



Agenda Item

A

Meeting: IAASB Consultative Advisory Group

Meeting Location: New York

Meeting Date: September 11, 2012

**Draft Minutes of the Public Session of the Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
CONSULTATIVE ADVISORY GROUP (CAG)
Held on March 6-7, 2012
Brussels, Belgium**

Marked to show proposed changes from Representatives

PRESENT

Members

Linda de Beer	Chairman
Amir Jusuf	Asian Financial Executives Institutes
Kristian Koktvedgaard	BUSINESSEUROPE (BE)
Matthew Waldron	Certified Financial Analysts Institute (CFA)
Jan Robberect	European Commission (EC)
<u>Federico Diomeda</u>	<u>European Federation of Accountants and Auditors for SMEs (EFAA)</u>
Marie Lang	European Federation of Accountants and Auditors for SMEs (EFAA)
Jean-Luc Peyret	European Financial Executives Institutes (EFEI)
Hilde Blomme	Fédération des Experts Comptables Européens (FEE)
Philip Johnson	Fédération des Experts Comptables Européens (FEE)
Paul Koster	Gulf States Regulatory Authorities
John Kuyers	Information Systems Audit and Control Association (ISACA)
Glenn Darinzo	Institute of Internal Auditors (IIA)
Michael Stewart	International Accounting Standards Board (IASB)
William Hines	International Actuarial Association (IAA)
George White	International Bar Association (IBA)
Bengt Hallqvist	International Corporate Governance Network (ICGN)

Markus Grund	International Organization of Securities Commissions (IOSCO)
Koichiro Kuramochi	International Organization of Securities Commissions (IOSCO)
Frank Bollmann	International Valuation Standards Council (IVSC)
Jaseem Ahmed	Islamic Financial Services Board (IFSB)
Hayanari Uchino	Japan Securities Dealers Association (JSDA)
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
David Morris	North American Financial Executives Institutes (NAFEI)
Dominique Pannier	Organization for Economic Cooperation and Development (OECD)
Ajith S. Ratnayake	Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)
Simon Bradbury	World Bank (WB)
ZhiRong Mao	World Federation of Exchanges (WFE)

Observers

Martin Baumann*	U.S. Public Company Accounting Oversight Board (PCAOB)
Brian Bluhm	IFAC Small and Medium Practices Committee, Deputy Chair (SMPC)
Pat Sucher	Basel Committee on Banking Supervision (BCBS)

IAASB

Prof. Arnold Schilder	IAASB Chairman
Dan Montgomery	IAASB Deputy Chair and Task Force (TF) Chair
Phil Cowperthwaite(March 7 – for Agenda Item N only)+	IAASB TF Chair
William Kinney (March 7 – for Agenda Item M only)+	IAASB Member and Subcommittee Chair
Caithlin McCabe(March 6 – for Agenda Item C only)+	IAASB Member and TF Co-Chair
Roger Simnett(March 6 – for Agenda Item C only)+	IAASB TF Co-Chair
Jon Grant	IAASB Member and Subcommittee Chair
Jim Sylph	IFAC Executive Director, Professional Standards and External Relations
James Gunn	IAASB Technical Director
Kathleen Healy+	IAASB Senior Technical Manager

* 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.

+ Via teleconference

Brett James	IAASB Technical Manager
Diane Jules	IAASB Technical Manager

IESBA CAG

Richard Fleck	IESBA CAG Chairman
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IESBA

Jan Munro	IESBA Deputy Director
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Public Interest Oversight Board	Susana Novoa
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European Commission (by invitation for presentation)

Arvind Wadhera (March 6 – for Agenda Item F only)

Raluca Painter (March 6 – for Agenda Item F only)

Anja Kunath (March 6 – for Agenda Item F only)

APOLOGIES

Members

Han Fang	Asian Financial Executives Institutes
Conchita Manabat	Asian Financial Executives Institutes
Vânia Borgerth	Associação Brasileira de Instituições Financeiras de Desenvolvimento
Dr. Obaid Saif Hamad Ali Al Zaabi	Gulf States Regulatory Authorities
Nigel James	International Organization of Securities Commissions
Yoseph Asmelash	United Nations Conference on Trade and Development

Observers

Norio Igarashi	Japanese Financial Services Agency
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March 6, 2012¹

Welcome and Approval of Minutes of Previous Meeting (Item A)

To APPROVE the minutes of the September 2011 CAG public session.

OPENING REMARKS

Ms. de Beer welcomed the Representatives and Observers, including new Representatives Mr. John Kuyers, (ISACA, replacing Mr. Roussey who rotated), Mr. William Hines, (IAA - replacing Mr. Gutterman who rotated), Mr. Jassem Ahmed (IFSB, replacing Dr. Karim who rotated), Mr. Glenn Darzino (IIA, replacing Ms. Bastolla who rotated) and Mr. Zhirong Mao (WFE, replacing Mr. Krantz who rotated).

She also welcomed Ms. Novoa as the representative of the Public Interest Oversight Board (PIOB).

MINUTES OF THE PREVIOUS MEETING

The minutes of the September 2011 meeting were approved.

BCBS Presentation (Item B)

To RECEIVE an update on the BCBS's project to revise its guidance on the relationship between external auditors and banking supervisors

Ms. Sucher, presenting on behalf of the BCBS, noted that the BCBS is currently working on two projects: one addressing internal audit guidance; and the other, external audit guidance. About both projects, Ms. Sucher noted that the financial crisis has raised interest in whether auditors (internal and external) and bank supervisors can work together to better share information.

INTERNAL AUDIT GUIDANCE

Ms. Sucher noted that the BCBS issued in December 2011 a draft paper entitled, *The Internal Audit Function in Banks*. A final version of this guidance document is expected by mid-2012. Its focus will be geared towards revamping existing internal guidance, more clearly articulate the BCBS's position on the relationship expected between bank supervisors and the internal audit function, and providing additional guidance on supervisory assessments of the internal audit function.

EXTERNAL AUDIT GUIDANCE

Ms. Sucher noted that the BCBS's project on external audit is aimed at updating the BCBS publication entitled, *The Relationship between Banking Supervisors and Banks' External Auditors*, and incorporating elements of the BCBS's document entitled, *External Audit Quality and Banking Supervision*.

Ms. Sucher explained that the topics that may be covered in the new guidance document include audit quality, professional skepticism, independence, ethical standards, non-audit services, going concern,

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.

disclosures, the objective of the relationship between external auditors and supervisors, and supervisors' expectations with regards to the conduct of the external audit.

Ms. Sucher noted that the BCBS believes IAPN 1000, *Special Considerations in Auditing Financial Instruments* (IAPN 1000) is useful and that elements may be incorporated into the BCBS's external audit document. Ms. Sucher explained that document would be a principles-based paper and is ambitiously planned for delivery to the BCBS by the end of 2012. She also stated that the IAASB will be given the opportunity to comment on an early draft of the document.

The Representatives and Observers commented as follows:

- Ms. de Beer asked for clarification on the authority of the external audit document. Ms. Sucher explained that guidance would be aimed at clarifying the relationship between auditors and supervisors, and would set forth the BCBS's expectations. She noted that, as the BCBS does not have authority over auditors, the document will not impose requirements.
- Mr. Baumann asked whether recent papers issued by the Netherlands and Ireland addressing similar topics had authority over auditors. Ms. Sucher noted that the UK Code is specific for banks within that jurisdiction, and indicates that there should be open, regular and timely communications between audit firms and bank supervisors. Ms. Sucher added that the UK is unique because there are safe harbor laws for external auditors, provided that such discussions were held in good faith. She also noted that the Irish document is similar to the UK code, albeit simpler and shorter.
- Mr. Baumann asked whether meetings between auditors and supervisors included bank management as well. Ms. Sucher responded that, while discussions worked best when only supervisors and auditors were present, the BCBS's code allowed for situations where it is necessary for management to be included. Ms. Sucher expressed the view that although improved collaboration and cooperative working relationships between auditors and supervisors are not likely in and of themselves to prevent future financial crises, there is a public expectation that auditors should be talking to supervisors.
- Mr. Ahmed asked for clarification on the difference between the external audit guidance being developed and the BCBS's previous guidance on external audit. Ms. Sucher explained that the new document would have less emphasis on what banks and auditors do and more on communicating the BCBS's expectations. Accordingly, the new document will be drafted more from a supervisor's perspective, it will be more principles based, and will include more information about corporate governance.
- Mr. Peyret asked about Ms. Sucher's reaction to a situation in France where an auditor informed a supervision of an issue, but it was not clear what the supervisor did with that information. Ms. Sucher explained that how supervisors respond to the information they receive depend on the remit of banking regulator in their specific jurisdiction.
- Mr. Kuramochi asked about whether the BCBS would be considering IFIAR's expectations in developing the document. Ms. Sucher responded that in a few jurisdictions audit supervisors meet with bank supervisors, noting for example the PCAOB meets with the Federal Reserve. She further added that though there is merit to sharing information, there is also a need to preserve distinct roles between audit regulators and supervisors.

- Mr. Uchino asked about going concern and whether the document would address the process of creating a “living will” that outlines what would happen if the bank were to go out of business. Ms. Sucher explained that the BCBS does not plan to address the concept of “living wills” in its external audit guidance document.
- Mr. Koster asked about exclusions of cross border activities and subsidiaries, and whether specific mention would be made to fraud detections and sanctions. Ms. Sucher clarified that those areas would be addressed in the new document.
- Ms. de Beer asked whether matters relevant to the IAASB were raised in the comment letters on the BCBS’s draft documents, and whether Ms. Sucher had any specific advice for the IAASB CAG that could be passed on the IAASB. Prof. Schilder noted that some of the topics that form part of the IAASB’s Strategy Work Plan were proposed to be included in the BCBS’s document, for example audit quality and disclosures. He also noted that the last question in the IAASB’s Question & Answers document on professional skepticism would be relevant to the BCBS’s work. Prof. Schilder suggested that because of the linkages between the BCBS’s work and IAASB’s work plan, it might be helpful for the IAASB to serve as an observer to the BCBS’s project.

Ms. de Beer thanked Ms. Sucher for coming to speak with the CAG on a topic that was clearly of broad interest.

Assurance on a Greenhouse Gas Statement (Item C)

To DISCUSS significant comments on the exposure draft of proposed ISAE 3410² and the TF’s recommendations.

INTRODUCTORY COMMENTS

Ms. McCabe and Mr. Simnett introduced the topic. Ms. McCabe noted that the ISAE 3410 TF, the ISAE 3000³ TF and the ISRE 2400⁴ TF had taken the opportunity to discuss issues common to these three proposed standards together in order to identify areas where coordination would be important. She also noted that comments from several respondents support the issuance of ISAE 3410 (Revised) at the earliest opportunity.

Ms. Blomme, speaking on behalf of the CAG Working Group, indicated support for IAASB’s approval of the proposed ISAE 3410 at its March meeting. The Working Group acknowledged that this would be in advance of ISAE 3000 but believed that ISAE 3410 should be issued earlier due to the urgent need for the standard.

LIMITED ASSURANCE REPORT

Ms. McCabe explained that some respondents expressed concerns regarding the ED’s requirements relating to the description of procedures in a limited assurance (LA) report. In particular, these concerns included that the requirements were not specific enough to prevent standardized language becoming the

² ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

³ ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical financial Information*

⁴ ISRE 2400, *Engagements to Review Historical Financial Statements (Revised)*

norm; the LA reports may be seen as a higher level of assurance due to the description of specific procedures; and the risk of divergent practices causing confusion for users. Ms. McCabe noted that, in response to these views, the TF developed options to illustrate how changing the specificity of the requirement regarding customization of the list of procedures would affect the LA report. These included a standardized approach in which only common standardized procedures are listed with the ability to delete a procedure if it was not performed because it was not relevant to the engagement; a customized approach, which included the same basic procedures as the standardized approach, but allowed for further detail to be provided on procedures performed; and a free form approach, in which there are no standardized procedures listed.

Ms. McCabe noted that, in response to these concerns, a teleconference with the IAASB was held to narrow the options. In response to the comments received at that teleconference, amendments were made to clarify that the purpose of customization is to elaborate on the standardized procedures already included and that the list of procedures should not appear to constitute either agreed upon procedures reasonable assurance. Further, the example customized procedures were amended to highlight procedures that might ordinarily have been performed had a RA engagement been undertaken.

Representatives commented as follows:

- Mr. Morris agreed with the approach taken by the TF and the proposed changes to the LA report. He noted however that the LA report now appears to be more comprehensive than the RA report. He suggested that a description of procedures could also be added to the RA report, to further explain the work undertaken in a RA engagement. Mr. Hansen agreed with Mr. Morris, noting that if LA reports give more information to users than RA reports, it may drive behavior to favor LA. Ms. McCabe responded that the view of the IAASB is that the opinion in a RA report differs substantially from the conclusion in a LA report. Accordingly, an LA report requires greater detail on the procedures performed in order to have context for the conclusion; an approach that is consistent with extant ISAE 3000.
- Mr. Bradbury suggested that, in the “Our Responsibility” section, the message that LA is substantially less in scope than RA should come first. Ms. McCabe responded that the paragraphs had been ordered this way to provide the link with the description of the procedures, which immediately follows.
- Mr. Pannier supported the TF proposals, noting that the proposed ISAE is technically sound and that the need for it is pressing. He mentioned that an upcoming United Nations sustainability conference in Rio will address aspects of these issues. Also the OECD’s corporate governance committee has a proposal on its agenda to develop a code on the disclosure of carbon emissions and how to integrate this into business processes, so it is timely to issue this standard.

SPECIFIC DIFFERENCES BETWEEN RA AND LA

Ms. McCabe mentioned that respondents broadly supported the ED, noting that balance of requirements and application material was appropriate. However, some respondents suggested that greater specificity was needed in regard to consideration of internal controls in LA engagements. Although some of these respondents suggested that the practitioner needed to test design and implementation of controls, the TF decided that design and implementation were closely related to control activities and monitoring controls which were not needed to be assessed for a LA engagement.

'TRIGGER POINT' FOR ADDITIONAL PROCEDURES IN A LA ENGAGEMENT

Ms. McCabe highlighted that the TF had supported the view that it was important to make the trigger point for the requirement to perform additional procedures consistent across all three projects addressing LA. However, the TF proposed minor amendments to the application material to ISAE 3410 to provide further guidance as to when the auditor needed to undertake further procedures.

Ms. de Beer noted that the material addressing an instance where a practitioner becomes aware of a matter that causes the practitioner to believe the GHG statement may be materially misstated did not identify what additional procedures were to be performed by the practitioner.

OTHER ISSUES

Representatives commented on the remainder of the CAG papers as follows:

- Mr. Diomeda questioned the rationale for stating that decisions regarding materiality are not affected by the level of assurance. Mr. Stewart noted that, from the perspective of IFRS, materiality should be independent of the level of assurance as the focus is on decision making by users. Ms. McCabe and Mr. Simnett agreed with Mr. Stewart, noting that materiality in both ISAE 3000 level engagements and the Framework is based on information needs of users, not on the level of assurance obtained. They noted that the difference between RA and LA engagements is the level of procedures conducted to reduce the risk that the practitioner expresses an inappropriate conclusion when the GHG statement is materially misstated.
- Ms. de Beer noted that the list of matters in ISAE 3000 that are not replicated in proposed ISAE 3410 is useful.

Ms. McCabe and Mr. Simnett thanked the CAG and the CAG Working Group for their comments. Ms. de Beer summarized the CAG contributions by emphasizing the need to issue the ISAE at the earliest opportunity.

IAASB Future Strategy and Work Program 2012–2014 (Item D)

To REPORT BACK on the September 2011 CAG discussions and RECEIVE an update on changes made to the proposed final Strategy and Work Program in light of the planned timeline for the Auditor Reporting project (IAASB approval planned for March 2012)

Prof. Schilder introduced the topic, noting that the proposed strategy and work plan is scheduled for approval by the IAASB at its March 2012 meeting. He explained that in light of global developments related to auditor reporting the IAASB agreed at its December 2011 meeting to reprioritize matters on its proposed forward work plan. He also referred the CAG to the recently released Staff Questions and Answers (Q&A) document on Professional Skepticism, noting that the impetus for this document was the September 2011 CAG discussion on the topic.

WORK PLAN

Mr. Gunn noted that Appendix 1 to the document provides a snap shot of the Board's plan for the next three years. The CAG Representatives were asked for their view about the proposed prioritization of projects.

The Representatives and Observers commented as follows:

- Mr. Kuramochi noted that IOSCO supports the prioritization of the project on auditor reporting. However, he suggested that the IAASB also continue to focus on disclosures and liaison with groups such as the European Securities and Markets Authority. He highlighted that as accounting becomes increasingly complex and disclosures more central to understanding the financial statements, auditors will continue to be challenged to ascertain what constitutes material disclosures. Mr. Gunn noted that the topic of disclosures is a point of emphasis for the IAASB-IASB Liaison Working Group, and that IAASB plans to consider a project proposal on disclosures in 2012.
- Mr. Koktvedgaard supported the proposal to create the INFO Working Group⁵ as this would inform the projects on auditor reporting and professional skepticism.
- Mr. Waldron expressed support for prioritizing the auditor reporting project. He also indicated that the topic of preliminary announcements is also priority for the CFAI.
- Mr. Pannier expressed strong support for the work plan noting that the new projects were valuable.
- Mr. Diomeda expressed support for the IAASB's timely revision to standards relating to reviews and compilations. He suggested that the IAASB explore a "building blocks approach" to standard setting to alleviate practical and implementation challenges for SMPs. ~~Ms. Blomme~~ Mr. Bluhm added that priority be given to the initiative to develop a document that seeks to improve users' understanding of audit, reviews and compilations.
- Ms. Sucher, commenting in her capacity as an observer and former CAG member, noted that she supports the Board's re-prioritizations but sees challenges. She also suggested paragraph 32 of Agenda Item D.1 could include the broader topic of how auditors should interact with supervisors.
- Messrs. Jusuf and Ratnayake suggested that the IAASB consider prioritizing the project to determine whether more specificity and guidance is needed in ISA 540.
- Messrs. Hansen, Diomeda, Pannier and Kuramochi expressed support for the Staff Q&A on professional skepticism. Mr. Pannier suggested that the IAASB revisit the topics of professional skepticism and ISQC 1 after the release of the exposure draft of the Auditor Reporting.
- Mr. ~~Ahmed Johnson~~ complimented the IAASB for its reaction to market developments, adding that timely communication about the IAASB's work will be important going forward in order to meaningful influence change. He applauded the IAASB's liaison and coordination initiatives, noting in particular IAASB leadership's meeting this week with EC rapporteurs.
- Mr. Hallqvist noted that in many jurisdictions management has significant influence on the appointment of the auditor and that the quality of an audit is enhanced when the auditor is directly accountable to the shareholders or owners of the company, independent of management in substance and in form. He recommended that the IAASB undertake a project addressing the importance of independence for audit quality. He also suggested that the auditor reporting project

⁵ The INFO Working Group is tasked with identifying and researching issues and actively monitoring relevant developments to inform longer term IAASB strategy and standard-setting activities

should give consideration to the influence of corporate governance on the audit. Prof. Schilder responded that part of the focus of the INFO Working Group would be to work with others to influence improvements in corporate governance.

Prof. Schilder highlighted recent comments by PIOB Observers who suggested that the IAASB's current projects, in particular its project relating to greenhouse gas reporting, could provide a useful foundation for developing future projects.

Ms. de Beer asked about the level of flexibility built into the work plan. Mr. Gunn responded that the IAASB will continue to monitor needs and developments and re-direct its efforts as needed.

Prof. Schilder thanked the Representatives and Observers for their comments.

Report Backs (Item E)

To REPORT BACK or UPDATE on International Auditing Practice Note (IAPN) 1000, Special Considerations in Auditing Financial Statements, Using the Work of Internal Auditors (ISA 610), Compilation Engagements (ISRS 4410), ISA Implementation Monitoring, Disclosures, Professional Skepticism, Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000), Audit Quality, The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon (ISA 720)

Ms. de Beer drew attention to matters noted in the report backs.

In relation to ISA 610, Representatives and Observers commented as follows:

- Mr. Baumann noted that the proposed change to the definition of the engagement team, as set out in the recent ED by IESBA, is potentially unclear. In particular, the specific reference to internal audit staff providing direct assistance as excluded for the engagement team might mean that other internal audit staff of the function are not if the auditor uses the work of the function for audit purposes.
- Mr. Hansen asked if the reference to "higher risk of material misstatement" indicated the establishment of a new category of risks. Mr. Gunn noted that this is not a defined term in the ISAs and its use is consistent with other ISAs.

Auditor Reporting—Updates from European Commission (EC) and U.S. PCAOB (Item F)

To RECEIVE an update on the EC and PCAOB's recent proposals and current activities related to auditor reporting.

Ms. de Beer explained that the objective of this session to have presentations from the PCAOB and EC presentations were not in order to create an opportunity to provide input into the processes of the respective organizations, but instead serve to update the CAG on activities relevant to auditor reporting and hence assist in giving guidance to the IAASB on its activities.

UPDATE FROM PCAOB

Mr. Baumann presented to the CAG on the PCAOB's overall inspection and standards-setting activities aimed at improving the auditor reporting model, and the role of the auditor more broadly. Mr. Baumann

highlighted the distinction between the PCAOB's Proposals and its Concept Releases, noting that Concept Releases are a means whereby the PCAOB seeks further public input in developing a position on a particular issue, whereas PCAOB Proposals represents the PCAOB's views on how a particular issue(s) may be addressed.

Mr. Baumann explained that the PCAOB has several relevant projects, including a proposal related to improving transparency through disclosures of the engagement partner and certain other participants in the audit; and another regarding auditor communications with audit committees to explain judgments, complaints, act as early warning on going concern etc. He also mentioned that the PCAOB has issued Concept Releases related to improving audit independence, auditor and firm rotation and professional skepticism, as well improving auditors' reports. The comment period for the Concept Release related to improving auditors' reports will close in September, 2012 and that the PCAOB is reviewing issues that are similar to those being dealt with by the IAASB.

Mr. Baumann highlighted that the PCAOB sees the concept of Auditor's Discussion and Analysis (MD&A) as challenging due to the difficulty in developing requirements. He expressed the view that, for EOM paragraphs to be meaningful, clear guidance was needed and that merely pointing to a disclosure within the financial statements would not be helpful, as it would not explain why matters are being referenced.

Mr. Baumann also noted that the U.S. regulatory requirements that drive management's critical accounting estimates, (a part of MD&A.) necessitate disclosure of information that is consistent with the information investors are seeking to have included auditors' reports. As a result, assurance on management's critical accounting estimates would in all likelihood improve their quality and usefulness to users.

Ms. de Beer asked Mr. Baumann for his views on the IAASB's approach on the auditor reporting project. Mr. Baumann expressed general support for the progress made on the project, acknowledging that the building blocks premise as a good one, because it is necessary for each jurisdiction to have specific incremental requirements in order for auditor reporting to remain relevant.

UPDATE FROM EC

Ms. de Beer thanked Mr. Robberecht from the EC for setting up this session and introduced Mr. Arvind Wadhwa, Acting Head of the Audit Unit, Ms. Anja Kunath, National Expert and Ms. Raluca Painter, Legal Officer at the EC. Mr. Wadhwa indicated that the EC has started discussions about its proposals with the European Parliament and Council. He described the structure of the EC's proposals as a two-step approach: (1) rules for all statutory audits (directive); and (2) stricter rules for statutory audits of public interest entities (PIEs) (regulation). With respect to audits of PIEs, Mr. Wadhwa indicated that there is a need for more stringent regulation to ensure that the quality of financial statement audits is satisfactory. In describing more general aspects of the EC proposals, Mr. Wadhwa noted that:

- Auditors will be required to comply with the ISAs (carve outs will be disallowed, though member states will be allowed to have "add ons" only when national laws require it).
- Member states will be allowed to ensure that the application of auditing standards is proportionate to the scale and complexity of the business of small-and medium sized entities.
- Audit firms may not be able to provide certain non-audit, "black listed," services to audit clients, such as expert services unrelated to the audit, tax consultancy, and valuation services. However,

the proposals allow for some non-audit “grey list” services with either pre-approval of the audit committee or the competent authority.

- With respect to improving auditor’s reports, the EC proposals include a prescriptive list of matters that should be included in the auditor’s report, including a description of the methodology that the auditor used to perform the audit.
- The proposals would require an additional report to audit committees that would describe the auditor appointment process and explain judgments made about material uncertainty that may case doubt about the entity’s ability to continue as a going concern. The new report to audit committees is intended to allow for a more robust dialogue with audit committees so that they can perform their duty in overseeing the auditor.
- Auditors of PIEs would be required to communicate with the respective supervisors about any fact or decision regarding a material breach of rules, going concern, or auditor refusal to opine on the financial statements.
- The pending proposals stress independence of audit committee and include requirements for periodic audit firm rotation.

CAG DISCUSSION ON PCAOB AND EC PRESENTATIONS

Prof. Schilder explained the background to the IAASB’s Auditor Reporting project, noting its commencement with academic research and that feedback from the May 2011 CP indicate a need for further, more targeted consultation. He added that the IAASB is aiming to release a document in advance of an exposure draft to solicit further public input in June 2012. Prof. Schilder noted that there was commonality between some matters that are required for inclusion in auditors’ reports under the EC proposals, and what some respondents to the IAASB’s May 2011 CP sought. He added that the information that some respondents required for inclusion in auditor’s reports, in particular as it relates to going concern, seem to go beyond the scope of the audit and that further clarification is needed. With respect to certain aspects of the EC proposals, Prof. Schilder noted that there is a need for further understanding how some of the proposals are intended to be operationalized.

- Ms. de Beer asked about the inter-relationship between the EC proposals with the ISAs, in particular with respect to auditor reporting. Mr. Wadhwa noted that the main thrust of the EC proposals that deal with the auditor’s report relate to going concern, and that if auditors were to include an explicit affirmative statement with respect to going concern in their auditors’ reports, such a statement would substantively achieve the EC’s overall goal. He further explained that the EC is strictly against expanding the scope of the audit, but instead aims to clarify, by making more explicit, certain matters relating to the audit in auditors’ reports.
- Ms. de Beer, asked Mr. Wadhwa whether, in his view there were gaps that existed between the EC proposals and the IAASB’s approach. Mr. Wadhwa cautioned against linking or delinking the EC proposals to ISAs.
- In response to a question from Mr. Ratnayake about the impact that the prohibition of non-audit services would have on audit firms’ profitability, Mr. Wadhwa noted that EC proposals allow for safeguards for independence and explicit means for auditors to raise capital.

- Mr. Johnson asked for clarification about the difference in the wording used in the EC's proposals compared to the words used in the ISAs addressing communication with those charged with governance (TCWG), in particular with respect to "internal control in relation to financial reporting" as a whole, versus internal control over financial reporting in the context of the financial statement audit.

Mr. Wadhera clarified that the intent of the EC's proposed requirement on internal control was to drive auditors to indicate in auditor's reports "whether the financial reporting system is up to the task," and is not intended to create new responsibilities for auditors. He added that the EC proposals require auditors to describe the extent of such reliance, and how much reliance was placed on other, more substantive work. Mr. Johnson expressed the view that the EC proposals that deal with internal control, as written, are likely to go beyond the scope of an audit, and suggested that consideration be given to the extent of audit effort envisioned, and how the EC proposals align with the existing integrated audit model in the U.S. Ms. de Beer added that, in light of the potential confusion, it is important for the EC to explore the challenge between the role of the auditor in relation to the broader aspect of internal controls over all risk areas as opposed to internal financial controls.

- Mr. Baumann asked for clarification about the effective date for the pending proposals. Mr. Wadhera responded that the effective date is subject to completion of the Council's and Parliament's deliberations. He added that the directive would enter into force on the twentieth day following its publication in the Official Journal of the European Union and member states are typically given an additional 18 months to implement it. He added that the regulation would enter into force on the twentieth day following its publication in the Official Journal of the European Union and would likely be applicable 24 months after its entry into force. The regulation would have immediate effect as of the day it becomes applicable.
- Ms. Lang asked for clarification about the EC's process for determining that ISAs were sufficiently proportionate in light of the decision made to have the ISAs used as base to harmonize the standards across member states. Mr. Wadhera and his staff explained that the EC cannot assess the way in which member states will address the proportionality of ISAs. He explained that planned dialogues with regulators and auditors would afford the EC an opportunity to exchange ideas about proportionality and how member states interpret the concept of proportionality.
- Mr. Peyret asked whether the EC has surveyed its 27 member states to identify those in favor of the project and those not. Mr. Wadhera explained that requirements in the proposals represent an amalgamation of best practices that already exist in some form in EC member states, noting that mandatory rotation already exists in Italy and will exist in the Netherlands; non-audit services restrictions exist in France, Belgium and Italy, and long form auditor's reports already exist in Germany; and joint audits exist in France (mandatory for companies that establish consolidated accounts), Austria (voluntary joint audits) and Sweden (for certain entities in the financial sector).

Ms. de Beer thanked both Mr. Wadhera and his team and Mr. Baumann for their presentations and time spent with the CAG on these important matters.

Auditor Reporting Overview (Item G)

To RECEIVE an update on IAASB's recently approved project proposal.

Mr. Montgomery introduced the topic and briefed the CAG on the key findings from the IAASB's May 2011 Consultation Paper (CP) on auditor reporting. He outlined the project proposal, highlighting the planned scope and timing of the project as well as the structure that had been put in place to progress the project on an accelerated basis. He also described the decision-making process used by the TF to evaluate the options considered. He noted the TF's plan to use this decision-making process as a basis for its June 2012 consultation.

OVERALL COMMENTS ON THE BASIS FOR, AND APPROACH TO, THE PROJECT

The Representatives and Observers commented as follows:

- Mr. Koktvedgaard commented on behalf of the CAG Working Group that they were impressed with amount of work that the IAASB and staff have done in progressing the project forward and putting forth innovative thinking. Mr. Waldron agreed, noting that the use of subcommittees seems to have been effective for this purpose.
- In relation to the responses to the May 2011 CP, Mr. Diomeda highlighted the relatively low number of responses from users of financial statements. He questioned whether there was sufficient evidence of a demand for more precise information in auditor's reports from investors as a basis for the project. Mr. Diomeda also expressed a concern that the IAASB will never be able to fully address the expectations gap or the information gap. Mr. Montgomery responded that, although the responses from users was small in number (6 of 82), quite a few of the letters represented larger groups of investors. He also noted these responses were consistent with publicly available investor views on the topic of auditor reporting, for example responses to the PCAOB Concept Release on auditor reporting, and outreach activities conducted by the IAASB, PCAOB and other National Standard Setters (NSS) over the past three years. Mr. Montgomery explained that on this basis the IAASB believes it has a foundation to explore options to respond to demands from users, recognizing the challenges in terms of delivering a proposed solution that will strike an appropriate balance among the varying needs and views of a wide range of stakeholders.
- Mr. Hallqvist believed that the root cause of the issue in auditor reporting stemmed from the symbiotic relationship that exists between management and auditors and insufficient independence and rigor among those charged with governance in the auditor appointment and oversight process. Mr. Hallqvist noted his view that in the U.S. there is not a separation of roles of CEOs and directors of companies in the corporate governance model and as such, management has a significant and undue influence on the activities of the audit committee, which in turn creates a challenge for the auditor to be truly independent.
- Mr. Koktvedgaard expressed support for the Task's Force decision to initially explore options for change that are within the scope of the current audit, based on the acceptance to date of the ISAs. However, he suggested-noted that, as the proposals develop, the IAASB may conclude that there is a need to undertake new, separate projects in order to discuss a change or increase the work effort in certain areas to best address user demands.

- Mr. Koktvedgaard also expressed a view that fundamentally the reason for the project is the public's lack of trust of auditors. It is therefore conceivable that further clarification of the language and wording used in the auditor's report would help address the issue by providing further transparency about what is done in an audit. However, Mr. Koktvedgaard noted his view that demand for additional information by investors may be rooted more in concerns with the accounting and reporting framework, rather than a need to understand what the auditor did. Mr. Montgomery noted that many respondents to the CP indicated a similar view, suggested that the IAASB work with the IASB and others to explore a holistic approach to enhancing auditor reporting, financial and corporate governance reporting as a whole.
- Mr. Stewart noted, As a personal view, he noted that that, while materiality is of interest to the IASB, the IASB agenda is full in the short term although their future work program was likely to focus on conceptual framework which may address materiality.

VALUE AND IMPEDIMENTS MODEL

- Mr. Koktvedgaard supported the use of the value and impediments model as a structured means of seeking feedback on the IAASB's proposals.
- Citing concerns that changes in auditor reporting would raise audit fees, Mr. Waldron drew a parallel between the amount paid by companies for audit fees and the amount paid for CEO compensation. He noted that CEOs are highly compensated because there is a high value placed on what they do. He indicated that similarly investors place a high value on what auditors do, as their role is to act on behalf of investors, and suggested that that value be reflected in their audit fees. Mr. Waldron encouraged the IAASB to continue to seek feedback on the matter of cost and investors' views on value.
- Mr. Pannier suggested that cost should not be considered an impediment in the IAASB's decision-making process. He noted that there is a lack of trust in the financial sector, and that the consequences go far beyond audit fees. He challenged the TF and the IAASB to be innovative and bold and to consider proposals that are both useful for investors and that will benefit the public as a whole. Mr. Montgomery commented that the concept of impediments was not limited only to cost, and reiterated the TF's view that options would not be excluded solely on the basis of actual or perceived high "cost," as such options may have high value. However, he noted that cost implications cannot be ignored, because of concerns raised on consultation particularly among SME Representatives. Mr. Montgomery explained the need for ongoing dialogue, in particular with users, to share the IAASB's preliminary thinking on its proposals to seek feedback as to whether the proposals would meet their information needs.

SPECIFIC ASPECTS OF THE PROJECT⁶

- Mr. Koktvedgaard noted the CAG Working Group's support for the Building Blocks approach. In the Working Group's view, global agreement is needed on the structure of the auditor's report, with the pass/fail nature of the auditor's report retained as an international concept. He supported the

⁶ Further discussion on matters specifically addressed by the four subcommittees were discussed as part of Agenda Item H, K, L, and M and reflected accordingly as part of the minutes of those respective sections.

concept of fundamental elements in all auditors' reports to respond to demands from preparers, users and others for comparability.

- Messrs. Koktvedgaard and Morris, in supporting the TF's approach to the project, expressed the view that the topic of insights would be the most difficult to progress forward. Mr. Morris suggested that the IAASB seek to finalize its position and recommendations in the other subcommittee areas in advance of the June 2012 consultation, in order to effectively consult on those matters and allow ample time to further debate issues relating to insights.
- Mr. Kuramochi expressed strong support for the TF's general approach. Drawing from IOSCO's own outreach activities, he noted that investors have expressed a need to know more about the findings from particular audit procedures performed. Furthermore, they have generally challenged the value of the auditor's report absent of auditor insights.
- Mr. Peyret expressed a view that generally auditors know less than management and that often management is resistant to providing more information, particularly as it relates to the type of information that investors are looking for in the auditor's report. He suggested the need for the TF to give further consideration to the practical challenges involved in the auditor providing more information in auditor's reports, in light of what management has consciously chosen not to disclose. He recommended that the TF specifically consider whether it is appropriate that auditors will need to deal with the tension that will inevitably result if auditors are to provide their views about the entity in the auditor's report, or whether this role is better left to regulators and enforcement authorities. Mr. Montgomery agreed that providing auditor insights will prove challenging, in relation to identifying potential matters than auditors may describe more fully in the auditor's report, what should be said about those matters (in particular in relation to the auditor's judgment and processes) and the criteria needed to help auditors determine the nature and content of auditor insights.

PROJECT TIMELINE, OUTREACH AND CONSULTATION

- Mr. Koktvedgaard noted that the 2013 timeframe might be too late in light of the PCAOB's pending proposals in June 2012 and the EC November 2011 proposals. He suggested that the TF and the IAASB give further consideration to accelerating planned deliverable dates to better align with the timetable of others. He also expressed a concern with the timing of the September 2012 CAG meeting in light of the project timetable and suggested further consideration was needed on how the IAASB's December 2012 debates would need to be taken into account by the CAG. Ms. de Beer agreed, noting the matter would be further considered after the June 2012 IAASB meeting.
- Mr. Hallqvist suggested further discussion with ICGN's Accounting and Auditing Practices Committee would be appropriate.
- Mr. Uchino was of the view that there is a need for the IAASB and auditors generally to educate users, in particular investors and company managers, about what an audit is. He also suggested that the concepts of professional skepticism and the need for transparent communication between auditors and preparers should be further emphasized in outreach and education.

Mr. Montgomery thanked the CAG for its support and input. Prof. Schilder indicated that the IAASB had scheduled meetings with EC rapporteurs. He also noted that the depth and breadth of the very thoughtful

and helpful comments of the CAG Representatives were indicative of input from organization and adds much rigor to the standard-setting process.

Auditor Reporting –Insights (Item H)

To RECEIVE CAG members' views on inclusion of auditor's insights in the auditor's report regarding, for example, risk assessments and responses, areas of significant judgment, quality of accounting policies and unusual transactions.

Mr. Montgomery introduced the topic, noting the demand for auditor insights stems from the view of users that the auditor should be able to provide additional information based on what has been discussed with TCWG and documented in the audit summary memo and that this information would assist users in making more informed investment decisions. He highlighted the TF's recommendations in the agenda material, including the recommendation that auditor insights should be required for all listed entities, and noted that these recommendations would be presented to the Board at its upcoming meeting. Mr. Montgomery added that the TF is still exploring various aspects of the recommendations, including whether auditor insights in the auditor's report should be limited to auditor judgments or whether it should also include areas of management judgment and whether EOM paragraphs should be retained or would be addressed by auditor insights.

CRITERIA FOR DETERMINING MATTERS ON WHICH TO PROVIDE AUDITOR INSIGHTS

Mr. Montgomery noted that the TF initially considered whether the primary criteria for auditor insights should be linked to significant risks as defined by the ISAs and determined that this may not be broad enough. He explained that auditors may want to provide additional information about certain matters that had not necessarily been identified as significant risks, but agreed that significant risks, among other things, would be considered in determining what to include in auditor insights. He added that the TF proposed that the criteria for auditor insights should include both matters of significant audit effort and significant judgment by the auditor.

The Representatives and Observers commented as follows:

- While expressing support for the concept of auditor insights, Mr. Robberecht questioned what was intended by "significant audit effort" in the proposed criteria, for example whether this was linked to the number of hours spent on a particular issue. Mr. Montgomery explained that the intent of basing the requirement on significant audit effort and significant auditor judgment was to highlight that matters to be addressed in auditor insights were likely those that required significant discussions with management and TCWG and related to a significant number of hours. He agreed with Mr. Robberecht's view that such effort would likely be undertaken by more senior members of the engagement team, and that guidance to support this requirement would be useful. Mr. Montgomery cautioned however that the content of auditor insights should do more than simply itemize areas that required significant work effort. Auditor insights should explain why the matter was considered to be an area of significant auditor judgment (for example, due to the complexity of the underlying process or the use of a model).
- Mr. Hines supported the proposed criteria, noting his view that areas of significant audit effort should be indicative of areas of significant risks in the financial statements. In particular in relation to estimates, Mr. Hines was of the view that auditor insights about management's approach and

basis for their decisions would be useful in light of users' focus on estimation uncertainty. Mr. Montgomery responded that the Subcommittee explored focusing on significant risks, but recognized that some users who are interested in knowing more about the significant risks in the financial statements are referring to broader risks and uncertainties described in the financial statements, not necessarily the risks of material misstatement. Accordingly, the TF believed the proposed criteria should be sufficiently flexible to allow auditors the ability to discuss matters other than significant risks should they believe it is necessary to do so.

- Mr. Ratnayake expressed the view that it is important for the auditor's report to provide more information about management's judgments made in preparing the financial statements and that it would be particularly useful to indicate the areas that are likely to be affected by management bias and unusual transactions, rather than simply explaining the conduct of the audit. Mr. Koktvedgaard expressed concern about the possibility that auditor insights could include information about management's judgment. He noted that while users may find such information interesting, doing so may lead to questions about whether the auditor's opinion was near to being qualified.
- Mr. Grund suggested the IAASB will need to determine the overall goal of the auditor insights. In his view, it is to increase users' trust in the auditor's opinions. He suggested the IAASB should further explore the relationship between auditor insights and the auditor's opinion in considering what could be described in auditor insights to determine whether it would increase or decrease trust in that opinion.
- Ms. Blomme expressed strong support for the TF's work on proposed criteria and commended the Board for commencing and prioritizing the project and taking into account the need for flexibility at the national level.
- Ms. Blomme highlighted the need for the IAASB to consider what the auditor should report externally in the auditor's report or to supervisors, as well as internally to TCWG, in light of demands from users for additional information. Mr. Johnson noted in the U.K. and Europe there is a view that reports of TCWG should be expanded to provide the additional information that users are requesting, while in the U.S. there is a view that such information should come directly from auditors. Mr. Johnson, supported by Ms. de Beer and Ms. Koktvedgaard, added that auditors already discuss significant management judgments with TCWG, and that the IAASB may need to focus on improving communications with TCWG to enable TCWG to improve their external reporting and the auditor's report could make reference to these reports. Mr. Baumann noted that the PCAOB's update to their standard on communicating with TCWG was intended to serve as a basis for the auditor to consider what should be reported externally. Mr. White added that IAASB would likely need to prescribe what information needed to be communicated to TCWG and what must be communicated to the public, bearing in mind the possibility that investors may question why such matters were discussed internally but not reported externally.

Mr. Montgomery responded that the proposed criteria were intentionally broad to allow auditors flexibility in judgment and approach tailored to the circumstances of the engagement. Mr. Montgomery explained that the building blocks approach was intended to provide flexibility in the means by which the additional information is provided, and acknowledge the possibility that auditors may report on the completeness and accuracy of expanded reports of TCWG (i.e., the UK proposed approach as part of its Effective Company Stewardship initiative). He noted however that

in jurisdictions where TCWG do not have a reporting responsibility it may be necessary for the auditor to provide such information.

- Mr. Pannier, Mr. Ratnayake, and Mr. Waldron were of the view that the additional information that is sought by users should come from auditors, as TCWG do not have the wealth of information that auditors do as a result of the audit. Furthermore, the auditor is expected to act as an agent for the investor and can provide insights on the reliability of the financial statements. They supported requiring auditor insights for all listed entities.
- Mr. Morris noted that the determination of whether auditor insights should be required for listed entities would need to follow the decision on what may be required in the insights. He also expressed a concern that auditor insights may become boilerplate over time.

CONTENT OF AUDITOR INSIGHTS

Mr. Montgomery explained that the TF agreed that certain factors need to be taken into account by the auditor in determining the content to be included, including the level of detail to be provided. He noted that auditor insights would vary depending on the matter being described, ranging from a simple reference to the matter and where it is disclosed in the financial statements (similar to an EOM paragraph as defined in ISA 706), to including additional auditor views judged to provide context necessary to enhance users' understanding of the matter. He highlighted that a requirement in ISA 700 relating to the content to be included in auditor insights could include matters such as: the extent to which the matter(s) are appropriately disclosed in the financial statements; whether a description of the auditor's procedures, or a conclusion based on these procedures, would enable users to understand the importance of such matters and the basis for the auditor's judgments; whether additional information would enhance users' understanding of the matter(s) or the conduct of the audit; and whether there are implications to future financial statements that may be described.

The Representatives and Observers commented as follows:

- Mr. Baumann noted that the questions and challenges that the TF identified are the same as those asked by the PCAOB staff on its auditor reporting project. Specifically, he questioned the feasibility and usefulness of having a discussion about audit procedures in the auditor's report because of the difficulty of summarizing procedures described in the ISAs in great detail.
- Mr. Johnson, supported by Mr. Hansen, noted that the purpose of the audit is to provide an opinion on the financial statements as a whole and expressed concern that providing more information in the auditor's report about the auditor's procedures could be misread as providing piecemeal opinions. Ms. de Beer noted that, in her view, users were more interested in what conclusions the auditor reached than the auditor's procedures. However, Mr. Waldron supported a description of procedures in the auditor's report.

Mr. Montgomery noted that the proposed requirement addressing the content of auditor insights did not mandate the disclosure of the auditor's procedures in the auditor's report. He explained that the proposed requirement and application material guided the auditor to consider whether a description of the auditor's procedures, or a conclusion based on these procedures would enable users to understand the importance of such matters and the basis for the auditor's judgments (for example, to provide flexibility for auditor insights to address the French justification of assessments model).

- Mr. Kuramochi expressed the view that while investors may not find value in a description of the auditor's procedures in the auditor's report, this could add transparency to the audit process and could potentially change auditor behavior. Mr. Waldron suggested further dialogue with investors about the implications of including a description of the auditor's procedures would be useful. Mr. Kuramochi also noted a strong link between the auditor reporting project and the IAASB's project on audit quality. Mr. Diomeda cautioned that audit quality may be better addressed by the activities of oversight bodies.
- Mr. Hansen noted that what was not done by the auditor is also very useful and suggested that disclosure about the auditor's overall audit approach may be more relevant to users, in particular users of SMEs auditor's reports, and in line with the EC proposals to discuss the balance of controls and substantive testing.
- While supporting the criteria to discuss areas of audit emphasis, Messrs. Koktvedgaard and Waldron did not support the examples in Appendix 2. Mr. Waldron noted the PCAOB's roundtable on auditor reporting provided useful feedback as to what users are looking for in auditor insights to enhance these examples. Mr. Koktvedgaard suggested that plain language to convey the auditor's understanding of the entity's business and the audit responses to identified risks, summarized in a manner consistent with how auditors would communicate to an entity's board of directors would be more useful.

Mr. Montgomery clarified that in developing the illustrative examples, the TF considered the point of view of the investor, and started with the U.S. Center for Audit Quality examples presented in response to the PCAOB's Concept Release, supplemented by the additional information that is typically included as part of the justification of assessments model used in France. He noted the TF believed it was necessary for the auditor to provide context for users to understand why the insights was being provided, and plans to further refine the examples and test them with stakeholder groups. Mr. Waldron noted the CFA Institute would welcome the opportunity to do so.

- Mr. Diomeda suggested that the TF be mindful of implications of varied content in auditor's reports on users' perception of the audit, particularly as it relates to SMEs. Mr. Montgomery clarified that it was the TF's recommendation to require audit insights for only listed entities, but NSS may need to determine how such a requirement might apply to SMEs.

OTHER MATTERS

- Mr. Hansen questioned whether the IAASB was exploring changes to better describe the auditor's responsibilities with respect to fraud detection. He noted investors' requests in this regard, as well as the EC proposals and the U.S. Department of Treasury Advisory Committee to the Auditing Profession's recommendation. Mr. Montgomery noted that this was addressed by the Clarifications Subcommittee in Agenda Item M.
- Mr. Waldron inquired about the TF's considerations of describing materiality in the auditor's report. Mr. Montgomery noted that this was addressed by Clarifications Subcommittee in Agenda Item M. However, the TF recognized that one option would be for auditor insights to address materiality if the auditor considered it necessary to do so.

Mr. Montgomery thanked the Representatives and Observers for their comments.

Auditor Reporting – Going Concern/Other Information (Item K)

To RECEIVE CAG members' views and input on options for including more information about going concern and other information

Mr. Grant introduced the topic and noted that the issue of auditor reporting in relation to going concern and other information, while not addressed by the May 2011 consultation paper, were central to the EC proposals as the CAG heard during Agenda Item F. He outlined the options for consideration and explained that they included five options as follows:

1. To require the inclusion in the auditor's report of a generic description of the responsibilities of the auditor under extant ISA 570 and of management regarding GC.
2. To require a conclusion in the auditor's report regarding the auditor's work under extant ISA 570, in addition to a generic description of the responsibilities of management regarding GC.
3. To require the auditor to provide auditor insights in the auditor's report regarding important matters relating to the entity's ability to continue as a GC.
4. To require the auditor to express an opinion on the entity's future viability.
5. To develop enhanced guidance in the ISAs regarding the use of Emphasis of Matter paragraphs (EOMs) to highlight material uncertainties regarding the GC assumption.

He noted that the TF's recommendation was for further exploration of Options 2, 3 and 5, and that these preferred options were not mutually exclusive.

OPTIONS PROPOSED REGARDING GOING CONCERN

The Representatives and Observers commented as follows:

- Mr. Kuramochi noted that, in his view, an opinion on the future viability of the organization is very difficult for an auditor to provide, and that the work expected of the auditor should be that required by ISA 570.⁷ He asked if the TF could further explain the EC proposals, and how they would affect ISA 570. Mr. Grant responded by noting that while the words of the EC proposals seem to indicate a statement of viability, this is contradicted by other statements in the package of proposals. He indicated that the TF would like to meet with EC staff to further understand the EC's intentions. He further noted the statement by the EC staff in Agenda Item F that they were aiming for a conclusion on the appropriateness of the going concern basis of accounting under the existing standard, which is one of the aims of the TF proposals. Mr. Robberecht noted that the treatment of going concern is central to their auditor reporting proposals.
- Mr. Johnson noted that, in the case of the UK bank, Northern Rock, many commentators thought the business model was not appropriate, and asked whether any of the proposals would address this issue, particularly Option 5 noted in the agenda material. Mr. Grant noted that Options 1, 2, 3, and 5 would not change existing ISAs, so the judgments would not change.
- Mr. White expressed concern with Option 2 in that, when a material uncertainty exists or in borderline cases, it gives more assurance than is warranted under the circumstances. He

⁷ ISA 570, *Going Concern*

supported either Option 3 or 5 to give insight into the appropriateness of the going concern assumption.

- Mr. Waldron supported the TF's preferred options, but noted that Option 2 was his least preferred option.
- Mr. Hansen noted that the discussion under Agenda Item H had focused on users wanting to know more. Accordingly, he favored Option 5 as this would permit management to elaborate on what they are doing and the auditor can evaluate the reasonableness of management's proposals. He did not support Option 4, on the ground that it would not be practical, nor Option 3, as this was substantially the same as the EOM paragraphs required by the extant ISAs.
- Mr. Koktvedgaard questioned if Option 2 could be altered to include, in the opinion paragraph, "...and we agree with management's/those charged with governance (TCWG's) use of the going concern assumption." Ms. de Beer noted that this was a question of positioning that would be addressed in Agenda Item L.
- Mr. Baumann commented that, when a material uncertainty regarding going concern exists, a statement that the going concern basis is valid may provide users with more comfort than is warranted, and that the auditor's signal is more valuable to investors when there is a material uncertainty. that a statement about the appropriateness of the going concern assumption when a material uncertainty existed, and an EOM paragraph would be included, might either confuse investors or give false comfort because it could be interpreted as "overriding" the significant doubt about the ability to continue as a going concern.
- Mr. Johnson noted that issues that give rise to material uncertainties often relate to funding agreements and liquidity issues. He further noted as a practical matter, including "qualifying" type of language, i.e., the use of EOM paragraphs in the auditor's report with respect to going concern, usually triggers market reactions that leads to the liquidation of the entity.
- Mr. Stewart noted that the going concern assumption is fundamental to the financial statements and so special emphasis and assessment by the auditor is needed. He noted that pursuing Option 4 would give rise to piecemeal opinions on various matters, and the enhanced use of EOMs under Option 5 was preferable as it explains the less favorable aspects of going concern. ~~As a personal view he noted that, while materiality is of interest to the IASB, the IASB agenda is full in the short term although their future work program was likely to focus on conceptual framework which may address materiality.~~ Mr. Stewart also noted that IFRS has little guidance on anything other than the going concern basis of accounting, but noted that the concept of significant doubt may lead to impairment testing, albeit that these are discrete tests. Mr. Grant noted that Option 5 would involve liaison with the IASB to determine if the language in ISA 570, which mirrors language in IFRS on "material uncertainties" and "significant doubt," could be amended to provide greater clarity. Ms. de Beer noted the link between the TF proposals on going concern and insights.
- Mr. Stewart and Mr. Baumann highlighted that the US accounting standards do not require management to assess if the going concern basis is appropriate, instead placing emphasis on disclosure of risks and uncertainties. Mr. Baumann highlighted that, under US accounting standards, auditors, rather than management, have the requirement to assess going concern and that this is a matter of ongoing dialogue between the PCAOB and the US Financial Accounting

Standards Board. He noted that companies continue to perform their accounting on a going concern basis until the company has made a decision to enter liquidation.

- Mr. Koltvedgaard noted that, in some cases, it was difficult to distinguish comments about going concern from comments about business risks that underlie the going concern assumption. He noted that further disclosure on business risks could be made in the financial statements, but this could become voluminous. He also noted that, in his view, the primary concern is with matters that do not rise to the level of an EOM, and that further clarification from the TF would assist in understanding the scale of auditor responses, such as commentary, EOMs and qualifications.

OTHER COMMENTS

The Representatives commented as follows:

- Mr. Hallqvist commented that, in his experience, sometimes a company is at a delicate stage and auditor insights on the matter would cause the company to fail. He noted that such questions are difficult for the audit committee to judge. Mr. Grant highlighted research in the UK that indicated that going concern EOMs were poor predictors of corporate failure, perhaps because the EOM encourages management and stakeholders to proactively address the issue.
- Mr. Morris noted that the American Institute of Certified Public Accountants (AICPA)' Auditing Standards Board has adopted the clarified ISAs, but did not clarify the material on going concern. As the US Financial Accounting Standards Board has now determined that it will not draft a standard on going concern specifically, the AICPA is now accelerating work on their auditing standard on going concern, which may provide some useful proposals for the IAASB project.
- Mr. Diomeda noted that the focus needed to be in dealing with circumstances when it is difficult to determine if the going concern assumption is appropriate - to anticipate a bad result by judging the future outcomes. Accordingly, he did not agree with the EC proposal to require inclusion of a statement regarding going concern in all cases. He also noted that EOMs were permitted under extant ISA 700.⁸ Mr. Grant clarified that Option 5 involves an enhanced EOM, so it is a potential improvement from extant ISA 700.
- Mr. Jusuf asked what the auditor's response should be if the auditor's opinion is appropriate without modification.

Mr. Grant thanked the CAG for its comments. He summarized that the CAG overall appeared to be comfortable that the TF is considering the right options, but that Option 2 may give users an inappropriate level of comfort when material uncertainties exist, Option 3 should be packaged with other options, and the comments on Option 5 would be considered by the TF.

OTHER INFORMATION

Mr. Grant noted that there is a view that auditors should give insights on other information (OI) that accompanies the financial statements, such as management discussion and analysis. He explained that the four options explored by the TF included a generic description of the auditor's responsibilities under extant ISA 720 regarding OI; a conclusion regarding the auditor's work under extant ISA 720; auditor insights regarding the auditor's work on OI; and an opinion on the OI. He highlighted the TF's preference

⁸ ISA 700, *Forming an Opinion and Reporting on Financial Statements*

was for a conclusion on this other information which would not go beyond the current responsibilities of the auditor.

The Representatives and Observers commented as follows:

- Ms. de Beer noted that many stakeholders already assume that auditors are providing an opinion on other information and therefore, making explicit what the auditor does with respect to other information would be very useful. Mr. Waldron agreed that such clarification would be useful and expressed a preference for Option 3.
- Mr. Kuramochi noted that some IOSCO members are of the view that it would be useful to describe audit procedures with respect to other information. Mr. Kuramochi further noted that an explicit statement that limited work has been performed on other information could cause more confusion among users. He also noted that the language that would be used to describe the work performed would strike similarities with that used in limited assurance engagements.
- Ms. de Beer suggested that it might be useful to draw from the Insights discussion (Agenda Item I) regarding the inclusion of detailed procedures in auditor's reports.
- Mr. Stewart added that including a statement in the auditor's report that starts "we have read..." is a start, but thinks that conclusions about the auditor's views is also needed. Mr. Ratnayake agreed.
- Mr. Baumann described the auditor's responsibilities for other information under PCAOB standards and asked about whether there was a similar requirement under the ISAs that required the auditors to determine whether there is a material misstatement of fact in the other information. Mr. Baumann expressed a view that in some cases a material misstatement of fact is equally important as a material misstatement in the financial statements. To the extent auditor is aware that such information is factually incorrect and reports accordingly, it could be very helpful to investors because that information can affect the stock price.
- Ms. Blomme expressed a view that FEE work indicates strong support for a statement that indicated whether other information is consistent or inconsistent with information in audited financial statements and the auditor's knowledge and understanding of the company's business obtained during the audit. She also expressed a concern that option 4 goes beyond scope of audit.
- Mr. Kuramochi noted that investor groups indicate that other information is useful for making investing decisions.

Mr. Grant thanked the CAG for their comments and indicated that the TF is still wrestling with some of the issues raised and will seek input from the IAASB.

Auditor Reporting – Building Blocks (Item L)

Mr. Montgomery introduced the topic noting that the project proposal indicated a need for a flexible approach to developing a revised auditor's report. He also noted that the building blocks approach was rooted in the principles that already exist as part of extant ISA 700, and attempts to achieve the right balance between relevance and usefulness versus consistency and comparability in auditor's reports.

GENERAL REACTIONS TO THE "BUILDING BLOCKS" APPROACH

- Messrs. Bloom, Bluhm, Hansen, Koltvedgaard, Lang, Mao, and Waldron expressed support for the general principles incorporated in the building blocks approach. However, Messrs. Koltvedgaard

and Waldron suggested that the TF consider developing an illustrative report that pulls all the pieces together from the work of the subcommittees.

- Mr. Kottvedgaard also recommended that the TF explore how more relevant information could be communicated in the auditor's report while being mindful of "information overload". He added that the right level of detail might be determined by thinking about what an auditor might say in a one minute presentation about the entity based on their audit to the entity's board of directors. Messrs. Grund and Morris agreed. Mr. Hanson further noted that core requirements would vary by jurisdiction because each jurisdiction would have a different view about what should be included in such a one minute conversation about the entity.
- Mr. Mao suggested that the building blocks approach may be operationalized by leveraging technology, for example XBRL. He also noted that each block could be further layered to include additional levels of details about each topic. He suggested that the IAASB consider using the building blocks approach for standard-setting more broadly. Mr. Pannier also suggested that consideration be given to demonstrating scalability within the "blocks," i.e., the incremental topical areas added in the auditor's report such as auditor insights, going concern and other information.
- Ms. Blomme suggested that the IAASB give consideration to auditor reporting needs of external versus internal users. She added that a determination of what type of information is needed and how it will be used would be helpful in progressing forward. She also expressed support for the idea of having incremental requirements for listed entities. However, she suggested that further consideration be given to the impact of the approach on small listed entities and very large unlisted entities. Mr. Hansen noted that determining the split as to who should be required to provide incremental reporting is difficult.

CONSISTENCY VERSUS RELEVANCE

- Mr. Hanson expressed a view that variation in practice may be created with increased flexibility in auditor reporting. Mr. Kuramochi added that some members of IOSCO were of a similar view, noting that the building blocks approach may challenge the notion of the concept of "an audit is an audit." Ms. Blomme agreed with this view.
- Mr. Bluhm, in his capacity as a Building Blocks subcommittee correspondent member, noted that the building blocks approach was intended to achieve the right balance between needs of SMEs and listed entities. Ms. Lang noted that the building blocks approach was an important step forward and could be seen in some manner as being ~~was~~ responsive to users' needs, including SMEs, and identifies what the differences in auditor reporting could and should be in respect of this issue ~~are likely to be~~.
- Messrs. Kuramochi and Hanson expressed a view that the definition of public interest entities should be further explored.

Mr. Montgomery responded that under the building blocks approach the IAASB can prescribe what can be done to a certain extent. He acknowledged that balancing consistency and comparability is paramount and will continue to be an issue because of the varied needs of users. He also noted that further consideration would be needed to explore how much users want to sacrifice to achieve consistency for relevance in auditor's reports.

CHANGE IN PLACEMENT OF AUDIT OPINION

- Messrs. Waldron and Ratnayake supported the idea of increasing the prominence of opinion by making it the first paragraph in the auditor's report.
- Ms. Blomme expressed a view that the placement of the auditor's opinion was not considered to be a major change. She further noted that outreach on this topic by the FEE, indicated mixed views among users of auditor's reports. On one hand, some expressed a preference for having the executive summary approach - the opinion first. Others saw merit in having the additional paragraphs that provide the context and basis upon which the auditor's report was given lead up to the auditor's opinion.
- Mr. Hines added that local laws and jurisdictions often mandate the placement of the auditor's opinion.

OTHER MATTERS

- Mr. Koltvedgaard asked about whether the use of EOM paragraphs would be retained with the revised auditor reporting approach. Mr. Montgomery noted TF that further discussions with the IAASB would be needed.
- Mr. Kuramochi noted that some members of IOSCO suggested eliminating scope language in the auditor's report. Ms. Lang expressed a view that whilst there could be~~was~~ merit in having the information in the scope paragraph retained because it provides the context that leads up to the audit opinion, there may also be an argument in support of moving this information elsewhere. It would be of use to have sight of an illustration.
- Mr. Waldron expressed a preference of having all the elements of the auditor's report in one place so that they are all subject to the same level of professionalism and accountability. He was not supportive of having certain sections of the auditor's report made available elsewhere, for example via a NSS website.

Mr. Montgomery thanked the CAG for its comments.

Auditor Reporting – Clarifications and Transparency (Item M)

To RECEIVE CAG members' views on options to clarify the technical language in the auditor's report and provide transparency of the audit process including the name of the engagement partner and the role of other firms in the audit.

CLARIFICATIONS

Mr. Kinney introduced the topic, noting that this aspect of the auditor reporting project is primarily about improving the boilerplate material in the standard auditor's report by clarifying the descriptions of technical terms.

Representatives and Observers commented as follows:

- Mr. Koltvedgaard supported the move to direct language, noting that it is a great improvement. Further debate, however, would be needed on the specific wording. He also noted that he would support the use of "a high level of assurance" instead of the description of reasonable assurance.

- Mr. Waldron supported the efforts of the TF. He noted that, while the investor benefit is not that great, it is an easy fix that will improve understanding. He also noted that this alone would not be sufficient to address investor concerns, but it was still a worthwhile endeavor.
- Mr. Bluhm asked where the description of the auditor's responsibility for fraud would be placed in relation to the other elements. Mr. Kinney explained that positioning of the various elements would be decided later, as the view was that the wording needed to be discussed first. Ms. de Beer agreed with Mr. Kinney, noting that this would need to be an iterative process.
- Mr. Pannier supported the work being undertaken, noting that the proposals on transparency were more significant than the clarifications of technical terms, which will always be present due to the complexity of financial reporting frameworks.
- Mr. Stewart asked why the proposed description of materiality did not address misstatements that are material individually or collectively. Mr. Kinney responded by noting that this had not been included as the TF was seeking compact language, rather than a comprehensive description of materiality, but that the TF would continue to consider the definition.

TRANSPARENCY – DISCLOSURE OF THE NAME OR SIGNATURE OF THE AUDITOR

Mr. Kinney highlighted that a significant aspect of the transparency proposals is the idea of mandating the partner's name or signature on the audit report. He noted that some questioned whether this would increase the personal accountability of partners and that the Clarifications Subcommittee is evenly divided on this.

- Mr. Bollman explained that the IVSC have discussed this issue as well for their standards although a final view has not been reached. He noted that the work product does not seem to be better if the practitioner is individually identified, though it does enable the qualifications of the individual valuer to be disclosed, such as their expertise in relation to the specific asset classes.
- Mr. Robberecht noted that the EC proposals require disclosure of both names and signatures of the engagement partner so that they take personal responsibility.
- Messrs. Waldron and Hansen supported the disclosure of the identity of the engagement partner, as this may improve quality and would show that the auditing profession is keen to improve the public perception of the profession. Mr. Waldron also noted that he did not believe that investor groups would track audit mistakes by partner. Mr. Kinney noted that firms could voluntarily do this to raise the public perception of their accountability.
- Mr. Hansen noted that management is required to sign off on the financial statements in some jurisdictions which may lead to criminal sanctions if false. He noted that the US Treasury Committee⁹ supported engagement partner signatures, although they acknowledged that they did not know if it would increase audit quality. He further noted that academic research was being undertaken into the area, and that investors, as the "customer," want this disclosure. He did not believe that this would undermine the firms' quality control systems.

⁹ The U.S. Department of Treasury's Final Report of the *Advisory Committee on the Auditing Profession* dated October 6, 2008

- Mr. Johnson noted that this had been required in Europe since 2006, and anecdotal evidence was that it made engagement partners feel more accountable by the act of signing. He also noted that public reporting of inspections of firms and the receipt of these reports by the audit committees in some jurisdictions already enhanced accountability.
- Mr. Hines noted that in the US actuarial profession the opinions given are a personal opinion, not an opinion of the firm. He noted that these reports state the reliance placed on other individuals and it is possible to share an opinion with other qualified actuaries. He noted that it is common to name all actuaries on the team that are qualified to give the opinion.
- Mr. Kuramochi expressed the view that some audit regulators supported disclosing the name of the partner as this helps with enforcement against the partner rather than firm, and makes it more difficult for the firm to close and reopen under a different name but the same partners and staff.
- Mr. Peyret supported the disclosure of the signature of the engagement partner. He noted that this would assist in identifying if the engagement partner had sufficient qualifications and had maintained their knowledge of accounting standards.
- Mr. Ratyanake noted that disclosure of the engagement partner would help mitigate a failure to exercise professional skepticism or breaches of auditing standards.
- Mr. Pannier noted that what matters is the signal that is given about the confidence that may be taken in the audit report, and that any benefit to audit quality is a bonus.
- Ms. de Beer noted that South African law requires disclosure of the engagement partner's name. This level of transparency was well received by investors and it seems to have focused the mind of the individual auditor more clearly on what he/she is signing.

OTHER TRANSPARENCY MATTERS

Mr. Kinney drew the Representatives attention to the other proposals in the agenda material, including disclosure of the role of other firms in the audit, disclosure of the names of the engagement team and the other matters that the TF would consider in the near future. He particularly highlighted the EC proposal to include an assessment of internal control and noted that this could be achieved by explaining more about internal control weaknesses that were the root cause of the misstatements found.

Disclosure of the Role of Other Firms

- Messrs. Robberecht and Ratyanake expressed the view that ISAs should not require disclosure of the role of other firms as this would lower the responsibility of the group auditor under ISA 600. Individual jurisdictions can permit this, if they wish. Mr. Hansen noted that divided responsibility is permitted in US.
- Ms. Blomme and Mr. Johnson noted that this would reverse the progress made by the revision of ISA 600, and that disclosure of the percentage of the assets or other measure would not be helpful as risk can exist in smaller entities as well.
- Mr. Waldron supported the disclosures of participation of other firms, noting that 91% of respondents to a CFA survey wanted this disclosure, which could include the name of the other firms, their location and the individual responsible within that firm. Mr. Kinney noted that some view that naming additional parties reduces the role of the naming the firm or engagement partner.

- Mr. Grund asked if the proposals on disclosing the role of other firms were about the role of the other firms, the names of the firms or the names of the engagement partners. Mr. Kinney indicated that the main focus was on disclosing how much of the audit is under the direct supervision of the auditor, but that some users want to know about the quality of the other firms, via a proxy such as disclosing whether the other firms are subject to audit inspections. Ms. de Beer noted that this would require further consideration by the TF given the support on both sides of the issue.

Disclosure of the Name and Independence of the Members of the Engagement Team

- Mr. Robberecht explained that the EC proposals were focused on a declaration of the independence of the engagement team to make the engagement team more aware of its independence responsibilities. He noted that the EC agreed that this list of names should not be in the auditor's report, and that the EC was exploring where else it could be placed. He also noted that the EC proposals would be subject to a privacy review at the EC to avoid any privacy concerns. Mr. Kinney responded by noting that the question was whether the disclosure of names would enhance audit quality or enforcement. Messrs. Johnson, Koktvedgaard, Pannier and Hansen disagreed with Mr. Robberecht.
- Messrs. Johnson and Koktvedgaard noted that there is an independence monitoring system within the firms which makes individual audit staff accountable. Mr. Koktvedgaard noted that disclosure of the names of senior people in the audit may be more useful. Mr. Hansen noted that the engagement partner is responsible, and the engagement team is accountable to the engagement partner.

Assessment of Internal Control

- Mr. Hallqvist supported commentary on the internal control issues found, noting that this was the most important information for audit committees to receive. He noted that the reporting should be limited to issues reported to management or TCWG that are not addressed satisfactorily.
- Mr. Johnson noted that this was an important issue, and questioned if the goal was to disclose material weaknesses that were not resolved, or was it to disclose all material weaknesses discovered. He questioned the value in reporting on material weaknesses that were already addressed.
- Mr. Waldron noted that the issue was an interesting one in that it would be useful to investors, but may cause difficulties for the survival of the company in some cases.
- Mr. Hansen noted that this issue needs to be addressed, although it was often difficult to identify whether the auditor or management identified a misstatement, so linking the disclosure of internal control difficulties with identification of misstatements may be problematic.

OTHER COMMENTS

- Mr. Hallqvist noted that he believes that the whole governance structure should be described, including shareholders, management and auditors amongst others. Mr. Kinney responded by noting that this may be needed, but that the auditor's report may not be the appropriate vehicle. Ms. de Beer noted that this could be linked to the insights work, in that the auditor could comment on some governance matter of interest if it was significant.

- Mr. Hallqvist noted that the problems of audit failures depends of the competitive forces, in that auditors often accept lower fees and short timeframes in which to conduct their work.

Engagements to Review Historical Financial Information (ISRE 2400)(Item N)

To DISCUSS significant comments on the exposure draft of proposed ISRE 2400 and the TF's recommendations.

Mr. Cowperthwaite introduced the topic. Amongst other matters, he highlighted that some respondents to the ED of ISRE 2400 (Revised) had expressed concern with the proposed work effort required under the standard and wanted greater distinction between a review and an audit. He explained that the proposed work effort involves primarily enquiry and analysis, together with some specific procedures.

THE DEFINITION OF LIMITED ASSURANCE

Mr. Cowperthwaite noted that while many respondents agreed that the practitioner's objectives stated in the proposed ISRE appropriately describe the expected outcome of a review, other respondents disagreed. Those that disagreed suggested that the wording of the objectives may have unintended consequences, or may blur the difference between a review engagement and an audit. Mr. Cowperthwaite explained that the TF proposes to include the term "limited assurance" as a defined term in the draft ISRE. He noted that the TF believes that this will address concerns that objectives are not sufficiently clear concerning the limited assurance nature of the engagement.

Representatives commented as follows:

- Mr. Morris and Ms. de Beer questioned whether the definition of LA should be linked to the risk of the financial statements being materially misstated and the practitioner reporting inappropriately. Mr. Cowperthwaite noted that the TF wanted to avoid creating an inconsistency with the Framework, but would reconsider the issue.
- Mr. Hansen noted that the definition of LA refers to the concept of engagement risk, but that the concept is not defined in ISRE 2400.
- Mr. Diomeda noted that the objective mirrored the conclusion, which was problematic as he did not support the use of the negative conclusion.
- Ms. Blomme expressed the view that the definition of LA should not refer to RA as users may not understand RA. Mr. Cowperthwaite responded by noting that the definition is consistent with the framework, and that the reference to the conclusion was also useful as it further distinguished LA from RA.

EVIDENCE BASED NATURE OF THE ENGAGEMENT

Mr. Cowperthwaite noted that the unanimous view of the TF is that reviews are based on the evidence obtained, rather than the procedures performed. He also highlighted that the term "sufficient appropriate evidence" is used in the application material. In the TF's view, this is a term that practitioners understand, and there is sufficient emphasize throughout the rest of the standard that explains the differences between an audit and a review.

Representatives and Observers commented as follows:

- Mr. Koktvedgaard asked if the level of materiality is different in a review engagement as compared to an audit. Mr. Cowperthwaite responded by noting that the difference is in level of evidence that you would require to support the conclusion, rather than the level of materiality.
- Mr. Bluhm supported the evidence based nature of reviews.
- Mr. Hansen suggested that the level of evidence needed in a review should be better distinguished from that in an audit, the latter being more directed towards verification. Mr. Cowperthwaite responded by noting that the TF's view is that while the nature and extent of evidence needed differs between audits and reviews, sufficient appropriate evidence is required in both engagements. The TF's work to further define LA aims to provide practitioners with guidance in determining whether the necessary level of evidence has been obtained. Mr. Cowperthwaite also drew attention to the decision to not use a formal risk assessment model as this would blur the distinction between a review and an audit.
- Mr. Stewart asked if the TF was of the view that a practitioner conducting a review attempts to gain a comprehensive understanding of the financial statements, whereas an auditor attempts both to gain a comprehensive understanding of the financial statements and to verify them. Mr. Cowperthwaite noted that in both cases the practitioner obtains sufficient appropriate evidence in order to conclude (in the case of a review) or opine (in the case of an audit) on the financial statements.
- Mr. Hansen asked if it was possible that the level of additional procedures could raise a review to the level of an audit. Mr. Cowperthwaite noted a review engagement could not be converted into an audit as the risk assessment procedures are markedly different.

ASSURANCE SKILLS AND TECHNIQUES

Mr. Cowperthwaite noted that some respondents suggested that further material was needed on materiality and the applicable financial reporting framework. He explained that the TF believes it would be more relevant to respond to these concerns by specifying in the standard the assurance skills and techniques that a practitioner must possess, as opposed to adding additional material on these and other individual topics.

Representatives and Observers commented as follows:

- Mr. Bluhm questioned whether the list of considerations regarding assurance skills and techniques could be better tailored to review engagements. Mr. Cowperthwaite noted that these were common across all assurance engagements, and that a review is in many ways more challenging than an audit as less evidence is obtained, and the practitioner needs to determine when the minimum level of evidence required has been reached.
- Mr. Hines asked if the list of assurance skills and techniques should be replicated in other standards, or, alternatively, set forth in one overarching document. In regard to the former, Mr. Cowperthwaite noted that the list was drawn from the ED of ISAE 3000. In regard to the latter, Mr. Gunn noted that the Assurance Framework could be used but it is not universally adopted in national literature. He also noted that the list has been included in ISRE 2400, as well as ISAE 3000, as the latter does not address reviews of historical financial information.

OTHER COMMENTS

Representatives and Observers commented as follows:

- Ms. Lang asked whether the use of the terms “further procedures” and “additional procedures” in paragraph A87 was a deliberate distinction, noting that it may cause translation difficulties when in fact in both instance it was possible that “more” work was the intention. ~~She suggested replacing “further” with “more”.~~ Mr. Cowperthwaite responded by noting that “additional procedures” is explained in the application material, but that the TF would consider whether “further procedures” could be amended.
- Messrs. Diomeda and Koktvedgaard noted that the “negative” form of the conclusion was still being used, and outlined their continued preference for a more positive form. Mr. Diomeda noted that recent changes in Europe may increase the scope for the use of reviews as opposed to an audit and that the IAASB may therefore need to revisit LA more broadly at a later date. Mr. Cowperthwaite responded by noting that the proposed conclusion is, in some ways, a positive message that a skilled professional has considered the financial statements and concluded that nothing has come to his or her attention. Ms. de Beer and Ms. Lang noted that this issue had been raised in previous CAG meetings, and that the need for an assurance engagement with a positive opinion paragraph stronger than a review could be revisited in the future, perhaps by the planned IAASB INFO Working Group.
- Mr. Koktvedgaard asked whether, in a review, a higher risk of material misstatement is accepted than in an audit. Mr. Cowperthwaite confirmed that risk of not detecting a material misstatement is higher in a review as less evidence is obtained. He added that this is why emphasizing the importance of assurance skills and techniques in the standard is important given the context of reviews.

Mr. Cowperthwaite thanked the CAG for its comments, and noted that the IAASB will be asked to approve the final standard at its June 2012 meeting.

PIOB Remarks

Ms. Novoa commended the CAG for a very good meeting and Ms. de Beer for a very good chairmanship, and commended the valuable input provided to the various task forces. Ms. Novoa stated that in her opinion, the Auditor Reporting Task Force’s work for this CAG and the upcoming IAASB meeting was very commendable, as they have advanced fast in a short period of time and have produced high quality issues papers where key issues were well analyzed and the TF proposals well explained. She congratulated the various sub-committees chairs and the TF Chair (Dan Montgomery), who have shown technical proficiency and a very good understanding of the issues involved. Finally, she reported that during its recent Feb 29–March 2 meeting, the PIOB had approved ISA 610 (Revised), *Using the Work of Internal Auditors*, except for the portion corresponding to “direct assistance”; and ISRS 4410 (Revised), *Compilation Engagements*. ~~Ms. Novoa thanked Ms. de Beer and the Representatives for an informative and productive meeting, noting that the CAG had provided useful input to the projects under consideration.~~

Closing

Ms. de Beer thanked the Representatives and Observers for their level of participation and the quality of comments provided, particularly with respect to the Auditor Reporting project. She also thanked the IAASB members and staff for their contribution to making this a successful meeting.

Ms. de Beer closed the meeting.