

**Final Minutes of the 37th Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD**

Held on December 7-10, 2009 in San Francisco, USA

Voting Members**Technical Advisors**

Present:	Arnold Schilder (Chair)	Wolfgang Böhm (Mr. Ferlings)
	John Fogarty (Deputy Chair)	Valdir Coscodai (Mr. Swanney)
	Phil Cowperthwaite	Denise Esdon (Mr. Montgomery)
	Craig Crawford (except for Dec 9)	Jonas Hällström (Mr. Jensen)
	Josef Ferlings	Josephine Jackson (Ms. Jones)
	Cédric Gélard	Len Jui (Mr. Tang)
	Jon Grant	Sachiko Kai (Mr. Sekiguchi)
	Diana Hillier	Chuck Landes (Mr. Fogarty)
	Susan Jones	Jon Rowden (Ms. Hillier)
	Ashif Kassam	Tania Sergott (Ms. McCabe)
	William Kinney	Greg Shields (Mr. Cowperthwaite)
	Caithlin McCabe	Isabelle Tracq-Sengeissen (Mr. Gélard)
	Daniel Montgomery	
	Tomokazu Sekiguchi	
	David Swanney	
	Abdullah Yusuf	
Apologies:	Steen Bernt Jensen	Amarjit Chopra (Mr. Kinney)
	Jianhua Tang	Richard Kamami (Mr. Kassam)
		Sylvia Smith (Mr. Crawford)

Non-Voting Observers

Present: David Damant (IAASB CAG Chair), Norio Igarashi, Jean-Philippe Rabine, and Jennifer Rand¹

Public Interest Oversight Board (PIOB) Observers

Present: Michael Hafeman

IAASB Technical Staff

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

Apologies: Jim Sylph (Executive Director, Professional Standards)

¹ The views expressed by Ms. Rand, where noted in the minutes, are her own and do not necessarily reflect the views of the PCAOB Board or PCAOB members or its staff.

1. Opening Remarks and Minutes

WELCOME AND INTRODUCTIONS

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

- Mr. Hafeman, observing the meeting on behalf of the PIOB.
- Ms. Dianne Azoor Hughes and Ms. Jo Iwasaki, member and correspondent member, respectively, of the Reviews and Compilations Task Force.
- NIVRA representatives Messrs. Hans Verkruijsse (member of the XBRL Task Force) and Jan Thijs Drupsteen.
- Ms. Jane Poulin, observing the meeting on behalf of the US Securities Exchange Commission, and Mr. Axel Kunellis, observing the meeting on behalf of KPMG.

Apologies were received from Messrs. Kamami, Jensen, Tang and Sylph, and Ms. Smith. Messrs. Hällström and Jui were noted as proxy for Messrs. Jensen and Tang respectively.

Prof. Schilder noted the appointment of Messrs. Coscodai and Jönsson to the IAASB from January 2010, and the re-appointment of Messrs. Kinney and Yusuf, and Ms. Jones. He conveyed his congratulations to them. He also congratulated Ms. Hillier on her appointment as Deputy Chair of the IAASB from January 2010. In addition, he noted that as part of a routine rotation, he had appointed Messrs. Crawford, Gélard and Sekiguchi to the Steering Committee in replacement of Messrs. Fogarty, Swanney and Tang.

Prof. Schilder briefed the IAASB on his participation at the December 3-4, 2009 PIOB meeting, at which the PIOB confirmed the due process applied in relation to the new ISAE 3402.² He also provided an update on the IAASB's joint research initiative with the International Association for Accounting Education and Research. He noted that the Program Advisory Panel, on which the IAASB is represented, has shortlisted a few research projects of interest to the IAASB. The Panel is expected to conclude on its deliberations and award funding for the selected research projects by early January 2010.

Finally, Prof. Schilder congratulated Mr. Kassam on his recent award of the Special Achievement Award for 2009 by the Association of Chartered Certified Accountants in recognition of his contribution to the growth of the profession in Kenya.

RECENT DEVELOPMENTS

Prof. Schilder noted the election of Ms. Linda de Beer as the incoming IAASB Consultative Advisory Group (CAG) chair at the September 2009 CAG meeting. This appointment has been confirmed by the PIOB. Ms. De Beer currently serves on the CAG as one of two Representatives from the World Federation of Exchanges. Previously, she served as a Representative for the Eastern Central and Southern African Federation of Accountants. Mr. Damant noted that, while his term as CAG Chair does not end until after the September 2010 CAG meeting, it was

² International Standard on Assurance Engagements (ISAE) 3402, "Assurance Reports on Controls at a Service Organization."

necessary to embark on the process of selecting the new Chair early in order to minimize any disruptions to the CAG's activities .

Mr. Rabine noted that in November 2009, portfolios responsibilities for the next European Commission (EC) were announced by the EC President, Mr. José Manuel Barroso. He reported that Mr. Michel Barnier had been appointed the new Commissioner with responsibilities for the Internal Market and Services portfolio, which includes overseeing the EC's decision on, and process for, adoption of the ISAs in the European Union (EU).

Prof. Schilder reported that, since the previous Board meeting, six ISA modules had been released. In addition, the two IAASB consultation papers on auditing complex financial instruments and assurance on greenhouse gas statements, and the IAASB staff alert on external confirmations were issued. Prof. Schilder thanked IAASB members, technical advisors and observers for their input in finalizing these documents.

Finally, in relation to staff alerts, he indicated that explanatory information regarding the status of, and development of, such publications had been added to the IAASB website, in response to certain inquiries from stakeholders.

MINUTES OF PREVIOUS MEETING

The minutes of the public session of the previous IAASB meeting were approved, subject to an addition to the attendance list and, in relation to the Pro Forma project, a suggestion from Mr. Grant to reflect an alternative view noted at the Board in relation to unadjusted financial information in the compilation of pro forma financial information.

2. Reporting on the Proper Compilation of Pro Forma Financial Information

Mr. Swanney introduced the topic, and led a review of the revised draft of the proposed ISAE 3420.³ Except as outlined below, the IAASB agreed the recommendations of the Task Force as set out in the meeting papers.

SCOPE OF THE PROPOSED ISAE

Some IAASB members were concerned about the apparently unrestricted scope of the proposed ISAE which suggested that a practitioner could undertake an engagement to report on the proper compilation of pro forma financial information (PFI) regardless of whether there was a legal or regulatory requirement for such reporting. It was noted that users are more likely to understand the nature of the engagement and the practitioner's report if the reporting was required under the relevant securities regime or was established market practice. Accordingly, it was suggested that the scope of the standard should be limited to circumstances where this type of reporting is required under the securities regime.

Some IAASB members were of the view that imposing a jurisdictional boundary on the scope of the proposed standard might be inappropriate as the entity may issue its prospectus in more than one jurisdiction. Further, it was noted that such a scope restriction may potentially limit the

³ Proposed ISAE 3420, "Assurance Reports on the Proper Compilation of Pro Forma Financial Information Included in Prospectuses."

global relevance of the standard. Other members, however, noted that linking the scope of the standard to the prospectus requirements under the relevant securities regime would minimize the risk of users in a particular jurisdiction misunderstanding the nature of the engagement and the practitioner's report, especially given the varying securities regimes and market practices around the world. The IAASB asked the Task Force to consider the matter further in the light of these comments.

NATURE OF AN ENGAGEMENT TO REPORT ON PROPER COMPILATION OF PFI

An IAASB member noted that while some jurisdictions may take the view that an assurance engagement in relation to the proper compilation of PFI is addressing the *process* of compiling the PFI, other jurisdictions may hold a different view, i.e., that the practitioner is reporting more *on* the PFI itself. While there would be little risk of users misunderstanding the nature of the engagement if the standard were applied in a jurisdiction where the former view is held, this might not be so in the latter case, or even where no particular view is held. Accordingly, it was suggested that the proposed standard clarify upfront that the two views are possible and that the proposed standard only deals only with the former.

However, another IAASB member was of the view that this would not only leave open the question of how practitioners should deal with the latter case, but also potentially lead users and practitioners to believe that the approach set out in the proposed standard is the only way to report on proper compilation. It was felt that because of users' strong perception of the practitioner's association with the PFI even if the practitioner's work effort addressed only the process of compilation, it would be inappropriate for the practitioner to accept unadjusted financial information that has not been audited or reviewed as a basis for the compilation, as this could lead the practitioner to be associated with potentially misleading information. Accordingly, it was suggested that the approach set out in ISA 510⁴ for the auditor to obtain sufficient appropriate audit evidence on opening balances in an initial audit engagement could be adapted in this context so that the practitioner obtains some level of assurance regarding the appropriateness of unadjusted financial information that has not been audited or reviewed.

The IAASB asked the Task Force to give the matter further consideration in the light of these comments.

WORK EFFORT ON THE UNADJUSTED FINANCIAL INFORMATION

Related to the above, another IAASB member noted that an audit and a review of the source of the unadjusted financial information should not be regarded as representing the same level of assurance. It was argued that as a review does not provide an appropriate foundation for a reasonable assurance engagement, some could see an audit of the source of the unadjusted financial information as being the only justifiable approach. If this were to be the outcome, however, the proposed standard could potentially influence the selection of the starting point for the compilation from a practical standpoint, which might not be in users' best interests.

Therefore, it was argued that the emphasis should be on determining whether the source of the unadjusted financial information is appropriate instead of whether it has been audited or

⁴ ISA 510, "Initial Audit Engagements—Opening Balances."

reviewed. Accordingly, it was suggested that the approach to the practitioner's work effort on the unadjusted financial information should be focused on determining whether the starting point to the compilation is appropriate and not whether it contains misstatements through a consideration of the reliability of the audit or review of that starting point. However, views were also expressed that the level of assurance obtained on the starting point is relevant, depending upon whether one believes the report is on the PFI or on the compilation procedures. The IAASB asked the Task Force to consider the matter further.

OTHER MATTERS

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

- To provide greater clarity regarding the meaning of the term “compilation” as used in the proposed standard and to minimize confusion with non-assurance engagements to compile financial statements, the introduction to the standard should include further explanation of the nature and purpose of the compilation process. In addition, the scope exclusion paragraph addressing engagements to compile financial statements that are dealt with under ISRS 4410⁵ should specify that these are engagements where it is *the practitioner* who compiles the entity's financial statements. This would more clearly distinguish such engagements from those performed under this ISAE where it is the responsible party who compiles the PFI.
- The material in the introductory section that explains that this ISAE does not deal with direct reporting engagements should be deleted as it may create confusion.
- The term “hypothetical” used to describe the nature of the situation that is reflected in the PFI should be avoided, as in some jurisdictions this term is more directly linked to prospective financial information.
- A definition of the term “published,” as used in the context of both a published audit or review report and published financial information, should be provided to clarify that the term relates more directly to a requirement for the report or financial information to be made publicly available under the relevant securities regime.
- With regard to the definition of the term “proper compilation,” consideration should be given to whether this should be related more to the result of the process (i.e., that the PFI has been properly compiled) than the process itself, as an assurance engagement on the process could be seen as involving the performance of procedures on controls.
- In relation to the guidance on materiality illustrating matters that may cause PFI not to be properly compiled, the reference to a mathematical or clerical mistake should be explicitly described as one that occurs in the compilation process. This is to avoid any suggestion that the practitioner has a responsibility to identify material misstatements in the unadjusted financial information.
- Consideration should be given to requiring the practitioner to consider more broadly whether the entity's accounting policies are consistent with its applicable financial reporting

⁵ International Standard on Related Services (ISRS) 4410, “Engagements to Compile Financial Statements.”

framework. This is because the entity may have to deal with new accounting areas as a result of the event or transaction.

- For the avoidance of doubt, the proposed standard should explicitly provide for the practitioner to be able to include an Emphasis of Matter paragraph in the practitioner's report, even though circumstances that may call for the use of such a paragraph in practice are likely to occur infrequently. As a matter of principle, practitioners cannot be prohibited from communicating to users what they believe is necessary.
- The proposed standard should require the practitioner to obtain written representations from the responsible party, as there are representations that pertain specifically to the proper compilation of PFI.
- Consideration should be given to whether the practitioner should have a responsibility to perform a subsequent events review between the date of the audit or review report on the source of the unadjusted financial information and the date of the practitioner's report on the PFI. This is because events may have occurred between those dates that, if not appropriately dealt with in the compilation process, could cause the PFI to be misleading.
- The guidance explaining the relevant considerations in determining whether the source of the unadjusted financial information is appropriate should make clear that the credibility of the source is only one of the factors in making such a determination. The source will be de facto credible if the practitioner has audited or reviewed it.
- For the avoidance of doubt, the report should explicitly include a statement above the practitioner's opinion that the practitioner has not performed an audit or review of the PFI and, accordingly, does not express an opinion on the PFI.
- To clarify the nature of the service, consideration should be given to whether the opinion should be worded in terms of whether the process of compilation is appropriate as opposed to whether the PFI has been properly compiled.

CONSIDERATION OF WHETHER TO TAKE A FORMAL VOTE FOR EXPOSURE

The IAASB considered a revised draft of the proposed standard as a result of the earlier discussions. Seven IAASB members expressed support for the draft. The remaining members (save Prof. Schilder) indicated that they would either oppose issuing the draft for exposure or abstain, broadly for the following reasons:

- There have been a number of significant changes to the draft and more time is needed to consider the overall effect of the changes.
- The draft lacks overall clarity, particularly in relation to how it distinguishes between reporting on the process of compilation versus reporting on the PFI, and the work effort on the unadjusted financial information where it has not been audited or reviewed.
- The draft supports only one approach to the work effort needed to report on proper compilation and does not recognize that there could be others.

An IAASB member urged the Board to raise fundamental issues early in the development of a draft standard, rather than at the second read stage. He also noted that the IAASB is a global

standard setting body and, accordingly, IAASB members should act in the global public interest and avoid taking views that reflect the interests of their local jurisdictions only.

WAY FORWARD

Given the above, the IAASB deferred a formal vote on issuing the proposed ISAE as an exposure draft until the March 2010 meeting. Prof. Schilder asked that IAASB members forward their specific substantive concerns to the Task Force in writing to assist the Task Force in determining whether changes to the draft of the proposed standard would be necessary.

3. Engagements to Compile Financial Information

Ms. Jones introduced the topic, setting out the background to the project, the work undertaken by the Task Force to date and the significant issues presented in the meeting papers. She noted that the IFAC Small and Medium Practices (SMP) Committee had provided comments for the Task Force's consideration which she would highlight as appropriate.

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

NATURE AND SCOPE OF SERVICES PRACTITIONERS PROVIDE IN ENGAGEMENTS TO COMPILE FINANCIAL INFORMATION

The IAASB considered that the scope of the revised standard should focus on historical financial information, that being the type of information that professional accountants most commonly compile.

The IAASB encouraged the Task Force to consider developing the focus of the revised standard on the service provided i.e., 'the compilation engagement', rather than attempting to address different types of activities that a compilation engagement could involve. Application guidance could be provided to explain the different activities practitioners may undertake for an entity in relation to its financial information and preparation thereof, and conditions when those activities are required to take the form of a compilation engagement.

PRACTITIONER ASSOCIATION

The IAASB generally supported the view that questions relating to the practitioner's association with information with which the practitioner has had some involvement are best addressed from a broader perspective across all types of engagements, and not just compilations. A few IAASB members noted that the question of association is particularly significant in the compilation service, given user perceptions about the extent of work performed and the practitioner's level of involvement with the compiled financial information.

The IAASB agreed that the revised standard should:

- Explain and make the distinction between services that fall within the scope of the standard, and those that do not; and
- Address questions that commonly arise in connection with the practitioner's association with compiled financial information.

DISTINGUISHING COMPILATION ENGAGEMENTS FROM ASSURANCE ENGAGEMENTS

The compilation engagement is not designed to obtain assurance. Despite the caveats in the practitioner's report that the engagement is not an assurance engagement, and the disclaimer of an opinion or conclusion, users nevertheless may take assurance from the compiled financial information. The Task Force was of the view that the practitioner's ethical obligation to not knowingly be associated with misleading information should not imply a need for the practitioner to actively seek to identify matters that could mean the compiled financial information is misleading. A few IAASB members, however, were of the view that the practitioner's obligation cannot be discharged passively. Even if the practitioner performs no procedures, the practitioner's involvement provides users of the compiled financial information with an implicit, minimal form of assurance that the financial statements are not misleading.

In this regard, the IAASB concluded that both the terms of engagement and the practitioner's report should contain wording to explain that the non-assurance nature of the compilation engagement results from the fact that the practitioner does not gather any evidence about the compiled financial information, and therefore cannot express any assurance conclusion or opinion on the financial information.

INDEPENDENCE

The IAASB was of the view that the independence matter can be satisfactorily addressed through establishing a reporting requirement in the standard. This should require the practitioner's report to state that independence as described in the *Code of Ethics for Professional Accountants* established by the International Ethics Standards Board for Accountants' (IESBA Code) is not required to perform a compilation engagement.

A few IAASB members were of the view that whether and how independence should be applied by practitioners when performing compilation engagements should be a matter for the IESBA.

NATURE AND EXTENT OF THE PRACTITIONER'S UNDERSTANDING OF THE ENTITY, ITS OPERATIONS AND ITS ENVIRONMENT

The IAASB felt that requirements concerning the practitioner's understanding of the entity need to be applicable proportionately with the size and complexity of different entities. The revised standard should require the practitioner to have a level of understanding sufficient to properly compile the financial information, through applying professional competence and due care. Application guidance should explain, however, that what is sufficient in an individual engagement will depend on the engagement circumstances.

OBSERVED INCONSISTENCIES IN COMPILED FINANCIAL INFORMATION AND PRACTITIONER'S RESPONSE WHEN INFORMATION IS MISLEADING

The IAASB agreed with the Task Force's view that the concept of "misstatement" used in the extant standard should be replaced by the concept of whether there are indications that the compiled financial information is, or may be, "materially false or misleading." This would further underline the distinction between compilations and assurance engagements.

The IAASB also agreed that the report issued for the engagement cannot be a "modified report" since no opinion or conclusion is expressed. If the practitioner comes across matters where the

entity's management or those charged with governance do not agree to amend the compiled financial information to avoid it being misleading, the practitioner should withdraw from the engagement (unless prohibited by applicable laws and regulations).

REPORTING

The IAASB agreed that a key focus of the reporting requirements should be on clearly communicating the practitioner's level of involvement with the financial information, and the practitioner's association with the information. The IAASB was of the view that the practitioner should always issue a report when it is likely that third parties will associate the practitioner with financial information with which the practitioner has been involved.

WAY FORWARD

The IAASB asked the Task Force to present first drafts of the proposed revised ISRE 2400⁶ and ISRS 4410 for consideration at the March 2010 IAASB meeting.

4. Research on Auditor's Report

Mr. Montgomery introduced the topic, outlining the activities of the Working Group since June 2009. He noted that it has been working closely with representatives of the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA).

COMMISSIONED ACADEMIC RESEARCH STUDIES ON AUDITOR REPORTING

Mr. Montgomery gave an overview of each of the four commissioned academic research studies. IAASB members noted the following:

- The debate about auditor reporting, and about the form and content of auditors' reports and their overall usefulness to users, is part of the wider debate about the role of the audit in today's economy and its inter-relation with financial reporting and corporate governance. Given the changes that have been occurring in both the financial reporting and corporate governance environments, it is important to consider the audit, and the needs the audit is designed to satisfy, in that wider context.
- A continuing underlying problem is the evident lack of understanding about what an audit is, and about the scope of an audit of financial statements, even among sophisticated users of audited financial statements.
- There are different types of users of financial statements of small and large entities. In smaller entities, there may often be greater scope for users to interact and communicate with the entity's auditor than is the case for larger entities. This may explain some of the needs surrounding auditor reporting and communications.
- Taken together, the research studies provide evidence that the auditor's report is valued, and that the current audit reporting model seems to work as intended. The question, however, is whether the current audit reporting model will serve users' needs going forward and the challenge is to enhance the value of the auditor's report in this regard.

⁶ ISRE 2400, "Engagements to Review Financial Statements."

- A primary purpose of the auditor's report is to enable the auditor to communicate to users what was done in the audit and its result. It is difficult to see how the auditor's report can be used as a vehicle for wider or more diverse communications with users of the entity's audited financial statements in an effective way.
- In terms of the next steps for the project, consideration should be given to canvassing a wide variety of user and investor views on the topic of auditor reporting and auditor communications.

Mr. Rabine noted that the topic of auditor communications with shareholders was considered in recent debates of the European Corporate Governance Forum. In particular, it was recognized that the auditor's report is only one of many ways that auditors can communicate with users. There is also recognition that auditors' communications with users are conditioned by legal and confidentiality issues.

OTHER INFORMATION CONSIDERED BY THE TASK FORCE

Other contemporary sources of information about auditor reporting that the Task Force considered include various reports and consultations carried out by regulatory bodies and related initiatives, including the current Consultation Paper "Auditor Communications" issued by the International Organization of Securities Commissions (IOSCO), as noted in the meeting material.

PRESENTATIONS ON AUDITOR REPORTING IN JAPAN, THE UK AND FRANCE

The IAASB received and discussed presentations from Messrs. Sekiguchi, Grant and Gélard on the auditor reporting models currently used in their countries (Japan, the UK and France respectively), and related developments affecting auditors.

A common theme from the presentations was that there are different types and classes of users of auditors' reports, with different informational needs. Changes made to the auditor's reporting model in the three countries have aimed to improve the usefulness of the report to users. Prof. Schilder noted that it will be important to find ways to evaluate the effects of the changes introduced in Japan, the UK and France, and whether the changes have produced benefits.

Mr. Damant commented on the importance of linking the auditor's reporting responsibilities to the need for financial reports to comply with applicable laws and regulations.

KEY MESSAGES IDENTIFIED FROM THE INFORMATION CONSIDERED

Mr. Montgomery outlined the key messages identified from the Working Group's analysis and synthesis of the information considered. He noted that what is unclear at this point is the nature and extent of additional information users would like to have from auditors and how such additional information would be used. Further, the auditor may not be best suited to provide additional information because the responsibility for providing such information to users may more appropriately rest with management or those charged with governance.

The IAASB also noted the following:

- It would be difficult to have a single audit report that meets the needs of all different types of users of audited financial statements.

- Examination of the value of auditors' reports and of audits more broadly needs to be viewed in the broader context of corporate governance and financial reporting systems.

Mr. Damant noted that users often have different aims as investors, which frequently cannot be reconciled. For example, investors whose concerns mainly focus on addressing corporate governance issues are more likely to be interested in detailed information communicated by auditors in their audit reports. On the other hand, other users may only focus on the symbolic value of the audit report regardless of how much information or detail the report conveys.

Ms. Rand noted that the IAASB's discussion was valuable in the context of the Public Company Accounting Oversight Board's (PCAOB's) work in responding to the US Treasury Department's recommendations as noted in the meeting papers. She pointed out that there is a great deal of convergence in 'key messages' that are evident from various studies undertaken in this area. She indicated that the PCAOB is monitoring work of others, including IOSCO, and encouraged the IAASB to consider the same.

Mr. Hafeman encouraged the Board to consider ways, other than the auditor's report, to make clear for the user community what the objective of an audit is, the work performed during the audit, and the findings of the auditor. Prof. Schilder agreed and noted that the IAASB has in its Strategy and Work Program the consideration of a publication on the meaning of an audit.

WAY FORWARD

Mr. Montgomery emphasized that the challenge is to identify appropriate responses to the information that has been gathered. He summarized the action items from the IAASB's discussion as follows:

- To consider information from the IOSCO Consultation Paper.
- To consider ways to reach out to different types and classes of users and investor groups.
- To consider whether there may be scope to stimulate further academic research to examine market responses to auditor reporting models used in different countries, and to changes in those models.

Mr. Damant noted that at the March 2010 CAG meeting, CAG Representatives may be able to offer considerations and perspectives relevant to different types of investor and user groups.

An IAASB member emphasized the need to follow through the linkage between current and future debates on audit quality, and considerations relating to auditor reporting and auditor communications.

5. Assurance Engagements⁷

Prof. Kinney introduced the topic, noting that the Task Force had sought input from nominees of the IFAC Transnational Auditors Committee (TAC) in order to understand what, from a practitioner's perspective, is "broken" with ISAE 3000. He also noted that the Task Force had received comments from the IFAC SMP Committee which reinforced the importance of ISAE

⁷ ISAE 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information."

3000 being capable of proportionate application relative to the size and complexity of an engagement. Prof. Kinney also noted a number of common elements between the ISAE 3000 revision and the current projects on developing proposed ISAE 3420 and proposed revised ISRE 2400, as well as the recently completed project on ISAE 3402.

HISTORICAL FINANCIAL INFORMATION

The IAASB discussed the practical difficulties in determining whether some engagements should be performed in accordance with ISAE 3000 or ISA 805.⁸ It was noted that it would likely be impossible to articulate a “bright line” distinction that would be applicable in all cases. It was also noted that if the reporting and other essential elements of the engagement under the two standards are consistent, then there would be no harm in leaving some flexibility for this determination to the practitioner’s professional judgment in the light of individual engagement circumstances.

HYBRID ENGAGEMENTS

The IAASB discussed whether it would be appropriate to prohibit the mixing together of different services in one report. It was noted that if an engagement includes different services, be they assurance services of different levels, assurance services mixed with related services, or assurance services mixed with other professional services, the practitioner’s report should be very clear as to what work and what conclusion relates to what subject matter information. This may require issuing separate reports depending on the circumstances.

UNIFORM LEVELS OF ASSURANCE

The IAASB discussed whether the level of assurance obtained on all reasonable/limited assurance engagements is a specific point on an assurance scale (e.g., high/moderate), which is the same regardless of the nature of the underlying subject matter. The IAASB noted that if this concept is to be properly understood, it would need to be very clearly articulated, either in ISAE 3000 or the Assurance Framework (or both). For example, would it be consistent to say on the one hand that the only variable distinguishing a reasonable level of assurance from a limited level is the work effort, but to then say that the level of assurance obtained in an engagement is dependent on the underlying subject matter? The importance of the interaction between risk and measurement uncertainty was also noted. For example, in a financial statement audit, would it be correct to say the level of assurance with respect to cash is higher than that with respect to the valuation of a complex financial instrument; or, is the inherent uncertainty attaching to each subject matter different but the level of assurance that the reported amount is in accordance with the criteria the same; or is the strength of the evidence obtained in relation to some subject matter information greater than for others?

DIRECT VERSUS ASSERTION-BASED REPORTING

The prevalence of direct assurance engagements in the private sector in various jurisdictions was noted. The IAASB discussed the interaction of the two criteria used in extant ISAE 3000 for

⁸ ISA 805, “Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.”

determining whether an engagement is a direct reporting engagement or an assertion-based engagement, i.e.: (a) who evaluates/measures the underlying subject matter; and (b) who presents the subject matter information to intended users. It was noted that it is not uncommon for the practitioner to assist in the preparation of the subject matter information where the practitioner has more expertise than the responsible party regarding the evaluation/measurement of particular aspects of the underlying subject matter. Care would need to be taken in such cases to ensure that ISAE 3000 does not conflict with the provisions of the IESBA Code; and that either ISAE 3000 or the Assurance Framework explains the role of evidence in distinguishing between direct assurance engagements and compilation engagements. It was also noted that in some cases, the practitioner may be unable to obtain a written representation from management. For example, the engagement may be undertaken in an adversarial situation in the public sector. Nonetheless, such a situation should not prevent the engagement from being regarded as an assurance engagement.

OTHER MATTERS

The IAASB agreed that:

- Developing an overarching framework for related services is beyond the scope of this project.
- A limited assurance engagement should not be undertaken when a reasonable assurance engagement is not feasible because, for example, the subject matter is qualitative, or too future oriented or subjective; the criteria are “soft;” or there are other limitations on the evidence available such as information systems being poorly controlled.
- For a particular set of circumstances, materiality does not vary with the level of assurance, i.e., in a limited assurance engagement (vs. a reasonable assurance engagement), larger errors should not be considered immaterial.
- The nature of procedures for limited assurance engagements is not necessarily primarily inquiries of management and analytical procedures for subject matters other than financial statements.
- The revised ISAE 3000 should clearly articulate that the party responsible for the underlying subject matter may not be the same party who is responsible for the subject matter information, and that in a direct assurance engagement the party responsible for the subject matter information is in fact the practitioner.
- The Task Force should consider whether any proposed changes to terminology in ISAE 3000 (e.g., changing assertion based engagement to attestation engagement) would affect application of the IESBA Code.
- Skepticism should not be referred to in terms of a sliding scale depending on the level of assurance to be obtained.

WAY FORWARD

The IAASB asked the Task Force to present a preliminary working draft of the proposed revised ISAE 3000 for its consideration at the March 2010 meeting.

6. Auditing Complex Financial Instruments

Mr. Fogarty introduced the topic noting that, while responses had not yet been received to the October 2009 Consultation Paper, the Task Force had identified a number of issues on which the IAASB's views were sought. The responses to the Consultation Paper, as well as the input received from the IAASB, would inform the direction of the Task Force's work.

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

FORM AND CONTENT OF A REVISED IAPS 1012

Mr. Fogarty noted that decisions on the form and content of a revised International Auditing Practice Statement (IAPS) 1012⁹ would depend on IAASB's position on the status and authority of IAPSs (see further discussion of this topic later in these minutes).

IAASB members had mixed views on whether the draft document, which is based on the UK Auditing Practices Board's (APB) Practice Note (PN) 23,¹⁰ was of the appropriate length and contained appropriate content. Some were of the view that if the IAPS was seen to have the same authority as application material, much of the material in the document could be eliminated or retained in another form given its educational nature. Others, however, were of the view that the material was useful in its entirety, particularly as it would assist auditors in understanding the nature and risks associated with complex financial instruments while providing guidance on how such instruments could be audited. The Task Force was asked to reflect on the IAASB's discussions about the authority of the IAPSs. Regardless of the status, the IAASB agreed with the Task Force's view that the present tense should not be used in the revised IAPS 1012.

The IAASB suggested that the Task Force consider the following:

- How best to ensure that a revised IAPS 1012 would be applicable in a wide range of financial reporting frameworks. The IAASB acknowledged that it may be appropriate to link some of the guidance to IFRSs given the complexity of the accounting requirements for financial instruments and the disclosures required.
- Whether the balance of references to the ISAs is appropriate, or whether more specific guidance could be incorporated about complex financial instruments in order to illustrate how the ISAs should be applied in this particular circumstance. To this end, it was noted that while there may be some benefit in re-opening ISA 540¹¹ should a particular issue warrant doing so, it is likely that providing additional practical guidance relating to complex financial instruments would remain necessary.
- Whether areas of repetition could be eliminated or restructured to reduce the length of the document.

⁹ IAPS 1012, "Auditing Derivative Financial Instruments."

¹⁰ Practice Note 23, "Auditing Complex Financial Instruments."

¹¹ ISA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures."

- Whether the manner in which the document addresses management's responsibilities is appropriate. This evaluation will in part depend on the authority to be attached to the IAPS.
- How a revised IAPS 1012 could be promoted with SMPs to ensure that they consider the guidance, as the IAASB believes entities of all sizes engage in complex financial instruments. Such guidance would also be relevant to the public sector provided entities are not prohibited from using financial instruments.

MANAGEMENT'S EXPERT

As an example of where more guidance has been requested specifically in relation to complex financial instruments, Mr. Fogarty briefed the IAASB on the issues associated with an entity using a pricing service to value its complex financial instruments. He explained that the extent to which an auditor can obtain a sufficient understanding of the pricing service's method and assumptions used to value a financial instrument varies in practice, and there is merit in providing additional guidance to clarify what may be necessary to comply with the requirements of ISAs when management places reliance on pricing services.

The IAASB supported the development of new guidance in this area, and asked the Task Force to consider the following:

- How to convey the IAASB's view that the involvement of a management's expert does not diminish both the entity's and the auditor's need to obtain a sufficient understanding of the methods and assumptions used in valuing complex financial instruments.
- Whether the auditor's obligations when management uses an expert, such as a pricing service, is sufficiently clear in ISA 500.¹²
- Whether further guidance on the implications of the circumstance in which the auditor is unable to obtain the necessary evidence from a pricing service should be developed. For example, this may include guidance on alternative procedures that could be performed when such evidence is not available, and a discussion of the possible effects on the auditor's report.

DISCLOSURE AND REPORTING CONSIDERATIONS

Mr. Fogarty noted the Task Force's recommendation that further guidance be developed in the area of disclosures, but highlighted the Task Force's view that doing so is difficult since the degree of disclosures for complex financial instruments may vary widely depending on the financial reporting framework.

The IAASB supported the development of new guidance in this area, and asked the Task Force to consider the following:

- Whether the guidance should be developed based on IFRS 7,¹³ which is acknowledged as having the most significant requirements regarding disclosures of complex financial instruments, or whether it should remain framework-neutral.

¹² ISA 500, "Audit Evidence."

¹³ IFRS 7, "Financial Instruments: Disclosures."

- How the auditor's responsibilities might differ based on the placement of such disclosures (for example, IFRS 7 allows for placement of certain disclosures outside of the audited financial statements).
- How additional guidance might explain the complexities of disclosures for non-linear instruments and advise auditors on how to evaluate disclosures describing management's processes for assessing risks.
- Whether further guidance on disclosures was better placed in this IAPS as compared to ISA 540 or ISA 700,¹⁴ and whether the requirements in those ISAs describing the auditor's responsibilities for disclosures were sufficiently clear.

WAY FORWARD

The IAASB asked the Task Force to present a summary of significant comments received on the Consultation Paper and a first draft of the proposed revised IAPS 1012 for consideration at the March 2010 IAASB meeting.

7. Status and Authority of IAPSs

Mr. Fogarty introduced the topic, noting that the IAASB had deliberated on this matter previously but had agreed to postpone further work on the status and authority of IAPSs pending completion of the Clarity project. He noted that it will be necessary to clarify the status and authority of the IAPSs before releasing an exposure draft of proposed revised IAPS 1012.

PROPOSALS ABOUT STATUS AND AUTHORITY OF THE IAPSS

Mr. Fogarty explained the proposal that IAPSs should have a status and authority equivalent to application and other explanatory material in the ISAs. While the IAASB was supportive of having a mechanism for issuing authoritative guidance material, there were mixed views on whether the current status and authority of the IAPSs should be retained or whether such material should have a status and authority equivalent to application and other explanatory material in the ISAs.

Most IAASB members supported retaining the current status and authority as set forth in the *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services* (the Preface). However, they noted that it will be necessary for the IAASB to clarify its position on how auditors should consider this material in performing audits, as previous discussions have indicated there is inconsistency in practice as to how IAPSs are used. The IAASB commented as follows:

- Material that had been included in the current IAPSs would not be seen as the same as application material (that is, guidance that is necessary to understand how a particular requirement should be applied). Elevating their status may lead to confusion particularly in jurisdictions where the ISAs are incorporated into law or regulation.
- The material currently proposed to be included in a revised IAPS 1012 is more akin to IAPSs as contemplated in the Preface, in that it interprets how the ISAs could be applied in a

¹⁴ ISA 700, "Forming an Opinion and Reporting on Financial Statements."

specific circumstance. Retaining the current authority also allows for IAPSSs to contain more informational or background material to give appropriate context to the guidance, which would not be appropriate for application material.

- In developing new IAPSSs, the IAASB would not be precluded from re-opening application material in any relevant ISAs should it become necessary to do so. For example, if the IAASB was of the view that any of the guidance in proposed revised IAPS 1012 would be considered essential to applying the requirements of ISA 540, it would likely require the standard to be amended.

Those who supported IAPSSs having equivalent status as that of application material agreed with the rationale set out in the meeting's agenda material, in particular because doing so would discipline auditors to read and understand the material in order to comply with the ISAs. In their view, the current "comply or explain" model used does not improve the quality of audits or adequately encourage the use of material like that in proposed revised IAPS 1012. It was also noted that regulators in industries such as the banking industry might prefer the authority of the IAPSSs to be strengthened given their regulatory importance.

USE OF IAPSS

Some IAASB members expressed concern that there may be a proliferation of IAPSSs in the future. Mr. Fogarty reminded the IAASB that IAPSSs are considered pronouncements of the IAASB and follow the same due process in their development that are afforded ISAs and other standards.

It was also explained that while the EU's 8th Company Law Directive does contemplate that IAPSSs could be adopted into law on a case-by-case basis, the current IAPSSs are not being considered for adoption concurrently with the clarified ISAs.

WAY FORWARD

The IAASB suggested the Task Force consider the following:

- How best to clarify the IAASB's views on the status and authority of the IAPSSs by supplementing or amending the language in the Preface.
- Whether any changes would be necessary within ISA 200¹⁵ to acknowledge auditors' obligations with regard to IAPSSs.
- How the IAPSSs would relate to similar material developed by national auditing standard setters (NSS) and IFAC member bodies, tailored for their local circumstances. It was noted that more might be done to encourage NSS and professional bodies to incorporate IAPSSs into their national guidance to promote its use.
- How IFAC's Statements of Membership Obligations (SMOs) may need to be clarified in the light of any IAASB decisions to change or clarify the status. In this regard, it was noted that

¹⁵ ISA 200, "Overall Obligations of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing."

- Whether the Task Force would recommend withdrawing the six current IAPSs, as they are not in line with the clarified ISAs. Consultation would then be necessary to understand whether there is a need to revise any of the IAPSs based on their current usage and content. Any revision projects would be factored into the next strategic planning cycle for the period 2012-2014 and considered in the context of the IAASB's assessment of its relative priorities.

Given the implications of these matters, the IAASB agreed that public consultation would be helpful to not only communicate its views on what is intended in the Preface, but also understand how the current IAPSs are being used in practice. Further information as to how IFAC member bodies interpret the current IFAC SMOs with respect to IAPSs, and the effect this may have on translation activities, will also be sought.

The IAASB asked the Task Force to further discuss the matters identified above and develop a proposal relating to the six current IAPSs for consideration at the March 2010 IAASB meeting.

8. IAASB Work Plan and Priorities

Mr. Gunn introduced the topic, providing an update on the progress made against planned 2009 IAASB activities and an indication of capacity for identified projects in 2010. He asked the Board for feedback on the relative priority that should be assigned to 2010 project activities.

The Board generally supported staff's recommended prioritization, noting in particular the desirability of considering whether the topic of auditing disclosures is one where additional effort should be expended. It was also noted that the topic of auditor association has relevance across a number of current projects.

The IAASB noted that this update on the work program is well-timed and beneficial particularly from the standpoint of forward resource planning. One member raised that it is important, in planning forward agendas of the Board, to allow for some capacity to cater to the need for the IAASB to work on special projects should such needs arise, as has been evident in the last year.

Mr. Gunn thanked members for their input and noted that the IAASB's 2010 meeting agendas will include discussions of the Board's strategy and work program for 2012-2014.

9. Project Proposal on Revision of ISA 720

Mr. Gunn introduced the topic, noting that a project to revise ISA 720¹⁶ is as envisaged in the IAASB's *Strategy and Work Program, 2009-2011*. He asked the IAASB for its views as to whether work should commence on the proposed project and, if so, whether the matters described in the project proposal are appropriate and whether other matters should be considered in the project.

The IAASB approved the project proposal, indicating general agreement on the matters to be considered in the project as outlined in the proposal. The Board noted the timeliness of such a

¹⁶ ISA 720, "Other Information in Documents Containing Audited Financial Statements."

project and its relevance to the IAASB's extant work program as reflected by the Board's discussions during the course of the meeting.

Comments noted for the Task Force's consideration include the following:

- As noted in the proposal, a key consideration of the project will be the nature and extent of the auditor's responsibilities in connection with the other information; in particular, whether such responsibilities should remain directed at reading other information for material inconsistencies and material misstatements of fact, or whether it would be appropriate to extend the responsibilities of the auditor to include other matters. It was noted that this is a current issue under consideration by some national jurisdictions.
- On addressing the matter of whether, and to what extent, the auditor has ongoing responsibilities in regard to information on electronic sites on which audited financial statements are posted, consideration should also be given to further clarifying the auditor's reporting obligations in this regard, if any.
- On the matter of electronic dissemination of audited financial statements, caution should be exercised when considering the extent to which this should be dealt with in ISA 720 to avoid inadvertently departing from the main objective of the ISA, which is the auditor's responsibilities relating to other information in documents containing audited financial statements and the auditor's report.
- In addition to establishing the auditor's responsibilities with regard to other information in documents containing audited financial statements and the auditor's report, consideration should be given to how such responsibilities can effectively be communicated to preparers and users of financial statements.
- In some jurisdictions, preparers are required by laws or regulations to disclose additional financial or non-financial information. In revising ISA 720, consideration should be given to clarifying the auditor's responsibilities in these circumstances.

Prof. Schilder reported that Mr. Gélard will chair the project Task Force and that Messrs. Coscodai and Swanney, and Mss. Smith and Jackson will participate as members. The International Organization of Supreme Audit Institutions (INTOSAI) will also be invited to nominate a representative to the Task Force.

10. Clarity ISA Implementation Monitoring

Mr. Grant gave an update to the Board on the various activities of the project Task Force since the Board's discussion in June 2009. The activities included discussion of the project at the CAG meeting in March 2009, and in various other forums such as the IFAC SMP Committee in October 2009. He reported that he had also met with staff of the International Accounting Standards Board (IASB) with a view to understanding their approach to implementation monitoring. He also drew the Board's attention to the Compliance Monitoring tool on the IFAC website, which lists the countries that have adopted the ISAs.

Mr. Grant noted that the Task Force would meet in February 2010 to review the survey responses to the Phase 1 survey questionnaires received from various auditing firms, NSS and professional

accounting bodies. He indicated that the Task Force would report back on progress at the March 2010 IAASB meeting.

11. IAASB Member Presentation

Mr. Fogarty gave a presentation on the accounting profession in the US. He also spoke on the key aspects of the country's legal and regulatory environment.

Prof. Schilder thanked Mr. Fogarty for the informative presentation and took the opportunity to acknowledge that this was Mr. Fogarty's last participation at an IAASB meeting as an IAASB member, having been involved since 2002. He thanked Mr. Fogarty for his work with the Board which he always carried out with integrity and professionalism. Prof. Schilder also noted that Mr. Fogarty provided a vital linkage between the IAASB and the AICPA's ASB.

Mr. Fogarty thanked Prof. Schilder for his remarks and the IAASB generally, noting that his time with the IAASB had been the highlight of his professional life. Mr. Fogarty will continue in his current capacity as Chair of both the IAPS 1012 and IAPS Authority Task Forces.

12. eXtensible Business Reporting Language (XBRL)

Mr. Crawford introduced the topic, noting that the objective of the session was to discuss the XBRL consultation plan and its timing, and to seek the IAASB's comments on the proposed Staff Questions & Answers (Q&A) publication.

PROPOSED CONSULTATION PLAN

Mr. Crawford explained that the Task Force had determined a targeted consultation process to assist it in defining a way forward. This could be, for example, the development of further guidance on XBRL or the development of a new pronouncement, depending on the results of the consultation. The IAASB agreed with the approach presented, and offered the following comments:

- While many investors and analysts may not yet have fully considered the implications of XBRL, professional societies may have established working groups that could usefully be consulted. Consultation with these and other users with a diverse level of knowledge can help answer the questions of whether assurance is needed.
- The AICPA's XBRL Assurance Task Force has been exploring whether assurance could be provided on XBRL and at what level. Interaction with this group will be very useful.
- The Task Force should also seek to involve the accounting firms to understand their views on what services could be offered with regard to XBRL to determine whether new standards need to be developed for these services.
- Differences currently exist in the US, Japanese and IASB taxonomies. It may be helpful to liaise with the IASB's group to understand if there are any differences that may affect the IAASB's work.
- It may be helpful to seek to understand why certain jurisdictions are not moving ahead with XBRL or may have changed the timing of their implementation plans to understand some of the potential pitfalls.

- The Task Force should consider how the IAASB might influence policy-making decisions by regulators and users, for example, by issuing a discussion paper to help stimulate discussion. Mr. Crawford noted that this consultation plan will assist the IAASB in determining whether it has a view given the jurisdictional differences that exist. It would also allow for constructive dialogue with regulators.
- The initial consultations may result in the timeline for the survey being revisited; it may be more useful for the survey to be issued after the Task Force has been informed in detail.
- The planned Staff Q&A will be very useful as the basis for the discussions as the Task Force moves forward.

In addition, the IFAC SMP Committee has asked to be involved in the consultation and has invited Mr. Crawford to present at its March 2010 meeting. The CAG will discuss XBRL at its March 2010 meeting and Mr. Damant requested that the Representatives have the opportunity to discuss the planned survey with their Member Organizations.

STAFF Q&A PUBLICATION

Mr. Crawford explained that Staff had developed and distributed a draft of the publication to the IAASB in advance of the meeting. A marked-up draft of the Staff Q&A was distributed to the IAASB during the meeting, and the IAASB commented on the revisions that had been made. The IAASB agreed that the Staff Q&A accurately characterized its discussions from the September 2009 meeting. The IAASB, in particular, supported communicating its position within the Staff Q&A in this manner.

The IAASB offered suggestions for additional changes, as follows:

- Clarifying the publication by linking to the current ISAs, and removing the word “ordinarily” throughout the document. While auditors may choose to perform procedures on XBRL, and therefore the auditor’s report might cover this circumstance, introducing this concept for limited circumstances was seen to be confusing.
- Referencing via footnote that the IAASB has, at its December 2010 meeting, approved a project to revise ISA 720. This reference is simply to alert users of the ISAs to the project.
- Clarifying the title and wording used in question 3 relating to the use of XBRL.
- Deleting the concept of reliability in question 4 since XBRL data is no more reliable than the underlying financial statements that are tagged (as acknowledged in the publication).

There was some discussion about whether to delete the reference to “audit engagements on financial statements as presented in particular pre-defined instance documents.”

WAY FORWARD

A revised draft of the Staff Q&A will be circulated to the IAASB for fatal flaw review, and the final document will be issued by January 15, 2010. The Task Force will progress the consultation plan and will present issues for discussion at the June 2010 IAASB meeting.

13. IAASB - IASB Liaison

PRESENTATION BY IASB MEMBER

The IAASB received an update from IASB Member Prabhakar Kalavacherla on the IASB's work program, including its project on lease accounting, fair value measurement, and consolidation. Mr. Kalavacherla also briefed the IAASB on the US Financial Accounting Standards Board's convergence with International Financial Reporting Standards.

In regard to liaison activities between the IAASB and IASB, Mr. Kalavacherla emphasized the importance of ongoing cooperation to the continued success of both boards. In this regard, he commented that in the coming year, consideration might be given to exploring further avenues for cooperation, such as joint presentation opportunities.

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

IAASB – IASB LIAISON

Ms. Hillier introduced the topic. She provided a status report on the working groups that have been set up to monitor the development of selected IASB projects with a focus on identifying potentially significant verifiability or auditability issues. She noted the good progress made by the working groups tracking the IASB's projects on fair values, management commentary, leases, and conceptual framework.

Ms. Hillier explained that the purpose of the session was to conduct a review of trends in financial reporting that may have broad pervasive implications for auditors and the IAASB's work, and its liaison efforts with the IASB. In this regard, Ms. Hillier reported that rapporteurs of the various working groups have conducted a broad review of extant and proposed accounting developments. She briefed the Board on areas which were felt likely to be of broad relevance to auditors and the IAASB's work.

Disclosures and Verifiable Information

It was noted that prescribed and voluntary disclosures have increased and continue to do so. These now include more qualitative descriptions of the processes followed by preparers in measuring amounts recognized or disclosed in the financial statements, and the methods, judgments and assumptions involved. The IAASB discussed a number of issues which have arisen from the application of auditing concepts to the audit of disclosures, such as how materiality judgments should apply, and the nature and extent of audit evidence that is needed in relation to them. It was noted that if a project is to be undertaken in this area, consideration should be given to cooperating with the IASB to the extent appropriate given the IASB's work on management commentary.

The IAASB also noted the IASB's decision to treat verifiability as an "enhancing characteristic" of faithful representation instead of as a fundamental qualitative characteristic. It was observed that although subtle, this shift could have quite profound effects. The IAASB was of the view that an important underpinning of credible financial reporting remains that preparers should have sufficient basis to support the assertions in the financial statements, and auditors should be able to obtain sufficient appropriate audit evidence in relation to them.

Financial Statement Presentation

It was noted that the trend to reflect “management’s approach” or the entity’s “business model” in financial reporting may also bring about auditability challenges. Further, presentation of the financial statements that separates different aspects of an entity’s performance (i.e., the separation of profit and loss and other comprehensive income) raises questions about the perceived key performance indicators in an entity and, in so doing, the bases on which materiality should be judged.

Pace and Complexity of Changes to Financial Reporting

It was noted that when taken together, the pace and complexity of changes to financial reporting present both preparers and auditors with the challenge of staying current, in particular for smaller entities and practices. In this regard, the IAASB acknowledged that the advantages of providing a stable platform (in particular, for the new IFRS for SMEs) to allow for effective implementation could be significant.

The IAASB further noted that the increased use of fair values and other complex judgments in applying the accounting requirements is creating a growing need for management and auditors to seek the advice of experts. In particular, in emerging economies, availability of the necessary expertise, and entities’ and practices’ access to it, may be limited.

WAY FORWARD

The IAASB agreed that a review of accounting matters on a periodic basis is of strategic importance to its ongoing work.

Prof. Schilder indicated that the matters discussed by the Board during this review and the key resulting considerations would be shared with the IASB, likely via a letter to the IASB Chair. Several members noted the usefulness of the session, and thanked Ms. Hillier for leading this initiative.

14. Audit Quality

Prof. Schilder introduced the topic, noting the importance in general of the concept of audit quality to IAASB’s work. He highlighted the wide range of research, thought leadership and policy analysis work on the topic that already has been undertaken by various parties. Also, he emphasized the importance of dialogue with stakeholders on the topic and the need to develop a deeper understanding of many of the broad issues before identifying where and how the IAASB should best focus its efforts.

Prof. Schilder then asked IAASB members to share their general views on the topic and on the matters raised for discussion.

PERSPECTIVES ON, OR APPROACHES TO, AUDIT QUALITY THAT RESONATE WITH IAASB’S WORK

IAASB members broadly supported the UK Financial Reporting Council’s Audit Quality Framework as providing a useful starting point for thinking about audit quality. It was noted that there are three key aspects to audit quality, i.e. high quality standards, quality control within firms, and people. In regard to the latter, in particular, the IAASB agreed on the importance of the

behavioral aspects as they relate to the profession, particularly the critical role of professional judgment, leadership (tone at the top), and the concept of individual responsibility.

It was acknowledged that there is a wide variety of views on audit quality, and participants in the debate run the range of the financial reporting supply chain, from academia to NSS, IFAC, and regulatory and oversight bodies such as the International Forum of Independent Audit Regulators (IFIAR) and the EC. It was noted that audit quality depends not only on setting high quality auditing standards at the international level but also on these standards being adopted and effectively implemented at the national level. Accordingly, it would be important to understand what national professional bodies, NSS and other groups such as the UK Audit Quality Forum and the US Center for Audit Quality are doing in that regard in different jurisdictions.

Some IAASB members noted that while it is useful to consider audit quality from the perspective of the standards, the context also includes other ‘quality pillars’, such as preparer competence, corporate governance, and regulation and oversight. There was agreement that standards are only one piece of the puzzle, and that the debate about audit quality itself should be put in the broader context of debates about good corporate governance and high quality financial reporting globally.

It was also noted that another element to audit quality that should not be ignored is the feedback loop. In that regard, leveraging the IAASB’s relationship with IFIAR would be important relative to identifying areas for improvement in the standards. Additionally, it was noted that there are playoffs among the different drivers of audit quality. In particular, having more standards would not necessarily be the best thing for audit quality as this may adversely affect auditors’ motivation and judgments.

EXTENT TO WHICH AUDIT QUALITY CAN BE ASSESSED OR MEASURED

IAASB members generally agreed on the difficulty of measuring audit quality objectively, although it was recognized that there might be merit in a qualitative measure to gauge direction of progress. It was noted that while a focus on inputs to audit quality and whether auditors have been able to prevent or detect material misstatements is important, user perceptions on the output side also matter. These perceptions will vary from the perspectives of different categories of users. In particular, while management and those charged with governance may be in a better position to assess audit quality through their direct interactions with auditors, other users such as investors and regulators may be less able to do so. Accordingly, the IAASB’s work on exploring future reporting models would be important relative to enhancing user perceptions of audit quality.

It was noted that while data on inputs are difficult to obtain in the public domain, some regulators have started requiring greater transparency from firms in such areas as level of training effort and systems of quality control applied, which may help to provide some information on inputs. Information on output measures, however, may be more readily available through inspection reports and enforcement cases.

SCOPE OF ANY POTENTIAL IAASB PROJECT ON AUDIT QUALITY

IAASB members broadly agreed that the objective of, and approach to, any work will depend on the perspective taken and how the IAASB sees its role. It was acknowledged that the IAASB alone cannot, and should not endeavor to, solve all the questions but rather should make clear

what role it intends to take. A focus on how the IAASB develops and disseminates the standards, and putting them in proper context, would therefore seem appropriate, recognizing that while the ISAs are the IAASB's primary product, they also are part of a broader process. In this regard, it was noted that a number of important matters could be considered, such as:

- How to more systematically link the IAASB's thinking and deliberations on the topic to some fundamental concepts associated with audit quality.
- How to enhance the interaction between auditors and those charged with governance, as the latter often have difficulty identifying meaningful areas of discussion with auditors that would be beneficial to audit quality.
- The level of granularity to the ISAs that best contributes to audit quality.
- How to communicate that a quality audit comes at a cost, as undue fee pressures on auditors can have a detrimental effect on audit quality.

As a first step, the IAASB agreed that consideration should be given to compiling a summary of the various initiatives that are underway to help inform the IAASB's thinking regarding potential collaboration with other groups and areas of focus. It was noted that while approaching the topic from a larger firm perspective would be important, the 'smaller audit' dimension should not be ignored as audits of smaller entities far outnumber those of larger entities. It was also agreed that there would be benefit in IAASB including the topic on the agenda for the April 2010 IAASB-NSS meeting. The views and experiences of the various NSS in that forum would help inform the IAASB's deliberations on the topic.

WAY FORWARD

Prof. Schilder thanked IAASB members for their input, and summarized some common themes from the discussion:

- The need to invest effort in obtaining a deeper understanding of audit quality developments in different jurisdictions and by different groups.
- The importance of continuing to plan for communications such as on the meaning of audit, which would be helpful from the user perspective.
- The importance of focusing on an approach that helps put IAASB's work and the standards in context, and how the standards influence audit quality as part of the broader context. This would help serve as a platform for further engagement with stakeholders.

He noted that the Steering Committee would further reflect on the discussion and explore the way forward.

15. PIOB Observer's Remarks

Mr. Hafeman congratulated the IAASB on its hard work and on the progress achieved at the meeting. He noted the effective chairmanship of Prof. Schilder and leadership by the task force and working group chairs. He was of the view that all topics had been thoroughly discussed, with generally wide participation. However, he encouraged less active participants to contribute more frequently in order to ensure the widest possible input on the issues.

Mr. Hafeman indicated that the main message he wished to convey was around the issue of clarity, broadly defined. He noted that in order for practitioners to properly implement the standards, they need to clearly understand which standards or guidance are relevant to their work and what the standards require them to do, and to have guidance available about how they might satisfy the requirements. In his view, the discussions on some of the agenda items indicated that these tests would not be met (for example, the topics on compilation and authority of the IAPSS).

On a different matter, Mr. Hafeman noted that, with the Clarity Project now completed, the PIOB's work is no less challenging, especially in view of the variety of topics and issues that the IAASB is now addressing. With regard to the Pro Forma project, Mr. Hafeman noted that although a formal vote for exposure of the proposed standard was deferred, the resulting draft standard benefitted significantly from the discussions earlier in the week. He reminded the Board of the importance of resolving substantive issues prior to turning to the drafting of a standard.

Mr. Hafeman also noted his appreciation for the IAASB's efforts in exploring ways of enhancing the profession's communications with stakeholders, as demonstrated by the Board's discussion on the auditor reporting project.

Prof. Schilder thanked Mr. Hafeman for his feedback.

16. Next Meeting

The next IAASB meeting is scheduled for March 15-19, 2010 in New York, United States.

17. Closing Remarks

Mr. Hällström briefed the IAASB on the adoption of the clarified ISAs in the public sector. He reported that INTOSAI's Governing Board has recently approved the practice notes to all 36 ISAs and that these would be made available for use by all INTOSAI members. Mr. Hällström added that formal endorsement will be sought from the INTOSAI Congress in the coming year.

Prof. Schilder thanked the members, technical advisors, observers and staff for their contributions to the meeting and, in particular, Messrs. Fogarty and Jensen, whose terms on the Board conclude in 2009. He also asked Mr. Hällström to convey the IAASB's best wishes to Mr. Jensen. He then closed the meeting.