

IAASB CAG PAPER



International Federation of Accountants

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Agenda Item

A

Committee: IAASB Consultative Advisory Group

Meeting Location: Barcelona, Spain

Meeting Date: March 1-2, 2010

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

**Held on September 9-11, 2009
Washington, D.C.**

[MARKED SHOWING CHANGES FROM DRAFT SENT JANUARY 8]

PRESENT

Members

David Damant	Chair
Conchita Manabat	Asian Financial Executives Institutes
Marc Pickeur	Basel Committee on Banking Supervision
Kristian Koktvedgaard	BUSINESSEUROPE
Matthew Waldron	CFA Institute
Jan Robberecht (Sept. 10-11)	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
Dr. Obaid Saif Hamad Ali	Gulf States Regulatory Authorities
Paul Koster	Gulf States Regulatory Authorities
Robert Roussey	Information Systems Audit and Control Association
Susan Lione	Institute of Internal Auditors
Eran Meishar (Sept. 10-11)	Institute of International Finance
Bengt Hallqvist	International Corporate Governance Network
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
Pat Sucher	International Organization of Securities Commissions
Filip Cassel	International Organization of Supreme Audit Institutions
Frank Bollmann	International Valuation Standards Council
David Morris	North American Financial Executives Institutes
Ajith Ratnayake	Sri Lanka Accounting and Auditing Standards Monitoring Board
Simon Bradbury (Sept. 9-10)	World Bank

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John Hegarty (Sept. 9)	World Bank
Linda de Beer	World Federation of Exchanges
Thomas Krantz (Sept. 10-11)	World Federation of Exchanges

Observers

Ken Dakdduk (Sept. 9-10)	Member, International Ethics Standards Board for Accountants (IESBA)
Richard Fleck (Sept. 9,11)	IESBA CAG Chair
Richard George	IESBA Chair
Koichiro Kuramochi	Japan Securities Dealers Association
Martin Baumann *	U.S. Public Company Accounting Oversight Board
Greg Scates *	U.S. Public Company Accounting Oversight Board
Brian Bluhm (Sept. 9-10)	IFAC SMP Committee

IAASB

Prof. Arnold Schilder	Chair
John Fogarty	Deputy Chair
Denise Esdon	Technical Advisor (via teleconference for Agenda Item O)
Jon Grant	Member
Diana Hillier (Sept. 10-11)	Member
Susan Jones (Sept. 9-10)	Member
Caithlin McCabe	Member (via teleconference for Agenda Item I)
Prof. Roger Simnett	Task Force Co-chair (via teleconference for Agenda Item I)
David Swanney (Sept. 10-11)	Member

Public Interest Oversight Board	Michael Hafeman
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IFAC Staff

James Gunn	IAASB Technical Director
Kathleen Healy	IAASB Technical Manager
Joanne Moores	IAASB Senior Technical Manager (Sept. 10)
Jan Munro (Sept. 9-10)	IESBA Senior Technical Manager
Michael Nugent	IAASB Technical Manager (via teleconference for Agenda Items I and O)

APOLOGIES

Members

Fang Han	Asian Financial Executives Institutes
Gerald Edwards	Basel Committee on Banking Supervision
Nelson Carvalho	Chairman of the Standards Advisory Council of the International

* Views expressed by PCAOB representatives represent their views and do not necessarily reflect the view of the PCAOB Board or other Board members or staff.

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standards-setting process and how the PCAOB is working with other standards-setters and organizations.

Mr. Johnson noted a similarity between the current standards-setting work of the PCAOB and topics recently addressed by the IAASB, and enquired whether the PCAOB will take the work of the IAASB into account. Mr. Baumann noted that the PCAOB and its Staff will look to take advantage of insights of the IAASB, and that future proposed standards will include appendices that highlight major differences from the standards of other standards-setters and the IAASB. He noted while there are benefits of consistency across standards, the PCAOB may take a different decision on a standard where that makes sense in the US context.

Mr. Schilder commented that the presentations were very insightful, and that they illustrate the importance of on-going dialogue between the IAASB and PCAOB and their advisory groups. He noted three important points, in his view: (i) the importance of strong standards-setting and oversight bodies; (ii) the importance of strong corporate governance and the fact that this has direct relevance to effective application of standards; and (iii) the importance of appropriate professional judgment and skepticism, especially in regard to risk assessments and evaluating the adequacy and completeness of disclosures.

Mr. Damant thanked Messrs. Niemeier and Baumann for their presentations. He expressed the hope that this interaction provides a good basis for future opportunities for dialogue.

SEPTEMBER 10, 2009

OPENING REMARKS

Mr. Damant opened the IAASB CAG session by welcoming the Representatives. He also welcomed Mr. Hafeman as the representative of the Public Interest Oversight Board (PIOB), Mr. Fleck, Chair of the CAG of the International Ethics Standards Board (IESBA), IESBA Chair Richard George, and IESBA Member Ken Dakdduk. He noted with pleasure that many of the IAASB Task Force Chairs were in attendance to present to the CAG.

MINUTES OF THE PREVIOUS MEETING

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

REMARKS OF THE IAASB CHAIRMAN

Prof. Schilder thanked the Representatives for their input at the March 2009 CAG meeting, noting many of the projects discussed at that time will also be discussed by both the CAG and the IAASB at their respective September meetings. He reported a number of new initiatives being undertaken since the March 2009 CAG meeting, including:

- Initiative to strengthen the IAASB's relationship with the International Accounting Standards Board (IASB) – As further discussed at Agenda Item K.

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- Issuance of a Staff Questions & Answers publication² on “Applying ISAs Proportionately with the Size and Complexity of the Entity” – Developed in response to concerns raised in some quarters that the adoption of the Clarified ISAs would be burdensome to small- and medium-sized entities (SMEs).
 - Mr. Damant suggested it would be prudent for the IAASB to understand the views of regulators on this point. Prof. Schilder agreed and noted the IAASB is engaged in continuing dialogue with the European Group of Audit Oversight Bodies (EGAOB) and the International Forum of Independent Audit Regulators (IFIAR).
- Development of a Staff Audit Practice Alert on external confirmations, including confirmation of investments in funds – This alert is intended to highlight a number of emerging practice issues that may affect the audit evidence obtained through external confirmations.
 - Mr. Baumann noted the PCAOB would welcome the opportunity to keep abreast of the development of this alert as the PCAOB had previously released a Concept Release on external confirmations.
 - Mr. Roussey questioned whether the alert would address matters relating to fraud and collusion in responding to false confirmations. Prof. Schilder noted the Task Force would consider whether guidance on this would be appropriate.
 - Ms. Koski-Grafer noted IOSCO had previously expressed its view that there is need for guidance to remind auditors to remain alert for possible fraud risks, and to apply appropriate skepticism and carefully consider the sufficiency and appropriateness of audit evidence, in circumstances where an external confirmation was the only evidence obtained for a significant matter.

Mr. Damant commented on the volume of papers that had been put forth for discussion by the Representatives and the timing of the delivery of the papers. He noted that, while some materials may be distributed quite close to the meeting, in his view this is not problematic since the CAG can consult with their Member Organizations over the course of individual projects. Nevertheless, Mr. Damant plans to revisit the manner in which the CAG papers are prepared and presented in advance of the March 2010 meeting.

² Staff publications, such as Staff Q&As and Staff Audit Practice Alerts are prepared by staff of the IAASB, have no authoritative status and have not been subject to the IAASB's due process. Staff publications are used to help raise practitioners' awareness in a timely manner of significant new or emerging issues or other noteworthy circumstances relevant to engagements addressed by IAASB pronouncements, to direct their attention to relevant provisions of IAASB pronouncements, or to provide clarification to emerging questions by referring to existing requirements and application material and background information such as that contained in staff Basis for Conclusions documents.

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ISA Implementation Monitoring (Agenda Item D.2)

To OBTAIN CAG Representatives' input with regard to the planned two-stage process to actively monitor the implementation process of the Clarity ISAs, and discuss with stakeholders their views on the need for a post-implementation review and, if so, how and when such a review might be conducted.

Mr. Grant introduced the topic, noting that to date there has been discussion of this project at two prior IAASB meetings, the IAASB National Standard-Setters (NSS) Meeting in April, and at the March 2009 CAG meeting.

Mr. Grant outlined the two-phased approach to the project agreed by the IAASB: a first phase having a focus on gathering information about experiences from the implementation process in relation to the clarified ISAs (Phase 1); and a second phase having a focus on the post-implementation experience (Phase 2).

PHASE 1

Representatives commented as follows:

- Mr. Bluhm noted that it would be of interest to see if there is evidence of differential application of the ISAs based on the size of the entity being audited, and that the IFAC Small and Medium Practices (SMP) Committee would be able to assist in providing information.
- Ms. Koski-Grafer noted that the design and content of the draft questionnaires that are intended to be used seems reasonable and relevant. She commented that it would be beneficial if the collection of information ~~included~~could also include some approach for obtaining information directly from individual audit practitioners and firms, for example, through an open internet-based website comment approach, and not only indirectly through the proposed institutional and member body approach to the information gathering.
- Mr. Johnson mentioned that there is some concern about how the requirements of the ISAs will be implemented nationally, in particular whether there may be removal of requirements. Accordingly, feedback at the initial stage about potential removal of requirements is important. Also there could be additions to requirements, which would be of less concern unless they were so numerous that consistency of implementation of the ISAs would be affected.

Mr. Grant noted that the Task Force will discuss the project with the SMP Committee at its October 2009 meeting, and will discuss ways to involve it to achieve a direct link with SMPs and obtain information from them in an appropriate time frame.

PHASE 2

Mr. Grant explained that the subsequent phase of the project is more difficult to make decisions about at this time. It is thought that information obtained from Phase 1 will be important for

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guiding key decisions for Phase 2, in particular: decision about the planned objectives for Phase 2, timing, and how to response to findings.

With respect to deciding what the objective is to be, Mr. Grant noted two possibilities: examining implementation of the ISAs from a consistency perspective or from the audit effectiveness perspective. At this stage, the IAASB favors the idea that the purpose should be to assess the consistency of implementation of the ISAs.

Objective for Phase 2

The Representatives commented as follows:

- Mr. Peyret pointed to the challenges associated with attempting to link the objective to audit quality as there is no common view about what audit quality means and how it should be defined.
- Mr. Johnson emphasized that the opportunity should be taken to look at implementation of the ISAs by SMPs, in particular their experience of whether the ISAs are able to be applied proportionately to entities of different sizes. He highlighted the importance of dialogue with the IFAC SMP Committee.
- Ms. Koski-Grafer questioned whether the Task Force's approach of not planning to assess and react to any input until after the full allowing time for implementation period is best. She was of the view that pursuing an approach that is more gradual and cumulative than a "point-in-time" assessment may be more beneficial. This would involve extending the implementation monitoring phase to gather information earlier and possibly use what comes to light to refine the objective over time. She also said that she believed it might often be difficult to make distinctions between consistency of understanding and consistency of application and was not sure that such a distinction would be practical.
- Ms. Sucher expressed the view that, while the consistency objective is a good place to start, the IAASB should not lose sight of the important need to assess the effectiveness of the ISAs.
- Mr. Koster emphasized the need to avoid creating unnecessary confusion and creating unreasonable expectations in Phase 2 of the project. He was of the view that the key issue is whether and how audits have indeed improved. He noted that having links with audit monitoring bodies, for example through liaison with IFIAR and other audit regulatory groups, will be important. Mr. Baumann supported this view, noting that the opportunity to possibly have audit inspection and oversight bodies provide information about whether the requirements and guidance of the ISAs are sufficiently robust would provide important feedback.

Timing of Phase 2

The Representatives commented as follows:

- Ms. Koski-Grafer expressed some concern with the proposed timing of mid-2012 to begin

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Phase 2. She questioned how developments occurring between now and Phase 2 would be dealt with.

- Mr. Johnson advocated use of the longer timeframe for the project given that members of the Forum of Firms will be implementing the ISAs earlier than many jurisdictions will (for example Japan, China and the European Union (EU)). In light of that, there is good reason to opt for the compromise of getting what information there is on an early basis and going back for information later, in around 2013, following the likely implementation timeframe of many countries and jurisdictions around the world.
- Mr. Gutterman suggested use of a pilot approach that will deliver experience about use of the intended process and better inform the IAASB about whether it is expected to work when applied fully at a later stage.

Responding to Findings from Phase 2

The Representatives commented as follows:

- Ms. Koski-Grafer noted the approach followed by the IASB in relation to making phased improvements to the international body of accounting standards. She suggested that while there may be merit in taking a comprehensive look at information about all the ISAs rather than following the approach of reacting to whatever comes up on a more piecemeal basis as some were suggesting, that should not rule out the possibility of making phased and selective improvements if problems surfaced and important needs were identified. Ms. Blomme supported ~~this~~ the comprehensive view, and suggested that criteria be established in advance.

Mr. Grant asked the CAG how it would like to be involved going forward. Mr. Pickeur suggested regular briefings for the CAG. Ms. Koski-Grafer mentioned that securities regulators, IOSCO in particular, would probably like to be involved.

Mr. Damant noted that if any individual organization wishes to be more directly involved, they should contact Mr. Grant or the IAASB staff.

Auditing Complex Financial Instruments (Agenda Item E)

To DISCUSS a project proposal to revise IAPS 1012 and issue an interim consultation paper.

Mr. Fogarty introduced the topic, noting that the Task Force includes Messrs. Pickeur and Grant, a representative from the PCAOB, firm experts, and other IAASB members.

Mr. Fogarty explained that the Task Force intends to use the work of the UK Auditing Practices Board (APB) to assist in moving the revision of International Auditing Practice Statement (IAPS) 1012, “Auditing Derivative Financial Instruments,” forward as quickly as possible.

He noted that the purpose of using the APB’s document in the IAASB’s consultation paper is to gather input for the IAASB’s project to revise IAPS 1012, not as a means of providing the APB with further input on their document. Mr. Grant reported that it is likely the APB will approve its

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Practice Note 23, “Auditing Complex Financial Instruments” in interim form at its September meeting.

Mr. Fogarty also noted that the IAASB has a separate project on its agenda to consider the status and authority of IAPs. The CAG will have the opportunity to discuss the broader issues surrounding IAPs at its March 2010 meeting.

The Representatives commented as follows:

- Mr. Gutterman shared the views of the CAG Working Group, who supported the IAASB’s efforts to advance the project. He cautioned that using the term “consultation paper” may lead to misinterpretation. He therefore urged the Task Force to consider the objective of the paper and how it would be positioned. Mr. Morris remarked that while Mr. Fogarty’s explanation about the intent of the paper was clear, the manner in which the intent is described in consultation paper is not. Mr. Damant supported this view.
- Ms. Sucher noted it was useful that the paper explicitly asked respondents whether other guidance exists that should be considered by the IAASB in revising IAPS 1012.
- Ms. Blomme noted FEE’s working party on banking issues was supportive of the issues highlighted by the Task Force and the project as a whole. She advised the IAASB to keep the definition of complex financial instruments principles-based in light of the evolving nature of these instruments.
- Mr. Roussey was also of the view that the availability of evidence supporting valuation of complex financial instruments may lead to questions as to the level of assurance that can be provided on these instruments. He believed that this is both an accounting and an auditing issue that may have implications for the auditor’s report and the IAASB’s broader work on assurance engagements.
- Ms. Sucher expressed her concern that more robust guidance is needed relating to the audit of financial instrument disclosures. In her view, it is likely this need will increase with the revision of International Accounting Standard (IAS) 39, “Financial Instruments: Recognition and Measurement.” She supported the consultation paper’s inquiries about disclosures, but cautioned that there is an expectations gap between users and auditors about the extent of audit work performed on disclosures. Mr. Damant noted that the issue of disclosures becomes heightened in the case of non-linear derivatives that have future cash flow effects, when fair value does not give the whole picture of the risk involved with the instruments. Mr. Fogarty agreed that disclosures are an important issue for the revision of IAPS 1012. The challenge, will be developing guidance that is framework-neutral.
- Mr. Krantz commended the IAASB on working to move this project forward quickly. He suggested there may be opportunities for auditors to leverage work of clearinghouses that have begun clearing both sides of a complex financial instrument transaction in looking for evidence of valuation. ~~He also~~
- Mr. Krantz inquired as to the IAASB’s views as to its ability to meet the expectations set forth by the Financial Stability Board (FSB). Prof. Schilder explained that IAASB staff is in

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the process of drafting a letter to the FSB that will highlight the IAASB's efforts through this and other projects in responding to the FSB's calls for more guidance. Mr. Damant suggested that this letter could be circulated to the CAG when finalized.

Review Engagements (Agenda Item F)

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

Ms. Jones introduced the topic of revision of ISRE 2400³ for review engagements. She explained that this project includes consideration of the conceptual underpinnings of the review engagement as well as performance and reporting aspects. She noted that the Task Force would like to develop the review service not as an alternative service to the audit, but rather as a distinct service that exists in its own right that has particular relevance for SMEs.

Mr. Damant noted the overall importance of this Agenda Item. He explained that while the current focus of the project is on the revision of IAASB's existing standards for services that are alternatives to the audit, once done the IAASB's focus will turn to ascertaining whether there is a need to develop standards for further alternative services.

The Representatives commented as follows:

- Mr. Damant noted the likely difficulty there will be in developing thinking about reviews as a distinct service from audits, given the strong prevailing preference for audits, even when audits clearly should not be done or are not needed (with this also being acknowledged by regulators).
- Mr. Johnson noted that changes in EU thresholds for audit exemptions will mean that approximately 95% of entities will not be subject to mandatory audit. It is for this reason that FEE is particularly interested in the development of alternatives to the audit. Many individual countries in Europe are looking at development of new standards for other non-audit services to fill expected demand. He was of the view that the IAASB needs to take the lead in this debate, and that there is a need to go further than the review service. He welcomed the move to revisit whether the review conclusion should be expressed in a positive or negative form.
- Mr. Pickeur expressed confusion about how the review service, which in Europe is only really used for providing assurance on the interim financial statements of listed entities, can also be used as an alternative for the audit of SMEs. Ms. Jones clarified that such reviews is a different service from the review performed for full period financial statements. She noted that the fact that both services are called a "review" is unfortunate, and that the Task Force is recommending that the distinction between the two engagements be clarified. Ms. Koski-Grafer agreed that clarification between ISRE 2400 and ISRE 2410⁴ is important. Mr. Damant noted that it would be difficult to rename the ISRE 2410 service now, given that

³ ISRE 2400, "Engagement to Review Financial Statements."

⁴ ISRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity."

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there is wide acceptance and uptake of the review service performed in the listed entity sector and by regulators.

- Mr. Diomeda welcomed the revision of ISRE 2400 as an initiative to create alternative assurance services to respond to unique user needs for assurance that are distinct from the assurance delivered by the audit. The review service will be of particular relevance as a service of relevance to the SME assurance markets, particularly in light of regulatory change in many countries that will lift the mandatory requirement for many entities to have audits. He expressed the view that it will be important to present the review service as a stand-alone assurance service, perhaps best done by emphasizing the assurance delivered by the service rather than by reference to terms such as ‘limited assurance’ or to the limited procedures performed. ~~to put the review service on a stand-alone footing with clear relevance to the SME markets. He expressed the view that the service can best be developed by identifying it with the needs of users in the non-audit market, and with positive reporting rather than negative reporting.~~ He ~~did~~ does not believe that the needs of regulators should be the main driver for development of the service. Ms. Jones noted that the single biggest risk faced is if the report for the engagement is not sufficiently distinct from the report that is given for the audit.
- Mr. Koktvedgaard was of the view that changing the review conclusion from a negatively-expressed conclusion to a positive one will be a great step forward; the present negatively-expressed opinion is unintelligible to ordinary users. Mr. Johnson noted that there is already confusion in the market about what an audit is, or is not, and it is therefore critical not to further add to the confusion by introducing a positive form of reporting for reviews.

OBJECTIVE OF A REVIEW ENGAGEMENT AND “LIMITED ASSURANCE”

Ms. Jones explained that the Task Force’s preferred approach is not to define what “limited assurance” is in the context of the review of financial statements, but rather to embed the term in the statement of what the objective of the review engagement is so that it effectively describe the outcome that is achieved from performing the engagement. The review would thus be characterized as the process that the practitioner follows which delivers a limited assurance outcome, rather than as an engagement that seeks to achieve limited assurance per se.

The Representatives commented as follows:

- Mr. Damant asked if it would be correct to say then that what “limited assurance” means in a review of financial statements is implied in the objective of the review. Ms. Jones confirmed that is how the Task Force views the matter.
- Mr. Pickeur was of the view that practitioners may be reluctant to carry out engagements characterized as “limited assurance” engagements where they are characterized by limited procedures.
- Ms. Koski-Grafer expressed doubt about the approach to defining the term “limited assurance” in a way that would be understandable to non-auditors, for example, users. She was of the view that defining the term may not be needed if the auditor’s review procedures

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are clearly described in the report and the report on those procedures makes it needs to be it plain that a review delivers something less than a high level of assurance by what is said in the report, obtained by following specified procedures that therefore delivers only limited assurance. She also noted that it is easy may be easier to understand that an “audit is an audit” and a “review is a review” if one does not try to link the review report to the assurance terminology of limited assurance.

- Ms. Sucher noted that limited assurance is the area where she gets the most queries. She was of the view that the key issue will be to define what the review is in terms of both the procedures that constitute the review and also the objective of the review, as is done in ISA 200⁵ for ISA audits. She noted that she would expect the format used to describe and define the review service to follow a similar approach to that used for the ISA audit; even though they are different services, they are both assurance services and so it may not be avoidable.
- Ms. de Beer was of the view that unless the term “limited assurance” is clearly defined it can be expected that many practitioners will find it hard to use or implement the review service. She noted that while the procedures used in different review engagements will not be the same, laying down some minimum procedures, and something more than just analytical procedures and inquiries, will be important.
- Dr. Manabat suggested taking an approach of clearly distinguishing the review from the audit through use of a “terms of reference” approach for each type of service.
- Mr. Koster was of the view that the current purpose of the review is confusing and needs to be properly clarified. Saying that the financial statements being reviewed are “consistent with the practitioner’s understanding” leaves users in the position of not knowing what that means. Mr. Bollman agreed that this aspect is very confusing. Linking the provision of assurance to the practitioner’s understanding of the entity and its business is counter-intuitive and dangerous; especially if the practitioner has only a low level of understanding of the entity. He encouraged the Task Force to exclude use of the term altogether, and simply report the work done and the outcome obtained.
- Mr. White was of the view that the proposed terminology is confusing. In an audit, the practitioner sets out to achieve a particular level of assurance and the procedures are driven by that; in contrast, the approach in a review is to perform a certain level of procedures where the level of assurance obtained is simply an outcome of having done that work. There is better described without assurance taxonomy/terminology. Mr. Peyret agreed that the terminology strongly identifies with the audit service.
- Mr. Koktvedgaard supported Mr. White’s view, noting that it may be useful to envision an audit as a “full basket” of procedures. The review is also a basket of procedures but not the same basket for an audit. The practitioner can determine the type of procedures that are needed in the particular circumstances, and then report what has been done.

⁵ ISA 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”

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Mr. Damant noted that several Representatives emphasized the importance of properly addressing the question of different levels of assurance. He summarized that the IAASB will need to clearly and precisely deal with the question of levels of assurance across various services, and not limit that discussion only to the context of this project.

UNDERSTANDING OF THE ENTITY AND ITS ENVIRONMENT

Ms. Jones explained the Task Force's view that having an understanding of the entity and its environment informs the practitioner's work. Preliminarily, the Task Force believes that the phrase "risk-informed" should be used in the context of a review to differentiate it from a "risk-based" audit.

The Representatives commented as follows:

- Mr. Damant was of the view that the question of how much understanding is needed correlates with the question of how much assurance can be given in a review.
- Mr. Johnson believed that an understanding of the business was critical to a review, in part because it is necessary for the practitioner to set expectations when carrying out analytical reviews. He suggested that explanatory material in ISA 315⁶ could be incorporated in the review standard.

INDEPENDENCE

Ms. Jones indicated that, in many SMPs, practitioners conduct review engagements while also performing non-assurance services such as bookkeeping and internal control services. The American Institute of Certified Public Accountants' (AICPA) Reliability Project is exploring whether to allow practitioners to perform review engagements and indicate that they are not independent because of providing those other services. The argument to do so is based in part on the fact that the practitioner's involvement does, or is perceived to, add a degree of credibility to the financial statements. The Task Force, however, does not believe that allowing a practitioner to do so would be in compliance with Section 290 of the IFAC *Code of Ethics for Professional Accountants* (the IFAC Code) nor does it believe that the IFAC Code should be amended to allow for this.

Mr. George, Chair of the IESBA, agreed with the Task Force's view that Section 290 of the IFAC Code is applicable to review engagements and that the combination of these services by the same accountant would be prohibited. In his view, if the practitioner is functioning in a management role, it seems likely that the self-review threat would increase. He did not believe that the IESBA would support the AICPA's proposals. Mr. Grant noted that one of the distinctions between review and compilation engagements is due to the fact that if an accountant prepares the financial statements, many of the procedures necessary in a review engagement cannot be effectively performed.

⁶ ISA 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment."

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The Representatives commented as follows:

- Ms. Blomme noted this was an area on which FEE had commented in response to the IESBA's exposure draft of Section 290. In FEE's view, a distinction could be made between reviews that are for restricted use versus other reviews. She explained that the demand for lesser independence requirements is a significant issue in Scandinavian countries due to the types of other services that are often provided.
- Ms. Koski-Grafer ~~suggested that~~asked if some of these other services are allowed only for non-public interest entities and said she thought she recalled that the IFAC Code allows for some exceptions when ~~the~~certain assurance work is performed on ~~these~~entities that are not public interest entities. Ms. Munro explained that Sections 290 and 291 of the IFAC Code apply to audits and reviews of financial statements, and assurance on other subject matter, respectively. The nature of the independence requirements as established by the IFAC Code depend on what the practitioner is providing assurance on rather than the level of assurance.
- Mr. Bluhm encouraged both the IAASB and IESBA to consider the matter further and consult with other national standard-setters, since many of the SMP Committee's comments on the IFAC Code were in the context of an audit engagement and many not have fully considered review engagements.

Mr. Damant asked the Representatives to indicate their interest in joining the Working Group on the project. Ms. de Beer volunteered.

Rapid Response (Agenda Item H)

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

Mr. Gunn introduced the topic, noting that the proposed rapid response mechanism would apply to all of IFAC's PIACs, but it refers only to the IAASB for convenience. He explained that the intent would be to use the rapid response mechanism sparingly and only in cases where it is absolutely necessary.

The Representatives commented as follows:

- Messrs. Cassel, Krantz, Pickeur supported the changes that had been made to the mechanism, in particular that criteria was now defined as to what type of response might be appropriate in particular situations.
- Mr. Cassel expressed his view that it is necessary that users understand the status of any output of a rapid response mechanism.
- Mr. Pickeur suggested that the rapid response mechanism should be published on the IAASB's website to inform its stakeholders in advance of it being used.

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- Mr. White noted that the PIOB involvement in determining whether a rapid response was appropriate and in confirming that due process had been followed in its development was an important safeguard.
- Mr. Krantz was of the view that, as year-end reporting dates approach, there may be a need to accelerate the timing of a rapid response mechanism. Mr. Gunn noted that it was unlikely any output would be developed in less than six months given the need for public consultation and the timing of the IAASB meetings. Messrs. Gutterman, Koktvedgaard and Krantz and Ms. Sucher were of the view that the timeline of six to nine months is too lengthy.
- Mr. Pickeur suggested that it might be necessary for staff publications to be reviewed over time to determine whether they remain valid, and also noted it may be useful for these to be included in the IAASB's Handbook of pronouncements. Mr. Gunn noted these publications are specifically excluded from the Handbook to make a clear distinction between them and IAASB's authoritative material.
- Regarding the CAG involvement, Ms. Koski-Grafer was of the view that it may not be necessary or practical for the CAG to be involved outside their normal meetings because the individual CAG Member Organizations could respond more fully and directly during the public consultation. Mr. Krantz was of the view that the perceived need for CAG involvement should not hold up a rapid response if it was necessary. Mr. Gutterman suggested the CAG could be notified via email of the discussions to take place at the IAASB meeting and the planned public consultation so that the Representatives could raise any concerns if necessary.

Assurance on a Greenhouse Gas Statement – ISAE 3410 (Agenda Item I)

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

Ms. McCabe introduced the topic, noting the linkages of this project with two other projects to be discussed at the September IAASB meeting, namely: the ISAE 3000⁷ project, where the extent and placement of requirements is a common issue; and the ISRS 2400 project, where the nature, timing and extent of procedures for limited assurance engagements is a common issue. She also noted that the Task Force has formed a tentative view, taking account of out-of-session feedback from the IAASB on a preliminary draft circulated in August, that it would be appropriate to ask the IAASB at the September meeting to approve a consultation paper on this topic rather than an exposure draft.

EXTENT OF ADAPTED ISA REQUIREMENTS

Ms. McCabe outlined the approach taken by the Task Force in determining which requirements to include in the draft ISAE, noting that some of what may appear to be a large number of requirements will likely be moved to ISAE 3000 in time. Determining which requirements to

⁷ ISAE 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information."

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place in the draft ISAE involved a considerable amount of judgment, including consideration of the fact that the ISAE may be referred to by people outside the accounting profession who are not familiar with the ISAs (which may indicate a need for a more comprehensive set of requirements). A range of views on this issue had been presented by IAASB members when commenting on the out-of-session draft.

The Representatives commented as follows:

- Mr. Damant asked the Task Force's view of whether the generic requirements included in the draft overshadow the GHG-specific requirements. Prof. Simnett responded that the Task Force is conscious of this issue, noting the difficulty in balancing the need for a comprehensive set of requirements on one hand, with a document more singularly focused on GHG issues on the other. He noted that this matter would likely receive considerable attention at the September IAASB meeting.
- Ms. Blomme noted the benefits of having a standalone ISAE on this topic, but that this approach is not consistent with the draft ISAE on pro forma financial information (Agenda Item L), and questioned whether the IAASB has a view about whether for some ISAEs more extensive requirements are appropriate than for others, or whether there will be a policy to have a more consistent approach. She also noted her support for this project to cover limited assurance engagements. Mr. Schilder responded that this draft, the draft ISAE on pro forma financial information, and work on limited assurance engagements and ISAE 3000 are all works in progress and that the IAASB had not wanted to slow progress on the substantive issues in these project until all the structural and cross-linking issues were resolved. The IAASB will continue to consider such issues in an iterative way as these projects progress.
- Mr. Koktvedgaard asked whether the draft will allow the assurance professional to follow the PCOAB approach to relying on component auditors. Ms. McCabe noted that while the Task Force has not sought to reproduce a large number of requirements from ISA 600,⁸ it does believe the approach taken in that standard to be appropriate for GHG engagements in that the assurance professional needs a level of involvement in the work of a component auditor that is sufficient relative to the significance of the component to the GHG statement as a whole.

COMPETENCY, QUALITY ASSURANCE AND ETHICAL REQUIREMENTS

Ms. McCabe summarized the approach taken in the draft ISAE regarding competency, quality assurance and ethical requirements, noting that a number of these issues are also relevant to the ISAE 3000 project.

Mr. Gutterman raised the following issues noted by the CAG Working Group:

- The use of the following terms, which are similar but different, is potentially confusing: “assurance professionals;” “other assurance professionals;” “component assurance

⁸ ISA 600, “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors).”

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professionals;” and “assurance professional’s expert.”

- The draft may be unclear as to what specialized skills are required of the engagement partner.
- Whether requiring the engagement team to be sufficiently involved in the work of experts is consistent with ISA 620,⁹ or whether the engagement team should instead be required to have sufficient knowledge of the work of experts.
- It may be unclear whether the draft requires use of a multidisciplinary team (including, for example, engineers and environmental scientists), or whether reference to such teams is an example only.
- Whether the draft should include additional discussion regarding the independence and objectivity of experts.

Ms. McCabe responded that a number of these issues arise because the draft ISAE has adapted requirements originally written for ISAs, and that the Task Force will review each point to see whether greater clarity can be achieved.

COMMUNICATION

Ms. Sucher noted that the following two features of the example assurance reports appended to the draft ISAE may have some applicability for financial statement audit reports also:

- The reference to the engagement having been conducted by a multidisciplinary team. Prof. Simnett noted that ISAE 3000 requires the engagement team to have a broad range of skills and knowledge where this is appropriate to the engagement, and also refers to the potential to add to the assurance report details of the qualifications and experience of those involved with the engagement. The Task Force felt that adding such a reference to the assurance report is likely to be particularly relevant for GHG engagements as it would help readers understand that the engagement has not been performed by accountants alone.
- The reference to the implications of uncertainty on the measurement of reported information. Prof. Simnett noted that this approach is particularly appropriate for GHG information as many of the measurement methods are still at an embryonic stage. Mr. Damant noted that the use of mathematical models often gave an incorrect impression of exactitude, which readers need to be aware of. Mr. Koktvedgaard noted that a similar argument could be made with respect to uncertainty regarding, for example, financial instruments in a financial statement audit context, and suggested this might be better explained in the GHG statement itself rather than the assurance report. Similarly, some of the restrictions mentioned in the example assurance report may be better placed in the GHG statement. Prof. Simnett noted the Task Force will further consider this matter, particularly with respect to the disclosure of uncertainty. With respect to restrictions, he noted that it is important for the assurance report itself to clearly identify which elements of the GHG statement have been assured and which have not.

⁹ ISA 620, “Using the Work of an Auditor’s Expert.”

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EXTERNAL COMMUNICATION

Prof. Simnett noted that the IAASB agenda paper indicates a number of the areas about questions would be asked in the consultation paper, including the role of direct reporting and the approach to limited assurance.

Ms. Sucher noted that, given the number of related projects and issues outstanding at this time, she supported seeking external feedback through a consultation paper rather than an exposure draft. She asked whether the consultation paper would specifically seek comment on the draft's relationship with ISAE 3000, and in particular the number and nature of requirements in it and whether it should be a standalone document. Prof. Simnett indicated that these are areas where guidance from the IAASB would be sought at the September meeting.

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The IAASB's Interaction with the IASB (Agenda Item K)

To OBTAIN CAG Representatives' input about the IAASB's current and future interaction with the IASB.

Ms. Hillier noted that this was an initiative that had been supported previously by the Representatives and the IAASB's consultation on its *Strategy and Work Program, 2009-2011*. The aim of the IAASB in undertaking this initiative is to have an early opportunity to participate in the IASB's standard setting process. The focus will be on areas where from an auditing perspective the working groups that will be set up can identify matters to which the IASB should give attention when setting standards, primarily in the areas of auditability, preparability and verifiability. It is not intended to be a review of the IASB's proposed standards from a technical accounting standpoint. This initiative is also likely to inform the IAASB's future priority setting, in that it may identify areas in which additional auditing guidance may be necessary.

Ms. Hillier reported that Sir David Tweedie, Chair of the IASB, has appointed IASB board member Prabhakar Kalavacherla to act as IASB's liaison representative with the IAASB in this regard. Mr. Damant supported his appointment, noting Mr. Kalavacherla has a background in auditing.

One of the challenges of this initiative is the need to move quickly on particular projects. Ms. Hillier noted the first of the working groups, charged with monitoring the IASB's projects on Fair Value Measurement and Financial Instruments, has identified issues that had been informally communicated to Mr. Kalavacherla. Mr. Fogarty, Chair of this working group, noted these issues primarily relate to the increased need for experts to comply with the requirements of the proposed standards and the balance between reliability and relevance of audit evidence. The working group would encourage the IASB to explore ways to simplify measurement in order to increase reliability. Ms. Hillier highlighted that this informal communication with Mr. Kalavacherla was beneficial in that the working group was able to more fully understand the IASB's perspective in developing the proposed standards and the bases for their conclusions to date.

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Mr. Gunn explained that the CAG's input would be valuable to the IAASB in selecting which projects should be monitored given the IAASB's resources. Mr. Damant suggested CAG Representatives could also join the IAASB's working group. He also noted it would be helpful for Mr. Kalavacherla to attend an IAASB meeting.

Strong support was noted for the initiative. The Representatives commented as follows:

- Messrs. Baumann, Koster, [Koktvedgaard](#), Krantz, Kuramochi, Peyret, Ratnayake, Uchino and Mmes. de Beer, Koski-Grafer and Sucher noted their support.
- Mr. Uchino noted that the Japanese Financial Services Authority's work in developing an IFRS adoption roadmap has highlighted that regulators are also concerned with auditability issues. For reference, he noted adoption of IFRS will be permitted beginning in March 2010, with full adoption planned for 2015. He supported the IAASB's plan to evaluate whether there is a need for further auditing standards or guidance as a result of this initiative.
- Mr. Ratnayake suggested the IASB should be advised to strengthen its requirements for preparers to obtain enough evidence to support their significant judgments, as this will in turn benefit auditors.
- Mr. Koster noted it would be beneficial for the IAASB to consider how to further involve regulators such as the IFIAR in the working groups.
- Mr. Peyret noted preparers welcome such an initiative and appreciated the IAASB's initial focus on the fair value measurement projects. He encouraged the IAASB to consider the needs of small practitioners who audit larger entities.
- Ms. Koski-Grafer supported Mr. Gunn's comments that the initiative would be most useful if focused on specific projects and issues. She [also](#) suggested it may be [necessarydesirable](#) to have two [IAASB and](#) IASB members identified as liaisons. Mr. Damant noted this matter is currently under discussion by the IASB.
- Mr. Pickeur and Ms. Sucher noted the IAASB may want to give attention to the IASB's impairment project. Ms. Sucher also suggested some of the insurance projects may be of relevance to the IAASB.
- Ms. de Beer suggested it would likely be necessary for the IAASB to put comments on the public record but suggested that the IAASB work to develop an efficient process of doing so.
- Mr. Goebel suggested that the formal relationship IFAC currently has through Mr. Sylph's participation in the IASB's Standards Advisory Council (SAC) may enable the IAASB to influence the IASB's agenda-setting and may be of more benefit than looking at individual projects. Mr. Damant noted the SAC has now been restructured similar to the IAASB CAG.
- Ms. Sucher cautioned the IAASB should not overestimate what it may be able to achieve given that IASB makes the final decisions as to the content of their standards.

Regarding the processes their Member Organizations follow, the Representatives offered the following:

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- Mr. Baumann noted that representatives from the U.S. PCAOB, Securities and Exchange Commission and Financial Accounting Standards Board (FASB) have a formal quarterly liaison meeting to discuss their respective agendas. In addition, early drafts of agenda materials are shared on a confidential basis, and he supports the IAASB's involvement in the IASB's processes at an early timeframe before exposure drafts are publicly issued. He further clarified that PCAOB staff and FASB staff at the project management level are in regular informal contact as their proposed standards are developed. Mr. Damant supported the IAASB's pursuit of early drafts of the IASB's agenda material, noting this was critical to the success of the initiative. Mr. Gutterman supported the staff-level interface described by Mr. Baumann and suggested this may be a better use of the IAASB and staff resources in that those drafting the standard may be the strongest contacts. He cautioned that the time involved in developing formal comment letters may be prohibitive.
- Mr. Hallqvist noted the International Corporate Governance Network's (ICGN) accounting and auditing practices group also has bi-monthly conference calls and also issues formal comment letters to the IASB. ICGN also comments on SEC, FASB and European Union proposals as necessary.
- Mr. Krantz reported that the World Federation of Exchanges has established a similar initiative with the International Organization of Securities Commissions, with the possibility of observing each other's meeting.
- Mr. Koktvedgaard suggested that, when Member Organizations' comment letters on IASB's exposure drafts highlight auditability issues, these comment letters should be forwarded to the IAASB.

Mr. Damant has proposed that the IASB add another Representative to the CAG, for example the staff member supporting Mr. Kalavacherla.

Assurance Reports on Pro Forma Financial Information (Agenda Item L)

To DISCUSS matters highlighted by the Task Force or brought forward by CAG Representatives in the development of an international assurance standard for engagements to report on the proper compilation of pro forma financial information in prospectuses.

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

MEANING OF "PROPERLY COMPILED"

The Representatives commented as follows:

- Mr. ~~Koiehiro~~-Kuramochi explained that the notion of an engagement to report on proper compilation of pro forma financial information is new in Japan, and that firms other than those that traditionally perform the financial statement audit may become involved in such

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engagements. This makes it particularly important for the nature and scope of such engagements to be explained clearly, and for robust guidance to help ensure consistent performance across firms and practitioners. Prof. Schilder noted that this may suggest that the IAASB should consider a form of communication plan to help raise awareness of the key provisions of the standard when finalized.

REPORTING ON WHETHER THE UNDERLYING FINANCIAL INFORMATION HAS BEEN AUDITED

The Representatives commented as follows:

- Mr. Damant was of the view that it is critical for the investing public to know whether the underlying financial information has been audited. He commented that the Task Force's proposals appear acceptable so long as there is some mechanism, for example the applicable criteria for reporting pro forma financial information, which forces clear and apparent disclosure of the status of the underlying information. Mr. Robberecht indicated that he will confirm whether in fact the EC Directive requires management to disclose whether the underlying information has not been audited.
- Mr. Roussey was of the view that it is illogical to indicate that the practitioner does not have to disclose whether the source of the underlying financial information has not been audited, yet require the practitioner to disclose the procedures performed on the unadjusted financial information. If pro forma adjustments are being made to the underlying data, then it is absolutely essential to require disclosure about the status of the unadjusted information. Prof. Schilder noted that the draft standard makes clear that as part of assessing whether the applicable criteria are suitable, the practitioner needs to determine whether they encompass, at a minimum, that the pro forma financial information adequately discloses the source of the unadjusted financial information and whether that source has been audited. Nevertheless, he agreed that the objective in applying the standard should be to see that there is no confusion in the market about whether unadjusted financial information has been audited. Mr. Damant supported this view.

WORK EFFORT REGARDING THE UNADJUSTED FINANCIAL INFORMATION

The Representatives commented as follows:

- Dr. Manabat was of the opinion that, if the standard will allow ~~view that the practitioner should be required to audit the unadjusted~~ unaudited financial information, the practitioner should make appropriate disclosure on such unaudited financial information. ~~She did not consider disclosure that the information has not been unaudited as being sufficient in the circumstances.~~
- Ms. Blomme was of the view that the proposed ISAE should not impose a condition in all cases that the unadjusted financial information be audited or reviewed. To do so would introduce a major conflict with EU legislation. She encouraged the Task Force to look for a solution that mitigates the risks of using or relying on information that has not been audited, for example by requiring appropriate disclosure, while not going so far as to mandate an

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audit of the unadjusted information.

- Mr. Pickeur suggested that further consideration should be given to the question of association when the practitioner believes the unadjusted financial information to be inaccurate. Prof. Schilder and Mr. Swanney noted that this is precisely what the Task Force is dealing with: what minimum work, if any, is necessary on the unadjusted financial information to avoid being associated with unreliable information.
- Mr. White noted that while the list of proposed procedures to be performed on the unadjusted financial information is extensive, the procedures appear to omit those designed to detect material misstatements, including material misstatements due to fraud. He was of the view that without an overlay of procedures for this purpose there is a risk of introducing an expectations gap which cannot be resolved through disclosure.

Mr. Grant noted that the question of the extent of work, if any, to be undertaken on the unadjusted financial information is a challenging one. He was of the view that the Task Force's proposal might give impression that the practitioner has completed a partial audit, and the level of assurance to be derived from the procedures performed is a very difficult matter to explain in the report. Accordingly, there is a significant risk of misunderstanding by users. Further, the Task Force's proposal gives risk to significant cost implication. The question then becomes how far should the standard go when laws and regulations do not require any work on the unadjusted financial information?

MODIFIED AUDIT OPINION OR REVIEW CONCLUSION ON, OR EMPHASIS OF MATTER PARAGRAPHS WITH RESPECT TO, THE UNADJUSTED FINANCIAL INFORMATION

The Representatives commented as follows:

- Dr. Manabat expressed concern about the proposal to not require in all cases disclosure when there is a modified opinion or review conclusion on the unadjusted financial information. At a minimum there should be disclosure or other appropriate actions required when a modified audit opinion or review conclusion has an effect on the pro forma financial information. Mr. Damant was of the view that it will be important to obtain investors' perspectives on this issue in terms of the type of disclosure, if any, that would be relevant to their needs.
- | Ms. Koski-Grafer indicated that [due to late receipt of many CAG meeting materials](#), the IOSCO subcommittee had not had an opportunity to review the CAG material on this topic in its entirety. She indicated that it comments may be forthcoming after discussion of the topics at the next meeting of the subcommittee.

Mr. Damant thanked Mr. Swanney for his attendance at the meeting. He noted that the IAASB intends to consider a proposed exposure draft at its December 2009 meeting.

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Using the Work of Internal Auditors – ISA 610 (Agenda Item M)

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

Ms. Hillier introduced the topic, noting that the agenda material outlines the underlying principles the Task Force considers as fundamental to the project.

GENERAL PRINCIPLES AND USING THE WORK OF INTERNAL AUDITORS

The Representatives commented as follows:

- Ms. Koski-Grafer noted that IOSCO members in preliminary discussions agree that the decision as to whether or not to use the work of internal auditors in the external audit should rest with the external auditor, as that is who is responsible for the audit report. She noted, however, that it would be helpful if the revised ISA discussed the considerations, risks and benefits of using whether and how much to use the work of internal auditors. Also, in her view, it is important for external auditors to give particular attention to matters any concerns and risk factors that have been identified by an entity's internal auditors, for example, any negative information supplied about the entity, for example, competency issues. Mr. Pickeur supported this view.
- Mr. Fogarty asked the Representatives for their views as to the objective of using the work of internal auditors – for example, for communication or efficiency. Ms. Koski-Grafer's view was that communication with the internal audit function and use of their outputs in the external audit, when appropriate, contributes to audit quality. In her view, cost savings and efficiencies alone should not drive the decision whether or not to use the work of internal auditors.
- Mr. Morris suggested the ISA should describe in detail the benefits that preparers attach to the internal audit function, and auditors should be required to consider the internal audit function in all cases. Ms. Hillier cautioned that the external auditor should not be pressured to use the work of internal auditors. Mr. Roussey noted that internal audit functions often vary in their structure and that the requirement to obtain an understanding of an entity's internal audit function should involve reviewing the internal audit function's charter and purpose in deciding to use the work of internal auditors work, including at what level and in what area.
- Mr. Pickeur noted the Basel Committee on Banking Supervisions' (BCBS) prior work dealing with the relationship of external and internal audit. A 2001 document explained the importance of internal audit to banks and highlighted BCBS's view that all banks should have an in-house (i.e., not outsourced) internal audit function that is well-established and working in accordance with the principles set out by the Institute of Internal Auditors (IIA). In his view, the ISA should describe this best-practice scenario and encourage the use of the work of internal auditors when such a scenario exists. Supported by Mr. Meishar, he suggested there was scope to encourage greater communication and collaboration between the external and internal auditors in the revised ISA. Ms. Hillier noted this may be possible,

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but in her view it may be difficult to clearly explain the broad spectrum of internal audit functions in practice and when external auditors might use the work of internal auditors.

- Mr. Koster suggested the ISA might differentiate between larger entities with well-established internal audit functions and other internal audit functions. Doing so would allow for the ISA to describe how the latter is likely to be structured in a way that is independent from management, for example due to direct reporting to those charged with governance. Mr. Hallqvist supported such a reporting structure and noted his view that monthly meetings between the audit committee, internal auditors and external auditors would represent best practice. While Ms. Lione supported the inclusion of material as to the characteristics of well-established internal audit function, she cautioned that the size of the internal audit function and the entity itself does not necessarily mean such a function is less-established or less independent.
- Mr. Uchino noted in Japan external auditors are encouraged to use the work of internal auditors in particular with respect to work on internal control.
- Ms. Koski-Grafer noted the IOSCO members had mixed views as to the direct use of ~~the work of~~ internal auditors to do external audit procedures and that some jurisdictions prohibit this. She said IOSCO—and will need to further consider the issues. In her view, the an important question is the extent to which the work of internal auditors is supplementing rather than replacing work that would have been done by the external auditors. It will also be necessary to further consider what is meant by “reliance upon” the work of internal auditors.
- Mr. Baumann expressed the view that external auditors should make themselves fully aware of the work of the internal audit function when performing risk assessment procedures. In his view, the external auditor remains responsible for the audit even when the work of the internal auditors is used.
- Ms. Koski-Grafer asked for clarification as to the distinction between the auditor’s work to obtain evidence regarding the internal audit function as a whole as compared to the statement that the auditor’s evaluation of the internal audit function is not intended to provide a sufficient basis for forming an opinion about the overall effectiveness of the internal audit function. Ms. Hillier explained that the auditor’s view of the internal audit function looks only at their activities related to the financial reporting process, whereas others evaluating the effectiveness of the internal audit function would have a broader remit.
- Mr. Cassel was of the view that it would be helpful for the IAASB to explicitly state in the ISA its view that neither internal auditors nor external auditors constitute part of internal control.
- Mr. Meishar urged the Task Force’s decision not to expand the requirements to communicate about the planned use of the work of internal auditors to those charged with governance. In his view, auditors should be mandated to communicate during the planning stages when the work of internal auditors will be used.

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DEFINITION OF INTERNAL AUDIT FUNCTION

The Representatives commented as follows:

- Mr. Ratnayake supported the Task Force's rationale in excluding the word "independent" from the definition of the internal audit function, since internal audit cannot be considered independent if they report to management. On the other hand, Mr. Meishar noted that omitting the word "independent" from the definition of the internal audit function would likely have a significant impact on the external auditor's assessment of the internal audit function. Mr. Roussey recommended the ISA explicitly state that the reporting structure and the related independence would likely affect the auditor's determination as to whether to use the work of the internal audit function.
- Ms. Koski-Grafer encouraged the Task Force to reconsider whether it was necessary to include a specific definition of the internal audit function ~~was needed in the ISA~~ or whether a description of what is envisaged, such as the range of activities that could exist, would be preferable. In her view, any definition created by the IAASB ~~'s new definition~~ may conflict with other definitions, such as the IIA's or others. By providing a description of internal audit activities instead, the IAASB would have flexibility: to incorporate the points made about considerations relating to how well-established the function may be; to describe the broad spectrum of internal audit functions in practice; and to describe what is expected relative to the function being independent.
- Ms. Lione and Mr. Pickeur were of the view that, if a definition was to be included, it should be the same as the IIA's, with application material added as necessary.
- Mr. Gutterman asked how the definition of the internal audit function interacted with the concept of a management's expert. Ms. Hillier noted the Task Force's view that the internal audit function is different than a management's expert and that defining the internal audit function (as compared to defining an internal auditor) is important in the context of its objectivity.

DIRECT ASSISTANCE

The Representatives commented as follows:

- Mr. Meishar supported the inclusion of new guidance on direct assistance, whereby the internal auditor carries out audit procedures on the external audit under the direction, supervision and review of the external auditor. In his view, direct assistance from internal auditors can increase the efficiency and effectiveness of the external audit.
- Mr. Roussey suggested that the application material focus on what type of direct assistance may be envisaged and in what areas. In his view, direct assistance is not typically appropriate for audit areas that are highly subjective or material.
- Ms. Sucher questioned how direct assistance may be perceived by users of the financial statements in the context of internal auditors doing the work of the external auditor. Mr. Fogarty explained that direct assistance has different dimensions – for example, some

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internal auditors may be used as staff on an external auditor's engagement team, while other internal auditors may function as a component engagement team executing specific procedures agreed with the external auditor.

- Mr. Fleck noted the IESBA was particularly concerned with the fact that internal auditors are employed by the entity and may be influenced by management when providing direct assistance to the external auditors. The IESBA was also apprehensive about external auditors providing internal audit services. In Mr. Fleck's view, the use of internal auditors for direct assistance is dependent on the line of instruction and oversight and the degree to which any judgment is involved – it is not ideal for an internal auditor to be making subjective judgments that affect the audit opinion.
- Ms. Sucher suggested the Task Force should explore whether external auditors can use the same scale in assessing the degree of reliance that should be placed on using the work of internal auditors when deciding about direct assistance.
- Mr. Hallqvist did not support direct assistance. In his view, the roles of the external and internal auditors are different and should be kept separate, with the external auditor taking full responsibility for his work. Mr. Pickeur noted that while the BCBS had not yet considered the issue of direct assistance, he shares Mr. Hallqvist's view; the responsibility for audit work should remain with the external auditor and cannot be outsourced to the internal auditor.

Mr. Damant noted that Ms. Lione serves as a technical advisor to one of the members of the IAASB's Task Force. He invited her to share her views as to the role of internal audit and its value. Ms. Lione explained the IIA's position that internal audit contributes to audit quality when there is effective communication between external and internal auditors. Direct assistance is the least value that an internal auditor can provide.

Ms. Hillier inquired as to whether it would be preferable at this stage for the IAASB to issue a consultation paper to solicit further views in advance of developing an exposure draft. Messrs. Koster and Meishar preferred the IAASB issue a consultation paper, while Mr. Damant ~~and Ms. Koski-Grafer~~ did not. Ms. Koski-Grafer said that she thought that further consultation was desirable but that, as there were a variety of ways to seek additional information, it did not necessarily have to be through a consultation paper. No other Representatives commented on the matter.

Controls at a Service Organization – ISAE 3402 (Agenda Item O)

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

Ms. Esdon, participating via teleconference, introduced the topic by noting that the IAASB

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commenced the project to develop ISAE 3402¹⁰ in 2006, concurrently with a project to revise extant ISA 402.¹¹ An Exposure Draft of proposed ISAE 3402 (ED-ISA 3402) was issued in December 2007, with a response date of May 31, 2008. Forty-seven responses were received from a variety of constituents. Since then, the IAASB has considered the key issues arising on exposure, and will consider whether to issue a revised draft as a final ISAE at its September 2009 meeting.

Ms. Esdon noted that the AICPA's Auditing Standards Board (ASB) issued an Exposure Draft of a revised SAS 70¹² in November 2008. The IAASB Task Force held a successful joint meeting with the ASB Task Force in March 2009, and has continued to liaise since that time in an effort to harmonize the two standards to the extent possible. There are now few differences of any substance between the draft ASB standard and the draft ISAE.

ASSERTION-BASED ENGAGEMENTS

Ms. Esdon noted that the IAASB had requested views on the proposal that the ISAE be written for application to assertion-based engagements. Forty-two respondents commented on this proposal. Thirty-six supported the proposal, although one of these expressed concern that some proposals may not be practicable. Six respondents did not support the proposal, with the main reason offered by three being that it may discourage use of ISAE 3402 in certain jurisdictions, particularly the U.S., where assertion-based engagements are not prevalent. The IAASB considers that with the U.S. developing a new standard that is consistent with the IAASB standard, this will no longer be an issue. The Representatives commented as follows:

- Mr. Fleck asked whether Ms. Esdon thought those making up the 47 respondents represented a sufficiently objective view. Ms. Esdon responded that the concerns expressed by service organizations who responded were mostly based on a misunderstanding about one-to-one situation, versus one-to-many situations. Taking account on the responses received and feedback from the ASB Task Force, the Task Force is satisfied that in one-to-many situations, service organizations are able to provide assertions.
- Ms. Sucher noted that in her experience, many international entities subject to prudential regulation rely upon SAS 70 reports and welcomed the fact that differences between SAS 70 and 3402 are being minimized. She asked whether this project would be affected by any action the PCAOB may be taking regarding SAS 70 engagements following the Madoff scandal. Ms. Esdon noted her understanding that PCAOB may be considering requiring those under its authority to receive a SAS 70 report from any investment managers with whom they deal who are not subject to regulation. She noted, however, that this understanding is not based on direct information from the PCAOB and may be incorrect.

¹⁰ International Standard on Assurance Engagements (ISAE) 3402, "Assurance Reports on Controls at a Service Organization."

¹¹ ISA 402, "Audit Considerations Relating to an Entity Using a Service Organization."

¹² Statement of Auditing Standards 70, "Reports on the Processing of Transactions by Service Organizations."

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- Ms. Sucher asked whether allowing only assertion-based reports is unnecessarily limited. Ms. Esdon noted that the assertion-based model is consistent with most engagements in the private sector. Direct reporting engagements where the auditor measures the subject matter are rare in the private sector because of objectivity issues. They mostly are common in the public sector where auditors-general often have a statutory mandate to independently measure and report on aspects of government performance. The draft ISAE allows for direct reporting when prescribed by law or regulation.
- Mr. Roussey noted his support for the assertion-based approach. He asked if the Task Force was concerned that only 3 service organizations responded to the exposure draft. Ms. Esdon replied that 37 targeted letters had been sent to service organizations, and although most had not responded, the Task Force is comfortable that the model, as amended in the revised draft, is suitable for service organizations. This is based on feedback from the ASB Task Force who had informal communications with a number of service organizations in the U.S. and the experience of Task Force members, who work in this field, including one who has managed service organizations. Mr. Fogarty added that SAS 70 reports were originally auditor-to-auditor reporting, but as they are now relied upon by user entities and others, assertion-based is a more appropriate model. The nature and extent of evidence required is not affected so it is in no way lesser service; and if anything the involvement of the service organization in preparing the assertion should be seen as a benefit to user entities.

SUITABLE CRITERIA, DISCLOSURE OF SAMPLE SIZES, AND RESTRICTIONS ON USE OR DISTRIBUTION

Ms. Esdon summarized the current position with respect to:

- *Identification of the minimum elements of suitable criteria:* Ms. Esdon noted that 29 respondents supported the minimum elements; either as stated, or with some changes to improve the wording.
- *Disclosure of sample sizes in the description of tests of controls:* Disclosure is included only when a deviation from controls is found. This approach is consistent with current practice in most jurisdictions and was supported by the majority of respondents.
- *Restrictions on use or distribution:* In light of feedback received, the current draft requires the assurance report to include a statement that it is intended only for user entities and their auditors when assessing the risks of material misstatements of user entities' financial statements. It also acknowledges in the application material that in some jurisdictions reports specifically state that that are not to be distributed to or used by others, or used for other purposes.

CONTROL OBJECTIVES

Ms. Esdon noted that the IAASB had discussed whether to include specimen control objectives in an appendix to the proposed ISAE. The IAASB is of the view that any benefit of providing specimen objectives would be outweighed by the risk that they may be inappropriately used on engagements when objectives specific to the services provided by the service organization

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should be used. A small number of respondents noted that they believe that accessible specimen control objectives could be an important step in helping to ensure consistent application of ISAE 3402 in practice. The IAASB intends to consult with NSS to determine whether there is potential for collaboration between NSS and others to develop international implementation guidance that includes specimen control objectives.

Representatives commented as follows:

- Mr. Roussey stated his view that reference to specimen control objectives that are being used in practice would assist implementation of the ISAE. He therefore suggested that reference be made either in the ISAE or in accompanying literature, for example, on the IAASB or IFAC website. Mr. Morris agreed with Mr. Roussey, and suggested that the application material should include one or two examples for the guidance of auditors and service organizations as to what is expected. Ms. Esdon noted that concerns had been expressed about referencing from a standard to sources that have been developed by others, but that reference from the IAASB or IFAC website may be appropriate. She also noted that the AICPA Guide on this topic is being updated and will likely include specimen objectives.

Impact Analyses (Agenda Item P)

To OBTAIN CAG Representatives' input with regard to a proposed process to provide a systematic and structured approach to obtain information about the potential impacts of a proposed new standard on key stakeholders and to document and communicate this information.

Mr. Fogarty introduced the topic, noting that the proposed process for impact analysis has been simplified from its earlier model. He summarized the proposed process as follows: (i) consideration by task forces of the impact of key changes resulting from the new or revised pronouncement, in preparing the exposure draft; (ii) analysis of the impact in the explanatory memorandum that accompanies the exposure draft, to solicit feedback from stakeholders; and (iii) communication of views of respondents, and the IAASB's decisions in light of these views, in the Basis for Conclusions accompanying the final pronouncement.

Mr. Fogarty noted that the IAASB plans to pilot test the impact analysis template on two projects to be determined by the IAASB's Steering Committee. When finalized, the impact analysis tool would be used for all of IFAC's PIACs, and so it is flexible by design.

Mr. Damant supported this decision and noted the political importance of the topic.

The Representatives commented as follows:

- Mr. Gutterman supported the proposed process, noting the pivotal matter is the process used (which requires the IAASB to consciously contemplate the impact) rather than the end result.
- Mr. Robberecht welcomed IFAC's planned use of the impact analysis, as it is required in the EU. He noted, however, that the proposed tool seems to only analyze the preferred option (i.e., the options agreed in developing the exposure draft). He inquired as to how it would be

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transparent with regard to the other options considered. To this point, Ms. Blomme noted the impact analysis could be seen as a continuous process. Mr. Fogarty explained that, as matters are identified and discussed by a project Task Force, these are identified in the agenda papers and minutes. The impact analysis included in the exposure draft and Basis for Conclusions represents the assessment of the impact of the decisions made by the IAASB.

- Mr. Robberecht expressed his view that the quantifiability of the impacts remains an important consideration. He suggested the IAASB consider if ranges could be used. Mr. Fogarty noted that the Task Force had considered if quantification would be possible and, having looked at the different impact analysis requirements in various jurisdictions, concluded that it was unlikely that it could be done in a meaningful way.
- Mr. Koktvedgaard questioned whether the Task Force considered having the impact analysis deal with each requirement in a standard. Mr. Fogarty noted that this would make the impact analysis too complicated. In the Task Force's view, the selection of key changes for analysis (which could be one or more requirements) provides the most valuable information in the analysis.

PIOB Remarks

Mr. Hafeman thanked the Representatives for their preparation for the meeting and participation throughout. He noted the importance of the CAG from PIOB's standpoint, and that robust discussions such as those during this meeting give the PIOB comfort that the public interest is being served. He was pleased to note that most Representatives commented on a number of the projects, and noted that having these discussions with the CAG on complex matters such as the level of assurance can provide the IAASB with important feedback.

He supported the use of the CAG Working Groups as a means for having Representatives from the CAG develop a deeper understanding of the issues set forth in the IAASB agenda material. To the point raised earlier by Mr. Damant, he suggested that further consideration be given to how to make the CAG agenda papers more independent from the IAASB agenda papers to ensure that the Representatives have adequate information to consider. Mr. Damant agreed to discuss this with Staff to ensure an appropriate way forward for the March 2010 CAG meeting.

Regarding the election of the next CAG Chair, he was pleased to hear from the candidates and supported the use of two experienced Representatives as scrutineers. He noted that due to the timing of the planned vote, the PIOB would consider the approval of the elected candidate at its December 2009 meeting. At that meeting, the PIOB will also look at the proposed nominations for the PIACs, the PIOB budget, and the PIOB's self-assessment for the Monitoring Group.

Mr. Hafeman updated the Representatives on recent developments at the PIOB. He noted the appointment of Mr. Gonzalo Ramos as the new Secretary General of the PIOB. The PIOB is also currently recruiting a communications director and has recently published its fourth public report, focused on adoption and implementation. The PIOB has confirmed its view that it is appropriate for PIOB representatives to attend all public meetings of the PIACs and their CAGs.

It has also been proposed that the PIOB's oversight be extended to the International Public

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Sector Accounting Standards Board (IPSASB). In responding to a question from Ms. Koski-Grafer, Mr. Hafeman explained that the IPSASB Chair has discussed the matter with the PIOB and the possibility of doing so comes at a prudent time given the Monitoring Group's review of IFAC.

Closing

Mr. Damant and Prof. Schilder thanked the CAG Representatives for their contribution to the meeting. Mr. Damant noted that the next meeting is scheduled for March 1-2 in Barcelona, Spain.

Mr. Damant thanked Messrs. Schilder and Fogarty and the IAASB Task Force chairs for their contributions to the meeting.

Mr. Damant closed the meeting.