

IAASB CAG PAPER

IAASB CAG Agenda (September 2010)

Agenda Item G.2

Report Back—Proposed Strategy and Work Program for 2012-2014

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Project Timeline

1. The Appendix to this paper provides a project history, including links to the relevant CAG documentation.

March 1-2, 2010 CAG Discussion

2. Below are extracts from the draft minutes of the March 2010 CAG meeting,¹ and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

Representatives' Comments	Task Force/IAASB Response
THE IAASB'S STRATEGIC FOCUS	
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.	<p>Point taken into account. While it is unlikely that the IAASB would change its name (given the recognition that exists in many jurisdictions and lack of appropriate alternatives), further communications activities could enhance this branding and further promote the IAASB's activities. In this regard, IAASB Staff has been liaising with IFAC's Communications department to see that IAASB's key messages are being adequately communicated. In addition, it is likely that additional outreach activities could be undertaken in the context of particular projects, for example to better use technology or directly liaise with groups that may be particularly relevant (e.g., climate change organizations and media in the context of the greenhouse gas emissions project, and small and medium practitioners in the case of the reviews and compilations project).</p> <p>The draft Consultation Paper acknowledges that more is needed in this area. See paragraphs 25, 44, 48-51, and Appendix 3 of Agenda Item G.1.</p>

¹ The minutes will be approved at the September 2010 IAASB CAG meeting.

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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.	Point accepted. The draft Consultation Paper refers to both development and revision of standards and pronouncements. See paragraph 26 of Agenda Item G.1.
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.	Support noted.
FOCUS ON THE EFFECTIVE OPERATION OF THE WORLD’S CAPITAL MARKETS	
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.	Points taken into account. The questionnaire was modified to explain the IAASB’s focus on standards that <i>facilitate</i> the effective operation of the world’s capital markets, noting: “The IAASB’s current focus on developing standards that facilitate the effective operation of the world’s capital markets is rooted in the IAASB’s ongoing commitment to maintain a set of up-to-date ISAs that contribute to audit quality. This includes revising existing ISAs and developing new ISAs as needed. It also includes evaluating whether the auditor’s report and other communications convey appropriate information in a way that facilitates audit quality, is understandable to users, and meets their information needs, a matter under consideration in IAASB’s current work program. The need for high-quality audits is widely acknowledged by policy makers concerned with promoting and maintaining confidence in financial reporting, whether in the context of capital markets, the public sector or reporting by private or non-public entities.
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	The development of new assurance standards relating to pro forma financial information and greenhouse gas statements demonstrates the

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incorrect to suggest that auditors should have been 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.	IAASB's responsiveness to expanding needs of investors and increased regulatory requirements relating to information outside of that covered by the financial statement audit.
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.	In line with some of these comments, one of the main themes in responses to the question asking respondents to identify issues facing the accounting profession that should influence the IAASB's strategy was the need for communication about the role of the auditor as envisioned by the current ISAs, as well as a debate as to whether the role of the auditor should evolve in order for an audit to remain a valuable service.
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.	Further discussion of how the IAASB may respond to these concerns are included in the draft Consultation Paper. See the following paragraphs of Agenda Item G.1:
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.	<ul style="list-style-type: none"> • Paragraphs 20-24, which discuss the role of the auditor; • Paragraphs 35-36, which describe the ongoing research project about the auditor's report; • Paragraph 47, which discusses a possible communication on the value and benefit of an audit in accordance with ISAs; and • Paragraphs 69-70, which explain proposed new action A.1.4 relating to guidance for bank audits.
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	

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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	
<p>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.</p> <p>He also suggested the International Corporate Governance Network (ICGN) should be formally consulted.</p>	<p>Point taken into account. While the IAASB believes the ISAs are in place for use by professional accountants, the work undertaken as part of the auditor's report project will further consider the intended users of the auditor's report. The draft Consultation Paper highlights this project – see paragraphs 35-35 of Agenda Item G1.</p> <p>During the meeting, Prof. Schilder suggested he could attend an ICGN Accounting & Auditing committee meeting. He subsequently did so.</p>
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.	<p>Point accepted. Mr. Waldron circulated the questionnaire to CFA Institute's Financial Reporting Policy Group Survey Pool (a global pool of 500 members).</p> <p>The IAASB would welcome UNCTAD's views from its October 2010 meeting.</p>
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.	<p>Point accepted. As part of its work with IFAC's Communications department, IAASB Staff is exploring whether this could be done.</p> <p>However, the draft Consultation Paper acknowledges the resources with which the IAASB operates and the current roles and responsibilities of the Chairman, IAASB members, and IAASB Staff. See paragraphs 57-61 of Agenda Item G1.</p>
Mr. Robberecht suggested the IAASB should consult with the five investor groups who responded to the	Point accepted. IAASB staff intends to send the draft Consultation Paper to these bodies.

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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).	During the meeting, 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. A meeting was held with the FSB in May 2010 to discuss the FSB's views on topics that the IAASB may wish to include on its future work program. On 29 June 2010 the FSB sent a constructive letter to Prof. Schilder regarding 'FSB priorities and the planned activities of the IAASB'.
Ms. Sucher suggested the IAASB could ask the IASB Standing Advisory Council (SAC) to discuss the strategy and work program at a future meeting.	Point taken into account. While the IASB SAC as a whole was not asked to discuss the matter (in particular, because their focus and expertise is on accounting rather than auditing), the questionnaire was sent to certain members of the SAC who have expressed an interest in the IAASB's work.
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."	Point accepted.
Mr. Gutterman questioned whether the questionnaire should make reference to convergence in addition to adoption and implementation.	Point accepted. The IAASB's main objective is to promote the adoption of the ISAs. However, the questionnaire acknowledged that this may be done more in a process of convergence.
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.	Point taken into account. At the time the questionnaire was issued, the IAASB had not yet concluded on the status and authority of the International Auditing Practice Statements (IAPs), which are a type of guidance that can be issued by the IAASB. The questionnaire did

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	<p>explain the nature of Staff-developed guidance, including Staff Questions and Answers Publications, Staff Audit Practice Alerts, and ISA modules, and solicited feedback on whether this type of non-authoritative material is useful.</p> <p>The IAASB expects that future consultation on IAPs, as well as the work of the ISA Implementation Monitoring project, will allow it to further explore this topic in the future.</p> <p><i>See paragraphs 37-40 of Agenda Item G.1.</i></p>
<p>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.</p>	<p>Point not accepted. During the meeting, 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.</p>

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Appendix

Project History

Project: IAASB Future Strategy and Work Program for 2012-2014

Summary

	CAG Meeting	IAASB Meeting
Project Commencement	March 2010	March 2010
Development of Proposed Strategy and Work Program (up to Consultation)	September 2010	September 2010
Consultation – Planned for December 2010	-	-

CAG Discussions: Detailed References

Project Commencement	<u>March 2010</u> See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5251 See CAG meeting minutes (in Agenda Item B of the following material): See draft March 2010 CAG meeting minutes at Agenda Item B.
Development of Proposed International Pronouncement (Up to Exposure)	<u>March 2010</u> See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5251 See CAG meeting minutes (in Agenda Item B of the following material): See draft March 2010 CAG meeting minutes at Agenda Item B. See report back on March 2010 CAG meeting in paragraph 2 of this CAG paper.