

# IAASB CAG PAPER



International Federation of Accountants

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## Agenda Item

# A

**Committee:** IAASB Consultative Advisory Group

**Meeting Location:** Prague

**Meeting Date:** September 12-13, 2011

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

**Held on March 8-9, 2011**

**New York, USA**

**APPROVED**

### PRESENT

#### Members

Linda de Beer  
Vânia Borgerth

Marc Pickeur  
Kristian Koktvedgaard  
Matthew Waldron  
Jan Robberecht  
Federico Diomeda  
Marie Lang  
Jean-Luc Peyret  
Hilde Blomme  
Philip Johnson  
Dr. Obaid Saif Hamad Ali Al Zaabi  
Paul Koster  
Robert Roussey  
Margie Bastolla  
Wayne Upton  
Sam Gutterman  
Peter Windsor  
George White  
Bengt Hallqvist  
Koichiro Kuramochi  
Nigel James  
Filip Cassel  
Rifaat Ahmed Abdel Karim  
Hayanari Uchino

Chairman  
Associação Brasileira de Instituições Financeiras de  
Desenvolvimento  
Basel Committee on Banking Supervision  
BUSINESSEUROPE  
CFA Institute  
European Commission  
European Federation of Accountants and Auditors for SMEs  
European Federation of Accountants and Auditors for SMEs  
European Financial Executives' Institutes  
Fédération des Experts Comptables Européens  
Fédération des Experts Comptables Européens  
Gulf States Regulatory Authorities  
Gulf States Regulatory Authorities  
Information Systems Audit and Control Association  
Institute of Internal Auditors  
International Accounting Standards Board  
International Actuarial Association  
International Association of Insurance Supervisors  
International Bar Association  
International Corporate Governance Network  
International Organization of Securities Commissions  
International Organization of Securities Commissions  
International Organization of Supreme Audit Institutions  
Islamic Financial Services Board  
Japan Securities Dealers Association

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|                          |  |
|--------------------------|--|
| Gaylen Hansen            | National Association of State Boards of Accountancy          |
| David Morris             | North American Financial Executives Institutes               |
| Dominique Pannier        | Organization for Economic Cooperation and Development        |
| Ajith Ratnayake          | Sri Lanka Accounting and Auditing Standards Monitoring Board |
| Simon Bradbury (March 8) | World Bank   |
| Thomas Krantz            | World Federation of Exchanges                                |

#### Observers

|                 |  |
|-----------------|--|
| Martin Baumann* | U.S. Public Company Accounting Oversight Board |
| Brian Bluhm     | IFAC SMP Committee                             |

#### IAASB

|                             |                                |
|-----------------------------|--------------------------------|
| Prof. Arnold Schilder       | Chairman                       |
| Diana Hillier               | Deputy Chair                   |
| Craig Crawford (March 8)    | Member                         |
| Cédric Gélard (March 9)     | Member                         |
| Daniel Montgomery (March 9) | Member                         |
| David Swanney (March 8)     | Member                         |
| James Gunn                  | IAASB Technical Director       |
| Kathleen Healy              | IAASB Senior Technical Manager |
| Brett James                 | IAASB Technical Manager        |
| Joanne Moores               | IAASB Senior Technical Manager |
| Ken Siong                   | IAASB Deputy Director          |
| Jessie Wong                 | IAASB Technical Manager        |

#### IESBA

|               |                       |
|---------------|-----------------------|
| Richard Fleck | IESBA CAG Chair       |
| Jan Munro     | IESBA Deputy Director |

#### Public Interest Oversight Board

Michael Hafeman

#### APOLOGIES

##### Members

|                  |  |
|------------------|--|
| Han Fang         | Asian Financial Executives' Institutes               |
| Conchita Manabat | Asian Financial Executives' Institutes               |
| Gerald Edwards   | Financial Stability Board                            |
| Elena Lobanova   | Graduate School of Financial Management              |
| Patricia Sucher  | International Organization of Securities Commissions |
| Frank Bollman    | International Valuation Standards Council            |
| Norio Igarashi   | Japanese Financial Services Agency                   |
| Yoseph Asmelash  | United Nations Conference on Trade and Development   |

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\* 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.

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**Staff**

Jim Sylph

Executive Director, Professional Standards

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**Welcome and Approval of Minutes of Previous Meeting (Item D)**

*To APPROVE the minutes of the September 2010 CAG public session.*

### OPENING REMARKS

Ms. de Beer welcomed the Representatives, including Ms. Lang, a new European Federation of Accountants and Auditors for SMEs Representative, and Mr. James, a new International Organization of Securities Commissions Representative. She also welcomed Mr. Hafeman as the Representative of the IOB; and IESBA Chair, Mr. Dakduk.

### MINUTES OF THE PREVIOUS MEETING

Messrs. Ratnayake and Baumann proposed changes to the minutes of the September 2010 meeting to more accurately reflect comments on Agenda Items D (Reviews and Compilations) and H (Disclosures). The minutes were approved as amended.

**Report Back on IAASB Future Strategy and Work Program 2012–2014 (Item E)**

*To RECEIVE an update on the issuance of the IAASB Strategy and Work Program Consultation Paper.*

Prof. Schilder introduced the topic, noting that the consultation paper on IAASB Strategy and Work Program 2012-2014 had been issued in January 2011. He commented that the online survey conducted in 2010 had provided the IAASB with clear messages on the support for the IAASB's current direction, and also the need to continue focus on adoption and implementation. Further, he was pleased to hear strong enthusiasm for the ISAs wherever he travels, and noted that ISA adoption is proceeding in many countries around the world and with strong support by the Forum of Firms.

Prof. Schilder noted that the IAASB had analyzed its current work program and concluded that there is a limited ability to take on new projects in 2012. The IAASB has therefore specifically asked respondents to the consultation paper to indicate their top priorities for the IAASB's future work program.

Ms. Healy drew the CAG's attention to an inaccuracy in the report back document. She explained that it indicates "Point accepted" against Mr. Windsor's proposal for the IAASB to undertake a project regarding the audit of insurance companies, whereas it should indicate that the IAASB decided not to include such a project on its list of proposed future activities. The Task Force did consider the matter and raised it with the IAASB. The Task Force acknowledged, however, that there was generally greater support for development of banking guidance as a priority, and that despite the cautions on developing industry specific guidance it would be

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<sup>1</sup> The minutes present the discussions in the order that they were taken. This may not be the same as that indicated on the agenda.

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appropriate to identify that as a possible project. It would not be appropriate, however, to suggest that the IAASB might undertake two industry projects in the 2012-2014 period in light of agenda capacity and other priorities, and the fact that it is unlikely to start such a project until it had gained further experience with the possible banking project.

The Representatives and Observers commented as follows:

- Mr. Waldron supported the projects on audit reporting and disclosures, despite the challenges.
- Mr. Krantz was of the view that there is a need to focus on environmental issues in the broader sense by considering a project on assurance over integrated reports, as such reporting provides a different sense of the value of the company.
- Mr. Pickeur acknowledged that need to balance the selected projects with available resources. He noted that the IAASB's current operating model is very different to the IASB's and he suggested that IAASB conduct a critical review of the key assumptions on which the future work program is based. He noted that key assumptions, like volunteer Board members meeting for approximately 20 days per year, may be difficult to reconcile with the IAASB projects outlined in the program, particularly for developing and monitoring standards and responding to concerns about their implementation. Prof. Schilder explained that the consultation paper is based on the current model and noted that any changes to the model would require a few years to accomplish. He noted that a key question is whether more can be achieved with the current model, and that the IAASB had tools, such as staff publications, to respond to urgent issues that may arise in the meantime.
- Mr. Pickeur noted that the possible project to revise IAPS 1004 is important, and that the Basel Committee on Banking Supervision intends to start revising the document and to invite the IAASB to participate. He noted that a revision of IAPS 1006 was not yet on the agenda of the BCBS.
- Mr. Windsor supported a project to provide guidance on auditing insurance contracts, particularly regarding the use of judgment. He noted that the IAIS will investigate whether they can contribute resources to assist with developing the guidance. Mr. Gutterman supported Mr. Windsor's comment, noting that the regulation of insurance is now more globally uniform and this creates the need for a strong effort from the IAASB.
- Mr. Morris commented that, in his view, the items in column C are more important than those in column B. In particular, he highlighted that projects on corporate governance and internal controls would deliver more for the public interest than projects on agreed-upon procedures and prospective financial information.
- Mr. Hallqvist noted that he does not believe that there are inherent limitations on an audit, though there are cost and time limitations. Prof. Schilder mentioned the correspondence already exchanged with Mr. Hallqvist on this topic.
- Mr. Kuramochi noted that after the completion of the clarity project there has been an increase in the number of projects on assurance engagements even though he sees ISAs as the most important pronouncements of the IAASB. He supported the IAASB's work on IAPS

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1000 and also on the liaison between the IASB and the IAASB on auditability issues. Prof. Schilder noted that the Clarity ISA implementation monitoring project is intended to inform the IAASB on where to direct further efforts on the ISAs.

- Ms. Blomme noted the IAASB should retain the capacity to respond to regional issues, including any EC proposals. She also noted the need for more emphasis on issues affecting SMPs and SMEs, as well as a project on assurance on non-financial information. In particular, she noted that the implementation monitoring project should also look at the impact of the ISAs on audits of SMEs and evaluate whether changes to the standards are needed.
- Mr. Diomeda asked if the possible project regarding the application of ISQC 1 to small firms could be started in the near future. He noted the existence of the SMP Committee guide on ISQC 1, and asked what weaknesses had been noted in the application of ISQC 1 to smaller firms. Prof. Schilder responded that smaller practitioners have sometimes encountered difficulty in realizing how ISQC 1 can be applied to smaller practices, and that some have suggested that better understanding of the guidance available is needed to help these practitioners prior to implementation.
- Mr. Pannier noted that the projects on integrated- and sustainability reporting were timely as the OECD is pursuing a project on “green growth” as a measurement of environmental progress. He indicated an interim report due in May.
- Mr. Cassel commented that INTOSAI is concerned about progress towards harmonization in Europe and indicated that the IAASB needs to have further contact with the EC in this respect. Further, he noted that the project on disclosures was important to the public sector, particularly as disclosures go beyond the traditional balance sheet disclosures. Prof. Schilder reflected upon his attendance at the INCOSAI conference in South Africa in November 2010 and pointed to the announcement at the conference of INTOSAI’s endorsement of ISSAIs<sup>2</sup> which include the clarified ISAs, along with supplemental guidance specific to public sector audits.
- Mr. Pickeur noted that there needs to be a focus on monitoring controls in the context of the governance of audit firms, and that he was beginning to have some doubts about parts of ISQC 1. Mr. Schilder indicated that the IAASB is very interested in any concerns about ISQC 1.
- Mr. Hansen supported the projects on auditor reporting, disclosures and audit quality as all these items were mentioned in the US Treasury committee<sup>3</sup> hearings. He noted, however, that these projects would take time to get right. Prof. Schilder noted that both the PCAOB and the IAASB acknowledge that they have a common interest in these projects. Mr. Baumann agreed that these should be high priority projects.
- Mr. James noted that the IAASB’s focus should be on projects that contribute to high quality audits.

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<sup>2</sup> International Standards of Supreme Audit Institutions

<sup>3</sup> Advisory Committee on the Auditing Profession, US Department of the Treasury

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- Ms. Lang asked whether the IAASB has progressed further with the concept of “think small first”. Prof. Schilder noted that this had been an important part of the decision to pursue the projects to revise ISRE 2400 and ISRS 4410, and to develop the staff publication on the proportionate application of the ISAs. Ms. Hillier commented that requirements were included in the ISAs during the clarity project only when they were applicable in virtually all circumstances, and that some ISAs specify that particular requirements only apply to audits of listed entities. Prof. Schilder added there is a question of whether additional implementation guidance is needed and noted that the SMP Committee was also working on these issues. Ms. Lang noted that implementation guidance is useful though it may be preferable to consider issues relevant to smaller practitioners at the inception of projects, and that this should start with ISQC 1.
- Mr. Koster supported the projects on corporate governance and internal controls as these were seen as a cause of some of the recent turmoil, but questioned the comment in paragraph 81 about not moving to an integrated audit model. Prof. Schilder explained that while the IAASB could pursue a project on internal controls, it would not seek to include this as part of an audit under the ISAs in the absence of a regulatory mandate.
- Ms. de Beer commented that she agreed with many of the comments of the CAG related to the importance of the items in column C. In addition it was also necessary to spend time on understanding accounting issues and auditor reporting.

Ms. de Beer encouraged the Member Organizations to submit comment letters on the consultation paper to fully inform the IAASB’s deliberations on the strategy and work program.

#### Audit Quality (Item F)

*To DISCUSS matters relating to audit quality highlighted by the Task Force or brought forward by CAG Representatives, including a publication issued in January 2011.*

Mr. Crawford introduced the topic, noting that the topic had last been discussed by the CAG at its September 2010 meeting, and by the IAASB at its December 2010 meeting. He noted that the IAASB had released a thought piece on audit quality in January 2011. Mr. Crawford informed the CAG that, in response, the IAASB, at its March 2011 meeting, will be asked to consider and approve a project to develop an international audit quality framework, with a consultation paper planned for issuance in the first quarter of 2012.

Mr. Crawford explained that development of the proposed audit quality framework would begin with consideration of the UK Financial Reporting Council’s paper<sup>4</sup> on the drivers of audit quality. This consideration would then be expanded to include other inputs, outputs and contextual factors of audit quality. He noted that the Task Force would not attempt to define audit quality, as there is a lack of common agreement on the definition. Prof. Schilder agreed with the approach of describing the factors rather than defining audit quality, noting a lecture from Prof.

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<sup>4</sup> The Audit Quality Framework, Financial Reporting Council, February 2008.

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Knechel<sup>5</sup> in September 2009 which examined the academic definitions of audit quality and concluded that those definitions were not useful in that they did not recognize that auditing is a process.

Mr. Crawford highlighted that, as part of the development of the consultation paper, the Task Force intended to consult with a variety of stakeholders who have an interest in the topic.

The Representatives and Observers commented as follows:

- Mr. Baumann and Ms. Blomme noted that many of the stakeholders that the Task Force planned to consult with are groups which are focused on audit, and that there is a need to reach out to non-audit groups, particularly investors, preparers, audit committee members and academics who may provide valuable input. Mr. Crawford noted that stakeholder perspectives are critical to the project and that the Task Force intends to engage with many stakeholders, including representatives of those charged with governance.
- Mr. Baumann acknowledged the difficulty in defining audit quality. He noted that a framework would be very useful if it were to include an assessment element – though not necessarily a quantitative measure – associated with audit quality at a firm and an engagement level. This would enable stakeholders, such as audit committees, to assess the quality of audits from their particular perspective. Mr. Bluhm agreed, noting that it would be helpful to have a document that could be used by smaller practitioners to talk about audit quality with those charged with governance and their staff.
- Mr. Robberecht supported making contact with regulators and was of the view that oversight bodies should be encouraged to publish inspection findings. He noted that the Task Force should be careful about the inference that the framework will assist in harmonizing approaches to regulatory inspections of audit firms as it could be perceived that the IAASB is trying to set guidelines for audit inspections. However, he acknowledged that if a framework were available, oversight bodies may use it for their purposes. Mr. Crawford noted that the IAASB did not intend for the outcome of this project to necessarily direct audit inspections.
- Mr. Koster noted the need to distinguish between “hard” and “soft” contextual factors. “Soft” contextual factors include those that impact on perceptions, such as regulatory actions and perceptions of how firms react to regulatory actions. Mr. Crawford agreed that it is important that perceptions are understood and taken into account in developing the framework.
- Mr. Koktvegaard noted that the input, output and contextual factors may confuse audit quality with other types of quality such as governance-, regulatory- and reporting quality. He was of the view that the objectives should distinguish audit quality from other types of quality. He gave the example of improvements in internal control and accounting standards, which are about governance- or reporting quality. Mr. Crawford noted that the Task Force’s view is that these elements are contextual in nature and influence the quality of the audit from that perspective. In relation to the objectives, Prof. Schilder noted that Mr.

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<sup>5</sup> *Rethinking Audit Quality: Eight Propositions for Auditors to Think About*, Dr. Robert Knechel, Inaugural Lecture, Maastricht University, September 2009

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Koktvegaard's point was important but that further consideration is needed about incorporating it in the objective given the inter-relationships amongst the various elements.

- Ms. Blomme and Mr. Peyret supported focusing on the development of a framework rather than focusing on the definition of audit quality or measures of audit quality. Ms. Blomme supported leveraging work that has already been done by other bodies in this regard. She also supported the proposed list of stakeholders to be consulted during the development of the consultation paper. Mr. Peyret noted that the perception of audit quality varied from stakeholder to stakeholder.
- Ms. Blomme noted that this project would be of specific interest to the EC, especially given that the EC Green Paper touches on aspects of audit quality.
- Mr. Roussey supported the project, noting that it includes a broader view of the aspects of audit quality than had been expressed previously, such as governance and internal controls. He was of the view that this would encourage further thinking amongst stakeholders. He noted that, while good governance and internal controls should assist in delivering a quality audit, it should be possible to deliver a quality audit for an entity with poor governance and ineffective internal controls. He also noted that there are a number of difficult questions to be addressed, such as what audit quality means to audit committees, and therefore the project will be challenging. Nevertheless, he was of the view that it will add to the body of knowledge on the topic.
- Mr. Fleck agreed with Mr. Roussey, noting that the events of the global financial crisis have demonstrated the need to take a holistic view. He also noted that a valuable output of the project would be to provide a platform that would encourage interactions amongst stakeholders that could lead to actions being taken that ultimately improve audit quality; for example, actions taken by investors to influence improvements in corporate governance. Mr. Ratanak noted that factors that affect professional judgment, such as tone at the top, remuneration, promotion prospects, are also important to audit quality. Ms. de Beer supported Mr. Fleck's comment about the importance of encouraging the involvement of other stakeholders, and suggested that this might be a useful consideration for the objectives.
- Mr. Bluhm noted that another input factor is the complexity of accounting standards, particularly when the accounting standards are applied to smaller entities. Mr. Koktvegaard disagreed that the complexity of accounting standards affected audit quality, noting that, in his view, the complexity of accounting standards affects reporting quality and not audit quality. He noted the importance of not confusing audit quality with the quality of financial reporting. Mr. Crawford responded that the complexity of the financial reporting framework does have an impact on the environment in which the auditor operates and that, in turn, audit quality is indirectly affected.
- Mr. Peyret noted that users of audited information need education about the limitations on the powers of auditors as some users believe that auditors have the same powers as regulators.
- Mr. Peyret noted that the project should encourage stakeholders to take actions to support audit quality, such as organizations performing early analysis of accounts and ensuring that

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key personnel outside of the finance function are readily identifiable and available to the auditor. He also noted that, where there are service organizations covering accounting data, the service organization need to give assurance about the data that will be used in the financial reporting process.

- Mr. Peyret commented that there are perceptions that entities need to educate auditors about their industry rather than being challenged by the auditors. He noted that auditors should be more aware of industry risks and industrial processes, enabling the provision of valuable insight into the organization. Mr. Peyret also noted that the auditor's report is too often "boiler plate" and perceptions of audit quality could be improved if the report was more informative.
- Mr. Uchino noted that the project should also consider stakeholder expectation of the cost/benefit tradeoff in improving audit quality. For example, the stronger the governance relative to oversight of management, the easier the audit will be and, therefore, the less costly the audit should be. Mr. Roussey noted that there should also be consideration of the benefit to the entity in obtaining a lower cost audit if the internal control or corporate governance environment was strengthened.

#### Corporate Governance (Item G)

*To RECEIVE a paper on corporate governance prepared by the CAG Working Group.*

Ms. de Beer introduced the topic, noting that the CAG Working Group (WG) had been debating a number of issues relative to corporate governance and had prepared Agenda Item G to facilitate a discussion of these issues with the CAG.

Mr. Hallqvist, the Rapporteur for the WG, highlighted that the topic of corporate governance has interaction with nearly every topic on the CAG's agenda. In his view, attention is needed on the topic of corporate governance at the international level, as there are currently a number of different codes of corporate governance and varying practices in different jurisdictions. He drew the Representatives' attention to best practices of corporate governance, including avoiding conflicts of interest, discussed in Agenda Item G.

Mr. Roussey then briefed the Representatives on the possible need for change on the auditor's report in light of the governance structure and the risk management of the entity. He acknowledged that ISA 260<sup>6</sup> governs the auditor's internal communications with those charged with governance, but suggested that there may be a need in the future for the IAASB to consider whether there is demand for the auditor to issue an assurance report on whether an entity is appropriately applying good governance principles. Mr. Roussey explained that it is not the remit for the IAASB to develop corporate governance standards but those developed by the Organisation for Economic Cooperation and Development (OECD) could, for example, be considered or the International Corporate Governance Network (ICGN) could seek to develop new standards on a global basis.

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<sup>6</sup> ISA 260, *Communication with Those Charged with Governance*

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Mr. Hallqvist noted that the purpose of outlining best practices in corporate governance was to highlight that there is a role for auditors to ensure that there are adequate segregation of duties as, in his view, difficulties may be encountered during the audit when a strong corporate governance structure is not in place. Ms. de Beer commented that good or bad corporate governance may also have an impact on audit quality. Mr. Gunn noted that, within the ISAs, there are a number of requirements, as well as application guidance, that emphasize the auditor's consideration of the entity's governance structure in engagement acceptance and in identifying and responding to risks of material misstatement.

The Representatives commented as follows:

- Mr. Pannier thanked the WG for recognizing the work of the OECD. He suggested the scope would be best focused on the auditor's report, audit quality and the interaction with those charged with governance. Mr. Upton agreed that the IAASB would benefit from the focus on these particular matters.
- Mr. Krantz highlighted the World Federation of Exchanges (WFE)'s involvement with the OECD framework and its subsequent endorsement. He believed work in the area of corporate governance, even in the absence of a regulatory requirement, would assist in rebuilding trust in the world's capital markets and be valuable as the environment moves towards integrated reporting. Mr. Upton and Ms. Bastolla agreed that strategic thinking about integrated reporting was necessary.
- Mr. Robberecht was of the view that if changes in the role and scope of the audit were to be defined, this would be for legislators to do not the IAASB. He was also not convinced the auditor was the best person to give an opinion on an entity's corporate governance. Ms. de Beer disagreed, noting her view that it is within the ambit of the IAASB to be able to broaden the scope of the audit to encompass matters such as risk management, internal control and corporate governance. In addition, she noted that in instances where a national regulator has expanded the scope of the audit, the auditor may be required to evaluate the entity's corporate governance structure, and there may be a gap in the IAASB's standards if this circumstance is not addressed. Mr. Robberecht acknowledged there was some support in the responses to the EC Green Paper that the auditor could have more of a role with respect to risk management, but respondents also cautioned that the role of credit agencies was also important.
- Ms. Bastolla expressed the view that some matters identified in the agenda material as possible future consideration for external auditors (for example, internal control, corporate governance, and risk management) would fall into the scope of what a well-functioning internal audit department would typically review.
- Mr. Hansen suggested that, while risk assessment should be taken into account in evaluating an entity's governance, the auditor's report may not be the appropriate place to highlight such matters.
- Mr. Gutterman cautioned that the term "risk management" has different meanings to different people. In the context of insurance and actuaries, the term relates to hedging strategies,

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- Mr. Cassel noted that a distinction may need to be made between asking the auditor to evaluate additional information that an entity may want to include in its annual report (such as a statement on its corporate governance) or simply giving assurance on the general description.
- Mr. Ratnayake commented that the purpose of an audit is to conclude whether the financial statements give a true and fair view in the context of the applicable financial reporting framework, and in that context the auditor evaluates the corporate governance structure in order to place reliance on it in the context of the auditor's risks assessment. However, he was of the view that the auditor would not necessarily be expected to address this in their report. Should an entity requested a separate report from the auditor that what the entity has stated about the corporate governance structure is accurate, Mr. Ratnayake believed this would be a unique assurance engagement.
- Mr. Koktvedgaard was of the view that consideration needed to be made for SMEs, which may not have advanced corporate governance structures.
- Mr. Johnson noted that FEE had published a paper on potential assurance that could be given on corporate governance statements, which explored whether limited or reasonable assurance engagements could be conducted by auditors. He noted that, while auditors are capable of conducting such engagements, such engagements could only be undertaken in accordance with a defined corporate governance framework.

Ms. de Beer noted the links between this discussion and others on audit quality and auditor reporting. She noted the views of the WG were intended to raise issues, such as these raised through the various comments made by Representatives and Observers, to feed into the IAASB's processes.

Prof. Schilder thanked the WG for their work in this area, and agreed with the point raised that corporate governance is relevant to both audit quality and auditor reporting. He explained that the IAASB's consideration of any future work in this area would be done in the context of its overall resources and responses to its strategy consultation, which referenced a suggested project on assurance on corporate governance statements.

#### Using the Work of Internal Auditors (Item H)

*To DISCUSS significant comments on the exposure draft of proposed ISA 610<sup>7</sup> and the Task Force's recommendations.*

Ms. Hillier introduced the topic, noting that 57 responses had been received to the exposure draft (ED) of proposed revised ISA 610. She summarized that, on a number of issues, the vast

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<sup>7</sup> Proposed ISA 610 (Revised), *Using the Work of Internal Auditors*

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majority of responses agreed with the proposals included in the ED, however, a strong and vocal minority view was expressed from the regulatory community.

#### REPORT BACK

Ms. Hillier drew attention to matters noted in the report back in the CAG agenda material.

#### USING THE WORK OF THE INTERNAL AUDIT FUNCTION

Ms. Hillier explained that, while all respondents agreed that the external auditor retains full responsibility for the audit opinion that cannot be delegated to internal auditors and accordingly is required to have a robust evidence basis for forming that opinion, there were differing views as to whether, and to what extent, the external auditor can use assurance work of the internal audit function to amend the nature, timing and extent of procedures directly performed by the external auditor. She highlighted that the standard addressing internal audit is positioned among other ISAs that deal with using the work of others, but using the work of internal audit is unique in that internal audit is not independent of the entity. In light of this, Ms. Hillier reiterated that the proposed revised standard had adopted a threats and safeguards approach to define the appropriate boundaries for using the work of internal auditors.

She explained that one response, submitted on behalf of 14 independent audit regulators from Europe, challenged the threats and safeguards approach by arguing that the internal audit function is an internal control rather than a function that performs assurance work and, accordingly, would never be considered to be independent.

The Representatives commented as follows:

- Mr. Koktvedgaard expressed the view that there could be different implications if regulators were of the view that the internal audit function was a single internal control as opposed to functioning as a monitoring function over the entity's internal control processes as a whole. He clarified that if the internal audit function is performing a number of control tests, this activity could be perceived as an internal control and the external auditor may be able to rely on this work because if such a control did not exist, the external auditor would need to perform substantive testing, noting that this could also depend on how frequently internal audit performed the substantive tests. Ms. Hillier agreed with the point, but noted that it may not always be clear as to whether this would be the case.
- Mr. Diomeda questioned whether external auditors in the jurisdictions that believed internal audit is part of internal control should be able to apply the proposed ISA in light of this conflict. Ms. Hillier noted that responses from regulators reflected a wide spectrum of viewpoints. For example, she noted that some regulators, while suggesting improvements that could be made to the requirements in the proposed standard, did not take an extreme view about restricting the use of the work of internal audit. In explaining the context in which the 14 audit regulators responded, Ms. Hillier commented that their response included a very detailed conceptual analysis of their views as to how internal audit fits within the body of the ISAs, and may likely have been done in response to concerns of over use of internal audit in those jurisdictions.

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- Mr. Hallqvist did not agree that internal audit would be part of an entity's internal control, as he believes that internal control is a system. He cited the external auditor's management letter as a useful tool to highlight weaknesses in internal controls for the audit committee to consider, which can then be discussed with the internal audit function. Mr. Kockvedgaard was of the view that not all internal controls are systems, highlighting oversight such as audit committees as important internal controls.

Ms. Hillier also noted that some respondents perceived the ED as potentially increasing the use of the work of internal audit, while the IAASB's intent was to establish boundaries that had not been articulated in the extant ISA. Finally, Ms. Hillier cited the need for the proposed standard to be clear as to at what point the use of the work of the internal audit function would be considered to be of such a nature and extent that it could cause investors and other parties to believe that its use is undermining the nature and purpose of the external auditor. She noted that paragraphs 17 and 21, as well as Table 1, within Agenda Item M give context to these issues.

The Representatives commented as follows:

- Ms. Bastolla noted that the Institute of Internal Auditors (IIA) supported the discussion in the ED about the professional criteria that the external auditor should consider in determining whether to use the work of internal auditor (that is, objectivity, competency, and a systematic approach). In her view, if such criteria exist, the external auditor should be encouraged to use the work of internal audit, noting that regulators and legislation often require entities to have an internal audit function, which speaks to its inherent value. However, she noted IIA's continued view that internal auditors can be deemed to be independent of the entity as they typically have a dual reporting structure to the audit committee and the CEO. She also believed the standard could be more positive in encouraging the external auditor to use the work of internal audit rather than merely setting negative requirements relating to when their work should not be used. Finally, Ms. Bastolla noted that IIA does not view internal audit to be an internal control, as their role is to provide assurance to the entity's Board.
- Mr. James noted that, within IOSCO, some jurisdictions prohibit the use of the work of internal audit while internal audit is used extensively in other jurisdictions. He also voiced IOSCO's support for clarifying the view that internal auditors are not independent from an external perspective, and agreed with the proposals in the standard that re-performance is necessary when the external auditor intends to substitute internal audit's work for his own. He also supported the proposals made to revise ISA 315<sup>8</sup> to require the external auditor to make inquiries of the internal audit function.
- Mr. White asked Ms. Hillier whether regulators had cited findings from inspections as cause for concern about the increasing use of the work of internal auditors in light of pressures from audit committees. Ms. Hillier noted that, while a few cases of significant overuse were noted, most stakeholders whom the IAASB had engaged prior to issuing the ED did not cite an overwhelming concern in this area.

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<sup>8</sup> Proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Identifying Environment*

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Ms. Hillier further elaborated that respondents had different views about whether the work of internal audit could be used by the external auditor when such work related to significant risks. In addition, she noted the view of some respondents that indicated that application guidance within the proposed standard should be elevated to requirements, in particular the view that re-performance of internal audit work and direct procedures were always necessary.

The Representatives and Observers commented as follows:

- Mr. Hallqvist did not believe it was appropriate for the external auditor to ever rely on the work of internal audit. Instead, he suggested that close and open communication between the external auditor, internal auditor and audit committee should exist, so that the internal auditors can highlight possible areas of concern for the external auditor.
- Mr. Ratnayake supported the proposals in the ED that the auditor should not outsource significant judgments to internal audit. In his view, the standard should explicitly prohibit the external auditor from using the internal auditor to review work performed by senior management; if work had been done by junior staff, the external auditor might be able to rely on internal audit's review of such work.
- Ms. Bastolla suggested that, for some significant judgments, internal auditors might be best placed to evaluate management's work as they may be more familiar with the basis on which the judgments are being made. In such cases, she believed that re-performance by the external auditor would likely be appropriate to mitigate the concern that the external auditor is responsible for the audit opinion. Mr. Roussey noted that smaller audit firms that did not possess expertise in relation to auditing complex computer systems may find great benefit in being able to consult with, and possibly use the work of internal auditors in this regard.
- Mr. Baumann noted that in the US auditors are under extensive fee pressure and have been challenged to reduce audit fees by audit committees, in part by being pushed to increase reliance on the work of the internal audit function. He believed that this is an area of high audit risk and explained that within audit inspections one area that is considered is whether audit hours are decreasing as fees decrease. Mr. Baumann also expressed the concern that, while the proposed standard indicates that the external auditor has to perform enough work to form an opinion on the financial statements, there is a disconnect when the external auditor would be relying on the internal audit function to do work that would have been done by the external auditor. Ms. Hillier responded that the use of the word "rely" may be contributing to this concern, as the external auditor needs an evidence base on which to form the opinion and remains responsible for the judgments in the audit, including the judgment as to whether it is appropriate to use the work of the internal audit feature based on evidence about the work itself.
- Mr. Hansen suggested the most appropriate use of internal audit would be for the external auditor to consider internal audit's findings in its risk assessment and to understand the entity's internal control. He did not believe it would be appropriate for the external auditor to consider whether to use the work of internal audit solely to respond to pressures to reduce the cost of the external audit.

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- Mr. Baumann, supported by Mr. Roussey, agreed with the comments of some respondents that certain application guidance should be elevated to requirements. In particular, Mr. Baumann suggested it was necessary to ensure that there are enough checks and balances within the standard to establish how much work of internal audit can be used by the external auditor. Ms. Bastolla cautioned that if certain guidance was repositioned, other guidance relating to evaluating the objectivity and competence of the internal audit function may also need to be repositioned to ensure the requirements remained balanced. Ms. Hillier explained that it will be important for the IAASB to carefully consider whether to elevate the requirements as suggested, since doing so would result in minimal application guidance. In her view, since the revision of ISA 610 is the first revision since the completion of the Clarity project, ensuring an appropriate balance between requirements and application guidance is an important strategic priority.

A number of Representatives raised matters relating to the cost-benefit of the external auditor using the work of internal audit, as follows:

- Mr. Pannier expressed support for the direction of the standard to strengthen controls around the use of the work of internal audit. He suggested that reliance on the work of internal audit represented an opportunity for the resources of both internal audit and the external auditor to be used most effectively. He suggested that balancing both the internal and external audit resources would allow for more risks within an entity to be evaluated, and this would enable the audit to be cost-effective. Ms. Bastolla noted that, while using the work of internal audit can reduce the cost of the external audit, the primary purpose of an entity establishing an internal audit function is to cover a broad scope of activities within the entity.
- Mr. Morris agreed, noting that the owners of many private entities decide to establish an internal audit function as a means of managing the entity's risks and costs, and have an expectation that the costs of the external audit can be reduced because an internal audit function is present and such work can be leveraged by the external auditor (versus the external auditor performing all relevant procedures). In his view, care should be taken in responding to the concerns of regulators that the standard does not become overly focused on public interest entities and instead acknowledges that private companies are often structured to manage costs. Mr. Koktvedgaard supported this view, noting it is not efficient to require the external auditor to perform all audit procedures if a strong internal audit function is present in an entity. Prof. Schilder noted that the question of whether the IAASB should consider cost-benefit assessments in its standard-setting is for further consideration. Ms. Hillier noted the view of one respondent that audit quality, rather than cost-effectiveness, should be the driver in deciding whether to use the work of the internal audit function.
- Mr. Pickeur noted that banking supervisors expect banks to have internal audit functions in place and have developed supervisory guidance addressing this circumstance, acknowledging that cost should be considered in the debates. Accordingly, he supported the proposed requirement in ISA 315 that the external auditor be aware of the findings of internal audit. He noted the Basel Committee on Banking Supervision's (BCBS) view that, once the external auditor has evaluated the internal audit function using the criteria in the proposed standard, the external auditor can consider using the work of the internal audit function, similar to the

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assessment that is made in determining whether to rely on a well-functioning control environment. He supported Mr. Pannier's point that the complement of internal and external auditor allows for the most risks to be evaluated, and noted the inefficiency in requiring the external auditor to redo work that had already been robustly performed by internal audit.

- Mr. Peyret believed that an entity's resourcing of its internal audit function typically follows a cycle of regulation or scandal, and that it would be a step forward in the future when internal audit functions can have a reasonable number of personnel .

#### DIRECT ASSISTANCE

Ms. Hillier explained that there were diverse views on whether the use of internal audit for direct assistance was appropriate, but that respondents agreed the ISA needed to address direct assistance as it was an established practice in a number of jurisdictions. Some respondents believed using internal auditors for direct assistance would place them as part of the engagement team, which is not in alignment with the *Code of Ethics for Professional Accountants*, as internal auditors are not independent of the entity.

The Representatives and Observers commented as follows:

- Ms. Bastolla noted that IIA agreed that the ISA should acknowledge direct assistance. However, IIA's view is that using internal audit for direct assistance, in particular in relation to areas of low risk, inappropriately diverts their skills and knowledge from the consideration of more important areas such as risk management and internal control.
- Mr. Pickeur noted that the BCBS does not support direct assistance. Mr. Hansen also did not support using internal audit for direct assistance.
- Mr. Fleck explained that his concern with the concept of direct assistance relates to the perception that an entity may be seen as auditing itself. While he acknowledged that this perception may be lessened in jurisdictions where the regulatory framework requires and oversees internal audit, because comfort can be taken as to the competence and skills of the internal audit function, as internal audit is part of the entity this continues to create a perception issue.

Ms. Hillier thanked the CAG for their comments.

#### **Assurance on the Process to Compile Pro Forma Financial Information Included in a Prospectus – ISAE 3420 (Item I)**

*To REVIEW a summary of significant comments on the exposure draft of proposed ISAE 3420 and the Task Force's recommendations.*

Mr. Swanney introduced the topic, noting that the exposure of ISAE 3420 had resulted in 36 responses from a range on commentators. The comments reflected strong support for the direction and proposals in the ED, though concerns were expressed about the two proposed alternative wordings for the opinion in the ED and whether there was a sufficiently clear

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distinction between reporting on the process to compile the pro forma financial information (PFI) and reporting on the PFI itself.

Mr. Swanney noted that the task force would respond to the comments about the alternative wording for the opinion by retaining only one version, which would focus on the proper compilation of the PFI. He also noted that the changes to the proposed standard to better reflect the focus on the proper compilation of the PFI would include changing the name of the standard and providing further application material.

Mr. Swanney further noted that other comments on the ED included concern about the absence of any requirement for specific procedures to be performed regarding the appropriateness of using unaudited or unreviewed financial information of the entity, acquiree or divestee and questions the need for a standard on reporting on the PFI.

The Representatives commented as follows:

- Ms. Blomme supported the change in title and presentation of the work effort, noting that it was clear that the compilation is performed by the responsible party which justified the move away from the focus on the process.
- Ms. Blomme, as the Rapporteur for the CAG WG, noted that the WG agrees with the task force's proposal to have a single opinion, as this will be useful in Europe. She also noted that the WG supports the task force's proposal in respect of the use of unaudited or unreviewed source information, as well as the task force's proposal to not recommend a project to develop a standard on reporting on PFI.
- Mr. James noted that IOSCO has not reviewed the task force proposals yet, and so have no specific comments to offer at this stage.
- Mr. Krantz noted that pro forma statements are important for capital markets, and that it may be difficult for the auditing profession to provide reasonable assurance on PFI without a standard. Mr. Swanney responded by noting that any such standard was unlikely to reach a different conclusion from that in paragraph 16(c) that is, the proposed work effort in relation to the proper compilation of PFI.
- Mr. White noted that PFI is not factual, and that a report on the PFI itself may be misread.
- Mr. Kockvedgaard noted that illustrative report should state that a "practitioner cannot knowingly be associated with misleading information" as opposed to including a reference to ethical requirements, which will be less easily understood. Mr. Swanney noted that practitioners have an ethical responsibility to not be associated with misleading statements.
- Mr. James noted that some IOSCO members are of the view that there should be a standard on the review or audit of PFI. Mr. Swanney commented that, as Mr. White has noted, the numbers in column 3 have no basis other than arithmetic based on assumptions and that an opinion on the numbers cannot be any more meaningful than the proper compilation proposed.

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- Mr. Krantz noted that there could be an assurance standard about the process of compiling the PFI which could describe the process as a way of providing some support for the numbers.

#### Report Backs (Item J)

*To REPORT BACK on September 2010 discussions on a number of projects.*

##### LIMITED ASSURANCE (ITEM J.1)

Ms. Hillier drew attention to the matters noted in the limited assurance discussion in the CAG agenda material. She explained that one significant challenge to the IAASB in developing and revising assurance standards has been the need to design procedures and articulate a level of assurance that would be meaningful to users of the practitioner's report, but that is less than reasonable assurance. She commented that within these proposed standards the IAASB has developed consistent language to explain what the practitioner should do in a limited assurance engagement when additional procedures are necessary to obtain limited assurance, and has posed questions for respondents to obtain feedback on how this concept is articulated in the standard. In addition, she reported that the exposure drafts also seek feedback on the form and content of the practitioner's reports including how detailed the description in the reports should be in order to provide the context for the practitioner's conclusion.

##### ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OR REVIEWS OF HISTORICAL FINANCIAL INFORMATION – ISAE 3000 (ITEM J.3)

Ms. Hillier drew attention to the matters noted in the report back on proposed revised ISAE 3000 in the CAG agenda material. She noted that the proposed revised standard, as well as revisions to the *International Framework for Assurance Engagements*, would be considered for approval as an exposure draft at the IAASB meeting the following week.

##### ASSURANCE ENGAGEMENTS ON GREENHOUSE GAS STATEMENTS – ISAE 3410 (ITEM J.2)

Mr. Gunn drew attention to the matters noted in the report back on proposed ISAE 3410 in the CAG agenda material, specifically noting that the IAASB had significant discussion on how to characterize the difference between limited assurance and reasonable assurance and structure the proposed standard in light of the need for requirements addressing both circumstances. Mr. Gunn clarified a matter in the report back regarding a comment made by Ms. Blomme on page 3 of the CAG agenda item. While the report back indicated "point not accepted" against Ms. Blomme's comment regarding detailed descriptions of procedures in practitioners' reports for limited assurance engagements, it probably is fairer to state "point taken into account," explaining that, while the report back is accurate, it omits explaining the fact that additional wording was added to the application material of the proposed standard (paragraph A136) as a result of the Board's deliberations on your point.

He reminded the Representatives that the exposure draft of proposed ISAE 3410 was currently out for comment through June 10, 2011.

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#### ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL STATEMENTS – ISRE 2400 (REVISED) – AND COMPILATION ENGAGEMENTS – ISRS 4410 (REVISED) – (ITEM J.4)

Mr. Gunn drew attention to the matters noted in the report back on proposed ISRE 2400 (Revised) and proposed ISRS 4410 (Revised) in the CAG agenda material. He noted that the IAASB had taken on, amongst other points, the CAG's advice to draw attention in the exposures drafts by including specific questions for respondents about the nature of the engagements and the form and content of the practitioner's report.

He reminded the Representatives that the exposure draft of proposed ISRS 4410 (Revised) was currently out for comment through March 31, 2011, and the exposure draft of proposed ISRE 2400 (Revised) until May 20, 2011.

The Representatives commented as follows:

- Mr. Johnson was pleased that a number of comments he and Mr. Attolini raised were taken on by the IAASB. He commented that the report back is a useful tool for the Representatives to understand the IAASB's deliberations. Mr. Kockvedgaard agreed, noting that even when the IAASB does not accept points raised by the Representatives this insight is valuable.
- Mr. Kockvedgaard reiterated his view that care needs to be taken by practitioners performing compilation engagements to not be associated with misleading information.
- Mr. Hansen noted his continued concern that the way in which the IAASB is defining a compilation engagement is different than what the engagement represents in certain jurisdictions, including the US. In his view, it is likely to cause confusion if the various definitions cannot be reconciled.

Prof. Schilder thanked Messrs. Johnson and Kockvedgaard for their positive comments on the quality of the report backs and encouraged the Representatives to maintain an open dialogue with the IAASB should they be concerned that the IAASB has not accepted a particular point.

#### STATUS AND AUTHORITY OF INTERNATIONAL AUDITING PRACTICE STATEMENTS (IAPSS)

Mr. Gunn briefed the Representatives on the IAASB's proposals relating to the status and authority of its IAPSSs, using a slide presentation that was distributed during the meeting. Mr. Gunn explained that the IAASB would receive the same update at its meeting the following week, and a fuller discussion of the responses to the exposure draft would be planned for the IAASB and CAG in June 2011 and September 2011, respectively, with the aim of approving both the status and authority and proposed IAPS 1000<sup>9</sup> in September 2011.

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<sup>9</sup> Proposed IAPS 1000, *Special Considerations in Auditing Complex Financial Statements*

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**Awareness Raising (Item L)**

*To RECEIVE updates from CAG Member Organizations about relevant initiatives.*

Ms. de Beer explained the purpose of the session was to enable Representatives to give the rest of the CAG a better insight into the various Member Organizations, their interest in the work of the CAG and specific matters of relevance and importance from their constituency. If Representatives were of the view that this is useful, three Member Organizations will get an opportunity to do this.

Ms. Bastolla presented on behalf of the IIA, using the presentation that had been distributed as Agenda Item L.1. Ms. Borgerth presented on behalf of the Associação Brasileira de Instituições Financeiras de Desenvolvimento, focusing on the work of its major component, the Brazilian Development Bank, using the presentation that had been distributed as Agenda Item L.2. Mr. Krantz presented on behalf of the WFE, referring to market highlights that had been distributed as Agenda Item L.3, and referencing the book *Regulated Exchanges*, which was distributed to Representatives at the meeting.

In relation to her presentation, Mr. Peyret asked Ms. Bastolla for her views on the relationship between internal audit and internal control. She noted IIA's view that internal auditors evaluate and assess controls and report their findings to management, but do not consider themselves to be part of an entity's internal control system.

Ms. de Beer thanked the Representatives for their presentations, and noted that Mr. Koster, on behalf of the Dubai Financial Services Authority, and Mr. Pannier, on behalf of the OECD, had been invited to present at the September 2011 CAG Meeting. She invited any other Representatives with an interest in presenting to make this known.

**Auditor's Reports (Item M)**

*To DISCUSS matters highlighted by the Task Force or brought forward by CAG Representatives.*

Mr. Montgomery introduced the topic, noting the CAG had discussed the project at its March 2009 meeting. He explained that at its December 2010 meeting the IAASB had supported the Task Force's recommendation to develop a public consultation on auditor reporting. In addition, the IAASB Working Group (IAASB WG) had coordinated a meeting with a number of interested parties in November 2010 to explore areas of common interest, and intended to continue its consultation efforts with individual user groups throughout 2011.

**REPORT BACK**

Mr. Montgomery drew attention to matters noted in the report back in the CAG agenda material. He noted the wide diversity of views on the topic of auditor reporting and explained that, to the extent possible the draft consultation paper (CP) acknowledges the views previously expressed by the Representatives.

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The Representatives were broadly supportive of the general direction of the CP and many Representatives complimented the IAASB on the quality of the draft CP.

#### MATTERS NOTED ON THE DRAFT CONSULTATION PAPER

The Representatives and Observers commented as follows:

##### *The Information Gap*

- Mr. Koktvedgaard, as the Rapporteur for the CAG WG, noted that the draft CP assumed the reader would be familiar with the concept of an “information gap” versus the broader “expectation gap.” He suggested that the use of an illustration to show how these concepts were inter-related, and focus the reader’s attention on the narrower issue of the information gap that is addressed in the CP, would be helpful. Mr. Montgomery acknowledged that the CP assumes readers would be somewhat familiar with the concept of the “information gap,” as well as the work being done by IOSCO and the EC, and agreed that this assumption may need to be reconsidered.
- Mr. Koktvedgaard noted that the CAG WG agreed with the IAASB WG’s position that it was necessary to assume the scope of the audit would not be changed in order to set boundaries to evaluate the requests for additional information to be provided by the auditor. Mr. Johnson cautioned that, due to the changing environment, it is likely that this position may need to be reconsidered as expectations regarding the scope of the audit and the role of the auditor change, for example, as highlighted in the EC Green Paper.
- Mr. Koktvedgaard advised that the paper should also explore the question of who the users of the auditor’s report are and whether different types of users had different expectations of the auditor’s report. For example, some users (like the audit committee) could gain access to privileged information via other channels of communication, while an investor may be more reliant on the auditor’s report to provide the necessary information. He suggested that an illustration in this regard would be useful to show the types of communication that might be requested or expanded to address the perceived information gap, including written communication via the auditor’s report and oral communication to the General Assembly. Mr. Hansen noted a similar view that private company investors may have greater access, while public company investors’ needs may not be met simply by the auditor reporting more to the audit committee. Mr. Montgomery noted the references were intended to be generic but further stage-setting about both the broader groups of users and those more vocal in expressing their concerns for additional information might be helpful.
- Mr. Hallqvist was of the view that the IAASB should consider the equity investors as the primary users of the auditor’s report, and that their main focus would be to understand the challenges in the auditing environment, for example if there are conflicts of interest due to inadequate segregation of management and governance duties. He noted ICGN’s view that that focusing the auditor’s report first for these users and then considering whether additional paragraphs needed to be added would be preferable.

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- Mr. James noted that investors have differing views on how an audit report should be prepared and suggested the IAASB should consider whether there should be a difference in the approach to the auditor's report based on the type of investor – for example, a single shareholder, state owned enterprise, or large entity.
- Mr. Roussey cautioned that the requests for auditor's insight into the quality of an entity's governance, the relative degree of conservatism or aggressiveness in its accounting practices and the financial health of the entity would be very difficult to assess, and care should be taken in the draft CP not to imply that auditors should or would be able to report on these matters. Mr. Koktvedgaard noted that, in order to consider whether it would be possible to do so, investors would need to be asked to explain the framework under which such information could be measured. Mr. Roussey described work that he had done previously with a colleague to develop a model for US publicly traded companies to predict bankruptcies, but noted any such models become obsolete as financial reporting standards change.
- In Mr. Koktvedgaard's view, requests from investors for this type of additional information have come about due to a general mistrust in the audit and if this is the case the issue may not be overcome by more communication. Mr. Kuramochi noted that IOSCO received similar feedback in its consultation, as investors were of the view that an unqualified opinion does not adequately differentiate the quality of the audit. He reported that many investors responding to the IOSCO consultation noted that during the financial crisis a number of companies went bankrupt, while the auditor's report on these companies did not indicate a going concern issue. Because of this, investors questioned whether the auditor was appropriately responding to assessed risks at the entity.
- Mr. Koktvedgaard noted that one member of the CAG WG was of the view that the IAASB should consider work being performed in the UK before advancing its own work in this area.

#### *Auditor Commentary on Matters Significant to Users' Understanding of the Audited Financial Statements, or of the Audit*

- Mr. Koktvedgaard noted the risk that users of the auditor's report may confuse reporting issues (for example, those under generally accepted accounting principles), and audit findings (for example, communication on the audit), a point which is to and extend acknowledged in the draft CP but could be made more clear. Mr. Upton agreed, noting that education of users may be necessary to ensure the respective roles of financial reporting standards and auditing are understood, in particular as information is requested about corporate governance, auditor's findings, and financial reporting disclosures. Mr. Upton also suggested that consideration of the role of the integrated reporting initiative was necessary in looking at the balance of information requested and who should be responsible for providing such information.
- Mr. Ratnayake noted his view that, due to the increasing use of fair value measurements, the draft CP should highlight the need for the auditor to provide views as to what extent components used in models to determine fair value are not market-based, and the impact that this could have on the financial position on the entity. Mr. Koktvedgaard noted that, while he

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agreed this was useful information for investors, the disclosures should be driven by the financial reporting framework rather than provided by the auditor. Mr. Johnson suggested that enhanced auditor commentary on matters included in the audited financial statements would assist the users in understanding the audit risks.

- Mr. Cassel appreciated the balance in the paper between the static and dynamic aspects of auditor reporting. He noted that criticism of auditors and rapid changes in IFRS have led to the demand for additional information and the current scope of the audit may be taken for granted. He supported the view in the draft CP that it is important to distinguish between the role of the preparer and the role of the auditor when evaluating who should provide additional information requested by users. Mr. Johnson echoed this view, noting his concern that some of the information being requested should be provided by the entity, not the auditor. In his view, there is a role for the accounting profession to be one of the leaders in this areas but input from others will be critical to close the expectation gap. Mr. Montgomery agreed, noting that while the CP questions whether the auditor should be providing information that has not otherwise been disclosed by the entity, the explanation of the respective responsibilities of management, those charged with governance and the auditor may need to be explained in greater detail. Mr. Montgomery also noted that the IAASB believes additional education is needed on the role of the auditor, and the meaning of the audit, which has been factored into the IAASB's future work program.
- Mr. Baumann noted that the PCAOB's work to date has highlighted frustrations among investors with today's auditor reporting. He explained that investors want the auditor's report to be meaningful to them, and cite difficulties with the current format because they believe there is great variability in what is meant by the statement in the auditor's report that the financial statements "present fairly." Mr. Baumann also explained that investors expect that auditors have a view as to how aggressive entities are with respect to accounting policies, for example, and recognize that such matters are already being addressed by auditors in the communication with those charged with governance. In addition, he noted that many investors do not support the view that auditors should not be able to provide information that the entity is not willing to be provided. Mr. Baumann explained that other groups in the US, such as the Center for Audit Quality and the 2008 Treasury Advisory Committee have highlighted similar matters, prompting the PCAOB to undertake a project in relation to auditor reporting. He reported that the PCAOB will discuss the results of their research and outreach in a public meeting on March 22 and also intends to issue a concept release on the topic in the second quarter of 2011.
- Mr. Ratnayake noted that the matters outlined in the draft CP are consistent with messages IFIAR has heard from investors in the course of its outreach.
- Mr. Gutterman noted the reference in the paper to requests for additional information to be provided on an entity's "risk management," and noted the term has different meanings to different stakeholders. He suggested the CP could be clearer on whether the intent was to focus on enterprise risk management or other forms of risk management and what the role of the auditor should be with respect to reporting on each. Mr. Montgomery explained that the intent of the material in the CP in this regard was to highlight areas that would require a

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change in the scope of the audit in order for the auditor to be in a position to report. In his view, in the future auditors may be asked to provide additional assurance on areas such as risk management in order to stay relevant in the current environment.

- Mr. James noted that a number of the areas such as corporate governance, risk management, internal control, and key performance indicators were mentioned in Ms. Bastolla's earlier presentation about where internal auditors are likely to concentrate their efforts. He suggested there may be a role for internal auditors to report to the board and audit committee on these matters, and then the board and audit committee could report publicly. Ms. Bastolla agreed.
- Mr. Baumann noted that investors use the term "risks" loosely in asking for the auditor to include additional information. In his view, it is important to distinguish what these risks are, since auditors can provide more commentary on the assessed risks of material misstatement and audit risks but are not necessarily trained to provide an assessment of business risks.
- Mr. Hansen noted the discussion of the US Treasury Advisory Committee suggested more narrative was needed about estimates, judgments, uncertainties, sufficiency of evidence and the significant risks that the auditor addressed. However, he recognized the need to consider whether certain of this information was better disclosed by management. Mr. Hansen also suggested that there may be a need for both management and the auditor to communicate more explicitly about error or fraud.

#### *Possible Changes to the Structure, Format and Content of the Standard Auditor's Report*

- Mr. Hansen noted that the draft CP seemed to suggest the view that the binary pass/fail model currently in use for the auditor's report remained appropriate. In his view, additional discussion in the CP might be useful.
- Mr. Kuramochi reported on IOSCO's experience with their consultation on the topic. Responses from investors to their consultation included requests for additional information, with the view that no additional cost would be incurred by the auditors in providing such information because the auditor would only be reporting on work that had already been done in the current scope of the audit. However, he noted that auditors did not believe additional reporting would be cost-neutral. Mr. Kuramochi therefore suggested the IAASB could work to facilitate additional discussion between auditors, entities and users of the auditor's report to evaluate the costs and benefits before requiring additional reporting by auditors. Mr. Hansen noted his view that the implication of having to report triggers additional procedures by the auditor. Mr. Pannier supported this view and echoed the point that it would be useful to explore the cost-benefit implications of each proposal. He also suggested that the matter of legal liability should be mentioned.
- Mr. Uchino expressed the view that investors may rely more on reports from equity analysts rather than the auditor's report. He questioned whether it would be possible to make changes to the auditor's report that would assist investors in deciding whether to invest in a particularly entity if the scope of a financial statement audit did not change.

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- Mr. Kocktvedgaard noted the illustrations in Appendix 1 highlighting possible areas of changes to the standard auditor's report were very helpful as a way of bringing things forward for respondents to consider.
- Mr. Peyret explained that within the French auditor's report there is a "justification of assessment," in which the auditor substantiates and explains their assessment. In his view, doing so moves the auditor's report away from boilerplate language and also illustrates the auditor's focus on significant matters, such as intangible assets. Mr. Montgomery noted that it is understood that the French model has led to enhanced dialogue between management and auditors, thereby helping to improve financial reporting quality and the audit process.

#### *An Enhanced Role for the Audit Committee Regarding Financial Reporting and the External Audit*

- Mr. Cassel noted there may be a role for the audit committee to disclose more information (for example, about accounting estimates) and for the auditor to provide commentary on such information. Mr. Montgomery noted that the IAASB WG agrees with this point, however, it acknowledges that there may be some challenges in this approach because corporate governance models are not the same in every jurisdiction. He explained that the idea of the audit committee providing more information to the public, accompanied by more detailed reporting by the auditor to the audit committee, and possibly assurance on the report issued by the audit committee, needs to be considered as part of the debate, although it may be a longer-term option.
- Mr. Pickeur expressed the view that the diagram of the audit committee reporting model in the draft CP may not be typical in most corporate governance frameworks, because he did not believe that the audit committee would have the right or expectation to report to the external stakeholders. Rather, he was of the view that the audit committee would report solely to the entity's board. Mr. Hallqvist agreed. Ms. de Beer noted that this depended on the jurisdiction, as audit committees in South Africa have a reporting responsibility directly to the shareholders in so far as auditor independence is concerned.
- Mr. White noted there may be inherent tension in the diagram of the audit committee reporting model if the audit committee is asked to report on oversight of financial reporting and external audit, and then the auditor is asked to report on the reasonableness and completeness of the audit committee's report, as this would seem to require the external auditor to be reporting on its own work.
- Mr. Fleck explained that the proposed UK model envisages a greatly expanded report by the auditor to the audit committee or the board that sets out the reasons why the auditor is satisfied that the entity's financial accounts give a true and fair view and identifies any key sensitivities of judgements involved in reaching that conclusion. Such a report enables the audit committee or board (when reporting in the Annual Report) to identify critical factors in the entity's financial report and issue the financial statements[DDM1]. In his view, this is a two-step process rather than "two-way communication" as detailed in the diagram in the draft CP. The second step arises when the auditor in his report comments on whether the

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audit committee or board's report addresses all those matters critical to an understanding of the financial statements. Mr. Fleck noted that the benefit of this model is that it prevents the auditor from assuming a quasi-management responsibility by reporting what management should be reporting, in particular on matters such as internal control, accounting policies, and other critical judgments. Mr. Fleck noted this model could work when either the audit committee or the board has this reporting responsibility. Mr. Baumann agreed.

#### *Other Matters*

- Ms. Lang and Mr. Bluhm supported the way in which the draft CP highlighted the issues relating to SMPs. Ms. Lang suggested the IAASB should work to ensure additional burden is not created on SMPs. Mr. Bluhm noted that consideration may need to be given to the fact that SMEs may not have audit committees or governance structures as envisioned in the draft CP. Mr. Koktvedgaard suggested this should be explicitly stated in the CP. However, Mr. Bluhm cautioned the IAASB against moving in a direction that the audit report for a private company might suggest that an audit for a private company is to some lesser scale. Mr. Montgomery agreed, and noted that the intent of the remarks in the draft CP were to indicate that ongoing dialogue with the SMP community would be important in this regard, as would dialogue with INTOSAI and public sector entities whose reporting might be driven by different types of regulations.
- Mr. Waldron and Mr. Hansen questioned what the IAASB was doing to coordinate efforts with the PCAOB, EC, FRC and others exploring similar issues. Mr. Hansen expressed the view that the IAASB should work to minimize unnecessary differences between the models that are being developed. Mr. Robberecht cautioned the IAASB to not move too quickly or in a divergent path from the EC and PCAOB in light of the importance of the topic and the changing landscape. Mr. Montgomery noted the IAASB WG has been monitoring the direction of these groups so as to stay aligned to the extent possible.
- Mr. Pickeur was of the view that the EC Green Paper has more of a focus on the audit committee rather than auditing. Mr. Robberecht explained the spirit of the Green Paper was to highlight the importance of communication on every level between stakeholders, external auditors, internal auditors and audit committees. While the Green Paper did express the view of the need to strengthen the audit committee, responses to it also highlighted the need for added value in the auditor's report. Mr. Robberecht noted that the ISAs cannot impose requirements on management or the audit committee. Mr. Robberecht informed the CAG that the EC is planning to issue another Green Paper explicitly addressing corporate governance.
- Mr. Pickeur suggested the CP could raise additional conceptual questions to obtain higher-level feedback rather than some of the detailed technical questions included in the draft CP.
- Mr. Koktvedgaard encouraged the IAAB to consider asking respondents whether there are additional matters on which the auditor could be asked to report. He also suggested it was unclear whether the IAASB WG considered request for the auditor to report more on work performed and audit procedures as is done in Germany and Denmark.

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- Mr. Pickeur suggested that IAASB's project on auditor reporting and audit quality should be closely linked. Mr. Montgomery explained this was the intent, as some users believe additional information provided in the auditor's report will help them in assessing the quality of the audit performed.

#### **The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon – ISA 720 (Item O)**

*To DISCUSS matters highlighted by the Task Force or brought forward by CAG Representatives.*

Mr. Gélard introduced the topic, noting the CAG had discussed the project at its March and September 2010 meetings.

#### REPORT BACK

Mr. Gélard drew attention to matters noted in the report back in the CAG agenda material.

#### DOCUMENTS IN THE SCOPE OF ISA 720

Mr. Gélard explained that the Task Force has focused on identifying the types of documents to be included in the scope of the revised ISA by describing their characteristics. He also noted that the Task Force believes it is necessary to exclude certain documents from the scope of the revised ISA, specifically preliminary earnings releases, prospectuses, press releases and information contained in analyst briefings.

The Representatives and Observers commented as follows:

- Mr. Kockvedgaard, as the Rapporteur for the CAG WG, noted that the WG was generally in agreement with the direction taken by the Task Force.
- Mr. Kockvedgaard raised the matter of whether Sharia Law requirements would be included in the scope of the proposed ISA and suggested that, if this was the Task Force's intent, then including reference to Sharia Law in the definition of other information or within the application material would be helpful. Mr. Gélard explained that the Task Force's understanding was that Sharia Law requirements would be considered as part of the requirements of the applicable financial reporting framework and any description of Sharia requirements would be covered by the auditor's work in accordance with ISA 700,<sup>10</sup> not ISA 720.
- Mr. Ratnayake questioned how an auditor, at the time of preparing his audit report, would be able to know that the report would be attached to another document. Mr. Gélard explained that the auditor would either be aware of the documents that are required by law to accompany financial statements (for example, management's report) or would inquire as to

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<sup>10</sup> ISA 700, *Forming an Opinion and Reporting on Financial Statements*

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how the auditor's report would be used and address this in the engagement letter when the engagement is accepted.

- Mr. Hansen expanded upon the point raised by Mr. Ratnayake, noting that for private companies in the US the auditor frequently does not know what the client may do with the auditor's report after it is issued. For example, he explained that the entity may include the auditor's report in a registration statement for an exempt offering or otherwise provide it to a regulatory body. To safeguard against this, Mr. Hansen noted that the engagement letter will make reference to the entity's need to obtain a consent from the auditor and will perform additional procedures on the document in which the auditor's report is included to ensure the information is not inconsistent with the financial statements on which the auditor has previously reported. He questioned whether this circumstance would be covered by the proposed revised ISA. Mr. Gélard noted the IAASB's intent to scope this circumstance out of the standard, in that the auditor cannot be reasonably expected to have a responsibility to read documents that are issued months after the auditor's report is released. In his view, this is more a matter of auditor association and how the auditor's report is used, rather than part of the financial statement audit. Mr. Hansen noted the need to acknowledge what an auditor's responsibility would be if the auditor became aware of a contradiction to the auditor's report in such circumstance. Mr. Baumann noted the consent of the auditor refreshes the auditor's report at the date the consent is signed, and the auditor performs additional subsequent event procedures in order to issue the consent. In his view, the auditor's responsibility for the other information included in the offering documents is the same as the responsibility when the financial statements on which the auditor reports are originally issued. Prof. Schilder suggested that further exploration of this issue was necessary, as there may be differences when the auditor gives consent to use the auditor's report but does not perform additional procedures to refresh the auditor's report (that is, the consent is not currently dated) compared to the scenario outlined by Mr. Baumann. Mr. Johnson agreed.
- Mr. Kotkvedgaard inquired whether electronic information, including XBRL, is covered if it is published at the same time as the auditor's report. Mr. Gélard noted the issue of electronic dissemination is broader than just other information and relates to the audit of the financial statements, so it has been scoped out from the proposed revised standard. He noted in addition that corporate governance statements published only on the internet would also be scoped out.

#### STRENGTHENING THE AUDITOR'S APPROACH TO OTHER INFORMATION

Mr. Gélard noted that feedback on extant ISA 720 indicated that the auditor's approach to other information by reading it was not completely clear. Accordingly, he explained that the Task Force has proposed to increase the auditor's work effort to reading "*and considering it in light of the auditor's knowledge of the entity and information obtained in the course of the audit.*" He also explained that further differentiation about the auditor's procedures had been made within the proposed revised ISA between information that was capable of being reconciled with the audited financial statements and other narrative information.

The Representatives and Observers commented as follows:

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- Ms. Blomme believed it was not clear in the current proposal what the auditor is obligated to report having read and considered the other information, and suggested the proposed standard could be more specific in this regard. Mr. Gélard noted that extant ISA 720 did not require the auditor to explicitly report on the work performed in accordance with the ISA and the Task Force did not intend for this to be changed in the revised standard. However, he noted that if misrepresentations of other information were noted by the auditor and not addressed by management or those charged with governance, the provisions of ISA 705<sup>11</sup> and ISA 706<sup>12</sup> would apply. He also explained that the IAASB WG dealing with auditor reporting was considering whether there should be enhanced reporting on other information. Ms. Blomme suggested the IAASB aim to better clarify the auditor's procedures when other information is deemed to be materially misstated.
- Mr. Koktvedgaard noted that previous discussions had indicated that the use of the word "consider" may lead to differing interpretations of what is intended and may also cause difficulties from a translation perspective. Mr. Gélard explained the Task Force's view that clarifying that considering the other information is done in light of the auditor's understanding of the entity would give the auditor appropriate context in which to perform the work. Mr. Koktvedgaard suggested this could be further clarified in the application material.
- Mr. Baumann raised a concern about the use of the word "misrepresentation" in the context of the other information, noting that its meaning could vary by jurisdiction. For example, he noted in the US that the term would typically be used to describe an intentionally false statement and that, should auditors interpret the proposed ISA in this way, they may not appropriately focus on the other information if they believe the intent is only to consider whether management has intentionally made false statements, as opposed to whether the other information contains factual inaccuracies (which in his view may encompass matters of judgment, expectations or unsupported statements). Mr. Bluhm agreed with Mr. Baumann, and also noted difficulty with omissions being included as a misrepresentation of other information. In his view, this may extend the auditor's responsibility too far. He suggested the Task Force consider whether additional application material could be used to put this in context. Ms. Blomme expressed the view that the auditor does not perform audit work on other information, so care should be taken to evaluate whether using the term "misrepresentation" implies a higher level of effort than what is intended or possible.

#### PRELIMINARY ANNOUNCEMENTS AND AUDITOR ASSOCIATION

Mr. Gélard noted that, in the course of considering the scope of the revision of extant ISA 720, the Task Force had been challenged to consider whether additional matters should be covered in the ISA or addressed separately, in particular preliminary announcements and, more broadly, auditor association. He explained that the IAASB would be asked to consider the Task Force's proposals included in Agenda Item O relating to these two topics.

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<sup>11</sup> ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*

<sup>12</sup> ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

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The Representatives and Observers commented as follows:

- Mr. Johnson supported the IAASB exploring what further standard-setting was necessary in relation to preliminary announcements, agreeing that this did not necessarily need to be considered in the scope of proposed revised ISA 720. He noted his continued concern that the majority of investor decisions are based on preliminary announcements. In his view, focusing procedures of preliminary announcements will strengthen the quality of financial reporting. Mr. Baumann agreed, noting the linkage with the auditor reporting project and time lag between the earnings release and the auditor's report. In his view, the question of the auditor's involvement in preliminary announcement speaks to the relevance of what the audit is about and will require others in addition to standard-setting bodies to consider what should be done.
- Ms. Blomme suggested that the topic of preliminary announcements could be considered as part of the broader issue of auditor association. In her view, matters such as analyst briefings, the auditor's association with compiled financial statements when a report is not issued (and therefore proposed ISRS 4410 would not apply) should be included in the IAASB's consideration of a way forward.
- Mr. Waldron, while supporting the view that preliminary announcements are important, cautioned that any guidance for auditors on dealing with this needed to be balanced with the time needed for such procedures, in light of the fact that the speed of the information to the market is important. Mr. Baumann noted that in many major publicly listed companies audit committees already request auditors to perform procedures on preliminary announcements. Mr. Johnson explained that this is also required by the stock exchange in the UK. However, Mr. Gélard noted that in other jurisdictions, such as France, auditor involvement with preliminary announcements is not required. He explained that the French securities regulator has asked issuers to state in their preliminary announcement the stage of completion of the audit. Mr. Peyret was of the view that their focus is on financial communication and entities have been criticized when the key figures in the preliminary announcement were different from the audited financial statements.
- Mr. Koktvedgaard agreed that preliminary announcements and auditor association should not be covered in ISA 720, but suggested that it might be a broader topic to be explored with other bodies. Mr. Gélard noted that, with respect to auditor association, there are likely links to the *Code of Ethics for Professional Accountants* and so a more generic standard on auditor association may be helpful.

#### Disclosures (Item N)

*To DISCUSS matters highlighted by the Task Force or brought forward by CAG Representatives.*

Ms. Hillier introduced the topic, noting that the impetus for the IAASB's work in this area had come from the CAG. She noted that the development of the IAASB Discussion Paper had aided the IAASB in understanding the complexity of the issues and the inter-relationships between different perspectives. She commented that the solutions may involve a range of stakeholders,

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and that the Discussion Paper contained questions for these different stakeholder groups. She noted that the Discussion Paper contained no proposals as the IAASB's intent was to inform the debate on the audit implications of disclosures.

The Representatives commented as follows:

- Mr. Robberecht noted that disclosure of a stress test had been used as an example, but that this was not being pursued by the IASB. Ms. Hillier acknowledged this, noting that the Discussion Paper was using this as an example of a disclosure that raised numerous issues.
- Mr. Kuramochi suggested that input from auditors on the auditability of new disclosures is critical, and that any concerns about auditability should be raised with the IASB. He observed that many IOSCO members have expressed concern about boiler plate disclosures, and circumstances where the auditor challenged management about disclosure issues, but did not persevere when management did not change the disclosures.
- Ms. Borgerth supported the discussion paper, noting that, as a preparer, she acknowledges that she is responsible for the financial statements and the value of professional skepticism in an audit is that it increases her confidence that the financial statements presented to the market are accurate. She observed that the disclosures related to line items in the financial statements should be auditable, as she must have evidence for the related disclosures in order for the disclosure to be accurate. However, she also noted that some information, such as management judgments, may be unauditable as the business strategy and business model is not under the auditor's control. She believed that the auditor should be in charge of verifying that management's disclosures are complete. In relation to the example of a stress test disclosure, she saw the auditor's responsibility as looking at the premises of the stress test and the use of the model but that the auditor should not consider whether the stress test model was right.
- Ms. Blomme welcomed the IAASB's work on disclosures and the important IASB liaison activities. She agreed with Ms. Borgerth that there are issues related to auditability in relation to certain disclosures. She commented that, ordinarily, the auditor should be able to review the evidence management relied upon in preparing the disclosure. She also noted that some organizations may have difficulty responding to the Discussion Paper as there are few people who are both audit and accounting specialists.
- Mr. Gutterman agreed with Ms. Blomme's assessment of the difficulty in finding specialists in both accounting and auditing who can respond to the Discussion Paper. He noted, that the Discussion Paper was particularly relevant to insurance as risk disclosures related to insurance contracts can be "box ticking," or can consider issues such as sensitivity testing, uncertainly analysis. He commented that a key issue was the need to include more disclosures relative to particular risks, and how preparers and auditors determine if there is sufficient and adequate disclosure. He noted that the Discussion Paper raised issues needing a hybrid of accounting and auditing, as well as qualitative and quantitative analysis.
- Mr. Windsor agreed with Mr. Gutterman, and explained that the IAIS has an ED on disclosure requirements for insurers.

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#### **PIOB Remarks**

Mr. Hafeman congratulated Ms. de Beer on her first meeting as IAASB CAG chairman. He commented that Representatives with comments for the Task Force chairs had had the opportunity to bring these forward, and the comments seemed as if they would be very useful to the Task Forces. He noted that the comments in the executive session this morning showed that the CAG is interested in discussing projects not directly linked to the IAASB's existing plans and that this is useful as it provides input on activities the IAASB might need to undertake in the future.

Mr. Hafeman briefed the Representatives on the focus of the forthcoming PIOB report. He noted that every PIOB report has some discussion of aspects of the public interest, though this one attempts to explain what is meant by "public interest." This included that the accountancy profession is acting in the public interest if it creates a net benefit for the public. He also noted that the "public" is not limited to the hiring party, or even those using accounting information as it includes segments that are directly or indirectly affected by the service provided.

Mr. Hafeman observed that the benefit to the public is multi-dimensional and includes financial, political, social and environmental benefits, though not all of these are relevant equally to the accounting profession. He commented that the most direct benefit is financial though the PIOB does not limit their view of the public interest to financial matters as accountants and auditors are involved in non-financial matters, such as greenhouse gas statements. He also noted that the profession could best benefit the public by providing account-related information in which the public is interested, and which is both useful and a faithful representation. The public should find the information useful and have confidence in using the information.

Mr. Hafeman addressed the IFAC draft paper on the public interest. He commented that, personally, he believes that the IFAC paper has some useful points though much of what they cover in the paper is about factors that contribute to the public interest, but it does not address what the public interest is. He noted that IFAC paper dealt with some useful concepts, such as political processes that may assist where stakeholders' interests conflict and that it was useful to have both IFAC and the PIOB looking at the issues around the public interest from different angles.

Prof. Schilder noted Mr. Hafeman's remarks on the multi-dimensional aspect of the public interest were particularly relevant, in light of the CAG's discussions throughout the meeting. He noted that both the IAASB and the CAG work in the public interest, yet it is not always clear which direction to take, citing projects like ISA 610 and the auditor's report as an indication of the differing views and implications of decisions that the IAASB has to consider in its activities. Prof. Schilder also referred to the CAG's discussion on the IAASB's future agenda, noting that choosing which projects to undertake will not be easy decisions for the IAASB to make from a public interest perspective.

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### **Closing**

Referencing the CAG's discussion in its private session, Ms. de Beer noted the topic of professional skepticism would be included on the September 2011 CAG agenda. She noted that she will send minutes from the private session to ensure all points discussed have been covered.

Ms. de Beer also noted that, at the September 2010 meeting, the CAG did not have the opportunity to discuss the agenda material relating to XBRL. She explained that in developing the agenda for this meeting, she and Staff considered whether to include discussion on the topic and concluded that, since the IAASB has shifted XBRL in terms of its priorities, it would be covered at a later meeting. Nevertheless, Representatives were encouraged to raise any issues relative to XBRL in the context of their organizations as appropriate.

Ms. de Beer thanked the CAG Representatives for their contribution to the meeting, noting her appreciation for their participation in light of the heavy agenda and the volunteer nature of the CAG. She encouraged the Representatives to communicate their interest in joining any WGs, in particular auditor reporting and audit quality, to Ms. Healy.

Ms. de Beer also thanked Prof. Schilder and Ms. Hillier and the IAASB Task Force chairs for their contributions to the meeting, as well as the IAASB Staff.

Ms. de Beer closed the meeting.