

IAASB CAG PAPER



International Federation of Accountants

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Agenda Item **K**

Committee: IAASB Consultative Advisory Group

Meeting Location: Washington

Meeting Date: September 9–11, 2009

IAASB – IASB Liaison

Objective of Agenda Item

1. The objective of this Agenda Item is to obtain the Representatives' views on a proposed initiative designed to enhance the IAASB's capacity to identify potential auditability issues in connection with international financial reporting developments.

Background

2. At present, established liaison between the IAASB and the International Accounting Standards Board (IASB) occurs in the forms of the IASB being a Member Organization of the IAASB CAG, and IFAC's Executive Director, Professional Standards attending meetings of the IASB's Standards Advisory Council (SAC) as IFAC's nominated representative.¹
3. Members of the IAASB and Representatives of the IAASB CAG, and indeed a number of respondents to the IAASB's consultations on its *Strategy and Work Program, 2009-2011*, have noted the importance of strong on-going communication between the IAASB and the IASB, particularly in connection with potential auditability issues associated with international financial reporting developments. Participants at the March 2008 IAASB-National Standard Setters meeting also echoed these views while recognizing that such an initiative may have significant time and cost implications.
4. At its June 2009 meeting, the IAASB considered a proposed process that would enable the IAASB to provide timely input on aspects of the IASB's proposals which, in the IAASB's view, could pose difficulty in an auditing context. The IAASB was generally supportive of the proposed initiative.

Proposal

5. The initiative is intended to help ensure that relevant auditing considerations are part of the

¹ The IASB's SAC consist of representatives from user groups, preparers, financial analysts, academics, auditors, regulators, professional accounting bodies and investor groups. It meets three times a year for a period of two days. The IASB's SAC is consulted on matters such as the IASB's technical agenda, project priorities, project issues related to application and implementation of IFRSs and possible benefits and costs of particular proposals. The SAC also serves as a sounding board for the IASB, and can be used to gather views that supplement the normal consultative process.

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input to the development of IASB pronouncements. These are matters where the IAASB believes its expertise can add value and its views should be shared with the IASB. In addition, the initiative would also serve to identify areas in which additional guidance for auditors may be valuable and, thereby, provide useful input to IAASB's future priority setting.

6. Two key success factors for this initiative are firstly, the involvement of the right individuals with relevant knowledge and expertise and secondly, the timeliness of IAASB's input to the IASB. Key elements of the proposal are further explained below.

IASB Projects and IAASB Liaison Structure

7. IAASB Member Ms. Diana Hillier will be IAASB's liaison representative for purposes of the initiative.
8. Small working groups will be set up to monitor the progress of selected IASB projects. The working groups will focus on identifying potential verifiability or auditability issues (i.e., where it may be difficult for preparers to obtain sufficient support for the underlying assertions implicit in the proposals, or for auditors to obtain sufficient appropriate audit evidence in relation to them, and thereby are likely to also pose difficulty in an auditing context). Working groups may also identify financial reporting developments that may affect IAASB pronouncements or create a need for new pronouncements. The groups are however not expected to concern themselves with the technical merits of the proposals from an accounting perspective.
9. It is clearly not practical for the IAASB to consider all projects on the IASB's work program. In deciding to which of the IASB projects the IAASB should give its attention, consideration was given to three factors. Firstly, the stage of development of the IASB projects; projects that are at an earlier stage of the IASB's due process are more relevant to the IAASB's objective of providing timely input than the projects nearing finalization. Secondly, the nature of the projects; particularly, those with a broader remit are likely to be more relevant compared to those with a narrower focus. Thirdly, the relation of the IASB projects to the work of the IAASB; projects with linkages to the IAASB's current and future work program are of greater relevance.
10. Based on the selection criteria outlined above, a total of seven projects have been shortlisted for monitoring by the IAASB.² Each working group is led by a rapporteur and is made up of at least two or more IAASB members or technical advisors.
11. Working groups will keep abreast of the progress of their respective projects through active liaison with IASB and relevant documents put out by the IASB such as meeting papers,

² IASB projects shortlisted for monitoring include: conceptual framework, emissions trading schemes, fair value measurement & financial instruments, income taxes, leases, management commentary and revenue recognition.

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discussion papers etc., and where relevant, other resources to which the members have access.

12. On an on-going basis, the IAASB Staff will, in consultation with the IAASB liaison representative, monitor new IASB project proposals to determine whether any should be added to the list for monitoring by the IAASB.

WORKING PROCEDURES

13. The working processes for aspects of the initiative are in many ways still evolving and being refined as greater experience is obtained. The overall objective however is to facilitate effective dialogue with the IASB so that IAASB is able to provide useful input to the IASB from an audit perspective at as early a stage of the development of a proposal as possible.
14. Experience to date in relation to the IASB's exposure drafts on its Fair Value projects has demonstrated the value of early, informal dialogue between relevant parties from the two boards (depending on the circumstances, this may be Board or Staff members) to share preliminary thoughts and gain an understanding of the IASB's deliberations and views on identified issues.
15. Where significant verifiability or auditability issues are identified, the IAASB (or its Steering Committee) will be consulted as appropriate to determine whether and what type of subsequent action would be most suitable. Where appropriate, informal communication with the IASB can be followed by more formal written comments that would be on the public record.

Annual Strategic Review

16. IAASB also recognized the importance of looking at trends in financial reporting in order to identify early more pervasive broader implications. Accordingly, the initiative contemplates a strategic review to be undertaken by the IAASB of its liaison with the IASB on an annual basis, for example at year-end. Such review could, for example, focus on the work program of the IASB in the aggregate, with a view to identifying significant auditability issues that do not pertain merely to a single matter but have implications across a number of areas. During these sessions, consideration may also be given to other matters of strategic importance to the IAASB, such as emerging trends.

Progress to Date

17. In July 2009, the IAASB Chair wrote to Sir David Tweedie, IASB Chair, regarding this initiative. Sir David Tweedie indicated general support for the proposal and appointed IASB board member Prabhakar Kalavacherla to act as IASB's liaison representative with the IAASB in this regard.
18. As the designated liaison representatives, Ms. Hillier and Mr. Kalavacherla will consult with their respective boards to determine the on-going liaison program. They will also be the first

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line of communications for matters raised by the working groups and in doing so be the Boards' link into the progress of these groups.

19. In this regard, initial contact has since been made with Mr. Kalavacherla to further discuss the proposals and his role in facilitating this initiative. An invitation has also been extended to Mr. Kalavacherla to deliver an update on the IASB's work plan at the December 2009 IAASB meeting.

Next Steps

20. At its September 2009 meeting, the IAASB will be provided with an update on the activities of the working groups to date.

Action Requested

21. The CAG is asked for its views on the proposed initiative and whether there are any other matters which may be of relevance.