auditor could obtain a representation that management understands its responsibilities and that no further action would be needed. However, based on Mr. Kellas' explanation, a disclaimer would be a possibility. He suggested further application material be added to address this circumstance.

Quality Control (ISA 220 (Redrafted) and ISQC 1 (Redrafted))

Mr. Cowperthwaite introduced the topic, noting that the IAASB considered the significant comments received on the ISA and the ISQC at its June 2008 meeting, and intends to finalize these documents at its September meeting.

Mr. Cowperthwaite explained that while the majority of respondents to the exposure drafts of proposed ISA 220 (Redrafted) and ISQC 1 (Redrafted) indicated support for the proposed objectives stated therein, some expressed significant concern. Firstly, it was questioned whether it is appropriate to use the term “reasonable assurance” in the objectives. While the term is widely used and has an understood meaning in audits of an entity's financial statements, it was suggested that it may not be suitable for describing the audit firm's and engagement partner's quality control obligations and could be confused with the objective of an auditor to obtain reasonable assurance as it relates to the audit.

Mr. Cowperthwaite asked for views about the proposed revised objectives. The Representatives commented as follows:

- Ms. Sucher noted that IOSCO was among those who viewed the use of “reasonable assurance” in the objectives as inappropriate. It was her understanding that the June 2008 IAASB meeting material had indicated that the term was eliminated from the objective stated in ISA 220 (Redrafted) and retained in ISQC 1 (Redrafted). However, she questioned why this was no longer the case in the material for discussion by the IAASB in September. Mr. Cowperthwaite explained that the IAASB concluded at its meeting that the concept of reasonable assurance should be retained in ISA 220 (Redrafted), as it clarifies that quality control procedures at the engagement level do not, and cannot be designed to, provide absolute assurance. Ms. Sucher thought referring to reasonable assurance in relation to the audit and quality control was confusing, a point supported by Mr. Robberecht.

¹⁷ Paragraph A18 of the ISA now states: “It is for management to determine the internal control necessary for the preparation of the financial statements. The term “internal control” encompasses a wide range of activities within components that may be described as the control environment; the entity's risk assessment process; the information system, including the related business processes relevant to financial reporting, and communication; control activities; and monitoring of controls. This division, however, does not necessarily reflect how a particular entity may design, implement and maintain its internal control, or how it may classify any particular component. The completeness and sophistication of an entity's internal control (in particular, its accounting books and records, or accounting systems) will reflect the needs of management, the complexity of the business, the nature of the risks to which the entity is subject, and relevant laws or regulation.”

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

- Ms. Koski-Grafer suggested use of the phrase “high but not absolute level of assurance” in place of “reasonable assurance,” since that was the definition of reasonable assurance in the context of an audit. Mr. Kellas noted the use of “reasonable assurance” is consistent with the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) discussion that internal control is designed to give reasonable assurance.

Mr. Cowperthwaite noted that some respondents were of the view that within ISA 220 (Redrafted) it would be appropriate to remove references to ISQC 1 (Redrafted). The IAASB discussed this at its June meeting and concluded that a strongly linkage between ISA 220 (Redrafted) and ISQC 1 (Redrafted) is essential, though it may be possible to allow some limited flexibility for differences in jurisdictions that do not adopt ISQC 1 (Redrafted). The Task Force’s proposal, therefore, is to highlight in ISA 220 (Redrafted) that the ISA is premised on the condition that the audit firm has established and maintained an appropriate system of quality control. Such a system is one that complies with ISQC 1 (Redrafted), or one that is based on relevant national requirements that impose obligations on the firm that achieve the aims of the requirements set out in ISQC 1.

The Representatives commented as follows:

- Mr. Robberecht supported the revised wording. However, he suggested that the phrase “aim of the requirements” should be replaced by wording used in the objective of ISQC 1 (Redrafted).
- Ms. Koski-Grafer said she could personally support the revised wording. However, she emphasized that IOSCO’s position is that it is only possible for the engagement partner to fulfill the requirements of ISA 220 (Redrafted) regarding reliance on an audit firm’s quality control system if the audit firm has also met the requirements of ISQC 1 (Redrafted) and has an effective system in place.
- Mr. Diomeda questioned whether, as drafted, the ISA was meant to require firms to adopt ISQC 1 or an exact equivalent. He questioned what the effect would be if the EC does not adopt ISQC 1 (Redrafted). Mr. Pickeur questioned the effect of a national jurisdiction with no requirements similar to ISQC 1 (Redrafted). Mr. Kellas explained that in such circumstances a firm may find it necessary to adopt ISQC 1 (Redrafted).
- Mr. Edwards expressed some concern about the possible perception that the IAASB is moving away from ISQC 1 by allowing an equivalent system to be followed. In his view, the principles-based requirements in ISQC 1 are fundamental to achieving the objective of a robust system of quality control. He also noted many firms have embraced ISQC 1. Mr. Johnson agreed, citing improvements in quality control systems and audit quality as a consequence of ISQC 1.
- Ms. Koski-Grafer suggested that perhaps ISQC 1 (Redrafted) could be included as an appendix to ISA 220 (Redrafted) while also remaining a separate standard, so that there would be a close tie between the two.
- Mr. Sekiguchi inquired as to the reference to the “auditor” rather than “engagement partner.” Mr. Cowperthwaite indicated that since the term “auditor” is defined as partners and personnel, the use of the term auditor within the ISA is meant to cover both.
- Ms. Blomme commended the Task Force for the changes it had made to ISQC 1 (Redrafted)

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

to make it more principles-based, as this will make the standard easier to apply for SMEs.

Audit Evidence—Specific Considerations for Selected Item (ISA 501 (Redrafted))

Mr. Kellas noted that extant ISA 501 deals with very specific matters and was written to highlight specific considerations by the auditor in relation to the matters addressed. While some respondents indicated that they did not believe this ISA fits well within the audit risk standards, the IAASB believes that it should be retained as a stand-alone standard if only because deleting it would remove some specific requirements that do not fit well elsewhere. As a result, the Task Force has changed ISA 501 (Redrafted) to explain more clearly the purpose of the standard.

Mr. Kellas also noted that some respondents to the exposure draft felt that developments in financial reporting frameworks (specifically IFRS 8, “Operating Segments,” effective 1 January 2009 with early adoption permitted) bring into question the continuing relevance of the material on segment information without a comprehensive review of the extant ISA 501. The Task Force believes that, while the specific requirements in the applicable financial reporting framework may change the accounting approach to determining segment information, the principle of obtaining sufficient appropriate audit evidence regarding the presentation and disclosure of segment information as required by the ISA remains applicable.

Mr. Koltvedgaard suggested the IAASB should look closely at whether there is a need for this particular standard. He also encouraged the IAASB to eliminate any material that is covered by other ISAs; in his view, this is part of the purpose of the Clarity project. The Representatives did not have further comments.

Analytical Procedures (ISA 520 (Redrafted))

Mr. Kellas explained that several respondents to the exposure draft of proposed ISA 520 (Redrafted) indicated that the intention of the proposed ISA is unclear with respect to the use of analytical procedures as substantive procedures (“substantive analytical procedures”) in response to assessed risks. Some respondents found that the scope and objective paragraphs of the proposed ISA 520 could suggest that designing and performing substantive analytical procedures is required in all cases in order to respond to assessed risks. This is, however, not what is required under ISA 330 (Redrafted).¹⁸ The Task Force has revised the language in the ISA to clarify that substantive analytical procedures may (but need not) be used under ISA 330 (Redrafted), and that if the auditor chooses to do so, the requirements and guidance in ISA 520 (Redrafted) apply.

Mr. Johnson noted that the prior day’s presentation by CPAB indicated that four oversight bodies had observed that analytical review was an area of weakness in practice. He suggested that further guidance may be necessary if firms are not undertaking appropriate procedures identified by the oversight bodies. Mr. Kellas suggested that this topic could be covered at IAASB’s 2009 national standard setters meeting; in his view, the concerns are likely to be that analytical review is not of sufficient quality and that auditors may not be determining tolerances in advance.

The Representatives did not have further comment.

¹⁸ ISA 330 (Redrafted), “The Auditor’s Responses to Assessed Risks.”

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

Comparative Information—Corresponding Figures and Comparative Financial Statements (ISA 710 (Redrafted))

Mr. Kellas introduced the topic, noting that the proposed redrafted ISA deals with the difference between corresponding figures and comparative financial statements. He explained that the difference is driven by the treatment in the auditor's report. Prior year amounts considered corresponding figures are not referred to in the auditor's report. In some jurisdictions, such as the United States, the auditor in expressing an opinion on the current year also expresses an opinion on the prior year figures, which are referred to as comparative financial statements. The extant ISA did not provide much rationale for the difference in the two approaches and so, in redrafting the ISA, the IAASB explained that the difference is due to the responsibilities that arise from different accounting frameworks. On the basis of comments received, some refinement has been made to the explanation to refer to the relevance of law or regulation.

Mr. Robberecht supported the rephrasing in paragraph 18¹⁹ of the ISA. He noted that, should the IAASB revert to the language in the exposure draft, the phrase "where not prohibited by law or regulation" would need to be added to acknowledge that, in some jurisdictions, changing financial statements that have been approved by shareholders is not permitted. The Representatives had no further comments.

Impact Assessments (Agenda Item E)

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

Mr. Sylph introduced the topic, noting that IFAC's consideration of the matter of impact assessments was discussed at the closed session of the IAASB CAG meeting in March 2008. He summarized the main comments of CAG Representative at that meeting, noting that there was a strong degree of support to consider impact assessments on a global basis in a reasonably cost effective manner. He also noted that the CAG Representatives were of the view that information relevant to impact assessment should be obtained at the various stages of developing a pronouncement rather than at its finalization, and that IFAC should consider impact assessment solely in terms of a qualitative assessment in relation to a particular standard or group of standards.

Mr. Sylph reported that IFAC's consideration of impact assessments has not progressed as quickly as planned, principally due to constraints on staff resources arising from the Clarity project and other competing priorities. He anticipates these constraints to lessen by the end of 2008.

Mr. Sylph indicated that the IAASB has established a small task force to advise staff in exploring impact assessments. The task force held a meeting in June 2008, with another scheduled in

¹⁹ Paragraph 18 of the ISA now states: "If the auditor concludes that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without modification, the auditor shall, communicate the misstatement with the appropriate level of management and those charged with governance and request that the predecessor auditor be informed. If the prior period financial statements are amended, and the predecessor auditor agrees to issue a new auditor's report on the amended financial statements of the prior period, the auditor shall report only on the current period."

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

September. He explained that IFAC staff plans to develop an impact assessment for the recently completed ISA 600 (Revised and Redrafted).²⁰ The goal is to identify areas where the documentation of the due process steps should be enhanced, or additional information should be obtained as part of the due process, to meet the requirements for impact assessments. After that, impact assessments will be developed and tested on one or two of IAASB's new projects. The IAASB CAG will be consulted during the development of these impact assessments.

Mr. Sylph indicated that the EC has commissioned two studies regarding ISAs. One study is a cost-benefit analysis of adopting ISAs, and the other compares ISAs to the standards of the PCAOB and looks at the costs of complying with two sets of standards for companies that are dual listed. He noted that staff has access to the types of question the researchers have been asking in relation to cost/benefit impact of the ISAs. Staff will be monitoring the outcome of these studies to see if the questions asked by the researchers generate relevant responses.

Mr. Sylph also indicated that IFAC continues to monitor various forms of impact assessment. He invited Representatives to send to staff any impact assessment reports they have access to.

The Representatives commented as follows:

- Mr. Damant noted that it is important for impact assessments to be integrated with due process and the concepts applied at the various stages of developing a pronouncement rather than at its finalization.
- Mr. Robberecht indicated that the EC welcomes this initiative, in particular the consideration of incorporating impact assessment as part of due process.
- Mr. Goebel indicated the importance of taking a qualitative approach to impact assessments, as it is unlikely to be practicable to obtain quantitative information at a global level on a standard-by-standard basis.
- Mr. Diomeda questioned whether the study on impact assessment will be accompanied by continued work by IFAC on a public interest framework. The outcome of the work on a public interest framework might help inform IFAC as to who should be consulted when addressing individual impact assessments. Mr. Sylph indicated that IFAC is continuing its work on a public interest framework.

²⁰ ISA 600 (Revised and Redrafted), "Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)."

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

SEPTEMBER 5, 2008

Communicating Deficiencies in Internal Control (Agenda Item G)

To REVIEW a summary of significant comments on the exposure draft of proposed new ISA 265 and the Task Force's recommendations.

Mr. Cowperthwaite, Chair of the ISA 265 Task Force, briefly explained the significant comments on the exposure draft of proposed ISA 265 and the Task Force's recommendations highlighted for consideration by the IAASB CAG.

Material Weakness and Significant Deficiency

The Representatives commented as follows:

- Mr. Morris indicated that he continues to believe that the term “material weakness” should be defined in ISA 265 or another ISA. Notwithstanding this view, he was of the opinion that the Task Force has presented a draft that is capable of being understood and applied in the absence of a definition for the term, and that the revised draft of the ISA is a significant improvement from the exposure draft.
- Mr. Sekiguchi indicated that IOSCO has expressed concern that the proposal in the exposure draft of proposed ISA 265 to replace the notion of “material weakness” with the notion of “significant deficiency” wherever the former is used in several ISAs might create confusion in countries where one or both of these terms have been and continue to be used in established law and regulation and auditing literature. This is because the terms “material weakness” and “significant deficiency” are presently used in a number of jurisdictions around the world, with varying definitions or without definition, and are part of many established auditing and legal frameworks. For example, while one jurisdiction may define a significant deficiency as a deficiency that is less severe than a material weakness, in some countries the reverse may be true, where a “significant deficiency” is understood to be more serious than a “material weakness.” Others point out that the two terms would essentially be translated the same way in certain languages. IOSCO is therefore concerned that the use of this term may not achieve the goal of the IAASB to create consistency of auditor performance in communicating relevant internal control-related matters. Mr. Sekiguchi explained that IOSCO has suggested that the IAASB explore two remedies: (1) develop a more appropriate term, one that does not conflict with embedded terms in long-standing use; or (2) not create a new term and instead replace the term with its definition wherever appropriate in the ISAs. In regard to the latter option, Ms. Koski-Grafer further explained that IOSCO recognizes the challenge of the IAASB in trying to establish a single defined term. Mr. Cowperthwaite indicated that the Task Force has explored both options and found that they introduced a degree of complexity that significantly reduced the clarity of the ISA.
- Ms. Koski-Grafer was of the view that it would be helpful if the introduction section of the ISA included a statement that acknowledges that control deficiencies exist in a broad range of severity and alert the auditor that the legal frameworks of different jurisdictions may use definitions that differ from those in the ISA and/or impose additional obligations on the auditor.

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

- Mr. Pickeur was of the view that the ISA is confusing, particularly in relation to the difference between significant deficiencies and material weaknesses. He found it difficult to distinguish between the two, and the categorization of control deficiencies to be unclear. He was also of the view that the ISA should be more than just a communication standard. That is, the ISA should establish categories that define what constitutes a significant deficiency or otherwise, and should relate what needs to be reported, to either those charged with governance or management, or both, to those categories. In his opinion, it is simply not clear how the proposed draft will work in practice. He indicated that overall he was not happy with the approach taken in the exposure draft, and that he does not believe the deficiencies therein have been rectified in the revised draft.
- Mr. Diomeda was also of the view that the proposed ISA does not clearly explain the relationship between significant deficiencies and material weaknesses. In his opinion, this is of fundamental importance to an understanding of the effect of the ISA on European Union (EU) companies and their auditors in regard to their obligations are under the EU Statutory Audit Directive and those under the ISAs. Mr. Robberecht agreed with this comment, and noted that the EC would prefer to see the finalization of ISA 265 deferred and excluded from the suite of clarified ISAs to come into effect in 2009. In response, Mr. Ju indicated that the proposed ISA is helpful in the context of China which has just issued regulation dealing with internal control of business enterprises and the required auditor's report on such internal control.
- Mr. Roussey suggested that the Task Force should consider developing and incorporating in the ISA a pictorial depiction that illustrates the categories of deficiencies and how the notion of material weaknesses fits within the categories. Mr. Johnson was of the view that it would be helpful to include the content of paragraph A9 of the proposed ISA, which explains that a material weakness is a subset of a significant deficiency, in the introduction section or as essential explanatory material. This would more clearly set the stage for the definition of significant deficiency and why material weakness is not defined, and would provide context to the requirements of the ISA. Ms. Koski-Grafer agreed with these suggestions.
- Mr. White was of the view that the definition of significant deficiency is tautological and circular. He was also of the view that the absence of a clear and definitive definition for the term will lead to divergence in practice.
- Mr. Sekiguchi noted that in Japan the auditor is required to perform an audit of internal control over financial reporting similar to the US PCAOB's Auditing Standard 5, "An Audit of Internal Control over Financial Reporting that is Integrated with an Audit of Financial Statements" (AS No. 5), but to perform an audit of the financial statements based on Japanese GAAS which is substantially identical to ISAs. He was of the view that the proposals in the draft ISA in relation to communication of significant deficiencies may create practical difficulties and confusion when the auditor is also communicating in accordance with AS No. 5. Mr. Cowperthwaite explained that proposed ISA 265 does not apply where the auditor has been engaged to express an opinion on the effectiveness of internal control.
- Ms. Koski-Grafer urged to Task Force to review carefully the proposed conforming amendments to the others ISAs arising from the revised draft of the standard, and to evaluate whether there could be any unintended consequences or effects on the scope of an audit by

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

replacing the references to “material weakness” with the new term “significant deficiency” (which is defined differently and appears to represent a different threshold of significance).

Communication of Deficiencies

The Representatives commented as follows:

- Mr. Hallqvist was of the view that the auditor should communicate with those charged with governance (in particular, the audit committee) all deficiencies in internal control identified during an audit. A complete list is essential in order for the audit committee to understand the extent of deficiencies present in the system of internal control. The audit committee can then judge what is, or is not, significant and determine what should be done. Mr. Johnson, Ms. Koski-Grafer and Ms. Sucher did not agree with Mr. Hallqvist. They were of the view that it is more effective for the auditor to draw to the audit committee’s attention those matters the auditor believes are significant, together with an explanation of why in the auditor’s professional judgment they are considered to be significant. While the audit committee has the right to ask the auditor to provide it with a complete list of all deficiencies identified, this is a matter to be agreed between audit committee and the auditor and not a matter for an auditing standard. Ms. Koski-Grafer suggested, however, that the Task Force might consider adding a statement that the auditor’s judgment about additional matters to be communicated is made in the context of any specific information requested by the audit committee.
- Mr. Uchino noted that it is management that is in the best position to identify and rectify deficiencies in internal control. He was therefore of the view that the ISA should emphasize the importance of effective and substantial communication between management and the auditor. Mr. Sekiguchi agreed with this point, and suggested also that it would be helpful to clarify whether the term ‘management’ is intended to refer to senior level management or those at a lower level that have direct responsibility for a particular control. While it may not be necessary to communicate in writing to senior-level management all deficiencies noted by the auditor, deficiencies should be reported in writing to the respective levels of management who will have the responsibility to deal with them. In addition, Mr. Sekiguchi believes that the auditor should be required to communicate with those charged with governance whether management has been informed of deficiencies noted by the auditor.
- Mr. Peyret was of the view that, in a group audit situation, the auditor should communicate with those charged with governance the result of local audits that have a qualified report, including the basis for the qualification, and how the matters has been resolve in the group context.
- Mr. Koktvedgaard was of the view that there should be clear linkages between ISA 265 and ISA 315 (Redrafted),²¹ ISA 330 (Redrafted) and ISA 260 (Revised and Redrafted),²² in particular in relation to the underpinning obligation on the auditor to identify significant deficiencies in internal control.

²¹ ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment.”

²² ISA 260 (Revised and Redrafted), “Communicating with Those Charged with Governance.”

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

- Mr. Diomeda indicated that he was pleased to see the introduction of guidance addressing considerations specific to smaller entities in paragraph A4 of the proposed ISA.

Service Organizations (Agenda Item H)

To REVIEW summaries of significant comments on the exposure drafts of proposed ISA 402 (Revised and Redrafted and proposed new ISAE 3402 and the Task Forces' recommendations.

AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A THIRD-PARTY SERVICE ORGANIZATION (ISA 402 (REVISED AND REDRAFTED)) – FINAL ISA TO BE APPROVED BY THE IAASB IN SEPTEMBER 2008

Ms. Esdon noted both ISA 402 (Revised and Redrafted) and ISAE 3402 were undertaken in 2006. The aim of starting both projects at the same time was to ensure that there was alignment between the user auditor's procedures and the assurance standard governing how a service auditor would report on controls at a service organization. The IAASB intends to discuss ISA 402 (Revised and Redrafted) at its September meeting and approve it as a final standard at its December meeting.

Forty-six comment letters were received on exposure. Overall, respondents were generally satisfied with the revisions to the standard, citing that such revisions brought it in line with where practice is today.

Shared Service Centers

One area on which input was sought during exposure related to shared service centers. In finalizing the exposure draft, the IAASB sought comment on whether the ISA could be adapted for shared service centers. The majority of respondents to the exposure draft agreed that it could be adapted and applied, and the Task Force agrees that reference to shared service center is appropriate with the caveat that it should not override the guidance in ISA 600 (Revised and Redrafted).

The Representatives commented as follows:

- Mr. Roussey, speaking as the Rapporteur of the Working Group, agreed with the Task Force's proposal regarding shared service centers. However, he suggested that language within the Issues Paper prepared for the IAASB (paragraph 10 of Agenda Item H.1.1) could be included in the ISA to more fully describe that the provisions of ISA 402 (Revised and Redrafted) would allow for the user auditor to engage the component auditor who has audited the group's shared service center to perform procedures on the user auditor's behalf.
- Mr. Diomeda noted that European Federation of Accountants and Auditors for SMEs were not explicitly against the adaption of the ISA for shared service centers; however, they were unsure as how whether an ISA could be adapted. He suggested that paragraph 4 of the revised ISA be modified to indicate that the ISA "may also provide guidance in situations" rather than imply that auditors should adapt the ISA in all cases. Ms. Esdon noted that other ISAs allow for an auditor to adapt the ISA in particular circumstances, but agreed that the intent was not to make the ISA de facto requirements when a shared service center is present.
- Ms. Blomme noted that the changes to the ISA are an improvement over the exposure draft; however, she suggested there are additional requirements and more application material

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

necessary in order for an auditor to be able to use ISA 402 (Revised and Redrafted) in the context of a shared service center but did not provide specific examples. Ms. Esdon suggested that this ISA, in conjunction with ISA 600 (Revised and Redrafted), would allow for adaption and would provide adequate procedures for the auditor in the case of a shared service center. Ms. Blomme noted FEE's concern that an auditor should primarily use ISA 600 (Revised and Redrafted) when a shared service center is present.

- Mr. Morris, supporting the views of Mr. Roussey and Ms. Blomme, was of the view that ISA 600 (Revised and Redrafted) should have a specific reference to ISA 402 (Revised or Redrafted). He believed the guidance in ISA 402 (Revised and Redrafted) should be expanded to include a separate section to explain shared service centers, both third-party shared service centers and those that are a component of a group. Mr. Pickeur agreed that further attention should be given to shared service centers, as they are becoming more prominent in large banking groups.
- Ms. Koski-Grafer was of the view that the revisions to the ISA added useful guidance to give more prominence to shared service centers. She supported Ms. Blomme's point that further could be done to describe the interaction between ISA 402 (Revised and Redrafted) and ISA 600 (Revised and Redrafted).

Smaller Entities and the Perceived Emphasis of the ISA on the Use of Type A and Type B Reports

Ms. Esdon explained that a number of respondents were concerned that the application of the ISA would be difficult in the context of smaller entities or particular jurisdictions. Type A and Type B reports (which are also known in practice as Type 1 and Type 2 Reports) are reports issued on controls at a service organization and, in practice, Type B reports which discuss the effective operation of controls over a time period are more prevalent.

The Task Force wanted to make it clear in revising the ISA that the fact that an entity uses a service organization does not mean that management or a user auditor can ignore it. Management remains responsible for the preparation of the financial statements, including internal control, even if they use a service organization. When this is the case, a user auditor would be required to perform one or more procedures in order to gain an understanding of the service organization or test controls at a service organization. The presumption is that the user auditor starts with information available at the user entity, including any Type A or Type B reports if these have already been issued by a service organization. The ISA is not meant to suggest that a user auditor would demand that a Type A or Type B report be prepared, but rather the procedures within the ISA as ordered reflect what the Task Force believed was most likely to occur in practice.

The Representatives commented as follows:

- Mr. Peyret was concerned that, in practice, when a shared service center is used, management may not have sufficient access to the shared service center and relies on local management. Local management in turn does not have authority over the shared service center but retain responsibility for the financial statements and local statutory accounts.
- Ms. Koski-Grafer suggested that the concept of "sufficient appropriate audit evidence" needs to be introduced in relation to the user auditor's use of a Type A or Type B report. She noted that IOSCO was concerned that the ISA could imply that when a Type A or Type B report is available, no further work is necessary by the user auditor.

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

- Mr. Pickeur was of the view that the Appendix is hard to translate and that the terms used are not globally accepted terms.
- Mr. Diomeda requested that the Task Force include a specific paragraph within the ISA to note that obtaining a Type A or Type B report in an SME context would likely lead to significant costs. He thought further guidance could be included to indicate how an auditor of an SME could fulfill the requirements of the ISA without doing a burdensome amount of work. While Ms. Esdon noted the ISA has attempted to more clearly highlight these SME issues, she did not believe it was appropriate for the ISA to lessen the requirements for SME auditors.
- Mr. Ratnayake drew attention to the fact that the Type B report was more comprehensive than the Type A report, and because of that they should have been named the other way around. However he observed that as the standard has been in use for some time it may not be appropriate to rename them at this stage.
- Ms. Sucher expressed difficulty with the phrase “Services provided by a service organization are relevant to the audit of a user entity’s financial statements when those services, and the controls over them, affect the user entity’s information system.” She suggested that the word “affect” might inadvertently result in widening the scope of the ISA.
- Ms. Sucher noted that ISA 620 (Revised and Redrafted) requires the auditor to “evaluate” the competence of an auditor’s expert and questioned why the requirement was not the same in ISA 402 (Revised and Redrafted). She also reiterated the comment by IOSCO that the requirement for the user auditor “to be satisfied” as to the professional competence and independence of the service auditor should be strengthened. Ms. Esdon noted that the IAASB considered whether the requirement should be for the auditor to “determine” or “evaluate,” and the Task Force redeliberated this in revising the ISA, and concluded that the phrase “shall be satisfied” was appropriate. She explained that the fundamental difference is that when an auditor is using an auditor’s expert, the auditor has direct communication with the expert and can perform more rigorous procedures. When a third-party service organization is used, the user auditor does not have direct contact with the service organization or the service auditor, and so to require the auditor to do something more than what is implied by the phrase “shall be satisfied” would likely result in a user auditor being unable to meet the requirement.
- Ms. Sucher noted the issues encountered to date regarding fair value and wondered whether something might be said within ISA 402 (Revised and Redrafted) about pricing services. Mr. Edwards questioned whether a pricing service would be considered a service organization or an auditor’s expert. Ms. Esdon noted that the Task Force had considered this point and had inquired of practitioners as to whether there are US SAS 70²³ reports for financial institutions that deal with pricing services as subservice organizations. In some cases, pricing services are viewed as subservice organizations and there would be scope for discussing them in ISA 402 (Revised and Redrafted). However, in other cases, pricing services are merely a source of information used in preparing valuation and would not be considered a service organization. The Task Force will consider this matter further in finalizing the ISA.

²³ Statement on Auditing Standards (SAS) 70, “Service Organizations,” as amended.

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

ASSURANCE REPORTS ON CONTROLS AT A THIRD-PARTY SERVICE ORGANIZATION (ISAE 3402) – FINAL STANDARD TO BE APPROVED BY THE IAASB IN 2009

Ms. Esdon reminded the Representatives that the Task Force had not yet considered the comments received on exposure but asked the Representatives for any input on the matters presented.

She noted that the proposal by the IAASB for the engagement to be an assertion-based engagement was being mirrored in the US, where SAS 70 has been revised and is currently being exposed. The proposed US standard would require the auditor to withdraw from the engagement or disclaim an opinion if management does not provide the assertion that the description of the system is fairly presented, the controls are suitably designed and, in the case of a Type B report, the controls have operated effectively. Ms. Esdon also noted that in the US, extant SAS 70 contained material similar to both ISA 402 (Revised and Redrafted) and proposed ISAE 3402. In revising the SAS, the US has now split it into two standards and a preliminary review of these standards suggests there are no major differences between the US exposure drafts and the IAASB's exposure drafts.

Mr. Scates confirmed that the US Auditing Standards Board was responsible for the proposed changes to SAS 70, and the PCAOB does not have a project on this topic at the moment.

Ms. Esdon further noted that the Task Force intends to discuss responses received to the IAASB's proposal for ISAE 3402 to specify the minimum elements of suitable criteria.

The Representatives did not have any comment.

External Confirmations (Agenda Item I)

To REVIEW a summary of significant comments on the exposure draft of proposed ISA 505 (Revised and Redrafted) and the Task Force's recommendations.

Mr. Damant welcomed Mr. Crawford, Chair of the ISA 505 Task Force. Mr. Crawford briefly explained the significant comments on the exposure draft of proposed ISA 505 (Revised and Redrafted) and the Task Force recommendations highlighted for consideration by the IAASB CAG.

Determining Whether to Use External Confirmation Procedures

The Representatives commented as follows:

- Mr. Morris indicated that the Working Group is of the view that the Task Force's approach in response to comments on exposure is appropriate. It agrees that the need to use external confirmation procedures should be based on the assessed risks of material misstatement, and that external confirmations should not be mandated in any particular circumstance. It also finds the proposed wording of the revised draft acceptable. Messrs. Robberecht and Roussey agreed with Mr. Morris' comments. Mr. Robberecht encouraged the IAASB to accept the proposed wording in the draft presented and not to revert to the position set out in the exposure draft.
- Ms. Koski-Grafer indicated that IOSCO has not yet had a chance to discuss the Task Force's proposals. She expressed her personal view that the proposed ISA seem well drafted.

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

Electronic Confirmations

The Representatives commented as follows:

- Mr. Roussey asked whether the Task Force has explored relevant auditing techniques in regard to validating the reliability of electronic confirmations, for example by matching Internet Protocol addresses in the electronic confirmation to those of the respondent and service provider, where appropriate, or in relation to digital signatures. Mr. Crawford indicated that the Task Force did consider such guidance. It concluded, however, that such guidance may be too detailed for an international standard. Further, because technology changes so rapidly, there is a risk that detailed guidance may become dated quickly. The Task Force's view is that any such guidance would reside best outside the auditing standards in some form of good practice guidance. In response, Mr. Roussey commented that it would seem appropriate that some additional guidance be provided in the ISA once it introduces the notion of the use of electronic confirmation.
- Mr. Koktvedgaard was of the view that the ISA should not be too sophisticated or prescriptive in regard to electronic confirmation. A very restrictive requirement pertaining to the validation of an electronic signature, for example, might undermine development in practice and reduce response rates. He also noted that risks such as fraud are prevalent irrespective of the medium (electronic or paper), though level of complexity may differ.

Negative Confirmations

The Representatives commented as follows:

- Mr. Morris indicated that the Working Group agrees with the approach being taken by the Task Force with respect to the restrictions imposed on the use of negative confirmations, notwithstanding some reservation by members of the Working Group about whether negative confirmations should be used at all.
- Ms. Koski-Grafer noted that paragraph 16(d) of the revised draft states as a condition for the use of negative confirmations that “the auditor is *not aware of circumstances or conditions* that would cause recipients of negative confirmation requests to disregard such requests.” This is changed from the exposure draft which states “the auditor *has no reason to believe* that recipients of negative confirmation requests will disregard such confirmation request.” Mr. Koski-Grafer was of the view that the wording in the exposure draft evokes a positive thought process, and is slightly stronger in tone than the current wording, although she was not intending by this comment to say that the proposed draft was unacceptable.
- Mr. Gutterman suggested that it might be useful to include guidance in relation to paragraph 16(d) that acknowledges the effect of today's phenomenon of identity theft and the fact that some individuals may be reluctant to respond to confirmation requests.

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

Financial Reporting Frameworks Described by Reference to International Financial Reporting Standards (Agenda Item J)

To DISCUSS matters highlighted by the Task Force or brought forward by CAG Representatives in the finalization of ISA 700 (Redrafted), including a Report Back.

Mr. Damant introduced the topic, highlighting that the initial question in this area is whether a reader of the financial statements, and the auditor's opinion, should know what the applicable financial reporting framework is. He reminded the Representatives that in prior discussions on this topic, some Representatives were of the view that regulators, including IOSCO, the EC, the International Monetary Fund and the Monitoring Group as a whole, should work towards finding a collective answer to this question.

Work of the IASB

Mr. Upton briefed the Representatives on the International Accounting Standards Board's (IASB) amendment to IAS 1 which was intended to address the issue. The IASB determined in June 2008 that the proposed amendment to IAS 1 should be set aside as a result of responses received to the exposure draft. This does not mean rejected, but rather that it did not clearly meet the criteria for improvements. These were initially thought not to represent a significant change in the standards; however, respondents addressed a number of concerns with the IASB's proposals. Some suggested it was unwise for the IASB to be undertaking the matter at all, others did not support the way in which the proposals were done, and many questioned whether the disclosures describing the differences between other frameworks and IFRS should be qualitative or quantitative. The IASB itself had mixed views – some suggested that the use of the phrase “as adopted in country X” should be stated to mean that the financial statements are not compliant with IFRS. He noted that it may become increasingly difficult for European companies to assert compliance and, in some countries in Asia there are significant differences.

The IASB did receive a fair amount of comment on whether disclosures regarding the differences should be qualitative or quantitative. Some respondents said they would not know how to make a meaningful qualitative statement about the differences, and many called for quantitative disclosure which, in his view, may not be reasonable. He cited problems with the reconciliation of IFRS to other accounting standards (such as US GAAP), noting that many companies do not show financial statements as if they were prepared under US GAAP (for example, showing the full effects of hedge accounting as would be required of US GAAP filers). Such reconciliations are usually enormously difficult and expensive. Believing that the issue could not be solved by the IASB alone, he asked the CAG Representatives whether, if the IASB clarified the status of IAS 1 to state that financial statements prepared under IFRS “as adopted in Country X” are not IFRS compliant (which is implied by the current standard), this would be sufficient in the light of work done by IOSCO, the IAASB and others.

Statement by IOSCO

Ms. Koski-Grafer explained the IOSCO statement that had been issued on February 6, 2008. It was the product of discussions that spanned both accounting and disclosure issues. It was a recommendation directed at issuers, designed to improve the clarity of disclosure of the accounting framework and policies that they used. In particular, in cases where a framework is

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

described by reference to IFRS (though not pure IFRS as issued by the IASB), companies were recommended to explain in what regard the standards and the reporting framework used differ from IFRS as issued by the IASB, if this is the case, and where information on the national framework could be found. This did not mean that an issuer would need to disclose in detail all differences between the framework used and IFRS, but rather would need to provide an appropriate high-level summary of the areas of difference.

The purpose of this disclosure was to serve as an alert that there were differences in the frameworks underpinning the financial statements that readers needed to be aware of – it was not meant to be a detailed description of entity-specific impacts. IOSCO believed that such a high-level national framework-oriented disclosure would be a relatively simple task for issuers and auditors, and therefore could be widely implemented, thereby increasing awareness in the markets. With this disclosure, investors and their advisors could go to the sources cited and other valuable information to obtain more detail about the differences and impacts if they considered it necessary to do so.

Mr. Damant inquired as to how a user would be able to find out the impacts of the differences between the two frameworks. Ms. Koski-Grafer noted IOSCO's intent was not to suggest that countries or companies had to publish a detailed analysis of the differences between their standards and IFRS as issued by the IASB, so how an investor would find more information would depend upon exactly what information the investor wanted. When asked whether every member of IOSCO will follow this statement, Ms. Koski-Grafer noted that, while all IOSCO members were supportive of this statement being made, issuers at whom the recommendation is directed are not IOSCO members.

Mr. Edwards suggested that prior work in the context of the International Forum on Accountancy Developments that had been done by the firms to summarize differences between the national frameworks and IFRS could provide investors with some of the information called for in the IOSCO statement. Ms. Koski-Grafer said she was not sure that it would, and noted that the IOSCO disclosure would call for a description of differences from IFRS only if the issuer cited IFRS in the issuer's description of the framework used and therefore some confusion might arise.

Further views of the Representatives were as follows:

- Mr. Krantz thought that the differences should be more readily apparent for all users of the financial statements, not just the sophisticated investor. In his view, a reference to a national standard setters' webpage was not sufficient and explanations of the differences should be more readily available to users. Mr. Waldron noted the CFA Institute's 2007 survey on corporate disclosures cited the priorities of understanding and knowledge of different accounting frameworks, and that having a good understanding of the differences is critical to user's understanding. He supported Mr. Krantz' view that investors should not have to go through a cumbersome activity to find relevant information.
- Mr. Bradbury was of the view that this area would not be one in which the World Bank would likely be able to make a statement. To him, this is an issue for financial statement preparers and, as such, the IASB would seem to be the most relevant party to resolve the issue.
- Mr. Goebel noted the IAIS' interest in participating in the debate, as the long-term goal is that all issuers apply IFRS as issued by the IASB. His concern with the IOSCO statement is that it does not acknowledge that these disclosures are meant to be temporary, with the overarching

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

goal of moving to full IFRS adoption by all. Ms. Koski-Grafer supported this view.

- Mr. Koltvedgaard believed that since preparers are entitled to refer to the framework in the country in which they operate, and these standards are accepted by the stock exchanges, the exchanges should have a role in describing the standards to which their registrants refer. Mr. Upton did not support this view, because when law imposes the limitation the exchange would not have the authority to override the standards that have been adopted by the government (for example, IFRS as adopted in Europe). Ms. De Beer noted that an exchange cannot contradict a regulator, but can require those who list on the exchange to provide additional disclosure as to the differences. If this does not happen, and companies and regulators do not require the disclosures, she believes it would then be the role of the auditor.
- Mr. Sekiguchi noted that domestic issuers in Japan are required to prepare financial statements in accordance with Japanese GAAP, and are not permitted to describe the financial statements as “IFRS as adopted in Japan.” Japanese GAAP is in the process of converging with IFRS. European issuers are permitted to make public offering or listing at Japanese capital markets with financial statements prepared in accordance with EU-IFRS, and to state that the financial statements are prepared in accordance with IFRS as adopted in Europe. He was supportive of the IOSCO statement. Mr. Uchino noted that it will take time for investors to understand the differences between Japanese GAAP and IFRS and believes there is a need for investor education.
- Mr. Ju highlighted that China has fully adopted IFRS with some slight differences. Financial statements are prepared under Chinese accounting standards but do not refer to IFRS. In his view, the problem lies with investors, in particular because of cross-border transactions. While Mr. Damant agreed, he also reiterated that the mere reference to IFRS was confusing and that perhaps the reference should be “modified” rather than “as adopted by” a particular country.
- Mr. Damant was of the view that it is essential for the official parties to come together and produce a solution that is not technically difficult. He believed this entailed that companies should be required to state the differences between IFRS and the adopted framework, in their financial statements, with perhaps oversight by the exchanges. He also noted that the phrase “IFRS as adopted in XXXX” could be understood to mean that IFRS had been adopted in full. Some such phrase as “as modified in XXXX” would be preferable.

The IAASB’s Proposal in ISA 700 (Redrafted)

In the absence of sensible disclosure, Mr. Damant believed there is a deficiency in information. The IAASB is attempting to correct those deficiencies by requiring the auditor to do so. Ms. Hillier clarified that the issue is not whether the financial reporting framework is deficient, as extant ISA 700 has always required the auditor to consider the adequacy of the financial reporting framework, but rather that it is important to ensure that such framework is adequately described. The problem that IAASB is trying to address is that there may be a risk of misunderstanding on the part of the reader if a framework is described by reference to another framework without the differences being adequately described. The proposals in the exposure draft of ISA 700 (Redrafted) were based on the guidance to the proposed amendments to IAS 1, namely, that the financial statements could be misleading in the absence of disclosure that gave transparency about the differences.

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

Some respondents to the exposure draft of ISA 700 (Redrafted) did not believe the term “misleading” was appropriate. The majority of the IAASB, having agreed that the focus should be on the risk that the reader misunderstands the basis on which the financial statements are prepared, were of the view that it was appropriate to have guidance in this ISA. The Board agreed that the guidance should relate to the transparency of the disclosure and that the auditor’s response would depend on whether the differences could impact the financial statements. For example, in the Task Force’s view, if a jurisdiction has gone through a due process whereby readers understand how the standards differ from IFRS, there may be a lower risk of misunderstanding by readers in that jurisdiction. However, if such financial statements are used in cross-border registrations it could create more confusion. Ms. De Beer supported this view.

The Representatives commented as follows:

- Mr. Robberecht noted that the EC is concerned with the proposed language in ISA 700 (Redrafted) for two reasons. Firstly, he was of the view that since corresponding guidance is no longer in IAS 1, the responsibility lies with regulators to increase the transparency of disclosure should this be considered necessary. Secondly, statutory auditors, who are mandated by law, cannot challenge the accounting framework under which they are auditing.
- Mr. Kellas did not agree that the intent of the proposed language in the ISA was to require the auditor to challenge the accounting framework. While he agreed in part that a statutory auditor does not have authority to challenge the financial reporting framework, the European framework is rooted in true and fair presentation, which requires further disclosures if the preparers or auditors feel these are necessary.
- Mr. Upton’s concern with the IAASB’s proposal was that any evaluation of the differences between the IFRS and “IFRS as adopted in Country X” could change each year if either framework changed. Ms. Hillier agreed. Ms. Sucher did not support the proposed approach, which was the result of seeking an assessment at the company (rather than jurisdictional) level, noting it would be confusing if in one year the auditor’s report contained an Emphasis of Matter and did not the next. She also believed the IAASB’s proposals would result in the auditor going beyond the framework, and argued that it could not be accommodated within true and fair considerations which are in the context of the framework. Mr. Koktvedgaard supported Ms. Sucher’s view that the entity route is not desirable.
- Mr. Roussey questioned how the decision not to adopt a particular standard affected the auditor’s assessment of “true and fair.” Ms. Hillier explained that when an auditor accepts an engagement the auditor considers the acceptability of the framework and, therefore, that question is addressed at the outset of the engagement rather than when evaluating whether or not the resulting financial statements give a true and fair view. Mr. Koktvedgaard suggested that if auditors in a particular jurisdiction have problems with the way a framework is described, this should be dealt with by the professional bodies within that jurisdiction, which would likely lead to a generally accepted reference.
- Mr. Edwards was of the view that if regulators in a particular jurisdiction would require listed companies to follow the IOSCO recommendation, or all entities adopted this recommendation, this would alleviate the need for disclosure in the auditor’s report. Ms. Hillier agreed.
- Mr. Upton suggested the IASB would not support the IAASB’s proposal.

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

- Mr. Johnson believed the primary responsibility for this matter lay with IASB, and with regulators. He did not believe it was appropriate for the IAASB to attempt to handle the matters. Mr. Sekiguchi supported this view, as the IAASB's proposals were based on the premise that IAS 1 would change. Since this is no longer the case, he suggested that re-exposure of ISA 700 (Redrafted) might be necessary.
- Mr. White suggested that if the IASB made progress within IAS 1 to explicitly state that the financial statements should not refer to anything other than IFRS as issued by the IASB the premise of ISA 700 (Redrafted) would be different. He was also concerned about imposing on the auditor the need to make an assessment of the risk that a user of the auditor's report would not understand. This implies the auditor would need to consider who the intended users are, a determination which would be unclear. The proposals could also lead to complications with national standard setters, if the auditor is required to make an assessment as to whether the applicable financial reporting framework was adopted with due process and transparency.

Mr. Damant concluded the discussion. He polled the Representatives as to their support for the inclusion of this matter in ISA 700 (Redrafted). Twelve Representatives did not support the proposal, five supported it, and four Representatives registered their formal abstention.

Fair Value Auditing Guidance Task Force (Agenda Item K)

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

Mr. Kellas briefed the Representatives on the activities of the Task Force to date, and introduced the matters highlighted for consideration by the Representatives.

The Representatives commented as follows:

- Mr. Johnson expressed his support for the consideration the IAASB has given to ensuring that the appropriate issues are dealt with, in particular the various teleconferences that have been held; he is pleased with the direction of the Task Force. Mr. Gutterman, as the Rapporteur of the CAG Working Group, confirmed this view, and applauded the IAASB for working with the IASB.
- Mr. Gutterman further suggested that the IAASB should be conscious of timing, as it will be important to help those who are not as knowledgeable about fair values prepare for the upcoming year-end.
- Mr. Roussey also supported the direction of the project. Noting that the US standard on fair value (SFAS 157) begins to deal with the type of evidence that may underlie the particular fair value levels in the hierarchy, he asked whether the IAASB might consider attempting to describe in the auditor's report the level of assurance that had been obtained with respect to fair values. He was of the view that companies should be disclosing in their footnotes information about the types of evidence they were able to obtain for use in their valuations. He questioned whether the IAASB's current audit report would be adequate. Mr. Kellas noted that the proposed alert includes a reference to the possibility of the auditor including an Emphasis of Matter paragraph to draw attention to disclosed fair value issues; however, given the current ISA's position, the IAASB was primarily concerned with ensuring that an emphasis should not be used when a qualification was necessary. The alert also emphasizes the need for both the preparer and the auditor to have sufficient appropriate audit evidence to

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

support valuations, and that disclosures become increasingly more important as more judgment is needed in preparing a valuation. Mr. Ratnayake suggested the IAASB look for a solution where if there are significant judgments used in preparing a valuation, the users of the financial statements are made aware of the risk to reliability of the financial statements.

- Ms. Sucher referred to the importance of disclosures and wondered whether the auditor's responsibilities in relation to disclosures are adequately covered in auditing standards. She also reported that work has been undertaken in the area of levels of assurance on fair value information by the Audit Quality Forum in the UK, with a report expected in a few months.
- Mr. Edwards reminded the Representatives that the Financial Stability Forum had recommended that institutions enhance their disclosures in the area of fair values. The IASB Expert Working Group is also developing further guidance on disclosures of fair value.
- Mr. Sekiguchi, while supporting the IAASB's approach, suggested that the IAASB could explore what type of assurance is to be given on sensitivity analysis and Value at Risk disclosures.
- Mr. Waldron referred to a CFA survey that indicated that 80% of users of the financial statements who were surveyed thought that more specific information regarding fair values in the auditor's report would be useful. 84% thought discussion of changes in amounts requiring particular judgment would be useful.
- Mr. Gutterman noted that fair value issues will continue to be prevalent, not only in financial instruments but also insurance and pensions. There is a general concern about models (although now dealt with more fully in ISA 540 (Revised and Redrafted)²⁴ and ISA 620 (Revised and Redrafted)). As models become more important, further work may be necessary to develop guidance relating to the auditability and reliability of models.
- Mr. Damant noted that the Financial Stability Forum's recommendations also covered complex financial instruments. While the proposed alert focuses on the credit crunch, there may be a need for the Fair Value Auditing Task Force to undertake further work on complex financial instruments.

IAASB Future Projects (Agenda Item L)

To OBTAIN CAG Representatives' input with regard to the projects to be commenced by the IAASB in early 2009. Project proposals will be prepared for consideration by the IAASB at their meetings in 1Q and 2Q 2009.

Mr. Damant noted that the objective of this session was to seek feedback from the Representatives as to issues the IAASB should consider as it begins preparing project proposals for key areas to be discussed in 2009. The project proposals that will be reviewed by the IAASB will also be discussed by the IAASB CAG at a future meeting. The Representatives were invited

²⁴ ISA 540 (Revised and Redrafted), "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures."

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

to send any additional comments they may have from their organizations to Mr. Sylph after the meeting.

Auditors' Report Research

Mr. Sylph reported that preliminary reports from the four teams of academics commissioned to study users' perceptions of the auditor's report in its current form are anticipated in the fourth quarter of 2008. The Representatives commented as follows:

- Mr. Damant suggested the IAASB should liaise with CFA Institute, as they had done a survey about the usefulness of the auditor's report.
- Ms. Sucher noted the UK Auditing Practices Board will be commissioning research in 2009 to monitor changes in perception as a result of the new form of auditor's report that was recently adopted.
- Mr. Edwards suggested that IAASB coordination with audit regulatory bodies who are also doing research on the topic would further the goal of convergence.
- Mr. Johnson's experience with FEE and the Audit Quality Forum has indicated that users are more concerned with what the auditor has not done; additional communication in the auditor's report along such lines may help enhance the relevance of the auditor's report. Mr. Roussey suggested more could be included in the auditor's report detailing what had been done by auditors.

Revisions to IAASB's Review and Compilation Engagement Standards

Mr. Sylph indicated that the IAASB intends to publish a consultation paper, developed by a number of national standards setter, to gather input to help inform the IAASB as to where revision to its standards on review and compilation engagements may be necessary. The Representatives commented as follows:

- Mr. Damant noted that the IAASB's revision of these standards is important in light of IFAC's general position that "an audit is an audit" in the case of the audits applied to all companies, even if small or private. He suggested the IAASB may wish to consider whether the term "SME" should be changed to "private entity" to align with drafting followed by the IASB, though he appreciated that in certain areas there were differences of context.
- Mr. Johnston noted this project is very pertinent in light of changing thresholds in Europe for those that are to be exempt from an audit. In his view, the work done by the Institute of Chartered Accountants of England and Wales on an alternative assurance service should be monitored by the IAASB. He also noted that it will be important for the IAASB to determine what the marketplace needs are in revising the standards or developing an alternative assurance service.

Revision to the Standard Governing Assurance Engagements – ISAE 3000

Mr. Sylph noted that in developing ISAE 3402, the IAASB determined it would be necessary to revise ISAE 3000. He explained that work on other assurance projects, such as those on reporting on carbon emissions disclosures and prospectuses, will help inform the IAASB's future revision of ISAE 3000. The Representatives did not have specific comment.

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

XBRL

Mr. Sylph indicated that the IAASB plans to consider what type of guidance may be necessary around documents issued in XBRL format. He indicated that consultation with national standards setters will be undertaken to help inform the IAASB as to an appropriate way forward. The Representatives commented as follows:

- Mr. Damant suggested the IAASB should involve stock exchange leaders in its consultations. Mr. Roussey suggested that the IAASB should also consult with corporate leaders already reporting under XBRL, as well as academics.
- Mr. Edwards noted many US banking agencies require XBRL filing for supervisory reports. He suggested that the IAASB should consult with them about how they have incorporated relevant checks and balances in their systems.
- Ms. Blomme noted FEE has set up a Task Force on XBRL, comprising specialists in financial reporting and auditing. She indicated that she will relay any decisions made during their October meeting to IAASB Staff for its consideration.
- Mr. Sekiguchi stated that the FSA has implemented XBRL from April 2008. The audit of XBRL data or taxonomies is not yet required, though some form of assurance may ultimately be required in the future. He also noted that the JICPA has issued an alert that encourages auditors to explain in their audit reports that the entity's XBRL data is outside the scope of the financial statement audit.
- Mr. Pickeur noted that several supervisory authorities in Europe require XBRL for reporting of capital information by financial institutions, and that some require assurance from the auditor on the data reported in XBRL format.

Revisions to the ISA dealing with Internal Audit - ISA 610 (Redrafted)

Mr. Sylph noted that IAASB's strategy consultations indicated a need for revision of ISA 610 (Redrafted).

Ms. Cox strongly supported the revision of ISA 610 (Redrafted), and offered the support of the Institute of Internal Auditors in this project.

PIOB Remarks

Dr. Peters commented that she found the Representatives' discussions on the various agenda topics stimulating and enjoyable.

Regarding the initiative by IFAC to review the terms of reference and due process and working procedures of its Public Interest Activity Committees discussed during the joint closed session of the IAASB and IESBA CAGs at this meeting, Dr. Peters was of the view that it is appropriate for IFAC, the IAASB and the IAASB CAG to seek to codify improvements in practice that have developed over the last three years, and to respond to suggestions for further improvement which have come from the PIOB. This initiative will help strengthen processes that support open and transparent discussions. The PIOB will review with scrutiny the process followed by IFAC in conducting its review to ensure that the outcome is aligned with the expectations of the PIOB.

Dr. Peters indicated that the PIOB views the interaction between the IAASB and the IAASB

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item A

Draft Minutes – September 4-5, 2008

CAG as an important element of due process. The notion of having an additional step whereby the Chair of the CAG undertakes to comment on whether the interaction between the IAASB and IAASB CAG has been in accordance with due process is intended to provide the PIOB with a degree of comfort that none of the CAG organizations or Representatives have grave concern about what is being proposed in an international standard. She clarified that this relates to the process and procedures followed in the development of an international standard, not whether there is agreement on the substance of the standard.

Ms. Koski-Grafer accepted that the PIOB's role is to provide oversight of the standard-setting process and it is the responsibility of the IAASB to decide on matters of a technical nature in a standard. Nevertheless, she expressed a concern that the role of CAG in this regard was not completely clear and there might be a general public expectation that the PIOB or someone in the CAG would make a statement if there is something in a standard or in the process of filing a standard that is not in the public interest. She said she remained concerned that the CAG process does not support allowing members sufficient time to reach a conclusion that there has been no matter in process or content on a particular standard that is not in the public interest. She believes the CAG process is advisory and discussion-oriented and cannot be fully conclusive due to many limitations. Dr. Peters indicated that she cannot comment on behalf of the PIOB. From her perspective as an individual PIOB member, however, she assured Ms. Koski-Grafer that she would say something if she found a standard to be wholly wanting.

Dr. Peters thanked Mr. Damant and the CAG Representatives for an enjoyable meeting.

Closing

Mr. Damant thanked the CAG Representatives for their contribution to the meeting. He noted that the next meeting is scheduled for March 2009 in Dubai.

[Subsequent to the CAG meeting, March 2009 IAASB CAG has been confirmed for March 9-10. The IESBA CAG will meet on March 11, 2009, also in Dubai. In addition, a seminar on auditing and ethics has been arranged at the Dubai International Financial Centre on March 12, 2009.]

Mr. Damant noted that this is the last IAASB CAG meeting that Mr. Kellas will be attending. He presented Mr. Kellas with a small token of appreciation signed by the CAG Representatives. He thanked Mr. Kellas for his dedication to the work of the IAASB CAG and his contribution over the last six years. Mr. Kellas indicated that it was his pleasure to have been able to work with the IAASB CAG.

Mr. Damant noted that this is also the last IAASB CAG meeting of Ms. Esdon, and thanked her for her contribution over the years. He particularly mentioned her very clear enunciation of the principles of the auditing profession in many particular auditing matters. He also noted that Ms. Prinsloo had been promoted within IFAC and would be leaving her association with the CAG. Ms. Prinsloo had contributed greatly to the efficiency of his work as Chairman of the CAG. He expressed thanks for her support, and noted that staff support responsibilities are now with Mr. Gunn.

Mr. Damant thanked Messrs. Kellas, Ferlings, Cowperthwaite and Crawford, and Ms. Esdon and Ms. Hillier, for their contributions to the meeting, and Mr. Sylph and his staff for their support.

Mr. Damant closed the meeting.