



Agenda Item

A

Meeting: IAASB Consultative Advisory Group
Meeting Location: New York
Meeting Date: April 8-9, 2013

**Draft Minutes of the Public Session of the Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
CONSULTATIVE ADVISORY GROUP (CAG)
Held on September 11, 2012
New York, U.S.A.**

PRESENT

Members

Linda de Beer	Chairman
Vânia Borgerth	Associação Brasileira de Instituições Financeiras de Desenvolvement
Markus Grund	Basel Committee on Banking Supervision
Kristian Koktvedgaard	BUSINESSEUROPE (BE)
Matthew Waldron	Certified Financial Analysts (CFA) Institute
Juan Maria Arteagotia	European Commission (EC)
Marie Lang	European Federation of Accountants and Auditors for SMEs (EFAA)
Jean-Luc Peyret	European Financial Executives Institutes (EFEI)
Hilde Blomme	Fédération des Experts Comptables Européens (FEE)
Philip Johnson	FEE
Nagendra Shivaraya	Gulf States Regulatory Authorities (GSRA)
John Kuyers	Information Systems Audit and Control Association (ISACA)
Glenn Darinzo	Institute of Internal Auditors (IIA)
Michael Stewart	International Accounting Standards Board (IASB)
William Hines	International Actuarial Association (IAA)
George White	International Bar Association (IBA)
Anne Simpson (PM only)	International Corporate Governance Network (ICGN)
Nigel James	International Organization of Securities Commissions (IOSCO)
Koichiro Kuramochi	IOSCO
Hayanari Uchino	Japan Securities Dealers Association (JSDA)

Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
David Morris	North American Financial Executives Institutes (NAFEI)
Dominique Pannier	Organization for Economic Cooperation and Development (OECD)
Ajith S. Ratnayake	Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)
Simon Bradbury	World Bank (WB)

Observers

Chris Hemus	International Monetary Fund (IMF)
Martin Baumann*	U.S. Public Company Accounting Oversight Board (PCAOB)
Brian Bluhm	IFAC Small and Medium Practices Committee, Deputy Chair (SMPC)
Irina Lopez	WB

IAASB

Prof. Arnold Schilder	IAASB Chairman
Dan Montgomery	IAASB Deputy Chair and Task Force (TF) Chair
John (Arch) Archambault (Agenda Item E only)	IAASB TF Chair
Cédric Gélard (Agenda Item C only)	IAASB TF Chair
Jon Grant (Agenda Item B only)	IAASB TF Chair
William Kinney (Agenda Item D only)	IAASB TF Chair
James Gunn	IAASB Technical Director
Kathleen Healy	IAASB Deputy Director
Ken Siong (Agenda Item B only)	IAASB Deputy Director
Brett James	IAASB Senior Technical Manager
Beverley Bahlmann (Agenda Item E only)	IAASB Technical Manager
Keesha Campbell (Agenda Item C only)	IAASB Technical Manager
Al Hamilton	IAASB Technical Manager
Diane Jules	IAASB Technical Manager

International Ethics Standards Board for Accountants (IESBA) CAG

* Views expressed by PCAOB Representatives represent their views and do not necessarily reflect the view of the PCAOB Board or other Board members or staff.

Richard Fleck (PM only) IESBA CAG Chairman

IESBA

Jörgen Holmquist IESBA Chair

Public Interest Oversight Board Michael Hafeman

APOLOGIES

Members

Fang Han	Asian Financial Executives Institutes
Conchita Manabat	Asian Financial Executives Institutes
Federico Diomeda	EFAA
Dr. Obaid Saif Hamad Ali Al Zaabi	GSRA
Andrew Baigent	International Organization of Supreme Audit Institutions
Frank Bollmann	International Valuation Standards Council (IVSC)
Jaseem Ahmed	Islamic Financial Services Board (IFSB)
Zhirong Mao	World Federation of Exchanges (WFE)

Observers

Norio Igarashi Japanese Financial Services Agency

September 11, 2012¹

Welcome and Approval of Minutes of Previous Meeting (Item A)

To APPROVE the minutes of the March 2012 CAG public session

OPENING REMARKS

Ms. de Beer welcomed the Representatives and Observers, including new Representatives Ms. Anne Simpson (ICGN – interim representative replacing Bengt Hallqvist) and Dr. Juan Maria Arteagoitia (EC – replacing Mr. Jan Robberecht). She also welcomed Mr. Chris Hemus (IMF), noting that IMF had agreed to join the IAASB CAG as an Observer, and Ms. Irina Lopez, observing on behalf of the WB as Mr. Bradbury will be leaving the WB. She reported that Mr. Markus Grund will now represent the Basel Committee on Banking Supervision where he represented IOSCO before; a new INTOSAI representative has been appointed and will attend the next meeting; and the International Association of Insurance Supervisors is still looking for a suitable candidate to represent them on the CAG.

She also welcomed Mr. Hafeman as the representative of the Public Interest Oversight Board (PIOB) and Mr. Jörgen Holmquist, the new Chairman of the IESBA.

MINUTES OF THE PREVIOUS MEETING

Ms. de Beer proposed a change to the minutes of the March 2012 meeting to reflect Ms. Borgerth's attendance at the meeting. The minutes of the March 2012 meeting were approved as amended.

Audit Quality (AQ) (Item B)

To DISCUSS a revised draft of the proposed AQ Framework (IAASB approval planned for December 2012)

Mr. Grant introduced the topic, noting that significant revisions had been made to the draft AQ Framework document to address the CAG feedback received to date. He noted that the CAG perceived the tone of the previous draft to be overly defensive, and the Task Force agreed the document could be better focused on matters relating to AQ that are directly controllable by the auditor. Mr. Grant also noted that the revised document clarifies the description of AQ, and more clearly identifies the objective of the project.

OVERALL COMMENTS ON THE TONE AND BALANCE OF THE DOCUMENT

The Representatives and Observers commented as follows:

- Mr. Peyret noted that the CAG Working Group was generally supportive of the revisions made to the document.
- Mr. Kuramochi noted that he hoped that the AQ Framework would contribute to raising quality of audits globally.

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

- Messrs. Baumann, James, Johnson, Morris and Pannier and Ms. Lang agreed that the overall tone of the document is now more balanced. Mr. Baumann supported the change in tone, noting that the revised document was more appropriately focused on what AQ is, rather than the influence of contextual factors. Mr. Morris agreed, adding that the revised document better explains what AQ is about and no longer overly emphasizes audit efficiency.
- Mr. James expressed the view that the factors influencing AQ are still overly tilted towards describing the responsibilities of other stakeholders rather than those that are the responsibility of auditors. Mr. Grant noted that the majority of the revised document focused on input factors, which relate directly to auditors and firms. Mr. Grant further pointed out the improved AQ document demonstrates the benefit of collaboration and interaction with stakeholders, including CAG.
- Mr. Johnson questioned whether certain parts of the document, such as the introduction describing the challenges of defining AQ, were still defensive. He suggested moving these paragraphs towards the back of the document, perhaps in an Appendix. Mr. Pannier did not support Mr. Johnson's suggestion, noting that it was important to describe challenges to defining AQ.
- Mr. Johnson also suggested making the material relating to the objective of the proposed AQ Framework more prominent within the document so that readers could understand the nature and purpose of the document. Ms. de Beer and Messrs. Hines and Pannier agreed.
- Mr. Koktvedgaard questioned how the AQ Framework would be used to enhance AQ, noting the interrelationship between auditor reporting and AQ. Mr. Grant responded by providing some examples of uses of the AQ Framework, for example, in the areas of education and continuing professional development, noting that audit firms have an important role in initial training and continuing professional education. Mr. Grant also noted that the AQ Framework could be used by those charged with governance/audit committee members to contribute to enhancing AQ. Mr. Koktvedgaard agreed with the draft document's position regarding the need for audit firms to leverage the AQ Framework to do more in the area of education and training, and also noted opportunities to use the AQ Framework more holistically including with respect to auditor reporting.
- Mr. Pannier inquired about how the AQ Framework would be harmonized with the auditor reporting project. Mr. Grant noted that the AQ Framework discussed the auditor reporting project at a high level, explaining that the Task Force did not want to duplicate the work of the auditor reporting project. However, it will be further considered whether an additional link to auditor reporting is needed within the document.
- Ms. Lang indicated that the survey on stakeholder perspectives in the appendices should be more prominent as it helps to set the tone of the document by describing what management or investors are particularly interested in when they think about AQ. Mr. Johnson noted that the CAG Working Group had similar thoughts regarding the survey summary and suggested that the Task Force consider whether the three graphics within the summary could be moved to the front of the document.
- Ms. Lang noted that the checklists included in the Appendix have value but may be seen as a move to a "checklist approach", which might undermine professional judgment.
- Mr. Johnson questioned why the AQ Framework used outputs as an indirect measure of AQ, rather than measuring AQ directly. Ms. Blomme added that it might be worth considering outputs that are not in the auditor's report, for example, what auditors contribute to the enhanced quality of financial

statements. Mr. Grant noted that the draft did have a section on auditors contributing to improvements in the financial statements and that the Task Force would consider whether more is needed.

- Mr. Kuramochi noted that the AQ Framework should not be mistaken as a substitute for complying with the International Standards on Auditing (ISAs) or International Standard on Quality Control (ISQC) 1.² Prof. Schilder agreed with Mr. Kuramochi and suggested that a statement be added in the framework to note that “complying with ISAs and ISQC 1 is the foundation for a high-quality audit.”

AREAS TO EXPLORE WHERE ACTIONS COULD BE TAKEN TO ENHANCE AQ

Mr. Grant explained that, in developing the AQ Framework, the Task Force identified a number of areas to explore whether potential action by auditors and other stakeholders may benefit overall AQ. He noted that these factors were not part of the AQ Framework itself but were flagged at various stages in the document and listed in the Chairman’s Foreword. Mr. Grant asked for the CAG’s views as to whether the areas for exploration identified were an appropriate element of the project. He also inquired whether it would be appropriate to add areas to explore on the role of audit regulators and the benefits of international coordination of action in the area of enforcements and disciplinary action.

The Representatives and Observers commented as follows:

- Mr. Waldron supported the inclusion of “Areas to Explore,” noting that he found it helpful to have highlighted possible areas for exploration by audit regulators/inspectors and others and that this would be very well received by the CFA Institute. Ms. de Beer also supported the material, but suggested providing more context to better explain the suggested areas for exploration and, perhaps, further addressing them outside of the AQ Framework.
- Mr. Pannier advised against including areas to explore, as the AQ Framework should stand on its own based on the best of today’s knowledge. He suggested that, for purposes of the consultation paper, the section could be included as part of an accompanying document or an explanatory memorandum. Prof. Schilder noted that, in his view, identifying the areas for exploration could be useful as a means of reaching out to others to determine what more could be done to enhance AQ.
- Mr. Koktvedgaard noted that the survey results shown in the appendix underscore the importance of having audit regulation discussed in the Framework. He was of the view that audit inspections can positively impact AQ and that the AQ Framework should include a discussion of the role of audit regulators, including how the inspections might be better performed. Mr. Johnson agreed that the audit inspections process served an important role and expressed support for having the AQ Framework more fully address the role of audit oversight bodies.
- Mr. Waldron suggested that it would be useful to define audit failures, despite the report back explaining why the Task Force did not to accept this same point made by Mr. Hansen at the September 2011 CAG discussion.
- Mr. Uchino noted that the revised document was very useful. He also noted that in general fund

² International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Service Engagements*

managers and analysts would like to know more about how auditors assessed risks for particular clients and to have additional information on significant audit matters. Having such information disclosed in the auditor's report provides a trail of information over time.

- Ms. Lang inquired whether the Task Force had given consideration as to how the information in the AQ Framework would be kept evergreen, including whether and how the revised IES 8³ would fit into the AQ Framework.
- Messrs. Hansen, Hines and Uchino noted the need for greater share of best practices on the exchange of information between firms in connection with audit appointments across audit firms and jurisdictions. Mmes. de Beer and Lang noted that there were linkages to the IESBA CAG discussions scheduled for the following day. Mr. Grant indicated that the Task Force was considering if anything can be done to distill best practices, be it via standards, law or regulation. Mr. Grant also noted that, in an attempt to develop the Framework at a level higher than the standards, the members of the Task Force included representation from the IAASB, IESBA and the International Accounting Education Standards Board (IAESB).

CONTEXTUAL FACTORS

Mr. Grant reported that the contextual factors section of the Framework was the most challenging to write. He added that, in response to the input received during the outreach phase of the project, the Task Force proposed that the AQ Framework elaborate on the impact on AQ of the requirements of the applicable financial reporting framework from an auditability/verifiability perspective. Mr. Grant asked for the CAG's suggestions as to how the contextual factors section of the proposed Framework could be improved.

The Representatives and Observers commented as follows:

- Mr. Baumann suggested that the tone of the sections of the document describing the audit regulators' role be amended. He was of the view that it would likely be poorly received by the members of International Forum of Independent Audit Regulators (IFIAR), for example, as it might be perceived as instructing them on how to exercise their oversight responsibilities. He also noted that messages such as "an overly regulated environment acting as a disincentive for talented individuals to join the profession," and "there is no indication of how to define an audit failure," in particular, would be controversial.
- Mr. Baumann pointed out that there may be other useful outputs in evaluating AQ, for example, assessments of restatements of financial statements and the inspection findings remediation process and other related communications. In particular, he suggested that the Task Force give further consideration and prominence to describing how the audit inspection process identifies deficiencies, and to promoting the development of an inspection finding remediation process that can then be communicated across all partners and staff in the audit firm. In his view, this enhancement would contribute to improving AQ. Mr. Grant noted that, although lessons learned from the inspection process was addressed, the Task Force would consider whether more was needed.
- Regarding the discussion of public reporting of audit inspection findings, Mr. Grund noted that,

³ International Education Standard (IES) 8, *Competence Requirements for Audit Professionals*

though the Task Force did not seek to conclude on whether public reporting supported audit quality, he believed that addressing the topic in the publication was beneficial. Mr. Grant agreed that Task Force did not believe it was appropriate to conclude on this given the differing views of stakeholders.

- Mr. Stewart expressed a view that the material relating to fair values and significant measurement uncertainty appeared negative. He suggested that, if an entity's business involves significant use of fair value estimates, one positive outcome could be that it would call for use of a specialist(s) by the auditor, which would likely result in having appropriate staffing for the audit engagement. Mr. Stewart also recalled views expressed from the previous day's New York Auditor Reporting Roundtable which indicated that two-way discussions between the auditor and management regarding fair values and ranges of estimates is a positive development.
- Mr. Stewart noted that recognition and measurement are integral parts of the accounting standards, but accounting standards are not intended to address documentation of management's rationale as may be suggested by the AQ Framework. Mr. Grant clarified that the Task Force's intention was to highlight the need for improved documentation of management's rationale as one avenue to help improve AQ.
- Mr. Hemus noted that checklists such as Appendix 2 may risk becoming de facto standards. He questioned whether a firm would ever answer in the negative to any question to avoid suggesting that the firm is not working towards improving AQ. He also suggested the need to ensure that the checklist is aligned with the ISAs, so that all the audit requirements and guidance were incorporated.
- Mr. Hemus suggested that the AQ Framework should provide more on the governance of audit firms, in particular as it relates to the relationship between audit firms and audit networks. He expressed a view that many audit firm networks share audit methodologies, but lack a common accountability framework. Accordingly, Mr. Hemus suggested that the AQ Framework addresses what audit firms can do to share information about audit deficiencies within the firm structure. He also inquired as to whether the Task Force gave consideration to "whistleblowing" for circumstances where best practices were not followed.
- Ms. Lang suggested that the natural flow of the document could be improved if the description of the IESBA Code⁴ was positioned before the discussion of matters affecting independence. Ms. Lang also suggested that the SMP Considerations section should be positioned first in the draft, to adopt a "think small first" approach. She also noted that the paragraph on "Business Practices and Information Systems" seemed out of place and suggested rephrasing to be more general. Mr. Grant indicated that the Task Force includes a member of the SMPC and the Task Force has made an effort to capture the perspectives of small- and medium-sized entities (SMEs)/SMPs using information provided by the SMPC.
- Mr. Pannier suggested that section addressing public sector considerations be deleted, noting that the level of detail was inappropriate. Mr. Grant responded that an IAASB member representing the public sector is on the Task Force and strongly supported this section as it was important to include

⁴ IESBA Code of Ethics for Professional Accountants (IESBA Code), paragraph 100.5

specific considerations for the public sector.

SUMMARIZATION AND PACKAGING

Mr. Grant noted that the IAASB wanted the AQ Framework to be as concise as possible and therefore useful to various stakeholder groups. He explained that the Task Force has responded by considering developing abridged versions for individual user groups to demonstrate the flexibility and practical application of the AQ Framework and to communicate its broad appeal. He acknowledged that the draft AQ Framework was lengthy and asked for the CAG's reactions to the Task Force's ideas as to how best to package the Framework so that it is of practical benefit to, and has maximum impact for, stakeholders.

The Representatives and Observers commented as follows:

- Ms. de Beer suggested moving some of the contextual factors relating to the responsibilities of other stakeholders out of the main document to an Appendix, noting that it would also help address concerns raised about the tone and balance of the document by Mr. James.
- Mr. Morris commented that the document was too long and suggested extracting a core of about 20 pages or so, and adding discrete appendices to address the responsibilities of those charged with governance/audit committees and regulators. Mr. White disagreed, as he was of the view that the information in the document achieved the right balance and was a good educational document for all stakeholders.
- Ms. Lang and Mr. Kuramochi suggested the AQ Framework be published electronically on the web with hyperlinks to enable users to access relevant parts as needed.

Mr. Grant thanked the CAG for their very helpful comments and concluded that he thought the IAASB was on track for issuing a consultation draft of the AQ Framework following the December 2012 meeting.

Auditor Responsibilities Relating to Other Information (Item C)

To DISCUSS significant issues to be discussed by the IAASB at its next meeting (IAASB approval of exposure draft planned for September 2012)

Mr. Gélard introduced the topic, noting that the project was intended to reflect the greater use by, and importance being attached to, other information (OI) by readers of audited financial statements. He noted that the revision would also clarify the work effort expected of auditors when dealing with OI.

SCOPE

Mr. Gélard noted that the IAASB and Task Force had observed that many documents accompany the financial statements but do not contain the financial statements. Accordingly, the Task Force proposes to expand the scope of ISA 720⁵ to include documents prepared and issued in connection with the initial release of the audited financial statements. He also noted that proposed ISA 720 (Revised) will only apply when those documents either contain the financial statements or have the primary purpose of providing commentary to enhance the intended users' understanding of the audited financial statements or the

⁵ Proposed 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*

financial reporting process. Mr. G elard explained that offering documents would be within the scope of proposed ISA 720 (Revised) when they meet the specified scope criteria.

The Representatives and Observers commented as follows:

- Messrs. Hansen, Koktvedgaard and Waldron supported the approach taken.
- Mmes. Blomme and Lang noted that the definition of OI includes a reference to a document that is within the scope of the ISA, but what is within the scope of the ISA is not clear from the introductory section of the ISA. Ms. Lang added that auditors of small not-for-profit entities may find it hard to determine which documents are scoped in. Mr. G elard responded that the Task Force found that the option of scoping the ISA by prescribing a list of documents was not practical due to the range of documents around the world. He explained that, because of this practical difficulty, the Task Force has proposed a conceptual approach to the scope of the ISA.
- Ms. Blomme did not support all material in the annual report being OI, as she highlighted that some OI therein is far removed from the content of the audited financial statements and, accordingly, there is little value the auditor can bring. She also noted that the application material comprises mostly examples and asked whether all documents within the annual report should be considered to be OI. Mr. G elard responded that the extant ISA 720 does not allow a selective reading of the annual report and that the proposed ISA 720 (Revised) would continue to require all OI, even if seemingly less relevant, to be read in its entirety. However, the auditor's specific consideration would be focused on areas where auditor expects to have the relevant understanding obtained during the course of the audit.
- Mr. Morris and Ms. Lang suggested that some of the application material be moved to the scope section, specifically the material that explains the types of OI that would normally be excluded if it is not in a document containing the financial statements. Mr. Morris also noted that there is sometimes a delay between issuing the financial statements and issuing the annual report.
- Mr. Hemus asked if press releases were included within the scope of the proposed ISA. Mr. Peyret added that the French financial markets regulator had issued a report on discrepancies in press releases, particularly when the press releases did not conform to the information in the financial statements issued at a later date. Messrs. G elard and Montgomery noted that, whether press releases were included or excluded depended on the timing of the press release. Press releases accompanying earnings announcements that precede the issuance of the financial statements would be excluded.
- Mr. Koktvedgaard explained that, in his view, the application material providing further guidance on the scope of the ISA did not clearly include or exclude management reports. In particular he noted that management reports may sometimes include corporate social responsibility (CSR) reports and human rights reports, which are otherwise not intended to be within the scope of ISA 720. Mr. White noted that the proposed scope of the ISA with respect to material like CSR reports that may or may not be part of the annual report is awkward, but that there did not seem to be an alternative. Mr. G elard responded that the proposed standard has a two-part test to determine if a document is within the scope of the standard, the tests being the timing of the document and its purpose. He added that if the primary purpose of the OI is providing commentary to enhance the intended users' understanding of the audited financial statements or the financial reporting process, the OI is within the

scope of proposed ISA 720 (Revised). He also noted that, accordingly, human rights reports may therefore not be included as they are not created for this purpose.

- Mr. Grund explained that he found the scope of the standard confusing, particularly as the application material appeared to exclude many types of documents. He added that he further found the proposed standard confusing in addressing the differing work efforts depending on the type of OI. He also asked why there was not a requirement to check the consistency of the OI against the auditor's understanding thereof. Mr. Gélard responded that the auditor does not have to audit the OI, but has to respond to identified material inconsistencies. Mr. Gunn noted that adding a link between the scope paragraphs and paragraph A34, which addresses the extent of consideration needed, may assist in understanding the scope paragraphs.
- Mr. Hansen noted that the material addressing securities offering documents should be clarified as it was confusing.
- Mr. Hemus asked if social media was included, and asked how far the auditor should go when social media results in a dialogue between the entity and investors.
- Mr. Koktvedgaard suggested that the Task Force contact Dr. Al Zaabi, as he had previously noted concerns with respect to the application of proposed ISA 720 (Revised) on Sharia reporting.

NATURE AND EXTENT OF WORK EFFORT WHEN READING AND CONSIDERING OI

Mr. Gélard explained that the Task Force is proposing an overarching requirement regarding the work effort needed, together with application material explaining the work effort for different types of OI. He added that the Task Force considered having detailed requirements, but concluded that this would result in a focus on the lowest value task, such as agreeing amounts and would de-emphasize the judgmental aspects. He highlighted the proposal that the work effort for OI depends on the type of OI, such as:

- Quantitative financial information that is intended to be the same as information in the audited financial statements, where the work effort may involve agreeing the financial information to the financial statements.
- Qualitative financial information intended to convey the same meaning as qualitative disclosures in the audited financial statements, where the work effort may involve considering the significance of any differences in wording used and whether such differences imply different meanings.
- Directly reconcilable financial information, where the work effort may involve obtaining a reconciliation from management, agreeing items in the reconciliation to the audited financial statements and determining whether the calculations within the reconciliation are arithmetically accurate.
- Remaining OI, whether financial or non-financial, where the work effort may involve considering such information for potential inconsistencies with the auditor's understanding of the entity and its environment acquired during the course of the audit.

The Representatives and Observers commented as follows:

- Messrs. Bluhm, Koktvedgaard, and Ratnayake supported the Task Force's proposed principles-based approach. Mr. Koktvedgaard noted that the alternative approach would lead to too many detailed requirements.
- Mr. White was of the view that the application material describing when the OI may be inconsistent should be part of the requirements.
- Mr. Bluhm suggested that the proposed standard include material on the documentation of the auditor's work effort.
- Mr. Koktvedgaard suggested that it may be more appropriate for the auditor to obtain the required reconciliation from the "company," rather than from "management."
- Mr. Baumann noted that the term "material inconsistency" is used throughout the standard, and that it should be clarified early in the standard that the term is intended to address both an inconsistency with the auditor's understanding of the entity and its environment, as well as an inconsistency with the financial statements. Mr. Gélard explained that the Task Force had tried different words to separate the two concepts but found it was impracticable.
- Mr. Kuramochi asked if the auditors' workload would be significantly increased under the proposed ISA 720 (Revised). Mr. Gélard noted that an increase in workload depends on the circumstances of an entity and also on how extant ISA 720 is currently applied in practice. Nevertheless, an increase in work effort is anticipated.
- Mr. Kuramochi expressed concern about the work effort for "remaining OI," noting that the work effort for this category was vague and may create an additional expectation gap with users. He also noted that including this category may direct the auditor's attention away from the financial statements and therefore the work effort on this category should be clear so that AQ is maintained.

REPORTING

Mr. Gélard explained that the Task Force believed that it would be appropriate for the reporting responsibilities regarding OI to be addressed within the revised ISA 720. He noted that the Task Force proposed that the revised ISA include a requirement for the auditor to provide a statement in the auditor's report about whether the auditor had identified any material inconsistencies relating to OI, in line with that proposed in the Auditor Reporting *Invitation to Comment* (ITC). He also noted that, even when the OI is received after the date of the auditor's report, the auditor has a responsibility to read and consider it if the OI is included in a document that is within the scope of the ISA. However, in such circumstances, the OI will not be identified in the auditor's report as it was not available at the time the auditor's report was dated and, unless required by law or regulation, the auditor's report will not be updated or re-issued to refer to such OI.

The Representatives and Observers commented as follows:

- Ms. Blomme noted that proposed reporting requirement did not explain the different work efforts that may be involved, and encouraged the Task Force to consider whether in fact it should. She also noted that coordination between the direction with regard to the material in the ITC and the direction in the final ISA 720 will be important.

Mr. Gélard thanked the CAG for their comments.

Assurance Engagements Other than Audits or Reviews of Historical Financial Information (Item D)

To DISCUSS significant comments on the exposure draft of proposed ISAE 3000 and the Task Force's recommendations (IAASB approval planned for April 2013)

Mr. Kinney introduced the topic, noting that ISAE 3000⁶ is intended to cover a wide variety of engagements, namely both reasonable assurance (RA) and limited assurance (LA) engagements; one-off engagements and repeat engagements; and information at a point in time and a process. He also noted that the Task Force was asked to “think small first.”

Mr. Kinney noted that the purpose of this discussion was to cover key issues that were presented to the IAASB at its June 2012 meeting, as well as those that are to be presented at the September 2012 IAASB meeting. The remaining matters were planned to be presented at the December 2012 IAASB meeting. He added that both ISRE 2400⁷ and ISAE 3410⁸ have been approved by the IAASB at its March and June 2012 meetings respectively and that these standards exemplify types of LA engagements. Mr. Kinney highlighted that these two standards have LA engagements that are quite different, which shows the variation possible in LA engagements.

DIRECTION OF THE PROJECT

Mr. Kinney highlighted that, while the majority of the respondents to the exposure draft supported the IAASB's broad direction in revising ISAE 3000, some respondents raised comments regarding matters outside of the scope of the project proposal, such as the fundamental concepts of assurance. He explained that the IAASB had discussed these matters and decided at its June meeting to continue with the project as planned, noting that to address these fundamental areas would not be within the scope of the project.

The Representatives and Observers commented as follows:

- Ms. Blomme asked if the proposed standard mandated that the requirements of ISAE 3000 must be complied with in order to issue a report making reference to it. She also noted that the revised ISRS 4410⁹ adopted a particular approach for when that standard had to be applied and a report issued. Mr. Kinney explained that the ISAE mandates that all requirements of ISAE 3000 must be complied with in order to represent compliance with ISAE 3000 in the practitioner's report. Mr. Gunn explained that, because of the nature of an assurance engagement, a report is required. The issue addressed in ISRS 4410 is specific to those engagements given the range of activities that professional accountants may perform that carry features of compilation work but, in and of

⁶ Proposed International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

⁷ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

⁸ ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

⁹ International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*

themselves do not constitute a compilation engagement or require a report in accordance with ISRS 4410.

- Mr. Morris noted that the difference between RA and LA is well understood in the US; however, he believed that more guidance was needed to ensure consistent application in the global context, particularly with regard to the differences between evidence-based and procedures-based LA engagements. Ms. Lang agreed with Mr. Morris, noting that the Task Force has responded to the comments received and encouraged the Task Force to simplify the language. Mr. Kinney responded that the two concepts – “sufficient appropriate evidence” and “performing procedures to address areas where material misstatements have a greater than acceptable level of risk in the engagement circumstances of occurring” – are actually two sides of the same concept. He noted that, while it may be easier to talk only in terms of the risk of material misstatement, the definition of RA is not phrased in terms of risk. Prof. Schilder added that the Task Force has included the concept of evidence in the revised definition of LA.
- Ms. Lang thanked the Task Force for “thinking small first-” saying that this was an important step forward to enabling SMPs and SMEs and the considerations made by the Task Force in their deliberations to date were appreciated.

CONTINUED INCLUSION OF DIRECT ENGAGEMENTS

Mr. Kinney noted that an early decision of the IAASB was to retain direct engagements in proposed ISAE 3000 (Revised). He also noted that many public sector auditors use extant ISAE 3000 for performance audits, and some find it useful to have a single umbrella standard as it avoids the duplication that would otherwise be needed.

The Representatives and Observers commented as follows:

- Mr. Pannier supported the continued inclusion of direct engagements.
- Ms. de Beer noted that extant ISAE 3000 is used for engagements relating to South African black economic empowerment legislation, and that often in respect of smaller entities what appears to be attestation engagements are actually rather direct engagements.
- Ms. de Beer and Mr. Hansen noted that, in the past, the CAG had found it difficult to reconcile direct engagements with the requirement to be independent. Mr. Hansen also noted that independence was at the heart of an assurance engagement, and that the IESBA had not resolved how a practitioner could be partially independent.¹⁰ Mr. Kockvedgaard asked the Task Force to consider if direct engagements created a self-review threat. In contrast, Mr. Hines suggested that disclosure of the procedures performed and the nature of the engagement was appropriate, as that would enable users to request that the measurement and assurance functions be separated.
- Mr. Stewart noted that the practitioner is independent of the entity, but cannot be independent of the subject matter information as the practitioner prepared it. Ms. Blomme supported the Task Force proposals, noting that proposed ISAE 3000 (Revised) should be clear about the differences between RA, LA, attestation and direct engagements. Mr. Kinney responded that direct

¹⁰ Direct engagements are already being regularly performed in both the public and private sectors, as permitted by the IESBA Code.

engagements are permitted in extant ISAE 3000 and the engaging party should understand the nature of the engagement as they have agreed the engagement terms with the practitioner. Prof. Schilder noted that objectivity in such engagements is more challenging for practitioners to maintain, but that this is different from independence. Mr. Holmqvist noted that the IAASB and IESBA staff should discuss the matter further.

- Mr. Hansen noted that direct engagements are similar, in some ways, to business valuations where the valuer performs the valuation and states that they are independent.
- Mr. Koktvedgaard asked if it was possible to issue a report that did not address the question of the independence of the practitioner.

Prof. Schilder noted that the IAASB would review the Task Force proposals in relation to direct engagements as proposed ISAE 3000 (Revised) and needs to set clear requirements for practitioners performing these engagements. Mr. Kinney summarized that the Task Force has been focused to date on clarifying the differences between LA and RA, and that there was a need to also clarify direct engagements. Mr. Kinney also noted that the Task Force would contact the IESBA staff on this topic.

DEFINITIONS OF LA AND RA

Mr. Kinney noted that LA provides less assurance than RA, but has to be at least a level of assurance that is meaningful to intended users. He added that the Task Force has added additional application material and clarified the requirements to illustrate what is meant by “meaningful.”

The Representatives and Observers commented as follows:

- Mr. Shivaraya suggested that the practitioner should be required to obtain RA when the consequences are so great that only RA would be meaningful. He highlighted that this would prevent practitioners from offering to perform LA engagements when only RA engagements is appropriate. Mr. Johnson noted that, in his view, whether RA or LA is appropriate for a particular engagement should be agreed between the parties rather than restricted by proposed ISAE 3000 (Revised). Mr. Kinney responded that proposed ISAE 3000 (Revised) clarifies that the level of assurance for LA is at least that which is meaningful to intended users, and in some cases when the consequences of a material misstatement are great, this may be equivalent to RA. Mr. Gunn noted that the IAASB had a similar discussion around engagement acceptance in relation to the appropriateness of ISRE 2400 (Revised) for larger complex entities. He explained that the IAASB concluded that it was not appropriate to restrict the application of the standard; rather the practitioner has a responsibility to consider if the engagement is appropriate in the circumstances.
- Mmes. de Beer and Lang noted that application material explaining LA is difficult to read and should be clarified. Ms. de Beer also noted that the references to analytical procedures should indicate the differences in the practitioner's objectives in RA and LA engagements when performing analytical procedures.

WORK EFFORT OF LA AND RA

Mr. Kinney explained that the Task Force has proposed changed to the requirements and application material to reinforce the “risk aware” approach by requiring that the practitioner performs work in the areas where the risk of material misstatement is unacceptable in the circumstances.

The Representatives and Observers commented as follows:

- Mr. Kockvedgaard suggested that an additional example be included that focuses on the fact that sample sizes may be smaller for LA due to the lower confidence needed.
- Mr. Hines noted that he found it difficult to distinguish what was different between the RA and LA requirements regarding risk consideration and obtaining an understanding of internal controls. Ms. de Beer agreed, adding that she found the term “greater than acceptable level of risk” confusing. Mr. Kockvedgaard suggested that the term was understandable when read in conjunction with the rest of the standard. Mr. Kinney noted that this term was intended to help the practitioner know where to focus his efforts, as these areas are where the risk of a misstatement is higher. Mr. Kinney also explained that the Task Force’s intent was to require the practitioner to only understand the process used to prepare the subject matter information rather than the internal control.

INCLUSION OF ILLUSTRATIVE REPORTS

Mr. Kinney noted that illustrative reports were often welcomed by users of the IAASB’s standards, but in the case of proposed ISAE 3000 (Revised), they may inhibit creativity and innovation by implying a particular format for the assurance report. He also noted that proposed ISAE 3000 (Revised) permitted both the more common short-form report and the less common long-form report, which may include the subject matter information itself. He highlighted that it would be difficult to include long form reports in any meaningful way as they often ran to thirty pages or more and were only useful in the context of the engagement circumstances.

The Representatives and Observers commented as follows:

- Mmes. de Beer and Lang and Messrs. Bluhm and Morris supported the inclusion of illustrative reports and noted that the Task Force should consider ways of including long form reports as well. Ms. Lang added that the principles underlying the illustrative reports need to be clear in order for practitioner to adapt the reports to their engagement circumstances

SUMMARY

Mr. Kinney highlighted that the Task Force would continue to resolve the remaining issues, such as direct engagements and other discrete issues such as the application of the ISAE by competent practitioners who are not professional accountants. He noted that these issues would be brought to the CAG at its April 2012 meeting, and thanked the Representatives and Observers for their comments.

Disclosures (Item E)

To PROVIDE feedback on the project proposal (IAASB approval planned for September 2012)

Mr. Archambault introduced the topic, noting that the IAASB had received excellent responses to the January, 2011 Discussion Paper, which resulted in the issuance of a Feedback Statement in December, 2011. He highlighted that many of the comments supported the IAASB’s view that further work was needed on the topic. Therefore, at its upcoming meeting the IAASB would be asked to approve a project proposal to establish a Task Force to address auditing financial statement disclosures.

OBJECTIVES OF THE PROJECT

The Representatives and Observers commented as follows:

- Messrs. Bluhm, Grund, Hansen, Hemus, Grund and Waldron and Ms. Borgerth supported the objectives of the project. Ms. Borgerth added that clear requirements for auditors would assist in preventing excessive disclosures that obscure the financial statements.
- Mr. Grund expressed the view that the Task Force and IAASB would need to be careful to avoid making too much progress in advance of the work being undertaken by others, such as the accounting standard setters. Mr. Archambault responded that the Task Force is coordinating with other stakeholders, including the IASB, but nevertheless believed that it was important for the IAASB to make progress in the near term. He added that timing was difficult to coordinate as other stakeholders' initiatives may be delayed.
- Mr. Baumann noted that the project raises the opportunity for the Board to explore a number of fundamental questions about audit evidence for disclosures and how to audit qualitative disclosures.
- Mr. Bluhm noted that disclosures are also important for SMEs and SMPs. Mr. Archambault agreed, noting that the Working Group would be pleased to see continued input to the project from the SMPC.

LEVEL OF AUTHORITY OF GUIDANCE MATERIAL

Mr. Archambault noted that respondents to the IAASB's Discussion Paper had mixed views on whether any new guidance on auditing financial statement disclosures should be authoritative, and therefore included in the ISAs, or non-authoritative, for example, an International Auditing Practice Note (IAPN). He highlighted that, accordingly, the project has broad objectives to enable the IAASB to consider what would be the most appropriate way forward regarding the authority of material to be produced. He added that there are demands to get guidance to practitioners quickly.

Mr. Archambault also noted that there are many views about what comprises a misstatement for qualitative disclosures, and how they can be aggregated.

The Representatives and Observers commented as follows:

- Messrs. Koktvedgaard, Kuramochi, Morris and Waldron supported the development of authoritative material. Mr. Waldron and Mr. Koktvedgaard also noted that improvements addressing disclosures should be incorporated into existing ISAs as this would retain all relevant material on a particular topic in a single document. Mr. Koktvedgaard noted that an IAPN may be produced faster than an ISA, however Mr. Morris believed that non-authoritative material takes as long as authoritative material, but is less useful in changing practices. Messrs. Baumann and Hines noted that, to the extent that extant ISAs address these issues adequately, an IAPN may be sufficient; otherwise authoritative material would be required.
- Mr. Hemus noted that it would be necessary to determine if changes to standards are needed before determining whether it is appropriate to make the changes via a new standard or incorporated into various ISAs. Mr. Archambault commented that the Working Group did not have a pre-conceived notion that a new ISA is needed, but did not want to preclude the possibility. He

added that many jurisdictions have adopted the clarified ISAs and may be dissatisfied with widespread changes to a number of ISAs as a result of this project.

- Mr. Kuramochi highlighted that IOSCO is concerned about the volume of disclosures and the use of boilerplate material. He noted that issuers can use boilerplate to conceal specific circumstances from users, so having auditors raising these issues with management will be an improvement.
- Mr. Morris noted that there is a need for materiality to be consistently applied across audit firms in relation to disclosures.

TIMING OF THE IAASB'S RESPONSE

Mr. Archambault highlighted that the Working Group, which by then will be a Task Force, will prepare a list of issues from review of the existing ISAs and other information before December 2012. By April 2013, the Task Force will be in a position to propose a clear direction on suggested changes to the ISAs.

The Representatives and Observers commented as follows:

- Mr. Stewart supported the proposed timing, and noted that this should not be dependent on the actions of the IASB. He noted that the IASB is committed to developing a disclosure framework and that the International Financial Reporting Standards (IFRS) Advisory Council does not believe that the IASB project will result in rapid outcomes. He added that the IASB's project is about determining the right disclosures, rather than cutting disclosures. He also noted that, as many of the newer standards have disclosure objectives rather than specific requirements, preparers have said that it is easier to add unnecessary disclosures rather than convince auditors and regulators that they are not needed. Finally, Mr. Stewart noted that the IASB would be hosting a disclosure forum to understand stakeholders' attitudes to disclosures as a way of informing their work on the disclosure framework.
- Ms. Borgerth suggested that both preparers and auditors try to protect themselves from adverse consequence from misapplication of principles-based standards, and materiality is not, on its own, the cause of voluminous disclosures. Mr. Archambault noted that addressing voluminous disclosures would require both accounting and auditing standard setters to cooperate.
- Mr. Koktvedgaard noted that the timing of the project is linked to the resources available and the intended output, as standards would take longer than, for example, a Staff publication. Prof. Schilder responded that the resources available were considered in the context of this proposal. Prof. Schilder added that, while a Staff publication is faster to produce, it cannot contain new material, and while an IAPN can go further it may not be faster than producing or amending one or more ISAs.

MATERIALITY

The Representatives and Observers commented as follows:

- Mr. Stewart highlighted that he did not believe that the IASB's work on materiality via the International Financial Reporting Interpretations Committee would be of much assistance in determining materiality on individual components such as disclosures, as the IASB's concepts are based on materiality of financial statements as a whole. Mr. Grund asked if there was a difference between accounting and auditing standard setters in regard to materiality, and whether there were

plans to resolve any differences. Mr. Archambault responded that auditors look at financial statements as a whole when concluding at the end of the engagement, but it is harder to know what auditors think about materiality for individual line items and disclosures. Mr. Archambault added that there are demands for guidance on auditing financial statement disclosures, particularly as disclosures become more qualitative and require more judgment from preparers, auditors and regulators.

- Mr. Johnson noted that materiality is an important issue for auditor reporting as well as disclosures. He also noted that materiality is affected by other factors, for example it can be nil when addressing directors' remuneration due to the related party relationship. Mr. White noted that standard setters have one approach to materiality but prudential and disclosure regulators often have a different approach, and that the auditor needs to be aware of the different approaches. He also noted that there is an urgent need to address these issues to assist auditors in making their judgments.
- Ms. Simpson noted that materiality is often meaningful only from the user's perspective. She added that for equity owners, matters involving potential conflicts of interest such as executive compensation or political donations will inform other ownership decisions. She also noted that materiality relied on different approaches such as qualitative and quantitative influences and that this should be retained. Mr. Archambault noted that auditors look at materiality from the users' perspective while also understanding the environment.
- Mr. Ratanak noted that regulators are primarily focused on recognition and measurement issues on items that are material to the financial statements. He noted that disclosures may sometimes be material due to qualitative factors in addition to those that are material in a quantitative sense. Mr. Koktvedgaard noted that a number of regulators in different European countries have guidance on materiality for specific disclosures. Mr. Archambault responded that he would be pleased to see the regulators' guidance on materiality.
- Mr. Peyret noted that risk factors are often required to be disclosed, and it is important to address the risk that management may include additional risk disclosures to overwhelm the pertinent ones.
- Mr. James noted that a focus should be circumstances when the volume of immaterial disclosures obscures relevant information in the financial statements. Mr. Hansen noted that, in his experience, voluminous disclosures may obscure important points but this was not intentional by management.
- Mr. Hansen also questioned whether the project included footnote disclosures only or also financial statement presentation. Mr. Archambault clarified that the project addresses only note disclosures, rather than financial statement presentation, as financial statement presentation is the responsibility of the accounting standard setters.

OTHER INITIATIVES

The Representatives and Observers commented as follows:

- Mr. Waldron noted that the Working Group should coordinate with the European Financial Reporting Advisory Group and US Financial Accounting Standards Board (FASB). Mr. Baumann noted that the FASB project is addressing the volume of disclosures, and therefore would not be addressing the central issues of this project. Mr. Grund highlighted the Financial Stability Board project on risk disclosures, which anticipates releasing a document in October 2012. Mr.

Archambault commented that the Task Force has been monitoring these initiatives as indicated in the agenda material.

Mr. Archambault thanked the CAG for its comments. Ms. de Beer confirmed the strong interest of the CAG in this project.

Report Backs (Item F)

To REPORT BACK on the following topics:

- Auditor Reporting (*Invitation to Comment* Approved June 2012)
- Engagements to Review Historical Financial Information (ISRE 2400 (Revised)) (Approved June 2012)
- Assurance Engagements on Greenhouse Gas Statements (ISAE 3410) (Approved March 2012)
- Strategy and Work Plan, 2012-2014 (Approved March 2012)

Mr. Gunn drew the CAG's attention to the report backs, noting that ISAE 3410 and ISRE 2400 (Revised) were finalized and approved by the IAASB at its March 2012 and June 2012 meetings respectively. In relation to the Auditor Reporting project, Mr. Montgomery indicated that the IAASB was liaising with various stakeholder groups, in particular investors. He noted that the IAASB has received good input from the New York Roundtable on Auditor Reporting the day before. Mr. Gunn added that the IAASB is learning more about why investors want the information and how they might use it and noted the importance of getting investor input.

In relation to the report back on the Auditor Reporting project, Representatives and Observers commented as follows:

- Mr. Kuramochi supported the IAASB's initiative to particularly seek investor views on the auditor reporting *Invitation to Comment* (ITC). He also supported outreach activities to investors for other IAASB projects.
- Mr. James asked whether the IAASB was confident that it was reaching out to the right mix of investors including, for example, non-institutional investors. Responding to Mr. James' question, Mr. Gunn commented that the IAASB is taking into account research from the International Association of Accounting Education and Research, aimed at soliciting views of non-institutional investors. Mr. Gunn added that as part of its outreach program, the IAASB is exploring ways to further identify the viewpoints of non-institutional investors, in particular the views of buy side and sell side analysts and retail investors.
- Mr. Waldron asked how the IAASB's timeline for the Auditor Reporting project aligns with the PCAOB anticipated timeline. Mr. Gunn responded that the IAASB has had communication with PCAOB at Board and Staff levels leading up to the ITC, and that the PCAOB is aiming for a proposed standard in Q1, 2013.¹¹ Prof. Schilder added that the discussions with the PCAOB were valuable and the relationship was open for further interaction.

¹¹ At its November 2012 Standing Advisory Group meeting, the PCAOB indicated it had revised its expected timeline for proposals relating to the auditor reporting model to the first half of 2013.

- Mr. Koktvedgaard complimented Staff on their significant efforts to bring together a diverse group of stakeholders and with varying backgrounds.

PIOB Remarks

Mr. Hafeman congratulated the CAG on a productive meeting, noting that the meeting was well-organized and effectively chaired. In particular, he noted that meeting papers seemed to strike a reasonable balance between completeness and brevity. He further noted that the CAG Representatives and Observers all had ample opportunity to comment on issues.

Mr. Hafeman noted that the PIOB highly values the role of the CAG and appreciates the commitment of CAG representatives and organizations to contribute to the standard-setting process. Mr. Hafeman added that, as an advisory group, active participation is very important. He noted that most representatives contributed to the discussions, including some of the newer representatives. He encouraged those who were less active during the day's meeting to speak up more at future meetings.

Mr. Hafeman noted that the input provided to the IAASB seemed useful, although the discussion on proposed ISAE 3000 (Revised) could have benefitted from more participation on the matter of defining RA and LA. He added that he will be observing the IAASB's meeting the following week and will thus have the opportunity to see how the CAG's feedback flows through to the Board's discussions.

Mr. Hafeman indicated that the PIOB will be meeting on September 13–14, 2012 and that the items on the agenda included analyzing the results of the recent public consultation by the Monitoring Group, the PIOB's own consultation, and considering the approval of several standards, including ISRE 2400 (Revised).

Closing Remarks

Prof. Schilder thanked the Representatives and Observers, noting that the discussion indicated that much progress has been made on the Audit Quality, ISA 720 and Disclosures initiatives but that important issues remain to be resolved in finalizing the revision of ISAE 3000.

Ms. de Beer thanked the Representatives and Observers for their high level of preparation and participation and the quality of comments provided. She also thanked the IAASB members and Staff for their contribution to making the meeting successful.

Ms. de Beer closed the meeting.