

Meeting: IAASB Consultative Advisory Group
Meeting Location: New York
Meeting Date: March 9–10, 2015

Agenda Item A.1

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

Held on November 24, 2014

Teleconference

[Marked to Show Changes Since February 19, 2015]

PRESENT

Members

Linda de Beer	Chairman
Matthew Waldron	CFA Institute
Marie Lang	European Federation of Accountants and Auditors for SMEs (EFAA)
Noemi Robert	Fédération des Experts Comptables Européens (FEE)
William Hines	International Actuarial Association
Sandy Shaffer	International Association of Insurance Supervisors (IAIS)
John Kuyers	Information Systems Audit and Control Association (ISACA)
Michael Stewart**	International Accounting Standards Board (IASB)
George White	International Bar Association (IBA)
Anne Molyneux	International Corporate Governance Network (ICGN)
Jim Dalkin	International Organization of Supreme Audit Institutions (INTOSAI)
Frank Bollmann	International Valuation Standards Council (IVSC)
Lucy Elliott	Organisation for Economic Cooperation and Development (OECD)

IAASB

Prof. Arnold Schilder	IAASB Chairman
Dan Montgomery	IAASB Deputy Chair

** Views expressed by the IASB Representatives represent his views and do not necessarily reflect the view of the IASB.

Cédric Gélard	IAASB Task Force (TF) Chair
James Gunn	Managing Director of Professional Standards
Nancy Kamp-Roelands	IAASB Deputy Director
Sara Ashton	IAASB Senior Technical Manager
Brett James	IAASB Senior Technical Manager
Diane Jules	IAASB Senior Technical Manager
Jasper van den Hout	IAASB Technical Manager
Public Interest Oversight Board	Charles Horstmann

APOLOGIES

Members

Conchita Manabat	Asian Financial Executives Institutes (AFEI)
Fang Han	AFEI
Vânia Borgerth	Associação Brasileira de Instituições Financeiras de Desenvolvimento
Kristian Koktvedgaard*	BUSINESSEUROPE
Juan Maria Arteagotia	European Commission
Jean-Luc Michel	European Financial Executives Institutes (EFEI)
Myles Thompson	FEE
Dr. Obaid Saif Hamad Ali Al Zaabi	Gulf States Regulatory Authorities
Jaseem Ahmed	Islamic Financial Services Board (IFSB)
Abdelilah Belatik	IFSB
Seiya Fukushima	International Organization of Securities Commissions (IOSCO)
Nigel James	IOSCO
Hayanari Uchino	Japan Securities Dealers Association
Gaylen Hansen	National Association of State Boards of Accountancy
Marie Hollein	North American Financial Executives Institutes
Gamini Wijesinghe	Sri Lanka Accounting and Auditing Standards Monitoring Board
Irina Lopez	World Bank
Xiaoma Lu	World Federation of Exchanges

* During IAASB CAG meetings, Mr. Koktvedgaard participates in the capacity of both an IAASB CAG member and the International Ethics Standards Board for Accountants (IESBA) CAG Chair.

Observers

Martin Baumann***	U.S. Public Company Accounting Oversight Board
Brian Bluhm	IFAC Small and Medium Practices Committee, Deputy Chair
Simon Bradbury	International Monetary Fund
Norio Igarashi	Japanese Financial Services Agency

*** 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.

November 24, 2014¹

Welcome

OPENING REMARKS

Ms. de Beer welcomed the Representatives and Observers, including new Representatives Sandy Shaffer (IAIS – replacing Mr. Tom Finnell) and Noemi Robert (FEE – replacing Hilde Blomme).

Ms. de Beer also welcomed Mr. Charles Horstmann from the PIOB as well as the IAASB Chair and Deputy Chair, the IAASB TF Chair for ISA 720,² and Staff. She also welcomed the observers to the meeting, in particular a number of IAASB members.

ISA 720 – Other Information (Agenda Item A)

To *REPORT BACK*; *OBTAIN* Representatives' and Observers' views on the significant matters to be discussed by the IAASB at its December 2014 meeting related to proposed ISA 720 (Revised); and to *PROVIDE* a summary of the remaining significant issues raised in the comment letters on the exposure draft and the related responses (Final standard planned for approval in December 2014).

Mr. Gélard introduced the topic, noting that the TF had benefited from an IAASB teleconference in October 2014 in which the IAASB provided input that the TF used to further refine revisions to proposed ISA 720 (Revised). Specifically, the IAASB suggested revisions to the auditor's work effort related to other information (OI), and the proposals regarding reporting on OI that is expected to be obtained after the date of the auditor's report.

WORK EFFORT

Mr. Gélard highlighted the key changes from the previous version discussed by the CAG, including the use of the phrase "perform comparison procedures" in paragraph 14(a) and the clarification that, when considering whether there is a material inconsistency between the OI and the auditor's knowledge, such consideration is through the auditor's recollection of relevant matters and only if necessary to support that recollection, by referring to relevant audit documentation or making inquiries of other relevant members of the engagement team or relevant component auditors.

The Representatives and Observers commented as follows:

- Messrs. Bollman, Kuyers, Waldron and White and Ms. Robert supported the TF's proposals. Mr. Kuyers noted that, while improved wording could be suggested to the TF, it was his view that the focus should be on completing the project.
- Ms. Molyneux and Mr. Stewart believed that the term "consider" should be changed to "evaluate" to make it stronger. In relation to paragraph 15A, Ms. Molyneux expressed the view that "remain alert" should be changed to "remain vigilant" to give the sense that the auditor is watching out for issues of concern. Prof. Schilder noted that the ISA 720 work effort is part of the audit of financial statements and is not a separate engagement. It is therefore not intended to require the auditor to do the level of work necessary to obtain assurance over the OI.

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.

² Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

- Mr. Waldron and Mmes. Lang and Molyneux expressed the view that the reference to the auditor's recollection should be elevated to be a requirement in paragraph 14(b) in proposed ISA 720 (Revised). In contrast, Ms. Robert and Mr. Stewart suggested that the phrase be retained in the application material.
- Mmes. Hollein, Lang, and Molyneux and Messrs. Hines, Stewart and Dalkin noted that the term "recollection" was too weak. Ms. Lang noted that an auditor would not be able to recall every matter, therefore reference to audit documentation, engagement team members or component auditors would always be necessary. Mr. Stewart noted that the use of the term seemed to place too much weight on the auditor's memory and that greater emphasis on reference to the accumulated audit evidence in the audit file would be preferable. Ms. Molyneux noted that the term might encourage evasiveness from the auditor if the auditor was not required to refer to audit documentation, engagement team members or component auditors.
- Mr. White expressed the view that making enquiries of members of the engagement team would usually be necessary when performing the requirement set out in paragraph 14(b) in proposed ISA 720 (Revised).
- Ms. Lang believed that the term "comparing" could be used instead of "perform comparison procedures" in paragraph 14(a) in proposed ISA 720 (Revised), as the TF's attempts to use more action-orientated words have made the paragraph longer. Ms. Lang added the simplified wording would also make the sentence easier to translate.
- Messrs. Dalkin and Stewart agreed that the requirement in paragraph 14 could be further simplified and Mr. Stewart suggested that the requirement could read "the auditor shall compare the OI with the financial statements and the auditor's knowledge of the entity". In his view, the other material refers more to the mechanics of how the auditor might go about performing the requirement.
- Ms. Robert did not believe that the reference to "the documents determined to comprise the annual report in accordance with paragraph 13(a)" was necessary as it seemed to be a duplication of what was already included in the definition of OI.

REPORTING IMPLICATIONS

Mr. Gélard highlighted the broad support for the approach to the reporting requirements included in ED 720 (2014), but explained that the TF also agreed with some respondents that aspects of the reporting requirements can, and should, be improved to better explain the auditor's responsibilities relating to OI.

In relation to OI obtained after the date of the auditor's report, Mr. Gélard noted that the TF proposes that auditors of financial statements of listed entities only would be required to identify any OI expected to be obtained after the date of the auditor's report. For entities other than listed entities, only OI obtained before the date of the auditor's report will be identified in the auditor's report. He noted that the TF believes that this approach balances the benefits of transparency with the practical difficulties that may be encountered by auditors of entities other than listed entities with respect to OI that is not available until after the date of the auditor's report.

Mr. Gélard also explained that, in response to comments that the auditor's responsibilities for OI should be more extensively described, the TF had developed two options for such a description in the illustrative statement, which varied in the level of detail provided. He then asked Representatives and Observers to

indicate whether they had a preference for Option 1 (a requirement for listed entities only - the TF's preferred option) or Option 2 (a requirement for all entities).

The Representatives and Observers commented as follows:

- Messrs. Hines and Waldron and Mmes. Molyneux and Robert supported the key reporting requirements in paragraph 21 and 21A in proposed ISA 720 (Revised). Mr. Kuyers expressed a preference for having the description of the auditor's responsibilities be placed before the statement that the auditor's opinion does not cover the OI and accordingly that the auditor does not express an audit opinion or any form of assurance conclusion thereon.
- Messrs. Bollmann, Dalkin, Hines, Stewart, Waldron, and White and Mmes. Elliot and Molyneux did not believe that, when the auditor expects to obtain OI after the date of the auditor's report, the reporting responsibilities for listed entities should be different than those for other than listed entities. On the other hand, Ms. Robert and Mr. Kuyers supported the differential reporting responsibilities for listed and other than listed entities.
- Messrs. Hines and Stewart expressed the view that management will either always prepare the OI or will have committed to preparing the OI, so the practical implications for other than listed entities is not a significant obstacle. Mr. White indicated that the auditor should be able to get a representation from management on what OI would be prepared and should be able to limit the scope of the ISA to that OI. Ms. Lang indicated that, while she was uncomfortable with the differential responsibilities, she understood the practical reasons and noted that further guidance could be provided at the national level. Mr. Gélard, Prof. Schilder and Mr. Montgomery commented that the inclusion of reference to such OI for other than listed entities introduced possible complications which would be difficult for the auditor to address. Mr. Montgomery explained that management may not be able or willing to provide the auditor with a representation and the lack of explicit reporting requirements for many other than listed entities could result in an extended period of time before the auditor obtains the OI. Mr. Montgomery also commented that if the IAASB decided to not bifurcate the reporting responsibilities, it would be necessary for the auditor to obtain management representation on such OI.
- Mr. Stewart asked if the auditor should be required to list what OI the auditor has not obtained at the date of the auditor's report. Mr. Gélard noted that this is proposed to be the case for listed entities, and if no bifurcation of reporting exists between listed and other than listed entities, then it would also be the case for other than listed entities. He added that, if such OI is never obtained by the auditor because, for example, management ultimately decide against preparing it, then there will be an expectations gap.
- Regarding the illustrative statement, Messrs. Bollman and Dalkin and Mmes. Elliot, Lang and Roberts expressed a preference for Option 1. Messrs. Stewart and Waldron and Ms. Molyneux preferred Option 2. However, Mr. Waldron explained that many investors would get what they needed from Option 1. Ms. ~~Lang~~ Robert noted that she believed that Option 1 was closer to the required wording used in the European Union (EU) for the auditor's statement on the management reports. Mr. Hines noted that there was merit in both options.

Mr. Gélard summarized by noting that he heard the call from some CAG representatives for there to be no distinction between listed and other than listed entities. He also noted his view that while Option 1 was more in line with the EU requirements, Option 2 would still comply.

OTHER MATTERS

The Representatives and Observers who participated in the teleconference all expressed support for the TF's proposals to refine the definition of an annual report and the related application material.

PIOB Remarks

Mr. Horstmann congratulated the CAG on a productive teleconference. He noted that the issue of balancing the auditor's work effort in respect of OI considering that the work effort is part of the audit of financial statements will be brought to the IAASB's December 2014 meeting. He added that he saw the potential public interest risk of creating an expectations gap and believed that the IAASB should focus on this risk.

In relation to the reporting requirements and illustrative statements, Mr. Horstmann noted that the comments made by Representatives have been thoughtful and that the practicality of the requirements is important. He added that, while he agreed with some Representatives' views that differential requirements are not ideal, he also noted that the reporting requirements for listed entities often differ from those for other than listed entities.

He also commented that jurisdictions can choose to require assurance procedures on OI, but that this was not the intention of proposed ISA 720 (Revised). He recognized that, in his view, the CAG's healthy discussion served the public interest.

Closing Remarks

Prof. Schilder and Mr. Gélard joined Ms. de Beer in thanking the Representatives and Observers for their contributions, noting that proposed ISA 720 (Revised) was ready for issuance as a final standard.

Ms. de Beer closed the meeting.