

**Final Minutes of the 50th Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
Held on March 12-16, 2012 in Toronto, Canada**

Voting Members

Present: Arnold Schilder (Chairman)
Dan Montgomery (Deputy Chair)
Arch Archambault
Jean Blascos
Jianshen Chen
Valdir Coscodai
Cédric Gélard
Jon Grant
Gert Jönsson
Merran Kelsall
William Kinney
Annette Köhler
Caithlin McCabe
Brendan Murtagh
Marc Pickeur
Tomokazu Sekiguchi
Bruce Winter

Technical Advisors

Sue Almond (Mr. Murtagh)
Brantley Blanchard (Ms. McCabe)
Wolf Boehm (Ms. Köhler)
Ricardo DeLellis (Mr. Coscodai)
Marek Grabowski (Mr. Grant)
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 (Mr. Winter)
Isabelle Tracq-Sengeissen (Mr. Gélard)
Jacques Vandernoot (Mr. Pickeur)
Denise Weber (Mr. Montgomery)
Rick Wood (Mr. Archambault)
Ge Zhang (Mr. Chen)

Apologies: Abdullah Yusuf

Non-Voting Observers

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

Public Interest Oversight Board (PIOB) Observer

Present: Rob Ward (March 12-15)

IAASB Technical Staff

Present: Jim Slyph (Executive Director), James Gunn (Technical Director), Beverley Bahlmann, Keesha Campbell, Kathy Healy, Brett James, Diane Jules, Joanne Moores, and Ken Siong

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. He also specially welcomed the new Board members, Prof. Köhler and Messrs. Murtagh, Pickeur and Winter, and the new technical advisors, Mss. Almond and Weber, and Messrs. Blanchard, Böhm and Vandernoot. He noted the reappointment of Messrs. Gélard and Sekiguchi on the Board, and the appointment of Mr. Montgomery as Deputy Chair.

Apologies were received from Messrs. Yusuf (visa difficulties) and Arteagoitia.

Prof. Schilder thanked the Canadian Institute of Chartered Accountants (CICA) for its hospitality. He also thanked Mr. Winter for arranging the country presentation later in the day.

Finally, Prof. Schilder conveyed his appreciation to the task forces, subcommittees and staff for their hard work in preparing the meeting papers.

MARCH 2012 IAASB CAG MEETING

Ms. de Beer briefly reported back on the CAG meeting held the previous week. She noted that the CAG had constructive and stimulating discussions on a variety of topics and were complimentary of the quality of the meeting materials. She highlighted that the CAG was very supportive of concluding on the projects on greenhouse gas (GHG) statements and review engagements.

In relation to the Auditor Reporting project, she noted that the CAG was overall pleased with the progress made on the illustrative auditor's report. She highlighted a presentation from the European Commission (EC) representative regarding the EC's processes and plans for its recent policy proposals related to the statutory audit. She also highlighted a presentation from the U.S. Public Company Accounting Oversight Board (PCAOB) representative regarding the PCAOB's Auditor Reporting project. She indicated that these presentations had provided important background information and useful insights into activities on auditor reporting in various jurisdictions that will likely impact the IAASB's thinking on its project.

Finally, Ms. de Beer noted the CAG's support for the IAASB's proposed final strategy and work program for 2012-2014. While the CAG was strongly supportive of the direction on the Auditor Reporting project, it also expressed support for the Board to rapidly progress some of the other projects on its current agenda.

PIOB OBSERVER'S REMARKS

Mr. Ward briefed the IAASB on the PIOB's meeting earlier in March 2012. Amongst other matters, he noted that the PIOB had confirmed due process for the revised ISRS 4410 and ISA 610.¹ In relation to the latter, he indicated that the PIOB had gone through the same thought process as the IAASB in terms of considering options for dealing with the "direct assistance" part of the standard, and had reached the same conclusion.

Mr. Ward also indicated that the PIOB had adopted its own strategic plan for 2012 and that it had developed a refined oversight approach for each IFAC Public Interest Activity Committee (PIAC). The PIOB had also considered the agendas and previous performance of the PIACs, as well as topics of public interest. He noted that the PIOB's oversight approach will affect the degree of observation of each

¹ ISRS 4410 (Revised), *Compilation Engagements*, and ISA 610 (Revised), *Using the Work of Internal Auditors*

PIAC, which may range from direct observation to remote observation, involvement by PIOB staff or no observation.

Finally, Mr. Ward noted that for reasons of continuity and efficiency, he had been appointed as PIOB team leader for the IAASB for the next 12 months, and would be supported in this role by PIOB member Chuck McDonough.

RECENT DEVELOPMENTS

Prof. Schilder noted, in relation to the revised ISA 610, that the International Ethics Standards Board for Accountants (IESBA) had recently issued an exposure draft (ED) of proposed changes to the IESBA *Code of Ethics for Professional Accountants* (IESBA Code) to clarify the definition of the term “engagement team.”

In relation to the International Accounting Standards Board (IASB) Liaison initiative, led by Mr. Sekiguchi with Mr. Montgomery as co-Chair, Prof. Schilder reported that the Liaison Working Group had already been active this year with the submission of a comment letter to the IASB in January 2012 on the IASB’s ED, *Investment Entities*. The Working Group expected to submit a further comment letter to the IASB in relation to its ED, *Revenue from Contracts with Customers*, later in March 2012.

Prof. Schilder also briefly highlighted IAASB leadership’s meeting with IASB leadership in February 2012, with Mr. Sekiguchi participating via teleconference. The meeting was constructive and encouraging, with IASB leadership expressing support and appreciation for the IAASB’s input on auditability issues in relation to the IASB’s EDs and consultation papers. Prof. Schilder indicated that IASB leadership had invited Mr. Gunn to participate in the IASB’s “fatal flaw” review process for its proposed standards. Prof. Schilder also highlighted an invitation from the IASB for the IAASB to explore opportunities for further collaboration regarding outreach to emerging market stakeholders, such as the successful November 2011 joint outreach to the Commonwealth of Independent States (CIS)/Baltic States in London. Finally, Prof. Schilder noted that Mr. Sylph had arranged for IAASB leadership to present on the IAASB activities at the June 2012 IFRS Advisory Council meeting.

RECENT PRESENTATIONS AND OUTREACH

Prof. Schilder highlighted a number of recent presentations and outreach activities by IAASB leadership and Board members. Amongst other matters, he reported on the outcome of a recent meeting with European Parliament rapporteur Sajjad Karim arranged by, and with the participation of, Prof. Köhler. The meeting was lively and constructive, and highlighted the rapporteur’s great interest in the Board’s Auditor Reporting project. Prof. Schilder also briefed the Board on IAASB leadership’s outreach to a number of stakeholders in the UK in February 2012.

Mr. Jönsson briefly reported on a number of recent outreach activities that he had undertaken in Latin America and India, noting overall positive responses to the clarified ISAs in the public sector in those countries, as well as a positive assessment of the work being done on the International Standards of Supreme Audit Institutions (ISSAIs). He noted plans for similar visits in other large countries such as China and Brazil later this year.

MINUTES OF THE PREVIOUS MEETING

The minutes of the public session of the December 2011 IAASB meeting were approved as amended.

2. Assurance Engagements on Greenhouse Gas Statements

Ms. McCabe introduced the topic. She gave an overview of the project's history, and outlined the Task Force's activities since the December 2011 and January 2012 Board meetings.

Ms. McCabe then briefly reported back on discussion of the topic at the March 2012 IAASB CAG meeting. She noted that CAG Representatives did not raise any fatal flaws on the proposed revised ISAE 3410² and broadly supported its finalization. She also noted a strong view from a CAG Representative that issuance of the standard should not be delayed pending the finalization of the project to revise ISAE 3000.³

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

IAASB CAG Chairman's Remarks

Ms. de Beer agreed with Ms. McCabe's comments and highlighted that there had been very strong support for quite some time from CAG Representatives for the urgent finalization of the standard. She noted that an OECD Representative on the CAG had highlighted the upcoming OECD sustainability conference in June 2012, and issuance of the final standard by then would be timely. The OECD was also in the process of updating its corporate governance code to include specific requirements for corporate boards to report on, and disclose, information on carbon emissions. To this end, a final assurance standard on such information would be useful.

DISTINCTION BETWEEN LIMITED AND REASONABLE ASSURANCE ENGAGEMENTS WHEN OBTAINING AN UNDERSTANDING OF THE ENTITY AND ITS ENVIRONMENT, INCLUDING INTERNAL CONTROL

Ms. McCabe explained that the requirements regarding obtaining an understanding of the entity and its environment, including internal control, had been revised and reordered to respond to the Board's feedback in December 2011, particularly with regard to the need for greater clarity in the order of the requirements and the distinction between the work for a reasonable assurance engagement and that for a limited assurance engagement. A few IAASB members commented that the changes in relation to internal control no longer made it clear that the purpose of inquiries is to obtain an understanding. The IAASB agreed and asked the Task Force to clarify that the purpose of the inquiries is to obtain an understanding to enable the practitioner to identify risks of material misstatement.

Some IAASB members suggested that if the understanding is to be obtained by inquiry only, then all components of internal control should be addressed. Ms. McCabe, however, reminded the Board that it had previously agreed to limit coverage of the components of internal control for limited assurance engagements in order to distinguish the work effort from that for a reasonable assurance engagement. The IAASB reaffirmed that coverage of the components of internal control for a limited assurance engagement should not be extended to all the components.

An IAASB member commented that the distinction between a limited assurance and a reasonable assurance engagement was unclear in terms of which procedures (including inquiries, analytical procedures, observation and inspection) are performed in obtaining the understanding of the entity, including its internal control. The IAASB asked the Task Force to add further guidance to explain that

² Proposed ISAE 3410, *Assurance Engagements on Greenhouse Gas statements*

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

although the practitioner is required to use all the procedures in the course of obtaining the required understanding, not all procedures would be used for each aspect of the understanding.

An IAASB member raised a concern about not requiring a risk assessment at the assertion level for a limited assurance engagement. Ms. McCabe, however, explained that the application material addressed consideration of this on each engagement. Prof. Schilder concurred and reminded the Board that it had previously agreed not to require risk assessment at the assertion level for limited assurance engagements. Ms. McCabe added that, in practice, the assertion level would most likely be considered when identifying risks of material misstatement. By not making this a requirement for limited assurance engagements, the documentation burden would be less onerous for these engagements.

“TRIGGER POINT” ADDITIONAL PROCEDURES IN A LIMITED ASSURANCE ENGAGEMENT

Ms. McCabe explained that the Task Force continued to hold the view that the trigger point for additional procedures in a limited assurance engagement should be when the practitioner becomes aware of a matter that causes the practitioner to believe that there “may” be a material misstatement in the GHG statement. She added that very few comments had been received from respondents to the ED that this was not the appropriate level. She noted that, in addition to the example in the explanatory material, further guidance had been provided to assist practitioners in this area. An IAASB member commented that the example provided was unclear as it related to “further procedures” which were also covered in the section on responding to risks identified as a result of analytical procedures. In particular, it was unclear when “other procedures” would be performed when a matter was identified that would require further work, and “additional procedures” when a matter was identified that could result in a material misstatement. The IAASB acknowledged that there could be confusion and asked the Task Force to reconsider the example in the explanatory material.

An IAASB member was of the view that the threshold that the GHG statement “may” be materially misstatement is too low. The IAASB member, however, acknowledged that this matter had been extensively discussed at previous IAASB meetings. Ms. McCabe noted that this threshold was consistent across the three projects related to limited assurance, including the proposed revised ISRE 2400⁴ and ISAE 3000. She reiterated that very few respondents to the ED had commented that this level was too low. The IAASB agreed that the issue should not re-opened.

COMPARATIVE INFORMATION

Ms. McCabe explained that respondents to the ED had commented that further guidance was needed in relation to comparative information, including considerations around initial engagements, restatements of comparative information and the practitioner’s responsibilities when comparative information is included in the scope of the assurance report and when it is not. A number of IAASB members had also expressed support for more guidance in this area at the December 2011 meeting. To respond to these comments, Ms. McCabe outlined the additional requirements and explanatory guidance that the Task Force had added.

A few IAASB members expressed concern with the work effort required for restatements of comparative information in limited assurance engagements, particularly as they felt that the threshold for determining whether additional work would be required was low. Except for editorial changes, however, the IAASB

⁴ Proposed revised ISRE 2400, *Engagements to Review Historical Financial Statements*

agreed that no substantive changes were necessary as the work effort was consistent with the threshold for additional procedures (i.e., when there “may” be a possible misstatement).

LIMITED ASSURANCE REPORT

Ms. McCabe summarized the three options the Task Force had presented for the limited assurance report at the January 2012 Board teleconference. In relation to the first option (the “long form” report), she noted the Board’s agreement with the Task Force not to further pursue this option, as describing the procedures performed in too much detail could result in users taking inappropriate assurance from the report. In relation to the second option (a purely standardized report based on the minimum requirements of ISAE 3410 that would not allow customization for the engagement), she noted the view expressed by a number of IAASB members that such a report would have a major drawback in terms of lack of transparency. In relation to the third option (a standardized report that would nonetheless allow the practitioner to elaborate on those procedures the practitioner would judge to be useful for users’ understanding of the assurance provided), she noted that this approach was supported by several IAASB members as well as the Task Force, as it would encourage consistency while still allowing transparency and consistency with current market practice. The IAASB considered and broadly supported the Task Force’s proposal to proceed with the third option.

Ms. McCabe further explained other changes that had been made to the limited assurance report based on comments received at the January 2012 Board teleconference. These changes included:

- Further expansion of the customized procedures to explain what was not done that would ordinarily be done for those types of procedures in a reasonable assurance engagement. She added that all procedures not performed that would ordinarily be performed in a reasonable assurance engagement could not be presented in the limited assurance report because of the less extensive risk assessment in a limited assurance engagement. Therefore, the practitioner would not know what other procedures might have been performed had a more comprehensive risk assessment been performed.
- The addition of a statement immediately before the listing of the procedures to reinforce that the procedures in a limited assurance engagement would be less than those performed in a reasonable assurance engagement. This would help address concerns expressed by some IAASB members that by describing procedures in more detail in a limited assurance report than in a reasonable assurance report, users may inappropriately draw more assurance from the report than they should.

The IAASB expressed support for these changes.

IAASB CAG Chairman’s Remarks

Ms. de Beer commented that a concern was raised by a CAG Representative as to whether the expansion of the description of the procedures performed in the limited assurance report could result in users being misguided that the limited assurance conclusion provides more assurance than a reasonable assurance opinion. If that were the case, a similar expansion of the description of the procedures performed should also be applied to the reasonable assurance report. In addition, it was questioned whether the limited assurance report should also be expanded to more clearly explain the limitations of limited assurance.

Prof. Schilder noted that there were other CAG Representatives that were not supportive of changes to the reasonable assurance report. In this regard, Ms. McCabe noted that respondents to the ED had not raised significant concerns regarding the reasonable assurance report.

REQUIREMENTS AND EXPLANATORY GUIDANCE

Ms. McCabe explained that consequential amendments arising from the changes to the illustrative limited assurance report had been made to both the requirements and application material. Some IAASB members expressed concerns about the removal from the report of the statement that “sufficient and appropriate” evidence has been obtained, as it is an evidence-based engagement. While not disagreeing with this rationale, Ms. McCabe reminded the Board that this change had previously been agreed on the ground that it would help distinguish a limited assurance engagement from a reasonable assurance engagement. It was noted that including a statement about the evidence obtained may not sufficiently contrast a reasonable assurance report from a limited assurance report, which may add to the concerns regarding the perceptions that some may have that there is more assurance provided in a limited assurance engagement.

An IAASB member expressed concern that some of the examples in the illustrative limited assurance report had not been carried through as a requirement, in relation to detailing the limitations of the procedures performed. In particular, it was suggested that the illustration appeared to go much further than the requirements. Prof. Simnett explained that this approach was consistent with ISAE 3000, which only requires a “summary of the procedures performed.” He noted that the limitations were part of the explanatory material in that standard, which was consistent with how the proposed ISAE 3410 had dealt with them.

ISAE 3000

The IAASB deliberated whether to include guidance in ISAE 3410 for those requirements in ISAE 3000 for which there were no corresponding requirements in ISAE 3410. Some IAASB members were of the view that listing only the additional requirements contained in ISAE 3000 may be confusing to practitioners. Other IAASB members were of the view that providing a full reconciliation showing requirements in ISAE 3000 that were not in ISAE 3410 was unnecessary as practitioners carrying out these types of engagements would understand that they would need to comply with the requirements of both standards.

The IAASB agreed not to include any additional material in ISAE 3410 for the requirements in ISAE 3000 for which there were no corresponding requirements in ISAE 3410. However, the IAASB asked that staff provide a full reconciliation of the requirements of ISAE 3000 to ISAE 3410 in the Basis for Conclusions.

CONSIDERATION OF THE NEED FOR FURTHER CONSULTATION

The IAASB noted that the development of the ISAE took into account international best practices, including reference to existing practice on greenhouse gas statements in various jurisdictions where such engagements are performed. In addition, four roundtables were held in 2008, and a consultation paper was issued in October 2009. Further, the IAASB noted that the Task Force included both subject matter experts and assurance practitioners experienced in performing these types of assurance engagements. These practitioners had contributed to the development of the proposed standard and had not raised any significant concerns regarding the applicability or practicality of the proposed ISAE.

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 ISAE 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. Ms. McCabe 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, had been brought to the IAASB's attention.

APPROVAL

After agreeing all necessary changes to the document, the IAASB approved the proposed ISAE as a final standard with 17 affirmative votes out of the 17 IAASB members present.⁵

The IAASB assessed whether there was a need to re-expose the ISAE. The IAASB agreed that the changes made to the ED 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 ISAE.

The IAASB set the effective date for ISAE 3410 for assurance reports covering periods ending on or after September 30, 2013.

3. Review Engagements

Mr. Cowperthwaite introduced the topic, providing an overview of the remaining significant issues raised by respondents to the ED of the proposed revised ISRE 2400 (ED-2400). He indicated that the revised draft ISRE 2400 incorporates the IAASB's preliminary input on a number of significant issues discussed at the December 2011 IAASB meeting, and the Task Force's recommendations from a full review of the comments received on ED-2400. He also noted that the topic had been discussed during the March 2012 IAASB CAG meeting, and that comments had been received from the IFAC Small and Medium Practices (SMP) Committee (SMPC).

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

IAASB CAG Chairman's Remarks

Ms. de Beer commented that, overall, the IAASB CAG was very supportive of finalizing the proposed ISRE at the earliest opportunity because of the increased focus on review engagements around the world.

⁵ One IAASB member was not in attendance at the March 2012 IAASB meeting and was therefore ineligible to vote.

PIOB Observer's Remarks

Mr. Ward expressed support for the progress made on the project. He commented that there needs to be clarity regarding how the assurance standards fit together, particularly in terms of consistency amongst ISRE 2400, other assurance standards and the *International Framework for Assurance Engagements* (Assurance Framework). He also commented that the ISRE should set clear expectations of the practitioner's competencies. Separately, he noted that the definition of competence should be within the purview of the International Accounting Education Standards Board (IAESB).

THE PRACTITIONER'S OBJECTIVES

The IAASB discussed the revised description of the practitioner's objectives for a review of historical financial statements, including the term "limited assurance." Many IAASB members believed the description should include specific reference to the fact that the objective is to obtain limited assurance primarily by performing inquiry and analytical procedures. In addition, many IAASB members agreed that the formulation of the objectives should mirror that set out in ISA 200⁶ for the audit of financial statements, but with a reference to obtaining limited assurance as opposed to obtaining reasonable assurance.

Further, some IAASB members believed the definition of limited assurance in the draft ISRE should include reference to the fact that the level of assurance obtained as the basis for expressing a conclusion in accordance with the ISRE needs to be meaningful, as explained in the Assurance Framework.

The IAASB asked the Task Force to consider these matters further.

THE PRACTITIONER'S COMPETENCY IN ASSURANCE SKILLS AND TECHNIQUES

The IAASB discussed the proposed requirements and application material relating to the practitioner's competency in assurance skills and techniques. Some IAASB members expressed the general concern that practitioners who habitually perform review engagements, rather than audit engagements, may not routinely possess competency in assurance skills and techniques at the audit-level. The inclusion of a definition of the term assurance skills and techniques may thus imply that they always need to possess that level of competence to be able to perform review engagements. An IAASB member pointed out, however, that the requirements of draft ISRE 2400 concerning the practitioner's response if the practitioner becomes aware of a matter that causes the practitioner to believe that the financial statements may be materially misstated, mean that the practitioner would need to possess competency in assurance skills and techniques sufficient to adequately address that circumstance. Specifically, the practitioner would need to obtain sufficient appropriate evidence to be able to conclude that the financial statements are materially misstated when, in the practitioner's professional judgment, that appears to be the case.

On balance, the IAASB took the view that the matter of defining assurance skills and techniques would be best resolved within the educational standards of the IAESB. The IAASB agreed that the better approach in the draft ISRE 2400 would be to focus the requirement for competence in assurance skills and techniques in the area of the engagement-level quality control, with guidance on what those skills would include in the context of a review engagement.

⁶ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

THE PRACTITIONER'S UNDERSTANDING OBTAINED TO DESIGN AND PERFORM THE PROCEDURES FOR A REVIEW ENGAGEMENT

A number of IAASB members commented that the requirements in the draft ISRE about what needs to be included in the practitioner's understanding of the entity and its environment should be specified in greater detail. A few IAASB members pointed out that some of the matters that the practitioner is required to inquire about in performing the review would be more appropriately reflected as matters the practitioner is required to inquire about as part of obtaining the understanding of the entity. The IAASB asked that the Task Force consider mirroring the corresponding requirements in ISA 315⁷ to the extent appropriate for a review of financial statements.

SUFFICIENCY AND APPROPRIATENESS OF EVIDENCE OBTAINED FROM INQUIRY AND ANALYTICAL PROCEDURES

The IAASB discussed the proposed requirement to perform further procedures, or other procedures, in undertaking a review engagement. It was noted that it is important for the draft ISRE to be clear about what model is expected to be followed in a review engagement in order for the practitioner to obtain a meaningful level of assurance to be able to form a conclusion on the financial statements. In particular, IAASB members commented that the draft ISRE needs to be clear as to whether the practitioner is required to consider the need to undertake other procedures at the outset, as part of designing the procedures the practitioner plans to perform to obtain the assurance needed to be able to form a conclusion on the financial statements, or whether it is expected that the practitioner would design other procedures, as necessary, to be able to obtain evidence to be able to form a conclusion *as a result of* performing primarily inquiry and analytical review procedures.

Some IAASB members pointed out that the draft ISRE was not sufficiently clear in this area. They commented that the requirement to consider performing further, or other, procedures could be read as a conditional requirement triggered when the practitioner determines that the results obtained from the inquiry and analytical procedures do not yield sufficient appropriate evidence to be able to form a conclusion. However, they noted that the draft ISRE could also be read as requiring consideration of the need to perform further, or other, procedures in every review engagement. It was pointed out that if the latter approach is intended, it should be clear when that consideration needs to be done: either when the practitioner plans the procedures for the review, which a few IAASB members thought might be the more effective approach; or as a further step the practitioner performs after evaluating the evidence obtained from the inquiry and analytical procedures performed.

The IAASB asked the Task Force to clarify the draft ISRE in this area.

REPORTING: DESCRIBING PROCEDURES PERFORMED

The IAASB discussed the illustrative standard report for a review of financial statements in the light of the IAASB's discussion of reporting for a limited assurance engagement undertaken on a greenhouse gas statement. Some IAASB members believed that, as the reports for both types of limited assurance engagements use the same form of expression of the conclusion, they should be fairly consistent in form and content. Other IAASB members emphasized the importance of the ISAs as the appropriate reference point for the report for a review of financial statements. These IAASB members expressed a preference for aligning the report for a review with that provided for an audit of financial statements, except for the

⁷ ISA 315, *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*

key difference that the practitioner expresses a conclusion (based on limited assurance) in the former case vs. an opinion (based on reasonable assurance) in the latter case.

The IAASB considered a comparison of the illustrative reports for the review engagement and the limited assurance GHG engagement. Two key areas of difference were identified as follows:

- The required statement by the practitioner in the review report that the practitioner believes the evidence obtained is sufficient and appropriate to provide the basis for the practitioner's conclusion.

The IAASB agreed that this separate statement in the review report was not necessary, and that the review report should be aligned with the relevant wording of the limited assurance report for a GHG statement.

- The inclusion of a paragraph where the practitioner would provide details of the procedures performed for the limited assurance GHG engagement.

An IAASB member believed a similar paragraph would be needed in a review report. Another IAASB member questioned whether it would be sufficient for the review report to only detail the procedures performed without being confusing or misleading to the readers of the report. It was suggested that it would be equally important to describe the procedures not performed (to avoid readers forming an incorrect view of the level of assurance obtained in the review). Another IAASB member expressed the view that the planned consultation on auditor reporting for audits of financial statements will likely provide better information for the Board to be able to consider what needs to be communicated to readers of the report for a review of financial statements. The IAASB asked the Task Force to consider drafting an illustrative review report containing an example of an additional paragraph where the practitioner would describe the procedures performed, for consideration at the next IAASB meeting.

CONSISTENCY BETWEEN LIMITED ASSURANCE ENGAGEMENTS AND COMPARISON OF ISREs 2400 AND 2410⁸

As highlighted in previous IAASB discussions of those current projects addressing development of standards for limited assurance engagements, some IAASB members re-emphasized the importance of applying consistent principles for limited assurance engagements. IAASB members acknowledged that the overarching principles contained in the Assurance Framework provide the basis for the draft ISRE 2400, extant ISRE 2410, and the extant and proposed revised ISAE 3000 for assurance engagements other than audits or reviews of historical financial statements.

A few IAASB members expressed concern that the reports provided for the engagements under the draft ISRE 2400 and the extant ISRE 2410 are similar, while the review engagements performed differ in some key areas. The IAASB asked the Task Force to consider what implications there may be for practitioners and users arising from the reports provided for these engagements, and what steps may be needed to minimize any potential confusion.

A few other IAASB members questioned how limited assurance standards for historical financial statements vs. for other subject matter information would be aligned in the context of presenting common principles of limited assurance engagements.

⁸ ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

IAASB CAG CHAIRMAN'S REMARKS

In relation to the matters outlined above, Ms. de Beer made the following remarks reflecting the views of the CAG Representatives at the March 2012 IAASB CAG meeting:

- CAG Representatives supported the inclusion of a definition of limited assurance in the draft ISRE, and agreed with both the description of the review engagement as an evidence-based engagement and the style of reporting reflecting that characterization of the engagement.
- CAG Representatives were comfortable that the engagement to review financial statements was sufficiently well described as a separate type of assurance engagement, distinct from an audit of financial statements.
- CAG Representatives were not overly concerned about including a description of procedures performed in the report for a review engagement.
- Fundamentally, the question of the difference between the levels of assurance that are obtained in the different types of assurance engagements should be revisited. CAG Representatives viewed this as an important matter for the IAASB to address at some time in the future. However, this should not hold back the finalization of the proposed revise ISRE 2400.

OTHER MATTERS

In addition to editorial matters, the IAASB asked the Task Force to:

- Include additional material in the draft ISRE to guide practitioners when requested to undertake a review of the group financial statements of a group of entities.
- Expand the requirements for obtaining management's written representations to include the key matters addressed in the practitioner's inquiries of management for the review.
- Remove references to "management's assessment" of the entity as a going concern throughout the draft ISRE.
- Consider whether the content of the draft ISRE addressing the situation when the need arises to disclaim a conclusion in a review engagement can be reduced, including possibly removing the related illustrative report, since that situation is expected to be infrequent.
- Re-consider the requirements and illustrative report addressing the situation where an adverse conclusion is expressed, as there may be scope for misunderstanding to arise over the relationship between the work effort underpinning the adverse conclusion and what users may take from reading a review report that has such a conclusion.
- Better streamline the application material in the draft ISRE to ensure the standard is as concise as possible, including giving attention to the readability of the ISRE.

WAY FORWARD

The IAASB asked the Task Force to present a revised draft of the proposed ISRE 2400 for its consideration and approval as a final standard at the June 2012 IAASB meeting.

4. Auditor Reporting

4.1 Overview and Approach

Mr. Montgomery introduced the topic. He briefed the IAASB on the project scope, objectives and timing, and described the decision-making model used by the Task Force to evaluate the value and impediments of a number of options to enhance auditor reporting.⁹ He noted that cost was only one element of the considerations, and highlighted the Task Force's view that options with high impediments should be considered if they also have high value.

Mr. Montgomery also reported that the IAASB CAG was broadly supportive of the project, in particular the progress that had been made in a short period and the use of the value-impediments model as an effective decision-making tool.

IAASB members expressed strong support for the project. The following was highlighted in relation to the overall project:

- The IAASB should challenge itself to achieve the ambitious timetable, and look for opportunities to accelerate its work where possible, recognizing the need for due process and stakeholder input.
- Support was noted for the use of the value-impediments model, but it would be important that the Subcommittees apply it consistently and with a focus on value to intended users of the financial statements and the auditor's report.
- Improvements to auditor reporting should focus on enhancing the readability and understandability of the auditor's report, in light of the perception that auditors' reports are not often read.
- The upcoming consultation should not only focus on the preferred options for change in auditor reporting and why the IAASB supported those options, but also mention other options that had been considered.
- While further input would be sought from stakeholders, particularly users, it would be more important for the IAASB to seek to develop proposals that would have value to users, taking into account feedback already received from the May 2011 consultation, than to understand for what purposes they would use additional information in the auditor's report.
- Ongoing liaison and, to the extent practicable, coordination with the EC and PCAOB would be necessary to develop a global solution for auditor reporting. It is anticipated that the EC's policy proposals regarding the statutory audit would be further refined over time in light of feedback from European Union member states.

Prof. Schilder thanked the Task Force and Subcommittees for their productive work. He highlighted that the discussions with the IAASB CAG and representatives from European Parliament had proven that this effort was well-placed and a matter of interest to a wide range of stakeholders. He briefed the IAASB on plans for further discussion and liaison with the PCAOB and EC. Mr. Sylph noted that discussion with the leaders of the global accounting firms would be useful to ensure that the profession understands the importance of responding to calls for change in auditor reporting. Mr. Montgomery also highlighted the observation from a number of respondents on consultation that more holistic change in corporate reporting beyond the auditor's report is desirable, and for IAASB to consider its role in that process.

⁹ Mr. Montgomery's presentation slides are available at http://www.ifac.org/sites/default/files/meetings/files/20120302-IAASB-Appendix_to_Agenda_Item_4-Auditor_Reporting-v2%20for%20posting.pdf.

IAASB CAG CHAIRMAN'S REMARKS

Ms. de Beer noted the CAG was very supportive of the project and the decision-making model applied by the Task Force to consider value versus impediments. The CAG was also supportive of the IAASB's decision to accelerate the project's timetable but flagged that the time lines were ambitious. She encouraged the IAASB to continue giving high priority to the project in light of the timing of the PCAOB and EC initiatives on auditor reporting. She also highlighted the CAG's view that the June 2012 consultation should go beyond a typical IAASB consultation paper to also include, for example, preferred options and the proposed way forward to ensure that the IAASB receives the right level of input at this critical stage of the project. In relation to costs of potential changes to auditor reporting, Ms. de Beer explained that some CAG Representatives, especially the users groups, were of the view that cost should not represent a significant issue and that users would be willing to bear any additional costs in light of the benefit of improving the quality of the auditor's report.

4.2 Insights

Mr. Montgomery introduced the topic, briefing the IAASB on feedback from users in response to the IAASB's May 2011 consultation and through other forums that has been used as the basis for the Task Force's recommendations relating to auditor insights. He explained that there are a number of key topics that have been raised consistently by users – information about management's judgments from the auditor's perspective, and the need for greater transparency about the audit. He also reported that the IAASB CAG was supportive of the proposals relating to auditor commentary, and had encouraged the IAASB to seek to provide the information that users are looking for through requirements for additional auditor reporting. A number of CAG Representatives were of the view that balancing what should be provided, and how, would be important considerations for the IAASB in advancing and consulting on these proposals.

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

IAASB CAG CHAIRMAN'S REMARKS

Ms. de Beer noted that the CAG was particularly interested in the topic of auditor commentary and the Task Force's proposals. She noted the view of a number of CAG Representatives that the overall objective of auditor commentary was for the auditor to provide a clear and concise discussion for external stakeholders, based on what is communicated to those charged with governance (TCWG), to show how the auditor had considered the entity's business and risks and had responded to those risks in conducting the audit. In her view, the purpose of auditor commentary was not for users of the auditor's report to understand the audit process or procedures.

GENERAL COMMENTS AND REACTIONS

IAASB members expressed strong support for pursuing requirements for auditors to include additional commentary in the auditor's report. The following was highlighted in relation to the overall need for auditor commentary:

- While the audit work effort varies between engagements, the outcome (that is, the auditor's report) is always the same. Addressing this disconnect would create value, as investors are seeking an understanding of the auditor's areas of focus in the audit. Of the auditor reporting proposals, this

area would likely have the most value and it would enable the profession to be responsive to these demands.

- There are likely to be differing views as to how auditor commentary could best be achieved. However, efforts to explain the relevance of an audit would be valued by investors, particularly in light of the global financial crisis. Highlighting the relevance of an ISA audit could also lead to greater adoption of the clarified ISAs.
- Discussion with preparers and accounting standard setters, as well as TCWG, will be critical. Many respondents to the May 2011 consultation had emphasized that in advancing proposals related to auditor commentary, the IAASB should be mindful of the distinct roles of management, TCWG and the auditor. The challenges of broader consultation and outreach should not be underestimated, as the IAASB may not be able to fully address the needs of investors over the longer term without other changes to corporate reporting, for example, reporting by TCWG .
- In evaluating potential requirements for auditors, the IAASB should ensure that the application of these requirements results in clear and balanced communication in the auditor's report, so that users do not misinterpret the information that is provided and why it has been included (i.e., that the expectations gap is not inadvertently widened), or see it as diluting the audit opinion. There are likely to be liability implications for auditors that should also be considered.
- Consultation on the auditor commentary proposals could assist in highlighting the challenges in meeting expectations in this area. In this regard, it was suggested that the planned June 2012 consultation should seek to go as far as possible to explain the IAASB's indicative direction in order to obtain a balance of views from key stakeholders. While the focus of this consultation should be on investors, with an illustrative auditor's report prominently featured, clearly articulating the IAASB's views on the value and impediments of all its proposals will also be necessary to allow respondents to focus on key issues to inform the IAASB's future standard setting.

CRITERIA FOR AUDITOR COMMENTARY

Mr. Montgomery explained the Task Force's view that while it may be meaningful to require auditors to disclose in the auditor's report what they considered to be significant risks, there was likely to be merit in allowing greater flexibility for the auditor to determine which matters would be most important to users, with guidance to assist auditors in making that determination.

The IAASB had mixed views on the proposed requirement for auditor commentary and the related considerations pertaining to criteria. Amongst other matters, the following was noted for the Task Force's further consideration:

- Consideration should be given to clarifying the concept of "matters of audit emphasis" and the undefined terms "significant audit effort" and "significant audit judgment," as there could be inconsistency in reporting if these are not adequately explained.
- A detailed objective may need to be developed, as there are differing views as to what auditor commentary should address and why. For example, some CAG Representatives were of the view that the development of auditor commentary would renew public trust in auditing through indicating the auditors' awareness of the key issues facing the business, while others were interested in the auditor highlighting risks of material misstatement. In addition, while some IAASB members were of the view that auditor commentary provides transparency about the audit through enabling investors to understand whether the audit was properly performed (i.e., insights about audit quality), other

IAASB members were of the view that users are looking to the auditor to both point to areas of significant management judgment and explain areas of significant auditor judgment. In this regard, it was acknowledged by both the CAG and the IAASB that auditor judgment would likely be closely related to areas of management judgment, and that users of the auditor's report and the financial statements were the same, and include investors.

- Consideration should be given to whether more detailed criteria should be specified to ensure consistency in auditor commentary. It was suggested that greater prominence could be given to significant risks, as auditors would be familiar with this concept and the ISAs provide a strong base for it in terms of work effort and documentation.
- While significant risks should always be considered, other areas of high assessed risks of material misstatement would likely also be relevant to auditor commentary, as these would likely be areas of substantive discussion with management and TCWG. In this regard, a majority of the IAASB felt that there would be benefit in focusing on a broad principles-based objective encompassing both auditor judgment and management judgment in preparing the financial statements. This would also have the advantage of allowing auditors to highlight what they believe would be most important to users in the circumstances, including risks and uncertainties facing the entity.
- Some concern was expressed with the idea that the auditor may provide information about the quality of an entity's financial reporting process or qualitative aspects of management's accounting policies. However, because management's judgment in these areas is closely linked to the financial reporting framework, it was noted that drawing users' attention to such matters would be useful, particularly as financial reports are becoming lengthier and more complex. Doing so would allow the auditor to highlight more subjective areas, including critical accounting estimates, while ensuring that the responsibility for proper disclosure of these matters remains with management.
- The flexibility in the level of detail that can be included in auditor commentary is useful as it would allow jurisdictions to provide auditor commentary through other means (for example, through the "justifications of assessment" model and auditor association with corporate governance reporting).
- The current structure of two-way communication with TCWG is useful in that it provides information to those who are in a position to address the auditor's findings. Using this communication as a basis for auditor commentary would likely promote auditors' focus on the key issues. Communicating detailed findings more widely has implications in terms of confidentiality, the level of information that is needed to understand the nature of the matter and its effect on the audit.
- Consideration should be given to whether documentation requirements would likely be necessary in relation to the auditor's judgments about what to include in auditor commentary.
- While investors are interested in auditor insights, this would need to be balanced against concerns about auditor's reports not being overly lengthy. In addition, while the current auditor's report in some jurisdictions is directed at an entity's shareholders, the proposals would be seeking to provide additional information to a broader user group, i.e., potential investors.
- Further consideration should be given to the relationship between auditor commentary and EOM and Other Matter (OM) paragraphs, including whether EOMs and OMs could be retained in light of their current objectives. It was noted that the use of EOMs as an early warning signal could be lost if such matters were included in auditor commentary and not properly explained. In particular, it was emphasized that the EOM mechanism has value to investors, because even though their use is rare in practice, EOMs help highlight highly unusual circumstances. Another view was, however,

expressed that EOMs should be used more frequently and would be more accepted if considered to be part of a broader auditor commentary.

IAASB CAG Chairman's Remarks

Ms. de Beer noted that while the CAG was positive about using significant risks as a starting point, there was support for auditors to discuss matters in addition to significant risks. Also, the CAG felt that flexibility would be important to ensure auditor commentary would be relevant.

Ms. de Beer also noted that the CAG saw merit in allowing for both pointers to adequate disclosures in the financial statements, and lengthier discussions to provide context the auditor believes is needed to understand the financial statements or the audit.

ILLUSTRATIVE EXAMPLES

Mr. Montgomery explained that the Task Force had considered input from the US Center for Audit Quality (CAQ) in developing the illustrative examples of auditor commentary, and had sought to also reflect language that would be used in the French "justification of assessments" model. Of the four illustrative examples presented, the IAASB was of the view that the fourth example was most useful in terms of level of detail and nature of the matter discussed. Some IAASB members, however, were of the view that EOM-type paragraphs are a useful form of auditor commentary to point users to areas of significant management judgment properly disclosed in the financial statements. Amongst other matters, the following was noted for the Task Force's further consideration:

- A discussion of audit procedures performed would likely be difficult to summarize and may not be of interest to users, a point that was noted at the IAASB CAG. However, the auditor should not be precluded from discussing procedures performed if judged relevant. This would be consistent with the French justification of assessments model.
- In focusing on a select number of key matters that are deemed to be most important to the financial statements and the conduct of the audit, it would be important for the auditor to include enough detail to enable investors to understand why the auditor was including discussion of each matter.
- As it is presumed that the form and content of auditor commentary would be discussed with TCWG, limiting it to those most important matters with which they are likely to be already familiar could be a means of mitigating the cost and potential impact on timing of the auditor's report. However, care should be taken that the inclusion of auditor commentary in the auditor's report does not detract from the beneficial two-way communication with TCWG. In this regard, it was suggested that the anticipation of more public reporting of matters discussed between TCWG and the auditor may in fact strengthen the dialogue.
- The illustrative examples should be succinct and in plain language so as to be easily understood by investors. They should not be seen as providing individual opinions or conclusions on particular matters or audit areas. Investor reaction to the examples will be fundamental and should be sought at an early stage.

IAASB CAG Chairman's Remarks

Ms. de Beer noted that the CAG saw less value in a detailed description of the auditor's procedures in auditor commentary. Similar concerns as those of the IAASB were raised at the CAG that the examples should not be seen as individual opinions on the matters discussed.

VALUE AND IMPEDIMENTS OF AUDITOR COMMENTARY

Mr. Montgomery explained the Task Force's view that the value of auditor commentary is likely related to its level of detail and its overarching objective. In this regard, he emphasized the importance of seeking stakeholder (particularly user) input on the value in the June consultation. The IAASB supported the Task Force's value-impediments analysis, and noted the need in particular to liaise with audit committees and the legal community (including counsel used by auditors and preparers) to better understand their perspectives of the cost and timing implications of finalizing an auditor's report that includes auditor commentary. The IAASB also acknowledged the implications for the timing of the delivery of the auditor's report given the need for senior level involvement within the engagement team in drafting and finalizing auditor commentary.

FOR WHOM SHOULD AUDITOR COMMENTARY BE REQUIRED?

While the majority of the IAASB supported the Task Force's proposal to require auditor commentary for listed entities, there were mixed views as to whether the requirement should be extended to public interest entities (PIEs). Amongst other matters, the following was noted:

- While the definition of a PIE in the IESBA Code is intended to accommodate various national circumstances and includes listed entities, adopting it would not be without challenges. Accordingly, it would be important to understand from national auditing standard setters (NSS) how PIEs are defined at the national level in order to better appreciate the implications when small- and medium-sized entities (SMEs) meet the definition of a PIEs, and how a broader user base beyond investors affects the need for, and perceived value of, auditor commentary.
- While the IAASB may mandate auditor commentary for listed entities or PIEs, some NSS may wish to expand the requirement to all entities, as is done in France, for example, with the justifications of assessment model.
- The focus on listed entities or PIEs seemed to ignore larger non-listed entities for which auditor commentary may be equally relevant to their stakeholders.
- While a requirement for auditor commentary could be applied to SMEs on a proportional basis, users of SME financial statements have not expressed a need for auditor commentary as they are often able to directly engage with management. There was general consensus amongst IAASB members that the focus of auditor commentary should be on listed entities or PIEs but it should not be precluded for audits of SMEs if deemed appropriate in the circumstances. The SMPC had indicated support for this approach.
- A further possible approach would be to require auditor commentary initially for listed entities and, after experience with implementing it, consider expanding it to PIEs.
- Another option would be to consider principles-based requirements for all entities with exemptions for certain entities (for example, smaller entities for which users have direct access to management or that do not have external stakeholders).

The IAASB asked the Task Force to consider the matter further in light of the Board comments.

IAASB CAG Chairman's Remarks

Ms. de Beer reported that the CAG supported requiring auditor commentary for listed entities and encouraged the IAASB to consider whether PIEs should also be required to include auditor commentary.

She noted that a few CAG Representatives were of the view that the IAASB should be mindful of the implications of auditor commentary for SMEs, recognizing that some users of SME financial statements may find value in auditor commentary.

4.3 Going Concern and Other Information

Mr. Grant, Chair of the Going Concern and Other Information¹⁰ Subcommittee, introduced the topic, outlining the background to the Auditor Reporting Task Force's proposals in relation to going concern. He noted in particular that the EC's policy proposal on going concern was an important factor in the Task Force's work in this area. He also highlighted a number of important contextual considerations, including the ISA 570¹¹ objectives, the existence of differing requirements for management regarding going concern under different financial reporting frameworks, recent PCAOB discussions in this area, and ongoing debate about the sufficiency of disclosures related to going concern.

Mr. Grant then outlined the various options the Task Force had considered in formulating its proposals on going concern, having regard to the Task Force's value-impediments model.

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

IAASB CAG Chairman's Remarks

Ms. de Beer briefly reported on the main CAG comments the previous week, flagging that this was possibly the area with the highest expectation, which was evident from the EC presentation at the CAG meeting. She noted that while there was fairly strong support for Option 5,¹² CAG Representatives nevertheless recognized some difficulty in linking the going concern concept with the applicable financial reporting framework, as well as differences in how going concern is addressed around the world. She also noted that there was some support at the CAG for Option 3.¹³ However, some CAG Representatives were of the view that Option 3 represented the status quo and, accordingly, they did not necessarily find more value in it. In this regard, a view was expressed at the CAG that disclosing details of audit procedures performed would not be particularly helpful. In relation to Option 4¹⁴ and, for instance, the Northern Rock case in the UK, she noted that a CAG Representative had questioned whether it was the auditor's role to flag a problem with that entity's business model. However, most CAG Representatives did not support Option 4.

¹⁰ The term "Other Information" is used to refer to other information included in documents containing audited financial statements that falls within the scope of ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

¹¹ ISA 570, *Going Concern*

¹² Option 5 referred to the development of enhanced guidance in the ISAs regarding the use of EOM paragraphs to highlight material uncertainties regarding the going concern assumption.

¹³ Option 3 referred to the proposal to require the auditor to provide auditor commentary in the auditor's report regarding important matters relating to the entity's ability to continue as a going concern.

¹⁴ Option 4 referred to the proposal to require the auditor to express an opinion on the entity's future viability.

GENERAL COMMENTS AND REACTIONS

IAASB members variously commented as follows:

- In some jurisdictions, additional auditor responsibilities exist in law or regulation in relation to going concern. Accordingly, when ISA 570 is reconsidered, it would be important to take this into account. In this regard, it was suggested that a simple approach would be to allow national add-ons to an ISA 570 base.
- In relation to the options, it would be important to make clear why the auditor concluded that the entity is a going concern. A conclusion alone would be superficial but explaining the basis for the conclusion would add value to the auditor's report. Accordingly, Option 3 may be the better option to explore.
- The great majority of entities are not experiencing going concern issues. Accordingly, care would be needed to distinguish those entities that are experiencing going concern issues from those that are not.
- It should not be assumed that there will be greater disclosure of information about going concern, especially given that management would generally not freely disclose information. Accordingly, there would be benefit in coordinating with the IASB in relation to disclosures.
- Notwithstanding that Option 5 seemed to be the preferred CAG option, much from that option would be invisible to the user. Also, it was unclear how this option would align with the EC's policy proposal and whether it would mean more frequent use of going concern EOMs or enhanced explanations on how to apply the relevant requirements in ISA 570. In this regard, Mr. Grant indicated that the aim of this option would be to achieve greater consistency of application of ISA 570, particularly in relation to the concept of material uncertainty. Nevertheless, he noted the findings of recent research undertaken by former IAASB member Prof. Roger Simnett to the effect that there are variations in the use of going concern EOMs across jurisdictions.

Prof. Schilder noted that while CAG Representatives had mixed views, it was clear from discussions with the EC's Acting Head of Audit that the EC was seeking an affirmative statement on going concern from the auditor, which would point to Option 2.¹⁵ However, he noted that a CAG Representative had also highlighted the danger of users taking more comfort from such a statement than would be warranted.

CONSIDERATION OF OPTION 2 – AUDITOR CONCLUSION ON GOING CONCERN

IAASB members expressed mixed support for the three wording options presented by the Task Force in relation to the auditor's conclusion regarding going concern. Some IAASB members were of the view that while the Option (b) wording (a statement as to whether the auditor has identified material uncertainties) may have informational value, it could potentially be confusing to users without clear explanations of the concepts of "material uncertainty" and "significant doubt." A few IAASB members saw benefit in the Option (a) wording (a conclusion regarding the appropriateness of management's use of the going concern assumption) in that it was not only less likely to be confusing to users but also more likely to align with the EC's policy proposal. Other IAASB members saw greater benefit in the Option (c) wording, a combination of both Options (a) and (b), as it would be most responsive to users' needs. However, it was acknowledged that with this option it would be necessary to clearly explain the concept of a material

¹⁵ Option 2 referred to the proposal to require a conclusion in the auditor's report regarding the auditor's work under ISA 570, in addition to a generic description of the responsibilities of management regarding going concern.

uncertainty to users. Additionally, sufficient guidance would be needed to enable auditors to apply the standard consistently.

A few IAASB members noted that there may be greater value in combining Option 2 with auditor commentary on risks and uncertainties. It was, however, recognized that this approach would create further impediments due to concerns about the auditor disclosing information that is the responsibility of management to disclose.

The IAASB asked the Task Force to consider the wording options further in the light of these comments.

Scope of Application

The IAASB expressed support for the Task Force's proposal that Option 2 should apply to audits of all entities.

OTHER INFORMATION

IAASB members broadly supported the Task Force's proposed Option 2¹⁶ and made a number of suggestions for further refinements to the proposed wording of the auditor's conclusion, including making clear the purpose of the auditor's work in relation to the other information. It was noted that it would be important for the proposal not to preclude the evolution of the auditor's responsibilities under ISA 720 in the project to revise that standard. In this regard, some IAASB members highlighted a number of practical considerations that would need to be addressed in relation to the auditor's work with respect to other information, including the timing of availability of the other information. It was also noted that consideration should be given to whether it would be possible for an EOM paragraph to point to matters disclosed within the other information.

IAASB CAG Chairman's Remarks

Ms. de Beer briefly reported on CAG Representatives' comments. She noted that when the CAG discussed the project to revise ISA 720, it was recognized that there is a perception that auditors do more work on the other information than in reality. She highlighted the view expressed at the March 2012 CAG meeting that users would not wish to know about audit procedures. Accordingly, the balance of support at the CAG was for Option 2, namely clarification of audit work performed. She also noted some CAG support for Option 3 (auditor commentary with respect to the other information) but little support for Option 4 (an auditor opinion on the other information).

Scope of Application

The IAASB agreed that the Option 2 wording should apply to all audits for which it would be relevant in the circumstances.

4.4 Clarifications and Transparency

Prof. Kinney, Chair of the Clarifications Subcommittee, introduced the topic, noting that the purpose of this element of the Auditor Reporting project was to clarify the standardized material in the auditor's report and increase the transparency of the audit process. He noted that the Task Force, through the work of the

¹⁶ This option referred to the proposal to require a conclusion in the auditor's report regarding the auditor's work under extant ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*, in addition to a generic description of the responsibilities of the auditor regarding other information.

Clarifications Subcommittee, had considered a number of possible options in arriving at the proposals being presented.

CLARIFICATIONS

Prof. Kinney noted that this was an opportunity for the IAASB to increase the value of the standardized material in the auditor's report, and that this revision was necessary to improve communication with users and address the expectations gap. An IAASB member did not support the expansion of the standardized material on the ground that this would not impact users' decisions. Another IAASB member, however, noted that clarification of the standardized material was included in the project proposal. It was also noted the description of responsibilities is important as the concept of independent auditing is quite new in some countries. Accordingly, a description of the responsibilities of management/TCWG is necessary to provide context for the audit opinion.

An IAASB member disagreed with the Task Force proposal to use plain language, noting that the audit report is targeted at sophisticated users who are more interested in entity-specific information, which is inherently complex. Another IAASB member, however, noted that the Task Force should be open to considering a longer and more comprehensive description of the auditor's responsibility which would be relevant to a broad range of users, including sophisticated users. It was also noted that clarifying the standardized material was in addition to the Task Force's efforts to develop proposals for entity-specific commentary in the auditor's report.

In relation to the proposed standardized material:

- A few IAASB members were of the view that the last line of the proposed explanation of a risk-based audit, which uses the term "not a guarantee", appeared to undersell the value of an audit. Prof. Kinney noted that it is factually correct to state that an audit is not a guarantee, as it does not provide 100% assurance.
- An IAASB member questioned the Task Force's rationale in selecting which terms from the extant auditor's report should be clarified. Prof. Kinney explained that the Task Force's work had been informed by both the comment letters on the CP and the EC's recent policy proposals.
- A few IAASB members did not support the terms "knowledge" and "selecting items for testing" as they were of the view that these terms would give a misleading impression of the requirements of ISAs, particularly that all controls, amounts and disclosures should be subject to testing.

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

- The Auditor's Responsibility section of the auditor's report should be structured around an improved explanation of a risk-based audit, as this addresses the expectations gap that exists with the extant report.
- In view of the common misunderstandings regarding the role of the auditor, the Auditor's Responsibility section should also include further amplification of the auditor's role regarding internal control. The Task Force should also consider whether there is merit in including an explanation of testing approaches to establish the necessary context for the auditor's conclusions.
- In light of the need to clearly articulate a definition of materiality that is consistent both with ISAs and applicable financial reporting frameworks, the Task Force should further explore the description of materiality in the risk-based audit paragraph.

- The first sentence of the risk-based audit description should be revised to avoid the perception that it is a subsidiary audit opinion. Also, further elaboration of the concept of fraud should be included in the standardized material to assist in distinguishing material misstatements due to fraud from those due to error.
- The elements of the EC proposals which require descriptions of the methodology used, including metrics regarding balance sheet verification and the balance between substantive and compliance testing, should be further investigated when more is known of the underlying policy objectives.

Prof. Schilder noted the Board's encouragement to move forward with the approach focusing on the risk-based audit to improve the content of the standardized material. He also noted that clarification of the standardized material was a necessary element of the Auditor Reporting project, although it would not meet all of users' demands on its own.

IAASB CAG Chairman's Remarks

Ms. de Beer noted that the CAG was supportive of the Task Force's work on improving transparency in the auditor's report. She added that CAG Representatives supported the use of direct language to clarify the standardized material and were generally of the view that improvements in this regard were the low hanging fruit in improving the auditor's report. The CAG felt that transparency is more important than merely the clarification of technical terms.

IDENTIFICATION OF THE ENGAGEMENT PARTNER

Prof. Kinney highlighted that identifying the engagement partner was a common feature in many jurisdictions due to the perceived benefits of enhancing the accountability of the engagement partner and improving transparency for investors. Accordingly, the Task Force proposed to make this a mandatory component of the auditor's report.

Several IAASB members were of the view that the proposal to identify the engagement partner should be left to individual jurisdictions. In particular, it was noted that, given the liability regimes in some jurisdictions, this proposal would give rise to significant increases in the liability of individual auditors and may have a bearing on the attractiveness of auditing as a profession. It was also questioned whether auditors' behavior would change merely because of the disclosure of their names. In addition, it was noted that some may view the identification of the engagement partner as meaning that the engagement partner was performing the engagement alone rather than as a member of a firm which applies quality control over the engagement.

Other IAASB members supported the proposal, noting that identification of the engagement partner can reinforce the need for professional judgment and skepticism, and that jurisdictions such as the EC had introduced this requirement in recent years without difficulty. It was also noted that, while the effect on audit quality may be debated, users perceive value in knowing the identity of the engagement partner. Further, it was argued that there would be value in being able to determine who the engagement partner is if the engagement is criticized for perceived deficiencies.

Mr. Ward noted that debate in this area was indicative of the challenges for the IAASB in addressing the auditor's report. Prof. Schilder noted that this proposal was strongly supported by stakeholders outside the audit profession.

The IAASB agreed the following:

- For purposes of the June 2012 consultation, the Task Force should continue to develop the proposal to identify the engagement partner in the auditor's report, with the view to proposing mandatory application in all jurisdictions. This proposal should be accompanied by a question to draw out both the impediments and value of the proposal from the perspectives of different jurisdictions and stakeholders.
- The Task Force should seek to further understand and enunciate the legal challenges implicit in the proposal.

IAASB CAG Chairman's Remarks

Ms. de Beer noted that the CAG overwhelmingly supported identification of the engagement partner in the auditor's report. She highlighted that the CAG recognized that such disclosure does not enhance audit quality; however, it was seen to heighten the sense of accountability of the engagement partner, improve transparency, raise a positive perception of auditors and provide information and comfort to investors. She also noted that CAG Representatives had highlighted that this was in line with disclosure of names by other professions such as the actuaries and valuation professionals, who are also represented on the CAG.

ROLE OF THE FIRMS

Prof. Kinney highlighted that the PCAOB had recently proposed additional disclosures in the auditor's report regarding the role of other firms involved in the audit, such as component auditors. He noted that this proposal would provide users with more information about the internal processes of audits, although this was seen by some to depart from the ISA 600¹⁷ principle that the group auditor is solely responsible for the group audit opinion. He also drew the IAASB's attention to the different ways in which such a disclosure could be made, including only disclosing the names of the firms and disclosing the degree of involvement of each firm.

IAASB members generally did not support additional disclosures in regard to the role of other firms. In particular, IAASB members noted a number of challenges, including:

- Potential inconsistency with ISA 600;
- Difficulty in describing the measurement criteria for disclosing the degree of involvement;
- Difficulty in interpreting the disclosure, which may also not be meaningful in all cases; and
- The fact that disclosure of network vs. non-network firms may encourage audit firms to concentrate component audits within their networks.

However, an IAASB member commented that disclosure at a sufficiently high level would not undermine ISA 600. Another IAASB member suggested that, before the IAASB makes a proposal in this area, it would be useful to understand what users would do with such information. The IAASB asked the Task Force to consider the matter further.

¹⁷ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

IAASB CAG Chairman's Remarks

Ms. de Beer highlighted that the CFA Institute representative had noted that 91% of respondents to a survey by this organization supported disclosure of the role of other firms. She also noted, however, that other CAG Representatives, such as the EC, were of the view that this is a matter that should be left to the discretion of the regulator as it might have various legal implications, and also in light of how the matter is already appropriately dealt with in ISA 600.

DISCLOSURE OF ENGAGEMENT TEAM MEMBERS

Prof. Kinney outlined an EC proposal to disclose the names of the engagement team members and state that all engagement team members remained completely independent and had no direct or indirect interest in the audited entity.

IAASB members did not support requiring a listing of the entire engagement team in the auditor's report, noting that for some large audits such a list would be lengthy, of questionable value to users given the potentially large number of engagement team members with relatively little or no influence over the audit, and could create a need for the auditor's report to be reissued if mistakes in the list of engagement team members were discovered. However, some IAASB members noted that a more focused disclosure, including "core" engagement team members, key partners or the engagement quality control reviewer could be useful to users.

Some IAASB members disagreed with the EC proposal to require a statement that the engagement team members remained independent and had no direct or indirect interest in the audited entity. These IAASB members suggested that the statement of independence would be redundant given that required to be made within the firm by ISQC 1¹⁸ via the firm's internal processes.

The IAASB asked the Task Force to consider the matter further.

IAASB CAG CHAIRMAN'S REMARKS

With regard to internal control, Ms. de Beer noted the view that the work yet to be undertaken by the Task Force on internal control would be a very important aspect of the project, including the challenge of distinguishing between the role of the auditor in relation to the broader aspect of internal control over all risk areas and that in relation to internal financial controls.

OTHER MATTERS

The IAASB agreed that the Task Force should:

- Continue to explore an explicit statement of compliance with relevant ethical requirements, in conjunction with the IESBA.
- Develop options to address the auditor's work regarding internal control, whether by commentary or standardized language.
- Consider standardized language regarding the responsibilities of TCWG. In this regard, some IAASB members acknowledged that an expanded disclosure may be unhelpful due to the variation of such responsibilities between different entities and jurisdictions.

¹⁸ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

The IAASB asked the Task Force to present revised proposals at the next IAASB meeting.

4.5 Building Blocks

Ms. Kelsall, Chair of the Building Blocks Subcommittee, introduced the topic, outlining the building blocks approach to developing the proposed revised auditor's report. She explained that this approach sought to balance the competing objectives of consistency and relevance by providing jurisdictions with a degree of flexibility in implementing a revised Auditor Reporting standard (thereby accommodating various financial and auditor reporting regimes across jurisdictions and entities), while at the same time helping to address the information gap. She added that the CAG was supportive of the building blocks approach.

BALANCING COMPETING OBJECTIVES—CONSISTENCY VERSUS RELEVANCE

There were varying views among IAASB members on the extent of flexibility that should be provided to NSS under the building blocks approach. Some IAASB members suggested that the auditor's report is a product of applying the IAASB's auditing standards and therefore forms part of the "IAASB brand." It was further added that the world knows and recognizes that IAASB product as a three-paragraph auditor's report. Accordingly, careful consideration should be given to what that product would look like under a model that allows for maximum flexibility. Suggestions were made for the Task Force to seek input from international securities regulators on the proposals, and consider maintaining the auditor's report in a reasonably recognizable format.

In light of the challenges that some jurisdictions have experienced in implementing ISA 700¹⁹ and the fact that the standard has not led to consistency in auditor reporting globally, an IAASB member expressed reservations about the practicality of implementing the building blocks approach. Given the experience with the extant ISA 700, it was noted that the flexibility inherent in the concept of the building blocks approach would be integral to its success. Other IAASB members noted that findings from academic research and outreach (which indicated that investors do not read auditors' reports because they are "boilerplate" and "unchanging") suggested that a movement away from standardized information in auditors' reports would encourage more users to read them.

ILLUSTRATING THE BUILDING BLOCKS APPROACH

There was general consensus among the IAASB members that the table depicting the applicability and flexibility of the auditor reporting elements should be revised. There was broad support for a table that summarized how parts of the illustrative auditor's report link, and how the scope of certain auditor reporting elements could be further expanded at the national level. However, a number of IAASB members noted that there was a need for greater clarity in the labels of certain column headings in the table in terms of indicating which auditor reporting elements would be required by the IAASB and which ones would be specified by NSS or national laws or regulations. It was also noted that use of the term "conditional requirements" as a label was unhelpful.

The IAASB asked the Task Force to consider further clarifying which auditor reporting requirements would be IAASB-mandated and which ones would carry flexibility for NSS to tailor to national needs.

¹⁹ ISA 700, *Forming an Opinion and Reporting on Financial Statements*

AUDITOR REPORTING ELEMENTS

Ms. Kelsall explained that the building blocks approach attempted to establish “core” auditor reporting requirements for all entities with incremental or conditional requirements for certain types of entities (specifically PIEs). She further explained that while a focus on core auditor reporting requirements would increase the minimum required elements in a revised auditor’s report, the concept of minimum elements was not new as it is consistent with extant ISA 700. She noted that the Task Force’s proposals include *new* minimum auditor reporting elements for all entities and additional requirements for certain types of entities. She added that the Task Force was proposing to require that auditors’ reports for PIEs include auditor commentary on specific matters, subject to specific considerations and guidance for auditors.

An IAASB member expressed the view that the IAASB should mandate auditor commentary for all entities because in certain jurisdictions (e.g., France) this is already the case. Ms. Kelsall acknowledged the comment and added that the Task Force’s proposals would be subject to further refinement based on input from the April 2012 IAASB-NSS meeting.

ILLUSTRATIVE AUDITOR’S REPORT

Ordering and Placement

Generally, IAASB members expressed support for presenting an illustrative auditor’s report with the opinion first, followed by entity-specific information, and then more standardized information towards the end. There was also general support for including, as part of the “Basis for Opinion” section, a statement that the audit was conducted in accordance with ISAs. However, a view was expressed that the section describing management’s responsibility should come before the auditor commentary section.

Suggestions were also made for the inclusion within the preamble to the auditor commentary section of wording from ISA 200 to alert users that the auditor commentary information should not be misconstrued as piecemeal opinions. The IAASB asked the Task Force to consider these matters further.

Section Titles/Headings

There were varying views as to whether sections of the auditor’s report should be mandated through the use of section titles or headings. Some IAASB members suggested that jurisdictions be allowed maximum flexibility with respect to the ordering and placement of auditor reporting elements. An IAASB member suggested that guidance be provided in the form of examples in the application material as part of a revised ISA 700 in lieu of mandating ordering and placement. Other IAASB members were of the view that the IAASB should mandate ordering and placement to promote consistency and minimize confusion. In this regard, it was noted that a lack of consistency in global auditors’ reports would likely reduce the effectiveness of auditors’ reports more broadly.

An IAASB member suggested avoiding the use of section titles such as “Emphasis of Matter/Other Matter” and “Going Concern,” noting that while those titles conveyed specific meanings to practitioners, they may not as clear to users. Some IAASB members also suggested reducing the number of subtitles used throughout the illustrative report. However, there was general support for retaining the section heading “Report on Audit of Financial Statements.”

Mr. Montgomery acknowledged the various views of IAASB members, adding that it was important for the IAASB to send a strong message of change to auditor reporting with its proposals. He expressed the view that the illustrative auditor’s report should display first what users have indicated to be most useful, i.e.,

the auditor's opinion, followed by the basis for the opinion, entity-specific auditor commentary, and finally more standardized information.

INCORPORATING THE DESCRIPTION OF MANAGEMENT AND AUDITOR'S RESPONSIBILITIES BY REFERENCE

An IAASB member expressed the view that the standardized paragraphs included in the illustrative auditor's report describing "Management's Responsibility for the Financial Statements" and the "Auditor's Responsibility" were not effective in fully describing those respective responsibilities. It was noted that academic research and outreach have indicated that users perceive this information to be boilerplate in nature and generally not useful for their investment decisions. Accordingly, the IAASB member expressed support for the flexibility of the building blocks approach that would permit an NSS to provide a more fulsome description of those responsibilities outside of the auditor's report, with incorporation in the auditor's report of that description by reference.

Ms. Kelsall acknowledged the merits of having a more fulsome description of management's and the auditor's responsibilities outside the auditor's report. She reiterated that the jurisdictional flexibilities under the building blocks approach would allow NSS to further refine specific auditor reporting elements to meet jurisdictional needs. She noted that on balance the CAG was in favor of having a standardized description of responsibilities as part of the illustrative auditor's report, but expressed a view that it would be useful to see the flow of a revised auditor's report in an illustrative report.

OTHER MATTERS

The IAASB also noted the following for the Task Force's further consideration:

- Some IAASB members suggested that the Task Force consider developing a "short-form" illustrative auditor's report under the building blocks approach which would illustrate how standardized information about management's and the auditor's responsibilities could be incorporated by reference to another location. An IAASB member added that there was merit for purposes of the consultation to present another possible illustrative report to accompany the IAASB's preferred view of what a revised global auditor's report would look like. Other IAASB members noted that while presenting variations of illustrative auditors' reports would be useful for purposes of comparison, it would be important for the IAASB to put forth one illustrative auditor's report in order to seek public input on various specific matters.
- An IAASB member suggested that the Task Force further consider the implications of its proposals on existing requirements for EOM/OMs and modified audit opinions.
- With respect to the increased length of the auditor's report, an IAASB member was of a view that the public would welcome having more information about the audit and the entity's financial statements. In this regard, it was noted that in the context of financial statements that often extend to 200 pages, it was not unrealistic to expect the public to read a 5-6 page auditor's report that adds value. Another IAASB member indicated that with the introduction of XBRL-tagging in the IAASB member's jurisdiction, the length of the auditor's report would not be an issue for users.

NEED FOR FURTHER INPUT/ "PILOT TESTING"

Some IAASB members suggested that obtaining early input from NSS would be useful in identifying the pros and cons of, and any practical issues associated with implementing, the building blocks approach. It was noted that NSS input would help the Task Force and the IAASB determine which auditor reporting

elements should be required for all entities and which ones should be those for which NSS should be allowed flexibility to tailor to their jurisdictional needs.

An IAASB member suggested that further consideration should be given as to how specific national legal or regulatory reporting requirements (i.e., other reporting responsibilities) would integrate with the proposals. It was argued that the more prescriptive and expansive the IAASB requirements become, the harder the integration would be at the NSS level.

Several IAASB members expressed support for assisting to pilot test the building blocks approach in their jurisdictions. The IAASB asked the Task Force to consider these matters further.

IAASB CAG CHAIRMAN'S REMARKS

Ms. de Beer reported that CAG Representatives were of the view that it is important to have an auditor's report that is consistent, but not boilerplate and therefore more tailored with entity-specific information. She added that the CAG was generally not supportive of having more information about audit procedures in the auditor's report, but instead a high-level discussion of key issues. However, there was also a view that the auditor's report should be clear and concise – one CAG Representative used the analogy of "what would the auditor say about the company in one minute."

Ms. de Beer noted that the CAG was generally supportive of the IAASB's decision not to mandate the ordering and placement of auditor reporting elements. However, there was a view that doing so would increase variability in auditor reporting and might create confusion among users. There was quite some support for having the audit opinion and the context thereof first and the entity-specific information to follow the opinion. She added that CAG Representatives agreed that it was important for the IAASB to seek feedback on the issue of ordering and placement as part of its public consultation.

Ms. de Beer also noted the CAG agreed that there should be a size differentiation based on the needs of users and that, in general, the requirements should apply to PIEs only. However, one CAG Representative mentioned that some aspects, e.g. going concern disclosures, should be applicable to all entities.

4.6 Way Forward

Mr. Montgomery thanked the IAASB for its thoughtful consideration of the Task Force's recommendations during the week and briefed the IAASB on the main areas the Task Force and Subcommittees would further consider.

5. PIOB Observer's Remarks

Mr. Ward commended the IAASB on the tremendous progress, in both breadth and depth, that had been made on the Auditor Reporting project since the December 2011 IAASB meeting. He expressed the view that there is a widely held belief that the robustness of firms' audits has advanced significantly under the co-regulatory model developed over the last decade. He highlighted the current challenge for the Board of addressing the relevance of the audit in an even more complex environment, and responding to users' need for continued enhancement of trust in auditing and audit firms. He was of the view that many of the proposals emerging from the project appeared, at first sight, to go a long way to addressing this challenge.

In relation to the project timetable, Mr. Ward expressed the view that the Board had responded well to its own challenge of accelerating the timetable, and that this would place the Board in a very good position

vis-à-vis related developments in a number of jurisdictions, including perhaps taking the lead with some innovative proposals. He emphasized that while even greater speed might be desirable, this should not be at the expense of the best long term result. The June 2012 target for approval of the Invitation to Comment (ITC) was consistent with that thinking.

Mr. Ward also briefly commented on the individual Auditor Reporting work streams as follows:

- On Insights, he expressed the view that the Task Force's preliminary proposals were encouraging and as these are further developed, they would have the potential to unlock much value stored in the auditor's work, knowledge and cumulative experience. He noted that there would be real user value of auditors sharing their thinking in areas of audit emphasis and exercise of judgment.
- On Going Concern, he noted a robust Board debate in a difficult area. He highlighted the challenge for the Task Force of moving beyond the diverse preferences expressed during the Board discussion to providing users with insight in this critical area. He cautioned that if too many options are provided during the consultation process, there may be an inclination to default to the easiest or most convenient path. He concurred with the Task Force that staying with the status quo would not be responsive to the challenge that the project is seeking to address.
- With respect to Clarifications, he noted that the Task Force's preliminary proposals address many of the key areas that auditors have been unable or unwilling to address for a long time. He was of the view that addressing these areas through early proposals as well as actions to increase transparency would help enhance both users' understanding of auditors' work and trust. In relation to the matter of identifying the engagement partner in the auditor's report, while some may argue that this does not substantively improve audit quality, he questioned why this should not be done if it would increase transparency and user trust. He noted that if this proposal were to cause difficulty in some jurisdictions from the perspective of litigation threat, then this should be addressed by the relevant policy makers in those jurisdictions. He highlighted that the CAG had broadly supported the proposal.
- With regard to Building Blocks, he expressed the view that this work stream represents a sound way of guiding the project and providing context for the other work streams. He added that this would also provide an excellent basis for stakeholder engagement, understanding and implementation.

Mr. Ward also encouraged the Board to continue to challenge itself as to whether it has considered all possible options. He noted that while the answer was likely not at this stage, the consultation and exposure draft phases of the project would help inform the Board's consideration of that question.

Finally, Mr. Ward highlighted that while much progress has been achieved on the project and more work lay ahead, implementation challenges would be significant. In particular, engagement partners would be asked to do more in terms of implementing the potential changes that may arise from the proposals when many of them would have taken up their roles as partners in the rigorous regulatory environment of the past decade, and would have had their thinking and mindset heavily shaped by that environment.

Prof. Schilder thanked Mr. Ward for his insightful comments.

6. IAASB Strategy and Work Program

Prof. Schilder introduced the topic, noting that the IAASB was broadly comfortable with the proposed Strategy and Work Program at its December 2011 meeting. He noted the main objective for the Board of considering how the effects of the Auditor Reporting project had been taken into account in the revised

Strategy and Work Program, including the commencement dates of new projects, before approving it for submission to the PIOB. Prof. Schilder also highlighted a press release from the Financial Stability Board (FSB) that recognizes the continuing efforts of the IAASB and others to improve the standards on information that external audits provide to investors and other financial report users. The press release also noted the FSB's intention to provide input into the Basel Committee's work on banking supervision.

Ms. Healy noted the support received from the SMPC, who commended the IAASB for its enhanced focus on meeting the needs of small- and medium-sized entities and their auditors.

COMMENTS FROM THE IAASB CAG

Ms. Healy reported that the IAASB CAG was broadly supportive of the revised Strategy and Work Program, in particular the re-prioritization of the Board's proposed projects in light of the emphasis on Auditor Reporting, and the fact that the strategy now more clearly articulates how a number of the IAASB's current projects are interrelated. She noted that the CAG recognized the need for the IAASB to balance its activities to meet the needs of a wide range of stakeholders. She also noted that the CAG particularly welcomed the IAASB's recent work on the topic of professional skepticism, and that it encouraged the IAASB to continue to emphasize professional skepticism in its ongoing projects, in particular the Audit Quality project.

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

IAASB CAG Chairman's Remarks

Ms. de Beer reiterated the CAG's support for the focus on the Auditor Reporting project, in particular the view that timely communications by the IAASB would be important to raise stakeholders' awareness of the IAASB's work in this area. She highlighted a view that once the Auditor Reporting project is complete, it might be necessary to reconsider the topic of professional skepticism and ISQC 1 as well as the need to continuously integrate professional skepticism in the development of standards.

She also noted the CAG's support of the project to consider whether there is a need for further enhancements to ISA 540²⁰ or the development of new implementation guidance in light of relevant developments. She explained that regulators in particular felt strongly that there is a need for a broader project on ISA 540 in light of the International Accounting Standards Board's (IASB) ongoing standard-setting activities related to financial institutions, rather than simply guidance on third-party pricing sources.

Finally, Ms. de Beer reiterated the CAG's ongoing view that the IAASB needs to remain aware of external developments by scanning the environment and maintain a level of flexibility within its work program to be in a position to respond to those developments if necessary. To this end, she noted the CAG's support for the plans for the Innovation, Needs and Future Opportunities (INFO) Working Group as a way for the IAASB to be responsive to developments various new areas, including in integrated reporting.

DETAILED DISCUSSION ON THE DRAFT STRATEGY AND WORK PROGRAM

Ms. Healy outlined the changes made to the draft since the IAASB's December 2011 meeting. She explained, in particular, the decision to remove the additional open project relating to ISA improvement and the changes to the commencement dates of a number of projects in light of the prioritization of the Auditor Reporting project. Prof. Schilder noted the Steering Committee had considered the overall

²⁰ ISA 540, *Auditing Accounting Estimates, Including Fair Value, Accounting Estimates, and Related Disclosures*

workload of the Board and the Staff over the three-year period to determine whether the proposed commencement dates were appropriate. The Steering Committee was mindful of the need to ensure the availability of Board and Staff resources before undertaking any new projects.

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

- It should be further explained that auditor reporting will be a substantial part of the IAASB's agenda for the foreseeable future, and that outreach and communication activities will be critical to the success of the project.
- Further emphasis should be given to the IAASB's ongoing commitment to consider how best to support the proportional application of the clarified ISAs in audits of SMEs, in particular in light of related discussions in the context of the EC's regulatory proposals regarding the statutory audit.
- In light of the suggestion by the IAASB CAG that a focus on enhancing interactions between auditors and regulators more broadly may be an area worthy of consideration, further emphasis should be given to the possibility of further addressing the relationship between auditors and banking and insurance supervisors.
- The FSB's recent press release should be referenced within the Strategy and Work Program to highlight the relevant links to the IAASB's work.
- Conforming changes would be needed to highlight the IAASB's approval of ISAE 3410 and the issuance of the Staff publication addressing professional skepticism.
- Further consideration of issues relating to ISAE 3000 would inform the IAASB's longer-term decision as to whether to undertake more work on the Assurance Framework in light of the Board's deliberations on ISRE 2400 and ISAE 3410.

INTEGRATED REPORTING

Prof. Schilder noted that the PIOB had expressed interest in the IAASB providing appropriate input to the work of the International Integrated Reporting Council (IIRC) based on the IAASB's experience in developing ISAE 3410. In this regard, Mr. Sylph noted initial discussions with the IIRC and former IAASB member Roger Simnett, who participates in one of the IIRC's global committees, to understand the IIRC's plans to explore concepts relating to assurance on integrated reporting. Mr. Sylph confirmed that IAASB leadership has agreed that it would be appropriate to offer to review the terms of reference for the IIRC's proposed working group on assurance. Prof. Schilder and Mr. Sylph noted that IAASB leadership would further consider what may be an appropriate level of involvement in the IIRC's work in due course, for example, through the appointment of an IAASB member as an observer to the IIRC working group on assurance.

Prof. Schilder noted his view that such a level of activity would be appropriate in light of the IAASB's resources and current priorities and the IIRC's progress to date in developing its framework for integrated reporting. This level of effort, together with the work of the INFO group, will assist the IAASB in understanding whether a standard on assurance on integrated reporting may be necessary in the longer term.

Mr. Sylph noted that the IIRC's pilot program for testing a proposed integrated reporting framework has raised questions about the viability of providing assurance on the package of integrated reporting. Because ISAE 3000 would be the underlying framework that could be applied in providing assurance, there may be a need for the IAASB to participate in discussions as the framework is developed to ensure

relevant considerations relating to assurance are taken into account. A suggestion was made that there may be a role for any interested IAASB members or technical advisors to assist in monitoring or being further involved in the IIRC's work.

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.

APPROVAL

After agreeing all necessary changes to the document, the IAASB approved the *Strategy and Work Program, 2012–2014*, as a final document with the affirmative votes of 17 out of the 17 IAASB members present.²¹

The IAASB assessed whether there was a need to re-expose the document or seek further input on any specific matter, and concluded neither was necessary. Mr. Gunn advised the IAASB that it had adhered to due process in finalizing the Strategy and Work Program.

7. Country Presentation

The IAASB received a presentation from Mr. Bob Muter, a retired senior PwC partner and member of the Canadian Auditing and Assurance Standards Oversight Council, covering:

- An overview of Canada's standard-setting and audit inspection regimes;
- The impact of the 2008-2009 credit crisis; and
- An update on recent Canadian developments, including the major initiative "Enhancing the Audit Process."

Amongst other matters, he highlighted Canada's adoption of global auditing, accounting and independence standards over the last 10 years; the requirement under Canadian securities law for Canadian public companies to use auditors registered with the Canadian Public Accountability Board (CPAB); a number of recent initiatives by Canadian standard setters and regulators, pursuant to 2008-2009 credit crisis, including roundtables and symposiums organized by the CICA and CPAB addressing, inter alia, the relevance of the audit, the expectations gap, auditor communication with investors, and international developments in auditing, and exploring the implications for Canada. He also briefed the IAASB on the initiative "Enhancing the Audit Process," a collaborative effort by Canadian regulators and standard setters to develop a framework for a coordinated Canadian response to a number of significant

²¹ One IAASB member was not in attendance at the March 2012 IAASB meeting and was therefore ineligible to vote. The IAASB member's technical advisor confirmed that the IAASB member was in favor of the draft Strategy and Work Program that had been presented in the agenda material.

issues currently being debated globally, including the role of audit committees, auditor reporting, and independence.

Prof. Schilder thanked Mr. Muter for his informative presentation and for Canada's willingness to participate in the global debates on auditing issues.

8. Next Meetings

The next meetings of the IAASB were scheduled via teleconference for April 2012, to further discuss the Auditor Reporting project. The next physical meeting of the IAASB is scheduled for the week of June 11-15, 2012 in Edinburgh, Scotland.

9. Closing Remarks

Prof. Schilder briefly reported back on the IAASB Steering Committee's discussions the previous day. He noted in particular an update from Mr. Sekiguchi, Chair of the IASB Liaison Working Group, on the plan to finalize a response to the IASB's recent exposure draft, *Revenue from Contracts with Customers*. He thanked Mr. Sekiguchi for leading the Working Group's efforts in this regard. Prof. Schilder also noted that the Steering Committee had briefly reflected on the way forward for the Auditor Reporting project.

Prof. Schilder thanked the IAASB members, technical advisors, observers and staff for their contributions to the meeting and, in particular, for the significant progress made on the Auditor Reporting project. He also conveyed the Board's appreciation to Mr. Winter and his colleagues at the Canadian Auditing and Assurance Standards Board for their hospitality in Toronto. He then closed the meeting.