

**Draft Minutes of the 52<sup>nd</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD  
Held via Teleconference on April 24<sup>th</sup>, 2012**

### **Voting Members**

Present: Arnold Schilder (Chairman)  
Dan Montgomery (Deputy Chair)  
Arch Archambault  
Jean Blascos  
Cédric Gélard  
Jon Grant  
Gert Jönsson  
Merran Kelsall  
William Kinney  
Annette Köhler  
Caithlin McCabe  
Brendan Murtagh  
Marc Pickeur  
Tomokazu Sekiguchi  
Bruce Winter  
Abdullah Yusuf<sup>1</sup>

### **Technical Advisors**

Sue Almond (Mr. Murtagh)  
Brantley Blanchard (Ms. McCabe)  
Wolf Böhm (Ms. Köhler)  
Marek Grabowski (Mr. Grant)  
Hiram Hasty (Mr. Kinney)  
Susan Jones (Mr. Blascos)  
Sachiko Kai (Mr. Sekiguchi)  
Jon Rowden (Mr. Winter)  
Isabelle Tracq-Sengeissen (Mr. Gélard)  
Denise Weber (Mr. Montgomery)  
Rick Wood (Mr. Archambault)

Apologies: Jianshen Chen  
Valdir Coscodai

Ricardo DeLellis (Mr. Coscodai)  
Jonas Hällström (Mr. Jönsson)  
Richard Mifsud (Ms. Kelsall)  
Pervez Muslim (Mr. Yusuf)  
Jacques Vandernoot (Mr. Pickeur)  
Ge Zhang (Mr. Chen)

### **Non-Voting Observers**

Present: Linda de Beer (IAASB Consultative Advisory Group (CAG) Chairman)  
Apologies: Norio Igarashi and Juan Maria Arteagoitia

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

Present: Rob Ward

### **IAASB Technical Staff**

Present: James Gunn (Technical Director), Beverley Bahlmann, Kathleen Healy, Brett James, Diane Jules, Joanne Moores and Ken Siong

<sup>1</sup> Attended part of the meeting due to difficulties with the teleconference connection

## 1. Opening Remarks

Prof. Schilder welcomed the participants to the meeting, noting that the necessary quorum of Board members had been met. Apologies were noted from Messrs. Arteagoitia, Chen, Coscodai, DeLellis, Hällström, Igarashi, Mifsud, Muslim, Vandernoot and Zhang.

Prof. Schilder noted that the objective of the meeting was to consider the recommendations of the Auditor Reporting Task Force in relation to key aspects of the auditor reporting project relating to clarifications, transparency and building blocks, including a draft illustration of a possible enhanced auditor's report for a public interest entity (PIE). He explained that there would be no voting on the call.

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

## 2. Transparency and Clarification of the Auditor's Responsibility

### IDENTIFICATION OF THE ENGAGEMENT PARTNER

Mr. Montgomery introduced the topic, outlining the Task Force's proposal to require for all audits disclosure of the engagement partner's name in the auditor's report. He noted that many have suggested that such a disclosure would be in the public interest, and would help establish a greater sense of personal accountability among engagement partners.. He noted, however, that the Task Force did not underestimate the potential impediments that some have flagged, such as the perceived reduction in the responsibility of the firm, and the potential increase in liability exposure for engagement partners in some jurisdictions. He added that the Task Force was of a view that the location and precise wording of the disclosure should not be mandated by the IAASB to accommodate existing national practices.

Mr. Montgomery also highlighted that the recent EC policy proposals regarding auditor reporting went further by requiring auditors to identify in their reports the name of each member of the audit engagement team and to state whether those members are independent. In this regard, he explained that the "building blocks" approach would allow jurisdictions to further tailor requirements to national circumstances.

IAASB members generally supported the direction of the proposal. Amongst other matters, the following were noted for the Task Force's further consideration:

- The potential increase in liability exposure for engagement partners is a significant impediment. Consideration should be given to whether exceptions could be provided where implementation of the proposal would likely threaten the personal security of engagement partners.
- Consideration should be given to whether there should also be disclosure of additional firm/engagement partner identifying characteristics, such as professional affiliations and licensing information.
- Consideration should be given to mandating the positioning and exact wording to be used in auditors' reports with respect to the disclosure of engagement partner names to drive consistency.
- It would be important for the Invitation to Comment (ITC) to explain how the proposal would affect those jurisdictions that have indicated challenges in requiring auditors' reports to disclose engagement partner names, and views on such a proposal should be sought from such jurisdictions.

#### STATEMENT OF COMPLIANCE WITH RELEVANT ETHICAL REQUIREMENTS

Mr. Montgomery explained the Task Force's proposal to require auditors to include in their reports a statement of compliance with relevant ethical requirements. He highlighted that this had received strong support at the March 2012 IAASB and IAASB CAG at meeting. He added that IAASB staff had liaised with staff of the International Ethics Standards Board for Accountants (IESBA) and confirmed that there would be no anticipated conflict with the proposal for audits where the relevant ethical requirements with which auditors have to comply are the IESBA's *Code of Ethics for Professional Accountants* (IESBA Code).

Mr. Montgomery also noted the Task Force's view that while there may be value in referencing the applicable ethical code or requirements in the auditor's report, it would not be appropriate to mandate such a practice and this would be best addressed at the national level.

Finally, Mr. Montgomery explained that some have suggested that disclosing breaches of the applicable ethical code or requirements in the auditor's report would enhance transparency of the audit process. However, given that local laws and regulations influence the extent of information that could be disclosed in auditors' reports regarding such breaches, such a matter would be best dealt with at the national level. In this regard, Mr. Montgomery highlighted that the IESBA has a current project to address breaches of the IESBA Code.

IAASB members generally supported the direction of the proposal. Amongst other matters, the following were noted for the Task Force's further consideration:

- It would not be appropriate to require reference to the IESBA code as it has not been globally adopted and consistently applied.
- There may be merit in exploring whether to require disclosure of other information relevant to independence, such as audit fees.
- The IESBA's project on breaches should be monitored. In addition, consideration should be given to noting in the ITC that the final outcome of this IESBA project may influence the IAASB's further deliberations on this aspect of the proposals.

#### CLARIFICATION OF THE AUDITOR'S RESPONSIBILITIES

Mr. Montgomery outlined the Task Force's proposals relating to clarification of the auditor's responsibility, noting that the Auditor's Responsibility section in the illustrative report explains in greater detail the concept of a risk-based audit, as agreed at the March 2012 IAASB meeting.

The IAASB supported the direction of the Task Force's proposals. Amongst other matters, the following were noted for the Task Force's further consideration:

- Consideration should be given to the appropriateness of the word "guarantee" in describing some of the auditor's responsibilities, as it may be too strong and detract from what is intended in practice.
- Further consideration of the description of the auditor's responsibility regarding fraud may be needed as it could potentially give the impression that the auditor had reached a conclusion about whether or not fraud was present.

- Consideration should be given to incorporating additional information to explain the risk-based audit, such as referencing the “purposes” versus the “purpose” of an audit in line with ISA 200,<sup>2</sup> and adding a statement about the firm’s quality control and regulatory oversight to explain the context in which the audit takes place.

#### CLARIFICATION OF THE ROLE AND RESPONSIBILITY OF THOSE CHARGED WITH GOVERNANCE

Mr. Montgomery noted that there had been calls for clarification of the responsibilities of those charged with governance (TCWG) given the important role they play in overseeing the financial reporting process, including the audit. He explained the Task Force’s view that addressing those responsibilities should be best left to NSS given the significant variation in those responsibilities around the world, and that references to TCWG should be limited to only highlighting the auditor’s responsibilities to communicate with TCWG (for example, in relation to auditor commentary, and identification of significant deficiencies in internal control).

The IAASB acknowledged the practical challenge of requiring a description of the responsibilities of TCWG. Nevertheless, the IAASB asked the Task Force to consider clarifying such description to align more closely with the general description in the ISAs, but allowing jurisdictions to tailor it to national circumstances.

### **3. Illustrative Enhanced Auditor’s Report for a PIE**

Mr. Montgomery introduced the proposed enhanced illustrative auditor’s report for a PIE, noting the opportunity of gaining further input on the proposed revised auditor’s report at the April 2012 IAASB-National Auditing Standard Setters (NSS) meeting. He noted that the illustrative report represented the Task Force’s preferred presentation of the various elements of a revised auditor’s report. He also highlighted important introductory language to the Auditor Commentary section of the report that clarifies that auditor commentary is being provided in the context of the financial statements as a whole, and to address concerns about piecemeal opinions being provided.

#### ORDERING AND PLACEMENT OF AUDITOR REPORTING ELEMENTS

The IAASB broadly supported the proposed ordering and placement of the various elements in the illustrative report. Amongst other matters, the following were noted for the Task Force’s further consideration:

- Consideration should be given to placing the description of management’s responsibility with respect to going concern within the Going Concern section to provide appropriate context to the proposed auditor conclusion and auditor statement with respect to the appropriateness of management’s use of the going concern assumption and material uncertainties, respectively.
- Consideration should be given to having the most important information prominently displayed at the beginning of the report.
- Further consideration should be given to the continued relevance of the “Other Reporting Responsibilities” (ORR) section of the auditor’s report under extant ISA 700, and clarifying its interaction with the proposed new elements in the revised auditor’s report.

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<sup>2</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

- Further consideration should be given to the continued relevance of Emphasis of Matter (EOM) paragraphs and their interaction with the Auditor Commentary section, particularly in relation to audits of non-PIEs, as well as related placement matters.

#### USE OF HEADINGS AND SUBHEADINGS

The IAASB expressed broad support for the use of headings and subheadings in a revised auditor's report, noting that they would assist navigation, particularly given the likely increased length of the revised auditor's report, and would facilitate comparability and enhance consistency of auditors' reports. In addition to editorial changes, the following were noted for the Task Force's further consideration:

- The section heading "About Our Audit of the Financial Statements" should be reconsidered as it did not appear to correctly characterize the information in that section, especially the part describing management's responsibility.
- Consideration should be given to including as part of the ITC a more streamlined version of the illustrative report to demonstrate the scalability of the building blocks approach and how it could be applied for audits of small- and medium sized entities (SMEs).
- Consideration should be given to using subheadings to further delineate the description of management's responsibility with respect to going concern as well as the responsibility of TCWG.

#### BALANCE OF STANDARDIZED VERSUS ENTITY-SPECIFIC INFORMATION

An IAASB member noted that the standardized material appeared lengthy and seemed to overwhelm the entity-specific material. Mr. Montgomery explained that the "building blocks" approach, in principle and subject to further consideration, may provide a jurisdiction with the flexibility to reposition parts or all of the Auditor's Responsibility section outside of the auditor's report (for example, an NSS website) and then appropriately incorporate such material by reference in the auditor's report. It was also noted that standardized information in the auditor's report will likely be necessary to provide context to entity-specific information that will form part of the Auditor Commentary section. In addition, it was noted that once illustrative examples of auditor commentary are included in the illustrative report, there would be a better balance between standardized and entity-specific material.

#### WAY FORWARD

Mr. Montgomery noted that the Task Force would further consider seeking stakeholder input on consultation regarding the specific matters discussed, including:

- Identification of the engagement partner in the auditor's report;
- Placement of the description of management's responsibility in the report, including in relation to going concern;
- How the concept of EOM paragraphs would work alongside use of auditor commentary, in particular for non-PIEs;
- Integration of ORR with the proposals; and
- Proportionality of the proposals, particularly with respect to audits of SMEs.

#### **4. Next Meeting**

The next meeting of the IAASB is scheduled for the week of June 11-15, 2012 in Edinburgh, Scotland.

**5. Closing Remarks**

Prof. Schilder thanked the participants for their contributions. He then closed the meeting.