

IAASB CAG PAPER



International Federation of Accountants

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Agenda Item

B

Committee: IAASB Consultative Advisory Group

Meeting Location: London, United Kingdom

Meeting Date: September 14-15, 2010

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

[MARKED TO SHOW CHANGES RECEIVED FROM REPRESENTATIVES]

**Held on March 1-2, 2010
Barcelona, Spain**

PRESENT

Members

David Damant

Marc Pickeur

Kristian Koktvedgaard

Matthew Waldron

Jan Robberecht

Federico Diomeda

Georges Couvois

Hilde Blomme

Philip Johnson

Elena Lobanova

Dr. Obaïd Saïf Hamad Ali Al Zaabi

Paul Koster

Robert Roussey

Margie Bastolla

Wayne Upton

Sam Gutterman

Peter Windsor

Bengt Hallqvist

Koichiro Kuramochi

Allison Patti

Patricia Sucher

Filip Cassel

Frank Bollmann

Abdelilah Belatik

Rifaat Karim

Hayanari Uchino

Chair

Basel Committee on Banking Supervision

BUSINESSEUROPE

CFA Institute

European Commission

European Federation of Accountants and Auditors for SMEs

European Financial Executives Institutes

Fédération des Experts Comptables Européens

Fédération des Experts Comptables Européens

Graduate School of Financial Management

Gulf States Regulatory Authorities

Gulf States Regulatory Authorities

Information Systems Audit and Control Association

Institute of Internal Auditors

International Accounting Standards Board

International Actuarial Association

International Association of Insurance Supervisors

International Corporate Governance Network

International Organization of Securities Commissions

International Organization of Securities Commissions

International Organization of Securities Commissions

International Organization of Supreme Audit Institutions

International Valuation Standards Council

Islamic Financial Services Board

Islamic Financial Services Board

Japan Securities Dealers Association

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David Morris	North American Financial Executives Institutes
Yoseph Asmelash	United Nations Conference on Trade and Development
Simon Bradbury	World Bank
John Hegarty (March 2)	World Bank
Linda de Beer	World Federation of Exchanges
Thomas Krantz	World Federation of Exchanges

Observers

Ken Dakdduk (March 2)	International Ethics Standards Board for Accountants (IESBA) Chair
Martin Baumann [*]	U.S. Public Company Accounting Oversight Board
Giancarlo Attolini	IFAC SMP Committee

IAASB

Prof. Arnold Schilder	Chair
Diana Hillier	Deputy Chair
John Fogarty (March 2)	Member (via teleconference for Agenda Items E and F)
Cedric Gelard (March 2)	Member
Susan Jones (March 2)	Member (via teleconference for Agenda Item M)
Prof. William Kinney (March 1)	Member (via teleconference for Agenda Item G)
Dan Montgomery	Member
David Swanney (March 2)	Member

Public Interest Oversight Board

Susana Novoa and Aulana Peters

IFAC Staff

James Gunn	IAASB Technical Director
Kathleen Healy	IAASB Senior Technical Manager
Joanne Moores	IAASB Senior Technical Manager
Jan Munro	IESBA Deputy Director

APOLOGIES

Members

Conchita Manabat	Asian Financial Executives Institutes
Gerald Edwards	Financial Stability Board
Nelson Carvalho	Chairman of the Standards Advisory Council of the IASB
David Schraa	Institute of International Finance
George White	International Bar Association
Ajith Ratnayake	Sri Lanka Accounting and Auditing Standards Monitoring Board
John Carchrae	World Bank

^{*} 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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IFAC Staff

Jim Sylph

Executive Director, Professional Standards

MARCH 1, 2010¹

OPENING REMARKS

Mr. Damant welcomed the Representatives, including Ms. Bastolla, the new IIA representative, Mr. Couvois of the European Financial Executives Institute, and Mr. Windsor, participating on behalf of the International Association of Insurance Supervisors. He also welcomed Mmes. Peters and Novoa as the representatives of the Public Interest Oversight Board (PIOB) and International Ethics Standards Board for Accountants (IESBA) Chair Mr. Dakdduk. He noted with pleasure that many of the IAASB Task Force Chairs would be in attendance to present to the CAG, and welcomed Ms. Hillier as the new Deputy Chair of the IAASB.

MINUTES OF THE PREVIOUS MEETING

Mr. Damant confirmed that the minutes of the previous meeting reflected the comments received from the Representatives. Mr. Uchino proposed a change to designate Mr. Kuramochi as representing the Japanese Financial Services Agency at the September 2009 meeting. The minutes were approved as amended.

IAASB Strategy and Work Program, 2012-2014 (Agenda Item B)

To BRIEF CAG Representatives on the process to develop the IAASB's proposed strategy and work program from 2012-2014 and RECEIVE advice from the CAG Representatives on potential topics and projects that should be considered in this process.

Prof. Schilder introduced the topic, noting that the IAASB is beginning its process to consult on its 2012-2014 strategy and work program. He explained that the first step in the process is a public questionnaire, meant to explore in an open-ended manner what stakeholders believe the IAASB's future priorities should be. He noted that the IAASB will consider the draft questionnaire at its March 2010 meeting with the intent to issue it shortly thereafter. The responses to the questionnaire will be used as the basis for the draft consultation paper to be discussed by both the IAASB and the CAG in September 2010.

THE IAASB'S STRATEGIC FOCUS

Prof. Schilder noted the IAASB's current strategy and work program focuses on three areas:

- Development of standards, in particular with a focus on the effective operation of the world's capital markets, and the needs of small- and medium-sized entities (SMEs) and small and medium practices (SMPs);
- Monitoring and facilitating adoption of those standards; and

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

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- Responding to concerns about the implementation of the standards by activities designed to improve the consistency with which they are applied in practice.

Prof. Schilder explained that, while these focus areas are likely to still be appropriate, it will be necessary to confirm this in the consultation and determine what projects should be undertaken to best achieve the strategic focus.

The Representatives commented as follows:

- Mr. Krantz suggested that branding is important and that he was of the view that the IAASB brand/name is not well recognized and even confused with that of the International Accounting Standards Board (IASB). IFAC and the IAASB should do more to promote awareness of the activities of the IAASB and the PIOB, and reconsider the branding. Mr. Uchino suggested that finance ministers, at least those in Japan, do not have this level of understanding and their input should be drawn upon. Mr. Waldron suggested that webcasts and other public opportunities could be used to explain how the IAASB's strategy and work program might affect investors, similar to what is done by the IASB. Prof. Schilder noted this could be considered in the context of the questionnaire but also as a broader communication initiative.
- Mr. Gutterman commented that the phrase "development of standards" may imply that the IAASB will only develop new standards, whereas the IAASB also reviews and refines its existing standards for different applications.
- Mr. Krantz also suggested there may be a role for the CAG Member Organizations to assist in promoting the ISAs and ensuring they are being implemented to the greatest extent possible.

The Representatives also expressed specific views as to whether the use of the phrase "focus on the effective operation of the world's capital markets" was appropriate. In this regard:

- Mr. Krantz suggested that the IAASB should form a view whether it believes that auditing may be able to prevent future financial crises and strengthen financial reporting. He believed that users of the financial statements should have adequate information to allow them to establish a value at which to trade up or down. He also suggested that auditors may not have fully met their responsibility to identify going concern issues. In his view, he would prefer the audit function allow for more commentary on accounting estimates and variable outcomes to more fully inform investors about risks and uncertainties.
- Mr. Baumann noted that auditing does not aim to ensure markets are successful or not, or to prevent changes in the markets. He therefore did not support the use of that phrase because it implies more than what auditors are meant to do. In his view, auditing and financial reporting are intended to be neutral and report the facts so that investors can make informed decisions, with financial reporting giving access to the information and auditors giving credibility to it. Mr. Baumann believed the IAASB could further clarify what the role of auditors are in the capital markets, which in his view is to ensure that the market has reliable information in accordance with the accounting frameworks and report on whether information is fairly presented. He noted that it would be incorrect to suggest that auditors should have been

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examining the risk management of financial institutions to determine whether their levels of credit risk were acceptable, as this is not what auditors are meant to do at present. He cautioned that using this phrase may cause stakeholders to demand a much broader work program in seeking to change the direction of the profession.

- While Mr. Robberecht supported the view that auditors should be neutral, he was also of the view that auditors may need to ask themselves whether they could have done more in light of the financial crisis.
- Mr. Upton expressed the view that the alternative to neutrality is propaganda. He believed auditors had communicated issues to regulators during the financial crisis to give early warnings about concerns about the subprime mortgage industry in general.
- Mr. Koster did not agree auditing should be neutral and suggested auditors might play a greater role in raising warning signs to regulators and investors. In his view, auditors are less useful by not doing so. He suggested the IAASB's agenda might change to make a more forward looking effort of what the audit profession should do to make itself more valuable. Prof. Schilder noted his view that the audit profession alone cannot increase its relevance on its own.
- Ms. Sucher referred the Representatives to views from the Treasury Select Committee of Parliament discussing the role of audit in the financial crisis with auditors and audit regulators. She noted that in its view, if auditors believed they had done their jobs, then the role of the auditor might need to change to do more.
- Mr. Johnson expressed a concern that people view auditors as the point of last resort and expect auditors to be the ones to publicly highlight problems such as the financial crisis. He believed that there are learnings to be had by everyone involved in the financial crisis – management, preparers, governments, regulators, ratings agencies, and those charged with governance – rather than auditors alone.

STAKEHOLDERS TO BE CONSULTED

Prof. Schilder noted that the agenda material outlines the key stakeholders that would be approached for additional targeted consultations and asked the Representatives for their views on whether this list was complete. He noted the official views of the Member Organizations would be appreciated, through the multiple planned CAG discussions and formal responses to the public consultations. For this reason, most individual Member Organizations were not included on the list for targeted consultations.

The Representatives commented as follows:

- Mr. Hallqvist was of the view that it is first necessary to determine who the intended users of the auditor's report are, and who the ISAs are intended to cover. He believed that failing to define "users" brings a lack of focus in the standard-setting. He also suggested the International Corporate Governance Network (ICGN) should be formally consulted. Prof. Schilder suggested he could attend an ICGN Accounting & Auditing committee meeting.

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- Mr. Waldron noted that Member Organizations like the CFA Institute could promote the questionnaire to their members to increase the response rate. Mr. Asmelash suggested the United Nations Council on Trade and Development (UNCTAD) could raise the topic at its October 2010 annual meeting to involve its network of experts dealing with accounting and auditing issues.
- Mr. Upton noted the IASB has done a significant number of private outreach programs around the world to gather the views of analysts and others in its standard-setting process. He noted such an effort is costly and staff-intensive, and each IASB project has a full-time project manager.
- Mr. Robberecht suggested the IAASB should consult with the five investor groups who responded to the European Commission's (EC) public consultation on the adoption of the ISAs.
- Dr. Karim questioned to what extent the IAASB was involved with the Financial Stability Board (FSB). Prof. Schilder explained that the IAASB has sought to be more directly involved with the FSB and had formally communicated our work program to them late in 2009.
- Ms. Sucher suggested the IAASB could ask the IASB Standing Advisory Council to discuss the strategy and work program at a future meeting.

DETAILED COMMENTS ON THE QUESTIONNAIRE

- Mr. Bradbury suggested that the section on "Achieving the IAASB's Objective" should come before the section on "Adoption and Implementation."
- Mr. Gutterman questioned whether the questionnaire should make reference to convergence in addition to adoption and implementation.
- Mr. Gutterman also encouraged the IAASB to consider whether the questionnaire should give a more global view of what guidance developed by the IAASB is meant to do and the vehicles by which such guidance may be issued.
- Mr. Bradbury questioned whether it was necessary to issue both a questionnaire and the consultation paper in light of the time required to do so. Prof. Schilder noted the process had been determined with the PIOB, and, in his view, obtaining preliminary views before issuing a formal consultation paper assists the IAASB in developing a more refined proposal.

Prof. Schilder thanked the Representatives for their comments and noted the IAASB will consider them in finalizing the questionnaire and as the consultation process progresses.

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Using the Work of the Internal Audit Function – ISA 610 (Agenda Item C)

To DISCUSS matters highlighted by the Task Force or brought forward by CAG Representatives. Exposure draft planned for September 2010.

Ms. Hillier introduced the topic, noting that the CAG had discussed the IAASB's project to revise ISA 610 at its March and September 2009 meetings.

Ms. Hillier noted that the Task Force includes representatives from the Institute of Internal Auditors (IIA), the International Organization of Supreme Audit Institutions and the IESBA. She also noted that this project is being used to pilot the impact assessment tool, by including it in the explanatory memorandum of the exposure draft. She explained that the issues highlighted in the CAG Agenda Paper are those issues on which the impact analysis will be conducted.

INQUIRY OF THE INTERNAL AUDIT FUNCTION

Ms. Hillier noted that one of the key considerations of the Task Force has been to determine how the external auditor could best leverage the work of the internal auditor. The Task Force has proposed a requirement for the external auditor to make inquiries of the internal audit function as part of the procedures required in ISA 315.² The Task Force has also included application material to outline that the knowledge, experience and authority of such individuals are relevant considerations.

Ms. Hillier noted that guidance has also been provided to explain that, as a result of inquiries with the internal audit function, the external auditor may decide it would be useful to follow up by reading about certain of the findings in reports issued by the internal audit function.

The Representatives commented as follows:

- Ms. Bastolla noted the IIA supports the work that has been done to date and believes that the revised ISA more accurately reflects modern practices of internal auditors. She supported the new requirement for the auditor to make inquiries of the internal audit function and noted the Working Group was of the view that the emphasis in the guidance should be focused on reading *relevant* reports. Mr. Roussey supported this and noted that, in responding to inquiries from the external auditor, management of the internal audit function would likely suggest which reports may be relevant to the external auditor, especially those that deal with risks and uncertainties. Mr. Morris supported Mr. Roussey's point as it will assist the external auditor in limiting his review to reports on those activities of internal audit that are relevant to financial reporting.
- Mr. Morris suggested the wording of the requirement could be revised to not use the phrase "if present," when what is intended is that the requirement applies if the entity has an internal audit function. Mr. Diomeda noted that some SMEs may not believe the requirement is applicable if what constitutes an internal audit function is not well defined or may find the requirement onerous. Ms. Hillier noted that, after having considered the results of the inquiries, the external auditor may conclude that the work of the internal audit function is not

² ISA 315, *Understanding the Entity and Its Environment*

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relevant and would not be required to do anything further.

- Ms. Bastolla believed that the ISA should also steer the external auditor to consider what actions have been taken by management to respond to matters noted in internal auditors' reports.
- Mr. Krantz asked Ms. Hillier to confirm that the internal auditor cannot replace the external auditor in any circumstance. Ms. Hillier explained that the revised ISA notes circumstances where the external auditor can use the work of the internal auditor with appropriate support, validation and justification but the external auditor retains full responsibility for the audit.
- Mr. Hallqvist noted his view that best practice is for an independent audit function to directly report to the audit committee. In such cases, it is helpful for the external audit partner to participate in each audit committee meeting in order to be fully aware of the work of the internal auditor and vice versa.

USING THE WORK OF THE INTERNAL AUDIT FUNCTION

Ms. Hillier noted that the Task Force had worked to refine how an external auditor would conclude whether the work of the internal audit function is likely to be relevant for the purposes of the audit. She noted this consideration involves an understanding of the degree of objectivity of the internal audit function, its level of competence, and whether the internal audit function applies a systematic approach. Because of the range of possible internal audit functions that could be present in an entity, Ms. Hillier explained that it is important for the internal audit function to be distinguished from internal control. She noted the revised ISA explains to provide a framework for the external auditor's judgments as to how to use the work of the internal audit function.

The Representatives commented as follows:

- Ms. de Beer and Mr. Morris supported the changes that had been made to the ISA in this respect.
- Ms. de Beer was of the view that more could be done to bring in the linkage between the auditor's risk assessment and the auditor's consideration of whether to use the work of the internal audit function, suggesting that the external auditor may conclude it is inappropriate to use internal audit in areas of significant risk.
- Mr. Morris suggested the concept of whether the work of internal audit is relevant to the external audit should make reference to financial reporting. He also believed that the ISA should address knowledge of accounting as one of the factors in assessing the competency in internal audit, given the fact that many internal audit functions deal with more operational issues.
- Mr. Uchino noted that, in Japan, the internal audit function is considered to be part of the internal control over financial reporting. He suggested the ISAs could clarify the external auditor's evaluation of the degree of the internal auditor's objectivity, but acknowledged this is difficult for external auditors to do. Mr. Pickeur did not support requiring the auditor to

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judge the degree of objectivity of the internal auditor, provided that the external auditor was able to conclude the internal auditor was sufficiently objective and competent.

- Mr. Koster questioned the extent to which external auditors are used to provide the internal audit function for entities. Mr. Robberecht suggested this may impair the independence of the external auditor. Ms. Hillier suggested this would need to be considered in the context of the *Code of Ethics for Professional Accountants* developed by the IESBA (the IESBA Code).
- Mr. Koster also suggested that there would be implications for the audit when an external auditor cannot put confidence in an internal audit function in an entity of sufficient size.
- Mr. Roussey was of the view that the ISA was requiring the external auditor to assess the effectiveness in determining whether or not to use its work.
- Mr. Baumann expressed a concern that the ISA does not explicitly require the external auditor to re-perform work of the internal auditor in each instance of use, for example if the external auditor intended to rely on the work of internal auditor to support the existence of accounts receivable and the valuation of financial instruments. Ms. Hillier noted the external auditor's judgment of when to re-perform procedures would likely focus on the areas in which the internal auditor would have used more judgment and, in her view, the revised ISA would suggest that for an area like valuation of financial instruments it is likely that the auditor would not solely rely on the work of the internal audit function and would need to perform additional work. Mr. Baumann asked whether the decision to re-perform would change if the internal audit function had tested the existence of accounts receivable and the existence of inventory. Ms. Hillier explained that the external auditor's procedures are aimed at satisfying himself as to the adequacy of the work of the internal audit function as a whole, rather than re-performance on each piece of work the external auditor intends to use. Mr. Baumann suggested this is likely a difference between the ISAs and the PCAOB standards, as PCAOB standards require re-performance on each section of work for significant assertions. Ms. Hillier expressed the view that the ISA currently focuses on the judgment required to be exercised by the internal auditor rather than the risk. In her view, it is not appropriate to prohibit the external auditor from using work of internal auditor that may involve less judgment in an area that has been identified as a significant risk. Mr. Damant suggested that, if this is a difference in ISAs and PCAOB standards, this matter should be brought to the attention to the IAASB.
- Mr. Robberecht suggested that the use of the phrase "the more appropriate it would be for the external auditor to use the work of the internal audit function and in more areas" in paragraph A4a of the revised ISA may be seen as a requirement to use the work of the internal audit function.
- Ms. Sucher suggested that audit quality may be affected by overreliance on internal audit. In her view, one driver often cited for external auditors to use the work of the internal audit function is to offer savings on audit fees, and that there is competition between the audit firms to do so. Ms. Hillier noted the ISA does not cite cost savings as a reason to rely on the work of internal auditor and believed that the sliding scale concept illustrates how much work the external auditor needs to do to support its use of the internal audit function. For that

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reason, Ms. Hillier explained that the ISA does not require the external auditor to communicate to those charged with governance why (or why not) they are using the work of the internal audit function.

DIRECT ASSISTANCE

The Representatives commented as follows:

- Mr. Roussey suggested the indication that “work performed by internal auditors is presumed to provide less reliable evidence” in paragraph 4 of the revised ISA should be reconsidered in light of the fact that direct assistance is addressed in the ISAs, as he would question why the external auditor would use an internal auditor for direct assistance if this was the case. Ms. Hillier noted this phrase was used to indicate that the lack of independence would affect the reliability of the internal auditor’s work. Mr. Roussey suggested doing so at the beginning of the ISA was confusing but it was made clear later in the document. Mr. Pickeur supported this view, ~~noting that it would be useful for the external auditor to consider a sliding scale when evaluating the objectivity of internal audit.~~
- Ms. Bastolla supported the ISA addressing direct assistance; while the IIA does not believe this is the best use of internal auditors, in her view the ISA adequately addresses the circumstance without overemphasizing it.
- Mr. Johnson expressed his personal view that he did not support the use of internal auditors to provide direct assistance and questioned why the IAASB had agreed to address the matter in the ISA. Ms. Hillier explained that the use of internal auditors to provide direct assistance is common in many countries without negative effects on audit quality being noted. In her view, if the concept of direct assistance is not supported, she would question how the work of internal auditors could be used at all. Mr. Baumann supported Ms. Hillier’s view.
- Ms. Munro noted the IESBA is currently considering the issue of direct assistance. In her view, using internal auditors to provide direct assistance is similar to the considerations when an auditor uses an external expert – this individual is subject to increased supervision and review but is not considered to be a part of the engagement team. Mr. Baumann supported this view. Mr. Johnson did not support this analogy, as he was of the view that direct assistance places the internal auditor as an integral part of the team as a day-to-day resource.
- Mr. Gutterman also noted that large insurance companies in the US include actuaries as experts in their in-house internal audit functions.
- Ms. Sucher suggested that the impact analysis should explicitly ask about direct assistance, in particular as regards the perception of independence when direct assistance is used.

REPORT BACK

Mr. Damant drew attention to matters noted in the report back in the CAG agenda material. The Representatives had no comments.

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Research on Auditor's Reports (Agenda Item D)

To DISCUSS findings from four studies on users' perceptions about auditors' reports and other matters highlighted by the Task Force or brought forward by CAG Representatives.

Mr. Montgomery introduced the topic, noting that the IAASB Working Group had presented its report on the research studies carried out on the topic of user perceptions of the standard auditor's report at the IAASB meeting in December 2009. He explained the information considered by the Working Group to date, and noted the relevance of the IOSCO Consultation Paper on auditor communications issued in 2009.

Mr. Montgomery highlighted the key messages that the Working Group identified about user perceptions of auditor reporting from the set of information considered, and explained the Working Group's consideration of further actions needed to better understand the information needs of different types and classes of users and investor groups, as relevant to auditor reporting on financial statements. He noted that the IAASB's discussion of the Working Group's report in December 2009 had highlighted that:

- The auditor's report is valued by users of financial statements, even though users perceive that auditors' reports as they are currently provided have various shortcomings.
- The current model of auditor reporting has evolved over many years in response to environmental factors that have shaped the type of auditor's reports that we see today.
- There are different models of auditor reporting used in different countries (examples of auditor's reports used in the United Kingdom and Ireland, France and Japan were considered for the purpose of the IAASB discussion).
- The auditor's report is an integral part of the wider system that encompasses the role of the auditor and the auditor's report in financial reporting and corporate governance. For that reason changes to the auditor reporting model should be considered in that wider context.

The Representatives commented as follows:

- Mr. Damant explained the different perspectives of the financial and investment analyst users, who are predominantly focused on the determination of entity valuations, and investor users who have more focus on evaluating matters of corporate governance and compliance.
- Mr. Hallqvist mentioned that ICGN had formed a small committee to provide suggestions for the CAG focusing on a number of questions and issues, including:
 - Who are the users of the auditor's report? From the ICGN's perspective it is the owners of the entity, who also pay for the audit.
 - The auditor's report lacks focus because it is aimed at users more broadly: there are many different types of users of auditors' reports and the result is that the standard report cannot address their needs in a focused way.
 - A more focused style of auditor's report focused on the needs of owners as users should simply address the following key areas: whether the financial statements adequately

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describe the company and whether the report is qualified; whether there have been significant frauds; and whether the control environment is adequate.

- Mr. Waldron noted that auditor's reports are also about investor confidence, and commented that for enhanced usefulness auditors' reports need to have greater communicative value, for example in relation to risk, judgments, and materiality. Boilerplate content in the auditor's report is not read and does not provide useful information to enhance the credibility of financial reports.
- Mr. Krantz expressed the view that what is missing in the auditor's report are: information about judgments of the auditor; and a more coherent response to all kinds of constituencies. He noted that the current situation in relation to auditor reporting is not good for confidence. Mr. Kuramochi agreed noting the auditor needs to communicate with investors more clearly, including giving an explanation of what audit is and what process is followed in the audit to build their understanding.
- Mr. Koktvedgaard commented on behalf of the CAG Working Group on auditor reporting. He acknowledged that the debate on auditor reporting and auditor communications is very broad. Questions being raised in the context of auditor communications more broadly also point to the need to reflect on accounting frameworks, and whether some "expectations gap" issues are best addressed through changes to accounting frameworks. He explained that what is needed is for the auditor reporting model to develop more of a focus on who the relevant users of report are. He noted that in the accounting standards model there is extensive attention and explanation about types of users who are viewed as primary users of financial statements and other users. The benefit of this approach is that the report can be developed with greater focus on responding to needs of primary users of the auditor's report. Mr. Koktvedgaard also noted that there are strong perceptions that the auditor's report says more about what the auditor did not or could not do than what the auditor did accomplish – it is full of reservations. He believes the report should have a more positive tone, focusing on what he auditor accomplished in the audit performed, and more disclosure, with consideration of the cost thereof.
- Mr. Upton commented that the problem of promoting understanding of what the auditor does, and what the auditor does not do in the audit of financial statements is not a new problem, and that perhaps the solution is a strategy of ongoing communication about the financial statement audit – where that communication also being done outside of the auditor's report. Ms. Blomme noted that there are many ongoing expectation gap issues that need to be addressed. For example in relation to increasing demands for information about entities from investors and other users, the auditor should not be expected to step into the shoes of the entity and start reporting on things the entity should be reporting. Mr. Cassel also expressed caution about moving too quickly towards considering how to extend auditor reporting to provide more information. Consideration of the need for greater transparency in sharing relevant information with users needs to be done while also paying attention to the environment of the legal infrastructure surrounding information disclosure, particularly as it relates to issuers, and public entities vs. private entities. Auditors will need guidance about

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how they may be able to provide more information, or enhance the communicative value of their reports, without breaching legal principles and requirements.

- Mr. Pickeur emphasized the need to maintain a proper balance in auditor communication, also with regulators, and auditor reporting. On the subject of financial information disclosures, which are increasing important in the context of financial statement note disclosures, he noted that financial statement disclosures are sometimes written by lawyers instead of accountants, and increasingly these disclosures are becoming quite complex. Auditors should look into the disclosures and perhaps what might be open for discussion is better use of emphasis of matter paragraphs in the auditor's report. Consideration of legal issues is also very important, and it is very difficult for an auditor to put into a report something that his colleague is not putting into the report. Auditors need legal protection to be able to extend the content of auditors' reports. Mr. Johnson agreed that the increasing complexity of information disclosures in financial statements means that often users do not read the note disclosures.
- Ms. Sucher expressed the view that there is risk in moving too quickly to try to change the auditor's report. What is important is to stand back and consider what is new in the current environment. Certainly the current approach to reporting accounting estimates is very new and different from financial reporting in earlier times, and for these the pass/fail model of auditor reporting currently may not be sufficient. Mr. Gutterman agreed.
- Mr. Krantz noted that the auditor reporting model needs to be able to better reflect the existence of the uncertainties that exists in financial information and related disclosures, and expressed support for the auditor reporting model used in France. Mr. Roussey agreed, saying that the auditor is in a new world, and auditor assurance on the level of reliability of the financial information contained within the financial statements – particularly financial statement risks – needs to take account of user preferences to be able to read the auditor's report with regard to the risks facing a company. Boilerplate style reporting will not be read. Perhaps risks reflected in financial statement need to be addressed in the same way as going concern issues are addressed by auditors. The auditor needs to take a look at the large risks in the financial statements, and possibly there may be scope for including a fourth paragraph in the auditor's report that just focuses on addressing and reporting on those risks. Mr. Koster agreed.
- Mr. Morris drew attention to the different environment of public and private entities, noting that many of the comments made were appropriate for public entities. However, with private entities, users' information disclosure and auditor reporting needs are different, and when consideration is being given to the need for more information in the auditor's report the public/private distinction needs to be borne in mind. For example, is a separate type of audit opinion needed when the only type of user will be the entity's owner(s)? For preparers, the cost of reporting as a public entity is great, and preparers would not themselves opt for more extensive reporting. Entities that choose to operate as private entities have the benefit of reduced mandatory information disclosures, and auditor reporting in the private entity environment needs to be reflective of that user environment.

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- Mr. Attolini commented on behalf of the IFAC SMP Committee, and noted how strongly the views expressed by representatives reflected the perspectives of large entities that operate in regulated financial markets. He emphasized the relative importance and collective economic contributions of small and medium entities in the economies of most countries. He agreed with the point made by Mr. Morris that the more emphasis is placed on information disclosure and reporting thereon, the more complex and costly financial reporting becomes. Smaller entities do not need this, and in considering the need to provide of additional disclosures and reporting (by the entity or by the auditor), it should be borne in mind that only entities that really can use the additional information and reporting should be required to provide it.

Mr. Montgomery summarized the key points communicated by Representatives in the discussion, and thanked them for their insightful comments. He noted that the Working Group's efforts going forward will focused on working collaboratively with different types of user groups to better understand their needs in auditor reporting and how those needs can be addressed.

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

To UPDATE CAG Representatives on the IAASB's initiative.

Ms. Hillier introduced the topic. She explained that the IAASB's liaison initiative with the IASB has two strands, the first being to monitor IASB projects to understand issues where there are problems around auditability or verifiability. The second aspect of the work is to understand, based on analysis of observed trends in the development of financial reporting standards and results of monitoring individual standard-setting projects, where there may be larger issues from the audit perspective.

Ms. Hillier noted that some of the IASB projects being monitored by various IAASB working groups are: use of fair value and financial instruments; loss measurement; the XBRL initiative; lease accounting; and measurement of liabilities. She noted that among the important trends observed are:

- The pace and complexity of changes being made in financial reporting stages, and there is a strong view that there is a need for a period of stability to absorb these changes.
- The increasing use of fair values and the need to use experts, including use of experts by auditors.
- The need to look at financial statement disclosures more carefully, both in the context of preparers when they develop disclosure information and auditors who need to properly audit those disclosures.
- The balance between the concepts of relevance and reliability. Investors want relevant information, but a question arises about how concerned investors are about the reliability of information provided in financial statements. There are significant impacts for auditors in that regard.

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Mr. Upton noted that the IASB has appointed a Board member to lead IASB liaison with the IAASB. He agreed there is need to focus more attention on financial statement disclosures, and that there is a general concern about maintaining quality in such disclosures. He noted that a challenging issue is the assessment of materiality in the context of disclosure, and articulating what materiality means in that context. Mr. Baumann agreed, noting that there is so much information reported in notes to financial statements but auditors do not have a way to approach materiality for disclosures and auditors' responsibilities concerning disclosures also need to be clearer. He noted also that the auditor reporting model is also linked into the financial reporting and disclosure models, and should not be considered in isolation.

Mr. Waldron noted that the incoming revised accounting standards can be expected to have a significant impact on auditors, and expressed support for the direction the IAASB is taking. He noted that the CFA Institute is also developing a disclosure framework similar to development of the comprehensive income disclosure model. Mr. Koltvedgaard agreed that the disclosure project is extremely important, stating that disclosures need to be properly focused as excessive information is unhelpful and is not read. Mr. Kuramochi noted that there is a significant public interest element in the liaison being done between the IAASB and the IASB.

Regarding financial reporting in XBRL, Mr. Koltvedgaard and Mr. Gutterman mentioned that there are significant challenges, including challenges for auditors in that area, for example in preserving proper communication of meaning when using disaggregated information and in meeting the demand for competencies needed to compile or produce financial statements in XBRL. Mr. Johnson noted that there are also ethical issues that auditors will need to consider.

XBRL (Agenda Item G)

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

Mr. Verkruijsse introduced the topic in his capacity as a member of the IAASB Task Force that is examining the assurance implications of financial reporting in XBRL. He provided a presentation to Representatives summarizing the current landscape for development of financial reporting in XBRL, and also gave an overview of the Task Force's work done since the last discussion of this topic by the CAG in September 2009.

Mr. Johnson outlined the approach that has been taken by FEE regarding the development of XBRL reporting, which has been driven by the recognition that XBRL is here to stay. He noted that FEE's efforts have been mainly directed at demystifying XBRL as a new type of "financial reporting language," and FEE publications on XBRL largely aim to build greater awareness of how XBRL is used in financial reporting. While the main focus has been on the preparers of financial statements, consideration has also been given to impacts of XBRL for users, auditors and accountancy practitioners more widely.

Mr. Verkruijsse mentioned that a research project co-sponsored by the Association of Chartered Certified Accountants (ACCA) in the United Kingdom and the International Association for Accounting Education and Research (IAAER) is being undertaken at present, which focuses on

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the implications of XBRL for audits of, or other assurance services on, financial statements. This research will also take account of the impacts on preparers and users of financial statements, including financial analysts. The completed research is expected to be available in two years time.

The Representatives commented as follows:

- Mr. Koktvedgaard suggested an emphasis on preparer and user needs would be appropriate. In his view, many SMEs are unsure of whether they will be able to prepare XBRL-tagged data and may request the auditor to do so on their behalf. He recognized this may have implications under the IESBA Code, but noted auditors in Denmark are assisting clients with XBRL. Mr. Johnson agreed, noting education and training of preparers is important, in particular in relation to which taxonomies to use and whether extensions to these taxonomies are appropriate. He also noted that auditors in the UK dealing with the mandatory filing of their clients' tax returns are exploring what services they can provide. Mr. Krantz also noted that he had been in touch with the IASB to understand the software technologies available to preparers.
- Mr. Koktvedgaard questioned what financial statements would be presented at the general assembly when XBRL is used. Mr. Johnson noted that, to the best of his knowledge, current uses of XBRL are in addition to paper-based financial statements, on which the auditor reports. In his view, this is likely to continue for the foreseeable future, although there is an increasing demand for financial information presented in a different way that might affect the environment in the next 4-5 years. Mr. Verkruijsse described an assurance report issued on XBRL financial statements in the Netherlands, noted it raised questions about what form and level of assurance users might demand in the future.
- Mr. Gutterman expressed a concern that users of financial information would lose important context as the amount of data they can separately access expands. In his view, the meaning of the interactions between financial statement items should not be lost. Mr. Damant noted the importance of educating users of XBRL-tagged data about the limits of its use.

Assurance Engagements Other than Audits or Reviews of Historical Financial Information (Agenda Item H) – ISAE 3000

To DISCUSS matters highlighted by the Task Force or brought forward by CAG Representatives. Exposure draft planned for September 2010.

Ms. Hillier introduced the topic, and the Task Force Chairman, Prof. Kinney, joined the discussion by teleconference. Ms. Hiller explained the Task Force's perspectives on the approach to the revision of ISAE 3000, including the Task Force's intention to clarify a number of misconceptions that surround engagements undertaken with different levels of assurance. She noted that the Task Force's intention is to develop the revised ISAE 3000 based on the existing ISAE 3000 and the assurance concepts and principles that are currently embodied in the *International Framework for Assurance Engagements*.

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Prof. Kinney highlighted the Task Force's efforts to further clarifying the direct reporting engagement. He noted that direct reporting engagements have been performed somewhat differently in engagements undertaken in the public sector and the private sector environment, and that the Task Force has been working to resolve differences in application.

The Representatives commented as follows:

- Mr. Diomeda noted that ISAE 3000 is a very useful standard. He commented that clarification of various conceptual questions surrounding engagements predicated on either reasonable or limited assurance will be helpful, and will assist further application of ISAEs in assurance engagements performed on different types of subject matter or subject matter information.
- Mr. Attolini provided comments from the IFAC SMP Committee, noting that it will be important to keep the revised ISAE 3000 principles-based and also as broad as possible to be able to be applied to many different types of subject matter or subject matter information.
- Ms. Sucher and Ms. Blomme commented that the clarification of misconceptions as described in the agenda material is very welcome, as those misconceptions do exist and they have been evident in assurance engagements undertaken in different environments. Further guidance and clarifications to clear those misconceptions up will be very helpful.

Presentation by Dr. Rifaat Ahmed Abdel Karim, Islamic Financial Services Board – “The Influence of Islamic Finance on the Auditing Process” (Agenda Item I)

To RECEIVE a presentation.

The Representatives received a presentation from Dr. Rifaat Ahmed Abdel Karim. A copy of this presentation is attached as an Appendix to these minutes.

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Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus (Agenda Item K)

To DISCUSS matters highlighted by the Task Force or brought forward by CAG Representatives. Exposure draft planned for March 2010.

Mr. Damant welcomed Mr. Swanney, Chair of the IAASB Pro Forma Financial Information Task Force. Mr. Swanney introduced the topic, summarizing the discussions of the IAASB and CAG to date. He explained the main issues on which Representatives' views are sought, and indicated that the IAASB will be asked to approve the draft for exposure at its March meeting.

SCOPE AND GLOBAL APPLICABILITY OF THE STANDARD

The Representatives commented as follows:

- Ms. Blomme noted that the majority FEE view supports the proposed scope of the standard;

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that is, assurance on the process to compile pro forma financial information. She also noted that in general the majority FEE view is that the standard would have broad, global applicability. She explained that the minority view is that the standard should address the two engagement approaches that may be taken to assurance on pro forma financial information: one dealing with the process of compilation, as addressed by the proposed standard; and the other dealing with assurance on the final pro forma figures themselves. Mr. Swanney noted that the focus of the standard on the process of compilation is consistent with the original direction for the project agreed by the IAASB. He also noted that a standard on final pro forma figures would be an entirely different standard, with different work effort and reporting considerations, and based on different research by the Task Force.

- Mms. Blomme, ~~and~~ Sucher, ~~and de Beer~~ noted that the scope should not be seen as applicable only to practitioners in the European Union (EU). Rather, it is a globally standard applicable to any practitioner around the world that wants to perform engagements relative to an EU transaction, which is a not insignificant prospect given the relative size of EU trading block.
- While noting that IOSCO has not had the time to formulate a view, Ms. Sucher indicated support for the scope of the proposed standard. She noted that the approach taken by the Task Force is a meaningful initial step in this multi-faceted area. She found it helpful that the proposed standard now better clarifies its intended scope.
- Mr. Robberecht expressed support for the project, provided the scope of the final standard is applicable in the EU. Ms. de Beer also expressed support for the scope of the standard, noting that the proposals of the Task Force should address the scope required to be addressed in terms of other jurisdictions, including South Africa, that have requirements similar to that of the EU.

~~are generally consistent with the principles in related standards in South Africa.~~

FOCUS OF THE PROPOSED STANDARD – REPORTING ON THE PROCESS VS. PFI

The Representatives commented as follows:

- Mr. Damant supported the logic of the Task Force's proposal to provide two alternative wordings for the opinion in the practitioner's report based on the equivalency of meaning between the term "properly compiled" and the phrase "the process to compile the PFI has, in all material respects, been applied in accordance with the applicable criteria."
- Prof. Schilder also indicated support for the proposal, noting that the two alternatives are likely to be helpful, and balances the need for global applicability of the standard with the need to maintain compatibility with existing regulatory requirements in many jurisdictions.

PRACTITIONER'S RESPONSIBILITIES REGARDING COLUMN 1

The Representatives commented as follows:

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- Ms. Blomme noted that the majority FEE view supports the Task Force’s proposals, and that the CAG Working Group has no fundamental objection. She indicated that the proposed approach is logical on the basis of the proposed scope of the standard.

USE OF THE TERM “COMPILATION”

The Representatives had no comments.

SUBSEQUENT EVENTS

The Representatives commented as follows:

- Mr. Damant noted that in his view the proposal of the task force is logical.
- While agreeing that the obligations on the practitioner cannot be to search for subsequent events that may have affect on the pro forma financial information, Ms. Sucher was of the view that the Task Force should consider additional wording to encourage the practitioner to remain alert for subsequent events that may result on misleading information, and to take appropriate actions in such cases.
- Mr. Kuramochi was of the view that it will be very important to obtain views of the user of pro forma reports. While pro forma financial information may be widely accepted in the EU and other jurisdictions, it is not common in Japan. As such, there is a risk that confusion arises about the nature of such an engagement, and thus an expectations gap. He suggested that the explanatory memorandum of the exposure draft should explain the anticipated impact of the proposals on users, and that it should draw attention to the proposed illustrative practitioner’s report. He also suggested that the explanatory memorandum in the exposure draft include a general question on whether users find the report meaningful and understandable for their perspective. Further, he suggested that a specific question be included pertaining to what work effort users believe should be applied to the unadjusted financial information (i.e., column 1 figures). Prof. Schilder agreed that consideration should be given to what can be done to increase input from the user community. Mr. Kuramochi indicated that he would be interested in knowing how many users respond to the exposure draft.
- Mr. Damant noted that the nature of the standard is such that it is susceptible to pervasive misunderstanding, including for example: the degree of work performed on the unadjusted financial information (i.e., column 1 figures); the practitioner’s responsibilities relating to subsequent events; the meaning of “proper compilation;” etc. He suggested that these and related matters be emphasized in the explanatory memorandum accompanying the exposure draft. Mr. Swanney noted that the Task Force’s intention is to include specific questions in the explanatory memorandum around the more contentious issues.
- Mr. Koktvedgaard was of the view that the illustrative report is somewhat difficult to follow. He suggested that the list of procedures performed by the practitioner be presented in bullet form, to improve readability.

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REPORT BACK

Mr. Swanney drew attention to matters noted in the report back in the CAG agenda material. The Representatives had no comments.

Joint Session of the IAASB and IESBA CAGs –Role of the CAGs and IAASB/IESBA-CAGs Interaction (Agenda Item O)

To RECEIVE a presentation on the CAGs and their interaction with the IAASB and IESBA.

Mr. Damant introduced the topic, noted that there are two objectives for the session. The first, which he will address, is to review with the Representatives the role of the IAASB CAG³ in general, recognizing the number of new Representatives that have joined the CAG over the last few meetings. The second objective, which will be handled by Ms. de Beer and Mr. Gunn, is to review with the Representatives the amended due process to be followed by the IAASB as it develops its international pronouncements, with particular attention to the required interaction between the IAASB, the CAG and the PIOB.

Regarding to the latter, Mr. Damant noted that, with the exception of a new working procedure to assist the CAG Chair in advising the PIOB as to the CAG Chair's view as to whether due process relating to the IAASB's interaction with the CAG has been followed effectively, which is an existing responsibility of the CAG Chair, the amended due process largely codifies existing practices and does not introduce significant change to how the CAG operates at present. The new working procedure, however, is designed to see that the CAG Chair adequately engages Representatives on matters of CAG-related due process (i.e., due process relating to the IAASB interaction with the CAG in the development of a pronouncement) as input to the CAG Chair's advice to the PIOB. The central matter therefore is how to operationalize the new working procedure, in particular the type of supporting documentation, if any, that should be provided to the Representatives about compliance by the IAASB with its required interactions with the CAG, and the specific arrangements for CAG discussion thereon.

ROLE OF CAGS

Mr. Damant gave a brief overview of the role of the IAASB CAG, referencing the amended CAG Terms of Reference in Agenda Item O.1 as provisionally approved by the PIOB, and the IFAC Oversight and Organization Chart in Agenda Item O.2 which sets out the position of the CAG within the broader oversight structure of the PIOB and IFAC. He noted that while there is a minor amendment to the CAG Terms of Reference to clarify the responsibility of the CAG Chair (or designee) to attend IAASB meetings as an observer, there has been no change to the objective and scope of the CAG's activities, being to provide advice to the IAASB on its agenda and work program, and technical advice on its projects. As has been the case since the inception of the CAG, the technical content of the standards remains the responsibility of the IAASB.

³ Mr. Damant noted that for purposes of this session, reference is made only to the IAASB CAG and IAASB for convenience. The principles of discussion are however applicable to each of the Public Interest Activities Committees (which includes the IAASB and the IESBA) and their CAGs for which the due process requirements outlined in the related Agenda Item apply.

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Mr. Damant also noted a number of enhancements to the operations of the CAG. These included efforts to ensure that the CAG's composition has the appropriate balance of geographical and stakeholder representation, efforts to arrange for Task Force Chairs' attendance at CAG meeting at which their projects are discussed, and the establishment of the "report back" process which results in a rolling-check on whether significant comments received through the consultation with the CAG during the development of a draft international pronouncement have been brought to the IAASB's attention.

The Representatives commented as follows:

- Mr. Koktvedgaard supported attendance by Task Force Chairs at CAG meetings, noting that this contributes to the quality of discussions.
- Mr. Krantz was of the view that the IFAC Oversight and Organizational Chart could be simplified to explain to the public how IFAC works.
- Mr. Koster suggested the IAASB should consider whether its work is being internationally recognized or whether more could be done to increase the visibility of the IAASB with bodies such as the Financial Stability Board. Mr. Damant suggested this was a matter for the IAASB to consider in a wider context than the CAG. Prof. Schilder agreed that this is an ongoing consideration of the IAASB.

CAG-RELATED DUE PROCESS AND WORKING PROCEDURES

Mr. Gunn briefed the Representatives on the key elements of the IAASB's due process, as summarized in Appendix 1 of Agenda Item O. He then highlighted in particular the provisions of due process and working procedures related to the required interaction by the IAASB with the CAG, as including in Appendix 2 to of Agenda Item O. These provisions reflect the final amended version of the Public Interest Activity Committees' (PIAC) Due Process and Working Procedures submitted to the PIOB for approval as a result of the IFAC triennial review of these documents and as previously discussed with the CAG in 2008. These provisions include the following:

- Ensuring that all stages of development of a pronouncement setting project are taken through the CAG to provide an opportunity for issues to be exposed and insights to be gathered.
- Tracking that CAG comments are aired with the IAASB and monitoring the report back process. This does not mean that all CAG comments must be taken on board by the IAASB, but that comments must at least be considered.
- Reporting on compliance with CAG-related due process, which deals only with the question of whether the required IAASB interactions with the CAG in the development of an international pronouncement have been followed effectively.

Mr. Gunn noted that consistent with its mandate and current practice, the CAG is not asked to approve the content of an IAASB pronouncement, including the disposition of comments debated but not accepted by the IAASB, and that the responsibility for the content of the final pronouncements remains with the IAASB. He further noted that due process is ultimately judged and evaluated by the PIOB, not the IAASB or the CAG.

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Ms. de Beer drew the CAG's attention to the new working procedure to which Mr. Damant referred to in his opening remarks. She explained that up until now the CAG Chair has had the responsibility of advising the PIOB, from the point of view of the CAG, whether CAG-related due process (i.e., due process relating to the IAASB interaction with the CAG in the development of a pronouncement) has been followed effectively. Going forward, however, in addition to the current "report back" process which result in a rolling-check on whether significant comments received through the consultation with the PIAC's CAG have been brought to the PIAC's attention, it is now provided for that on the occasion on which the CAG plans to discuss a draft pronouncement for the last time before it goes to the IAASB for final approval, the CAG will be asked to advise, based on appropriate documentation, whether it is satisfied that the IAASB has consulted it on, and has considered its comments in relation to, the development and finalization of the pronouncement. She emphasized that the CAG is not being asked to conclude formally or sign-off on the due process in so far as the CAG is concerned, as the PIOB receives input from others in this consideration.

Ms. de Beer noted that it will be important for the Representatives to consider from a procedural point of view what information they would need to be able to advise the CAG Chair of their views as to how CAG-related due process (i.e., due process relating to the IAASB interaction with the CAG in the development of a pronouncement) had been followed. She referred the CAG to Appendix 3 of Agenda Item O – a checklist tool for inclusion in CAG agenda material at key stages that provides a snapshot of the history of IAASB-CAG interactions on a particular project – as an example of what could be provided. Mr. Gunn noted that the aim of providing such a checklist at key stages in the life of a project is to ensure the CAG has the opportunity to see how CAG-related due process (i.e., due process relating to the IAASB interaction with the CAG in the development of a pronouncement) on particular projects is developing and to allow the CAG to raise any issues earlier than at the end of a project. He explained that it is envisioned that there would be specific inquiry of the CAG as a whole as to whether it has any objection to the assertion that CAG-related due process (i.e., due process relating to the IAASB interaction with the CAG in the development of a pronouncement) has been followed. Then, as explained in the due process and the related working procedures document, the CAG Chair and staff would act to consider the matter and advise the PIOB on whether due process has been followed effectively.

The Representatives commented as follows:

- Mr. Krantz questioned why these additional steps were necessary, in light of the support already offered from the World Federation of Exchanges and others for the processes undertaken by IFAC to work with public oversight and accountability.
- Ms. Sucher was of the view that this change could require a fair amount of additional work for the CAG Representatives to review the Report Backs. She was also unsure whether the CAG would be in a position to comment whether due process has been followed "effectively," if such were to extend to the technical merits of particular standards. She suggested IOSCO may have further points to raise with the CAG and IAASB in this regard.
- Ms. Sucher was also of the view that the change might result in the perception that the role of the CAG has changed. In her view, there are limitations to what the CAG can achieve and the

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CAG's role has never been to assess due process; rather, it is only one part of the broader consultations required by the IAASB in the public interest. Given the frequency of meetings and the high volume of agenda material, the role of the CAG should not be overstated. Mr. Pickeur agreed, noting his view that the comment letters sent by the Member Organizations and others reflect more in-depth views and consultations than what is possible to convey during a CAG meeting.

- Mr. Koktvedgaard noted the view that it is difficult for the CAG to be in a position to comment if the IAASB took into account its final comments without reviewing IAASB minutes, and believed that the CAG should be able to rely on the Chair in such circumstances. Because the Chair has privilege of the floor at IAASB meetings, he believed the Chair should ensure the IAASB considers the matters discussed at the CAG meetings prior to approval. In this regard, Ms. Patti questioned how the CAG's comments are communicated to the IAASB in light of the short period of time between CAG and IAASB meetings. Mr. Gunn responded that key points raised by the CAG are communicated orally by the Task Force chairs, who now ordinarily attend the CAG meetings at which their projects are discussed, and detailed minutes are shared with the Task Forces for their consideration and report back. Prof. Schilder also noted that he, the Deputy Chair, and the CAG Chair supplement the discussion where necessary to ensure the main points of CAG debate are raised with the IAASB.
- Mr. Gutterman questioned whether this additional step would require the CAG to vote. Mr. Damant was of the view that this would not be necessary based on the CAG's experiences to date. Mr. Baumann was of the view that it was important the CAG, which does not vote on matters, to not be seen as approving the standards by way of this proposed arrangement. Mr. Gunn reiterated that the CAG's Terms of Reference indicate its role is to provide advice to the IAASB; the technical content of the standards remains the responsibility of the IAASB. Ms. de Beer reiterated that it is envisioned that there would be specific enquiry of the CAG as a whole as to whether it has any objection to the assertion that CAG-related due process (i.e., due process relating to the IAASB interaction with the CAG in the development of a pronouncement) has been followed as input to the CAG Chair's report to the PIOB, and that due process is to be judged and evaluated by the PIOB, not the IAASB or the CAG.

Ms. Peters expressed her personal view that some of the discussion indicated concern with the label of "due process" and the inference that the CAG would be asked to form a definitive view on the matter. She explained that, in reaching a conclusion as to whether due process has been followed effectively in the development of a standard, the PIOB consider the comments received from stakeholders to exposure drafts, the Staff-prepared Basis for Conclusions documents that illustrate how these comments have been taken into account, and review of the IAASB staff-prepared due process checklists. In asking the CAG Chair to comment on due process, the PIOB is not asking for views on the content of the standards themselves. In considering whether due process has been followed, her view is to determine whether there has been fairness, openness and transparency at every stage of the IAASB and CAG discussions.

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OTHER MATTERS

The Representatives commented as follows on other matters pertaining to IAASB due process:

- Mr. Krantz suggested that more needed to be included in the due process to accelerate the IAASB's consideration of issues in emergency situations.
- Ms. Sucher noted there is often not sufficient time for the Representatives to fully consult with their Member Organizations on the agenda papers for CAG meetings. Mr. Robberecht suggested that, for items up for approval, it may be necessary to accelerate the timing of the agenda material. Mr. Damant was of the view that this is often mitigated by the fact that topics are discussed on a number of occasions. Mr. Gutterman agreed, noting that the CAG seeks to highlight any issues with a standard early in its development to the extent possible.
- Mr. Kuramochi noted the importance of receiving comment letters from a wide variety of stakeholders, and suggested the IAASB consider how it could encourage more preparers and users to respond to the IAASB's exposure drafts. In his view, exposure drafts could seek to educate preparers and users about the impact of new standards on them. Mr. Gunn noted that the IAASB does take steps to target certain groups as necessary to ensure feedback is received on key matters, and that the matter of enhanced outreach to particular stakeholders and users in general is an ongoing consideration of the IAASB and staff. He also noted that the IAASB considers the possibility of having roundtables and other consultations to solicit broader feedback if the IAASB does not believe it has received sufficient input into the development of a particular standard.

Revisions to Review and Compilation Standards – ISRE 2400 and ISRS 4410 (Agenda Item M)

<i>To DISCUSS matters highlighted by the Task Force or brought forward by CAG Representatives.</i>
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Ms. Jones, participating via teleconference, introduced the topic and described the Task Force's activities on the project since the last discussion of the topic at the September CAG meeting. Mr. Johnson commented favourably on the report back contained in the CAG agenda paper responding to the CAG's comments from the September 2009 discussion.

REVIEW ENGAGEMENTS

The Representatives commented as follows:

- Regarding review reports, Mr. Koktvedgaard described the concern expressed by the CAG working group members that, notwithstanding the clear rationale the Task Force has applied in connection with the proposed continued use of the negative expression of the practitioner's conclusion, rather than a positive expression of the conclusion, the review report may not be understood by users of financial statements. If this is so, then it is likely that users and regulators who mandate use of assurance services in certain financial reporting contexts will continue to request audits rather than reviews. It is very important that the report provided for the engagement should describe what a review is, as a type of assurance engagement that is

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distinct from an audit, rather than what it is not. The report should clearly communicate what is being provided for the benefit of the users of the report. Mr. Pickeur agreed, saying that the report needs to clearly describe what has been done in the engagement and noted that since the term “limited assurance” is not able to be clearly defined the more promising route is to simply describe within the report what has been done in the engagement and the practitioner’s conclusion based on the results obtained from that. Mr. Koktvedgaard requested the Task Force to consider including in the Explanatory Memorandum accompanying the Exposure Draft containing the proposed revised standard, a separate question that asks respondents to provide comment on whether the review report containing the negatively expressed conclusion is intelligible to users of the financial statements and accompanying practitioner’s report. Obtaining wider feedback on this issue is an important aspect of the finalization of the revised standard. Prof. Schilder agreed that this approach would be beneficial and encouraged the Task Force to do that.

- Prof. Schilder noted that the Task Force has made a serious attempt to more positively describe the review engagement, in terms of describing the point a practitioner must reach to be able to conclude on the financial statements without modifications. He inquired whether the Task Force’s suggested term “worthy of belief” is appropriate for communicating that. Ms. Sucher supported the Task Force’s view that references to limited assurance are not useful, but thought that the words “credible” or “plausible” would be preferable. Mr. Bradbury also supported use of “plausible,” and did not consider use of “worthy of belief” appropriate.
- Mr. Attolini expressed the view that the IFAC SMP Committee sees the review as an assurance product that can be specifically addressed to small and medium entities. They can be very successful and seem to have particular appeal for banks, who use them instead of requiring audits which can be very costly. In view of the attribute that reviews are intended to have of being relatively cost-effective, he encouraged the Task Force to develop the revised review standard without requiring performance of excessive procedures which would undermine the realization of the relative advantages of the review engagement. He emphasized that markets really need a clear alternative type of assurance service for audit-exempt entities.
- Mr. Johnson supported the Task Force’s proposed direction, saying he was pleased with the way issues are being dealt with in the draft standard so far and supported the Task Force’s rationale for continuing to use the negative form of expression of the conclusion. He noted, as a general concern, that while the cost-effectiveness of reviews is a clear distinguishing factor, the differences between reviews and audits need to be very apparent to users as you would not want confusion in the market for assurance services, for example where users would like to be able to use reviews when they really should be requesting audits. He noted that there are greater risks in doing reviews rather than audits, and around 95% of companies in the UK are in the “audit-exempt” category. Reviews would become especially important in the context of SMEs when raising money, if users including lenders perceive them as a way to reduce lending risk relative to lending on the basis of unaudited financial information.

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- Mr. Baumann noted the risk there is in promoting use of reviews, which could undermine the demand for audits based on confusion about what each engagement delivers, and said there are likely to be significant user expectations gaps surrounding reviews.
- Mr. Diomeda expressed the CAG working group's hope that reviews will be able to become established as a useful new form of assurance. He strongly supported the Task Force's approach of establishing the requirement for obtaining knowledge and understanding of the entity separately in the standard from the requirements concerning the performance of review procedures, because that presentation of the requirements results in better clarity on what is a key element of the review engagement.

There was a discussion of what the practitioner's response when the practitioner is unable to complete the review, for example when unable to obtain sufficient appropriate evidence as to whether or not the financial statements are likely to be materially misstated and as to whether the practitioner should then withdraw from the engagement or provide a report noting that the engagement was not able to be completed. The Representatives commented as follows:

- Mr. Johnson expressed the view that the practitioner has been engaged to report, and so should report explaining that the engagement has not been completed and why.
- Ms. de Beer noted that in some countries reviews will be mandated under applicable laws and regulations, and the practitioner will not be able to withdraw without providing a report.
- Mr. Upton explained that there are some circumstances where withdrawal is appropriate and that it should be an option available to the practitioners, albeit that it is an extreme measure. For example, when the engagement cannot be completed because the client withholds information relevant for performance of the review, or is unwilling to include or provide certain information that is relevant for the proper presentation of the financial statements, the practitioner's ability to withdraw from the engagement without providing a report is a powerful incentive that the practitioner can use to obtain management's co-operation.

COMPILATION ENGAGEMENTS

The Representatives were generally supportive of the Task Force's work in relation to the draft standard on compilations and, except for the comments noted below, they raised no specific comments.

Mr. Johnson commented as follows:

- The description of the activities that are included in the meaning of the words "to compile" should reflect an "and" rather than an "or" to reflect the activity common to all compilations, i.e., presentation of financial information in some agreed manner and form.
- He expressed agreement with the Task Force's position that if the practitioner considers that the compiled financial information as presented is misleading, then the practitioner should resign from the engagement without providing the financial information and a report thereon.
- Regarding references to compliance with ethical requirements, he recommended inclusion in the practitioner's report of a specific statement that the engagement has been performed in

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accordance with the relevant ethical requirements (i.e., the IESBA Code or national code of ethics that is at least as robust or restrictive).

The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements – ISA 720 (Agenda Item N)

To DISCUSS a project proposal was approved by the IAASB at its December 2009 meeting and any other matters highlighted by the Task Force or brought forward by CAG Representatives.

Mr. Gélard introduced the project, noting the IAASB had approved the project proposal at its December 2009 meeting. The agenda material presented to the CAG, planned to be discussed by the IAASB at its upcoming meeting, asked for preliminary views on the scope of the project to revise ISA 720.

DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS ADDRESSED BY ISA 720

Mr. Gélard indicated the first matter for the CAG to consider related to what documents would be addressed by the scope of revised ISA 720. He noted the purpose of the current ISA 720 is for the auditor to read the annual report as issued to owners at the same time as the issuance of the financial statements, in order to identify any material inconsistencies that might affect the financial statements or the auditor's report thereon. He explained that, at present, shelf registrations are not covered by ISA 720. Mr. Damant noted that the auditor's responsibilities relating to the notes to the financial statements are covered by other ISAs, rather than ISA 720. Mr. Gélard agreed, but acknowledged there is added complexity when management chooses to include matters in the notes to the financial statements that are not required by the financial reporting framework.

The Representatives commented as follows:

- Ms. Blomme noted that developments in corporate governance in Europe warranted a revision because of the amendments to the 4th and 7th Directives which now require auditor involvement with corporate governance statements on an existence and consistency check basis for public interest entities. FEE⁴ was initially of the view that the procedures in ISA 720 would extend to this corporate governance statement, but because the corporate governance statement may be filed outside the annual report, it is not always clear whether the auditor's obligation under the ISAs would meet the needs in the EU in relation to this regulatory requirement. Mr. Gélard noted that one of the key considerations of the Task Force will be to clarify within ISA 720 which types of documents the ISA 720 obligations relates to. However, he noted that a corporate governance statement may contain additional material that cannot necessarily be evaluated to be "consistent with the financial statements" as contemplated by ISA 720. Ms. Blomme also suggested that the auditor's responsibilities

⁴ FEE's recent Discussion Paper for Auditor's Role Regarding Providing Assurance on Corporate Governance Statements can be downloaded at <http://www.fee.be/fileupload/upload/DP%20Assurance%20on%20Corporate%20Governance%20Statements%200911%20Colour20112009541533.pdf>.

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under the IESBA Code to not be associated with misleading information may also come into play in such a review.

- Mr. Koktvedgaard suggested that, if the IAASB concludes the corporate governance statement would not be covered by ISA 720, it should be addressed elsewhere in the ISAs or other IAASB standards. Prof. Schilder and Mr. Gunn noted the matter of assurance on corporate governance statements was included as a potential future project in the IAASB's questionnaire in its strategy (Agenda Item B).
- Mr. Koktvedgaard also suggested statements made by an entity about its corporate social responsibility (CSR) may be covered by ISA 720. He questioned whether it was appropriate for auditors to simply read this information may not be adequate. Mr. Gélard noted there are particular requirements in many countries in Europe that address auditor requirements but these are currently not explicitly covered by ISA 720. Mr. Johnson suggested assurance on CSR would fall under ISAE 3000; however, Ms. Sucher thought it was first necessary to clarify the concept of "information issued at the same time and under the same conditions as the financial statements" before determining whether certain statements were scoped into (or scoped out of) ISA 720.
- Mr. Cassel noted that, given the expectations gap that already exists regarding the auditor's report, it is important that the IAASB set reasonable limitations on the scope of ISA 720.

THE EXTENT OF THE AUDITOR'S PROCEDURES WITH REGARD TO OTHER INFORMATION

Mr. Gélard explained the Task Force's view that the intention of the ISA is not just to require the auditor to *read* the other information but for the auditor to *read* the other information and *consider* whether such information is materially inconsistent with the audited financial information.

The Representatives commented as follows:

- Ms. Sucher supported the view that the consideration given by the auditor in reading the other information is performed in light of the auditor's knowledge of the entity and information acquired during the course of the audit or in performing procedures on the audit. She questioned how any misleading information might be documented by the auditor and suggested a documentation requirement would be appropriate.
- Ms. Sucher also questioned how an auditor might deal with the circumstance in which a key performance indicator is noted as being incorrect but this indicator is not derived from the audited financial statements. Mr. Gélard noted this may be a material misstatement of fact rather than a material inconsistency. Ms. Sucher explained that further attention may need to be given to whether the auditor should be doing more to reconcile the tables included in the other information with the figures in the financial statement than what is currently contemplated in the ISA.
- Ms. Hillier noted the links between this project and others on the IAASB's agenda, including the work on the auditor's report and disclosures. She noted it may be helpful in the auditor's

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report to note the level of the auditor's association with the other information in order to manage expectations.

- Mr. Baumann noted the U.S. standard dealing with other information is similar to ISA 720, with similar challenges regarding expectations of auditors noted in his environment. He noted that the project proposal noted the project may include consideration of the question of whether the auditor should give specific consideration to the adequacy and completeness of the other information, in so far as it relates to the auditor's understanding of the entity and environment obtained during the course of an audit, and if so, the nature and extent of any such responsibility. He questioned what auditors might need to do regarding qualitative statements made by the entity, such as "we believe we are the fastest growing in this market." Mr. Gélard noted the Task Force had not yet had the opportunity to fully consider this point but intends to do so. Mr. Baumann supported this as, in his view, investors consider these statements as the driver of stock prices rather than the financial statement results.
- Mr. Diomeda suggested the ISA might address regulatory requirements relating to other information beyond what is currently contemplated by the project proposal.

ELECTRONIC DISSEMINATION OF THE AUDITED FINANCIAL STATEMENTS AND THE AUDITOR'S REPORT

Mr. Gélard noted the issue of electronic dissemination, for example when the financial statements and auditor's report on the entity's website, is likely a broader issue of auditor association that may need to be dealt with outside the ISA 720 revision project. If ISA 720 were to deal with electronic dissemination, in his view, it would also need to cover circumstances when the financial statements and auditor's report are translated into another language.

The Representatives commented as follows:

- Mr. Roussey highlighted the circumstance in practice in which auditors give consent to their clients to include the auditor's report in other documents, for example the annual report or a prospectus. Mr. Gélard noted that ISA 720 does not deal with consents for documents issued after the auditor's report is issued but rather the auditor's responsibilities for reading the annual report prior to its issuance. Mr. Roussey suggested the consent process should be discussed in ISA 720, as the electronic dissemination of the auditor's report heightens the importance of the issue. He believed that the matter of dissemination could also be usefully addressed in the engagement letter at the beginning of the audit engagement to ensure the entity and the auditor understand how the report might be disseminated.

CONCLUSION

Mr. Damant asked the Representatives to indicate their interest in joining the Working Group on the project. He noted Messrs. Al Zaabi and Koktvedgaard had previously indicated their interest.

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Status and Authority of the International Auditing Practices Statements (Agenda Item E)

To DISCUSS matters highlighted by the Task Force or brought forward by CAG Representatives. Consultation planned for June 2010.

Mr. Fogarty, participating via teleconference, introduced the topic, noting that there are currently six IAPSs effective. These IAPSs, however, were not updated during the Clarity Project and are therefore out-of-date. Three of these IAPSs deal with the banking industry, and the remaining three deal with electronic commerce, environmental matters and derivative financial instruments.

Mr. Fogarty explained that the Task Force, which includes CAG Representative Marc Pickeur, is proposing that all existing IAPSs be withdrawn, with material in IAPS 1004⁵ being retained in another form, as this is a joint publication with the Basel Committee on Banking Supervision. This would result in the revised IAPS 1012⁶ as the only remaining IAPS (which is discussed further in Agenda Item F).

Mr. Fogarty further explained that the IAASB is considering whether it is necessary to clarify the status and authority attaching to IAPSs as it develops IAPS 1012. The current wording in the *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services* (the Preface) requires professional accountants to be aware of and consider Practice Statements applicable to the engagements, and be prepared to explain how the requirements in the ISAs have been complied with if the professional accountant has not considered and applied the guidance included in a relevant Practice Statement.

He noted that the IAASB's consideration of the matter of authority of IAPSs at its December meeting indicated further consideration of this obligation was necessary, in part because some may interpret IAPSs as having a higher authority than that of application and other explanatory material because of the use of the word "apply" in the Preface. Mr. Fogarty noted that the Task Force therefore is proposing changes to how the authority is described and the IAASB will consider whether these changes are appropriate and, if so, where the authority should be described (for example, in the Preface, in ISA 200,⁷ or by other means). Public consultation is planned simultaneously with the issuance of the exposure draft of IAPS 1012, and national standard setters will be consulted at the planned April 2010 meeting.

Mr. Fogarty explained that IAPSs are different than application material because, in the case of IAPS 1012, it is difficult to attach the guidance to one particular ISA. Also, he noted that IAPS 1012 as currently drafted contains educational material along with guidance for auditors that would not be appropriate in an ISA due to its nature and length.

Mr. Fogarty also explained that, at present, IAPSs become effective immediately upon issuance on the basis that IAPSs do not establish new requirements. The Task Force is proposing that

⁵ IAPS 1004, *The Relationship Between Banking Supervisors and Banks' External Auditors*

⁶ IAPS 1012, *Auditing Derivative Financial Instruments*

⁷ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with the International Standards on Auditing*

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IAPSs now be given a discrete effective date in order to allow for adequate time for translation and implementation of any new pronouncement. He also noted that the Task Force also recommends that criteria be established to ensure that any new IAPSs are of global use and in response to a clear need, to alleviate concerns that a proliferation of IAPSs may result in the future.

The Representatives commented as follows:

- Mr. Robberecht noted the EC is concerned that the IAPSs may be seen as a soft requirement for auditors, which would cause problems for the adoption of the ISAs.
- Mr. Krantz and Ms. de Beer suggested that the distinction between ISAs and IAPSs could be further clarified to highlight that IAPSs are a form of implementation guidance in particular circumstances.

Ms. Healy noted that Agenda Item 6-A of the March 2010 IAASB meeting, summarizing what Mr. Fogarty had reported, would be circulated to the Representatives for reference following the CAG meeting.

Auditing Complex Financial Instruments (Agenda Item F)

To DISCUSS matters highlighted by the Task Force or brought forward by CAG Representatives. Exposure draft planned for June 2010.

Mr. Fogarty introduced the topic, noting that the IAASB had issued a consultation paper in October 2009 as a first step to develop guidance relating to auditing complex financial instruments by revising IAPS 1012.⁸ The consultation paper included the UK Auditing Practices Board's (APB) Practice Note 23 (Revised)⁹ (PN 23) and asked respondents whether this could be used as a starting point for the revision of IAPS 1012. Respondents to the consultation paper were very supportive of this approach, and the Task Force has continued to revise PN 23 on that basis.

Mr. Fogarty noted the Task Force is fortunate to have two experts in financial instruments from the firms, however, due to the timing of the comments received on the consultation paper, it was not possible for those experts to be fully engaged. These experts, however, will be consulted in depth after the IAASB's initial discussions on the comments received on consultation at its March 2010 meeting.

Mr. Fogarty also thanked Mr. Pickeur as a Task Force member, and the seven Member Organizations that had responded to the consultation paper.

SCOPE AND PURPOSE OF THE IAPS

Mr. Fogarty explained that objective of the IAPS is to provide educational material in context with additional guidance for auditors in areas that may be too detailed to be contained in an ISA.

⁸ International Auditing Practice Statement (IAPS) 1012, "Auditing Complex Financial Instruments."

⁹ Practice Note (PN) 23 (Revised), "Auditing Complex Financial Instruments."

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This in part adds to the length of the proposed revised IAPS. Both the CAG and the IAASB had previously expressed a need for additional guidance of this nature, and as also noted during discussions with auditors.

Mr. Damant noted that it would be most helpful if both the accounting and auditing standards were able to classify financial instruments in particular categories. Mr. Fogarty noted that the Task Force's deliberations have highlighted how difficult it is to do so given the evolving nature of the instruments.

Mr. Fogarty explained that whether a particular instrument is deemed to be "complex" may depend on the people who are dealing with them. In the view of the Task Force, the guidance is likely best placed for those who have less experience dealing with financial instruments who may not be fully aware of how their complexity may affect the auditor's risk assessment. For this reason, respondents to the consultation paper supported the direction being proposed by the task force to include both educational material and auditing guidance in the IAPS, and have it be applicable to all financial instruments rather than any particular industry or type of entity. Mr. Fogarty noted that the revised IAPS now seeks to explain the scope in its introductory paragraphs to enable auditors to determine whether the IAPS is relevant to their audits.

The Representatives commented as follows:

- Ms. de Beer and Messrs. Koktvedgaard and Roussey supported the direction proposed by the Task Force. Ms. de Beer believed the risk that auditors do not appropriately apply the guidance outweighed the risk that it may not be useful to those auditors who are experienced in dealing with highly complex financial instruments. Mr. Koktvedgaard was also of the view that the key issue in dealing with financial instruments is for auditors to identify the risks of material misstatement, and the IAPS would further highlight to auditors that such risks exist. Mr. Fogarty expressed thanks for the supported, noting that the intent is to draw in those who could most use the guidance, regardless of its length.
- Ms. Sucher supported the IAPS focusing on amounts recorded or disclosed at fair value.
- Mr. Damant agreed that the IAPS should not be limited to the banking industry or dependent on the size of the entity.

MANAGEMENT'S EXPERTISE

Mr. Fogarty highlighted the difficulties noted in practice regarding the determination of the level of understanding of the valuation data and methods used by third parties. He noted the question of whether such understanding is needed at a general level or for specific instruments has been raised in discussions with the IAASB and other national standard setters, and the Task Force and IAASB have concluded that the understanding is needed for individual instruments.

Mr. Fogarty explained that, while information is not easy to get at this level, it is necessary to clarify in the IAPS that auditors need to do so in order to comply with the requirements in ISA 540.¹⁰ He also noted the Task Force's view that management needs to first obtain this

¹⁰ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

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information and cannot outsource their responsibility for valuing the financial instruments, including when models are used to value them.

The Representatives commented as follows:

- Mr. Baumann questioned whether this represented a change in the ISAs or a change in practice. Mr. Fogarty believed it is not a change in the ISAs, but acknowledged that many auditors may not be applying the level of understanding that is described in the proposed IAPS.
- Mr. Baumann noted that, if management lacks the capabilities needed to prepare the financial statements, this may be considered to be a material weakness (or, in the ISAs, a significant deficiency in internal control). Mr. Uchino noted in Japan that investors have expressed a concern that management of smaller banks have not adequately implemented internal control and risk management in this area.
- Mr. Kotkegaard supported the Task Force's proposal to link management's responsibilities to ISA 200¹¹ since IAPSs cannot impose responsibilities on management.
- Messrs. Gutterman, Kotkegaard, Morris and Upton suggested the IAPS could do more to address financial liabilities, for example floating rate adjustments that may affect bank loans and own credit risk. Mr. Fogarty noted this was an area to be further developed with the help of the experts on the Task Force before the exposure draft is issued.
- Ms. de Beer and Messrs. Gutterman and Kuramochi were of the view that the Task Force should reconsider whether it is possible to give guidance on different valuation models. In Ms. de Beer's view, there are a few principle models that could be included in an overview to explain the basic principles that are used in modeling.

DISCLOSURES

Mr. Fogarty noted that the IAASB discussed issues relating to disclosures at its December 2009 meeting and the Task Force has provided the paragraphs included in proposed revised IAPS 1012 as an Appendix to Agenda Item F for the Representatives' consideration.

The Representatives commented as follows:

- Mr. Damant and Ms. Sucher supported the inclusion of material relating to sensitivity analyses in the IAPS. Mr. Gutterman suggested it may be necessary to expand upon the procedures that might be needed relating to these analyses. Ms. Healy noted that paragraph 177 of the Appendix was meant to explain that the auditor's procedures to evaluate the assumptions used by management in preparing the sensitivity analysis are the same as those used in evaluating the valuation itself.
- Ms. Sucher suggested the word "consideration" in relation to the auditor's responsibilities relating to disclosures could be replaced with something more suitable.

¹¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with the International Standards on Auditing*

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- Ms. Sucher and Mr. Gutterman believed the Task Force should be mindful of developments relating to IAS 39¹² in finalizing IAPS 1012.

REPORT BACK

Mr. Fogarty drew attention to matters noted in the report back in the CAG agenda material. The Representatives had no comments.

PIOB Remarks

Ms. Peters thanked the Representatives for the opportunity to join them, and complimented the CAG and Chair for the level of engagement during their discussions. She noted the PIOB's view that the CAG is a considerable opportunity and forum in which the public interest can be brought to bear through the Representatives' comments. She was particularly pleased to see the CAG's interest in the IAASB's future strategy and also their level of involvement in the debates relating to key projects discussed in the earlier strategy forums held in Brussels.

Regarding the matter of the timing and volume of agenda material, Ms. Peters suggested this matter may need to be discussed with the PIOB. She recognized the challenges to the Task Forces and Staff to prepare the papers, but suggested that if the Representatives do not have adequate time to absorb the material, their role could be diminished. Mr. Damant reiterated that the timing is based on the view that it is desirable for the CAG to consider the most up-to-date Task Force materials rather than papers discussed at prior IAASB meetings.

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 September 13-14 in London, and this will mark the occasion of his last meeting.

Mr. Damant thanked Prof. Schilder and Ms. Hillier and the IAASB Task Force chairs for their contributions to the meeting.

Mr. Damant closed the meeting.

¹² International Accounting Standard (IAS) 39, *Financial Information: Recognition and Measurement*