



International Auditing
and Assurance
Standards Board

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Meeting: IAASB Consultative Advisory Group
Meeting Location: Brussels
Meeting Date: March 6–7, 2012

Agenda Item D

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

Objectives of Agenda Item

1. To provide a report back on proposals of the Representatives on this project as discussed at the September 2011 CAG Meeting.
2. To consider the proposed final *IAASB Strategy and Work Program for 2012-2014* (Strategy and Work Program).

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 D.1**, the revised *IAASB Strategy and Work Program for 2012-2014* (Strategy and Work Program), to facilitate the discussion. **Agenda Item D.1** is a marked version of the revised document. This is to enable Representatives to see the specific amendments made to the document since the previous CAG meeting. A clean copy has not been included in the CAG documents but is available on the IAASB website.

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. All comments letters can be accessed from the IAASB website at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0151>.
5. The IAASB CAG and IAASB discussed a summary of significant comments and the revised Strategy and Work Program at their respective September 2011 meetings. The IAASB discussed a further revised Strategy and Work Program at its December 2011 meeting, and agreed to finalize the document at its March 2012 meeting once the timing of the various items on the future work program are reviewed in light of plans for the Auditor Reporting project (see paragraph 10 below).
6. The IAASB will consider a revised draft of the document (**Agenda Item D.1**) for approval as its final strategy and work program at its March 2012 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.
7. The Appendix to this paper provides a project history, including links to the relevant CAG documentation.

September 12–13, 2011 CAG Discussion

8. Below are extracts from the draft minutes of the September 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
Messrs. Grund, Pannier and Uchino and Ms. Blomme noted their organizations strongly supported the proposed strategy and work program and believed it was a well-balanced approach.	Support noted.
Mr. Attolini noted that the SMP Committee was very supportive of the plan, and appreciated how the IAASB has taken SMP comments into account in formulating it. In his view, this was the first strategic cycle in which there had been great attention on the needs of SMEs and SMPs, a trend he hoped to see continue. In particular, he supported the revisions of ISRS 4410, ² ISRE 2400, ³ ISAE 3000 ⁴ and ISRS 4400, ⁵ as well as communicating on the proportionality of ISQC 1 as key projects for SMEs and SMPs. Mr. Diomeda agreed.	Support noted. Prof. Schilder thanked Messrs. Attolini and Diomeda for the support, noting that, in addition to the representation on the IAASB of smaller practices (through Board member Phil Cowperthwaite), the cooperation with the SMP Committee and its staff is appropriate. He noted that informal feedback from IAASB members suggested it may be appropriate to have a more explicit liaison with the SMP Committee next year.
Mr. Uchino noted the Japanese Securities Dealers Association (JSDA) supported the IAASB actively engaging with stakeholders, and volunteered their broad network of issuers and investors to be used by the IAASB to help enhance capital markets.	Support noted, see discussion of outreach activities in paragraph 48 and Appendix 2 of Agenda Item D.1 .
Mr. Gutterman, supported by Ms. Sucher, suggested the wording in relation to the project to consider whether to develop audit guidance for other financial institutions could be improved. In his view, the description seemed to imply that, in addressing issues related to banks, the IAASB would have adequately addressed financial industry issues and only residual issues might remain. In his view, the need for auditing guidance on insurance in particular is directly	Point taken into account. See discussion in paragraphs 11-14 below.

¹ The minutes will be approved at the March 2012 IAASB CAG meeting.

² International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*

³ International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*

⁴ International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Statements*

⁵ ISRS 4400, *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*

Representatives' Comments	Task Force/IAASB Response
<p>linked to the completion of the IASB's standard on insurance contracts, so he supported the 2013 timing. He believed that different individuals would be interacting with auditors and supervisors. Their organizations would likely be willing to devote resources to determine what the best way forward would be. Mr. Gunn explained that the intent was to acknowledge that as the IAASB explores new areas, such as banking guidance, it would be important to take stock of what it learns from such projects before undertaking new ones, in particular as difficulties in adopting international industry-specific guidance have been raised by national standard setters.</p>	
<p>Mr. Uchino noted the expectation that the IAASB would promote the fundamentals of the clarified ISAs, including professional judgment and professional skepticism, over the next few years with a strong mind and passion. Mr. Gamble was of the view that bedding down the acceptance of the clarified ISAs, through monitoring and outreach, should be the IAASB's priority. He noted the need for this in particular regions, like the Middle East, where there are no strong member bodies. He explained that the Dubai Financial Services Authority (DFSA) was hosting a two-day audit conference, the theme of which is professional skepticism, so there may be a need for similar conferences elsewhere.</p>	<p>Point accepted.</p> <p>Prof. Schilder agreed that the emphasis on adoption and implementation has been a key theme of the outreach conducted by the IAASB leadership team. He welcomed further opportunity to assist organizations planning similar events, noting that the proposed program had taken into account time needed for such activities.</p> <p>See discussion in paragraphs 46-49 of Agenda Item D.1 in relation to adoption and implementation. See paragraph 15 below in relation to professional skepticism.</p>
<p>Mr. Baumann suggested, in light of the discussion on Item E, it may be appropriate to highlight the IAASB's planned actions to respond to challenges relating to the application of professional skepticism within the proposed program. Mr. Pannier agreed.</p>	<p>Point accepted.</p> <p>See paragraph 15 below.</p>
<p>Mr. Uchino was also of the view that the IAASB should work to enhance the capability of auditors and preparers to deal with rapidly changing accounting standards, and supported the work program having flexibility to do so. In particular, he</p>	<p>Point accepted.</p> <p>Prof. Schilder noted that the provisions within the plan for 2 future projects⁶ to revise the ISAs were</p>

⁶ See discussion in paragraph 10 relating to the removal of one of these projects, as a result of the time needed for the auditor reporting project.

Representatives' Comments	Task Force/IAASB Response
<p>suggested an area of emphasis should be the application of ISA 540. Ms. Sucher agreed, citing her concern that as changes come along to accounting standards, questions may arise as to the consistent application of both accounting and auditing standards. She specifically noted that it was unclear whether ISA 540 was sufficiently robust to deal with the accounting standards dealing with loan loss provisioning and financial instruments in light of the increased subjectivity and use of management judgments. In her view, the timing was more likely 2015, due to the implementation date of the accounting standards. While there is flexibility in the work program, she believed this concern was important to raise. Mr. Baumann noted the PCAOB has been discussing the volume and extent of change in the accounting standards with the U.S. Financial Accounting Standards Board (FASB), as some of its Standards Advisory Group (SAG) members had raised similar concerns, and also intends to comment on the auditability of the accounting standards and determine whether related auditing guidance is needed.</p>	<p>intended to recognize the possibility of this. The current discussion of amendments to ISA 540⁷ as a result of the development of IAPN 1000⁸ touched on the debate whether to focus on amendments currently seen as necessary, or to continue to ask questions about whether there was a need for further refinements. In his view, the ongoing IAASB/IASB liaison project would be helpful in this regard.</p> <p>See further discussion in paragraphs 11-14 below.</p>
<p>Mr. Baumann highlighted that possible need for additional audit procedures for systemically important financial institutions (SIFIs) has been suggested by some regulators. While the PCAOB has not formed a view as to whether this may be necessary, he suggested that it may be an area for exploration together with the IAASB to align any future efforts in this regard.</p>	<p>Point accepted.</p> <p>Prof. Schilder agreed, noting that SIFI audits had previously been included in the scope of IAPS 1004⁹ and 1006,¹⁰ but further dialogue would be helpful.</p> <p>See further discussion in paragraphs 11-14 below. Possible guidance relating to SIFIs could also be considered as part of a broader project to revise ISA 540 or develop additional guidance.</p>
<p>Mr. Stewart supported the IAASB commenting on the IASB's standards. To Ms. Sucher's point, he questioned how the future work program dealt with response to</p>	<p>Point taken into account.</p> <p>Prof. Schilder acknowledged that the annual presentation by the IASB to the IAASB was</p>

⁷ International Standard on Auditing (ISA) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

⁸ International Auditing Practice Note (IAPN) 1000, *Special Considerations in Auditing Financial Instruments*

⁹ International Auditing Practice Statement (IAPS) 1004, *The Relationship between Banking Supervisors and Banks' External Auditors*

¹⁰ IAPS 1006, *Audits of the Financial Statements of Banks*

Representatives' Comments	Task Force/IAASB Response
significant standards.	helpful to understand possible implications of future standards. In the future the liaison effort may need to become more intense (for example on matters like disclosures) to further explore these issues. Ms. Hillier noted that the objective of considering the IASB's standards was to identify if there were areas where audit guidance may be needed. However, she noted that the ISAs are designed to be framework neutral and not intended to be work programs that prescribe specific procedures in relation to accounting standards.
Mr. Krantz suggested refinement was needed within the auditing literature to define what a "market" price is, to assist with the audit of valuation. In his view, the fact that there are many kinds of markets (for example, organized and non-organized, regulated and non-regulated) calls for auditors to be alerted to this in seeking to verify a company's accounts. Mr. Gutterman agreed.	Point taken into account. Prof. Schilder explained that this issue was addressed in IAPN 1000. The Task Force recommended adding additional guidance in ISA 540 relating to pricing services to address the broader discussion of how pricing information is determined. Mr. Gunn explained that accounting guidance is primarily responsible for describing what is mean by the term "price," but that such discussion illustrates the linkage between the accounting standards and their auditability.
Mr. Hallqvist was of the view that the IAASB should do further work on inherent limitations, in light of lawsuits against auditors who would likely use inherent limitations as a defense against audit failures. Ms. Blomme mentioned that FEE had done work in this area and would gladly share its publications with Mr. Hallqvist and Prof. Schilder.	Point noted. Prof. Schilder suggested this matter could be explored further in discussions with the International Corporate Governance Network (ICGN) at its upcoming meeting. He indicated that he had previously responded to correspondence from ICGN to understand what was driving the concern.
Mr. Diomeda suggested it might be useful for the IAASB, in finalizing ISAE 3000, to look at some of the fundamental principles of assurance. He noted the IAASB had proposed some changes to the Assurance Framework. ¹¹ Ms. Blomme	Point taken into account. Prof. Schilder explained the IAASB had discussed the need to bring together key principles in working to finalize ISAE 3000, ISAE 3410, ¹² ISRE

¹¹ *International Framework for Assurance Engagements*

¹² *Proposed ISAE 3410, Assurance Engagements on Greenhouse Gas Statements*

Representatives' Comments	Task Force/IAASB Response
expressed a concern that the EDs of these standards did not appear entirely consistent with one another or previously issued material on terminology concepts, as highlighted in FEE's comment letters. She suggested it was important to resolve these differences in finalizing the individual standards.	<p>2400 and ISRS 4410. Mr. Gunn explained that the IAASB intends to take advantage of what it learns in developing these standards to see how the Assurance Framework is used, although he noted that there are differing views as to the utility of the framework itself and how prominent it should be.</p> <p>In considering new projects in light of its available resources, the IAASB did not believe that a specific project on the fundamental principles of assurance could be undertaken during 2012-2014. As noted above, a number of these concepts are likely to be addressed when finalizing ISAE 3000, planned for Q1 2013.</p>
Ms. Blomme noted that FEE was not convinced it was necessary to perform work about the implementation of ISAE 3402, ¹³ as they did not believe there had been major concerns since it was issued.	<p>Point not accepted.</p> <p>Prof. Schilder explained that the IAASB had committed to doing so when the standard was issued, but that such an exercise may be relatively simple to understand whether users were experiencing any serious difficulties in applying the standard.</p>
Mr. Grund suggested the project on preliminary announcements could be commenced earlier as it appeared to be easy to address due to its narrow scope.	<p>Point not accepted.</p> <p>Prof. Schilder noted this was identified as a key priority by IOSCO, who supported research in this area. However, in his view, such research was needed to determine whether it would be an easy project.</p> <p>The IAASB agreed that work on this project should begin when its project to finalize the revision of ISA 720¹⁴ is nearing completion, in order to learn from the feedback received in the development of the revised standard.</p>
Mr. Pannier questioned whether the work program allowed for the possibility of additional actions by the IAASB, if necessary, in response to the EC's Green Paper results,	<p>Point taken into account.</p> <p>Prof. Schilder explained his view that developments relating to the ISAs in Europe have</p>

¹³ ISAE 3402, *Assurance Reports on Controls at a Service Organization*

¹⁴ ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

Representatives' Comments	Task Force/IAASB Response
<p>anticipated in November.</p> <p>Ms. de Beer commented that the point was raised in the private session that both the accounting and auditing profession need to be able to react more quickly to external developments. In her view, it is difficult for standard-setting by its nature to be able to do so, but the proposed program appears to have room if further actions are necessary.</p>	<p>been positive – and that the question relates to how, rather than whether, the ISAs would be adopted in Europe. He commented that 21 of the 27 member states have already adopted the clarified ISAs and others, such as France, Germany, Italy and Spain, appear to be close and have transposed the requirements into their national standards.</p> <p>Prof. Schilder supported this view, noting that the planned Strategy Working Group [now renamed the INFO Working Group] is meant to help the IAASB look forward.</p> <p>In agreeing its project on Auditor Reporting at its December 2011 meeting, the IAASB agreed that all necessary Board and Staff Resources needed to be made available to respond to, among other things, the November 2011 EC proposals. See discussion in paragraph 10 below.</p> <p>Paragraph 23 of Agenda Item D.1 also explains that, while the work program has allowed for some flexibility to respond to emerging developments, the identifications of new priorities may impact the timing of one or more projects in the Work Program.</p>

Matters for CAG Consideration

- The Representatives are asked to note the Report Back above, in particular the changes made as a result of the CAG's comments. In addition, the Representatives' attention is drawn to the Work Program on pages 15-18 and Appendix 1 of **Agenda Item D.1**, which has been added to illustrate the Work Program over 2012–2014, highlighting the anticipated commencement of, and key milestones during, individual projects and initiatives. The main changes of substance since the CAG's discussion in September 2011 are highlighted below.

New ISA and ISA-Related Projects

Auditor Reporting

- At its December 2011 meeting, the IAASB approved the commencement of a project on Auditor Reporting on a priority basis. In doing so, the IAASB agreed that Auditor Reporting is – and has to

be seen to be – IAASB’s no. 1 priority, in the public interest.¹⁵ The extent of resources throughout the period 2012-2014 to achieve completion of the Auditor Reporting project, including revisions to the related ISAs, is significant and all necessary Board and staff resources need to be made available for this project. In considering the effect of the prioritization of the Auditor Reporting project, the need for, and timing of, all current and proposed new projects has been reviewed. This has been reflected in the revised Strategy and Work Program. The main changes to the Work Program are as follows:

- Deferral of substantive Task Force and staff work and Board discussions on all current projects through Q3 2013, with the exception of ISAE 3410¹⁶ and ISRE 2400¹⁷ (which are nearing completion);
- Deferral of commencement dates of new projects for at least two quarters (for example, the formation of the INFO Working Group and the revision of ISRS 4400¹⁸); and
- Reassessment of overall capacity, resulting of the removal of New Project 4,¹⁹ and changes to relevant deliverables of other projects.

See paragraphs 8-9, 23 and 27 of **Agenda Item D.1**.

ISA 540

11. In finalizing IAPN 1000 at its September 2011 meeting, the IAASB agreed on the need to explore authoritative guidance relating specifically to third-party pricing sources. The IAASB tentatively agreed that, if developed, such guidance could be located in ISA 540 or ISA 500²⁰ as appropriate. The IAASB, however, recognized that the nature and extent of any such guidance would need to be informed by continuing developments in this area, including discussions currently being held on the topic in other forums, to ensure that the guidance will be relevant and effective.
12. The CAG and others also have suggested that consideration be given to the auditing implications of recent trends in financial reporting developments relating to greater reporting and disclosure of fair value financial information. Discussions with stakeholders have also suggested that there may be merit in exploring certain issues, including impairment and loan loss provisioning, and using the work of experts such as actuaries, that have specific relevance to financial institutions. These

¹⁵ See **Agenda Item G** for further description of the planned milestones, including the June 2012 consultation and June 2013 exposure draft.

¹⁶ Proposed International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*

¹⁷ Proposed International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Information*

¹⁸ International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*

¹⁹ This was the second of two proposed ISA-related projects originally scheduled to commence with a project proposal in 2014. It has been deleted due to potential considerations relating to ISA 260¹⁹ and ISA 570¹⁹ that may result from the auditor reporting project. However, footnote 10 of Agenda Item 5-A acknowledges the IAASB’s view that projects stemming from the ISA Implementation Monitoring project will have an effect on its 2015–2017 work program.

²⁰ ISA 500, *Audit Evidence*

developments, and findings from regulatory inspections and the ISA Monitoring project, may suggest possible further enhancements to the ISAs, including ISA 540, or the need to develop additional implementation guidance. Nevertheless, the IAASB also recognizes that ISA 540 has already been strengthened through substantive revisions as part of the Clarity project and these changes have only just recently come into effect.

13. In light of these views, the IAASB agreed that, given its decision in relation to third-party pricing sources, this be included as a formal project in the future work program, but with a potentially broader scope to allow for these developments (see paragraphs 29-31 of **Agenda Item D.1**). Subject to the IAASB's final agreement on timing of commencement of all its initiatives, a working group will be formed in Q3 2012, with the goal of exploring issues relating to third-party pricing services but also closely monitoring developments, and recommending appropriate action to the IAASB in due course.
14. With this decision, the Steering Committee also agreed that the project on "Other Financial Institutions Audit Guidance" proposed in the September 2011 draft should be subsumed into the broader initiative to consider further enhancements to ISA 540 or the development of new implementation guidance in light of relevant developments. Accordingly, this project has been deleted from the work program.

Professional Skepticism

15. At its December 2011 meeting, the IAASB commissioned the development of a Staff Questions and Answers (Q&A) publication to highlight requirements and application and other explanatory material in the ISAs and ISQC 1²¹ that focus on considerations relating to the application of professional skepticism in audits of financial statements. The Strategy and Work Program has been revised to reflect this development (see paragraph 25 of **Agenda Item D.1**). The Q&A is expected to be finalized by the end of February, and will be provided as **Agenda Item D.2** for reference purposes.

Matters for CAG Consideration

1. In light of the changes made to **Agenda Item D.1** as explained above, the Representatives are asked whether:
 - (a) The IAASB has appropriately addressed their comments; and
 - (b) They are supportive of the revised priorities.

IAASB Interaction with the IAASB CAG

16. There are no substantive new issues being raised on the Strategy and Work Program for the purposes of the March 2012 IAASB meeting. Accordingly, this report back serves as the final discussion of the Strategy and Work Program prior to its anticipated approval by the IAASB. CAG Representatives may wish to take this opportunity to comment on the IAASB's interaction with the

²¹ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

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 D.1	Revised Draft of the IAASB Strategy and Work Program, 2012–2014 (Marked to Show Changes since September 2011 Draft)
Agenda Item D.2	IAASB Staff Questions and Answers publication, <i>Professional Skepticism in an Audit of Financial Statements</i> , to be issued February 2012

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 December 2011
Final approval of Strategy and Work Program	March 2012	March 2012

CAG Discussions: Detailed References

Project Commencement	<p><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): http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211</p>
Development of Proposed Strategy and Work Program (Up to Consultation)	<p><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): http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211 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 <u>September 2010</u> 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 8 of the following): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5979</p>

<p>Report Back on Final Consultation Paper and Further Discussion</p>	<p><u>March 2011</u> 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): http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemA-Final_March_2011_Public_Minutes_APPROVED-v1-03.pdf See report back on March 2011 CAG meeting (in paragraph 7 of the following): http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemK-Strategy-V1-02.pdf</p>
<p>Consideration of Respondents' Comments on Consultation</p>	<p><u>September 2011</u> See IAASB CAG meeting material: http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemK-Strategy-V1-02.pdf http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemK1-Strategy-2012-2014-v1-01.pdf http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemK2-Strategy-2012-2014-Summary-of-Significant-Comments-V1-01.pdf See CAG meeting minutes (in Agenda Item K of the following): See draft September CAG meeting minutes at Agenda Item A. See report back on September 2011 CAG meeting in paragraph 8 of this CAG paper.</p>
<p>Final Approval of Strategy and Work Program</p>	<p>The discussion of this Agenda Item at the March 2012 CAG meeting serves as the final discussion of the project prior to its anticipated approval by the IAASB.</p>