

**Final Minutes of the 54<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD  
Held on September 17-21, 2012 in New York, USA**

**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 Mc Cabe  
Brendan Murtagh  
Marc Pickeur  
Tomokazu Sekiguchi  
Bruce Winter  
Abdullah Yusuf

**Technical Advisors**

Sue Almond (Mr. Murtagh)  
Brantley Blanchard (Ms. Mc Cabe)<sup>1</sup>  
Wolf Böhm (Ms. Köhler)  
Ricardo DeLellis (Mr. Coscodai)  
Marek Grabowski (Mr. Grant)  
Jonas Hällström (Mr. Jönsson)  
Hiram Hasty (Mr. Kinney)  
Susan Jones (Mr. Blascos)  
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)

Apology: Sachiko Kai (Mr. Sekiguchi)

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**Non-Voting Observers**

Present: Linda de Beer (IAASB Consultative Advisory Group (CAG) Chairman) (September 17-20),<sup>2</sup> Norio Igarashi

Apology: Juan Maria Arteagoitia

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

Present: Michael Hafeman

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**IAASB Technical Staff**

Present: James Gunn (Technical Director), Beverley Bahlmann, Keesha Campbell, Al Hamilton, Kathy Healy, Brett James, Diane Jules, Ken Siong

Apology: Jim Sylph (IFAC Executive Director, Professional Standards and External Relations)

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<sup>1</sup> Mr. Blanchard was present on September 21, 2012.

<sup>2</sup> CAG Representative Matthew Waldron observed the IAASB in lieu of Ms. de Beer on September 21, 2012.

## 1. Opening Remarks and Minutes

### WELCOME AND INTRODUCTIONS

Prof. Schilder welcomed the participants and public observers to the meeting. He welcomed, in particular, Mr. Hafeman, observing on behalf of the PIOB and Ms. Linda de Beer, observing on behalf of CAG. He noted that Mr. Matthew Waldron (CAG member) will represent the CAG in place of Ms. de Beer on Friday, September 21. He also noted with pleasure that Mr. Fayez Choudhury, incoming IFAC CEO, will be a public observer of the IAASB meeting on Thursday, September 20, and that he also observed the IAASB's New York Auditor Reporting roundtable.

Apologies were received from Messrs. Arteagoitia and Sylph, and Ms. Kai.

Prof. Schilder highlighted the public interest importance of the two documents up for approval, i.e., proposed ISA 720 (Revised)<sup>3</sup> and the project proposal addressing auditing disclosures. He emphasized the importance of IAASB members' contributions focusing on pivotal issues, with constructive suggestions about possible solutions to identified issues. He thanked the Task Forces, Working Groups and Staff for their hard work in preparing the meeting papers.

Prof. Schilder provided a summary of feedback he had received from his informal calls with individual Board members during the summer, which indicated that overall Board members are satisfied with their involvement with the IAASB.

### RECENT DEVELOPMENTS

Prof. Schilder highlighted the recent Auditor Reporting roundtables in New York and Brussels. He noted that both roundtables were very successful with representatives from a broad range of stakeholders attending, leading to lively discussion with constructive input to inform this important initiative. He also noted that Mr. Montgomery will provide a summary of the roundtable highlights and other outreach during the Auditor Reporting session on Friday, as well as plans for the way forward.

Prof. Schilder also highlighted the constructive and lively discussion of the CAG, which took place the previous week.

### RECENT PRESENTATIONS AND OUTREACH

Prof. Schilder highlighted a summary of presentations and outreach activities by IAASB leadership and Board members during the second half of 2012. A list of these activities will be shared electronically with the Board. He thanked Board members and Staff for their hard work relating to these activities.

### PIOB OBSERVER'S REMARKS

Mr. Hafeman reported that at its meeting the previous week the PIOB confirmed due process was followed in the development of ISRE 2400 (Revised).<sup>4</sup> Prof. Schilder thanked Mr. Hafeman and the PIOB for its review of due process on ISRE 2400 (Revised) and reported that the ISRE and related Basis for Conclusions are expected to be released by the end of the month.

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<sup>3</sup> Proposed International Standard on Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*

<sup>4</sup> International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

## MINUTES OF THE PREVIOUS MEETING

The minutes of the public session of the June 2012 IAASB meeting were approved as amended.

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

Mr. Gélard introduced the topic, recapitulating the background to, and objectives of, the project, and the key Board decisions taken to date. He also provided an overview of the Task Force activities since the December 2011 IAASB meeting, including briefings for the new IAASB members, and the main changes to the proposed ISA 720 (Revised) since that meeting. He noted that the IFAC Small and Medium Practices (SMP) Committee was supportive of the revised draft of the proposed ISA, although it had noted that the proposed standard is likely to be less relevant to audits of small- and medium-sized entities (SMEs). He also noted that at its meeting the previous week, the CAG had expressed support for the changes to the proposed ISA. Nevertheless, the CAG had noted the need for further clarification to the concept of "initial release" and whether press releases would be in the scope of the proposed ISA.

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

#### IAASB CAG CHAIRMAN'S REMARKS

Ms. de Beer reported that the CAG had expressed a keen support for issuing the proposed ISA as soon as possible, subject to clarification of certain aspects of scope, in light of the Auditor Reporting project.

#### GENERAL COMMENTS

IAASB members commented that the draft was much improved since the December 2011 IAASB meeting, bringing much needed clarification in a number of areas.

While acknowledging the significant improvements made, an IAASB member, however, disagreed with the premise in the proposed ISA that the auditor's work effort with respect to the other information is driven by the fact that other information – that is materially inconsistent with the audited financial statements or the auditor's understanding of the entity and its environment acquired during the audit – may inappropriately influence the economic decisions of the intended users taken on the basis of the audited financial statements and the other information as a whole. The IAASB member believed that the conceptual underpinning for the work effort should be anchored in the requirement in the International Ethics Standards Board for Accountants' (IESBA) *Code of Ethics for Professional Accountants* for the auditor not to be associated with materially false or misleading information. In response, Mr. Gélard noted that the IAASB had already agreed in its prior deliberations to move beyond this ethics anchor to focus the auditor's responsibilities more broadly on reading and considering the other information for material inconsistencies with the auditor's understanding of the entity and its environment acquired during the course of the audit.

#### SCOPE OF THE PROPOSED ISA

##### *Initial Release*

While supporting the focus on the concept of initial release, several IAASB members felt that further clarification was needed as to how it would be operationalized. In particular, it was unclear how the approach taken to the scope would address the time lapse when, for a non-profit organization (NPO) for

example, the audited financial statements are initially released to the NPO's bank and then subsequently distributed to the NPO's donors. Some IAASB members questioned whether there should be a time frame beyond which a document would no longer be in the scope of the proposed ISA. Another IAASB member also questioned whether the timing criterion should be linked to the concept of "date the financial statements are issued" in ISA 560<sup>5</sup> instead of to the concept of initial release. In addition, it was felt that greater clarity was needed as to who the "intended users" are as there may be different types of users, for example, a regulatory authority to whom the audited financial statements are first released and the entity's shareholders to whom the financial statements are subsequently released.

After further deliberation, the IAASB agreed that:

- The concept of initial release should be defined as occurring when the audited financial statements and the auditor's report thereon for a reporting period are first made generally available to the group of users for whom the auditor's report is prepared (which will often be the entity's shareholders).
- Guidance should be provided to (a) illustrate the application of the concept; (b) explain that documents issued *in connection with* the initial release may not all be released to the users for whom the auditor's report is prepared on the same date as the initial release; and (c) explain that documents issued after the initial release are only treated as issued in connection with the initial release if the other information contained within them addresses the same reporting period as the audited financial statements, and (i) the documents are released pursuant to law or regulation, or established custom or practice; or (ii) the documents were otherwise identified in the initial discussion with management as being expected to be within scope.
- It would not be appropriate to link the timing criterion to the date the audited financial statements are issued because the audited financial statements may be issued to users through one or more means, and these releases may not all be on the same date.
- It would not be appropriate to specify a time frame within which documents would be in scope because the "read and consider" responsibility applies to any document that meets the criteria for being in scope, irrespective of when the document is issued.

#### *Securities Offering Documents*

A few IAASB members questioned whether securities offering documents should be within scope, as these are generally subject to specific legal or regulatory requirements, and trying to address them in the proposed ISA may lead to duplicative or competing requirements vis-à-vis national requirements. Other IAASB members felt that the proposed ISA should address such documents in the limited circumstances when they meet the criteria for being in scope. On balance, the IAASB agreed to leave these documents in scope in these limited circumstances but asked that the explanatory memorandum (EM) specifically ask for respondents' views on this matter.

#### *Other Comments*

The IAASB also agreed the following:

- The scoping criteria should be moved from the introductory section to the definition of "other information."

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<sup>5</sup> ISA 560, *Subsequent Events*

- The definition of “other information” should be simplified as it was unclear what the significance was of referring to a document in scope as being a standalone document or part of a set of documents, and of referring to such as a document as being “prepared and issued” by the entity instead of simply “issued” by the entity.
- The application material contains important guidance to the effect that while documents in scope may include other information that extends beyond the auditor’s understanding of the entity and its environment acquired during the audit, such other information is nevertheless within scope. Accordingly, such guidance should be moved to the introductory section.
- The proposed ISA should be explicit as to whether integrated reports are in or out of scope.

#### *IAASB CAG’s Chairman’s Remarks*

Ms. de Beer indicated that CAG Representatives had shared many of the views expressed at the Board regarding the scope. With respect to securities offering documents, she noted CAG views that the wording of the guidance needed further clarification. In addition, CAG Representatives recommended that it would be helpful to include in the introductory section guidance explaining that while other information may extend beyond the auditor’s understanding of the entity and its environment acquired during the audit, such other information would nevertheless be in scope if the documents in which it is contained are also in scope. She also noted a CAG suggestion to clarify the linkage between the scope and the work effort.

Finally, with respect to integrated reports, she noted that in South Africa, these generally include audited IFRS financial statements and therefore these integrated reports would be in scope. In some cases, the integrated reports include summarized financial information and, therefore, these would probably be out of scope.

#### DEFINITION OF AN INCONSISTENCY IN OTHER INFORMATION

A number of IAASB members were of the view that the proposed ISA should include a definition of an inconsistency or a material inconsistency. An IAASB member also suggested that the proposed description of an inconsistency in the application material could be simplified as it appeared overly complex and circular.

Another IAASB member, however, felt that irrespective of the applicable financial reporting framework, an inconsistency is a relative concept that denotes a difference between two items being compared. The IAASB member did not believe that the description of an inconsistency in the application material appropriately captured this comparative approach but instead seemed to describe an “error” in the other information in absolute terms. In addition, the IAASB member was of the view that the description did not appear to address whether the auditor’s understanding of the entity and its environment might in fact not be appropriate.

After further deliberation, the IAASB agreed to move the description of an inconsistency, appropriately simplified, to the Definitions section, and to specifically ask for respondents’ views regarding the appropriateness of this new definition. The IAASB also agreed to move the description of a material inconsistency to the Definitions section.

## NATURE AND EXTENT OF THE WORK EFFORT

Mr. Gélard explained the principles-based approach the Task Force proposed with respect to the auditor's work effort regarding the other information, an approach which was supported by the IAASB CAG. IAASB members expressed strong support for this approach, including the detailed guidance provided based on the nature of the other information. An IAASB member, however, felt that the reference to "responding appropriately" in the "read and consider" requirement was confusing, as part of that "read and consider" effort is to identify whether there are material inconsistencies before determining a response. The IAASB agreed that such contextual information was not necessary as the reference to "responding appropriately" was already in the objectives. Accordingly, the IAASB asked the Task Force to delete it from the requirement.

In relation to the guidance explaining factors the auditor may consider in determining which parts of the other information merit further consideration, a few IAASB members questioned the reference to "further consideration," believing the trigger that would take the auditor down the path of actually further considering the other information was unclear. In this regard, an IAASB member suggested that it should be the amount of consideration, i.e., the extent to which some procedures would be performed on that information, that is relevant. Another IAASB member expressed strong views that some of the suggested procedures for the category of "all remaining other information" (including, for quantitative financial information, agreeing significant items within management's analysis to other appropriate sources) could suggest an expansion of the scope of the audit. The IAASB member believed that the nature and extent of the auditor's work effort with respect to such other information should be limited to sources that have been derived from the entity's accounting records that were subject to the audit.

After further deliberation, the IAASB agreed that the reference to "further consideration" in the guidance on factors to guide the auditor's consideration of the other information should be replaced with a reference to "focusing the auditor's consideration of the other information." In addition, the IAASB agreed that the suggested procedure on agreeing significant items in management's analysis to the audit documentation or other appropriate sources should be replaced with a consideration of significant items within the analysis in light of the auditor's understanding of the entity and its environment as reflected in the audit documentation. The IAASB asked that the EM specifically solicit respondents' views on the approach taken regarding the nature and extent of the auditor's work effort with respect to the other information.

## RESPONDING WHEN THE AUDITOR IDENTIFIES THAT THE FINANCIAL STATEMENTS MAY BE MATERIALLY MISSTATED

An IAASB member noted that the proposed ISA did not appear to address circumstances in which the auditor discovers, through reading and considering the other information and discussions with management, new information that may reveal that the auditor's prior understanding of the entity and its environment was incorrect or incomplete. Several IAASB members were of the view that ISAs 315<sup>6</sup> and 560 contain appropriate guidance that addresses the implications of these circumstances on the auditor's risk assessment (if the other information was obtained prior to the date of the auditor's report), and on the auditor's report (if the other information was obtained after the date of the auditor's report), respectively. The IAASB determined that application material should be provided that makes the appropriate links to ISAs 315 and ISA 560 in these circumstances.

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<sup>6</sup> ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

## REPORTING

Mr. Gélard provided an overview of the new reporting responsibilities with respect to the other information, noting in particular the requirement for the auditor to provide a statement in the auditor's report comprising the reporting elements that had been suggested in the Auditor Reporting Invitation to Comment (ITC), with such requirement suitably evolved in light of the revised work effort in the proposed ISA. The IAASB expressed strong support for the new reporting responsibilities. However, some IAASB members felt it important that the requirement should include a statement to make it clear that the auditor has not audited or reviewed the other information and accordingly does not express an audit opinion or a review conclusion on it. The IAASB asked the Task Force to make this change. The IAASB also agreed a number of other refinements to the reporting requirement, including that the auditor includes in the report a description of the auditor's responsibilities with respect to the other information, and the related illustrative statements in the application material.

The IAASB asked that the EM make clear that the reporting requirement in the proposed ISA is consistent with the ITC, but is evolved in its nature and content based on the auditor's responsibilities under the Proposed ISA.

## OTHER MATTERS

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

- To make clear the basis on which an inconsistency has been identified, the objectives should indicate that the auditor's obligation is to respond appropriately *in light of the auditor's understanding of the entity and its environment acquired during the audit*.
- There should be a requirement upfront for the auditor to discuss with management the nature and timing of the documents expected to be issued in connection with the initial release and to determine which of these documents are within scope.
- Guidance should be provided to explain that when the other information is obtained after the date of the auditor's report, the auditor is not required to update the subsequent events procedures performed in accordance with ISA 560.
- For the avoidance of doubt, guidance should be provided to explain that a press release issued in connection with the initial release is within scope, whereas a press release issued in connection with a preliminary announcement is out of scope.
- The documentation guidance should be linked to the requirement in ISA 230<sup>7</sup> for the auditor to record the identifying characteristics of the specific items or matters tested.

## PIOB OBSERVER'S REMARKS

Mr. Hafeman wondered how the public might react to the disclaimer in the auditor's report that the auditor has not audited or reviewed the other information. He noted that there would be a minimum expectation that the auditor has read and considered the other information for a specific purpose. Accordingly, he did not believe it would be unreasonable to expect a bit more work than what the auditor already has performed as part of the audit of the financial statements. In this regard, an IAASB member expressed his concern about going beyond the financial statement audit, noting that if the public was seeking assurance on the other information, specific assurance standards should be provided for such work. Another IAASB

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<sup>7</sup> ISA 230, *Audit Documentation*

member acknowledged Mr. Hafeman's observations, noting that the Board is aiming to raise the bar in some aspects of the auditor's work with respect to the other information.

#### EXPLANATORY MEMORANDUM

In addition to the specific matters noted above, the IAASB provided guidance to the Task Force regarding other matters on which to seek respondents' views on exposure, as well as specific issues to highlight in the EM. Prof. Schilder asked that staff circulate a draft of the EM to the Board for comment in due course.

#### APPROVAL

After agreeing all necessary changes to the document and concurring with the Task Force's conclusion that it is not necessary at this stage to hold a public forum or roundtables, or to issue a consultation paper or conduct field testing, in order to further solicit views on a matter under consideration in the revision of ISA 720, the IAASB approved the proposed ISA, together with the proposed consequential and conforming amendments to other ISAs, for exposure with 16 affirmative votes out of the 18 IAASB members present. The exposure draft will be open for comment for a 120-day period from the date of its issuance. Ms. Köhler abstained and Mr. Sekiguchi dissented.

Ms. Köhler abstained on the basis of a continuing concern regarding the definition of an inconsistency. She believed that the term represents a relative and not an absolute concept – that is, an inconsistency relates to differences between the other information and the auditor's understanding of the entity and its environment, rather than to an inaccuracy within the other information. She did not believe that the concept had been appropriately dealt with in the definition and the requirements, therefore, she felt that practitioners as well as users of financial statements would have difficulty in understanding it. Ms. Köhler was also concerned about the clarity of the requirements in relation to the need to compare the other information to the auditor's understanding and the further requirements that would need to result if there is a material difference.

Mr. Sekiguchi dissented because of his disagreement as to the starting point of the document. While he agreed that the requirements and guidance for the proposed work effort are written appropriately, he questioned whether the rationale for the proposed changes to the standard is appropriately grounded. He was of the view that drawing a clear demarcation between the auditor's responsibilities for the audited financial statements and the auditor's responsibilities for the other information is critical. In this regard, he believed that the auditor's responsibilities with respect to the other information are founded on the basis of the auditor's ethical obligations in addition to ensuring that the credibility of the audited financial statements is not undermined. He believed that the proposed standard is written beyond such ethical obligation. Accordingly, he disagreed with several matters, including the definition of "material inconsistencies" to which auditors are required to respond.

### **3. Assurance Engagements Other than Audits or Reviews of Historical Financial Information – ISAE 3000**

Mr. Kinney introduced the topic, noting that the project to revise ISAE 3000<sup>8</sup> was intended to redraft the extant ISAE 3000 in the Clarity format, and to clarify concepts used in the standard but without fundamentally changing them. He noted that the discussions on proposed ISAE 3000 (Revised) have

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<sup>8</sup> Proposed International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*



been informed by the IAASB's discussion in finalizing ISRE 2400 (Revised) and ISAE 3410.<sup>9</sup> He highlighted that the revision of ISAE 3000 was intended to provide an umbrella document covering all assurance engagements other than audits or reviews of historical financial information, and must address reasonable assurance (RA), limited assurance (LA), attestation and direct engagements for all types of entities. He also noted that ISAE 3000 applies to both recurring and non-recurring engagements and covers a wide range of subject matters, including both point-in-time and process information. Mr. Kinney noted that the IFAC SMP Committee broadly supported the Task Force's proposals.

Mr. Kinney explained that he met with some of the Canadian Auditors-General to discuss their responses to the exposure draft (ED) of ISAE 3000 (Revised) (ED-3000), particularly regarding the topic of direct engagements. He noted that this has improved the Task Force's understanding of how they approach direct engagements and how they approach internal controls in such engagements.

Except as outlined below and in addition to editorial comments, the IAASB agreed the recommendations of the Task Force as set out in the agenda material.

#### REASONABLE AND LIMITED ASSURANCE

Mr. Kinney noted that the Task Force has proposed amendments to ED-3000 to address respondents' comments on RA and LA. He noted that the main challenge for the Task Force had been addressing the definition and work effort for LA, while not proposing fundamental changes to the concepts included in other IAASB standards that address LA.

#### *Definitions of RA and LA*

The IAASB considered the definition of LA, noting that it relied on the practitioner determining the level of assurance that would be meaningful to the intended users, and raised the following for the Task Force's further consideration:

- Some IAASB members expressed concern that the definition of LA did not adequately explain the level of assurance to be obtained by the practitioner. In particular, these members did not believe that the proposed definition would enable practitioners to determine the level of assurance that might be meaningful to users, and preferred that the Task Force focus proposed ISAE 3000 (Revised) on the need for the auditor to obtain assurance and communicate the level of assurance obtained to users.
- However, other IAASB members believed that the IAASB should focus the standard on the assurance provided to users, and consider whether the engaging party should specify procedures as a way of making the assurance useful to users, similar to agreed-upon procedures (AUP) engagements. During the discussion, it was noted that the summary of procedures included in the practitioner's report is intended to communicate the level of assurance obtained by the practitioner for the benefit of intended users, as the engaging party may not be the intended users.
- Further, an IAASB member noted that determining the assurance that would be meaningful to users is no different from the professional judgment required to make decisions regarding materiality. The IAASB also noted that AUP engagements are a different category of service that do not provide assurance, and as such are much narrower in scope than LA assurance engagements.

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<sup>9</sup> ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

- An IAASB member noted that the differences between RA, LA and AUP engagements may indicate the need for a framework document to explain the various services available under IAASB pronouncements.

The IAASB also considered the relationship between the definition of LA and the definition of RA, focusing on the lack of symmetry between the two definitions. IAASB members noted that the definition of RA was difficult to interpret due to the use of the term “acceptably low level of risk,” although it was noted that this was also in the extant definition. An IAASB member expressed the view that the definition of RA should include the statement that RA is a high but not absolute level of assurance as recommended by some respondents to ED-3000.

The IAASB discussed whether the approaches used in ISRE 2400 (Revised) and ISAE 3410 could be leveraged to provide a direction in finalizing ISAE 3000 (Revised). Ms. Mc Cabe and Mr. Blascos, speaking as members of the Task Force, noted that ISRE 2400 (Revised) defines LA for a review engagement, whereas ISAE 3410 was based on extant ISAE 3000 and, as such, did not expand on the concept of “meaningful” beyond the material contained in extant ISAE 3000. Some IAASB members suggested that the definitions of LA should be consistent across the suite of IAASB pronouncements, and that aligning ISAE 3000 (Revised) with ISAE 3410, with amendments as appropriate, may provide a suitable way forward. Mr. Kinney noted that both ISRE 2400 (Revised) and ISAE 3410 were designed in the context of specific subject matter with a view toward particular procedures, whereas ISAE 3000 (Revised) must cover a wide range of subject matters and possible approaches to gathering evidence.

An IAASB member expressed the view that conceptual issues, such as the definitions of LA and RA, would be better progressed via further development of the Assurance Framework.<sup>10</sup> However, another IAASB member noted that the changes made in ED-3000 were consistent with the existing Assurance Framework, and that there are no fundamental changes to the assurance model being proposed in ISAE 3000 (Revised). It was also noted that the option of more fully revising the Assurance Framework had been canvassed at the June 2012 IAASB meeting and the IAASB had decided to continue with the current approach, which only provides for limited conforming amendments to the Assurance Framework.

The IAASB asked the Task Force to continue efforts to improve the requirements and application material in relation to LA and RA, and to further consider whether amendments to the proposed definitions would be useful to practitioners in determining the level of assurance to be obtained. Mr. Kinney noted that the language used to describe the auditor’s judgment in assessing materiality with respect to the needs of users may be useful to the Task Force in finding a way to describe the auditor’s judgment in determining a meaningful level of assurance for LA.

#### *Work Effort for LA*

The IAASB considered the Task Force’s proposed changes in relation to the practitioner’s work effort for LA and RA. IAASB members expressed concern that the paragraphs regarding LA and RA were not consistent, making it difficult to compare the two. IAASB members also expressed concern regarding the use of the phrase “acceptable level of risk in the engagement circumstances”, as they believed practitioners and users alike would find the concept difficult to understand, although it was acknowledged that this was technically correct.

In relation to the proposed additional guidance on work effort, an IAASB member asked whether the definition of LA should highlight that the timing of procedures may differ between LA and RA as this may

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<sup>10</sup> *International Framework for Assurance Engagements*

also vary in some subject matters. Another member suggested that, where site visits are useful to the practitioner, the guidance should make clear that fewer sites could be visited in LA than in RA.

The IAASB asked the Task Force to further consider the paragraphs addressing the practitioner's work effort, focusing on making the requirements for LA and RA symmetrical, and considering whether the concepts could be further refined and new application material developed to better explain the concepts. The Task Force was also asked to report back to the IAASB on the differences between the proposals and the position adopted in ISRE 2400 (Revised) and ISAE 3410.

#### *Reporting for RA and LA Engagements*

The IAASB considered the Task Force's proposed response to respondents' comments on the reporting requirements and related application material. The Task Force's proposals included two options regarding the summary of procedures performed in an LA engagement: Option 1 which was based on extant ISAE 3000; and Option 2 which was based on ISRE 2400 (Revised) and ISAE 3410. IAASB members had a variety of views on which option was preferable, as follows:

- Some IAASB members supported Option 1, noting that it highlighted the differences from RA more clearly than Option 2, and was seen to be more informative to users. This option was also supported by the IFAC SMP Committee.
- Other IAASB members supported Option 2, as it was seen to be clearer and avoided the negative view of LA engagements and overly positive view of RA that they perceived existed in Option 1.
- Another member believed that both options were too detailed for a requirement, and should be moved to the application material to allow innovation in practice.

After deliberating the matter, the IAASB asked the Task Force to further consider the options.

The IAASB also discussed the proposed additional application material that explains the form of the conclusion that may be appropriate for different subject matters and engagements. After discussing the matter, the IAASB concluded that the proposed application material was helpful and should be retained.

#### USE OF "AUDIT" TERMS

The IAASB discussed the Task Force's proposal to remove the terms "substantive procedures" and "tests of controls" from proposed ISAE 3000 (Revised). Mr. Kinney noted that these terms were defined in the context of audits of historical financial information and that they may be difficult to apply in many engagements under ISAE 3000 (Revised). Some IAASB members disagreed, noting that the terms were well-understood in the assurance profession and should be able to be applied, with appropriate amendments, under ISAE 3000 (Revised). An IAASB member noted that the effect of these changes was to imply that, in some circumstances, a completely controls-based approach was appropriate, which this member did not believe should be permitted. Other IAASB members supported the Task Force's proposed changes, noting that both terms relied on the concept of "assertions", which may need to result in excessive specificity of procedures for ISAE 3000 (Revised) engagements, even when assertions were not to be used due to the nature of the subject matter. After further deliberation, the IAASB asked the Task Force to consider whether the concept of applying substantive procedures on the subject matter could be explored.

## IAASB CAG CHAIRMAN'S REMARKS

Ms. de Beer noted that the majority of CAG Representatives' comments were on the topic of the definitions of RA and LA. She highlighted that the CAG generally believed that the proposed changes to the definitions were an improvement over ED-3000. She added that the CAG's broad view was that the definitions of RA and LA needed to be reconcilable, as one is in terms of risk and the other in terms of evidence, although the CAG did not underestimate the challenges inherent in trying to do so.

## WAY FORWARD

Prof. Schilder thanked the Task Force, noting that the IAASB had decided not to proceed with a Framework project. He added that the IAASB would need to decide if there is a reasonable prospect of succeeding with the current limited revision of ISAE 3000, or whether a more fundamental revision was needed. He noted that the concepts in the standard need to be clear to both practitioners and users. Mr. Kinney thanked the IAASB for its comments.

### 4. **ISA Implementation Monitoring**

Mr. Grant introduced the topic with a brief update on developments and work performed since the last project update in September 2011. He provided a short summary of the findings from Phase I of the project, reminding the IAASB that the project is currently in Phase II. He noted that the deadline for responses to the consultation was October 31, 2012, but expected that some responses may be late due to other significant consultations also in progress.

Mr. Grant noted that early in 2012, Part I of the SMP Survey had been completed, and that national standard setters (NSS) across ten jurisdictions covering eighty-two entities had responded with their initial reactions on the first year of adoption of the clarified ISAs. He noted that the preliminary views had been generally positive, and the majority of respondents did not have any major concerns at a high level. Mr. Grant noted that positive comments made included that: the format of the ISAs was easier to understand; the audit was more focused; and communications with those charged with governance (TCWG) were improved. However, he added that across all jurisdictions there were a few respondents who had concerns and issues. More negative comments included high first-year costs, which often involved changes to audit methodologies, and increased documentation. A few had noted that there was still a need for additional guidance for audits of SMEs.

Mr. Grant also summarized the results from a survey of audit committees that had been undertaken to obtain their views on ISA 260<sup>11</sup> and ISA 265.<sup>12</sup> He noted that the survey was substantially complete, with forty-three entities from four jurisdictions responding, covering a broad range of entities including listed entities, large private entities, public sector entities and not-for-profit entities. The findings from the survey had indicated that the audit committees surveyed were generally satisfied with their communications with their external auditor and did not indicate that any changes to the ISAs would be required, however, Mr. Grant added that it was important to keep in mind that the need for changes to ISA 260 and ISA 265 may arise from other sources.

One IAASB member inquired whether there would be any issues which were not raised because they are in ISAs not specifically revised during the Clarity Project. Mr. Grant noted that most of the ISAs were specifically covered by the initiative and that in practice he thought many commentators would comment

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<sup>11</sup> ISA 260, *Communication with Those Charged with Governance*

<sup>12</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

on the whole set of standards. Another IAASB member emphasized that when prioritizing issues identified by the project that it would be important to include as part of the criteria whether the issue arose because of specific national accounting or corporate governance requirements, as this would assist with determining its importance. Mr. Grant acknowledged the suggestion and said that this would be considered as part of the criteria.

One member noted that there was an International Standards of Supreme Audit Institutions (ISSAI) implementation initiative currently underway, and that he would provide more information on this at the December IAASB meeting.

#### WAY FORWARD

Mr. Grant outlined the Task Force's proposed activities for the remainder of 2012 and early in 2013, noting that the Task Force intends to provide preliminary findings from the review to the IAASB at its April 2013 meeting.

### 5. **Audit Quality**

Mr. Grant introduced the topic, providing background to the project. He highlighted the intended purposes of the proposed Audit Quality (AQ) Framework (the Framework) as summarized in the agenda material, noting the Board's agreement that the development of the Framework be a collaborative effort with stakeholders. He also highlighted the significant concerns that were raised at the September 2011 IAASB CAG meeting on an earlier draft of the Framework, noting that these were subsequently discussed at the December 2011 IAASB meeting.

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

#### IAASB CAG CHAIRMAN'S REMARKS

Ms. de Beer reported on the CAG's discussion of the consultation draft of the Framework the previous week, noting that the CAG was overall pleased with the improvements made from the previous draft. While there were concerns at the CAG that the previous draft sounded defensive, the revised draft showed a major improvement in tone. A number of suggestions were made.

With regard to the matter of balance, a few CAG Representatives thought that the draft Framework still remained overly focused on factors outside auditors' control and that some of the detail should be moved to appendices.

Ms. de Beer also noted that there was broad support for the proposed Chairman's Foreword. Some suggestions were made for moving certain parts of the introductory section, including the IAASB's intended purposes for the Framework, to the Chairman's Foreword.

In addition, there was some discussion regarding the role and placement of the Framework in the suite of IAASB pronouncements and who should use it. While the CAG saw the Framework as being primarily focused on auditors, it supported the idea of sharing the Framework with others, including audit committees. To this end, the communication regarding the Framework would be important.

## TONE AND BALANCE

IAASB members broadly supported the tone and balance of the proposed Framework, including the reorganization of the document to focus on factors auditors can control. Among other matters, IAASB members made various observations or suggestions for the Task Force's further consideration as follows:

- It would be helpful to articulate more clearly the influence of outputs, particularly whether they contribute to AQ or the perception of it.
- Consideration should be given to:
  - Whether there would be merit in better highlighting the linkage to ISQC 1<sup>13</sup> and ISA 220<sup>14</sup> to help demonstrate the IAASB's contribution to AQ. However, care should be exercised in considering this to avoid turning the document into a lengthy list of references to the standards.
  - Whether the discussion of fees in the draft Framework is appropriate, as some may not see price as being a dimension of AQ.
  - Whether there would be merit in exploring how AQ interacts with the value of the audit.
- In relation to the section on audit process and quality control procedures at the national level, the tone of the subsection addressing investigative and disciplinary systems may need reconsideration as it appears defensive.
- In relation to the section on values, ethics and attitudes at the firm level, it would be helpful to expand on the extent to which governance arrangements within the firms impact AQ.
- Care should be taken in emphasizing audit committees throughout the Framework as governance arrangements vary around the world and audit committees, as a governance concept, may not necessarily exist everywhere.
- Clarification is needed regarding the use of the terms "audit quality" and "high audit quality" as these terms seem to suggest that there is a range to AQ. In addition, consideration should be given to whether the Framework should simply refer to a "quality audit" as opposed to a "high-quality audit."

In relation to the introductory sections addressing the challenges of defining AQ, the IAASB acknowledged suggestions from the CAG that some of this material be moved to an appendix. The IAASB, however, concluded that the material should be retained in its current location in the document as it provides essential context and much of the conceptual basis for the Framework. The IAASB nevertheless asked the Task Force to consider whether the material could be further refined and perhaps shortened.

### *IAASB CAG Chairman's Remarks*

Regarding the section on audit process and quality control procedures at the national level, Ms. de Beer noted that some CAG Representatives felt that the subsection addressing investigative and disciplinary systems seemed overly critical of regulators. They had therefore suggested that the Task Force

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<sup>13</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>14</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

reconsider the wording and examples used. A suggestion was also made to explore the benefits that audit inspections have brought to AQ, which would help provide for a more balanced perspective on this matter.

#### AREAS TO EXPLORE

IAASB members supported the idea of identifying areas to explore and noted that these suggestions would help stimulate discussion among stakeholders. There was also support for the proposed areas to explore as summarized in the Chairman's Foreword, although an IAASB member was concerned that there were no specific criteria for which issues should be flagged as "areas to explore." IAASB members variously suggested the following for the Task Force's further consideration:

- The need for additional areas to explore on audit inspection and discipline.
- It would be helpful to make clear that while the areas included in the draft have been identified for further exploration based on outreach to stakeholders, these may evolve over time.
- Cross-referring the suggested areas to explore to the relevant parts of the Framework itself, and making clear whether these areas are an invitation to stakeholders to engage in dialogue.

#### *IAASB CAG Chairman's Remarks*

Ms. de Beer reported that the CAG was very supportive of the idea of areas to explore. She indicated that the CAG felt these areas would benefit from additional context. There was also a suggestion that the Task Force consider the placement of these areas to explore, including whether they should be in the Framework document or elsewhere.

In relation to auditor succession, Ms. de Beer noted that one Representative had highlighted as a matter of significant concern the lack of information sharing between audit firms when one firm decides not to accept an appointment. This might be a matter that the IAASB needs to take up with the IESBA. In this regard, the related area to explore that the Task Force has proposed (i.e., improving information sharing between audit firms when one firm decides not to accept an audit appointment) would be helpful in raising awareness of the issue.

#### STATUS AND PLACEMENT OF THE FRAMEWORK

The IAASB discussed the status and placement of the Framework within the IAASB's literature. A few IAASB members supported referring to the document as a guide, particularly in view of the guidance in the appendices for firms and audit committees. Other IAASB members, however, did not believe that this would be appropriate as a guide in some jurisdictions is viewed as authoritative and enforceable. Several IAASB members expressed preference for the document to simply be referred to as a framework intended to stimulate debate among stakeholders. It was suggested that the document could make clear the intent in this regard. A few IAASB members felt that it would be most important to make sure that the Framework will be readily accessible, and used, by stakeholders, regardless of its title or reference. .

After further deliberation, the IAASB agreed on the importance of being clear about the objectives, purposes and uses of the Framework. A general preference for referring to the document as a framework was noted. In addition, the IAASB generally agreed that the Framework should be included in the IAASB's handbook of pronouncements.

## OTHER MATTERS

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

- Consideration should be given to whether the title of the document remains appropriate.
- More was needed on the impact of information technology both in terms of how clients' use of IT impacts the audit approach and the need for specialists, and on the audit techniques to be applied.
- In relation to packaging, care should be taken in considering different or excerpted presentations of the Framework for different audiences as doing so may lead to the complexities of the topic not fully being conveyed.
- The description of the contextual factors should be reconsidered with a view to making it sound less negative.
- Consideration should be given to whether reference could be made to the concept of conservatism in the light of Hofstede's work on culture.
- In relation to considerations specific to group audits, consideration should be given to whether there would be benefit in drawing from the ISA Implementation Monitoring project to highlight any relevant actions with respect to group audits, such as cultural factors the group auditor should consider relative to significant components located in other jurisdictions.

### *IAASB CAG Chairman's Remarks*

Ms. de Beer highlighted a suggestion at the CAG for further consideration to be given to network firms and their impact on AQ, particularly how different network structures influence AQ.

## WAY FORWARD

The IAASB asked the Task Force to present a revised draft of the Framework at the December 2012 IAASB meeting, with the aim of approving it for issuance as a consultation paper.

## **6. IASB Monitoring Review and IASB Update**

Mr. Sekiguchi provided an update on the key activities undertaken as part of the IAASB–International Accounting Standards Board (IASB) liaison initiative set up to monitor the development of selected IASB projects and to identify potentially significant verifiability and auditability issues. He highlighted the change in structure to a standing Working Group, made up of IAASB members, technical advisors and other experts, rather than separate working groups for each different IASB project.

Mr. Sekiguchi drew attention to the comment letters prepared by the Working Group on recent IASB pronouncements, including the IASB's agenda consultation, as well as standards on revenue recognition and investment entities. In addition, he noted that the IAASB staff had started to participate in the IASB's fatal flaw review process of the pre-ballot draft of final standards.

Mr. Sekiguchi further noted that the Working Group intended to comment on many of the IASB's expected consultative documents, including those on aspects of financial instruments, lease accounting, insurance contracts and the conceptual framework. He added that, in some cases, such as for the insurance consultative document, preparation of a comment letter may require expertise that the Working Group does not have, and called upon IAASB members to offer assistance if their relevant organizations had such expertise. The IAASB expressed support for the future work plan of the Working Group.



## IASB UPDATE

The IAASB received an update from IASB member Prabhakar Kalavacherla on the IASB's major projects currently underway, including financial instruments (impairment and hedging), revenue from contracts with customers and lease accounting. Mr. Kalavacherla said that the IASB would continue to work with the US Financial Accounting Standards Board (FASB) on four remaining convergence projects until these projects were completed, but noted that, while the FASB would continue to have an important role in standard setting, no new joint projects are currently being contemplated. He added that other areas currently being addressed by the IASB include the development of a research program, a new work plan derived from responses to their agenda consultation, and the development of new ways to work with other standard setters and regulators.

Mr. Kalavacherla noted that concern have been raised about the consistent application of the International Financial Reporting Standards (IFRSs) globally. He further added that he believed that auditors had an important role in this area, and he emphasized that collaboration between the accounting standard setters and others, including auditing standard setters, to address these concerns would be beneficial.

With regard to the liaison activities between the IAASB and the IASB, Mr. Kalavacherla emphasized the importance of ongoing cooperation and suggested that further opportunities for joint outreach should be considered where feasible. He highlighted the importance of the comment letters from the IAASB drawing attention to auditability and verifiability issues in the IASB pronouncements.

Prof. Schilder reaffirmed the IAASB's commitment to working with the IASB on matters of mutual interest, and thanked Mr. Kalavacherla for his perspectives and the informative presentation.

## 7. Disclosures Project Proposal

Mr. Archambault introduced the topic, providing the IAASB with an update on the activities of the Working Group since the discussion at the June 2012 IAASB meeting. He reminded the IAASB of its previous discussion, which highlighted mixed views about the initial direction of the project, i.e., to produce authoritative or non-authoritative guidance and whether to make amendments to individual ISAs or to incorporate all requirements and guidance for auditing disclosures in one ISA. Mr. Archambault noted that the responses to the IAASB's January 2011 Discussion Paper (DP) on disclosures, as published in the Feedback Statement, had been useful to the Working Group in developing the project proposal, in particular the key issues to be explored in the project. In relation to other outreach activities, Mr. Archambault explained that he and another working group member had met with the Financial Stability Board's Enhanced Disclosures Task Force (FSB EDTF) in July 2012 to share information of mutual interest, and highlighted that the FSB EDTF intended to issue their recommendations in the latter half of 2012.

Except as outlined below, the IAASB agreed with the recommendations of the Working Group as set out in the agenda material.

## OBJECTIVES AND PROPOSED TIMING OF THE PROJECT

Mr. Archambault noted that most respondents to the DP were of the view that the ISAs appropriately reflect a risk-based approach to auditing disclosures, but that there was a call for additional guidance, particularly from auditors, in areas such as risk assessment; obtaining audit evidence for certain kinds of disclosures (particularly qualitative and objective-based disclosures); applying materiality to disclosures and evaluating misstatements in disclosures. He added that concerns had also been expressed that the

volume of information being disclosed in financial statements sometimes obscured important information for investors, and that there had been calls to identify and address these issues, not only by the auditing standard setters, but in collaboration with the accounting standard setters and other related stakeholders, such as regulators.

He highlighted that the objectives of the project proposal were left sufficiently broad to incorporate the evolving accounting requirements and guidance in this area and could therefore result in a wide range of outcomes. He emphasized that there was flexibility to explore the most appropriate recommendations to address the issues identified, and noted that the authority of any output from the project would be determined by what was most appropriate in light of the IAASB's deliberations.

Mr. Archambault noted that the proposed timing would enable the Task Force to further explore and identify which issues should be addressed by this project, with an initial discussion of key issues planned for discussion at the December 2012 IAASB meeting. Following that discussion, the Task Force would work to identify a recommended course of action to address the issues and the timing of this work, for discussion at the April 2013 IAASB meeting. He also highlighted that ongoing liaison with key stakeholders would continue throughout the project.

The IAASB raised the following comments in relation to the objectives of the proposed project:

- One member noted that he was pleased with the flexibility of not committing to authoritative versus non-authoritative material at this stage, but cautioned that a more in-depth approach to evaluating how the auditor addresses disclosures may be more effective rather than making changes to individual ISAs prematurely. In his view, changes to individual ISAs may arise from other IAASB projects, such as the ISA Implementation Monitoring project, and the IAASB will need to give consideration as to the ideal timing of "opening up" the ISAs in light of various initiatives, including the disclosures project.
- Another member noted that, while some concern had been expressed about the lack of specificity of the objectives, it is necessary for the objectives to remain sufficiently broad to be able to take into account the wide range of options for the direction of the project and the effect of other related initiatives on the IAASB's timing and possible outcomes.

#### MATERIALITY

The IAASB supported the Working Group's characterization in the project proposal of the need to address matters relating to materiality when auditing disclosures. One IAASB member noted that there are different interpretations by various stakeholders, including preparers, regulators and auditors, about how the concept of materiality applies to disclosures, and that collaboration with various stakeholders would be important in finding a solution in this area. Mr. Kalavacherla (IASB Board Member) noted that materiality as it should be applied to disclosures is an area that is consistently discussed by the IASB. However, he noted that if any changes to further address materiality in relation to disclosures in the accounting literature were considered necessary, such changes would form part of the IASB's Conceptual Framework project, which is just commencing. He encouraged the IAASB to therefore explore developing guidance for materiality when auditing disclosures.

#### COMMENTS FROM THE CAG MEETING, INCLUDING IAASB CAG CHAIRMAN'S REMARKS

Mr. Archambault noted that the CAG had discussed the project proposal at its meeting the previous week and, in advance of that discussion, a teleconference was held with the CAG Working Group on Disclosures to obtain preliminary views on the direction of the proposed project. He highlighted that the

majority of the CAG Representatives were supportive of the commencement of a project in this area. Ms. de Beer agreed, and stressed the importance of the IAASB commencing work to address the auditability issues that had been identified, regardless of the related work of the accounting standard setters. Mr. Archambault noted that the IASB Representative at the CAG had expressed the view that the IAASB's project should move forward without waiting for the actions of the accounting standard setters. Mr. Archambault added that the proposed timing of this project would hopefully coincide with those of the accounting standard setters so that any changes arising from their initiatives could be factored into the outcome of this project.

Mr. Archambault noted that the CAG Representatives had mixed views on the initial direction of the project in relation to the authority of the pronouncements that would be developed first, noting the following:

- Those supporting the development of non-authoritative guidance first believed doing so would allow the work by the accounting standard setters on a disclosure framework and materiality to be understood before any substantial changes to the auditing standards were made. It was noted that any changes to the auditing standard setters could then be done to incorporate any corresponding changes arising from changes to the accounting standards.

However, as noted by Ms. de Beer, the majority of the CAG Representatives were in favor of authoritative material addressing auditing disclosures. She also added that a few CAG Representatives believed the Task Force should first identify the issues to be addressed, and then decide what the most appropriate way to address those issues would be (i.e., issue authoritative or non-authoritative guidance). In addition, Ms. de Beer noted that the CAG had quite a detailed discussion on materiality and the difficulty and importance of addressing this matter.

#### APPROVAL

The IAASB approved the proposed project proposal with 18 affirmative votes out of the 18 IAASB members present.

#### 8. Staff Question & Answer (Q&A) Publication – ISQC 1 Proportionality

Mr. Gunn introduced the topic, noting that, in accordance with the IAASB Strategy and Work Program, 2012–2014, Staff had prepared a draft of the planned Q&A publication addressing how ISQC 1 can be applied proportionately with the nature and size of a firm. He highlighted the Board's responsibility to commission staff publications, and noted the role of such publications is to highlight or direct attention to the IAASB's authoritative pronouncements, but not interpret or extend beyond them. He also noted that Staff had received feedback on an initial draft of the proposed Q&A from the Steering Committee, as well as Staff and some members of the SMP Committee.

IAASB members expressed broad support for the document, recognizing that although the Staff Q&A cannot extend beyond ISQC 1, acknowledging how ISQC 1 was designed would likely assist and support implementation initiatives of SMPs and may help stimulate further action by NSS and others.

In addition to editorial changes, the IAASB asked Staff to consider the following in finalizing the publication:

- Whether the Q&A could acknowledge that, as smaller firms grow, these firms may need to revisit the requirements of ISQC 1 to ensure continued compliance.

- How the Q&A could highlight that considerations within it would likely be relevant not only to smaller firms, but also to smaller public sector audit organizations.
- Whether the Q&A was sufficiently clear with respect to firms that may share resources with other organizations to facilitate monitoring activities and the firm's overall responsibilities to comply with ISQC 1, in light of the view that in practice smaller firms are outsourcing certain quality control activities.

It was also suggested that, in addition to the Staff Q&A, other actions may be necessary in relation to ISQC 1 in the future. Mr. Gunn acknowledged this, noting that the SMP Committee's work to provide an implementation guide for SMPs on ISQC 1 has been well-received, and certain IFAC member bodies and NSS have also worked to develop guidance in support of the effective implementation of ISQC 1. He also noted that the findings of Phase II of the ISA Implementation Monitoring project may further inform the IAASB's deliberations in this regard.

#### WAY FORWARD

Mr. Gunn thanked the Board for its constructive comments and noted that staff will circulate a revised draft of the Q&A electronically to the Board for comment in due course. Prof. Schilder added that the proposed Q&A represented a timely response to the recent calls relating to the need for the IAASB to highlight the proportionality of application of its pronouncements.

#### 9. Auditor Reporting

Mr. Montgomery introduced the topic, noting the importance of continuing the momentum in relation to the IAASB's work on auditor reporting. In this respect, he explained that the purpose of the session was to:

- Report on feedback from the IAASB's outreach activities, in particular the two public auditor reporting roundtables held to date in New York and Brussels; and
- Discuss certain key matters relating to the application of the "Building Blocks" approach to provide preliminary direction to the Task Force.

#### RECENT OUTREACH ACTIVITIES, INCLUDING NEW YORK AND BRUSSELS AUDITOR REPORTING ROUNDTABLES

Mr. Montgomery reiterated Prof. Schilder's earlier remarks that the roundtables held in New York and Brussels were a success, noting participation from a wide range of stakeholder groups at both. Mr. Montgomery thanked the IAASB members who attended and presented at the events, and IAASB Staff, in particular Ms. Jules, who managed the planning and coordination of the roundtables. Mr. Montgomery shared that throughout the outreach process there was a great deal of positive feedback provided on the quality and style of the ITC, with credit owed to the IAASB and IFAC Communications Staff.

Using a slide presentation,<sup>15</sup> Mr. Montgomery provided a summary of the feedback received through the two roundtables and other outreach activities. He gave an overview of the participants, the key messages about the need for change in auditor reporting and support for the IAASB undertaking such work. He also highlighted views from respondents on key areas, in particular auditor commentary (AC), going concern (GC) and other suggested improvements related to clarifications and transparency.

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<sup>15</sup> The slide presentation "IAASB Meeting Update" summarizing the high-level messages heard from the IAASB's outreach activities, in particular the IAASB's New York and Brussels roundtables, is available at: [http://www.ifac.org/sites/default/files/meetings/files/20120921-IAASB\\_Meeting%20Update.pdf](http://www.ifac.org/sites/default/files/meetings/files/20120921-IAASB_Meeting%20Update.pdf).

Prof. Schilder complimented Mr. Montgomery on his balanced summary of the feedback received on the ITC. He then highlighted the diversity and backgrounds of the participants who attended the roundtables, noting the active participation by US Public Company Accounting Oversight Board (PCAOB) representatives in New York, and International Forum of Independent Audit Regulators (IFIAR) and European Commission (EC) representatives in Brussels. He also thanked Mr. Coscodai, who assisted in identifying potential attendees or provided support for the IAASB's roundtables, as did the Association of Certified Chartered Accountants (ACCA), the Fédération des Experts Comptables Européens (FEE), the Malaysian Institute of Accountants (MIA), the Institute of Chartered Accountants of Australia (ICAA), and the Malaysian Institute of Chartered Accountants (MICPA).

The IAASB members exchanged views about the roundtables, agreeing that the events were overall a success and effective in bringing a wide range of prominent representatives from various stakeholder groups together. Finally, the IAASB acknowledged that changes in auditor reporting also need to take into account the potential effects on emerging economies and across industries, in particular the banking industry, as well as concerns relating to liability for auditors, management and TCWG.

Reacting to these views, Mr. Montgomery acknowledged that there is a divide between what investors are asking for, and what auditors indicate could reasonably be provided. He further acknowledged that while auditors and preparers generally expressed support for change in auditor reporting, they also cited numerous concerns that would need to be addressed by the IAASB. Mr. Montgomery also acknowledged the geographic differences in views about what, and how, additional information in the form of AC should be provided. He noted that the development of criteria for AC will be very important in determining a process for moving forward. Accordingly, Mr. Montgomery noted that it will be important for the Task Force and the IAASB to determine how to get to a reasonable position taking into account a balance of views, particularly in the area of AC.

Mr. Montgomery noted that formal responses to the ITC will also be very important in determining a way forward. He encouraged IAASB members who are involved in the development of the responses to the ITC by their respective organizations to provide alternate solutions in their comment letters if they disagree with a suggested improvement.

#### *IAASB CAG Chairman's Remarks*

Mr. Waldron thanked the IAASB for welcoming him as the CAG observer, sitting in for Ms. de Beer. In reference to the ITC, he complimented the IAASB on putting forth an example of a possible improved auditor's report.

Mr. Waldron also noted the success of the two roundtables, with a number of CAG Representatives participating and having an opportunity to express their views on the ITC. He also indicated the CAG was pleased to learn of the PCAOB's participation at the New York roundtable, and encouraged the IAASB to seek opportunities for further coordination with the PCAOB. Mr. Waldron also commended the IAASB on its other outreach efforts, in particular to solicit views from investors and analysts. In particular, he thanked the Task Force Chair and the IAASB staff for reaching out to the CFA Institute, and welcomed further dialogue to determine how to arrive at the meaningful change in auditor reports that investors seek.

Mr. Waldron indicated that, although there was not a formal discussion on the topic of auditor reporting at the September 2012 IAASB CAG meeting, the CAG received a very detailed and thoughtful report back on how Representatives' comments at the March 2012 CAG meeting were incorporated in the ITC.

## CONSIDERATION OF POTENTIAL DIRECTION FOR STRUCTURING THE REVISED AUDITOR REPORTING STANDARDS

Mr. Montgomery then introduced the agenda materials, which discussed the high-level direction the Task Force could potentially take as an overall approach to structure the revised reporting standards. He noted the Task Force and IAASB will be further informed by the responses to the ITC to determine an appropriate way forward.

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

### *Placement of Revised Reporting Requirements*

The IAASB agreed to retain the current structure of extant ISA 700,<sup>16</sup> as the foundational standard for *requirements* for auditor reporting. Accordingly, a revised ISA 700 will focus primarily on the form, structure, and elements of auditor reports (for example, the use of headings and subheadings, ordering, and implications of law or regulation) with appropriate reference to where more specific requirements are included in other ISAs (e.g. ISA 260, ISA 570, ISA 705,<sup>17</sup> ISA 706,<sup>18</sup> and ISA 720). One IAASB member suggested it may be helpful for revised ISA 700 to include a “decision tree” to assist auditors in navigating the ISAs.

### *Auditor Commentary (AC)*

With respect to AC, the IAASB members agreed with the Task Force’s recommendation that requirements and guidance for AC should be included in a revised ISA 706. Accordingly, the IAASB agreed that it will be necessary to re-evaluate those ISAs that contain requirements and guidance relating to Emphasis of Matter (EOM) and Other Matter (OM) paragraphs. However, some IAASB members questioned whether the concepts of EOM and OM paragraphs should be retained for entities for which AC would not be required. Another IAASB member expressed concern that moving forward with the concept of AC would likely result in differential reporting for public interest entities (PIEs) versus non-PIEs. The IAASB asked the Task Force to further consider these matters in the context of the responses to the ITC.

### *Scope of Revisions to ISA 260 and ISA 570<sup>19</sup>*

The IAASB members agreed with the Task Force’s recommendation to limit amendments to ISA 260 to those areas that are necessary to operationalize the suggested improvements to auditor reporting, in particular as they relate to AC. It was agreed that more substantive revisions to ISA 260 may need to be explored in the future, in light of any findings from the ISA Implementation Monitoring project and other relevant emerging developments.

With respect to ISA 570, Mr. Montgomery directed the IAASB to the additional analysis in the agenda materials, which suggests that limited revisions may need to be made to ISA 570 to operationalize auditor reporting on GC. For example, certain terms in ISA 570 may be clarified to have the auditing standard more closely aligned with the accounting standard (i.e., IAS 1, *Presentation of Financial Statements*). Mr. Grant indicated that the IAASB’s interaction with the IASB on the topic of GC has indicated that there is

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<sup>16</sup> ISA 700, *Forming an Opinion and Reporting on Financial Statements*

<sup>17</sup> ISA 705, *Modifications to the Opinion in the Independent Auditor’s Report*

<sup>18</sup> ISA 706, *Emphasis of Matter and Other Matter Paragraphs in the Auditor’s Report*

<sup>19</sup> ISA 570, *Going Concern*

likely a need for further guidance to describe certain terms such as “significant doubt” and “material uncertainty”, as well as clarification of what management is expected to disclose when a material uncertainty exists. As a result of these discussions and subsequent outreach, the International Financial Reporting Standards Interpretations Committee (IFRIC) will consider the topic of GC at its November 13-14, 2012 meeting.

Some IAASB members were of the view that IFRIC may not be able to address these matters, and suggested that the Task Force continue to engage with the IASB. There were also suggestions made that because the FASB is exploring changes to the GC accounting standard, the IAASB should also actively monitor their developments, and engage with them.

The IAASB concluded that, on a preliminary basis, there is merit in exploring limited amendments to ISA 570 to provide additional guidance aimed at clarifying certain terms and working with the IASB and IFRIC to further align the accounting and auditing standards relating to GC.

*Level of Prescription Needed for Specifying Requirements for “Minimum Elements” in a Revised ISA 700 when Law or Regulation Prescribe the Form and Content of the Auditor’s Report*

Mr. Montgomery introduced the topic and indicated that the extant ISA 700 provides a certain degree of flexibility in auditor reporting by allowing a departure from detailed requirements in certain circumstances when law or regulation prescribe the form and content of the auditor’s report (i.e., the so-called exemption in paragraph 43 of ISA 700). He noted that previous discussions with the IAASB and NSS indicate that pilot testing to illustrate how the suggested improvements in the ITC could be applied using the exemption in extant ISA 700 resulted in a wider degree of variability than was initially anticipated. This indicates a need for the IAASB to consider the appropriate balance between consistency (and therefore comparability between auditors’ reports for audits performed under the ISAs) and relevance by providing flexibility for jurisdictions to appropriately tailor the auditors’ reports for their national reporting regimes.

Mr. Montgomery then presented three options to the IAASB members for moving forward as follows:

- Option 1 – Retain the status quo, while enhancing and expanding the minimum requirements with any new requirements;
- Option 2 – Eliminate the exemption that exists under extant ISA 700 and have one set of overarching requirements for all ISA auditors’ reports, irrespective of local law or regulation; or
- Option 3 – Maintain the exemption in principle by rewriting reporting requirements in a manner that incorporates/accommodates the laws and regulations of various jurisdictions that prescribe the form and content of auditors’ reports.

Ms. Healy provided the IAASB with additional background information about each of the three options. She noted that Option 2 would likely lead to more consistency, and that Option 3 would likely provide more flexibility to local jurisdictions, thereby likely resulting in more variation in auditors’ reports (i.e., less consistent and comparable auditor reports across jurisdictions). Mr. Montgomery then asked the IAASB for preliminary views about the options presented, and the level of prescription that should be considered in drafting a revised auditor reporting standard.

The IAASB offered the following views about the balance between consistency and flexibility and the three possible options set forth by the Task Force:

- The majority of IAASB members agreed that Option 1 provided the appropriate balance between consistency and flexibility. Many IAASB members acknowledged that there are likely to be national

or jurisdictional issues that justify differences in the form and content of auditor reports to differ, and when law or regulation prescribe a particular presentation, paragraph 43 of extant ISA 700 appropriately allows for those differences.

- However, the IAASB should encourage consistency in auditors' reports in light of potential challenges that are likely to exist when different regulatory regimes that adopt the ISAs take on different approaches within their financial reporting regime that would affect the auditor's report (for example, reporting by TCWG). This is because users of auditors' reports globally need a certain degree of consistency in auditors reports to make them more comparable and understandable.
- With the addition of new information in auditor reports (i.e., sections on AC, and GC and other information), it may be more important to maintain consistency in the short run, and perhaps provide for increased flexibility over time once the objectives of the new sections of the auditor report are well-established.
- An alternative view is to keep the ISA reporting requirements sufficiently flexible to accommodate varying national circumstances. It was further noted that of the jurisdictions that adopt the ISAs, very few make reference to ISAs (rather than national standards) in the auditor's report. To mitigate this, it was suggested that the IAASB should encourage NSS to refer to ISAs in auditors' reports when national auditing standards are the same as, or based on, ISAs.
- Flexibility may also be necessary in light of the diversity of the mandates that exist for public sector organizations and auditors.
- Some IAASB members were of a view that it was difficult to agree on a preferred option until the IAASB had agreed what minimum elements are necessary.

Mr. Montgomery thanked the IAASB for their comments and noted that the views of respondents to the ITC, in particular users of auditors' reports, will further inform the Task Force and IAASB's further deliberations in determining how best to achieve the appropriate balance between consistency and flexibility in auditor reporting.

#### 10. **PIOB Observer's Remarks**

Mr. Hafeman congratulated the IAASB on a well-organized, effectively-chaired, and productive meeting. He noted that the wide and active participation of board members in the discussions was encouraging, as was the attention to the input of the CAG and other stakeholders.

Mr. Hafeman noted he was pleased to see proposed ISA 720 (Revised) finally progress to the stage of an exposure draft. The IAASB's discussions were extensive but not easy, and the Task Force and Staff worked hard to respond to the wide variety of both drafting and fundamental comments. In his view, the revised standard should provide for useful clarification and a raising of the bar for the work of the auditor with respect to other information; however, it has potential to either narrow or widen the expectation gap of users. Mr. Hafeman indicated that the PIOB will follow with interest the issues raised in the EM, stakeholders' comments on those issues, and the manner in which the Task Force and the IAASB respond to that input.

Mr. Hafeman noted that the approval of a project proposal on auditing financial statement disclosures was a notable step toward dealing with an area of increasing importance to the users of financial statements, and that the discussions on proposed ISA 720 (Revised) may have provided a preview of some of the issues that will be faced in the disclosures project.



Mr. Hafeman noted that he was pleased to see progress on the other important and often interrelated projects that are underway, such as ISAE 3000, audit quality, auditor reporting, and ISA implementation monitoring. In his view, it would likely be a significant contribution to the public interest if the IAASB can manage to provide more clarity—not only to practitioners but also to other stakeholders—around concepts such as RA versus LA, and assurance obtained versus assurance taken.

Mr. Hafeman also reported briefly on the recent PIOB meeting, at which due process relating to various Public Interest Activity Committee (PIAC) standards was confirmed, as well as the PIAC appointments. Mr. Hafeman reported that PIOB was analyzing the results of its recent consultation, as well as that of the Monitoring Group (MG), indicating that there was broad support for the current PIOB oversight structure and also for extending PIOB oversight to the International Public Sector Accounting Standards Board (IPSASB).

Prof. Schilder thanked Mr. Hafeman for his remarks and participation in individual discussions. He noted he was pleased to hear of the support for the MG's consultation, in particular the retention of the balance between practitioners and non-practitioners.

#### **11. Next Meeting**

The next meeting of the IAASB is scheduled for the week of December 10-14, 2012 in New York, United States.

#### **12. Closing Remarks**

Prof. Schilder thanked the IAASB members, technical advisors, observers and staff for their contributions to the meeting, and thanked Mr. Waldron for attending the Friday session in place of Ms. de Beer. He then closed the meeting.