Agenda Item

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Committee: IAASB Consultative Advisory Groups

Meeting Location: Prague

Meeting Date: September 12-13, 2011

IAASB Strategy and Work Program for 2012-2014—Report Back, Summary of Significant Comments Received on Consultation and Proposed Final Documents

Objectives of Agenda Item

1. To provide a report back on proposals of the Representatives on this project as discussed at the March 2011 CAG Meeting.

2. To consider a summary of significant comments received on consultation and the proposed final *IAASB Strategy and Work Program for 2012-2014*.

Papers to Be Referred to during Discussion

3. The discussion on this topic will follow the structure of this CAG Paper. Within this paper, reference is made to **Agenda Item K.1**, the revised *IAASB Strategy and Work Program for 2012-2014* (Strategy and Work Program), to facilitate the discussion.

Project Status and Timeline

4. The IAASB approved the consultation paper (CP) at its December 2010 meeting. The CP was released for public comment on January 3, 2011 and comments were requested by April 4, 2011. Forty-two responses were received. A list of respondents is provided in Appendix 1 of **Agenda Item K.2**. All comments letters can be accessed from the IAASB website at http://www.ifac.org/Guidance/EXD-Details.php?EDID=0151.

5. The IAASB Steering Committee (SC) met in June and July 2011 to consider the significant comments received on the CP and to develop the revised Strategy and Work Program. The SC considered and commented electronically on the draft Strategy and Work Program in August 2011 prior to finalizing it for consideration at the September 2011 IAASB and IAASB CAG meetings. The IAASB will be asked to approve the final Strategy and Work Program at its December 2011 meeting. The final document will then be submitted to the Public Interest Oversight Board (PIOB) as the IAASB's medium-term strategy and work program.

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

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March 8-9, 2011 CAG Discussion

7.   Below are extracts from the draft minutes of the March 2011 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
Mr. Waldron supported the projects on audit reporting and disclosures, despite the challenges.	Support noted.
Mr. Krantz was of the view that there is a need to focus on environmental issues in the broader sense by considering a project on assurance over integrated reports, as such reporting provides a different sense of the value of the company.	Point taken into account. While the SC acknowledges the growing importance of integrated reporting, it recognizes that the environment regarding such reporting is evolving. Accordingly, the SC believes it best that the IAASB study the issues and developments carefully through the establishment of a strategy working group before committing resources to any standard-setting actions.
Mr. Pickeur acknowledged the need to balance the selected projects with available resources. He noted that the IAASB's current operating model is very different to the IASB's and he suggested that IAASB conduct a critical review of the key assumptions on which the future work program is based. He noted that key assumptions, like volunteer Board members meeting for approximately 20 days per year, may be difficult to reconcile with the IAASB projects outlined in the program, particularly for developing and monitoring standards and responding to concerns about their implementation.	Prof. Schilder explained that the consultation paper is based on the current model and noted that any changes to the model would require a few years to accomplish. He noted that a key question is whether more can be achieved with the current model, and that the IAASB had tools, such as staff publications, to respond to urgent issues that may arise in the meantime. The proposed Program is ambitious but possible within the current model.
Mr. Pickeur noted that the possible project to revise IAPS 1004[2] is important, and that the Basel Committee on Banking Supervision intends to start revising the	Point taken into account. Respondents to the CP overall strongly

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[1]   The minutes will be approved at the September 2011 IAASB CAG meeting.

[2]   International Auditing Practice Statement (IAPS) 1004, *The Relationship Between Banking Supervisors and Banks' External Auditors*

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Representatives' Comments	Task Force/IAASB Response
document and to invite the IAASB to participate. He noted that a revision of IAPS 1006[3] was not yet on the agenda of the BCBS.	supported a project to revise IAPSs 1004 and/or 1006. The SC recommends that the IAASB include in its Strategy and Work Program a project to develop guidance in relation to the audit of banks, in consultation with the BCBS and other stakeholders.
Mr. Windsor supported a project to provide guidance on auditing insurance contracts, particularly regarding the use of judgment. He noted that the IAIS will investigate whether they can contribute resources to assist with developing the guidance. Mr. Gutterman supported Mr. Windsor's comment, noting that the regulation of insurance is now more globally uniform and this creates the need for a strong effort from the IAASB.	Point taken into account. There was broad, strong support from respondents for the IAASB to undertake a project in relation to banks foremost. Nevertheless, the SC recognizes that audit issues in the banking sector may be applicable more broadly to the financial services sector. Accordingly, the SC recommends that the IAASB monitor, and as appropriate explore with stakeholders such as the IAIS, whether there are specific developments that may suggest a need for further consideration of standard-setting actions regarding audits in the broader financial services sector.
Mr. Morris commented that, in his view, the items in column C are more important than those in column B. In particular, he highlighted that projects on corporate governance and internal controls would deliver more for the public interest than projects on agreed-upon procedures and prospective financial information.	Point taken into account. The SC recommends that a strategy working group be established to study issues and developments in reporting in the areas of corporate governance statements and internal control, amongst others.
Mr. Hallqvist noted that he does not believe that there are inherent limitations on an audit, though there are cost and time limitations.	Prof. Schilder mentioned the correspondence already exchanged with Mr. Hallqvist on this topic.
Mr. Kuramochi noted that after the completion of the clarity project there has been an increase in the number	Prof. Schilder noted that the Clarity ISA implementation monitoring project is intended

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[3]   IAPS 1006, *Audits of the Financial Statements of Banks*

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Representatives' Comments	Task Force/IAASB Response
of projects on assurance engagements even though he sees ISAs as the most important pronouncements of the IAASB. He supported the IAASB's work on IAPS 1000[4] and also on the liaison between the IASB and the IAASB on auditability issues.	to inform the IAASB on where to direct further efforts on the ISAs. The proposed Program has explicitly reserved time for new ISA projects.
Ms. Blomme noted the IAASB should retain the capacity to respond to regional issues, including any EC proposals. She also noted the need for more emphasis on issues affecting SMPs and SMEs, as well as a project on assurance on non-financial information. In particular, she noted that the implementation monitoring project should also look at the impact of the ISAs on audits of SMEs and evaluate whether changes to the standards are needed.	Point taken into account. The draft Strategy and Work Program notes that maintaining a degree of flexibility is an important consideration for the IAASB in developing its future strategy. The SC also recommends that the IAASB commission a staff publication on the proportionality of application of ISQC 1 as a means to provide further support for SMPs. In addition, the SC recommends that the IAASB continue to focus effort on understanding implementation challenges and considering providing, where appropriate, practical support. The ISA Implementation Monitoring project is separately looking at the application of the clarified ISAs in the SME context.
Mr. Diomeda asked if the possible project regarding the application of ISQC 1[5] to small firms could be started in the near future. He noted the existence of the [Small and Medium Practices] SMP Committee guide on ISQC 1, and asked what weaknesses had been noted in the application of ISQC 1 to smaller firms.	Prof. Schilder responded that smaller practitioners have sometimes encountered difficulty in realizing how ISQC 1 can be applied to smaller practices, and that some have suggested that better understanding of the guidance available is needed to help these practitioners prior to implementation.
Mr. Pannier noted that the projects on integrated and sustainability reporting were timely as the OECD is	Point noted.

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[4]   Proposed IAPS 1000, *Special Considerations in Auditing Complex Financial Instruments*

[5]   ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

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Representatives' Comments	Task Force/IAASB Response
pursuing a project on "green growth" as a measurement of environmental progress. He indicated an interim report due in May.	
Mr. Cassel commented that INTOSAI is concerned about progress towards harmonization in Europe and indicated that the IAASB needs to have further contact with the EC in this respect. Further, he noted that the project on disclosures was important to the public sector, particularly as disclosures go beyond the traditional balance sheet disclosures.	Prof. Schilder reflected upon his attendance at the INCOSAI conference in South Africa in November 2010 and pointed to the announcement at the conference of INTOSAI's endorsement of ISSAIs[6] which include the clarified ISAs, along with supplemental guidance specific to public sector audits.
Mr. Pickeur noted that there needs to be a focus on monitoring controls in the context of the governance of audit firms, and that he was beginning to have some doubts about parts of ISQC 1.	Prof. Schilder indicated that the IAASB is very interested in any concerns about ISQC 1.
Mr. Hansen supported the projects on auditor reporting, disclosures and audit quality as all these items were mentioned in the US Treasury committee[7] hearings. He noted, however, that these projects would take time to get right. Prof. Schilder noted that both the PCAOB and the IAASB acknowledge that they have a common interest in these projects. Mr. Baumann agreed that these should be high priority projects.	Support noted.
Mr. James noted that the IAASB's focus should be on projects that contribute to high-quality audits.	Point taken into account. The revised Strategy and Work Program recognizes the importance of the IAASB focusing effort on projects that contribute to high-quality audits.
Ms. Lang asked whether the IAASB has progressed	Prof. Schilder noted that this had been an

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[6] International Standards of Supreme Audit Institutions

[7] Advisory Committee on the Auditing Profession, US Department of the Treasury

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Representatives' Comments	Task Force/IAASB Response
further with the concept of "think small first".	important part of the decision to pursue the projects to revise ISRE 2400[8] and ISRS 4410,[9] and to develop the staff publication on the proportionate application of the ISAs. Ms. Hillier commented that requirements were included in the ISAs during the clarity project only when they were applicable in virtually all circumstances, and that some ISAs specify that particular requirements only apply to audits of listed entities. Prof. Schilder added there is a question of whether additional implementation guidance is needed and noted that the SMP Committee was also working on these issues.
Ms. Lang noted that implementation guidance is always useful though it may be preferable to consider issues relevant to smaller practitioners at the inception of projects, and that there may be an opportunity to do this with ISQC 1.	The SC recommends that the IAASB commission a staff publication addressing the proportionality of application of ISQC 1.
Mr. Koster supported the projects on corporate governance and internal controls as these were seen as a cause of some of the recent turmoil, but questioned the comment in paragraph 81 about not moving to an integrated audit model.	Prof. Schilder explained that, while the IAASB could pursue a project on internal controls, it would not seek to include this as part of an audit under the ISAs in the absence of a regulatory mandate.
Ms. de Beer commented that she agreed with many of the comments of the CAG related to the importance of the items in column C. In addition it was also necessary to spend time on understanding accounting issues and auditor reporting.	Point taken into account. The CAG's comments have lent support to the SC's recommendations, particularly in relation to a number of the items in column C and the proposed strategy working group.

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[8]   ISRE 2400, *Engagements to Review Financial Statements*

[9]   ISRS 4410, *Engagements to Compile Financial Statements*

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Matters for CAG Consideration

8. **Agenda Item K.1** contains the SC's recommendations for projects and activities that should form part of the IAASB's strategy and work program for 2012-2014, based on input received on consultation, including from the IAASB CAG. It has not yet been considered by the IAASB.

9. CAG Representatives are asked to consider the summary of significant comments received on consultation (**Agenda Item K.2)** and provide views on the following matters in relation to the revised Strategy and Work Program.

Matters for CAG Consideration

1. Given the wide range of views on consultation as to where the balance of the IAASB's priorities should lie and recognizing the constraints on the IAASB's resources, does the revised Strategy and Work Program strike an appropriate balance amongst the areas where the IAASB should focus its strategic efforts for 2012-2014?

2. Recognizing the varying merits of competing priorities, do the projects and activities proposed in the revised Strategy and Work Program reflect appropriate strategic responses from the IAASB as a standard setter in addressing the most pressing needs in the public interest?

3. Are there actions that CAG Representatives believe have not been included in the revised Strategy and Work Program that should be included in the public interest?

4. Are there projects or activities in the revised Strategy and Work Program that CAG Representatives believe are not essential and should therefore not be included?

IAASB Interaction with the IAASB CAG

10. The substantive issues being raised on the revised Strategy and Work Program for the purposes of the September 2011 IAASB meeting are included in this paper and **Agenda Items K and K.1**. Accordingly, this serves as the final discussion of the Strategy and Work Program prior to its anticipated approval by the IAASB at its December 2011 meeting. CAG Representatives may wish to take this opportunity to comment on the IAASB's interaction with the CAG during the development and finalization of the strategy and work program. The Appendix to this paper provides a project history, including links to the relevant CAG documentation.

Material Presented – IAASB CAG PAPER

Agenda Item K.1   Draft IAASB Strategy and Work Program, 2012-2014

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Agenda Item K.2   IAASB Strategy Review – Summary of Significant Comments
                                                                      on Consultation Paper and IAASB Steering Committee
                                                                      Recommendations dated September 2011

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**Proposed IAASB Strategy and Work Program for 2012-2014—Report Back, Summary
of Significant Comments Received on Consultation and Proposed Final Documents**

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 December 2010
Consultation	January 2011	January 2011
Report Back on Final Consultation Paper and Further Discussion	March 2011	-
Consideration of Respondents' Comments on Consultation	September 2011	September 2011
Final approval of Strategy and Work Program	September 2011	Planned for December 2011

CAG Discussions: Detailed References

Project Commencement	March 2010 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): http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211
Development of Proposed Strategy and Work Program (Up to Consultation)	March 2010 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): http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211

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	See report back on March 2010 CAG meeting (in paragraph 2 of the following material):
	http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5691
	September 2010
	See IAASB CAG meeting material:
	http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5691
	See CAG meeting minutes (in Agenda Item G of the following material):
	http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6186
	See report back on September 2010 meeting (in paragraph 6 of the following):
	http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5979
Report Back on Final Consultation Paper and Further Discussion	March 2011
	See IAASB CAG meeting material:
	http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5979
	http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5980
	See CAG meeting minutes (in Agenda Item E of the following):
	See draft March 2011 CAG meeting minutes at Agenda Item A.
	See report back on March 2011 CAG meeting in paragraph 7 of this CAG paper.
Consideration of Respondents' Comments on Consultation and Final Approval of Strategy and Work Program	The discussion of this Agenda Item at the September 2011 CAG meeting serves as the final discussion of the project prior to its anticipated approval by the IAASB.