

**Draft Minutes of the 36<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD**

**Held on September 21-25, 2009 in Seoul, South Korea [MARKED]**

**Voting Members****Technical Advisors**

Present:	Arnold Schilder (Chairman)	Wolfgang Böhm (Mr. Ferlings)
	John Fogarty (Deputy Chair)	Amarjit Chopra (Mr. Kinney)
	Phil Cowperthwaite	Valdir Coscodai (Mr. Swanney)
	Craig Crawford	Jonas Hällström (Mr. Jensen)
	Josef Ferlings	Josephine Jackson (Ms. Jones)
	Cédric Gélard	Len Jui (Mr. Tang)
	Jon Grant	Sachiko Kai (Mr. Sekiguchi)
	Diana Hillier	Hiram Hasty (Mr. Fogarty)
	Steen Bernt Jensen	Jon Rowden (Ms. Hillier)
	Susan Jones	Tania Sergott (Ms. McCabe)
	Ashif Kassam	Greg Shields (Mr. Cowperthwaite)
	William Kinney	Isabelle Tracq-Sengeissen (Mr. Gélard)
	Caithlin McCabe	
	Daniel Montgomery	
	Tomokazu Sekiguchi	
	David Swanney (except for Sept 25)	
	Abdullah Yusuf	
Apologies:	Jianhua Tang	Denise Esdon (Mr. Montgomery)
		Richard Kamami (Mr. Kassam)
		Sylvia Smith (Mr. Crawford)

**Non-Voting Observers**

Present: David Damant (IAASB CAG Chairman), Norio Igarashi, Jean-Philippe Rabine, and Jennifer Rand (except for Sept 25)

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

Present: Aulana Peters

**IAASB Technical Staff**

Present: James Gunn (Technical Director), Kathleen Healy, Michael Nugent, Ken Siong, and Jessie Wong

Apologies: Jim Sylph (Executive Director, Professional Standards)

## 1. Opening Remarks and Minutes

### WELCOME AND INTRODUCTIONS

Prof. Schilder welcomed the participants to the meeting. He also welcomed:

- Ms. Peters, observing the meeting on behalf of the Public Interest Oversight Board (PIOB).
- Prof. Roger Simnett, co-chair of the Emissions Task Force
- NIVRA representatives, Mr. Hans Verkruijsse, a member of the XBRL Task Force, and Mr. Jan Thijs Drupsteen.
- Representatives from the Korean Institute of Certified Public Accountants (KICPA) who planned to observe the meeting throughout the week.

Apologies were received from Messrs. Kamami, Landes, Tang and Sylph, and Mmes. Esdon and Smith. Mr. Jui was noted as proxy for Mr. Tang. Mr. Hasty would serve as Mr. Fogarty's technical advisor in place of Mr. Landes for this meeting.

He thanked the KICPA for hosting the IAASB in Seoul.

Prof. Schilder also noted and congratulated Mr. Cowperthwaite on his recent award of the Fellow Chartered Accountant designation.

### RECENT DEVELOPMENTS

Prof. Schilder noted the appointment of Mr. Daniel Goelzer as Acting Chairman of the US Public Company Accounting Oversight Board (PCAOB). He indicated that the PCAOB had briefed the IAASB Consultative Advisory Group (CAG) on a number of its activities at the September 2009 CAG meeting in Washington, D.C. Mr. Damant noted the success of the CAG meeting, and expressed his appreciation to the IAASB members who were able to attend the meeting, which greatly helped facilitate the discussions. Prof. Schilder noted that the outcome of the voting on a new CAG Chair at the meeting was a tie, and that a second vote will take place in the near future.

Prof. Schilder noted the release in August of the IAASB Staff Questions and Answers (Q&A) publication, "Applying ISAs Proportionately with the Size and Complexity of an Entity." He thanked all IAASB members and technical advisors who provided input to the development and finalization of the document.

Prof. Schilder briefed the IAASB on recent meetings that he and other IAASB representatives variously had with the European Group of Audit Oversight Bodies (EGAOB), International Organization of Securities Commissions (IOSCO), Independent Forum of International Audit Regulators (IFIAR), and the Minister of Finance and others in China. He noted that these efforts were well-received and provided opportunities for him to promote IAASB's clarity ISA implementation support initiatives.

Mr. Rabine noted that the European Commission's (EC) public consultation on the possible adoption of the ISAs had been extended to October 15, 2009 in response to calls from stakeholders. Over 60 responses had been received to date.

### MINUTES OF PREVIOUS MEETING

The minutes of the public session of the previous IAASB meeting were approved as presented.

## 2. Assurance Engagements<sup>1</sup>

At the start of the meeting, Prof. Kinney reported on discussions amongst the chairs of those Task Forces whose current projects mostly directly intersect with the revision of ISAE 3000: the draft ISAEs on GHGs, service organizations<sup>2</sup> and pro formas,<sup>3</sup> and ISRE 2400<sup>4</sup> (“related projects”). He noted that assurance services can be considered as a continuum ranging from the financial statement audit, through engagements on pro forma financial information and financial controls at service organizations, to engagements on GHGs, sustainability reporting, service delivery and other topics, some of which may not even have been contemplated to date. The further one moves from financial statement audits, the less familiar it becomes for the accounting profession. Nonetheless it may be that the potential public interest in, and regulatory, contractual and market demand for, assurance may be abundant.

Prof. Kinney noted that there are various views of the purpose of the revised ISAE 3000 that will shape its content, including:

- Defining boundaries for assurance services delivered by professional accountants;
- Providing an overarching document for more subject matter-specific ISAEs; or
- Providing a benchmark for practitioners where there is no subject matter-specific ISAE.

Key issues that are likely to arise in the ISAE 3000 project include: direct reporting versus assertion-based engagements (including consideration of independence in direct reporting engagements where the practitioner is the “first measurer”); how a reasonable assurance report is distinguished from a limited assurance report (including consideration of positive and negative expressions of conclusion, and the nature of “moderate” assurance in a financial statement review); and the role of ISAE 3000 in helping users understand the quality of assurance services provided by professional accountants. Prof. Kinney noted the public interest aspect of the outcome of these issues.

Options for the development of ISAE 3000 and related projects include: slowing down related projects until ISAE 3000 is further developed; letting each related project run its course independently of progress on ISAE 3000 (which, while it may require conforming amendments, would provide feedback to the ISAE 3000 project in the interim); or a mix of these two options.

Ms McCabe, as co-chair of the Emissions Task Force, agreed with Prof. Kinney’s analysis regarding options for the development of ISAE 3000 and related projects. She mentioned that the chairs of the related projects had noted the differences in the subject matters of the various projects and that, subject to the IAASB discussion, there are rational reasons why each document may be different and public interest reasons why each should progress at this point in time. Ms. Esdon, as chair of the ISAE 3402 Task Force agreed with this view.

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<sup>1</sup> International Standard on Assurance Engagements (ISAE) 3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information.”

<sup>2</sup> ISAE 3402, “Assurance Reports on Controls at a Service Organization.”

<sup>3</sup> ISAE 34XX, “Assurance Reports on the Proper Compilation of Pro Forma Financial Information Included in Prospectuses.”

<sup>4</sup> ISRE 2400, “Engagements to Review Financial Statements.”

Mr. Swanney, as chair of the Pro Forma Task Force, noted that in his view the main issue is the “fat/skinny” debate (i.e., the nature and extent of requirements that should be included in ISAE 3000 and in subsidiary ISAEs). He was of the view that the IAASB would not be able to conclude on this debate until the ISAE 3000 project has progressed and a draft is available next year. Accordingly, he felt that to the extent possible, this debate should be set aside and each related project progressed in the interim.

The importance of approving ISAE 3402 in a similar timeframe to the U.S. project to revise SAS 70 was noted, even if doing so meant that some changes might need to be made when ISAE 3000 is approved. The opportunity to learn and benefit from innovations stemming from related projects, even those on subject matters that are reasonably close to financial statement audits, was also noted as was the keen interest the IAASB CAG had shown in these projects and their importance for stakeholders. The IAASB agreed, subject to further discussion on individual projects, that related projects should progress without trying to pre-empt the outcome of the ISAE 3000 project.

Later in the meeting, after initial discussion of each of the related projects, Prof. Kinney provided a brief update on issues likely to be considered by the ISAE 3000 Task Force in the near term. These include: the “fat/skinny” debate mentioned above; the characteristics of those to whom ISAE 3000 is directed, which will affect the nature and extent of requirements amongst other things; direct reporting versus assertion-based engagements; the application of materiality to subject matters other than historical financial information; distinguishing reasonable assurance from limited assurance; and the conditions that determine the boundaries of, and linkages between, ISAE 3000, related projects and other services provided by professional accountants.

### **3. Assurance Reports on Controls at a Service Organization**

Ms. Esdon introduced the topic, thanking members and technical advisors for their responses to a preliminary draft that had been circulated in advance of the meeting. She noted that the marked draft in the agenda papers includes all changes to the draft discussed at the June IAASB meeting.

#### **“CLOSELY RELATED” CONTROLS**

Ms. Esdon noted that the Task Force had included new wording in the draft stating that ISAE 3402 does not deal with assurance engagements to report separately on non-financial controls, but that an engagement performed in accordance with ISAE 3402 to report on financial reporting controls may sometimes also include within its scope other controls that are closely related to those financial reporting controls (for example, controls related to regulatory compliance). This was in response to Board member comments in advance of the meeting noting that combined engagements such as these are common in certain jurisdictions, and that to exclude closely related controls may necessitate the preparation of a two-part assurance report, or two separate assurance reports.

The IAASB expressed concern, however, that introducing the concept of “closely related” controls may have unintended consequences, such as ISAE 3402 being used more extensively than intended for engagements for which it was not designed and potentially not well suited. The IAASB agreed, therefore, to restrict the use of ISAE 3402 to those engagements where the controls being reported on are likely to be relevant to user entities’ internal control as it relates to

financial reporting. As part of this, additional guidance was introduced stating that the determination of whether controls at a service organization related to operations and compliance are likely to be relevant to user entities' internal control as it relates to financial reporting is a matter of professional judgment, having regard to the control objectives set by the service organization and the suitability of the criteria. That guidance notes that controls related to a service organization's operations and compliance objectives may be relevant to a user entities' internal control as it relates to financial reporting because they may pertain to assertions about presentation and disclosure relating to account balances, classes of transactions or disclosures, or to evidence that the user auditor evaluates or uses in applying auditing procedures.

#### CAPABILITIES AND COMPETENCE OF THE SERVICE AUDITOR

The IAASB discussed whether ISAE 3402 should include an additional requirement that the service auditor, before agreeing to accept or continue an engagement, should have the capabilities and competence to perform the engagement. The IAASB decided that although this matter is covered in general terms by ISAE 3000 and ISQC 1, it is appropriate to include a specific requirement, and related application material, in this ISAE to emphasize its importance.

#### USE OF INTERNAL AUDIT

The IAASB discussed the deletion in the draft of the requirement to identify, in that part of the service auditor's report that describes the service auditor's tests of controls, the work performed by the internal audit function. The IAASB noted that, on one hand, disclosure of the internal auditor's work used by the service auditor and of the service auditor's procedures with respect to that work, provides the transparency that allows individual users of the service auditor's report to assess the importance, if any, that they attach to the fact that particular tests were performed by internal auditors. On the other hand, referring to the work of internal auditors appears to contradict the principle that the service auditor has sole responsibility for all elements of the assurance report and that responsibility is not reduced by the service auditor's use of the work of internal audit. No part of the assurance report should in any way imply that this is not the case. Referring to the work of internal audit could mislead some users into thinking that the service auditor does not accept sole responsibility for the service auditor's conclusions reached on the basis of internal audit work.

The IAASB concluded that it is not acceptable for a service auditor to appear to represent that he or she has performed tests of controls when this is not the case, and that the principle of transparency is sufficiently important in the case of the description of tests of controls in a type 2 report that the requirement should be retained. The IAASB noted that type 2 reports are different from other assurance reports, in that they include a factual description of the tests of controls, in a separate part of the report, for the benefit of user entities and, in particular, user auditors. This fact, along with clear wording in the assurance report, should overcome the risk that users would be misled into thinking the service auditor was dividing responsibility with the internal auditor. It was also noted that ~~where service auditors have disclosed this information in their reports under a similar requirement has existed in SAS 70<sup>5</sup> it for some time and~~ does not appear to have caused

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<sup>5</sup> Statement of Auditing Standards (SAS) 70, "Reports on the Processing of Transactions by Service Organizations."

problems in practice. Accordingly, the requirement to identify the work performed by the internal audit function was reinstated. It was noted that this level of transparency makes it unnecessary for the ISAE to set limits on the extent to which a service auditor can use the work of the internal audit function because the extent is apparent to users of the assurance report, and each user will be able to act according to how they perceive the effect of such use.

#### OTHER MATTERS

The IAASB agreed that:

- The wording of the objectives should align more closely with the wording of the service auditor's conclusion in the assurance report.
- The wording of the paragraph in the scope section dealing with the relationship of this ISAE with other professional pronouncements should align better with the wording suggested in draft ISAE, "Assurance Reports on the Proper Compilation of Pro Forma Financial Information Included in Prospectuses" to be discussed at this meeting (Agenda Item 3).
- The reference to "special purpose" assurance engagements should be deleted as this term is not used in ISAE 3000 or the Assurance Framework.
- The application material should include a reference to the fact that it may be appropriate for the service auditor's opinion to be modified if the service organization does not provide requested written representations that it has disclosed to the service auditor certain matters of which it is aware such as non-compliance with laws and regulations and design deficiencies in controls (as noted in paragraph 38(c) of the draft). It was also agreed that this paragraph should include a request for the service organization to disclose instances of fraud of which it is aware.
- The requirement for the service auditor's assurance report to include a date should be supplemented with a requirement that the date be no earlier than the date on which the service auditor has obtained sufficient appropriate evidence on which to base the opinion.
- The additional wording recommended by the Task Force regarding the service auditor's responsibility regarding the completeness of control objectives could be interpreted as conflicting with other application material and should therefore be removed.
- The application material should include examples of actions the service auditor may take if the service organization refuses to remove or restate a material inconsistency or an apparent misstatement of fact in other information included in a document containing the service organization's description of its system and the service auditor's assurance report.

#### U.S. REVISION OF SAS 70

Ms. Esdon noted that the AICPA Auditing Standards Board's is likely to approve a final version of ED-SSAS,<sup>6</sup> which will result in a revision to SAS 70, in January 2010. Taking account of

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<sup>6</sup> Proposed Statement on Standards for Attestation Engagements (SSAE), *Reporting on Controls at A Service Organization*.

changes decided at this meeting, it is expected that there will be no substantive differences between the U.S. standard and the ISAE.

#### CONSULTATION, AND EFFECTIVE IMPLEMENTATION OF NEW STANDARDS

The IAASB considered whether the nature and extent of consultation to date had been adequate, including the need for a forum or roundtable and field testing of the proposals. The IAASB agreed that it had and that further consultation is not necessary. It also noted that, in accordance with its strategic plan, it will seek feedback in 2013 from service organizations, service auditors, user entities, user auditors and others on their experiences with the implementation of ISAE 3402. Of particular interest will be feedback regarding ISAE 3402's treatment of closely related controls, the approach to identifying work performed by the internal audit function, and the relationship between risks, control objectives and criteria.

#### APPROVAL

After agreeing all necessary changes to proposed ISA 3402, the IAASB members present, or represented by proxy, unanimously approved the ISAE. The IAASB assessed whether there was a need to re-expose the ISAE. The IAASB agreed that the changes made to the exposure draft were in response to the comments received from respondents and, accordingly, re-exposure was not necessary. Mr. Gunn advised the IAASB that it had adhered to its stated due process in finalizing the ISAE.

ISAE 3402 is effective for service auditor's assurance reports covering periods ending on or after June 15, 2011. The issue of the final ISAE is subject to confirmation from the PIOB that due process has been followed.

#### **4. Assurance on a Greenhouse Gas (GHG) Statement<sup>7</sup>**

Ms. McCabe welcomed Task Force member Mr. Yoichi Mori to the table, and introduced the topic, noting the linkages between this topic and a number of other agenda items, in particular ISAE 3000, the draft ISAEs on service organizations and pro formas, and ISRE 2400. She thanked members and technical advisors for their responses to a preliminary draft that had been circulated out-of-session, and noted that the marked-up draft in the agenda papers included all changes to the draft discussed at the June 2009 IAASB meeting. Ms McCabe noted that given the extent of changes since the June 2009 meeting and the out-of-session feedback, the Task Force had decided to recommend to the IAASB that it approve at this meeting a Consultation Paper to seek external input prior to issuing an exposure draft.

#### STATUS OF COMMENTS AND OF THE DRAFT ISAE

The IAASB made comments on the requirements in the draft ISAE during the course of the meeting for the purpose of assisting the Task Force to improve the document as a working draft, rather than for the purpose of finalizing it as an exposure draft. The IAASB did not review the application material included in the draft. It was agreed that the Task Force should amend the working draft for comments received during the meeting, and that the amended working draft

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<sup>7</sup> Proposed ISAE 3410, "Assurance on a Greenhouse Gas Statement."

should be attached to the Consultation Paper for illustrative purposes, with a note that it was developed by the Task Force and has not been voted on or otherwise approved by the IAASB. The IAASB noted that the working draft will continue to be modified in light of comments received on the Consultation Paper, and will be considered for issue by the IAASB as an exposure draft in 2010.

#### NUMBER AND NATURE OF REQUIREMENTS

The IAASB discussed whether the draft should attempt to be a “stand alone” standard, i.e., capable of being used with little or no reference to ISAE 3000 or the ISAs, or whether its content should be made primarily subject matter-specific by removing generic requirements. The IAASB also discussed whether, if the latter option were adopted, the generic requirements should be included in ISAE 3000 (or another draft ISAE temporarily until ISAE 3000 is revised), be alluded to through a reference to the ISAs, or deleted on the basis that they are too detailed. The IAASB agreed that it would not be helpful, and may be misleading, to include a reference to the ISAs, particularly if the draft retains most of its current requirements. Members expressed some concern regarding the risk of subject matter-specific requirements being overwhelmed by the volume of general requirements. Nonetheless, it was acknowledged that this draft is being prepared at the same time that ISAE 3000 is under review, and that a number of the generic requirements in it (in particular requirements dealing with common elements of engagement management, such as documentation) would likely be moved to ISAE 3000 in time. The IAASB reviewed the appropriateness of each of the requirements as it discussed them on a paragraph by paragraph basis. This resulted in the deletion of approximately 10% of requirements that, although relevant, were neither needed as a “hook” for subject matter-specific application material nor considered sufficiently important to this specific subject matter to warrant inclusion, or were adequately covered by extant ISAE 3000. It was agreed that the Consultation Paper should highlight the number and nature of requirements as an issue upon which specific feedback should be sought, including in relation to cost/benefits considerations. The IAASB noted that this feedback would likely be of value to both this project and the project to revise ISAE 3000.

#### PROFESSIONAL ACCOUNTANTS AND MULTIDISCIPLINARY TEAMS

The IAASB discussed the meaning and implications of using the term “assurance professional,” and whether the draft adequately catered for the fact that, in many cases, GHG assurance engagements would be conducted by multidisciplinary teams. It was noted that because the IAASB’s mandate only extends to professional accountants, and IAASB standards are written in the context of a range of measures taken to ensure the quality of assurance engagements undertaken by professional accountants in public practice (including their public sector equivalents), the draft should limit itself to work performed by professional accountants in public practice. Also, the term assurance professional should be replaced by practitioner, which is consistent with ISAE 3000 and easier to interpret as including the firm or another member of the team when that meaning is intended in the draft. The IAASB asked that the Task Force specifically seek feedback on this issue in the Consultation Paper, including whether the working draft adequately dealt with the range of circumstances when GHG experts would be involved as part of a multidisciplinary team.

#### FAIR PRESENTATION AND RELATIONSHIP WITH LAWS AND REGULATIONS



The IAASB discussed whether criteria for preparing GHG statements should be considered “fair presentation frameworks” in an analogous way to how that term is used in the ISAs. It was noted that whether or not an assurance report should use this term may be affected by such factors as whether the criteria were determined by a regulator or adopted voluntarily, who the intended users of the GHG statement are, and the scope of the engagement. The IAASB agreed that:

- “Present fairly in accordance with ...” should be changed to “is presented in accordance with ...” throughout the draft;
- A number of requirements should be amended to be applicable only to voluntary reporting;
- Reference to the GHG statement “as a whole” should be deleted; and
- The fair presentation stand-back requirement should be removed.

The IAASB asked the Task Force to include this issue in the Consultation Paper and seek feedback on the relationship of the standard with laws and regulations, and whether it is appropriate for the ISAE to distinguish between fair presentation and compliance frameworks, and between special purpose and general purpose frameworks.

#### CONSULTATION PAPER

In addition to the matters discussed above, the IAASB identified the following issues as appropriate for inclusion in the Consultation Paper:

- Whether the draft ISAE’s coverage of materiality is appropriate, for example, whether materiality should focus on economic decisions only.
- Whether the draft should require the assessment of risks of material misstatement at both the assertion level and the GHG statement level, and whether the GHG-specific risks identified in the draft are the correct ones.
- How the ISAE should ultimately distinguish limited assurance GHG engagements from reasonable assurance, notwithstanding that, as agreed at the previous meeting, the project has deferred consideration of limited assurance GHG engagements.
- Whether the draft ISAE’s approach to the following topics is appropriate: internal control; Scope 3 emissions; emissions deductions; content of the assurance report; estimates and uncertainty; analytical procedures; direct reporting versus assertion-based engagements.

The IAASB reviewed a draft of the Consultation Paper (including a revised version of the draft ISAE) that had been prepared on the basis of discussion at the meeting. The IAASB provided guidance for the Task Force’s consideration on matters of structure, emphasis and wording, including whether the detailed example reports should be included in the draft, and requested that additional questions be added regarding:

- Whether the definition of, and requirements regarding, fraud are appropriate.
- Whether external experts should be required to be independent.
- Whether the ISAE is an appropriate place to provide benchmarks or further guidance regarding the engagement partner’s skills, knowledge and experience.

- Additional aspects of the application of the materiality concept to GHG engagements, including whether it is common in practice to determine materiality for one or more particular types of emissions or disclosures in addition to materiality for the GHG statement, and whether the guidance regarding quantitative and qualitative factors is appropriate.

#### WAY FORWARD

The IAASB agreed that a further draft of the Consultation Paper should be distributed after the meeting for final consideration out-of-session, and that the final Consultation Paper should be available for public comment for 120 days. It was noted that this timing would likely mean that only an oral report on submissions would be available for the March 2010 IAASB meeting, and that if an exposure draft were to be voted on in June 2010, which the Task Force would continue to aim for, sufficient time would need to be allocated for a full detailed review of the document.

#### **5. Assurance on Pro Forma Financial Information Included in Prospectuses**

Mr. Swanney introduced the topic, summarizing the significant issues presented in the meeting's agenda material. He noted that the IAASB CAG had discussed the topic at its meeting earlier in September 2009 and that he would note CAG Representatives' comments at relevant points during the discussion.

Except as noted in the following, the IAASB agreed the recommendations of the Task Force as set out in the meeting's agenda material.

#### PROFIT FORECASTS AS UNADJUSTED FINANCIAL INFORMATION

Mr. Swanney explained the Task Force's proposal that the ISAE should remain silent on whether profit forecasts may be used as unadjusted financial information. He noted the Task Force's view that it would be inappropriate for the ISAE to impose a restriction on a practice that may be permitted in some jurisdictions.

Although a few IAASB members supported this approach, others disagreed. It was noted, in particular, that silence on the matter would add to confusion on a matter that is expected to be rare in practice. It was suggested that one solution may be to provide guidance explaining that while the appropriateness of using profit forecasts as unadjusted financial information should be a matter for individual jurisdictions to decide, practitioners should be reminded that part of their work on the proper compilation of the pro forma financial information is to be satisfied that the responsible party has factual support for the pro forma adjustments. This would provide a suitable caveat to practitioners without IAASB introducing a prohibition. As an alternative, the scope of the ISAE could be limited to historical financial information. This would then obviate the need to make any reference to whether profit forecasts may be used in the compilation of the pro forma financial information. The IAASB asked the Task Force to give the matter further consideration.

#### DEFINITION OF "PROPER COMPILATION"

Mr. Swanney explained that at the March 2009 meeting, the IAASB had agreed on the importance of a clear explanation of the term "properly compiled" in the ISAE to minimize the potential for confusion with engagements to compile financial information. Accordingly, the Task Force proposed that the ISAE establish a definition of the term "proper compilation" that focuses

on the key steps involved in producing the pro forma financial information. Such a definition would also explicitly state that pro forma financial information that has been produced as a result of this process is properly compiled.

In connection with the practitioner's work on proper compilation, an IAASB member noted that discussions with investors in the UK indicated that while the investors found the practitioner's involvement with the pro forma financial information helpful, they do not expect to place high reliance on that information. It was, however, noted that while the practitioner's work will focus primarily on the adjustments to compile the pro forma financial information and not on the pro forma financial information itself, the practitioner would not be able to fulfill his or her responsibility to not be associated with misleading information without having performed some validation work on the unadjusted financial information. While the proposed definition addressed both the pro forma adjustments and the presentation of the pro forma financial information, it does not address the starting point of the compilation. The IAASB therefore asked the Task Force to clarify the definition accordingly.

#### WORK EFFORT ON THE SOURCE OF THE UNADJUSTED FINANCIAL INFORMATION IF IT HAS NOT BEEN AUDITED OR REVIEWED

Mr. Swanney explained that to address situations where the source of the unadjusted financial information has not been audited or reviewed, the Task Force proposed that the practitioner be required to perform a specified list of procedures on the source.

A view was expressed that there should be a presumption that the unadjusted financial information is audited in an assurance service regarding pro forma information, as users may attach some level of assurance to the output information notwithstanding the fact that the practitioner's procedures focus on the pro forma adjustments. An IAASB member was of the Another view was that if the source has not been audited or reviewed, it would be important for the practitioner to consider whether these procedures would enable the practitioner to be satisfied about the appropriateness of the unadjusted financial information as a basis for undertaking the engagement. It was suggested that this might be built into the ISAE as an engagement acceptance consideration.

It was also Another IAASB member noted that the practitioner would not be able to evaluate the pro forma adjustments if the practitioner has an insufficient knowledge of the entity and where misstatements in the compilation might arise. It was, however, noted that indications from investors show that they are not seeking assurance on the starting point of the compilation and, instead, are looking for a level of assurance focused on the pro forma adjustments. Consequently, it was noted that the key question was whether the objective of performing the specified procedures on the unadjusted financial information was to obtain sufficient information to understand the work needed on the pro forma adjustments or to obtain some assurance regarding the reliability of the unadjusted financial information. It was also noted that this situation might not be dissimilar to the circumstances addressed by ISA 510<sup>8</sup> where the practitioner is required to perform sufficient work on the opening balances to be comfortable with their impact on the current year's financial statements.

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<sup>8</sup> ISA 510, "Initial Audit Engagements—Opening Balances."

After further deliberation, the IAASB asked the Task Force to further consider the issue in the light of these comments.

#### OTHER COMMENTS

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

- For purposes of transparency, the ISAE should include a requirement for the practitioner to state in the practitioner's report whether the source of the unadjusted financial information has been audited or reviewed.
- Consideration should be given to whether it would be appropriate to provide an option for the practitioner to use an emphasis of matter paragraph in the practitioner's report in situations where the practitioner believes it is important to draw users' attention to specific information in the basis of compilation.
- The explanatory material on direct-reporting engagements in the introductory section should be clarified as it was unclear whether such engagements would be possible in the context of prospectuses.
- Consideration should be given to whether there is a need to align the objectives and opinion of the practitioner with the practitioner's work effort on the outcome of the process of compilation (i.e., that the pro forma financial information has been properly compiled) and the definition of a proper compilation, as the proposed wording of the objectives and opinion seemed to imply that the practitioner is providing assurance on the pro forma financial information and not on the outcome of the compilation process.
- Consideration should be given to clarifying the practitioners' responsibilities if the practitioner has reason to believe that the unadjusted financial information contains material misstatements.
- Consideration should be given to clarifying the practitioner's responsibilities in business combination situations, as it was unclear whether the practitioner would be able to perform the same procedures as those specified for the practitioner's work effort on the unadjusted financial information. In addition, although business combination situations tend to represent the predominant transactions for which pro forma financial information is compiled in practice, the proposed ISAE seemed to deal with them only in a marginal way.
- With regard to the requirements addressing modified opinions, consideration should be given to prefacing the requirements with an explanation that in some circumstances, the entity would not be able file a prospectus that contains a practitioner's report with a modified opinion (in which case the issue would need to be resolved), and that in other circumstances, the practitioner might be able to issue a modified opinion.

#### WAY FORWARD

The IAASB asked the Task Force to consider sending a revised draft of the proposed ISAE to the IAASB for comment in advance of the December 2009 meeting prior to finalizing the draft for presentation for approval as an exposure draft at that meeting.

## 6. Auditing Complex Financial Instruments

Mr. Fogarty introduced the topic, noting that the Task Force had developed the proposed consultation paper agreed at the June 2009 meeting to assist the IAASB in updating and revising IAPS 1012,<sup>9</sup> leveraging the UK's Auditing Practices Board's (APB) work to revise its Practice Note (PN) 23.<sup>10</sup> He thanked Mr. Grant and his colleague Mr. John Hughes, both members of the Task Force, for their excellent work on the UK document.

Mr. Grant reported that the APB intended to finalize the guidance at its September 2009 meeting for issue as interim guidance, which would allow for updates to link the guidance more closely to the clarified ISAs and also to align with any proposed changes in the accounting frameworks.

Mr. Fogarty noted the IAASB CAG's general support for the proposed consultation paper and, in particular, the focus on the reliability of audit evidence and the emphasis on the possible need for more guidance on disclosures. Notwithstanding this, some CAG Representatives were unclear about the intent of the consultation paper.

The IAASB agreed that the issue of the proposed consultation paper is an appropriate way forward to advance the revision of IAPS 1012 through gathering views as to whether the APB's PN would be applicable in an international context.

In supporting the consultation paper, the IAASB asked the Task Force to:

- Strengthen the linkage to the auditor's responsibilities in accordance with the risk assessment standards.
- Include a reference to IFRSs for SMEs.
- Include a specific question to respondents as to whether a revised IAPS 1012 should apply to all financial instruments, rather than just complex financial instruments.
- Acknowledge that many disclosures may be prepared with information outside of an entity's financial reporting systems, which may have consequences for auditors.
- Highlight the auditor's responsibilities to consider the adequacy of disclosures when forming an opinion on the financial statements.

### APPROVAL

The IAASB unanimously approved the issue of the consultation paper with a 90-day comment period. The IAASB asked the Task Force to present an issues paper in regard to developing a revised IAPS 1012 for discussion at the December 2009 IAASB meeting.

## 7. IAASB - International Accounting Standards Board (IASB) Liaison

Ms. Hillier introduced the topic, noting that at the June 2009 meeting, the IAASB had approved a liaison initiative with the IASB to enable the IAASB to provide timely input on auditability and verifiability aspects of the IASB's proposals. She noted that the matter was also considered at the

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<sup>9</sup> International Auditing Practices Statement (IAPS) 1012, "Auditing Derivative Financial Instruments."

<sup>10</sup> Practice Note 23, "Auditing Derivative Financial Instruments."

September 2009 IAASB CAG meeting. CAG Representatives had expressed strong support for active liaison between the IAASB and IASB, and indicated their willingness to participate, where appropriate, in the IAASB working groups set up to monitor specific IASB projects.

Ms. Hillier reported that since June 2009, Prof. Schilder had written to the IASB Chair, Sir David Tweedie, on the proposed initiative. Sir David Tweedie had expressed support for the initiative and appointed IASB Board member Mr. Prabhakar Kalavacherla to act as the IASB's liaison representative.

Ms. Hillier indicated that working groups had been set up for designated IASB projects. Already, the working group assigned to monitor the IASB's fair values-related projects had made good progress, given the relevance of these projects to the IAASB's own initiatives in this area.

In considering and supporting a draft *Terms of Reference and Working Procedures* for this initiative, IAASB members noted the following:

- It is hoped that the relationship between IAASB and IASB will strengthen over time ~~As the initiative progresses, it would help the IAASB strengthen its relationship with the IASB over time.~~ This would be particularly so if the IAASB is able to demonstrate that its comments on it has influenced the IASB's proposals from both ~~auditability and verifiability~~ matters relating to accounting proposals are relevant and useful to the IASB's deliberations ~~perspectives.~~
- While it is important to establish a liaison at the board level, it would also be beneficial for similar relationships to be developed at the staff level.

#### WAY FORWARD

Ms. Hillier noted that as a next step, planning will commence for the annual strategic review session proposed for the next IAASB meeting. She reminded IAASB members and technical advisors to indicate to her or Mr. Gunn of any interest they may have in participating in the working groups, as the various working groups are expected to start their work shortly.

Prof. Schilder thanked Ms. Hillier for leading the initiative. He also expressed his appreciation for the many IAASB members and technical advisors who have volunteered to be involved in one or more of the working groups, an indication of the importance of this initiative.

### **8. Engagements to Review Financial Statements**

Ms. Jones introduced the topic, setting out the background to the project, the work undertaken by the Task Force so far and the significant issues presented in the meeting's agenda material. She noted that the IAASB CAG had discussed the topic at its meeting earlier in September 2009, and that she would note the CAG Representatives' comments during the discussion. In addition, the IFAC Small and Medium Practices Committee had provided comments on the meeting's agenda material for the Task Force's consideration, which she would appropriately note during the meeting.

Except as outlined below, the IAASB supported the Task Force's approach to the project as outlined in the meeting's agenda material.

## THE PRACTITIONER'S OBJECTIVE IN PERFORMING A REVIEW OF FINANCIAL STATEMENTS

The IAASB considered the approach to performing a review of financial statements, which it agreed should be a hybrid approach consisting of specified types of procedures the practitioner would be expected to perform and a targeted level of assurance the practitioner should achieve. It was acknowledged that articulating the targeted level of assurance would be a significant challenge. While "limited assurance" in the Assurance Framework represents a range between zero and a level immediately below that in an audit, this might be a narrower range in the context of a review of financial statements.

Some IAASB members were of the view that it would be helpful for the revised standard to reflect the review as an assurance engagement that is completely separate from an audit. It was suggested that the approach could be viewed as one that builds on the compilation service (i.e. providing limited assurance on the basis of work that is more than that applied in a compilation) as opposed to one that derives from the audit. Mr. Damant was supportive of this approach, noting that CAG Representatives had expressed significant doubt about whether it would be possible to define "limited assurance" in a meaningful way. He was of the view that the "building block" approach would avoid the logical inconsistency of explaining limited assurance relative to reasonable assurance for an audit, and that this would fit well with the negative form of reporting.

An IAASB member, however, did not support this approach, noting that users are concerned only with the outcome, i.e. the assurance report, and not the review process. Accordingly, it would be essential to consider user needs, which are more focused on the assurance report than on the process. It was noted that an area of concern was how the review would be applied to performance reporting in the public sector. Other IAASB members noted that, while user perspectives are important, users' principal concern is for the involvement of an independent, competent professional accountant, with the key issue being the extent of work effort needed relative to cost/benefit considerations. In addition, given that an important consideration is whether further work effort is required, practitioners should have the opportunity to exercise professional judgment about whether or not the goal of limited assurance has been achieved.

The IAASB asked the Task Force to consider what users need, the procedures required to obtain limited assurance, and how the assurance obtained should be communicated to the users. An IAASB member emphasized the importance of revising the review standard in tandem with the compilation standard given the general consensus about the 'building block' approach.

## EXTENT OF THE UNDERSTANDING OF THE ENTITY AND ITS ENVIRONMENT

In relation to the question of the nature and extent of the understanding of the entity and its environment that the practitioner should have, it was noted that such understanding should be "scalable" to cater for both small and large entities. Some IAASB members emphasized that the concepts and approach applied in an audit are not the same as those in a review. In particular, it was generally agreed that the practitioner need not have an understanding of internal control. However, it was emphasized that the practitioner should have an understanding of the accounting system, which ISA 315<sup>11</sup> defines as being part of internal control. It was also noted that the

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<sup>11</sup> ISA 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment."



quality of management and the systems implemented by management for financial reporting are important elements for the practitioner to understand.

#### THE APPROACH TO RISK IN A REVIEW ENGAGEMENT

Ms. Jones explained that the term ‘risk-informed’ as used in the meeting’s agenda material was intended only as a place-holder for the practitioner’s approach to risk in performing a review, and that the issue of terminology was subject to further task force deliberation. IAASB members generally were of the view that the Task Force should keep this aspect of the standard simple. It was suggested that rather than treating engagement risk as a distinct step in the review, it should be an integral part of planning the engagement and identifying the procedures to be performed. In this regard, it was noted that this should be more about use of professional judgment and professional skepticism in planning the engagement than about assessing the risks of material misstatement in the financial statements, as would be the case in an audit.

#### ADDRESSING INCONSISTENCIES IN THE FINANCIAL INFORMATION BEING REVIEWED

Ms. Jones ~~noted~~ indicated that the Task Force had not reached a consensus in this area. It was noted that when significant inconsistencies arise from analytical review procedures and inquiry cannot be resolved through additional procedures, the practitioner would need to perform additional procedures but that the nature and extent of such procedures is unclear ~~should obtain sufficient appropriate evidence as a basis for modifying the review conclusion~~. In this regard, the a few members supported the notion that additional procedures need to be performed in an iterative approach until either the practitioner has obtained limited assurance that there are no significant inconsistencies, or the practitioner has obtained reasonable assurance that the financial information contains a material misstatement, which would form the basis for either management amending the information or the practitioner modifying the review conclusion. However, a majority of members expressing a view believed that revised standard should not use the term “reasonable assurance” but should make clear that modifications need to be adequately supported by sufficient appropriate evidence should not be used in the revised standard, but suggested that the revised standard clarify that such inconsistencies need to be resolved and, if not, either management amends the information or the practitioner modifies the review conclusion.

#### FORM OF CONCLUSION

The IAASB was generally of the strong view that the positive form of expression of the review conclusion leaves significant scope for misinterpretation by users, and that the negative form would be more appropriate given the limited work effort applied. The IAASB asked the Task Force to develop the reporting requirements accordingly. The Task Force was also asked to consider, in view of the general consensus regarding the “building block” approach, how compilation and review reports might compare in the context of the defining characteristics of each type of engagement and the level of practitioner involvement, and in this context, whether there exists the potential for a positive expression of conclusion.

#### INDEPENDENCE CONSIDERATIONS

In supporting the Task Force’s analysis of the issue as set out in the meeting’s agenda material, the IAASB agreed that further independence questions in the context of reviews need not be raised with the International Ethics Standards Board for Accountants.



## ISRE 2410

The IAASB noted no need to rename the review service performed under ISRE 2410<sup>12</sup> to differentiate it from the review service performed under ISRE 2400. The IAASB also noted no need to reclassify ISRE 2410 as an ISA.

### WAY FORWARD

The IAASB asked the Task Force to present an issues paper addressing compilation engagements for consideration at the December 2009 IAASB meeting, and to present a first draft of the proposed revised ISRE 2400 for consideration at the March 2010 IAASB meeting.

## 9. Using the Work of Internal Auditors

Ms. Hillier introduced the topic, noting that the IAASB approved a project proposal to revise the clarified ISA 610<sup>13</sup> at its March 2009 meeting. She indicated that the Task Force includes representatives from the Institute of Internal Auditors (IIA), International Organization of Supreme Audit Institutions and the International Ethics Standards Board for Accountants. She also noted that the topic was discussed at the IAASB CAG earlier in September 2009 and that CAG Representatives had provided comments for the Task Force's consideration.

Except as outlined below, the IAASB was supportive of the Task Force's proposals as set out in the agenda paper for the meeting. In particular, the IAASB was broadly in agreement with the general underlying principles regarding the external auditor's use of internal audit work which the Task Force applied in arriving at its proposals as documented in the issues paper.

### DEFINITION OF INTERNAL AUDIT FUNCTION

Ms. Hillier explained that a reconsideration of the definition of the internal audit function was warranted given developments in the internal audit environment since the extant ISA 610 was issued. These include changes in the organizational status of the internal audit function and in the activities performed by internal auditors. She indicated that the Task Force proposed that the definition of internal audit function be revised based on the IIA's new definition of internal auditing.

The IAASB discussed the merits of adopting the IIA's definition verbatim. It was noted that reference to the IIA's definition is common both within and outside of the accounting profession. Accordingly, adopting the IIA's definition would further promote consistency between the IAASB's and IIA's standards, and reduce the risk of public confusion. On the other hand, it was noted that a benefit in keeping the definition at a general level was that it would cater for the diversity of internal audit structures and functions across organizations. Nevertheless, a more general definition could create unnecessary inconsistencies between the two sets of standards which would in turn result in user confusion.

It was ~~also~~ noted that the definition should address *both* the objectivity and competence of internal auditors, as ISA 610 currently requires the external auditor to evaluate both aspects. In

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<sup>12</sup> ISRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity."

<sup>13</sup> ISA 610, "Using the Work of Internal Auditors."

this regard, the Board was of the view that in the ISA greater emphasis should be placed on a discussion of the relevant characteristics of an internal audit function that the external auditor needs to consider as opposed to the precise wording of the definition.

The IAASB asked the Task Force to consider what would work best in the public interest, taking into account the fact that the definition may not only be referred to by external auditors, but also by internal auditors in defining their own role.

#### USING INTERNAL AUDIT WORK

The Task Force proposed that the external auditor be required to make inquiries of the internal audit function regarding the latter's work and findings that are likely to be relevant to the audit and the external auditor's risk assessments. ~~While there was broad support for this proposal. Additionally, it was largely felt that while the review of~~ noted that in most cases the external auditor would likely also have to examine reports produced by the internal auditors should not be mandatory, particularly exception reports guidance should be included to emphasis the value such reviews may bring to the external audit under the relevant circumstances. The IAASB asked the Task Force to consider whether it would be appropriate to provide guidance in this regard.

In considering the Task Force's proposal of a judgment-based approach for the external auditor to determine the extent of use of specific internal audit work, the IAASB agreed that the relevance of the internal audit work is another dimension that is likely to be central to the external auditor's consideration noting however that ISA 315<sup>14</sup> contains requirements and guidance in this regard.

With regard to the auditor's evaluation of the adequacy of internal audit work, Ms. Hillier indicated that the Task Force did not support the view held by some that the requirements of the extant ISA implied ~~a need for the external auditor to that~~ re-performance is necessary on each every piece of internal audit work ~~used~~. The IAASB agreed. It was, however, noted that consideration should be given to whether it would be appropriate to clarify that audit procedures performed by the external auditor may be for purposes of refuting or verifying the adequacy of internal audit work for use in the external audit.

#### DIRECT ASSISTANCE

In broadly supporting the Task Force's proposal for expanding the scope of ISA 610 to address circumstances involving the external auditor's engagement of the direct assistance of internal auditors on the external audit, IAASB members noted the following:

- While direct assistance may be common in some jurisdictions, it is not permitted explicitly prohibited in other jurisdictions such as India, Japan and Pakistan. Also, direct assistance tends to be more common in the public sector.
- Imposing a blanket prohibition on direct assistance may unnecessarily limit a practice that may already be accepted in many jurisdictions.

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<sup>14</sup> ISA 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment."

- In distinguishing between the use of internal audit work and direct assistance, consideration should be given to the various forms that relationships between the external and internal auditors may take.
- Although safeguard(s) may be available to eliminate or reduce threats to an acceptable level, there is the likelihood that the external auditors' independence may still be perceived to be compromised.

#### CONSIDERATION OF THE NEED FOR CONSULTATION

Ms. Hillier indicated that in accordance with due process, the Task Force had considered whether further consultation would be appropriate before the development of an exposure draft of the proposed revised ISA 610. In this regard, she indicated that, where possible, the Task Force has and continues to engage with key stakeholder groups early in the process, for example, regulatory bodies including the UK Financial Reporting Council's Audit Inspection Unit and the Basel Committee on Banking Supervision.

Accordingly, the Task Force was of the view that further consultation was unnecessary at this stage. The IAASB agreed but noted that the need for external consultation should be reassessed at a later stage.

#### WAY FORWARD

The IAASB asked the Task Force to consider its comments and to present a first draft of the proposed revised ISA 610 for its consideration at the March 2009 IAASB meeting.

#### 10. XBRL

Mr. Crawford welcomed Mr. Verkruijsse, a member of the Task Force,<sup>15</sup> to the meeting, and introduced the topic. He highlighted the way forward on this project as a particular challenge and explained the Task Force's view that there would be benefit from a further educational session on XBRL at the meeting to better inform the IAASB's discussions on the topic.

Accordingly, Mr. Verkruijsse gave a presentation on key XBRL concepts and terminology, and how assurance might be given on XBRL-tagged data. He noted, in particular, the following:

- XBRL International currently has responsibility for reviewing taxonomies for particular jurisdictions and ensuring that these are made available to preparers of XBRL-tagged data.
- Controls around the tagging of financial statement data and the use of the appropriate taxonomy need to be strong in order to produce meaningful XBRL data.
- Of the options for assurance (i.e., assuring the instance document, the style sheet, the taxonomy, or the process by which the financial statements are tagged), the most realistic one would be to focus on the process by which the financial statements are tagged.
- Further research on the information needs of users of the financial statements would assist the IAASB in evaluating the nature of the assurance needs.

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<sup>15</sup> Mr. Verkruijsse is also a member of the Fédération des Experts Comptables Européens (FEE) XBRL Task Force and of the XBRL International Assurance Working Group.

The IAASB commented as follows:

- The tagging process itself is very important, in that it affects the reliability and comparability of the XBRL-tagged data. Mr. Crawford noted that the main question is whether a tag is properly executed in the context of the financial information and the taxonomy itself.
- While tagging information at a level lower than the financial statements is likely an appealing service to analysts, this may pose unique issues for auditors.
- Given the pace of change on XBRL, an important consideration is how to maintain the continuing relevance of any IAASB pronouncement regarding XBRL, taking into account the potential requirements of regulators and users for assurance on XBRL-tagged data.

#### NEEDS ASSESSMENT AND CONSULTATION PLAN

Mr. Crawford highlighted the need for targeted consultations to assess the feasibility of developing an assurance standard. This would, in particular, involve discussions with jurisdictions that are relatively advanced in their implementation of XBRL. Equally, it would be important for the IAASB to understand the regulatory and user needs relating to assurance services on XBRL data. He shared Mr. Verkruijse's view that any assurance on XBRL-tagged data would likely only be possible on the tagging process itself, rather than the subject matter.

In expressing support for further consultation, IAASB members commented as follows:

- As a first step, it would be important for the IAASB to communicate in an educational manner about XBRL generally and about the auditor's association with XBRL data. Such a communication would be an opportunity to publicize the project itself and the planned consultation, and highlight some of the questions that would need further exploration. Consideration would, however, need to be given to how to reach those who are not typically aware of IAASB publications.
- It may not be easy to gauge demand for auditor involvement with the XBRL-tagging process or assess the source of that demand. While some entities might wish to have auditor involvement, others may not have fully considered the level of service or assurance they need.
- It might be possible to use ISAE 3402 as a preliminary means for developing a standard addressing the tagging process.
- The use of XBRL varies widely by jurisdictions. In some countries, financial statements are filed only in XBRL, usually for such purposes as reporting to banks and tax authorities.<sup>16</sup> It may be unlikely that XBRL filings would overtake traditional means of filing, such as those based on paper, HTML or PDF. However, consultation with regulators would be helpful.

Concern was expressed as to whether the targeted consultation would be sufficiently public. In this regard, Prof. Schilder asked the Task Force to consult with the IAASB Steering Committee

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<sup>16</sup> In the UK, for example, all financial statements submitted as part of tax returns will be required to be filed in XBRL in the near future, as the March 31, 2010 financial statements will need to be tagged. An ICAEW Working Group has been set up to explore the implications of this requirement.

regarding its communication and consultation plan, including how XBRL information could be disseminated on the IAASB's website.

The IAASB agreed that, subject to the outcome of the preliminary targeted consultation, a broader consultation paper might be needed to assess broader stakeholder needs regarding assurance on XBRL data and the nature of the services practitioners may provide. This consultation phase would help the IAASB be better prepared to meet any needs that may rapidly arise from users and regulators.

#### AUDITOR ASSOCIATION WITH XBRL DATA

Mr. Crawford noted that auditors are presently not typically associated with XBRL data filed with financial statements. He explained the Task Force's view that there would be benefit in issuing a communication in the near-term to draw the attention of users of XBRL data to this important issue.

The IAASB generally supported this proposal, particularly given that XBRL data was not contemplated when ISA 720 was developed and would therefore not be within its scope.

Prof. Schilder suggested that the Steering Committee should be consulted on the form and content of the communication. He also noted that the IAASB would have an opportunity to review the draft consultation in due course prior to finalization.

#### WAY FORWARD

The Task Force agreed to develop a consultation and communication plan, and a draft communication on the auditor association issue, for consideration by the IAASB Steering Committee, in the first instance, and the IAASB.

### **11. Staff Alert on External Confirmations**

Mr. Montgomery introduced the topic, summarizing the discussions at the June 2009 IAASB meeting regarding the development of an IAASB staff audit practice alert to draw practitioners' attention to emerging issues relating to the use of external confirmations as audit evidence. He briefed the IAASB on the efforts of Staff and the External Confirmations Working Group to date in developing the alert. He then asked for the IAASB's initial reaction to a preliminary draft of the alert distributed earlier at the meeting.

In addition to editorial changes, the IAASB suggested the following for consideration by Staff and the Working Group:

- Avoiding the use of the present tense to describe auditor actions to minimize confusion regarding the authority of the alert.
- Enhancing the headlines to elicit greater attention from practitioners.
- Explaining the issues more in the context of how the ISAs help to deal with them.
- Drawing attention to the case where the auditor would likely not obtain audit evidence regarding the existence assertion if the auditor were to send a confirmation request to an asset manager who is not a custodian of the entity's assets.
- Giving more prominence to the importance of controlling the confirmation process.

## WAY FORWARD

Staff, in discussion with the Working Group, will circulate an updated draft of the alert to the IAASB for comment following the meeting. Taking into account comments that the IAASB may have, Staff (in discussion with the Working Group) will then prepare a final draft for distribution to the IAASB prior to finalization by the end of October.

## **12. IAASB Terms of Reference and Due Process**

Mr. Gunn provided an update on the status of amendments to IAASB's Terms of Reference and Due Process and Working Procedures arising from IFAC's triennial review. He noted that in April 2009 the PIOB reported that it has approved IFAC's recommended changes to these documents, subject only to certain changes for clarity. He drew attention to the more significant changes being recommended in response to PIOB's comments and those on which no further action is being taken. He explained that the IFAC Board will be asked to approve final amendments at its November 2009 meeting, with a report back then to be provided to the PIOB for its December 2009 meeting.

While noting that all provisions of the amended Due Process and Working Procedures are important and require IAASB's ongoing consideration, Mr. Gunn drew the IAASB's attention certain provisions that the Board and its Task Forces should continue to bear closely in mind. These included: IAASB accountability for following the approved working procedures and, if not, for explaining why a working procedure(s) had been modified in practice; the need to consider at any stage of a project whether to hold a public forum or roundtable, or issue a consultation paper, in order to solicit views on a matter under consideration, and to consider the appropriateness of conducting a field test of the application of its proposals for a new or revised international pronouncement; and the importance of timely interaction with the IAASB Consultative Advisory Group.

Mr. Gunn explained that the provisions of the amended due process will apply prospectively to all IAASB's current projects.

## **13. Presentation from the KICPA**

Mr. OuHyung Kwon, President of the KICPA, and other representatives of the KICPA briefed the IAASB on a number of matters, including the following:

- The KICPA's initiatives to facilitate the successful adoption and implementation of the clarified ISAs in Korea.
- The KICPA's advocacy activities on behalf of the profession in Korea in the area of auditor liability.
- The background of the KICPA and the various functions it undertakes for the advancement of the local accounting profession. In particular, it was noted that the Korean profession is well-represented at the international level. The KICPA has been and continues to be an active contributor to the work of IFAC and the Confederation of Asian and Pacific Accountants. The Institute also maintains continuous and active liaison with other major national accounting bodies in the region.

Prof. Schilder thanked Mr. Kwon and the other representatives of the KICPA for the informative presentation. He also thanked the KICPA for their hospitality in hosting the IAASB in Seoul.

#### **14. IAASB Member Presentation**

Mr. Kassam gave a presentation on Kenya and the accounting profession in the country. He highlighted key aspects of the country's socioeconomic and geographic profile, its role as a dominant regional player in various Eastern and Central African economic or trading blocks, and the political and economic challenges that it faces. He also gave an overview of the country's profession, the role of the Institute of Certified Public Accountants in Kenya (ICPAK), and ICPAK's relationship with the Eastern, Central and Southern African Federation of Accountants (ECSAFA). Mr. Kassam outlined the effect of recent law changes on the Institute and its governance, including new statutory requirements for the Institute's members in the area of quality assurance. He indicated that the ICPAK has been a proactive participant in IFAC's Compliance Program.

Prof. Schilder thanked Mr. Kassam for sharing this insight into Kenya and the Kenyan profession.

#### **15. PIOB Remarks**

By way of a brief announcement, Ms. Peters noted that she had just been informed that Mr. Nakahira, a former member of the PIOB, had passed away earlier in the week. She paid tribute to Mr. Nakahira's contribution to the PIOB's work and expressed her esteem for him as an individual. The IAASB joined Ms. Peters in expressing respect for Mr. Nakahira. Prof. Schilder asked Ms. Peters to convey the IAASB's best wishes to Mr. Nakahira's family.

Turning to the business of the meeting, Ms. Peters complimented the IAASB on its high level of engagement in its deliberations, which had led to a very productive meeting. She also expressed her appreciation for the concern that the IAASB had shown for the public interest throughout the week. She voiced her support for the IAASB's flexible approach in developing the consultation paper on assurance on greenhouse gas statements. In particular, while she sympathized with the concern some IAASB members had expressed in making available with the consultation paper draft wording for the proposed ISAE on which the IAASB had not formally concluded, she noted that such an approach would ultimately be beneficial to the project. She emphasized that while due process is important, it may sometimes be necessary to take an innovative route to best meet public interest needs.

Ms. Peters also applauded the IAASB's commitment to setting an ambitious agenda addressing broader topics than in the past in order to respond to stakeholder needs. She noted that while a number of these topics, such as GHG and XBRL, may be difficult, they do illustrate how the IAASB strives to serve the public interest.

#### **16. Next Meeting**

The next meeting of the IAASB is scheduled for December 7-10, 2009 in San Francisco, United States.

## **17. Closing Remarks**

Prof. Schilder thanked the members, technical advisors, observers and staff for their contributions to the meeting. He asked Mr. Jui to convey the IAASB's best wishes to Mr. Tang. He also thanked the KICPA for hosting the IAASB on the Monday evening and for its support and assistance throughout the meeting. He then closed the meeting.