

**Final Minutes of the 48<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD  
Held on December 5-9, 2011 in Los Angeles, USA**

### **Voting Members**

Present: Arnold Schilder (Chairman)  
Diana Hillier (Deputy Chair)  
Arch Archambault  
Jean Blascos  
Jianshen Chen  
Valdir Coscodai  
Phil Cowperthwaite  
Cédric Gélard  
Jon Grant  
Gert Jönsson  
Ashif Kassam  
Merran Kelsall  
William Kinney  
Caithlin McCabe  
Daniel Montgomery  
Tomokazu Sekiguchi  
David Swanney

Apologies: Abdullah Yusuf

### **Technical Advisors**

Jan Thijs Drupsteen (Mr. Kassam)  
Denise Esdon (Mr. Montgomery)  
Marek Grabowski (Mr. Grant) (December 7-9)  
Jonas Hällström (Mr. Jönsson)  
Hiram Hasty (Mr. Kinney)  
Susan Jones (Mr. Blascos)  
Sachiko Kai (Mr. Sekiguchi)  
Richard Mifsud (Ms. Kelsall)  
Pervez Muslim (Mr. Yusuf)  
Jon Rowden (Ms. Hillier)  
Tania Sergott (Ms. McCabe)  
Greg Shields (Mr. Cowperthwaite)  
Isabelle Tracq-Sengeissen (Mr. Gélard)  
Ge Zhang (Mr. Chen)

Ricardo DeLellis (Mr. Coscodai)  
Rick Wood (Mr. Archambault)

### **Non-Voting Observers**

Present Linda de Beer and Norio Igarashi  
Apology: Juan Maria Arteagoitia

### **Public Interest Oversight Board (PIOB) Observer**

Present: Rob Ward

### **IAASB Technical Staff**

Present: Jim Sylph (Executive Director) (December 5-8), James Gunn (Technical Director), Beverley Bahlmann, Kathleen Healy, Diane Jules, Joanne Moores, Ken Siong and Jessie Wong

## 1. Opening Remarks and Minutes

### WELCOME AND INTRODUCTIONS

Prof. Schilder welcomed the participants and public observers to the meeting. He welcomed, in particular, Mr. Ward, observing on behalf of the PIOB for the first time. Apologies were received from Messrs. Yusuf, Arteagoitia, DeLellis and Wood. Mr. Swanney was noted as proxy for Mr. Yusuf.

### MEMBER ROTATIONS, APPOINTMENTS AND RE-APPOINTMENTS

Prof. Schilder noted that Ms. Hillier and Messrs. Cowperthwaite, Kassam and Swanney were all completing their terms as IAASB members at the end of 2011. He also noted that this would be the last meeting in a technical advisor capacity for Ms. Esdon, Ms. Sergott and Messrs. Drupsteen and Shields. Prof. Schilder expressed the Board's gratitude for the retiring IAASB members' and Technical Advisors' service and important contributions to the Board's work.

Prof. Schilder noted the appointment of Prof. Annette Köhler and Messrs. Brendan Murtagh, Marc Pickeur and Bruce Winter to the IAASB in 2012. He congratulated Messrs. Gélard, Montgomery and Sekiguchi for their re-appointments to the Board, and Mr. Montgomery on his appointment as Deputy Chair. He noted that Mr. Gélard had been re-appointed in the practitioner category.

Prof. Schilder welcomed Mr. Rowden's re-appointment as Technical Advisor to Mr. Winter. He noted that Technical Advisors to Mr. Montgomery and Ms. McCabe in 2012 would be Ms. Denise Weber and Mr. Brantley Blanchard, respectively. Finally, he noted the appointment of Messrs. Blascos and Grant and Ms. McCabe to the Steering Committee for 2012.

### RECENT DEVELOPMENTS

Prof. Schilder noted the European Commission's (EC) issuance at the end of November 2011 of its legislative proposals regarding the statutory audit. Amongst other matters, he highlighted the inclusion of the clarified ISAs in both the proposed Directive and Regulation as a positive step forward on the matter of adoption of the standards in the European Union.

Prof. Schilder noted that IFAC and the International Accounting Standards Board (IASB) had signed a Memorandum of Understanding (MoU) in November 2011 to strengthen cooperation in the development of private and public sector accounting standards. The MoU also acknowledges the ongoing liaison relationship between the IASB and IAASB. Prof. Schilder noted IAASB and IASB leaderships' intention to meet in January 2012 to further discuss matters of liaison. He also noted the recent submission of the IAASB's response to the IASB's Strategy consultation.

Prof. Schilder reported that the IFAC Board and the PIOB had both approved amended IAASB Terms of Reference (ToR). Amongst other matters, the amended ToR eliminates proxy voting from January 1, 2012 pursuant to the Monitoring Group's recommendation.

Prof. Schilder also reported that staff had finalized and distributed electronically to the National Auditing Standard Setters (NSS) Liaison Group a directory of NSS implementation resources, thought leadership and other related initiatives based on input from the NSS. He noted that the document represented a positive step towards greater collaboration amongst NSS, and may be helpful not only to them but also others.

Finally, Prof. Schilder noted that, subject to IOB confirmation of due process, the issuance of the final International Auditing Practice Note (IAPN) 1000<sup>1</sup> and International Standard on Assurance Engagements (ISAE) 3420<sup>2</sup> would be accompanied by brief staff-prepared “At a Glance” publications providing overviews of the documents.

#### RECENT PRESENTATIONS AND OUTREACH

Prof. Schilder expressed his appreciation for several IAASB members’ involvement in recent outreach activities. In particular, he thanked Mr. Kassam for his work coordinating the outreach at the November 2011 Africa Congress of Accountants in Kenya, and for Mr. Kassam’s presentation in December 2011 at the Annual conference of National Board of Accountants and Auditors in Tanzania. He thanked Mr. Sekiguchi for his presentation at the November 2011 Malaysian Institute of Accountants’ International Accountants Conference and 17<sup>th</sup> ASEAN Federation of Accountants Conference in Malaysia. Prof. Schilder also thanked Ms. Hillier and Messrs. Cowperthwaite and Kinney for their presentations at the Canadian Public Accountability Board’s (CPAB) Audit Quality Symposium in Canada earlier in December 2011.

Prof. Schilder highlighted the successful joint IAASB-IASB seminar for, and related meetings with, oversight, regulatory, and professional bodies from the countries of the Commonwealth of Independent States (CIS) and Baltic States in which he and Messrs. Grant and Gunn participated in the UK in November 2011. He also highlighted the successful outreach that he and Mr. Sylph had in November 2011 in India, including meetings with the Institute of Chartered Accountants of India’s (ICAI) Auditing and Assurance Standards Board and Indian regulators.

Finally, Prof. Schilder noted that he and Ms. Hillier had scheduled meetings the week after the Board meeting in Belgium with Mr. Arvind Wadhwa, EC Acting Head of Audit, and the Fédération des Experts Comptables Européens (FEE) to discuss the EC’s recently issued legislative proposals on the statutory audit.

#### OTHER MATTERS

Prof. Schilder noted that this would be the last meeting for IAASB staff members Mss. Ofori and Wong as they would be pursuing other opportunities. He wished them success in their future endeavors. Prof. Schilder welcomed Ms. Ofori’s replacement, Ms. Jacquie Lockett-Roberts on the staff.

Finally, Prof. Schilder congratulated Messrs. Blascos and James on the recent births of their children.

#### MINUTES OF PREVIOUS MEETING

The minutes of the public session of the September 2011 IAASB meeting were approved as presented.

## 2. **Compilation Engagements**

Mr. Cowperthwaite introduced the topic, providing brief background to the project. He noted the comments provided on the agenda material by the IFAC SMP Committee (SMPC). He then explained the main changes reflected in the draft ISRS 4410 (Revised).<sup>3</sup>

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<sup>1</sup> IAPN 1000, *Special Considerations in Auditing Financial Instruments*

<sup>2</sup> ISAE 3420, *Assurance Engagements to Report on Pro Forma Financial Information Included in a Prospectus*

<sup>3</sup> Proposed ISRS 4410, *Compilation Engagements*

Except as outlined below, the IAASB agreed the recommendations of the Task Force as set out in the agenda material.

#### SCOPE OF THE ISRS

In response to the September 2011 IAASB discussion regarding application of the proposed ISRS on a non-mandatory basis, the Task Force proposed additional explanatory material in the introductory section of the draft ISRS to better communicate considerations of a public-interest nature for practitioners to take into account when undertaking engagements to compile financial information. The IAASB believed it important to make practitioners aware of circumstances that would warrant undertaking such engagements in accordance with the ISRS, including reporting, recognizing that in many jurisdictions compliance with the ISRS will be on a voluntary basis.

Some IAASB members believed that those explanations would be better expressed as factors the practitioner needs to consider when deciding to undertake compilation engagements in accordance with the ISRS, rather than as a caution against undertaking such engagements without applying the ISRS as presented in the agenda material.

The IAASB agreed that these explanations in the introductory section of the ISRS should be reworded to communicate the factors that indicate it may be appropriate to apply the ISRS.

In relation to the matter of independence, Ms. de Beer noted that the CAG had raised the question as to whether the ISRS should specifically address independence considerations, namely whether the practitioner should be independent or how conflicts of interest may be avoided. This matter was also raised by the IAASB CAG with the IESBA CAG. She noted the view held by some CAG Representatives that this is a matter that should be addressed at a jurisdictional level.

#### USE OF THE TERMS “APPLICABLE FINANCIAL REPORTING FRAMEWORK” AND “BASIS OF ACCOUNTING”

The IAASB had agreed in its discussion in September 2011 that the service to compile financial information is intended to be flexible regarding the basis of preparation used to compile the information. The IAASB agreed that application material in the ISRS should make it clear that the basis of preparation used is primarily determined with reference to the intended purpose and the entity's circumstances, and may range from use of an established financial reporting framework (with or without modification) to use of a financial reporting framework designed for a specific purpose, or for a specific entity's purposes. The IAASB encouraged explanations that would make this as clear as possible. In addition, the IAASB agreed that the plain-language term “basis of accounting” should be used only in the illustrative reports, where appropriate, rather than in the body of the ISRS, to avoid confusion about the meaning of the defined term “applicable financial reporting framework.”

#### THE PRACTITIONER'S RESPONSIBILITY IN A COMPILATION ENGAGEMENT

In September 2011, the IAASB had discussed the practitioner's role in assisting management with the preparation of the financial information where significant judgment is required on the part of management. The IAASB had requested the Task Force to clarify the practitioner's responsibility when assistance extends to assisting management with those significant judgments. The concern was expressed that, without such clarifications, the practitioner may cross the line to making those judgments for management, rather than providing appropriate assistance to management who bear responsibility for those judgments.

To address this issue, the Task Force had amended the draft ISRS to require the practitioner to discuss with management the significant judgments the practitioner assists management with in the course of undertaking the compilation engagement. The IAASB had determined that it would also be necessary to make it clear in communications required under the ISRS, where reference is made to management's responsibilities (for example, the engagement letter), that management retains the responsibility for such judgments. This would include when the practitioner renders assistance to management in making those judgments, in the course of assisting management in preparing the financial information in accordance with the applicable financial reporting framework.

Further, the IAASB determined that it would also be necessary for the practitioner to obtain an acknowledgement from management that management has taken responsibility for the final version of the compiled financial information prepared on the basis of those judgments. Accordingly, the IAASB asked the Task Force to amend the relevant requirements in the draft ISRS addressing communication of management responsibility to include a further requirement for the practitioner to obtain such acknowledgement from management.

#### PROPOSING AMENDMENTS TO THE COMPILED FINANCIAL INFORMATION

In response to comments on exposure, the Task Force had proposed that the draft ISRS require the practitioner to propose appropriate amendments to the compiled financial information if the practitioner became aware in the course of the engagement that the compiled financial information is materially misstated, or is otherwise misleading. This includes circumstances where the compiled financial information is materially misstated, or otherwise misleading, on account of the description of, or reference to, the applicable financial reporting framework contained in the financial information. Guidance in the application material explained that the practitioner could, in the absence of indications to the contrary, presume that the financial reporting framework adopted by management is acceptable in view of the intended use of the financial information.

Some IAASB members did not agree that such a presumption would be reasonable in a compilation engagement, since it is quite common for management to need financial information intended for special purposes related to the entity's business activities or transactions, and to have these compiled by practitioners. The IAASB determined that since the financial reporting framework adopted by management is intended to be appropriate in view of the entity's particular financial reporting needs, whatever they may be, the presumption contained in the draft ISRS may not be entirely appropriate given that the practitioner will often need to pay particular attention to this aspect of the engagement, not least to avoid association with information that is materially misstated, or misleading.

Accordingly, the IAASB agreed that the guidance paragraph contained in the application material of the draft ISRS should be deleted.

In relation to consideration of the appropriateness of use of the terms "material misstatement" and "materially false or misleading," Ms. de Beer noted that this matter was debated at the CAG. She indicated that the CAG overwhelmingly supported the use of the terms "material misstatement" and "materially misstated, or otherwise misleading," but not the term "materially false or misleading." The IAASB reaffirmed its decision at the September 2011 meeting regarding use of those terms, consistent with the CAG's views as highlighted by Ms. de Beer.

The IAASB considered the fairly common situation where the applicable financial reporting framework adopted could be an established financial reporting framework with certain modifications suited to the

entity's particular financial reporting needs, or those of the intended users of the entity's financial information. A concern was expressed by some IAASB members that if the extent of these modifications is significant, continued reference to the established financial reporting framework in the description of the applicable financial reporting framework in the financial information could be misleading for the users, who may not appreciate the extent or the impact of such modifications on the preparation and presentation of the financial information. The IAASB determined that additional guidance should be included in the draft ISRS to alert the practitioner to consider such situations. In particular, if the basis of preparation of the compiled financial information is misleading, the practitioner could be in breach of the practitioner's ethical obligations in undertaking the engagement and would need to be prepared to respond appropriately in such situations.

#### OTHER MATTERS

In addition to editorial matters, the IAASB agreed the following:

- To include further guidance in the application material addressing professional judgment, aligned with the description of the concept contained in the ISAs explaining the context for exercising professional judgment.
- To delete the application material paragraph in the draft ISRS addressing the practitioner's obligations to comply with relevant ethical requirements as it provided no further insight into what the relevant requirement of the ISRS already stated.
- To ensure that the illustrative engagement letter and practitioners' reports included in the draft ISRS are aligned with the amended requirements and application material.

In relation to the use of positive wording in the report, Ms. de Beer noted that this was supported by the CAG, as there is a strong view held that a compilation is a standalone engagement and should not be explained and measured in comparison to an audit.

#### CONSIDERATION OF THE NEED FOR FURTHER CONSULTATION

The IAASB noted that the development of the ISRS took into account international best practices, including reference to existing standards on compilation engagements in various jurisdictions where such engagements are commonly performed. Importantly, the IAASB noted that the Task Force included practitioners experienced in performing compilation engagements from a number of different jurisdictions, who contributed to the development of the proposed standard, and who had not raised any significant concerns regarding the applicability or practicality of the proposed ISRS.

On the basis of these considerations and its previous discussions on the project, the IAASB concluded that there was no need to further consult on the proposed ISRS through, for example, the issue of a consultation paper, the holding of a public forum or roundtable, or the conduct of a field test of the proposed standard.

#### CONSIDERATION OF FURTHER ISSUES

The IAASB considered and concluded that there were no further issues raised by respondents, in addition to those summarized by the Task Force, which should have been discussed by the Board. Mr. Cowperthwaite confirmed that all significant matters identified by the Task Force as a result of its deliberations since the beginning of this project, and the Task Force's considerations thereon, have been brought to the IAASB's attention.

## APPROVAL

After agreeing all necessary changes to the document, the IAASB approved the proposed ISRS as a final standard with 18 affirmative votes out of the 18 IAASB members present or represented by proxy.

The IAASB assessed whether there was a need to re-expose the ISRS. The IAASB agreed that the changes made to the exposure draft were in response to the comments received from respondents and did not fundamentally change the principles in the ED or represent other changes of substance. The IAASB therefore determined that re-exposure was not necessary. Mr. Gunn advised the IAASB that it had adhered to its stated due process in finalizing the ISRS.

The IAASB set the effective date for ISRS 4410 (Revised) to be for compilation engagement reports dated on or after July 1, 2013.

### 3. IAASB Strategy and Work Program

Prof. Schilder introduced the topic, reminding the IAASB of the strong support of respondents for the IAASB's proposed strategy and work program, in particular the need to remain focused on key topics currently on the IAASB's agenda (including audit quality, auditor reporting, and disclosures) and the need to ensure that the clarified ISAs are adopted and effectively implemented.

Ms. de Beer noted the CAG's strong support for the strategy and direction for the next three years, and that it had no further specific comments. She noted, however, that a comment was made in the CAG's private session that the Board should have a process to early react to changes in the environment and to act swiftly to the needs of the market, given that a perception is held that the Board's reaction to the issues arising from the global financial crisis was possibly too slow.

Except as outlined below, the IAASB agreed the recommendations of the Steering Committee as set out in the meeting's agenda material.

#### DETAILED DISCUSSION ON THE DRAFT STRATEGY AND WORK PROGRAM

Ms. Healy outlined the changes made to the draft since the IAASB's September 2011 meeting. In addition to editorial changes, the IAASB agreed the following:

- Additional messaging should be included to highlight that, while the Strategy and Work Program covers a three-year period, the IAASB will continue to also focus on longer-term developments to ensure that it is responsive to the public interest. It is anticipated that the proposed Strategy Working Group, renamed the Innovation, Needs and Future Opportunities (INFO) Working Group, would assist the IAASB in doing so.
- The role of the ISAs in supporting financial stability should be clarified.
- Reference should be made to the November 2011 legislative proposals of the European Commission (EC) regarding the statutory audit.
- The descriptions of the planned Staff publication on professional skepticism, the auditor reporting project, the ISA 720<sup>4</sup> revision project, and the possible implications of finalizing the revision of ISRE 2400<sup>5</sup> on ISRE 2410<sup>6</sup> should be aligned with the IAASB's discussions on the topics.

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<sup>4</sup> ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

<sup>5</sup> ISRE 2400, *Engagements to Review Financial Statements*

- The description of the IAASB's intent in forming a working group to further consider issues related to fair value accounting estimates should be repositioned and revised to better explain the nature of the proposed work.
- Reference should be made to the detailed forward project timetable for the upcoming 12-month period maintained on the IAASB's website.
- The IAASB's rationale for its decisions not to proceed with the anticipated project on ISAE 3400<sup>7</sup> or a broader project on practitioner association should be documented in the *Basis for Conclusions*.

#### CONSIDERATION OF THE NEED FOR FURTHER CONSULTATION

The IAASB noted that in developing the proposed Strategy and Work Program, it had undertaken a formal public survey and also issued a consultation paper. At its March 2010 meeting, it had also considered and determined that further consultation in the form of focus groups or roundtables in advance of development of the consultation paper was not required. In addition, the IAASB acknowledged the Steering Committee's view that no new developments had arisen that would suggest a need to revisit the IAASB's decision in this regard.

On the basis of these considerations and its previous discussions on the topic, the IAASB concluded that there was no need to further consult on the proposed Strategy and Work Program through, for example, the issue of a further consultation paper or the holding of a public forum or roundtable.

#### CONSIDERATION OF FURTHER ISSUES

The IAASB considered and concluded that there were no further issues raised by respondents, in addition to those summarized by the Steering Committee, which should have been discussed by the Board. The IAASB also noted the Steering Committee's confirmation that the significant matters the Steering Committee had identified as a result of its deliberations since it started work on developing the Strategy and Work Program, and the Steering Committee's considerations thereon, had all been reflected in the issues papers, draft consultation paper, and draft Strategy and Work Program presented to the Board. The IAASB also acknowledged the Steering Committee's confirmation that there were no significant matters discussed within the Steering Committee in developing the Strategy and Work Program that had not been brought to the Board's attention.

#### AGREEMENT OF REVISED WORDING OF DRAFT STRATEGY AND WORK PROGRAM

After considering all necessary changes to the document, the IAASB agreed that the revised draft of the proposed strategy and work program was an appropriate reflection of its strategic focus for the next three years. The IAASB, however, postponed a final vote on the document pending reconsideration of the timing of the various items in the future work program in light of plans to prioritize the Auditor Reporting project.

#### GENERAL IAASB REFLECTIONS ON ITS STRATEGY AND WORK PROGRAM, 2012-2014

Mr. Ward opened the discussion, commenting that the draft strategy and work program, and the IAASB's discussion thereon, were of a high quality. He challenged the IAASB to define how success would be

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<sup>6</sup> ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

<sup>7</sup> ISAE 3400, *The Examination of Prospective Financial Information*



measured in the context of this strategy and work program, to ensure that the Board's priorities and efforts were appropriate. He noted the PIOB's focus on the implementation of the clarified ISAs by the G-20 countries, and suggested that it may be appropriate for the IAASB to set a goal of having 100% adoption by the G-20 countries by 2014. In his view, adoption of the standards is critical.

He also highlighted the need for the IAASB to ensure that it is actively engaged with key groups as a matter of strategic priority. Doing so would ensure that the IAASB's work would support financial stability, especially given the role that the Financial Stability Board (FSB) and others see auditors as playing in this regard. In his view, it is necessary that the IAASB has membership or observer status in key debates to ensure that its work program can include those matters that would make the audit profession more relevant and avoid the role of the auditor being marginalized.

Mr. Ward also emphasized that the IAASB may need to evaluate the effect that the recent legislation proposed by the EC would have on its standards and audit quality, for example, the proposals relating to audit-only firms.

In relation to ongoing monitoring, Mr. Ward agreed that the use of a rolling plan, with regular updates, would be appropriate. Finally, he suggested the need for ongoing challenge to the plan to mitigate the risk that the IAASB focuses solely on delivery of identified items at the expense of broader debates.

IAASB members raised the following views:

- Going forward, time should be reserved on the IAASB's agenda periodically to reflect on broader issues and questions, for example, those related to the EC's proposed legislation, as it is likely that external parties will continue to challenge the role of auditors. Doing so would allow the Board to reflect on the longer-term in formulating its agenda for the upcoming year, and ensure that the Board is:
  - Proactive in addressing global issues as they emerge, rather than being reactive to them, and thereby continue to ensure that its work and that of auditors more broadly remain relevant; and
  - Able to identify new topics to be included on its agenda on a more timely basis.

It was also noted that, by its nature, the Consultative Advisory Group (CAG) has a role to play in challenging the IAASB to ensure that its strategic direction and priorities are appropriate.

- Notwithstanding the need for due process, there may be scope for the Board to challenge itself and its processes to ensure that its responses are as timely as possible, for example, by considering how the Board can be more effective in debating particular matters. In certain circumstances, there may be a need to consider how responses to issues can be accelerated. However, there was agreement that it often takes time to scope out issues in particular projects and on the board's agenda more broadly, due to the need to give appropriate consideration to the relative priorities and views of stakeholders.
- In relation to professional skepticism, Mr. Ward suggested there may be a need for more emphasis in the Board's work on the topic. A view was raised that, as a standard-setting board that aims to standardize best practices and codifies them in the ISAs, the IAASB can incorporate professional skepticism within its work. However, it was also noted that there is a role for the International Accounting Education Standards Board (IAESB) and the International Ethics Standards Board for Accountants (IESBA) in dealing with the application of professional skepticism to complement the IAASB's work in the ISAs.

- The IAASB's work on the topic of audit quality may be a useful means of highlighting the interrelationships among the respective work of the IAASB, IAESB, and IESBA, as well as that of stakeholders more broadly, in particular in responding to global challenges. This work can be used as a means of further encouraging dialogue and collaboration, to identify which groups, including the IAASB, are best placed to respond with short-term and longer-term solutions to these challenges. For example, there are roles for audit regulators, enforcement authorities and audit committees, as well as audit firms, to ensure that professional skepticism is being appropriately applied.
- In relation to active engagement with stakeholders, dialogue with regulators continues to increase in an effort to evolve relationships with the International Forum of Independent Audit Regulators (IFIAR) and the European Audit Inspection Groups (EAIG). In addition, in recent discussions with the European Securities and Markets Authority (ESMA) the Chairman had suggested that it might be appropriate to have more substantial meetings (for example 1-2 days, 2-4 times a year).
- The momentum of adoption and implementation of the clarified ISAs continues to be sustained, and the Chairman and others will continue to engage with those jurisdictions, particularly in the G-20, that have not yet indicated plans to adopt the ISAs. A particular challenge in outreach relates to resources, specifically in determining who in the G-20 jurisdictions has the ability to influence the adoption of the ISAs and how often dialogue with such persons would be needed to encourage progress towards adoption. It was acknowledged that, due to the manner in which jurisdictions may use the ISAs and the view in some countries that additions are needed to accommodate local circumstances, the manner in which adoption status is characterized may be somewhat misleading. It was suggested the IAASB could think more about statistics, or key measures of success, to monitor its accountability.

Mr. Ward encouraged the IAASB to continue to challenge itself as it works to measure success in implementing this strategy and work program for the upcoming period. In his view, there is a need to balance the effort invested in developing standards with efforts to ensure that they are adopted and implemented globally. He concluded that being mindful of this would help the Board to implement its work program and effectively use its resources.

#### UPDATE ON RELEVANT STEERING COMMITTEE DISCUSSIONS

Prof. Schilder briefed the IAASB on the Steering Committee's discussions regarding the way forward on the auditor reporting project, including the implications for Board and Staff resources and the proposed work program for 2012-2014. He highlighted Mr. Ward's commentary that the work on auditor reporting would be fundamental to the IAASB's public interest mandate. Accordingly, the Steering Committee had determined that the project should be given the highest priority, with an accelerated timeline in order to develop a meaningful consultation for the IAASB's consideration at its June 2012 meeting.

Prof. Schilder added that the Steering Committee planned to consider the resource implications, including the need for additional Board meetings, in a conference call in early January 2012, at which time consideration would be given to how current and future projects may need to be reprioritized. In light of the need for this further analysis, the Steering Committee had therefore recommended that approval of the Strategy and Work Program be deferred to ensure that the commencement dates of projects, as well as anticipated milestones, are accurately reflected within the final Strategy and Work Program.

Prof. Schilder also reported the following decisions of the Steering Committee:

- Mr. Cowperthwaite will continue to chair the ISRE 2400 project through June 2012, to be replaced by Mr. Blascos thereafter if necessary.
- Mr. Archambault will chair the Disclosures project.
- Ms. Hillier has agreed to tentatively remain as chair of the ISA 610 project, subject to the IESBA's further consideration of matters relating to the use of internal auditors by the external auditor to provide direct assistance.
- The IASB Liaison initiative will be co-chaired by Messrs. Sekiguichi and Dan Montgomery.
- In his capacity as Deputy Chair, Mr. Montgomery will chair the INFO working group given its strategic importance and linkage with the auditor reporting project.

Finally, Prof. Schilder noted that the Steering Committee had also reflected on the Staff publication on professional skepticism, and potential topics for research that may be suggested to the International Association for Accounting Education and Research (IAAER) in connection with a further call for research proposals.

#### WAY FORWARD

The IAASB asked that the Steering Committee present the draft Strategy and Work Program for final approval at the March 2012 IAASB meeting once the timing of the various items on the future work program has been reconsidered in light of plans for the auditor reporting project.

#### 4. Using the Work of Internal Auditors

Ms. Hillier introduced the topic, outlining the remaining significant matters the IAASB had raised in relation to respondents' comments on the Exposure Draft of proposed revised ISA 610 and related amendments to ISA 315 (ED).<sup>8</sup> She also noted that comments had been received from the SMPC.

Ms. de Beer noted that the CAG was on balance comfortable with the safeguards built in around using the work of the internal audit function and direct assistance. She emphasized that this was an important matter as some audit regulators had a concern in this regard.

Ms. Hillier reported that at its October 2011 meeting, the IESBA had received an update on the September 2011 IAASB discussion on the topic. She indicated that the key matters discussed by the IESBA were included in the agenda papers for the IAASB's consideration. She then led a review of the draft revised ISAs.

Except as outlined below, the IAASB agreed the recommendations of the Task Force as set out in the meeting's agenda material.

#### PROPOSED ISA 315 (REVISED)

The IAASB expressed support for the proposed revised ISA 315 as presented.

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<sup>8</sup> Proposed ISA 610 (Revised), *Using the Work of Internal Auditors*, and Proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

PROPOSED ISA 610 (REVISED)

*Communication with Those Charged With Governance*

Ms. Hillier explained that the IESBA continued to be of the view that requiring external auditors to communicate with those charged with governance how they planned to use internal auditors to provide direct assistance in order to agree the approach to such use would be an important safeguard that should be built into the proposed standard. She indicated that as a response, the Task Force proposed a requirement that the external auditor communicate with those charged with governance so as to agree that the proposed nature and extent of use of internal auditors to provide direct assistance would not be excessive. A number of IAASB members expressed concern with the proposed wording. It was noted that those charged with governance would likely find it challenging to judge whether the proposed nature and extent of such use would be “excessive.” For this reason, IAASB members thought the focus should be on ensuring appropriate dialogue between those charged with governance and the external auditor on the topic rather than requiring their agreement. After further deliberation, the IAASB agreed that the appropriate requirement would be for the external auditor to reach a mutual understanding with those charged with governance that the proposed nature and extent of use would not be excessive in the circumstances of the engagement.

*Reperforming Work of the Internal Audit Function*

Ms. Hillier explained the Task Force’s proposed additional guidance to explain the concept of reperformance and its application in the proposed standard, in particular, regarding examining items already examined by the internal audit function and examining similar items not actually examined by the function. A few IAASB members were concerned that the guidance was extending the definition of reperformance as used elsewhere in the ISAs by including examination of sufficient other similar items not actually examined by the function. It was also argued that the preferred approach should be for the external auditor to independently execute procedures that were originally performed by the internal audit function when possible. After further deliberation, the IAASB agreed to amend the guidance to explain that this use of the term is for purposes of this ISA, and also that where it is not possible to reperform the procedures originally performed by the internal audit function, the external auditor will examine other similar items.

*Group Audits*

Ms. Hillier explained the Task Force’s proposed guidance to remind external auditors that where direct assistance is prohibited, it would still be relevant for group auditors to be aware of component auditors’ plans in this regard in jurisdictions where such practice is allowed, and, if so, that the group auditor may need to address the prohibition with the component auditor. A number of IAASB members commented that it was not clear how group auditors should apply this proposed guidance. After further deliberation, the IAASB agreed that the guidance should be clarified to explain that in such circumstances it would be relevant for the group auditor to consider whether the prohibition also extends to component auditors and, if so, to address this in the communication to the component auditors. The IAASB also agreed to include a corresponding example in ISA 600.<sup>9</sup>

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<sup>9</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

### *Other Matters*

In addition to amendments for consistency and other editorial changes, the IAASB further agreed the following:

- In the Scope section of the proposed standard, strengthening the linkage to proposed revised ISA 315 where the circumstances in which proposed revised ISA 610 does not apply are described; and
- Aligning the requirement for documenting the external auditor's review of the work performed by internal auditors providing direct assistance to wording in ISA 230.<sup>10</sup>

### CONSIDERATION OF THE NEED FOR FURTHER CONSULTATION

The IAASB noted that as part of its consideration of comments on exposure, IAASB leadership had held discussions with representatives of some of the respondents from the regulatory community to fully understand the concerns they had expressed on the ED, particularly in relation to the matter of direct assistance, as well as to explain more clearly the IAASB's proposals and further proposed changes. The IAASB noted that the overall feedback from those respondents was that the IAASB had been responsive to their concerns, especially given the safeguards now incorporated within the proposed revised ISA 610 regarding direct assistance.

The Task Force also included representatives from the Institute of Internal Auditors (IIA) and practitioners from the firms, who did not raise any significant concerns regarding the applicability or practicality of the proposed standards.

On the basis of these considerations and its previous discussions on the project, the IAASB concluded that there was no need to further consult on the proposed standards through, for example, the issue of a consultation paper, the holding of a public forum or roundtable, or the conduct of a field test of the proposals.

### CONSIDERATION OF FURTHER ISSUES

The IAASB considered and concluded that there were no further issues raised by respondents, in addition to those summarized by the Task Force, which should have been discussed by the Board. Ms. Hillier confirmed that all significant matters identified by the Task Force as a result of its deliberations since the beginning of this project, and the Task Force's considerations thereon, have been brought to the IAASB's attention.

### APPROVAL

After agreeing all necessary changes to the document, the IAASB approved:

- With the affirmative votes of 18 out of the 18 IAASB members present or represented by proxy, ISA 315 (Revised) as a final standard together with the conforming amendments to other ISAs; and
- With the affirmative votes of 17 out of the 18 IAASB members present or represented by proxy, and one abstention, ISA 610 (Revised) as a final standard.

Mr. Jönsson abstained because he was concerned about the risk that any perception of the lack of independence of the external auditor arising from use of internal auditors to provide direct assistance

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<sup>10</sup> ISA 230, *Audit Documentation*

could undermine confidence in the audit. He was of the view that while direct assistance may be manageable in a private sector auditing environment, from the perspective of audits performed by supreme audit institutions it may be inappropriate due to constitutional requirements on independence. He noted that he would be recommending to the International Organization of Supreme Audit Institutions (INTOSAI) that it includes appropriate guidance in this regard within the Practice Note to the equivalent ISSAI.<sup>11</sup>

#### CONSIDERATIONS RELATING TO THE MATTER OF RE-EXPOSURE

After considering a summary of the changes made to the ED, the IAASB concluded that overall the changes reflected in the proposed revised ISAs 610 and 315 were in response to matters raised by respondents to the ED, and did not fundamentally change the principles in the ED or represent other changes of substance. On this basis, the IAASB concluded that re-exposure was not necessary. Mr. Gunn advised the IAASB that it had adhered to its stated due process in finalizing the revised ISAs.

#### CONSIDERATIONS RELATING TO THE ISSUANCE OF FINAL ISA 610 (REVISED)

The IAASB noted that the IESBA is slated to continue deliberations on changes that may be needed to the IESBA *Code of Ethics for Professional Accountants* (IESBA Code) in 2012. In view of the fact that it is expected that changes will need to be made to the IESBA Code, the IAASB discussed possible options for the issuance of the final ISA 610 (Revised). The IAASB considered the option of deferring issuing the final ISA in its entirety until the IESBA has reached a resolution of how the matter of direct assistance should be addressed from an ethics perspective. Some IAASB members supported the deferral option. The large majority of IAASB members, however, did not support this option because regulators and other stakeholders have argued that there is a need for greater rigor in the external auditors' use of the work of the internal auditors in practice, particularly in the current economic environment.

Ms. de Beer also raised the issue regarding the IESBA process that was delaying the issuance of the standard and whether it would not be in the public interest for the IAASB to issue the standard in its entirety and then make any necessary conforming amendment should the IESBA's process come up with a different outcome on the direct assistance matter. Prof. Schilder acknowledged that this would indeed be in the public interest. However, he explained the concern that there would be a continuing uncertainty over the whole standard if the IAASB went ahead and issued it, including the direct assistance part, while the IESBA was still continuing its deliberations on the matter. Such an uncertainty over what the IAASB would regard as a final standard would in the end lead to confusion amongst the public. Accordingly, the most sensible course of action would be to withhold issuance of the direct assistance part pending resolution by the IESBA of the matter from an ethics perspective.

The IAASB concluded that it was important to release the amendments to ISA 315 on the inquiries of internal auditors and consideration of the internal audit function in obtaining an understanding of the entity and its environment, including internal control, and the sections of ISA 610 (Revised) dealing with using the work of the internal audit function. The IAASB thought it was important to complete its consideration of ED comments on the requirements and application material on direct assistance and therefore also finalized that section of ISA 610 (Revised). However, the IAASB agreed that the issuance of the latter section should be withheld pending the IESBA's resolution of changes to the IESBA Code.

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<sup>11</sup> ISSAI 1610, *Using the Work of Internal Auditors*

The IAASB asked that staff make the full approved wording of ISA 610 (Revised) (addressing both using the work of the internal audit function and direct assistance) available on the IAASB website.

The IAASB set the effective date for the revised ISAs and conforming amendments to be for audits of financial statements for periods ending on or after December 15, 2013.

## 5. Assurance Engagements on Greenhouse Gas Statements

### CROSS-OVER ISSUES WITH THE PROJECTS TO REVISE ISAE 3000<sup>12</sup> AND ISRE 2400

Mr. Gunn introduced the session with a brief summary of the approach to, and development of, the related proposed standards, ISAE 3000, ISRE 2400 and ISAE 3410. He indicated that only two of the three projects were being presented at this meeting as work on the proposed ISAE 3000 had not sufficiently progressed to also enable it to be presented at the meeting. He reminded the Board that the project to revise ISAE 3000 was not intended to change the assurance concept, but rather to enable the standard to evolve based on current practices and experiences from applying it to topic-specific auditing and assurance standards.

Mr. Gunn then summarized the main cross-over issues, being the definition of “limited assurance” (in particular the manner in which it refers to risk), the trigger point for additional procedures in a limited assurance engagement, and consistency and approach to reporting. He emphasized that although consistency was important, it would not override what would be best for each individual standard. He noted that responses to the exposure drafts of the three proposed standards had highlighted limited assurance as an area of inconsistency, particularly in terms of approach or wording, or a lack of clarity as to why the differences exist. He added that the Task Force Chairs for the three projects had held a teleconference in September 2011 to discuss coordination amongst the three projects, including consideration of whether to defer the ISAE 3410 and ISRE 2400 projects so that they could be presented to the Board at the same time as the ISAE 3000 project. Mr. Gunn noted that the Task Force Chairs had taken the view that doing so would not be in the public interest, and that obtaining the Board’s views on issues earlier would assist all three projects. He also added that, assuming the three projects progressed as planned, the Task Forces expected to be in a position in March 2012 to explain any key differences, at which time the consistency issue could be addressed.

### COORDINATION WITH THE INTERNATIONAL ORGANIZATION FOR STANDARDIZATION (ISO)

Mr. Nugent provided a brief update on the coordination with the ISO. He noted that the ISO and the Task Force had previously agreed to minimize differences to the extent possible. He added that the ISO had recently considered whether to update their standard, ISO 14064-3,<sup>13</sup> but had decided not to do so. As a result, there would continue to be a few main differences between the proposed ISAE 3410 and ISO 14064-3.

Another area the ISO was particularly interested in was whether ISAE 3410 could be used by non-accountants. Mr. Nugent noted that this matter would be addressed in the proposed revised ISAE 3000.

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<sup>12</sup> ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

<sup>13</sup> ISO 14064-3:2006 – *Greenhouse Gases—Part 3: Specification with Guidance for the Validation and Verification of Greenhouse Gas Assertions*.

## ISAE 3410

Ms. McCabe introduced the topic, outlining the composition of the Task Force. She explained that while the composition of the Task Force had changed over the life of the project, from having more subject specialists at the start to more assurance practitioners towards the latter stages, the Task Force still comprised a mix of practitioners and subject-matter experts. She gave a brief history of the project, acknowledging that assurance in this area was new. She further noted that the project was challenging as it fell outside the traditional scope of previous assurance projects undertaken by the IAASB. She also added that the profession has an important role in the quality of the assurance in this area, particularly as liabilities relating to carbon taxes were increasingly being included on entities' balance sheets.

Ms. McCabe recapped that a consultation paper had been issued before the Exposure Draft of proposed ISAE 3410 (ED). Responses to the consultation paper had provided valuable insight in this area, in particular in highlighting the need for limited assurance to be addressed in the proposed standard. She reiterated that the approach in this proposed standard would be different from that in proposed ISRE 2400, a matter extensively discussed by the Board prior to the approval of the exposure drafts of those two proposed standards, especially given how different the subject matters of those two standards are. She further explained that the proposed ISAE 3410 had been based on the extant ISAE 3000, notwithstanding the Task Force's acknowledgement that a project to revise ISAE 3000 was underway. She added that the Task Force had considered conforming amendments to the proposed ISAE 3410 based on the exposure draft of proposed ISAE 3000, and that the Task Force had concluded that there would be no fundamental changes required to ISAE 3410 once the revised ISAE 3000 is finalized.

Ms. McCabe reported that, overall, the ED had received significant support from respondents. She added that based on the analysis of the comments received on the ED, no fatal flaws to the proposed approach to performance of the assurance engagements under the standard had been raised. However several significant comments had been received on the limited assurance report. She emphasized the need to finalize the standard at the earliest opportunity to enable practitioners to finalize their methodologies in this area, and the Board to focus on other projects.

With the exception of the changes to the proposed limited assurance report, Ms. McCabe noted that there were no significant amendments to the ED. She highlighted that the Task Force had spent substantial time revising the area of the exposure draft focusing on the limited assurance report, and requested that the IAASB spend time deliberating the issues in this area.

Except as outlined below, the IAASB agreed the recommendations of the Task Force as set out in the meeting's agenda material.

### ILLUSTRATIVE PRACTITIONER'S REPORT FOR LIMITED ASSURANCE IN A GHG ENGAGEMENT

Ms. McCabe noted that respondents had not commented on the reasonable assurance illustrative report and therefore no further changes were proposed at this stage. However, in response to a number of comments from respondents on the limited assurance report, the Task Force had extensively discussed the form of that report, particularly the listing of procedures performed by the practitioner in a limited assurance engagement, and the statement about the practitioner's procedures being less for a limited assurance engagement than for a reasonable assurance engagement.

IAASB members expressed mixed views as to how much detail to include when listing procedures performed in the report, and whether these should be a standardized description of the basic procedures performed, or a more detailed list of the specific procedures performed. During the deliberations, IAASB



members also considered the advantages and disadvantages of including a detailed listing of the procedures performed in the report. The IAASB agreed to further discuss the matter after the Task Force has had an opportunity to reflect on IAASB members' comments.

#### SITE VISITS

An IAASB member was of the view that site visits should be included as a mandatory procedure for reasonable assurance engagements. Suggestions were made that this could be in the form of a mandatory rebuttable procedure. Ms. McCabe indicated that this had been discussed at length by the Task Force. In particular, as the types of GHG engagements would vary, and there may be circumstances where site visits would not be appropriate, such visits had not been mandated in the standard. She also emphasized that the current approach had not received comment from respondents to the ED.

#### COMPARATIVE INFORMATION

IAASB members deliberated the nature and extent of guidance around the work to be performed on comparative information where the information had not been previously subjected to procedures under this standard, or such procedures had been performed by another practitioner. An IAASB member suggested that the guidance in the ED should be expanded as there may be complexities around comparatives which would be unique to the subject matter. Another IAASB member suggested that some issues relating to comparatives may already be covered in ISAE 3000, such as taking over from another practitioner. However, other areas such as changes in methodology and changes in calculations which may result in restatements may need to be addressed in the standard. The IAASB asked the Task Force to further consider whether additional guidance in this area would be warranted.

#### OTHER MATTERS

In addition to editorial changes, The IAASB agreed the following:

- It would be appropriate to use the word "conclusion" to refer to both a limited assurance conclusion and a reasonable assurance opinion, consistent with ISAE 3000. In a reasonable assurance engagement, the conclusion would be in the form of an opinion.
- The term "GHG Statement" is used in the correct context as covering only a "narrower" portion of a full GHG engagement.
- The proposed ISAE should make it clear that the GHG conclusion does not cover deductions or the "net" number, but only the emissions part of the GHG statement.
- While the majority of respondents supported the overall approach of less work for the risk assessment procedures in a limited assurance engagement, it would be necessary to further clarify the differences between a limited assurance engagement and a reasonable assurance engagement in this area and to re-order the paragraphs.

#### WAY FORWARD

The IAASB asked the Task Force to present revised proposals regarding the limited assurance report for its consideration at a Board teleconference in January 2012, in advance of Board consideration of the revised draft ISAE for approval as a final standard at the March 2012 IAASB meeting.

## 6. Disclosures

Ms. Hillier introduced the topic by providing an overview of the background to, and rationale for issuing, the proposed Feedback Statement to the Board's January 2011 Discussion Paper, *The Evolving Nature of Financial Reporting: Disclosure and its Audit Implications* (DP). She noted that disclosures are an issue not only for auditors, but also for preparers, regulators, investors and others, and that the DP was the result of current debates in this area. Ms. Hillier explained that the nature and breadth of the thoughtful and useful responses to the DP from users and preparers, regulatory bodies, firms, national auditing standard setters and professional bodies had encouraged the Task Force to propose the development of a feedback statement, which the Board had supported at the September 2011 IAASB meeting.

Ms. Hillier reported that while there were suggestions from the responses that there could be improvements in the ISAs or additional guidance in some specific areas, important themes also emerged particularly around collaboration and cooperation. She also highlighted the view by many that the IAASB could not resolve all the issues on its own, and that to find effective solutions to some of the issues raised, collaboration and cooperation would be necessary, particularly with the accounting standard setters and regulators.

Ms. Hillier emphasized that it was not intended that this initiative set a precedent for other projects as the circumstances of this project were unique. She also noted that the development of the Feedback Statement was not part of the project's due process. Accordingly, the Feedback Statement could be moved forward quickly given the importance of sharing the feedback with others in a timely manner.

Several IAASB members agreed that the Feedback Statement was a commendable initiative that would enable the IAASB to share with stakeholders what it had heard back from respondents to the DP. A few IAASB members singled out the use of direct quotes in the document as giving further support for some of the comments summarized in the Feedback Statement. However, there were varied views as to whether the quotes should be credited to the organizations making them or attributed to the relevant categories of the organizations. The IAASB agreed that there would be merit in seeking permission for the use of the quotes from the relevant organizations.

In addition to editorial matters, the IAASB agreed to include a comment about the limited response to the DP from small- and medium-sized entities (SMEs) to acknowledge that financial statements for such entities do not generally have lengthy and complex disclosures.

### WAY FORWARD

Subject to the editorial changes, the IAASB agreed the Feedback Statement for publication in January 2012.

## 7. Engagements to Review Historical Financial Statements

Mr. Cowperthwaite introduced the topic, noting the objective of providing the IAASB with an overview of, and obtaining its preliminary views on, select significant issues raised by respondents on the ED of proposed ISRE 2400 (Revised).<sup>14</sup> He noted the comments provided on the agenda materials by the SMPC. He then led a discussion of the significant issues presented in the agenda materials.

Except as outlined below, the IAASB agreed the recommendations of the Task Force as set out in the

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<sup>14</sup> Proposed International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Statements*

meeting papers.

#### LIMITED ASSURANCE IN A REVIEW ENGAGEMENT

Mr. Cowperthwaite reported that the majority of respondents expressed support for the use of the term “limited assurance” in the proposed ISRE. Some IAASB members agreed that use of the term would be helpful, particularly in helping to promote consistency with the IAASB’s other standards that address limited assurance engagements (such as proposed ISAE 3410). Other IAASB members commented that even if the term is used in the ISRE, what is also needed is to clearly explain how the practitioner obtains a sufficient basis to be able to conclude on the financial statements in accordance with the ISRE.

The IAASB discussed whether the review engagement as currently performed in practice is a procedures-based or an evidence-based engagement. The majority of IAASB members were of the view that, as the review is an assurance engagement, it is evidence-based. A few IAASB members were of the view that use of the phrase “sufficient appropriate evidence” should be avoided in the proposed ISRE, as it would likely be confusing for practitioners given the use of the term and its meaning in the context of an audit of financial statements. An IAASB member was of the view that it would be necessary for the proposed ISRE to explicitly use this phrase. This would recognize that the proposed requirements are designed so that a practitioner, in complying with those requirements, will have a sufficient basis (i.e., by having obtained limited assurance) to express a conclusion on the financial statements in the form required under the ISRE, either with or without modification.

The IAASB asked the Task Force to consider these comments in its further deliberations on the issue.

#### ASSURANCE SKILLS AND COMPETENCIES

Mr. Cowperthwaite explained respondents’ comments to the effect that the practitioner performing a review under the proposed ISRE would need to be competent in the use of assurance skills and techniques to be able to perform a review engagement in accordance with the proposed ISRE. While the Task Force was in agreement with this point, he recognized that the proposed ISRE only implicitly assumed that the practitioner has those competencies. To address respondents’ comments, the Task Force proposed to include an explicit requirement in the amended draft ISRE that the practitioner possess competencies in assurance skills and techniques.

A number of IAASB members agreed with this proposal. IAASB members commented that those skills are important for all key phases of performing a review, particularly in understanding where risk of material misstatement in the financial statements is likely to arise, and in designing and performing procedures that provide a sufficient basis to form a conclusion on the financial statements. An IAASB member noted that the approach to designing and performing analytical procedures for a review is different from that in an audit, and that having a sound understanding of how analytical procedures are used in a review is very important.

An IAASB member was of the view that the matter of competency in assurance skills and techniques would best be addressed through the requirements addressing engagement-level quality control. Another IAASB member commented that the issue is relevant also for the wider engagement team and not just the practitioner. The alternative approach of including a definition of assurance skills and techniques within the proposed standard also received some support.

After further deliberation, IAASB members supported the Task Force’s proposal that the proposed ISRE include explicit requirements to address this area, supplemented if necessary with appropriate definitions.

#### ADDITIONAL PROCEDURES IN A REVIEW

Mr. Cowperthwaite reported that while the majority of respondents supported the proposed threshold for performing additional procedures, a few respondents believed it was too low.

IAASB members agreed that the approach to designing and performing procedures for a review needs careful explanation in the proposed ISRE. In particular, it was agreed that the review needs to be clearly articulated as an engagement where, while the practitioner performs primarily inquiry and analytical procedures to meet the practitioner's objectives for the engagement, the practitioner may be required, when necessary in consideration of the circumstances of individual engagements, to perform:

- Further procedures, in order to have a sufficient basis to be able to form a conclusion on the financial statements (that is, when the inquiry and analytical procedures performed do not yield sufficient evidence for the practitioner to form a conclusion); and/or
- Additional procedures, as necessary, to respond if the practitioner becomes aware of matters that cause the practitioner to believe the financial statements may be materially misstated.

Mr. Cowperthwaite explained that the need for such further, or additional, procedures would not occur in every engagement, but would arise through the practitioner's evaluation of evidence obtained from procedures already performed, and the practitioner's consideration of the circumstances of individual engagements.

The IAASB noted that conditions that warrant their use need to be clearly explained in the proposed ISRE. In addition, the IAASB agreed that it should be clear in the proposed ISRE that, while the practitioner may, when necessary, perform procedures other than inquiry and analytical procedures, that does not alter the limited assurance nature of the engagement.

The IAASB asked the Task Force to consider how to convey this approach in the proposed ISRE in a manner that relates clearly to achieving the practitioner's objective for a review engagement.

#### OTHER MATTERS

##### *Common Principles of Limited Assurance Engagements*

IAASB members commented on the importance of achieving consistency of approach among the various standards addressing limited assurance engagements. An IAASB member suggested consideration of a bridging document to explain differences among the engagement standards addressing limited assurance engagements in key areas.

##### *Proposed ISRE 2400 (Revised) and ISRE 2410*

Prof. Schilder highlighted that the draft IAASB Strategy and Work Program for 2012-2014 includes a reference to the need to consider the implications of the revised ISRE 2400, when finalized, for ISRE 2410. Some IAASB members commented that the ISRE 2410 review is a very different engagement from the ISRE 2400 review, and is more an integral part of the audit of a public interest entity. By contrast, ISRE 2400 is intended more as an assurance service suited to entities whose financial statements are not audited. IAASB Members noted, however, that there would be benefit in clarifying some aspects of these review engagements given that the report provided for each type of engagement is the same, albeit that the underlying level of assurance obtained by the practitioner (for an ISRE 2400 engagement) and the auditor (for an ISRE 2410 engagement) may well differ.

The IAASB asked the Task Force to produce a high-level, side-by-side comparison for identification of key points of difference between the two standards.

#### WAY FORWARD

The IAASB asked the Task Force to present a full analysis of respondents' comments on the ED and the Task Force's recommendations for the Board's consideration at its March 2012 meeting.

### 8. Auditor Reporting

Mr. Montgomery introduced the topic, noting the objective of seeking the IAASB's approval of a project proposal on auditor reporting. He highlighted views on the project proposal from the IAASB CAG. He then briefed the Board on the significant comments received on the May 2011 Auditor Reporting Consultation Paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change* (CP), noting that comments had been received from 82 respondents. Amongst the broad feedback received from respondents, a number of key themes had emerged in particular, including the following:

- Broad support for moving forward with a project on auditor reporting, and encouragement for the IAASB to work collaboratively with others to explore a global solution.
- While clarification to wording used in the auditor's report would be useful, providing auditor commentary or insights about the audit and the entity's financial statements would be most valuable.
- It would be important to retain the pass/fail feature in the auditor's report; however, more boilerplate should be avoided.
- The role of management as the primary preparer of financial statements should be preserved, with the auditor providing assurance on such information.
- Scalable solutions should be explored so as not to overburden SMEs with increased costs.

Mr. Montgomery outlined the key elements of the project proposal, highlighting in particular the proposed timeline, an intentionally broad scope given that there was not a clear direction identified in the CP responses, and a focus on user needs. He also highlighted the need to consider the EC's recent legislative proposals regarding the statutory audit and proposals being explored by the U.S. Public Company Accounting Oversight Board (PCAOB) to further narrow options for change while demonstrating cooperation and coordination with others. He then asked for the Board's views on the project proposal.

#### GENERAL REACTIONS

In expressing strong support for the project proposal, IAASB members commented variously as follows:

- While there is a need to start work on the project immediately, there is a concern as to whether the IAASB could take on a leadership role given the recent issuance of the EC's legislative proposals. It was suggested that a project Task Force would need to further analyze the EC proposals to evaluate how they might work in the context of the ISAs for purposes of further discussion with the EC. In this regard, Prof. Schilder noted that he and Ms. Hillier would be meeting representatives from the EC later in the month to commence a dialogue on the matter.
- It would be important for the Board to be seen to be making a visible contribution on the topic. Accordingly, there would be benefit in identifying public milestones before 2014.

- While the Board should be endeavoring to seek the best possible improvement in auditor reporting, stakeholders should be made aware of the limits of what could be done within the current auditor reporting framework.
- While it is important for the Board to stay at the forefront of the debate, the Board should challenge itself to consider whether guidance is lacking in the extant ISAs or whether there is simply lack of adherence to the standards. It was suggested that more should be done relative to implementation and compliance. In this regard, it was noted that there is a known concern amongst users about the quality of audits and that it is possible that user dissatisfaction with auditors' reports may be a way of challenging auditors to do more as part of their audits.
- Global consistency is important. In this regard, it was suggested that there would be a need to determine whether a deviation from ISA 700<sup>15</sup> would constitute non-compliance with the ISAs as a whole. It was, however, noted that although ISA 700 was designed to meet the global need for consistency, certain jurisdictions have not adopted it because their local laws and regulations prescribe the content of auditors' reports.
- In the public sector, users receive more detailed and insightful information from supplemental auditor reporting on performance and compliance matters. However, public sector auditors' reports could further benefit from information that is less boilerplate in nature.
- One of the most significant challenges for the project Task Force and the Board would be determining whether a proposed response would fully meet users' needs. In this regard, there would be a need to articulate why certain options were considered but rejected by the Board. Also, it was suggested that the Board not over-promise that a revised auditor's report would meet all users' needs. Instead, proposed solutions should be characterized in terms of what is needed in the context of today's corporate and financial reporting model. It was suggested that the Board should make clear its commitment to engaging in dialogue with stakeholders in exploring longer-term holistic improvements.

Ms. de Beer noted that the CAG was encouraged by the Working Group's open-minded approach and progress made pursuant to the CP, adding that the project presents an opportunity for the IAASB to take on a leadership role in this area. In addition, the focus of the project should be on enhancing auditor reporting as a whole, which may go beyond what is communicated by the auditor in the auditor's report. Comments were also made at the CAG meeting that the project timelines might be too ambitious. Also, this project has a clear link with some other upcoming topics that the Steering Committee is keeping on the radar screen, in particular in relation to the Innovation, Needs and Future Opportunities (INFO) initiative in the future strategy.

#### ELEMENTS OF THE PROJECT PROPOSAL

##### *Building Blocks and Global Consistency*

Mr. Montgomery explained that adopting a "building blocks approach" in revising the auditor's report could facilitate flexibility in auditor reporting across jurisdictions and also accommodate the need for scalability relative to SME audits. The approach would in particular explore whether auditors' reports could have standard or required elements of communication for all entities and whether certain elements could be required for only listed entities. An IAASB member was of the view that the Board would have a global

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<sup>15</sup> ISA 700, *Forming an Opinion and Reporting on Financial Statements*

challenge in achieving consistency in auditor reporting and expressed concern as to whether the building blocks approach would be sufficient to accommodate the varying developments in auditor reporting around the world. It was suggested that the Board would likely need to weigh the merits of responding to the needs of users to help them find their way across significant judgments in financial reporting versus promoting consistency in global reporting. It was also suggested that the Board explore whether the UK Financial Reporting Council's (FRC) approach to provide more information to users via an expanded corporate governance reporting framework would be an equally viable way of meeting users' needs.

Ms. de Beer noted that there was a panel discussion at the September 2011 IAASB CAG meeting about matters relating to relevance versus consistency in audit reports. She noted that the CAG Representatives were of a strong view that consistency, though important, is not always necessarily the ultimate objective. There was a view at the CAG that different solutions might be found for various entities depending on their size (listed/non-listed) and that a single solution might not be necessary. A hybrid report might be acceptable not only on a size basis, but also in terms of a combination of standard and consistent reporting with a section with more entity-specific reporting. Also, the users' groups on the CAG were very strongly in support of a "big bang" approach in changing the auditor's report instead of many smaller changes over time.

#### *Auditor Insights*

IAASB members noted that providing additional insights to users could be done in a various ways ranging from expanded use of Emphasis of Matter paragraphs (EOMs) to an expanded role for those charged with governance to provide more information to users. It was noted that EOMs are a tool in the ISAs that could facilitate providing more information in auditors' reports, and that the idea of mandatory EOMs is of particular interest amongst regulators and auditors in the U.S. It was, however, highlighted that EOM paragraphs are generally not used in many jurisdictions. Accordingly, to the extent that EOMs were considered as a proposed solution, education would also be necessary to change negative perceptions associated with their use in some jurisdictions. Concerns were also raised about the impact that providing such information would have on the capital markets as well as the practical aspects of conducting an audit, particularly as it relates to adhering to confidentiality rules. There was a view that providing additional information about the auditor's views in the auditor's report would increase costs. Also, it was suggested that auditors would need additional guidance on how to accumulate and disseminate such information to users on a timely and consistent basis.

#### *Communications to Those Charged with Governance*

Mr. Montgomery noted that because of the strong support amongst respondents for enhancing the corporate governance model, it would be important to seek to align proposed solutions to proposals being considered by standard setters in the UK relative to expanded corporate governance reporting. He added that required communications under ISA 260<sup>16</sup> could serve as a baseline for improving auditor reporting to users. Ms. de Beer noted the CAG's support for such an approach, adding that some CAG Representatives felt it important to address ISA 260 to also improve auditor reporting to those charged with governance.

An IAASB member suggested that there might be linkages to the ISA Monitoring Project. In particular, responses to audit committee surveys as part of that project might provide useful input as to whether they

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<sup>16</sup> ISA 260, *Communication with Those Charged with Governance*

find the information provided to them by auditors useful. It was also noted that because the roles of audit committees vary considerably across the G-20, there would merit in having a dialogue with the United Nations Conference on Trade and Development (UNCTAD) or the Organization for Economic Cooperation and Development (OECD) to drive consistency in the roles of audit committees. Ms. de Beer expressed the view that although audit committee regimes differ, a responsibility still exists across jurisdictions for auditors to report to those charged with governance.

Mr. Montgomery acknowledged those views, noting that further refinement would be made to the project proposal with respect to ISA 260. However, he reiterated that the intent of evaluating ISA 260 was not to determine whether it was fit for purpose but to explore whether there are significant matters that ISA 260 requires to be communicated to those charged with governance that could contribute to enhancing auditor reporting.

#### *Going Concern*

Mr. Montgomery highlighted that the respondents to the CP had indicated strong support for the auditor's report to provide more information with respect to going concern, noting that the information needs varied from a description of the auditor's responsibility, making a statement that includes a conclusion, and going further to challenging the auditor's work effort with respect to going concern. The IAASB agreed that the project proposal should clarify that the scope of the project would be limited to exploring solutions that are within the current scope of ISA 570.<sup>17</sup> In this regard, an IAASB member suggested that the EC's proposed requirement that the statutory auditor provide a statement about going concern in the auditor's report may drive change in what is actually done in audit practice.

#### ENGAGEMENT WITH STAKEHOLDERS

The IAASB agreed that there was no need for further consultation to assess whether there should be change in auditor reporting. However, it was agreed that it would be important for the project Task Force to discuss proposals with users, particularly investors who make investment decisions, to confirm that their needs are being met. It was also agreed that timely engagement with stakeholders such as the International Forum of Independent Audit Regulators (IFIAR) would be important to seek their input at appropriate stages of the project and to keep them abreast of progress. In this regard, it was suggested that consideration be given to holding public roundtables in due course to help raise awareness of the project and to obtain further input on its direction.

#### TIMING AND RESOURCES

IAASB members expressed concern that in light of the proposed timeline, the Board might be perceived by stakeholders as not being appropriately responsive to the calls for change, particularly given the contemporaneous debates and initiatives on auditor reporting that are already taking place around the world. It was also noted that communicating significant milestones in the project too late in the future may minimize the Board's role in the global debate. However, it was suggested that the Board's own due process might be an inhibiting factor in this regard.

In light of the significant number of issues identified in the project proposal and the need for a timely response, it was agreed that the Board would need to be innovative and identify opportunities to seek public input on options for change that do not follow the Board's normal consultative process. In this

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<sup>17</sup> ISA 570, *Going Concern*



regard, it was suggested that consideration be given in due course to the possibility of holding additional Board meetings in 2012 and 2013. Mr. Montgomery also noted the CAG's strong support for accelerating the project.

After further deliberation, the IAASB agreed that the project proposal should be updated to reflect an accelerated timeline.

#### APPROVAL

After agreeing changes to the project proposal in light of the Board's discussion, the IAASB approved a project on auditor reporting on an accelerated basis with the affirmative votes of 18 out of the 18 IAASB members present or represented by proxy. Prof. Schilder reported that the Steering Committee had agreed to meet in early January 2012 to further reflect on the approach and work and resource plan for the project and the implications for the Board's current work program.

### **9. Audit Quality**

Mr. Grant introduced the topic and briefed the IAASB on Task Force activities since the September 2011 IAASB meeting. He reported back in particular on informal discussions of the draft Audit Quality Framework paper presented at the September 2011 IAASB CAG meeting (the "CAG Draft") with a number of stakeholder groups, including the International Organization of Securities Commissions (IOSCO) and the World Bank. He noted also that input had been received on the CAG Draft from the IESBA, the IAESB, the SMPC, INTOSAI, Canadian stakeholders, the International Corporate Governance Network (ICGN), and some UK academics. The Framework had also been used at a Forum of Firms symposium and some useful perspectives had been provided.

Ms. de Beer indicated that a view was held by some CAG Representatives that it should be known when audit quality has been achieved and when not. This would require understanding what the threats to audit quality are and how these could be addressed. However, this was not suggesting that audit quality should be measured per se. Flagging the threats to audit quality and addressing those assist in knowing how and when audit quality is achieved at the various levels (engagement, firm and country). She noted the CAG's view that these levels are quite useful and that the country level should be the starting point. At that level, if certain elements are not in place, audit quality would probably never be achieved. Assuming elements such as a good regulatory system, etc. are in place, then one could go down to the firm and engagement levels.

Some IAASB members, however, were hesitant that the paper should start with the country level, recognizing the difficulties in describing the country issues compared with those at the firm and engagement levels. It was also recognized that there would be a potential for the discussion of the country level to become political, such as the risk of the Board being seen to be supporting one country's model over another's. In addition, there would be a risk that starting in this way would result in the IAASB being perceived to be defensive. It was also noted that not everyone would necessarily agree that all elements should be in place at the country level before audit quality can be achieved, as there is an expectation that a high quality audit can be performed irrespective of the infrastructure.

Mr. Grant then led the IAASB through the issues highlighted in the meeting papers.

#### PROPOSED REORGANIZATION OF FRAMEWORK

Mr. Grant explained the Task Force's proposed reorganization of the framework into separate engagement, firm and country levels in response to a view received from a number of stakeholder groups during the outreach process that the Framework did not focus sufficiently on factors that auditors can control. While IAASB members broadly supported the proposed reorganization, some raised a number of concerns, including the following:

- The complexity of the topic and the dynamism of the interactions did not appear to come through sufficiently clearly from the reorganized framework material.
- The separation of the engagement and firm levels may raise questions as to how these relate to ISA 220<sup>18</sup> and ISQC 1.<sup>19</sup>
- It was not sufficiently clear how the material distinguished between the local and global issues.
- The revised schematic may need reconsideration as it now seemed to underplay the element of context.

An IAASB member questioned whether the IAASB is the right forum for leading the debate on audit quality, noting that in doing so the IAASB may be seen as self-serving and there will be confusion with its quality control standards. This IAASB member was of the view that the Board is going down the wrong path in developing further guidance material instead of addressing the problem of failure to implement the existing standards consistently.

The IAASB asked the Task Force to proceed with the proposed reorganization, taking into account the input from the Board.

#### IMPACT OF THE REQUIREMENTS OF THE APPLICABLE FINANCIAL REPORTING FRAMEWORK

Mr. Grant explained that in response to input received during the Task Force's outreach, the Task Force proposed that the framework paper elaborate on the impact on audit quality of the requirements of the applicable financial reporting framework from an "auditability/verifiability" perspective. The IAASB broadly supported the Task Force's proposal but asked that the Task Force aim for a more concise discussion of the issues.

Ms. de Beer agreed, noting that while the examples help, the longer the piece becomes, the more it would start to sound defensive. She noted that while the financial reporting framework is important, the question was whether it is really a separate issue. The financial reporting framework represents one of the threats or risks of not achieving audit quality. It would fall within the challenges at the country level.

#### INTRODUCTION

Mr. Grant explained that in response to feedback received from stakeholders during the earlier outreach, the Task Force proposed to describe in the introduction to the framework paper some of the characteristics of audit that make evaluating audit quality difficult. While IAASB members agreed that there is value in doing so, some expressed concern that the proposed material may appear defensive.

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<sup>18</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

<sup>19</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

IAASB members provided various suggestions to the Task Force in reconsidering the messaging in the proposed material so that it may take a more neutral tone.

Ms. de Beer noted that a significant CAG comment was that the paper discussed in September 2011 had often sounded defensive. While it would be important to describe some of the complexities of audit quality, some of the words or examples used sounded like excuses for auditors. Accordingly, some of the references to risks and threats and why audit quality might not be achieved should be toned down. She suggested dealing with these separately and focusing more on why the IAASB is undertaking this project and why it is important. She also suggested revisiting the heading “Nature of Audit Quality” as it did not align fully with the content of the section.

#### WAY FORWARD

The IAASB asked the Task Force to present a revised draft of the framework paper at the March 2012 IAASB meeting.

### **10. The Auditor’s Responsibilities Relating to Other Information in Documents Containing and Accompanying Audited Financial Statements and the Auditor’s Report Thereon**

Mr. Gélard introduced the topic, noting that in November 2011, he and Mr. Gunn had met with the IOSCO Auditing Subcommittee to discuss the key issues relating to the revision of ISA 720. He indicated that he would refer to the significant comments raised by members of the Auditing Subcommittee as well those provided by the SMPC as appropriate during the discussion. Mr. Gélard then led a review of the significant issues and draft revised ISA 720.

#### SCOPE

Mr. Gélard noted that the IAASB had supported requiring the auditor to respond to matters in the other information that are inconsistent with the auditor’s understanding of the entity and its environment acquired during the course of the audit. He then explained the Task Force’s proposals to reflect this principle within the scope section and objectives of draft revised ISA 720.

Whilst the IAASB expressed broad support for the Task Force’s proposals, it asked that the Task Force further consider:

- The proposed requirements in draft revised ISA 720 so that they correspond to, and are consistent with, the scope section and objectives of the proposed ISA, for instance, in relation to the reference to the concept of material inconsistencies with the other information.
- Clarifying within the scope section that the auditor is concerned with other information that is materially inconsistent with the auditor’s understanding of the entity and its environment mainly because of the risk of auditor association with such other information.

#### OBTAINING, READING AND CONSIDERING OTHER INFORMATION

Mr. Gélard explained the Task Force’s proposal to require the auditor to discuss with management the matter of timing of the provision of the other information by management. In particular, matters that this discussion would cover include the importance of management providing such information to the auditor prior to the date of the auditor’s report, and the possible implications when the other information is obtained only after the auditor has dated the auditor’s report. Whilst they did not disagree with the intent of this proposed requirement, a few IAASB members were of the view that such a discussion would be

more important for initial audit engagements. For recurring engagements, it was suggested that auditors would only need to have such a conversation with management if warranted in the circumstances. The IAASB asked the Task Force to consider the matter further.

#### THE AUDITOR'S CONSIDERATION OF FINANCIAL DATA IN THE OTHER INFORMATION

Mr. Gélard explained the Task Force's proposals regarding the actions that the auditor should take to safeguard the credibility of the audited financial statements when an inconsistency in the financial data is identified that would have a material effect on such credibility. The IAASB was generally supportive of the Task Force's proposed direction on this issue. However, a few IAASB members commented that they continued to have concerns regarding auditors' ability to consistently apply such a requirement in practice. In particular, an IAASB member felt that only a very narrow set of financial data in the other information would be subject to the auditor's procedures as the auditor would only need to perform procedures on financial data that are directly reconcilable to the audited financial statements, instead of all data that are materially inconsistent with the auditor's understanding of the entity and its environment. Whilst acknowledging the Task Force's rationale for the proposed requirement, the IAASB member argued that the construction of the requirement was not aligned with the proposed objectives of the ISA.

The IAASB directed the Task Force to continue to explore ways to bring about greater clarity to the proposed requirement.

#### MATTERS THAT MAY INDICATE INCONSISTENCIES IN THE OTHER INFORMATION

Mr. Gélard explained the proposed actions required of the auditor in the event that the auditor identifies a matter(s) in the other information that may be inconsistent with the auditor's understanding of the entity and its environment, other than when such a matter(s) is clearly trivial. An IAASB member expressed concern over the proposal for the auditor to *conclude* that a material inconsistency exists and thereafter to request management to correct such other information. It was argued that the use of the word "conclude" may suggest that the auditor would need to perform audit procedures to obtain sufficient appropriate evidence, which is not currently intended under extant ISA 720. The IAASB asked the Task Force to clarify the requirement.

#### OTHER MATTERS

In addition to editorial matters, the IAASB agreed the following:

- Regarding the statement in the scope section that draft revised ISA 720 does not apply to preliminary announcements of financial information and securities offering documents or other prospectuses, it should be clarified that in some jurisdictions, law or regulation may require compliance with the revised ISA 720 in these cases.
- Further guidance should be provided to assist auditors to identify other information that is inconsistent with the auditor's understanding of the entity and its environment.
- To minimize confusion and for consistency, only one of the two phrases "matters in the other information that may be inconsistent" and "inconsistencies in the other information" should be used in the draft revised ISA.

## WAY FORWARD

The IAASB asked the Task Force to present a revised draft of proposed ISA 720 for its consideration for approval as an exposure draft in due course.

### **11. IAASB Staff Questions & Answers (Q&A) Publication on Professional Skepticism**

Mr. Gunn introduced the topic, noting that the impetus for the initiative to develop the proposed IAASB Staff Q&A publication on professional skepticism came from discussions on the topic at the September 2011 IAASB CAG meeting. He highlighted the Board's responsibility to commission staff publications. He also noted emphasized that consistent with other staff publications, the draft Q&A was intended to highlight on how the ISAs and ISQC 1 deals with the topic. Finally, he noted that staff had received informal reactions on the proposed Q&A from a few IAASB members. Amongst the feedback received in particular were suggestions for exploring innovative ways to communicate the appropriate messages about professional skepticism, and for considering how the document could be made more succinct.

Ms. de Beer commented that the IAASB CAG has raised the topic as a concern, in light of a lot of emphasis currently being placed by regulators and others on the auditor's ability to exercise professional skepticism and what is meant by it. The CAG's view was that it is a matter of explaining not only what the ISAs require in this regard, but also what the current issue is about. Therefore, a paper on professional skepticism should not only be targeted at auditors, but also at others and should be packaged accordingly. A staff Q&A would be a good starting point in that regard. However, it would not likely solve the current issues in auditing in this area. She noted CAG Representatives' view that professional skepticism should be a strong theme that permeates all the Board's future activities, and that the Q&A should not be seen as the final action on it. She suggested that the topic be explained through the perspective of others and that a discussion be included about not only the auditor's role but also the role of others. Furthermore, this topic calls for collaboration between the IAASB and the IESBA.

Mr. Ward expressed support for the general direction of the document, noting that it was appropriate. He commented that he was generally skeptical about work on the topic, noting that because professional skepticism is so core to auditing, any attempt to focus on it might run the risk of making light of it.

Mr. Gunn then invited the Board's views on the document, particularly any aspects that were not consistent with the ISAs and ISQC 1.

IAASB members expressed strong support for the document. In addition to editorial and structural suggestions to enhance the impact of the messaging in the Q&A, IAASB members commented as follows:

- Consideration should be given to clarifying the intended audience. In this regard, it was suggested that the document be directed not only at auditors but also at those charged with governance and others.
- Consideration should be given to making stronger linkages between professional skepticism and professional judgment, and between the auditor's capabilities and competencies and the concept of professional judgment.
- The document would potentially be of value to non-auditors, particularly potential entrants to the auditing profession. In addition, it would provide context within which to discuss professional skepticism.

- The document was useful and timely, especially given that it helps to “connect the dots” on the topic of professional skepticism across various ISAs. However, the Q&A does not address the “root cause” of issues regarding auditors’ application of professional skepticism.
- The phrases “neutral mindset” and “presumptive doubt” should be avoided in describing professional skepticism as these concepts are not addressed within the ISAs. However, it would be important to make the links with the roles of education and ethics to emphasize that professional skepticism is a mindset. In this regard, there would be a role for the IAESB and IESBA to play.
- There is a need for more to be done particularly in the area of training and education. In this regard, it was suggested that there is a need for the IAESB and IESBA to work collaboratively with the IAASB to facilitate the provision of training support to auditors.

Mr. Gunn thanked the Board for its constructive comments, noting that staff would explore how to further enhance the impact of the key messages in revising the document, but that in doing so it would be necessary to ensure that inconsistencies with the ISAs are not introduced. He noted that staff would circulate a revised draft of the Q&A electronically to the Board for comment in due course with a view to finalization in Q1 2012.

Prof. Schilder added that the proposed Q&A represented a timely response to the IAASB CAG’s feedback on the topic, and that he looked forward to the document being finalized prior to the next IAASB CAG meeting in March 2012.

## 12. PIOB Observer’s Remarks<sup>20</sup>

Mr. Ward expressed his overall conclusion that the Board had conducted itself in accordance with due process throughout the meeting. He complimented the Board on its conduct and its robust discussions during the week. While he had initially perceived that the Board was at times overly polite in its deliberations, as the debates progressed he came to the conclusion that these were indeed robust.

Regarding the topic of the IAASB’s strategy and work program, Mr. Ward reiterated his previous remark that “what gets measured gets done.” He was of the view that there is a fair amount of discussion in the work program that could be turned into measures of success or milestones, for example, the number of standards to be issued. This would be in addition to his earlier suggestion of G-20 adoption of ISAs by a set time (e.g., 2014). This approach, in his view, may help drive the IAASB’s behavior.

Turning to the discussions on ISRS 4410, Mr. Ward asked the IAASB to consider whether there was a better way to conduct its debates to ensure that they are as efficient as possible. In particular, he characterized the debates as falling into (i) strategic sessions, (ii) robust debates, and (iii) drafting sessions. He suggested that, in view of their nature, the IAASB’s discussions should focus on the first two categories rather than the third.

Mr. Ward also noted that the IAASB often made reference to the “public interest.” He was of the view that audit quality and auditor reporting are perfect examples of public interest projects.

In relation to the topic of professional skepticism, having considered the nature of the discussions, he supported the approach that the IAASB had agreed.

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<sup>20</sup> Mr. Ward made his remarks at different points during the meeting.

Regarding audit quality, he commended the IAASB for progressing its discussions on the topic. In his view, much of the output of the work on audit quality is important input into the work on auditor reporting. He suggested that auditor reporting can be enhanced by a quality audit. He expressed the view that audit quality relates to the way the firms manage the quality of their audit practice. He suggested managing audit quality is a process, not an absolute, based on how firms respond to their clients, engage the right people and tools, inspect themselves, remediate issues, and feed back into their processes on an annual cycle. This process is the management of audit quality and the quality audit is the output and substance of this process. Mr. Ward then updated the Board on the PIOB's deliberations at its meeting the previous week. He noted that the PIOB had discussed the amended *Preface to the International Quality Control, Auditing, Assurance, and Related Services Pronouncements* extensively and requested clarification from IAASB staff. He also reported that some PIOB members were concerned that the withdrawal of the category of International Auditing Practice Statements (IAPSSs) would leave a gap in the authoritative literature. He noted that the PIOB was unable to discuss the due process in relation to ISAE 3420. A teleconference had been scheduled to conclude on these matters.

Finally, Mr. Ward explained that the PIOB was exploring a new methodology for its work and had named a designated oversight leader for each of IFAC's independent standard-setting boards to help bring consistency of PIOB understanding of the boards' work. Mr. Ward noted that he would serve as the oversight leader for the IAASB and would be supported by 2-3 other PIOB representatives and staff. He indicated that in this role, he would be proposing a plan to the PIOB at its next meeting explaining how the IAASB's activities will be monitored, as well as plans for attendance at 2012 IAASB meeting.

Prof. Schilder thanked Mr. Ward for his constructive remarks, and in particular sharing the PIOB's input at earlier stages of projects as he had done. Prof. Schilder noted that the IAASB should further reflect on the categorization of debates in its efforts to seek further improvements in its deliberative processes, and he conveyed the Board's appreciation of Mr. Ward's compliments during the week.

### **13. Next Meeting**

The next meeting of the IAASB is scheduled via teleconference for January 25, 2012. The next physical meeting of the IAASB is scheduled for the week of March 12-16, 2012 in Toronto, Canada.

### **14. Closing Remarks**

Prof. Schilder thanked the IAASB members, technical advisors, observers and staff for their contributions to the meeting, and conveyed his best wishes for the holiday season. He then closed the meeting.