



**Meeting:** IAASB Consultative Advisory Group  
**Meeting Location:** New York  
**Meeting Date:** March 11–12, 2014

## Agenda Item

# A

**Draft Minutes of the Public Session of the Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD  
CONSULTATIVE ADVISORY GROUP (CAG)  
Held on September 9–10, 2013  
New York, U.S.A.**

[Approved]

### PRESENT

#### Members

David Morris	Acting Chair, North American Financial Executives Institutes (NAFEI)
Vânia Borgerth	Associação Brasileira de Instituições Financeiras de Desenvolvimento
Markus Grund	Basel Committee on Banking Supervision (Basel Committee)
Kristian Koktvedgaard*	BUSINESSEUROPE
Matthew Waldron	Certified Financial Analysts (CFA) Institute
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)
Myles Thompson	FEE
John Kuyers	Information Systems Audit and Control Association (ISACA)
William Hines	International Actuarial Association (IAA)
Tom Finnell, Jr.	International Association of Insurance Supervisors (IAIS)
George White	International Bar Association (IBA)
Anne Molyneux	International Corporate Governance Network (ICGN)
Seiya Fukushima	International Organization of Securities Commissions (IOSCO)
Nigel James	IOSCO
Jim Dalkin	International Organization of Supreme Audit Institutions (INTOSAI)
Frank Bollmann	International Valuation Standards Council (IVSC)
Jaseem Ahmed	Islamic Financial Services Board (IFSB)

\* During the meeting Mr. Koktvedgaard participated in the capacity of both an IAASB CAG member and the IESBA Chair.

Abdelilah Belatik	IFSB
Hayanari Uchino	Japan Securities Dealers Association (JSDA)
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Ajith S. Ratnayake	Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)
Irina Lopez	World Bank (WB)
Xiaoma Lu (September 10 <sup>th</sup> )	World Federation of Exchanges (WFE)

### **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)

### **IAASB**

Prof. Arnold Schilder	IAASB Chairman
Dan Montgomery	IAASB Deputy Chair and Task Force (TF) Chair
Cédric Gélard (September 9 <sup>th</sup> )	IAASB TF Chair
Arch Archambault (September 10 <sup>th</sup> )	IAASB TF Chair
Jon Grant (September 10 <sup>th</sup> )	IAASB TF Chair
Caithlin Mc Cabe*** (Agenda Item E only)	IAASB TF Chair
Jim Sylph	IFAC Executive Director, Professional Standards and External Relations
James Gunn	IAASB Technical Director
Kathleen Healy	IAASB Deputy Director
Brett James	IAASB Senior Technical Manager
Beverley Bahlmann	IAASB Technical Manager
Diane Jules	IAASB Technical Manager

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\*\* 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.

\*\*\* Via Teleconference

**International Ethics Standards  
Board for Accountants (IESBA)  
CAG**

Kristian Koktvedgaard IESBA CAG Chairman

**Public Interest Oversight Board** Michael Hafeman

**APOLOGIES**

**Members**

Linda de Beer	Chairman
Conchita Manabat	Asian Financial Executives Institutes (AFEI)
Fang Han	AFEI
Federico Diomeda	EFAA
Juan Maria Arteagotia	European Commission (EC)
Raluca Painter	EC
Dr. Obaid Saif Hamad Ali Al Zaabi	Gulf States Regulatory Authorities (GSRA)
Glen Darinzo	Institute of Internal Auditors (IIA)
Michael Stewart	International Accounting Standards Board (IASB)

**Observers**

Norio Igarashi Japanese Financial Services Agency (JFSA)

**September 9, 2013<sup>1</sup>**

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

*To APPROVE the minutes of the April 2013 CAG public session*

OPENING REMARKS

Mr. Morris<sup>2</sup> welcomed the Representatives and Observers, including new representatives Mr. Jim Dalkin (INTOSAI – replacing Mr. Andrew Baigent), Mr. Seiya Fukushima (IOSCO – replacing Mr. Koichiro Kuramochi), Ms. Anne Molyneux (ICGN – replacing Mr. Bengt Hallqvist), and Mr. Xiaoma Lu (WFE representative replacing Mr. Zhirong Mao). He congratulated Mr. Koktvedgaard on his appointment as the new IESBA CAG Chair. He also welcomed Mr. Michael Hafeman from the PIOB, and the IAASB Chair and Deputy Chair, the IAASB Task Force Chairs, and staff.

Mr. Morris explained that Ms. de Beer was absent from the meeting due to a loss of family member. He noted that he had been asked to be acting chair for this meeting and that this was confirmed with PIOB. Mr. Morris then expressed sincere condolences to Ms. de Beer and her family in their time of loss. He also acknowledged the great work of the late Mr. John Hegarty, a friend and colleague of many Representatives, and expressed condolences to his family. Prof. Schilder also expressed his condolences.

MINUTES OF THE PREVIOUS MEETING

Mr. Koktvedgaard suggested an edit to the meeting minutes to change the word “support” to “preference” within the sentence that read “Mr. Koktvedgaard expressed support for a short and concise description of management’s responsibilities for the financial statements in the auditor’s report.” The minutes of the April 2013 meeting were approved as amended.

**ISA 720 – Other Information (Item B)**

*To RECEIVE a summary of the responses from comment letters, and DISCUSS the Task Force’s proposed revisions to the ISA 720<sup>3</sup> exposure draft in light of the feedback received from respondents*

Mr. Gélard introduced the topic, and asked for Representatives’ feedback on the revised draft of proposed ISA 720 (Revised).

Representatives and Observers commented as follows:

SCOPE AND DEFINITIONS

- Messrs. Ahmed, Dalkin, Koktvedgaard, Thompson, Ratnayake, Uchino and Mmes. Blomme and Lang expressed support for the revised definitions of other information and annual report.

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

<sup>2</sup> As agreed with the PIOB, Mr. Morris served as Acting Chair of the September 2013 IAASB CAG meeting.

<sup>3</sup> ISA 720, *The Auditor’s Responsibilities Relating to Other Information*

- Ms. Blomme, Lang and Mr. Thompson supported the revised definition of other information and its linkage to the annual report. However, they questioned the need for documents similar to the annual report to be included in the definition. Mr. N. James questioned whether including documents similar to annual reports in the definition of other information may introduce greater variability in judgments that incorporating the concept into the definition of annual reports. Mr. Gélard noted that the Task Force was of a view that restricting the scope to annual reports per se could exclude many documents that have a similar purpose simply because they are provided separately in some jurisdictions.
- Mr. Dalkin supported the revised definitions in the proposed ISA, as a means of providing greater clarity about the boundaries of other information. He noted that public entities may publish large amounts of other information that may be much broader in scope than that which is provided by private entities.
- Mr. Thompson highlighted that users may find including such documents in the scope of proposed ISA 720 (Revised) confusing, as the auditor's report is only included in the annual report, not these other documents.
- Ms. Lang asked why the Task Force had used the term "audited financial statements" rather than just "financial statements." Mr. Gélard noted that the Task Force would consider whether the phrase "audited financial statements" could be replaced with "financial statements".
- Mr. Koktvedgaard suggested the Task Force should seek to narrow the definition of other information as much as possible to ensure the standard is applied to documents that are useful to investors. Ms. Blomme encouraged the IAASB to explore this option.
- Mr. Morris suggested that, given the wide range of public disclosures made by entities, the Task Force should be specific regarding the intended scope of other information to avoid relying too much on the auditor's interpretation.
- Mr. Koktvedgaard noted that he believed that the Task Force was responsive to the comments received. Specifically, he supported the proposed change of scope, noting it was more logical and avoided the risk of including too many documents. He suggested that it may be possible to incorporate documents similar to annual reports into the definition of annual reports. Mr. White added that many companies have two annual reports as they are listed on multiple exchanges, and supported the Task Force's proposal to include documents similar to the annual report.
- Mr. Koktvedgaard also noted that it was important to consider that some documents provided to investors are changed to reflect the specific investors being communicated with – meaning that the scope should not include such documents as their content can change each time they are communicated. He noted that specifying the documents that comprise the other information in the auditor's report would assist in this regard.
- Messrs. Bollmann and Koktvedgaard supported the exclusion of websites from the scope of proposed ISA 720 (Revised). Mr. Bollmann asked whether documents that were made publicly available through other means and subsequently posted on an entity's website would be considered within scope. Mr. Gélard noted that the document would be within scope when distributed online to users, assuming the other scoping requirements were met.

- Mr. Belatik asked whether Sharia compliance statements, required by certain entities in Islamic jurisdictions, would be within the scope of ISA 720. Mr. Ahmed noted that Islamic banks include a statement on the Sharia board's findings on the annual report, as the Sharia board is viewed as a form of internal control. He highlighted that the role and interactions of Sharia boards should be included in the considerations of the work of the global standard setters, noting that the Basel Committee has recognized Sharia finance as an emerging sector, as the revised Core Principles for Effective Banking Supervision includes several paragraphs addressing Islamic institutions and the special requirements they have. Mr. Gélard added that Sharia compliance statements would be included in the scope of the standard if they are an element of the annual report or document similar to an annual report.

#### SECURITIES OFFERING DOCUMENTS

- Mr. Uchino asked whether the auditor's work effort under proposed ISA 720 (Revised) could conflict with local securities law or regulation. Mr. Gélard noted that in some jurisdictions, such as France and the UK, the auditor or reporting accountant must perform certain procedures on securities offering documents and make specific communications to regulators. In some cases, these laws and regulations may contain requirements that conflict with the proposed ISA, for example, by requiring confidential communications with regulators that would be compromised by extending the proposed ISA to such documents. Mr. Uchino asked if the IAASB has a standard on securities offering documents. Mr. Gunn responded by noting that ISA 200<sup>4</sup> explains that the ISAs do not address the responsibilities of the auditor that may exist in legislation, regulation or otherwise in connection with the offering of securities to the public. The IAASB literature, however, included two standards addressing assurance on aspects of securities offering documents – prospective financial information<sup>5</sup> and pro forma financial information.<sup>6</sup>
- Mr. White noted that proposed ISA 720 (Revised) should include application material that explains that annual reports are often incorporated into securities offering documents, which would bring the securities offering document within scope.
- Mr. Baumann highlighted that the PCAOB also found this question difficult in developing the recent PCAOB proposals<sup>7</sup> that included a proposed new PCAOB standard to address other information in financial statement audits. He noted that, while he would have preferred that the new proposed PCAOB standard cover securities offering documents, they were also excluded in the PCAOB proposals because of nuances in the US securities regulations. He highlighted that in the US, the securities offering documents are filed with the regulator on a preliminary basis which may result in

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<sup>4</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>5</sup> ISAE 3400, *The Examination of Prospective Financial Information*

<sup>6</sup> ISAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*

<sup>7</sup> [PCAOB Release No. 2013-005](#), *Proposed Auditing Standards – The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and The Related Auditor's Report; and Related Amendments to PCAOB Standards*

amendments to the filing. As such, when the US securities offering documents become public, the other information may have changed, but the auditor's report would cover the original other information (not subject to the subsequent amendments) that was not yet available to the public. Mr. Baumann noted that the PCAOB proposals require auditors to perform procedures on the amended other information, but do not require them to report on that work. Mr. Baumann indicated that this was an area on which the PCAOB explicitly for feedback from respondents. Mr. Gélard acknowledged the issuance of the PCAOB proposals and indicated that they would be considered by the Task Force.

- Mr. Baumann suggested that consideration could be given as to whether a separate standard addressing securities offering documents is needed. He further suggested that the IAASB consider whether the auditor should be required to apply proposed ISA 720 (Revised) to securities offering documents, in particular for Initial Public Offerings (IPO) if no local laws about such documents exist, even though it may not be possible to mandate reporting on such securities offering documents. Mr. N. James agreed with Mr. Baumann's suggestion, noting that IOSCO had divided views on whether proposed ISA 720 (Revised) should extend to securities offering documents due to the potential conflicts with some local laws. However, Mr. N. James added that IOSCO was of a view that in circumstances where there was no local law, proposed ISA 720 (Revised) should be applied to securities offering documents.
- Mr. Ratnayake supported the Task Force's position to exclude securities offering documents from the scope of proposed ISA 720 (Revised), as he agreed that many jurisdictions have separate assurance requirements or statements for these documents. However, he noted that auditors may look at securities offering documents as part of their audit.
- Mr. Koktvedgaard asked whether securities offering documents were still effective when the annual report was issued, and indicated that this may mean that it is within the scope of proposed ISA 720 (Revised). He also suggested that work on securities offering documents should be a separate engagement from the financial statement audit.

Mr. Gélard noted that many of the comments indicated that some further clarification may be needed regarding securities offering documents that are similar to an annual report. He indicated that proposed ISA 720 (Revised) includes additional factors to consider such as whether the document is intended to be read in conjunction with the annual report, and that the closer the material in the other information is to the content of the financial statements, the more the other information is likely to be in scope.

#### WORK EFFORT

Representatives and Observers commented as follows:

- Ms. Lang supported the Task Force's proposed work effort, noting that she appreciated the principles-based nature of the requirements. Mr. Fukushima encouraged the IAASB to be as clear as possible in relation to the auditor's work effort so as not to widen the expectations gap about such work.
- Messrs. Hansen and Koktvedgaard expressed a preference for the language in the recent PCAOB proposal, "evaluate," versus "consider" as used in IAASB's proposed ISA 720 (Revised). They were of a view that the word "evaluate" connotes action whereas the word "consider" conveys a meaning that the auditor is to reflect upon the matter. Mr. Koktvedgaard noted that the choice of "consider"

or “evaluate” requires consideration of the translation implications. Mr. Dalkin was of the view that the two concepts were different, and noted that the use of different wording between the PCAOB and IAASB standards may mean that users of the standards will come to different interpretations.

- Mr. Baumann commented that the term “evaluate” was more customarily used in PCAOB auditing standards and has been traditionally used and interpreted to mean that the need for the auditor to perform a procedure(s). Mr. Baumann added that with proposed ISA 720 (Revised) being a principles-based standard, the use of the word “consider” leaves the decision as to whether procedures are performed to the auditor’s judgment. He expressed a view that the auditing standard should mandate a minimum level of procedures that should be performed by the auditor. Mr. Montgomery noted that the use of the word “consider” in proposed ISA 720 (Revised) incorporates the notion of performing procedures, and that both the IAASB and PCAOB proposals require procedures to be performed. Mr. Montgomery noted his view that the IAASB and PCAOB’s proposals were aligned, in that the outcome is the auditor’s determination whether there are any material inconsistencies between the financial statements and the other information or any material misstatements of fact.
- Prof. Schilder asked for the Representatives’ views about whether the proposed ISA had achieved the right balance between requirements and application material in light of the International Forum of Independent Audit Regulators’ (IFIAR) interest in having more specificity in auditing standards. Mr. Baumann highlighted that IFIAR is currently looking into the specificity of auditing requirements. Mr. N. James agreed with Mr. Baumann, and suggested that paragraph 11A of the draft, which requires determination of the nature and extent of procedures that are necessary in the circumstances, be strengthened. Mr. N. James suggested that greater specificity was needed, for example, to require auditors to perform reconciliations between the other information and the financial statements or perform other procedures to verify the amounts in the other information. He suggested that some material from Appendix 2 of the proposed ISA could potentially be incorporated into the requirements. Mr. Morris noted that, in his view, the ISA is too open-ended and leaves the reader wondering what the auditor is required to do. Mr. Morris added that practitioners would be assisted by having more requirements that guide them to perform the level of procedures that the IAASB expects. Mr. Dalkin expressing support for the Task Force’s approach and cautioned that having a standard that includes a detailed list of very prescriptive procedures often become the default procedures followed over time, removing the important auditor judgment about what procedures may be necessary in the circumstances.
- Mr. Morris suggested that the IAASB consider mandating some procedures in relation to quantitative amounts in the other information, as well as requiring the auditor to consider the subjectivity of management’s judgments. On the other hand, Mr. Hansen highlighted that the draft ISA appeared to be focused too heavily on quantitative other information, as much of the other information was narrative disclosure. He noted that the term “material misstatement of fact” is not a useful trigger, as anything misleading in the other information should be addressed. Mr. Gunn clarified that the term “material misstatement of fact” as used in the proposed revised draft of the ISA included the concept of misleading information.
- Mr. Ahmed empathized with the Task Force, noting that the IFSB faced similar challenges, as respondents to the IFSB’ exposure drafts have very divergent views regarding the prescriptiveness of requirements. He acknowledged the difficulty that exists in having to reconcile those divergent

views. He suggested that proposed ISA 720 (Revised) remain principles-based and avoid too many detailed procedures.

- Ms. Molyneux suggested enhancing the documentation requirements in the proposed standard to specify that the judgment about the procedures selected for the other information should be documented, thus enabling a regulator or inspector to review the documentation to determine the reasonableness of the judgment exercised in performing the procedures.
- Mr. Koktvedgaard also suggested revisions to paragraph 11 of the draft ISA for it to be in plainer language. Mr. Hansen agreed that there should be an obligation to address other information issued after the date of the auditor's report. Mr. Koktvedgaard did not support a requirement to continue to address other information issued after the date of the auditor's report, noting that it may have unintended consequences. Mr. White pointed out that the draft ISA implied that procedures continued after the date of the audit opinion, and suggested that it be clarified to indicate that it is only in relation to new other information.

Mr. Gélard summarized by noting that Representatives and Observers had indicated some support for a principles-based approach, but that there was also some demand for requiring minimum procedures on the other information.

#### REPORTING

- Mr. Koktvedgaard supported the Task Force's revisions to the requirement related to reporting, noting that it was an improvement on the exposure draft, but provided some drafting suggestions aimed at simplifying the wording.
- Ms. Molyneux noted that investors place value on knowing which documents had been read as part of the auditor's work on other information. Mr. Gélard agreed, adding that the ISA included a requirement to state which documents had been read as other information prior to the issuance of the auditor's report.
- Mr. Ratnayake suggested that the proposal not to require reporting on other information received after the date of the auditor's report may produce inconsistencies depending on when the other information was available to individual auditors. Mr. Gélard agreed, but noted that market practices will evolve over time as users demand that other information be issued in time for the auditor to report on it in the auditor's report. However, Mr. Gélard also noted that, unless law or regulation become more specific and stringent about reporting deadlines for other information, there will always be inconsistencies among entities.
- Mr. N. James pointed out that that ISA 560<sup>8</sup> deals with the auditor's responsibility regarding information that would affect the financial statements that is obtained subsequent to date of the auditor's report, but does not address other information. He also pointed out that the same work will be done on other information, regardless of whether it was referenced in the auditor's report or not, but that the level of transparency was different if such information is not addressed in the auditor's report. Mr. N. James indicated that IOSCO had suggested that the IAASB ask investors how they would like to receive information about the auditor's work on other information obtained after the

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<sup>8</sup> Paragraphs 11–17 of ISA 570, *Subsequent Events*

date of the auditor's report. Mr. G elard responded that this situation is similar to performing procedures on securities offering documents when there is no local law or regulation, as suggested by some Representatives, where the auditor would perform work but not report. Mr. G elard added that performing work on other information issued after the date of the auditor's report is in the public interest, even if the auditor is not able to reissue the report. Mr. G elard stated that in his view, market forces would eventually drive increased transparency in all circumstances.

- Mr. Baumann noted that the exclusion from the auditor's report of other information received after the date of the auditor's report may lead to abuse, particularly in those jurisdictions where including a statement on other information in the auditor's report is perceived as increasing the auditor's liability. He also pointed out that the illustrative report also mentions that the auditor "reads" the other information rather than "reads and considers". Mr. Ratnayake pointed out the illustrative report may impose a burden on the auditor to attempt to obtain drafts of the other information before the date of the auditor's report. Mr. Baumann suggested that the ISA includes guidance for auditors to specify in the engagement letter that management will produce the other information before the date of the auditor's report.

Mr. G elard noted that the Representatives had identified many of the same issues deliberated by the Task Force. He highlighted that, because dual-dating the auditor's report is not permitted in certain jurisdictions, it would be difficult to mandate international reporting on other information received after the date of the auditor's report.

#### OTHER MATTERS

- Mr. Bluhm commented that there were no particular small- and medium-sized entities (SME) issues with proposed ISA 720 (Revised), noting that it was principles-based and did not raise concerns with practitioners working with SMEs. He noted that there needed to be clarity on when the obligations under proposed ISA 720 (Revised) would cease, as that smaller practitioners often read ISAs in sections rather than comprehensively, thus they would benefit from a clearer demarcation of when the auditor's responsibility ends. Mr. Morris suggested more specificity in relation to procedures better serves SMPs and lesser developed entities by clearly explaining what needs to be done.

Mr. G elard thanked the Representatives for their feedback.

#### **Auditor Reporting – Report Back (Item C)**

*To REPORT BACK and HIGHLIGHT key points in IAASB's July 2013 auditor reporting exposure draft. Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing.*

Mr. Montgomery briefed the CAG on key aspects of the auditor reporting exposure draft, which had been approved by the IAASB at its June 2013 meeting and issued in July 2013. He highlighted the benefits that could be realized from the proposed ISAs, and explained what the changes in auditor reporting mean for the continued value and relevance of the financial statement audit.

The Representatives and Observers commented as follows:

- Mr. Thompson congratulated the Board in its efforts to address investors' needs through the auditor reporting project. He noted that, while the proposed ISAs are going far to deal with their needs, some jurisdictions may decide to go further and the IAASB will need to reflect on whether it has achieved its goals in the project at a later date. Mr. Montgomery explained that the call for field testing of the IAASB's proposals and the plans for a post-implementation review are intended to assist the Board in evaluating the outcome of the proposals. He noted that the IAASB is confident that its proposals will improve practice but will need to understand how its proposals are working in practice after a period of implementation.
- While recognizing the magnitude of change in the IAASB's proposals, Ms. Molyneux noted that investors would like to see a disclosure of the auditor's assessment of management's judgments and estimates to provide them with a view about how management is generally addressing accounting matters. Mr. Montgomery acknowledged this, but noted that the IAASB had sought to balance this with concerns raised by many respondents to the Invitation to Comment that auditors should not disclose information about the entity that should be disclosed by management, and that the robust two-way communication between auditors and those charged with governance should not be compromised.
- Mr. Peyret suggested that, when the auditor is communicating key audit matters (KAM), it should be clear that the inclusion of a matter as a KAM in the auditor's report is not interpreted as the financial statement amounts being unreliable. Rather, the auditor can provide additional transparency about the audit process that may be useful to investors.
- Mr. Hemus was of the view that strictly prohibiting auditors from communicating KAM when disclaiming an opinion on the financial statements may not be appropriate, especially from the public sector perspective. He suggested that auditors could rather be permitted to communicate KAM depending on the circumstances. In his view, the reasons that an auditor may need to disclaim an opinion may often be due to external factors and, in those cases, not allowing an auditor to communicate KAM would result in the auditor withholding information that may be useful to users in circumstances where the auditor had undertaken a significant amount of work.
- Mr. Thompson questioned the relationship between KAM and reporting on going concern. In his view, there may be circumstances in which the auditor does a significant amount of work in concluding that there is no material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern that may lead the auditor to determine going concern as a KAM.
- Ms. Molyneux encouraged the IAASB to progress its going concern proposals in collaboration with the IASB, in particular in relation to a clearer definition of a material uncertainty. Mr. Montgomery noted the need to continue to monitor the developments of accounting standard setters in this regard, to ensure there is a common understanding as to not only the definition, but also the threshold for such disclosures and the nature of them. Mr. Koltvedgaard highlighted a recent article that investigated the harmonization of audit behavior in terms of going concern reporting and agreed to pass it along for the Task Force's consideration.

- Mr. Ahmed congratulated the IAASB on the scope of its achievement on the project to date. He inquired as to the IAASB's plans to evaluate whether more guidance may be needed in relation to the audits of banks, in particular in relation to going concern and ISA 315.<sup>9</sup>
- Mr. Koktvedgaard congratulated the Task Force on preparing a comprehensive report back that clearly explained the Board's thinking in response to the Representatives' comments. In his view, doing so is extremely important for the Board's due process. Mr. Hemus agreed.
- Mr. Waldron reported that the CFA Institute is looking to find ways other than surveys to reach its membership to gather feedback on the IAASB's proposals. He noted many would be curious as to the similarities and differences of the IAASB and PCAOB's proposals.

Mr. Montgomery thanked the Representatives and Observers for their support on the report back and encouraged their Member Organizations to submit formal comments on the exposure draft to reiterate the views they had shared.

### Open Session (Agenda Item D)

*To RECEIVE a presentation titled "A Future Look at Some of the Auditing, Technology and Reporting Trends" from the American Institute of Certified Public Accountants (AICPA)*

Mr. Melancon thanked the Representatives for the opportunity to share views about the trends facing the accounting profession and the current developments and initiatives underway at the AICPA. He shared that the AICPA's current research indicates there are three main drivers impacting the profession – speed, complexity and people – and that technology plays an important role on all three. He added that complexity is the biggest opportunity and the biggest threat to the profession because, while it provides an opportunity for accountants to better respond, it also raises the public expectations about what auditors should be able to provide.

He highlighted the need for the profession to stay nimble and design services that are responsive to emerging developments in order to seize opportunities for growth. He noted developments such as "big data", cloud computing and an increased desire for connectivity, emerging currencies such as bitcoin, security and privacy issues, and micro enterprises as areas that may require attestation or assurance services or increased focus by groups such as the AICPA, IAASB and IFAC. Mr. Melancon also stressed the need for balance to respond to not only regulatory pressures and the calls for public interest, but also to ensure the profession remains relevant and dedicates the necessary time to exploring areas of interest by other stakeholders, including the demand for new services. He then cited the additional challenge facing the accounting and auditing profession resulting from difficulties in recruiting and retaining people both at the experienced level as well as individuals entering the accounting profession.

Mr. Melancon also shared perspectives on the future of attestation in non-public companies, noting the tremendous growth in that area, particularly in the US. He added that it is important for the profession to evolve in order to remain relevant. He cautioned standard setters to take into account not only what is needed to deliver on today's expectations of users, but also bearing in mind tomorrow's expectations when developing new standards. Mr. Melancon shared views on issues relating to ethics and

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<sup>9</sup> ISA 315, *Identifying and Assessing the Risks of Material Misstatements through Understanding the Entity and Its Environment*

confidentiality, reiterating its importance on audit and assurance work. He then pointed out that the influence of today's use of social media limits today's workforce's expectations and perceptions of confidentiality.

The Representatives and Observers posed the following questions and Mr. Melancon responded as follows:

- Mr. Morris asked whether the existence of multiple bases of accounting standard (GAAP, cash basis of accounting, AICPA's new initiative for reporting, etc.) will impact the future of auditing and the profession overall. Mr. Melancon responded that, in his view, the diversity of businesses and accounting practices definitely adds to the degree of complexity in auditing.
- Mr. Sylph asked whether accountants' traditional views about confidentiality (i.e. if law has not been broken, then all is well) should be changed to focus more on ensuring that information available is fair and not misleading, in particular as it relates to the G20's current views about tax evasion. Mr. Melancon responded that the AICPA is of a view that the determination of what is reasonable taxation should be a matter of public policy, noting that complexity of tax law makes it hard for a company or an auditor to determine what is the fair amount that should be paid to authorities.
- Mr. Hemus asked whether the AICPA had studied the reasons for the decrease in students studying or pursuing a profession in accounting. Mr. Melancon responded that interest at the student level in accounting in the U.S. is high. The issue is that in some parts of the world, this is not the case, i.e., that volume is not occurring. In the U.S., the issue is retention. The high interest in accounting is not producing long term results because some, primarily Generation Y professionals are finding that the work environment does not encourage them to stay in the profession as a career.
- Mr. Ahmed noted that there is a view, particularly within the financial services industry, that the audit function is not sufficiently influential. He asked whether that contributed to the financial crisis and, looking to the future, whether enough had been done to increase the credibility of the audit profession. Mr. Melancon responded that, in his view, the crisis helped the profession, regulators and others to focus on having more consistent reporting across jurisdictions. He added that communication between the auditor and the audit committee is better than it had ever been and can continue to improve. He pointed out that both that PCAOB and IAASB have proposals out for comment that are aimed at improving the auditor reporting models. He shared that, in his view, though it will be important that assurance be useful in terms of indicating issues that kept auditors awake at night during their audits, it will also be critical that users be able to access financial information in a format and with the content that is most useful to them.
- Mr. Finnell asked about the change and distribution of market share among firms away from big four firms in the US and its potential implication on audit quality in the US. Mr. Melancon indicated that the flow of capital is disproportionately allocated in private equity funds among smaller firms and that small audit firms manage their exposure to public company audits. He added that in general smaller firms grow because of mergers and acquisitions and tend not to be a competitor to big firms.
- Ms. Blomme asked about plans to address the current challenges to the profession, in particular as it relates to financial reporting improvements. Mr. Melancon responded that the AICPA's efforts began in 1995 as part of an initiative called Enhanced Business Reporting (EBR). The work resulting from EBR evolved over the years, with its latest evolution being the International

Integrated Reporting Council (IIRC). He shared some perspectives about the merits of the work of IIRC, including integrated reporting, drawing some parallel to the recommendations of the Jenkins Committee.<sup>10</sup>

*To RECEIVE a presentation on the PCAOB's Standard Setting Activities*

Mr. Baumann thanked the Representatives and Observers for the opportunity to talk to them about the activities of the PCAOB, including its inspection findings and standard setting activities.

INSPECTION FINDINGS

Mr. Baumann gave a brief overview of the PCAOB and its mission, noting that the PCAOB inspects not just US public company audits but also audits of foreign entities registered with the US Securities Exchange Commission (SEC). He noted that though the PCAOB has access to do these inspections in most countries, that there are some jurisdictions, including China, where access is still pending. Mr. Baumann provided some statics about the PCAOB's 2012 inspection findings, noting that approximately 37% of audits inspected, 40 % for tri-annual firms, were found to be deficient – which means, taken as a whole, the audit evidence did not support the auditor's opinion, based on the PCAOB's review of the working paper files and discussions with engagement teams. He described some of the audit areas most prone to having inspection findings including fair value measurements, auditing internal controls, auditing estimates, revenue recognition and use and evaluation of management-prepared data and reports. He noted that some of the reasons that the inspection teams have cited as common root causes for those findings result from deficiencies in the tone at top at the firm, lack of professional skepticism, ineffective supervision, and inappropriate risk assessments and responses to risks identified. Mr. Baumann noted that improving auditing standards cannot sufficiently deal with the problem noted in inspection findings. Accordingly, the PCAOB is planning to issue a concept release to deal with firm audit quality control in early 2014 addressing, among many other things, supervision and tone at the top issues.

AUDITOR INDEPENDENCE AND AUDIT FIRM ROTATION

Mr. Baumann noted that, in response to the inspection findings, the PCAOB issued [a concept release related to auditor independence and audit firm rotation](#). Following the close of the comment period public hearings were held. Feedback on the PCAOB's concept release indicated that audit committees generally objected the idea of auditor rotation. He also noted that there was a bill passed by the House of Representatives, not yet by the US Senate and thus not yet adopted or signed into law, pre-empting any standard setting regarding engagement partner rotation in the US. He noted that the issue of mandatory auditor rotation is currently being debated in other jurisdictions, for example, the UK and the Netherlands. Mr. Baumann noted that the PCAOB continues to be part of the global debate regarding auditor rotation, but the topic is not currently being specifically addressed in any PCAOB standard-

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<sup>10</sup> The Jenkins Committee was a special committee formed by the AICPA in 1991 to address questions and concerns about the relevance and usefulness of business reporting. The Committee issued a report, [Improving Business Reporting - A Customer Focus](#), which was developed based on extensive research of the needs of both users and preparers of business reports. The report recommends an enhanced business reporting model which, if implemented, would make future business reports more relevant and useful.

setting activity. However the PCAOB has several initiatives that are indirectly related, including its recently released [Staff Alert, Maintaining and Applying Professional Skepticism in Audits](#).

#### AUDITOR REPORTING MODEL

With respect to the PCAOB's [auditor reporting model](#) project, Mr. Baumann noted that he was very pleased with the frequent interaction between the PCAOB and the IAASB leading up to their recently released proposals. He noted that although the two boards had not agreed on an approach together, both proposals benefited from the discussions of board members and staff, who met periodically. He noted that because of the IAASB's ability to transparently share feedback from its Invitation to Comment: *Improving the Auditor's Report* with the PCAOB, these interactions enabled the two boards to independently develop proposals that are not substantively different.

Mr. Baumann noted that the PCAOB's proposals more closely align the description of the auditor's responsibilities with the description that is in the ISA 700<sup>11</sup> auditor's report, e.g. a more explicit reference to the auditor's responsibilities with respect to fraud and independence. However, the PCAOB's proposals also require that the auditor's report include information about auditor tenure, an issue that is not addressed in the IAASB's exposure draft.

Mr. Baumann then noted that the PCAOB's proposals require auditors of public companies to communicate critical audit matters (CAM) in the auditor's report – defined as those matters the auditor addressed during the audit that involved the most difficult, subjective or complex auditor judgments, or posed the most difficulty to the auditor. The concept is not dissimilar to the IAASB's required KAM for listed entities – those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Mr. Baumann added that it is expected that most auditor's reports will include CAM similar to KAM. Mr. Montgomery concurred that there is a high degree of similarity between the PCAOB and IAASB proposals, but added that the IAASB's proposals indicate that KAM are selected from matters communicated with those charged with governance. He also added that the two sets of proposals had some very subtle differences. For example, the IAASB's proposals required a more detailed description of the auditor's responsibilities and permit some flexibility for having this description relocated to an appendix or a website of an appropriate authority. Mr. Montgomery also added that IAASB's proposals are a bit more prescriptive requiring the use of headings in some places.

Mr. Baumann reiterated that the boards independently agreed that the auditor should communicate about the audit versus the financial statements in the auditor's report. With respect to having CAM be part of the matters communicated with TCWG, Mr. Baumann indicated his view that the PCAOB proposals were broader, because the determination of CAM could also be derived from matters discussed with the engagement quality control reviewer or the audit documentation. Another area of difference is the approach taken to documentation of the auditor's judgments relating to the determination of CAM. The PCAOB indicated that if there is a matter that would appear to another experienced auditor to meet the definition of CAM, but was not disclosed as such, then the auditor should document why it was not included as a CAM.

Mr. Baumann added that the PCAOB proposals included a separate standard to address other

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<sup>11</sup> ISA 700, *Forming an Opinion and Reporting on Financial Statements*

information, which is defined as the annual reports in Forms 10-K and 20-F that are required to be filed with the SEC.

Mr. Baumann noted that the two key differences between the IAASB's proposals and the PCAOB proposals related to:

- **Going concern:** Mr. Baumann noted that in the US there are currently no requirements for management to report on its assessment of going concern and that the US Financial Accounting Standards Board (FASB) has a project that is expected to put in place such a requirement. As a result, the PCAOB's going concern project is separate project from auditor reporting and is closely linked to the FASB's project.
- **Naming of the engagement partner:** The PCAOB has a separate project to deal with the issue of naming the engagement partner. In particular, concerns about liability issues from doing so are still being evaluated.

#### AUDIT QUALITY INDICATORS

Mr. Baumann indicated that the PCAOB has a project somewhat similar to the IAASB's audit quality project, albeit with a different focus. The PCAOB's project is intended to develop audit quality indicators that could be used at an engagement level and firm level to measure audit quality. The purpose of those audit quality indicators is to provide the public with insights on the quality of the audit based on those measures. It is anticipated that those audit quality indicators could become the basis on which audit firms compete in the future.

The PCAOB has obtained feedback from its Standing Advisory Group (SAG) on a potential set of indicators. It plans to discuss this project at its November 2013 SAG meeting and incorporate this feedback into an Audit Quality Indicators concept release in early 2014. Once the PCAOB obtains feedback on this concept release, it plans to do field testing.

#### IFIAR

Mr. Baumann noted that IFIAR is an increasingly important global audit regulatory organization. Among other things, IFIAR is now sharing global inspection findings in a coordinated fashion. In 2012, for the first time, IFIAR issued a global compilation of inspections. Several working groups have been established within IFIAR, including the IFIAR Standards Working Group, to provide more input and play a more significant role in the auditing standard-setting process. Mr. Baumann pointed out that IFIAR's new Chairman Lew Ferguson is also a PCAOB board member, and that IFIAR has a very ambitious agenda aimed at bringing best practices to audit.

#### OTHER PCAOB INITIATIVES

Mr. Baumann noted that there are several other projects and initiatives being explored by the PCAOB, including related to fraud detection and related party transactions. He noted that the PCAOB exchanged views with its SAG in November 2012 on potential research and outreach that could be done with respect to the auditor's approach to detecting fraud in audits. He added that, as a follow up, the PCAOB is putting in place a smaller group within its SAG to explore ways to further study how more could be done by auditors with respect to detecting fraud. Mr. Baumann indicated that an update of this group's work will be discussed at the November 2013 SAG meeting.

Mr. Baumann noted that the PCAOB also has a [Related Parties](#) project, with the re-proposed standard scheduled to be finalized by March 2014. The proposed related parties standard, which also includes requirements relating to significant and unusual transactions, places greater emphasis on fraud and on understanding the essence of the transactions and relationships. Mr. Baumann noted that the proposed standard was intended to strengthen the PCAOB's current related party standard by setting new requirements for specific audit procedures that would include: (i) obtaining an understanding of companies' relationships and transactions with its related parties; (ii) performing specific procedures for related party transactions that require disclosure in the financial statements or that are determined to be a significant risk; (iii) evaluating whether the companies have properly identified related parties, relationships and transactions with related parties; and (iv) communicating with the audit committee. Mr. Baumann noted that the PCAOB's standard is similar to ISA 550,<sup>12</sup> but that some of its requirements are more prescriptive. Mr. Baumann also commented that the proposal required the auditor to understand executive compensation. He explained that the PCAOB believes that requiring auditors to obtain an understanding about and evaluate relationships that exist between the company and its executives would help an auditor determine the incentives and pressures that may be created by those relationships.

The Representatives and Observers commented as follows:

#### INSPECTION FINDINGS

- Mr. Hines noted that, in light of the FASB's and the IASB's newly released standards and pending proposals, including those related to insurance contracts and revenue recognition, it is expected that the use of estimates will increase in financial reporting and therefore will be more important in auditing. Thus, it is unfortunate that this is an area where inspections findings are common and he asked about what could be done to increase the level of confidence that can be placed on the resulting financial statements. Mr. Baumann agreed and noted that the use of and complexity in estimates are definitely becoming more prominent in financial reporting as accounting standards are getting more complex. He added that auditor experience, training, and specialized training will become even more important.
- Mr. Bluhm asked whether there is a distinction between actual findings and findings that are related to a lack of documentation. Mr. Baumann explained that inspection teams have indicated that none of the findings result from solely a lack of documentation – inspection teams accept oral documentation based on their discussions with the engagement teams in situations where written documentation is not available.
- Mr. Finnell asked about the PCAOB's remediation process. Mr. Baumann noted that the auditor is required to apply the auditing standard related to subsequent discovery of facts. He noted that more egregious findings are referred to enforcements or the SEC. Mr. Finnell also asked whether the PCAOB released public information about inspection findings at the industry level. Mr. Baumann responded that, at this time inspection reports do not indicate the name of the issuers, thus no such reports were available. However, Mr. Baumann agreed that having such information at the industry level would be useful and noted that he would take Mr. Finnell's question back to

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<sup>12</sup> ISA 550, *Related Parties*

the PCAOB for consideration.

#### AUDITOR REPORTING MODEL

- Mr. Waldron suggested that the IAASB and PCAOB jointly release a comparison document on their auditor reporting proposals and make it available on the organizations' websites. He noted that having such a document would be very useful to potential respondents to the exposure drafts. Mr. Baumann noted that some audit firms have already prepared such documents, which are publicly available. Mr. Montgomery agreed. Mr. Baumann reiterated the importance of both boards having investor input and requested investor representatives around the table to submit comment letters.
- Mr. Hansen noted that he has been very impressed with both organization's progress and the quality of their proposals. He suggested that the IAASB and PCAOB explore ways to further reduce the differences between the two sets of proposals. Mr. Baumann noted that, depending on the feedback received, it may be possible to further minimize the differences. He added that the US auditor's report has not substantively changed in over 75 years and that the PCAOB would develop the new standard in a deliberate and thoughtful way even if it meant re-proposing its proposals.
- Prof. Schilder shared views on the differences in the PCAOB and IAASB proposals, noting that that the difference are not black and white, but instead reflect where each board chose to place emphasis in response to comments received on their respective earlier consultations.

#### **Assurance Engagements Other than Audits or Reviews of Historical Financial Information - ISAE 3000 (Item E)**

*To RECEIVE a summary of IAASB's recent decisions and DISCUSS the Task Force's proposals (final standard planned for September 2013)*

Ms. Mc Cabe introduced the topic, noting that the revised draft of proposed ISAE 3000 (Revised) benefited from input from the CAG over the life of the project and that approval was planned for the IAASB's next meeting in September 2013. Ms. Mc Cabe also drew attention to the report back on comments made at previous CAG meetings.

The Representatives and Observers commented as follows:

#### REPORT BACK

- Ms. Lang speaking as rapporteur of the ISAE 3000 CAG Working Group (WG) expressed a preference for having illustrative reports as part of the final ISAE 3000 (Revised).

#### DIRECT ENGAGEMENTS

- Ms. Lang, speaking as rapporteur of the WG on proposed ISAE 3000 (Revised), commented that while understanding the rationale for removing specific material addressing direct engagements in light of the difficulties encountered, a preference was expressed by the WG that the IAASB continue developing a revised ISAE 3000 that included direct engagements. The WG acknowledged that the resulting standard may be more complex and the project would take longer,

but she noted that ISAE 3000 was important as an umbrella standard to the ISAE 3000-series standards and as a standard that fosters innovation in assurance engagements. She noted that it was surprising that the IAASB had decided to remove direct engagements from the proposed standard when so few respondents expressed that view, while others supported more detail being provided on direct engagements. Ms. Mc Cabe noted that the IAASB's decision to remove specific material addressing direct engagements did not preclude application of the ISAE to direct engagements. She noted that the ISAE 3000 Exposure Draft, while more explicit than extant ISAE 3000, did not include a significant amount of material on direct engagements but that there were calls on exposure for more detail on direct engagements. She highlighted that the Task Force had attempted this, as discussed at the April 2013 IAASB and CAG meetings, but that the IAASB found it difficult to accommodate direct engagements without making the ISAE overly complex and without addressing the fundamental conceptual basis of assurance that had been scoped out of the project. Accordingly, since the language used in proposed ISAE 3000 (Revised) did not resonate with direct engagement practitioners, the Board formed the view that the proposed standard should concentrate on attestation engagements to foster innovation and support the other 3000-series standards. She added that the topic of direct engagements would be considered as the IAASB discusses its future strategy and work plan. Prof. Schilder highlighted that the discussion at the April 2013 IAASB meeting, following earlier educational sessions, was the most informed discussion the IAASB had had on the issue of direct engagements. Some members questioned whether the ISAE was too attestation focused while others questioned how common direct engagements were under extant ISAE 3000. He summarized that the IAASB concluded that there was merit in finalizing the attestation side and taking time to consider the future of work regarding direct engagements.

- Speaking for Mr. Dalkin, who was absent from the session, Mr. Morris indicated that INTOSAI was of a view that the ISAE was moving in the right direction, and that they supported the approach of issuing the standard for attestation engagements rather than engaging in what may be lengthy and difficult discussions to try to continue to incorporate direct engagements. However, Mr. Morris noted that both he and Mr. Dalkin were of the view that the ISAE should not require application to direct engagements, as there was insufficient material to support doing so. Ms. Mc Cabe noted that, as drafted, it could be read that there were no additional matters that needed to be considered in direct engagements, which was not the intent. Prof. Schilder added that Mr. Morris' comment needed serious consideration, and that it may be seen as unreasonable to mandate application of proposed ISAE 3000 (Revised) to direct engagements without material to support such engagements. However, Prof. Schilder also noted that including reference to direct engagements was needed to ensure that the IAASB retained a presence in this important area of assurance.
- Mr. Koktvedgaard noted that he did not believe the ISAE was ready for approval, as the IAASB appeared to still be having lengthy discussions about direct engagements. Instead, he supported the IAASB engaging in a comprehensive review of the ISAE, if necessary, to enable the production of an ISAE that supports both attestation and direct engagements. He noted that failing to issue a standard that addressed direct engagements would pass the problems noted in the IAASB's debate to those that have to apply the standard. Prof. Schilder noted that the direct engagement aspect of ISAE 3000 is more often used by public sector practitioners, who often have the authority to, and have in practice, set their own standards for direct engagements. He further noted that the IAASB also wanted a standard with both attestation and direct engagements, but had realized that such a

project would take at least two years, due to the volume and complexity of the issues that may have to be addressed. Mr. Gunn added that, in his view, such a project is likely to take longer than two years due to the need to consider the conceptual issues first.

#### INDEPENDENCE IN A DIRECT ENGAGEMENT

- Ms. Lang noted that, while the importance of it may be reduced due to the removal of specific requirements and guidance regarding direct engagements, the topic of how a direct engagement practitioner can be independent was still worthy of being considered.
- Ms. Blomme agreed with Ms. Lang and noted that the Task Force's acknowledgement that work may be needed in the area indicated that there was doubt as to the adequacy of the existing independence rules for direct engagements. Ms. Mc Cabe responded that the IAASB may pursue a project addressing direct engagements in the future, and that investigating whether the IESBA could pursue a project in this area would aid in avoiding having a misalignment in projects addressing the ethical and assurance aspects of direct engagements. Mr. Sylph noted that the normal understanding of independence for public sector auditors, who more commonly perform direct engagements, differs from private sector auditors. Mr. Sylph added that there may be merit in considering whether further work is needed on auditor independence in the public sector more broadly. Prof. Schilder agreed, noting that he had taken the opportunity to familiarize himself better with the long-form reports used in direct engagements and could understand the value in re-evaluating independence considerations for such engagements.
- Mr. Koktvedgaard asked whether the practitioner needed to be independent in all assurance engagements, and whether it was possible to do an assurance engagement under proposed ISAE 3000 (Revised) if the practitioner was objective but not independent. Ms. Mc Cabe responded that proposed ISAE 3000 (Revised) is premised on the practitioner being subject to relevant ethical requirements and being a member of a firm that applies quality control requirements. Accordingly, a practitioner that is not independent would not be able to perform an engagement under proposed ISAE 3000 (Revised).

Prof. Schilder, in summarizing the discussion, noted that the CAG was in principle very supportive and understood the difficulties, but might have had some preference for including direct engagements in proposed ISAE 3000 (Revised), but they understand the IAASB's difficulties. He added that Representatives supported the direction taken, but also had a clear recommendation to have a look at the wording regarding direct engagements and to see if it might be softened such as "these are things that might be considered." He also noted that Representatives and Observers appreciated where the IAASB has come from and where it is going. Representatives and Observers agreed with this summation.

Ms. Mc Cabe thanked the CAG, noting that the project had been challenging for all involved and that issuance of the ISAE for attestation engagements would serve the public interest.

**September 10, 2013**

**Audit Quality (Agenda Item H)**

*To DISCUSS a summary of the responses received from the proposed Audit Quality Framework (final Framework planned for December 2013)*

Mr. Grant introduced the topic, noting that the current version of the Framework had benefited greatly from the Representatives' and Observers' comments received to date. He advised that 76 written responses had been received to the IAASB's Consultation Paper, *A Framework for Audit Quality*, and drew the Representatives' attention to the agenda material that summarized the comments received.

Mr. Grant summarized the more significant changes that were made to the audit quality framework (the Framework), and sought the feedback from the Representatives on the following three topics:

1. The finalization of the Framework; in particular with respect to the balance and length of the document, and the definition of audit quality;
2. What might be done to support use of the final and published Framework by the IAASB and the organizations represented by Representatives; and the further work that the IAASB may need to undertake more generally to support the audit quality project, in light of the feedback received from respondents on the *Areas to Explore* section of the consultation paper.

**FINALIZATION OF THE CURRENT FRAMEWORK**

Summarizing the more significant feedback received from responses to the consultation paper, Mr. Grant noted the following:

- A number of respondents commented about the Framework being too long. Mr. Grant noted that at the time of publishing the consultation paper, the IAASB and the Task Force were aware of concerns about the length of the Framework, but saw merit in seeking views about the length via public consultation. He noted that in response, the Task Force recommends that the detailed discussion relating to the input factors be moved to a separate document called a "guide."
- The responses to the question about the balance of the Framework were mixed. Mr. Grant further noted that some respondents suggested that more emphasis be placed on the contextual factors and management's role. He indicated that the Task Force, did not plan to recommend substantive changes, acknowledging the discussions of the IAASB and the IAASB CAG leading up to the release of the consultation paper.
- A number of respondents called for the IAASB to establish a clear definition of audit quality. Mr. Grant indicated that the Task Force had discussed this suggestion at length, and maintains the view that it is too difficult to define the term given the differing stakeholder perspectives about what such a definition should state. Accordingly, revisions were made to: (i) refine the wording of the first two paragraphs of the document that described the concept of audit quality; and (ii) give those paragraphs greater prominence by moving them to the start of the Framework.

The Representatives and Observers commented as follows:

*Length, Status and Balance of the Framework*

- Mr. Peyret, speaking on behalf of the Audit Quality CAG WG, complimented and thanked the Task Force for the work done on audit quality. He expressed support for the Task Force's approach to have a separate guide as a way of streamlining the document. He added that the approach simplified the document, thereby making it and the stand-alone guide a more helpful tool for users. Mmes. Blomme and Lang agreed.
- Mr. Bluhm was of a view that the length of the document is not relevant, noting that those who will read the document will read it regardless of its length. He noted that the important thing was for the Framework to focus instead on those matters that the IAASB determined needed to be included. Mr. Ahmed agreed, noting that by comparison, the Framework was significantly shorter in length compared to the IFSB's 140-page draft.
- Ms. Molyneux expressed a contrary view, disagreeing with the Task Force's recommendation to move the detailed descriptions of the various input factors to one or more subsidiary guides. She noted that moving such detail out of the Framework would not be appropriate, because it could potentially diminish the perceived importance/value of the information in those guides. She added that the detailed descriptions about the input factors, especially those relating to time and experience, in her view were very important, and that her preference would be to retain this information prominently in the Framework. Messrs. Hansen, Hemus, Hines, Koktvedgaard, Morris, and White agreed. Messrs. Hansen and Koktvedgaard challenged the Task Force to explore different way to shorten the Framework, while Mr. White explained that keeping all the material in one place formed a better basis for discussion.
- In response to Ms. Molyneux's comment about retaining the prominence of the input factors, Mr. Grant reminded the Representatives that the framework would be non-authoritative, with the IAASB's objective for it to stimulate debate and further action aimed at improving audit quality from all stakeholder groups. On this basis, Mr. Grant noted that neither the framework, nor separate guides describing the input factors, would have an authoritative status. Mr. Grant then suggested that a possible solution might be to return the detailed descriptions of the input factors into the framework in the form of an appendix. Messrs. Hansen, Hemus, and Hines expressed support for this approach. Prof. Schilder added that the use of an appendix for the detailed descriptions of inputs would also help streamline the framework.
- Ms. Lang suggested that the Task Force give consideration to the fact that there is a direct relationship between the length of the document and its usefulness – with a shorter document being more user-friendly.
- Mr. Peyret indicated that the Framework appropriately highlighted the fact that audit quality results from the effective interaction of three key groups – preparers, auditors and regulators. He also noted that that each of those three groups had an important role to play in improving audit quality. He also noted that audit quality indicators would be helpful, particularly to regulators.
- Mr. Ahmed congratulated the Task Force on the work that had been done on the Framework, but suggested that the Task Force re-consider the wording of the section on broader cultural factors and further refine the language and tone. He suggested that the Task Force look to the recent

Basel Committee's publication in revisiting the language and tone of the Framework, focusing in particular on the section that addresses professional skepticism. Mr. Ahmed also emphasized the need for the proper resourcing of audits, in particular bank audits.

- Mr. Ratnayake suggested that the Task Force consider including more references to the role played by financial reporting regulators in enhancing audit quality in terms of the influence they have on ensuring that the auditor does a good job. He drew reference to the paragraphs within the Framework that addressed audit regulators and suggested that a similar explicit reference be made to financial reporting regulators. Mr. Grant acknowledged the point, noting that the Task Force would consider revisions to ensure that appropriate emphasis is given to the role of financial reporting regulators.

#### *Definition of Audit Quality*

- Ms. Blomme expressed support for the description rather than definition of audit quality in the Framework, but suggested that the Task Force revisit the use of the word “concept” as used in the sentence that reads “The *concept* of audit quality captures the key elements...” Mr. Grant acknowledged the suggestion, noting that the Task Force had intended for the sentence in question to mean that “audit quality are those conditions that exist in an environment that will increase the likelihood of high-quality audits being performed consistently.” Ms. Blomme indicated a preference for Mr. Grant’s verbal explanation.
- Mr. Bluhm expressed a contrary view, noting that describing the concepts of audit quality, a high-quality audit, and a quality audit was preferable to trying to define the terms. He acknowledged that they are not all the same thing, for some (e.g. SMPs) the performance of a quality audit (rather than a high-quality audit) is probably sufficient.
- Messrs. Hansen, N. James, Koktvedgaard and Molyneux expressed support for the improvements made to the Framework but suggested that there was still considerable work to be done to enhance audit quality in practice. Mr. Koktvedgaard asked for clarification about whether the Framework would allow for the determination of whether an audit is of “high quality.” He asked whether the starting assumption would always be that an audit is “high-quality.” Messrs. Hansen and N. James agreed. Mr. Hansen suggested that the wording of the Framework could better reflect the fact that a “high-quality” audit is achieved when certain features are present by deleting the word “likely” in the first paragraph of the Framework. Mr. N. James added that the focus on “high-quality audit” is fundamental to what audit quality is about and suggested that the Framework, as presented, was really just a description of the current elements of an audit, but did not address what distinguishes an audit from a “high-quality audit.” Ms. Molyneux added that it was important to do more to spotlight the need for “high-quality audits.”
- Mr. Grant responded that it would be rash to assume that all audits are high quality and noted that:
  - The Framework would be used as a starting point for making an assessment of the quality of an individual audit and that for a quality audit to be performed all of the elements described in the Framework would need to be in place. He added that in his view by describing the elements, the Framework essentially describes what constitutes a high-quality audit.
  - Though the Framework deals with generalities about matters such as business knowledge and judgments, it would be necessary to drill down to specifics, and make assessments

about individual (e.g. judgments) to get a good feel for the quality of each audit, in the same way that regulators do when undertaking inspections, to assess the quality of an individual audit.

- The suggestions in the IOSCO comment letter with respect to enhancing audit quality in the future are being considered as part of the Board's consideration of its future strategy and work program.
- Specific to Mr. Hansen's suggestion to delete the word "likely" as noted above, Mr. Grant explained that the wording in the referenced paragraph as used in the Framework reflected the diversity in stakeholder perspectives about the relevance of the individual factors – i.e. not all the factors are essential.
- He also noted that some users are of a view that the presence of certain factors may compensate for the absence of others in evaluating whether a high-quality audit was performed. Mr. Grant added that, in his view, a universal definition of audit quality was not possible, because "a high-quality audit" meant different things to different people.
- Messrs. N. James, Uchino and Baumann were of the view that the IAASB should reconsider its position taken in the consultation paper and develop a definition of audit quality. Mr. N. James added that further consideration be given to the PCAOB's ongoing project to develop audit quality indicators, given that more than 20 of the 76 respondents to the consultation paper suggested that the IAASB develop a definition of audit quality. Mr. Uchino added that the development of a measurement system for audit quality could help auditors gain the confidence of investors.
- Mr. Baumann recommended that the Framework seek to support the measurement of audit quality. He acknowledged the difficulty in defining audit quality and was of a view that determining indicators to measure it would be useful. Mr. N. James agreed. Mr. Baumann added that he was surprised that the idea to explore ways to measure audit quality was not included in the consultation paper, at least in the *Areas to Explore* section, in light of his suggestion to do so at previous CAG meetings. He reiterated that the PCAOB was undertaking such a project and intends to issue a concept release. Mr. Grant acknowledged the points, but added that most of the respondents who suggested that a definition of audit quality be developed did not provide specific suggestions as to how this could be done. He indicated that the Task Force considered the suggestions and the few examples that had been provided, and determined that they were flawed. Prof. Schilder noted that in finalizing the consultation paper, the IAASB spent a considerable amount of time exploring whether the Framework should include a definition of audit quality, and what such a definition should be, thus he anticipates having those discussions again in light of the feedback on the consultation paper. He referred to the basic thought about audit being a process, and that audit quality is related to how people think they have received that process. Prof. Schilder also noted that audit quality is a combination of the efforts of the preparer, the auditor, and the regulator, and it was important for all of those stakeholders to contribute.
- Prof. Schilder also referred to the presentation the previous day by Mr. Baumann where he highlighted the work of the PCAOB in developing measures of audit quality. He indicated that the work of the PCAOB was of great interest to the IAASB, but there were still some fundamental questions about how the measurement assessments would be made, and by whom. He noted that, at the end of the day, determining a measure for audit quality includes looking at people,

judgments, and perceptions. Prof. Schilder added that the awareness of these complexities is the reason for the IAASB's reluctance to take further efforts in determining a definition for audit quality.

- Mr. Baumann commented that he would be concerned if the Framework was used as an excuse by auditors for poor quality work. He made reference to certain areas within the *Contextual Factors* section of the Framework which together implied that audit fees may have a direct impact on audit quality. He expressed a view that audit quality should not be dependent on the audit fee. He added that auditors should not accept, or should consider resigning from engagements where the audit fee is determined to be insufficient, but if they perform the audit, the work should not be impacted by the fee. Messrs. Ahmed and Kocktvedgaard agreed. Mr. Ahmed suggested that the Framework make a stronger statement that audit quality should not be constrained by fees. Mr. Grant agreed that audit quality should not be constrained by the audit fee. He noted that, however, the IAASB had received a considerable number of comments in response to the consultation paper, particularly from developing nations that indicate that the fee pressure is so intense that it is impacting audit quality. In light of this feedback, the Task Force thought it was necessary to acknowledge these concerns. Mr. Baumann acknowledged the response, noting the diversity in the relative importance placed on audits across jurisdictions. He noted that, though he did not know the answer for jurisdictions where audits were not as important, for jurisdictions where audits are important, it is critical for auditors to assess the reputational risks to audits and the profession, of not addressing this issue.
- Mr. Kocktvedgaard added that there are a number of factors that affect audit fees and the question about whether audit firms are prepared to provide the necessary resources to service audits. Mr. Kocktvedgaard drew a relationship between audit quality and the auditor report, noting that as long as the auditor's report was merely a pass/fail auditor's report, then audit would be treated like a commodity, and therefore priced as such. He noted that a more informative auditor's report with signals for users is a critical indicator that a high-quality audit has been performed.
- Mr. Dalkin was of the view that discussion of audit quality and audit fees should be de-linked as they are two mutually exclusive ideas. He suggested that a way to address the fee issue might be to add/revise wording relating to engagement acceptance and the risk assessment standards for when considering a new or continuing an engagement.

#### *Other Areas*

- Ms. Blomme asked about the IAASB's plan in relation to the audit quality project going forward, including clarification about whether the finalization of the Framework in December 2013 would signal the end of work on audit quality. Mr. Grant responded that the discussions on the IAASB's future strategy and work program were intended to seek Representatives' and Observers' views about whether, and what, future work the IAASB should pursue relating to audit quality.
- Mr. Kocktvedgaard asked how the Framework would feed into the auditor reporting process. He noted that it would be useful to see the points outlined in the Framework being reflected in the auditor report in terms of the description of what the auditor does.

#### SUPPORTING THE USE OF THE FINAL AND PUBLISHED FRAMEWORK

Mr. Grant introduced this aspect of the discussion, and made reference in particular to suggestions made by IOSCO in its response to the consultation paper for the IAASB to explore further work in the area of

audit quality. He asked for the Representatives' views as to what the IAASB and the CAG Member Organizations should do once the Framework is published; both in the short term to promote its use, and in the longer term in terms of influencing actions to improve audit quality

The Representatives and Observers commented as follows:

- Mr. Waldron indicated that the matters raised within the Framework are important areas for investors. He suggested that the IAASB explore ways to further educate investors, adding that many investors could benefit from having a better understanding of an audit is, what an auditor does, what an audit failure represents, and what is being done in the area of enforcement. He suggested that once the Framework was finalized, it would be important to promote it and further educate investors on the topics areas above, through the use of for example webcasts.

Mr. Waldron thanked the IAASB for the work done with respect to audit quality, and noted that already the auditor reporting project went a long way in helping investors better understand an audit, but that more could be done. Messrs. Bluhm and Peyret agreed with the importance of educating users.

- Mr. Bluhm noted that there is confusion among some as to the meaning of the terms “audit deficiencies” with “audit failures” and reiterated that the two terms are not synonymous. He then suggested that it would be useful to obtain views from other Representatives and Observers, in particular regulators, on this topic. Mr. Baumann responded that there are varied views on the correlation between audit failures and financial reporting failure. He observed that there is a view that if a post-audit material misstatement resulted in a restatement, then the audit failed. Mr. Baumann clarified that an audit failure is not just an audit deficiency; there can be a number of deficiencies identified in an audit, but that does not necessarily result in an audit failure. He reiterated that the PCAOB defines an audit failure as the failure by the auditor to obtain sufficient appropriate audit evidence to support the opinion on the financial statements.
- Ms. Molyneux suggested that the IAASB take steps, including organizing outreach to users, to raise awareness of the Framework and promote its contents. She further suggested that the IAASB host roundtables and forums involving directors and investors in this regard. Messrs. Ahmed and Hemus agreed. In response, Prof. Schilder noted that the ICGN had already held two events to discuss audit quality, providing the IAASB with the opportunity to promote the work that it had done to date. He encouraged the Representatives and Observers to consider whether they can host similar events.
- Mr. Hemus suggested that IFAC could assist in promoting the Framework, perhaps by developing a standard presentation that could be distributed to IFAC member bodies for use in their countries. Mr. Bluhm expressed support for the suggestion of utilizing standard presentations made available via the IFAC website and made available to member bodies. However, he identified a challenge resulting from the lack of clarity around how the Framework would be used, particularly by SMPs. Prof. Schilder acknowledged the work of organizations such as the WB and the IMF in promoting the work done by the IAASB, and indicated that the IAASB would consider approaching IFAC to explore ways to further promote the Framework.
- Mr. Thompson suggested that the IAASB put in place a process for obtaining feedback about the use of the Framework from groups such as audit committees and regulators. He also suggested that the IAASB explore whether feedback from the consultation paper indicates a need for revisions

to ISQC 1.<sup>13</sup> Mr. Koktvedgaard suggested an audit committee self-evaluation form could be developed in an attempt to measure audit quality. In response, Prof. Schilder noted that this could be considered as part of revising ISQC 1, which is an important element of the draft IAASB's future strategy and work program.

- Mr. Ratnayake discussed some of the issues relating to the difficult judgments and valuations that need to be made in relation to fair values. He noted the need for auditors to further challenge the work of management's specialists, particularly regarding the assumptions made to support the valuations ultimately recorded by management, suggesting the need for auditors to consider whether they need to bring on their own independent specialists to appropriately do so. Mr. Ratnayake suggested the need to add a section in the *Contextual Factors* section of the Framework to deal with the use of independent experts use by management in determining fair value measurements. Mr. Grant acknowledged the point, adding that, in his view, the Framework adequately addressed the concerns that were raised; both in the *Contextual Factors* section dealing with the financial reporting framework, and as part of the discussion in the inputs section relating to the auditors' use of experts. He then suggested that the issues raised are also addressed in ISAs 540<sup>14</sup> and 620.<sup>15</sup> Mr. Grant continued by expressing his personal view that there seems to be an expectations gap with respect to the level of assurance that can be provided as financial reporting moves from the factual to the more judgmental.
- Mr. Bollmann expressing agreement with the remarks raised by Mr. Ratnayake regarding the use by external specialists by entities, noted that notwithstanding how well the Framework was written, it may not have adequately picked up that point. He suggested that there were two questions for the Task Force to consider in this area:
  - How much reliance can the auditor place on his own work to appropriately challenge the work of management's specialist; and
  - How qualified/competent is management's specialist to carry out their responsibilities.

Mr. Bollmann suggested that further discussion on this aspect of an auditor's work could be addressed as part of the section of the Framework dealing *with Audit Process and Quality Control Procedures*.

Summarizing the feedback received, Mr. Grant noted that:

- On balance, more Representatives are supportive of having the detailed descriptions of the input factors be part of the Framework, perhaps as an appendix, and that the Task Force should continue to explore other ways to shorten the Framework.
- There was support for the balance of the document.
- Some were of a view that the IAASB needs to develop a definition of audit quality and explore measures of audit quality.

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

<sup>14</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

<sup>15</sup> ISA 620, *Using the Work of an Auditor's Expert*

- Energy needs to be devoted to ensuring the Framework is used once finalized. This may involve:
  - Promoting the Framework through the use of webcasts, and roundtables and forums; and
  - Considering work that needs to be done on developing material that assists in the use of the framework by audit committees, as well as perhaps for SMPs and in the public sector.
- It is necessary for the Task Force to revisit and further refine the language and tone of the Framework in a number of areas — especially the section that dealing with audit fees and audit quality.

Mr. Grant thanked the Representatives and Observers for their input.

### **Financial Statement Disclosures (Agenda Item I)**

*To PROVIDE feedback on possible changes to various ISAs to address issues and concerns raised relating to auditing disclosures (IAASB discussion planned for September 2013)*

Mr. Archambault introduced the topic, and explained the approach that the Task Force had undertaken to identify gaps in the requirements in the ISAs, and develop the changes. He highlighted that the definition of “financial statements” in the IAASB’s *Glossary of Terms* included the related notes, and emphasized that therefore there were only a few changes proposed to the requirements within various ISAs, as in many places disclosures were already addressed by the requirements. He added that the Task Force was, however, of the view that enhancements could be made to existing guidance and new guidance could be developed to assist auditors in applying these principles-based requirements in auditing disclosures. As a result, changes and additions to the guidance material in a number of ISAs are being proposed to (i) emphasize disclosures; and (ii) provide further clarification and additional explanation as necessary.

#### APPROACH TO IDENTIFY GAPS OR DEFICIENCIES IN THE ISAS

The Representatives and Observers commented as follows:

- Speaking on behalf of the Disclosures CAG WG, Mr. Waldron noted that they agreed with the approach taken to identify possible deficiencies in the ISAs, but did not believe it was clear whether all the issues and concerns that had been raised by respondents to the Discussion Paper had been addressed, in particular in relation to obtaining sufficient appropriate evidence when auditing disclosures. He also suggested that consideration be given to highlighting that the auditor’s level of experience may be relevant in certain areas, such as when considering whether items are “clearly trivial”. Mr. Archambault responded that not all the issues and concerns had been addressed by proposed changes to the requirements, but rather to the *Application and Other Explanatory Material*. In addition, he noted that the Task Force was still considering changes, if any, to the ISAs relating to obtaining sufficient appropriate audit evidence for disclosures. He noted the Task Force’s initial concern that it may be difficult to summarize considerations relating to obtaining evidence within ISA 500<sup>16</sup> in light of the diverse types of disclosures as well as the confusion between what is meant by “disclosures,” in particular as compared to “other information.” On balance, Mr.

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<sup>16</sup> ISA 500, *Audit Evidence*

Archambault noted the Task Force had added reference to “the related notes” to expand upon those requirements addressing the financial statements in certain limited areas where the Task Force was of the view that the additional emphasis would enhance auditor performance.

- Mr. Waldron and Ms. Blomme agreed with the IAASB’s decision to keep the proposed changes in the relevant ISAs, and not to develop a new ISA on auditing disclosures, as doing so may incorrectly imply that auditing disclosures is a separate exercise at the end of the audit, rather than an integral part of the audit.
- Ms. Blomme agreed with the Task Force’s plan to develop educational material to supplement any changes to be made to the ISAs. She suggested such material would be particularly useful in light of differences in disclosure requirements between financial reporting frameworks, as it could further assist auditors when identifying and assessing the risks of material misstatement and applying professional judgment in auditing disclosures. Mr. Archambault explained that the Task Force was in the process of developing an educational guide, and would need to determine the status and authority of such material.

#### PROPOSED CHANGES TO ISA 320<sup>17</sup>

The Representatives and Observers commented as follows:

- Mr. Waldron supported the need for changes to ISA 320 relating to narrative disclosures, but questioned whether the new proposed requirement should be stronger than requiring the auditor “to consider” these disclosures, suggesting the use of “assess” may be more appropriate. Mr. Dalkin agreed, and added that the IAASB should further reflect on the use of “to consider” or “consideration given to” throughout the ISAs.
- Mr. Waldron suggested it was not necessary in proposed paragraph A12a of ISA 320 to refer to the disclosure of “relevant” information about related parties and related party transactions. Mr. Archambault noted the Task Force had also had mixed views on whether the use of “relevant” was necessary in this context.
- Mr. Hansen expressed the view that as the footnotes are often not prepared until very late in the reporting process, the proposed changes may result in the auditors performing too much work on certain disclosures that may not be material. Mr. Archambault agreed that the footnotes are often prepared very late, but added that some of the proposed changes to the ISAs were designed to encourage an earlier focus during the audit on the footnotes and the process to prepare them. He also added that the Task Force would continue to consider the timing of the preparation of the note disclosures.

#### PROPOSED CHANGES TO ISA 700

Mr. Archambault explained that the requirements in ISA 700 were considered sufficient, and that the changes being proposed to ISA 700 were for consistency with other changes that had been proposed, such as to the assertions, and also to acknowledge the evolving types of disclosures.

The Representatives and Observers commented as follows:

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<sup>17</sup> ISA 320, *Materiality in Planning and Performing an Audit*

- Mr. Fukushima noted that significant concern had been raised about excessive disclosures in the financial statements, in particular that not all of the information presented was necessarily relevant to users, notwithstanding that the financial statements were in compliance with the applicable financial reporting framework. He added that a contributing factor to this was the auditor's use of disclosure checklists, with additional disclosures being added that may, in some cases, not be relevant to investor's understanding of the financial statements or may be immaterial. In his opinion, the proposed changes in ISA 700 were not sufficient to change the mindset of auditors towards questioning whether certain disclosures were necessary. Mr. Archambault acknowledged the concerns about excessive disclosures and the use of checklists in evaluating disclosures compared with the need for disclosures to be complete. He noted that, not only the work of the IAASB, but also the work of the IASB and the FASB, had a role to play in addressing this concern, but highlighted that auditors also have a responsibility to audit the disclosures that management have presented in the financial statements.
- Mr. Waldron noted investors are finding it difficult to evaluate differences in recognition and measurement under different financial reporting frameworks where such frameworks do not converge. As a result, investors are most concerned with the quality of disclosures to help them understand such differences, which should not be obscured by the quantity of disclosures.
- Mr. Hansen questioned whether consideration had been given to information included in disclosures that is not generated by the "traditional accounting system". In addition, he expressed concern that auditors should not automatically rely on information in disclosures derived from the general ledger or accounting system. Mr. Archambault responded that changes had been proposed to the application material in certain relevant ISAs, in particular ISA 315, but added that the Task Force would consider the most appropriate words to emphasize that auditors need to look at all sources of information.
- Messrs. Bluhm, Hines and Waldron noted that some of the proposed changes may require more guidance as they could be interpreted in different ways and additional guidance may help auditors more clearly understand what the work effort should be. In particular, Mr. Hines suggested the use of the phrase "information presented and disclosed is appropriately classified" may be confusing.

#### PROPOSED CHANGES TO THE ASSERTIONS IN ISA 315

Mr. Archambault explained that a variety of options for changes to the assertions had been deliberated as this was a difficult area. He added that there had been mixed views, from both Task Force members and the IAASB, regarding the need for changes to the assertions and the nature of such changes when an initial proposal was presented at the April 2013 IAASB meeting. In addition, there was a minority view that changes may not further enhance audit quality. However, on reflection, the majority of the IAASB agreed that changes to the assertions would be expected to influence auditor behavior and therefore may impact audit quality, and therefore the Task Force was proposing changes to the assertions.

The Representatives and Observers commented as follows:

- Mr. Waldron supported changes to the assertions, including the development of additional guidance on how to apply them.

- Mr. Dalkin queried whether further guidance could be developed to explain the assertion “classification and aggregation” to address circumstances in which disaggregation of amounts would be more appropriate.
- Mr. Thompson expressed concern about changing the assertions for presentation and disclosure without consideration of whether the other assertions about classes of transactions and events for the period under audit, and account balances at period end, also needed to change.
- Mr. Baumann inquired whether the description of “accuracy” was correct, in particular the use of “where appropriate reasonably measured.” He suggested consideration be given to replacing this with “appropriately measured” or “where applicable reasonably measured”.

#### OTHER POTENTIAL CHANGES TO APPLICATION MATERIAL IN THE ISAS

Mr. Archambault noted that proposed changes had also been made to application material in various other ISAs. In particular, he highlighted changes proposed to ISA 450,<sup>18</sup> which had been made to support the changes in ISA 320 relating to narrative disclosures.

The Representatives and Observers commented as follows:

- Mr. Hansen supported the changes in ISA 320 and ISA 450 relating to narrative disclosures. He also inquired whether something could be included to address the issue where entities are including “promotional” information (for example in start-up entities) in the notes to the financial statements, which in his view is not appropriate in the financial statements. Mr. Archambault explained that it would be difficult for auditors to have responsibility for requesting the removal of disclosures unless they were considered a material misstatement of the financial statements. However, he added that changes had been proposed to encourage auditors to further consider whether certain disclosures presented are obscuring relevant information. In addition, he highlighted that a few members of the IAASB and Staff are participating in a working group set up by the IASB, which also includes representatives from IOSCO, to further consider materiality as it relates to disclosures, and whether further guidance in this area may be needed.
- Ms. Blomme expressed the view that it is important for auditors to set the expectation that management will provide evidence in support of financial statement disclosures and that this should be done at the planning stage of the audit. She suggested consideration should be given to specifically including this expectation in ISA 210.<sup>19</sup> Mr. Archambault agreed and noted that any changes made to ISA 210 would likely need to be replicated in ISA 580<sup>20</sup> where relevant.

#### WAY FORWARD

Mr. Archambault thanked the CAG for its comments and input, and noted that subject to IAASB comments the intention was for an exposure draft to be approved in early or mid-2014.

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<sup>18</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*

<sup>19</sup> ISA 210, *Agreeing the Terms of Audit Engagements*

<sup>20</sup> ISA 580, *Written Representations*

## IAASB Future Strategy (Item G)

*To DISCUSS IAASB's draft 2015-2019 Strategy and Work Program (Consultation Paper planned for December 2013)*

Prof. Schilder introduced the topic, explaining that there were a number of inputs considered in developing the draft future Strategy and Work Program (WP) for 2015–2019 including the findings from the ISA Implementation Monitoring Project, the results of the stakeholder survey conducted earlier in 2013 and input from key stakeholders such as the Basel Committee. He drew Representatives' and Observers' attention to the table presented in Agenda Item J.1 and summarized the nature of and basis for projects that are proposed for inclusion on the future WP.

Mr. Gunn explained that for certain projects, the initial work planned would take the form of "limited amendments", a new mechanism by which the IAASB could more rapidly respond to particular issues that have come to its attention and which is a shift from the IAASB's traditional approach of undertaking a full revision when opening up an ISA.

### STRATEGIC THEMES

The Representatives and Observers commented as follows:

- Mr. Hemus welcomed the thrust of the document, but was of the view that the strategic themes could be further clarified. He noted that the first two themes deal with standards setting, while the third and fourth themes deal with outreach and implementation, but are split between specific projects. Mr. Hemus was of the view that the first theme could be characterized as "remaining relevant and supporting audit quality." He also suggested the third theme could be focused purely on implementation, with collaboration being an important aspect of this theme and the fourth theme could focus on promotion and outreach. Finally, Mr. Hemus encouraged the IAASB and its Staff to take a more holistic review of possible new channels for outreach and collaboration and evaluate which aspects of collaboration work best to achieve the IAASB's goals (e.g. roundtables in particular financial centers, etc.).
- Mr. Lu suggested a focus on advocacy would be appropriate, in particular to understand the different regulatory and legal environments of those jurisdictions adopting or implementing the ISAs. He specifically noted advocacy in emerging markets would be useful to assist them in understanding and implementing the ISAs. Prof. Schilder explained that advocacy is an important part of the outreach program and highlighted plans to visit Vietnam and Myanmar later in 2013. Mr. Gunn also noted outreach held in collaboration with the IASB with the former Soviet Union countries and commented that the IAASB welcomes further opportunities for collaboration.

### SPECIFIC PROJECTS INCLUDED IN THE DRAFT WP

The Representatives and Observers commented as follows:

- Mr. Dalkin suggested the work on the audit quality project and review of audit inspection findings may assist the IAASB in determining appropriate revisions to ISQC 1. Mr. Fukushima noted IOSCO has identified the need for root cause analysis to understand issues affecting audit quality. Prof. Schilder agreed, noting the IAASB hopes in the future to have more structured dialogue with regulators as a continuous part of its outreach agenda and continues to learn from practitioners

implementing the ISAs. He raised the example of the European Audit Inspection Group (EAIG), which has been able to collect findings from national inspections and provide this feedback to the IAASB. Prof. Schilder noted the discussions on audit quality indicated there may be further work to do in collaboration with others to enhance audit quality.

- Mr. Ratnayake agreed with the project to address auditing issues relating to financial institutions, noting that this topic is an important area for the IAASB to address. He specifically suggested the IAASB should take into account the IASB's proposals for changes to the impairment standard dealing with the expected loss model, as this had additional challenges for auditing that may warrant changes to the auditing standards, in particular ISA 540. However, Mr. Ratnayake was of the view that the approach taken in ISA 540 to deal with all fair value accounting estimates should be maintained in light of the IASB's evolving and increasing guidance on fair value in International Financial Reporting Standards (IFRS), particularly IFRS 13.<sup>21</sup> Prof. Schilder commented that the IAASB's Working Group monitoring IASB activities continually highlights, in comment letters to the IAASB's exposure drafts, the need for greater documentation of why management had arrived at certain judgments in relation to accounting estimates, including fair values, in order to facilitate the auditor's work in this area.
- While supporting the project to evaluate auditing issues relating to financial institutions, Mr. Hines suggested it should have a broader scope than banking to address issues related to other types of financial institutions, such as insurance companies. In his view, issues with fair value accounting estimates have wider applicability than the banking industry. Prof. Schilder suggested the IAASB would be in a better position to respond to the concern if the IAIS was able to be more specific about what issues need to be addressed relating to insurance.
- Mr. Thompson suggested an International Auditing Practice Notes (IAPN) may be a useful vehicle for the IAASB to use to respond to calls to address audit issues specific to the banking and insurance industries, rather than attempting to change the ISAs. He noted such vehicles were used in the UK to concentrate of specific industry areas. Prof. Schilder explained the IAASB had been challenged in developing IAPN 1000<sup>22</sup> that such material was not authoritative, but noted that correspondence from the Basel Committee indicated an IAPN could be a possibility.
- Mr. Ahmed agreed with the thrust of the strategy document, especially in relation to financial institutions and noted key projects had been treated in sufficient scope and detail. He Ahmed expressed the view that the proposed WP responded to concerns expressed by the Basel Committee in good detail.
- Mr. Ahmed also welcomed the concept of "limited amendments" to the standards to respond to developments in a more timely manner. He noted the IFSB has also been challenged to act more rapidly. Mr. Thompson understood why such amendments could be a possible option, but suggested the IAASB would need to consider the implications of frequently introducing changes to key standards such as ISA 315. Prof. Schilder agreed, noting this concern was raised in the context of the Disclosures project and would need to be taken into account.

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<sup>21</sup> IFRS 13, *Fair Value Measurement*

<sup>22</sup> IAPN 1000, *Special Considerations in Auditing Financial Instruments*

- Mr. Koktvedgaard questioned whether Integrated Reporting will warrant a faster pace than is anticipated in the IAASB's work program, as well as whether research has shown whether there is a need for a specific assurance standard on the topic or whether proposed ISA 720 (Revised) would be sufficient. Prof. Schilder explained that the IAASB first needed to understand the outcome of the IIRC's work to develop an integrated reporting framework before considering whether to develop a new assurance standard addressing integrated reporting. He noted the Innovation, Needs, and Future Opportunities (INFO) Working Group planned to monitor the IIRC's work and that an IAASB member (Ms. Merran Kelsall) had been identified as the IAASB's liaison to the IIRC's Assurance Working Group. Mr. Gunn agreed, noting the need for the IAASB to be proactive in monitoring what is emerging in relation to integrated reporting so as to be in a position to respond effectively at the appropriate time. Ms. Lopez noted the WB would support this approach, as they view integrated reporting as an important topic that the IAASB should have on its agenda.
- Mr. N. James suggested that the topic of professional skepticism should be a priority sooner than 2016 as anticipated in the draft. In his view, because of the uncertainty relating to integrated reporting, the IAASB should focus on those areas where known problems exist and audit quality could be improved, such through more consistent application of professional skepticism. Mr. Gunn explained that other projects prioritized before 2016 are likely to provide opportunities for the IAASB to increase the consistent application of professional skepticism (for example, through enhancements to the auditor's work to identify significant risks in accordance with ISA 315, work on going concern, key aspects of ISQC 1 relative to tone at the top, auditor competencies, etc. and work on ISA 540). Prof. Schilder suggested the interaction between these projects and the later planned project on professional skepticism could be better articulated in a revised WP.

#### OTHER MATTERS RELEVANT TO THE FUTURE STRATEGY AND WP

In relation to other possible projects that could be included in the future WP, the Representatives and Observers commented as follows:

- Mr. N. James noted IOSCO's support for the Board's focus on audit, as IOSCO believes work on assurance and other services should not overshadow its work on audit. He noted that some IOSCO members have strong views that the IAASB needs to develop further guidance with respect to sample sizes, as they are of the view that emphasis on sample sizes will have a profound impact on audit quality. While acknowledging IOSCO's concern, Mr. Gunn noted that the issue of sample sizes was not a pervasive matter noted throughout the ISA Implementation Monitoring project and decisions on priorities have had to be made.
- Mr. Fukushima noted that IOSCO believes education and training is essential to audit quality. He explained that the concern of the Japanese Financial Services Agency is that more needs to be done to encourage auditors, in particular junior staff, to go beyond the audit checklists and manuals that had been developed and engage with their clients to understand their businesses and how it works. In JFSA's view, this is important to enhance audit quality. Mr. Sylph noted that the IAASB's remit, and the skills and competencies of its members, relates to standard setting rather than the development of education and training initiatives. While he acknowledged the concern for the IAASB to be doing more than its current mandate to encourage the adoption and implementation of its standards, he noted a shift from this mandate would require significantly more resources to be able to do so effectively on a global basis. Ms. Lang noted the issue related to education and training,

but asked about whether there was merit in directing IOSCO's comments to the International Accounting Education Standards Board (IAESB). Mr. Sylph explained that the mandate of the IAESB was not to educate accountants, but to set competency requirements for persons wishing to become professional accountants.

- Mr. Koktvedgaard suggested there was a need for the IAASB to consider whether its standards could be drafted in a less complicated, more readable manner. Mr. Dalkin noted that this issue was particularly significant for developing countries, in part because accounting standards are becoming more complex. Mr. Gunn acknowledged that continued emphasis on simple language is important. Prof. Schilder also acknowledged the concern about complexity in the clarified ISAs, but noted the IAASB had received positive comments on the recent auditor reporting documents (the Invitation To Comment and the exposure draft) as being readable and accessible.

The Representatives and Observers also raised the following comments on how the Board's WP had been articulated:

- Mr. Hemus was of the view that the WP is very ambitious and expressed concerns that, in light of the IAASB's resources, there could be difficulties should certain projects take longer than anticipated. Prof. Schilder noted the Steering Committee routinely considers the balance of the IAASB's priorities and the IAASB has the ability to stop projects in order to reallocate resources, as it did with the Auditor Reporting project.
- Mr. Koktvedgaard also challenged the IAASB to ensure that what it had produced at the end of the strategic period would be appropriate in light of the findings of audit inspections and the drivers of audit behavior. He suggested the IAASB should reserve capacity in the latter portion of the five-year period to anticipate new matters arising. Finally, he suggested the IAASB should seek to identify the costs associated with particular projects, including the amount of time a project might take at the Board level. Prof. Schilder noted the purpose of the consultation was to invite comments as to whether the Board is setting the right priorities and that the proposed WP reflects the IAASB's best attempt at the current time of having the appropriate standards in place at the end of the strategic period. He agreed that the IAASB will learn over time if its efforts are needed in other areas, but suggested the Board first needs to have a plan in place based on what it knows at present and commit to such a plan.
- Mr. Belatik questioned whether the IAASB would consider performance metrics to monitor the implementation of the WP to ensure it achieves its intended objectives. He also suggested the IAASB should seek to monitor consistency of implementation of its standards. Prof. Schilder remarked that the IAASB closely monitors whether it is doing what it has promised to do and reports this on a routine basis to the PIOB. He acknowledged that the IAASB could reflect on doing so in a more systematic way.
- Mr. Ahmed was of the view that the longer the time frame, the more difficult it becomes to have a complete set of issues at hand. He was of the view that a five-year program was appropriate, but suggested the WP should be viewed as a "living" strategy. Prof. Schilder explained that the PIOB did not find concern with a five-year strategy, subject to a mid-period assessment by the IAASB to reflect on its progress and the state of the environment in which it operates.
- Mr. Hemus suggested the IAASB should consider including in its five-year program capacity to evaluate what the IAASB might look like in 2020.

- Mr. Kocktvedgaard questioned how the independent standard setting boards interact within IFAC and coordinate their strategic plans. Prof. Schilder noted that while the IAASB's WP is set independently of the other boards, the IAASB is continuing to grow its liaisons with the IESBA and will undertake other liaison as appropriate.
- Mr. Hemus expressed the view that the IAASB's WP should take its starting point from the PIOB's strategic plan. In Mr. Hemus' view, the PIOB should consider the trade-off of resources required in prioritizing particular activities across the standard setting boards, and should have oversight of the congruence of standard setting activities on an overall basis. Mr. Hafeman explained that that PIOB's strategic plan addresses the oversight of the standard setting boards and the Compliance Advisory Panel and how that is executed, but does not tie to their work programs. He noted that one of the mandates of the PIOB is to assess the resources that are available to the boards and that the PIOB has previously raised concerns about the need for additional resources. Mr. Hafeman further explained the PIOB also assesses the completeness of the strategies and work programs of the boards in the public interest and observation of the CAG meetings provides the PIOB an excellent opportunity to understand other issues that may need to be taken into account.

#### WAY FORWARD

Prof. Schilder thanked the CAG for its comments, and noted that they would be considered by the IAASB at its September 2013 meeting. He explained the IAASB intends to finalize the document for consultation at its December 2013 meeting.

#### **PIOB Remarks**

##### VIEWS ON CAG MEETING

Mr. Hafeman congratulated the CAG on a productive meeting, noting that the meeting was well organized and effectively chaired by Mr. Morris. He added the CAG Representatives and Observers seem to have been given adequate opportunities to comment and have shared their views on wide range of issues related to the agenda items. He noted that, although all the topics were brought to the Representatives and Observers before, all the feedback received would be useful to the IAASB. Related to the IAASB's ISAE 3000 project, he noted that it would be important for the IAASB to carefully craft its references to direct engagements within the proposed standard to communicate the scope of the standard clearly.

Reflecting on the comments received regarding the need for education and training of auditors, Mr. Hafeman noted that there is a limit as to what the IAASB can do because of its remit and suggested that some of the feedback may be relevant to the other standard setting boards, in particular the IAESB. Mr. Hafeman reported that the IAESB has regularly faced the challenge of recruiting members for its CAG and invited interested parties to contact Mr. Sylph.

##### VIEWS ON OTHER MATTERS

Mr. Hafeman reported that the PIOB had recently just re-launched its website to better describe its work. He added that the website now includes a link that can be used to alert the PIOB to concerns about weaknesses in the standard setting processes or the manner in which they are being implemented. He added that the PIOB is planning to hold a public interest seminar to help better describe what the public interest on March 13, 2014, adjacent to the CAG meetings. (Note: since the meeting, the PIOB has decided to postpone the seminar.) He invited all Representatives and Observers to participate.

### **Closing Remarks**

Prof. Schilder thanked the Representatives and Observers for their comments, noting their comments would timely input to the IAASB meeting the following week. Prof. Schilder and Mr. N. James thanked Mr. Morris for sitting in as CAG Chair in Ms. de Beer's absence and for doing an excellent job.

Mr. Gunn recognized the Representatives who were rotating off or retiring from the CAG due to changes within their organizations or roles (Messrs. Kuramochi, Mao, Morris, Pannier and Ratnayake) and thanked them for their contributions.

Mr. Morris thanked the CAG Representatives and Observers for their high level of preparation and participation and the quality of comments provided during the meeting. He also thanked the IAASB members and Staff for their contribution to making the meeting successful.

Mr. Morris closed the meeting.