

**Draft Minutes of the 43rd Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
Held on December 6-10, 2010 in Orlando, USA**

Voting Members

Present: Arnold Schilder (Chairman)
Diana Hillier (Deputy Chair)
Arch Archambault
Valdir Coscodai
Phil Cowperthwaite
Craig Crawford
Josef Ferlings
Cédric Gélard (December 6, 8-10)
Jon Grant
Gert Jönsson
Ashif Kassam
William Kinney
Daniel Montgomery
Tomokazu Sekiguchi
David Swanney
Abdullah Yusuf

Technical Advisors

Wolfgang Böhm (Mr. Ferlings)
Ricardo DeLellis (Mr. Coscodai)
Jan Thijs Drupsteen (Mr. Kassam)
Denise Esdon (Mr. Montgomery)
Marek Grabowski (Mr. Grant)
Jonas Hällström (Mr. Jönsson)
Chuck Landes (Mr. Kinney) (December 6-8 only)
Josephine Jackson (Mr. Archambault)
Susan Jones (Mr. Crawford)
Len Jui (Mr. Tang)
Sachiko Kai (Mr. Sekiguchi)
Pervez Muslim (Mr. Yusuf)
Jon Rowden (Ms. Hillier)
Tania Sergott (Ms. McCabe)
Greg Shields (Mr. Cowperthwaite)
Isabelle Tracq-Sengeissen (Mr. Gélard)

Apologies: Caithlin McCabe (except for December 7 and 10)¹
Jianhua Tang

Non-Voting Observers

Present: Linda de Beer and Norio Igarashi
Apology: Jean-Philippe Rabine

Public Interest Oversight Board (PIOB) Observer

Present: Michael Hafeman

IAASB Technical Staff

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

¹ Via teleconference for Agenda Item 4 only

1. Opening Remarks and Minutes

WELCOME AND INTRODUCTIONS

Prof. Schilder welcomed the participants and public observers to the meeting. In particular, he welcomed:

- Michael Hafeman, observing the meeting on behalf of the PIOB; and
- Prof. Simnett, Co-Chair of the Emissions Task Force.

Apologies were received from Messrs. Rabine and Tang and Ms. McCabe. Ms. McCabe, however, would be in attendance via teleconference for the deliberations on the agenda item on greenhouse gas assurance. Messrs. Grant and Montgomery were noted as proxy for Mr. Tang and Ms. McCabe, respectively.

Prof. Schilder noted the heavy agenda for the week and expressed his gratitude to the task forces and staff for their efforts in developing the agenda material. He urged IAASB members to focus on pivotal issues during the discussions.

MEMBER ROTATIONS, APPOINTMENTS AND RE-APPOINTMENTS

Prof. Schilder noted that Messrs. Crawford, Ferlings and Tang are all completing their terms as IAASB members at the end of 2010. He also noted that this would be the last meeting for Messrs. Böhm and Jui as technical advisors. Prof. Schilder expressed the IAASB's gratitude for the retiring IAASB members' and technical advisors' service and important contributions to the work of the Board.

Prof. Schilder noted the appointment of Messrs. Jianshen Chen and Jean Blascos and Ms. Merran Kelsall to the IAASB in 2011. He congratulated Ms. Hillier on her re-appointment as Deputy Chair, and Messrs. Archambault and Grant and Ms. McCabe on their re-appointment as IAASB members. He also welcomed Ms. Jones's re-appointment as a technical advisor for Mr. Blascos, and noted that in 2011 Mr. Hiram Hasty will serve as a technical advisor for Mr. Kinney. In addition, he noted that Mr. Montgomery has been appointed to the Steering Committee for 2011.

RECENT DEVELOPMENTS

Prof. Schilder noted that the IFAC Small and Medium Practices (SMP) Committee had released in October 2010 the second edition of its *Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities*, based on the clarified ISAs.

RECENT MEETINGS

Prof. Schilder reported on his and Mr. Sylph's recent visit to Pakistan, which was well received. He highlighted Mr. Yusuf's contributions in raising awareness of the IAASB's work within the Pakistani profession.

Prof. Schilder noted that he had signed a joint statement with Dr. Wang Jun, Vice Minister of the Chinese Ministry of Finance and Chairman of the Chinese Auditing Standards Board (CASB), in November 2010 regarding China's convergence with the ISAs. He noted that the CASB's completion of convergence of Chinese Standards of Audit with the clarified ISAs is a further important signal of the significant momentum towards global convergence with the ISAs.

Prof. Schilder also noted that he, Mr. Sylph and Ms. Healy had attended the November 2010 International Organization of Supreme Audit Institutions' (INTOSAI) Congress. He congratulated Messrs. Jönsson and Hällström on INTOSAI's endorsement of revised International Standards of Supreme Audit Institutions (ISSAIs) for financial audit, which are based on the clarified ISAs. He noted that this achievement will further stimulate the use of ISAs by public sector auditors.

Prof. Schilder noted that a list of the recent outreach meetings and presentations has been circulated by staff to the IAASB.

MINUTES OF PREVIOUS MEETING

The minutes of the public session of the September 2010 IAASB meeting were approved as presented.

2. Limited Assurance Survey

SURVEY

Ms. Hillier presented the results of a survey of IAASB members about the wording of the practitioner's responsibility to perform additional procedures in a limited assurance engagement. The purpose of the survey was to identify, for discussion at this meeting, the most appropriate wording for a similar requirement to be included in the drafts of proposed revised ISAE 3000² and ISRE 2400,³ and proposed ISAE 3410.⁴

The IAASB discussed the options put forward in the survey and the reasons for the major differences amongst them. Points discussed included:

- Whether use of the word “may” sets too low a threshold. This threshold was generally supported because if the practitioner is aware of a matter that indicates that the subject matter information may be materially misstated, the practitioner could not state that “nothing has come to the practitioner's attention” without carrying out additional work. Also, this requirement would only apply when the practitioner has become aware of a relevant matter(s) that causes the practitioner to have this belief. This is in contrast to, for example, merely being aware of a risk of material misstatement when planning the engagement.
- Whether it is only information that comes to light as a result of the practitioner's assurance procedures that needs to be considered. It was generally agreed that any information of which the practitioner is aware needs to be considered, regardless of its source.
- Whether to define or describe the meaning of “not likely” or “likely.” It was generally agreed that any definition or description that involved a quantitative approach (such as “more likely than not”) would imply a level of precision that is rarely, if ever, achievable in practice. The

² Proposed ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

³ Proposed ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

⁴ Proposed ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

IAASB also agreed that the term should be interpreted in a “plain language” sense rather than quantitatively.

In discussing this Agenda Item, the IAASB tentatively agreed to the wording proposed in the agenda material, with the possibility of some minor amendments, but acknowledged that final decisions should be made in the context of individual documents. In discussions on proposed revised ISAE 3000 and ISRE 2400, and proposed ISAE 3410 later in the week, the IAASB agreed to the following wording to address the matter:

“If the practitioner becomes aware of a matter(s) that causes the practitioner to believe the (subject matter information) may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to:

- (a) Conclude that the matter(s) is not likely to cause the (subject matter information) to be materially misstated; or
- (b) Determine that the matter(s) causes the (subject matter information) to be materially misstated.”

The IAASB agreed that the Explanatory Memoranda of proposed revised ISRE 2400 and proposed ISAE 3410 approved for exposure at the meeting should include a consistent discussion of the IAASB’s considerations in reaching this conclusion, and ask similar questions of respondents on the matter.

OTHER ISSUES

The IAASB briefly discussed a number of conceptual issues identified in the agenda material that are common to ISAE 3000, ISAE 3410 and ISRE 2400. The IAASB agreed that decisions regarding these matters should be made in the context of individual documents.

3. Revision of ISRE 2400

Mr. Cowperthwaite introduced the topic, noting that comments had been received from the IFAC SMP Committee and that he would refer to these as appropriate during the discussion. He then led a review of the proposed revised ISRE 2400.

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

In addition to editorial and structural changes, including changes to the proposed illustrative practitioner’s review reports, the IAASB agreed that:

- The practitioner’s objectives should focus on the need for the practitioner to conclude on the financial statements through performing inquiry and analytical procedures, and evaluating the sufficiency and appropriateness of evidence obtained. This would address the concern expressed by a few IAASB members that there was too much emphasis in the proposed objectives on the concept of “obtaining sufficient appropriate evidence” in a review of financial statements, which might be confusing to practitioners given the limited work effort in a review. The IAASB also agreed that use of the phrase “obtaining sufficient appropriate evidence” should be amended throughout the draft ISRE, where appropriate, to avoid confusion in that respect as far as possible. In addition, the IAASB agreed that:

- The wording of the illustrative reports should be amended to reflect the proposed objectives of the practitioner; and
- The description of the review in the reports should refer to the circumstances that would require performance of additional procedures.
- A requirement should be added addressing the practitioner's actions, including consideration of communication of the matter in the practitioner's report, if the practitioner discovers after the engagement has been accepted that one or more of the preconditions for a review engagement is not present.
- The performance of a review should be strengthened through inclusion of:
 - A requirement to design and perform inquiry and analytical procedures to address all material items in the financial statements regardless of whether material misstatement is likely for those items.
 - In relation to inquiries concerning related parties and related party transactions, a requirement for the practitioner to inquire into the business rationale for those transactions, or the lack thereof.
 - In relation to fraud or non-compliance with laws or regulations:
 - A requirement to determine whether there is responsibility to report the occurrence or suspicion of fraud or illegal acts to a party outside of the entity; and
 - Guidance to assist practitioners' compliance with the requirement.
 - In relation to the work effort relating to the accounting records underlying the financial statements, guidance to the effect that the practitioner may consider, where practicable, reviewing the accounting records with a view to identifying significant or unusual transactions that may require specific attention in the review.
- To reword "further procedures" as "additional procedures," and align the requirements and guidance to the Board's decisions concerning limited assurance engagements in general. This is intended to help improve consistency of approach across all limited assurance engagements.

The IAASB asked that the explanatory memorandum to the exposure draft specifically seek respondents' views as to whether they:

- Believe the proposed revised ISRE will result in an assurance engagement that can be understood and performed by practitioners in a way that clearly distinguishes the engagement from an audit, and that is meaningful.
- Believe the proposed objectives appropriately describe the expected outcome of the practitioner's work in a review engagement, and the means by which the objectives are to be achieved.
- Agree with the way the proposed revised ISRE describes the "trigger point" for performing additional procedures in the review, and with the requirements concerning the practitioner's response if the conditions described in the trigger point occur in the engagement.

- Believe the illustrative report for a review adequately communicates to users the work undertaken in a review.

APPROVAL

After agreeing all necessary changes to the document, 16 of the 18 IAASB members present or represented by proxy approved the proposed revised ISRE 2400 for exposure with a comment period until May 2011. Mr. Grant, as proxy for Mr. Tang, abstained from voting on Mr. Tang's behalf on the grounds that there is potential for confusion of the review, as proposed under the draft ISRE, with an audit of financial statements.

Mr. Grant voted against issuing the proposed revised ISRE 2400 as an exposure draft on the grounds that:

- (a) There is inappropriate emphasis in the draft standard on the sufficiency and appropriateness of evidence, in the wording of the practitioner's objectives, in paragraph 48, and in the illustrative review reports provided in Appendix 2 (especially in Illustration 3). Mr. Grant's concerns were specifically about the following:
 - The potential for confusion with audits in the minds of users;
 - The lack of guidance to assist practitioners to evaluate whether they have obtained sufficient appropriate evidence and, therefore, practitioners' inability to operationalize the concept. As a result, there may be wide inconsistency in practice, which will not be in the public interest; and
 - That the approach in the draft standard is inconsistent with the approach in ISAE 3000 and ISAE 3410, and also with what Mr. Grant understands is the current practice in a number of countries where reviews are performed.
- (b) There is insufficient specification of the level of understanding of the entity that is required of the practitioner, as the basis for identifying areas in the financial statements where material misstatements are likely to arise. Mr. Grant added that he was of the view that the requirement, as specified in the draft standard, is too vague and essentially circular.

4. Assurance Engagements on Greenhouse Gas (GHG) Statements

Ms. McCabe and Prof. Simnett introduced the topic. Ms. McCabe noted that the Task Force had liaised with the secretariat for the International Organization for Standardization (ISO) committee that developed ISO 14064-3.⁵ Ms. McCabe noted that mutual agreement was reached that, amongst other things, both parties would strive to ensure that the existence of two standards would not cause confusion in the marketplace. Prof. Simnett noted that other outreach activities had included presentations at the United Nations Conference on Trade and Development and the World Congress of Accountants. Ms. McCabe and Prof. Simnett then led a review of the proposed ISAE 3410.

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

⁵ ISO 14064-3: 2006, *Greenhouse gases -- Part 3: Specification with Guidance for the Validation and Verification of Greenhouse Gas Assertions*

OBTAINING AN UNDERSTANDING OF THE ENTITY AND IDENTIFYING AND ASSESSING RISKS

The IAASB discussed whether the draft requirements with respect to identifying and assessing risks through understanding the entity and its environment were sufficiently clear. It was agreed that the clarity of the requirements would be significantly enhanced if the draft were restructured to separate the requirement to obtain an understanding of the entity and its environment from the requirement to identify and the assess risks of material misstatement.

The IAASB also discussed:

- (a) Whether a risk assessment should be required for limited assurance engagements. Requiring a risk assessment was contrasted with the “risk aware” approach being used in the proposed revised ISRE 2400 with respect to historical financial information. It was agreed that differences in the underlying subject matters justified the difference in approach to limited assurance, and that these differences should be mentioned in the Explanatory Memorandum when the exposure draft of the proposed ISAE is issued. Nevertheless, it was agreed that the requirement to identify and assess risks in a limited assurance engagement on greenhouse gas (GHG) statements should be written so as to be of a lesser depth and breadth than for a reasonable assurance engagement on GHG statements. In particular, in a limited assurance engagement, the practitioner’s identification and assessment of risks should not be required to be at the assertion level.
- (b) The elements of internal control in respect of which the practitioner should be required to obtain an understanding in a limited assurance engagement. In particular, the IAASB considered whether the practitioner should be required to obtain an understanding of the entity’s risk assessment process. It was agreed that, in addition to being required to obtain an understanding of the control environment and the information system relevant to emissions, the practitioner should be required to inquire about the results of the entity’s risk assessment process.

In addition to editorial matters, the IAASB also agreed that:

- A footnote should be added to the proposed ISAE to the effect that the ISAE is based on the extant ISAE 3000, which is currently being revised. The footnote should explain that as part of that revision, the IAASB is considering whether the extant requirement to comply with the IESBA Code⁶ should be changed to require compliance with the IESBA Code “or other professional requirements, or requirements in laws or regulations, that are at least as demanding.”
- A requirement should be included for limited assurance engagements, rather than only for reasonable assurance engagements, to design and perform further procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement.
- Less emphasis should be placed on the operating effectiveness of controls in the requirements for limited assurance engagements.
- The Task Force should delete the requirement for a statement in the practitioner’s report that it is intended for users who have a reasonable knowledge of GHG-related activities,

⁶ *Code of Ethics for Professional Accountants*, issued by the International Ethics Standards Board for Accountants (IESBA)

and who have studied the information in the GHG statement with reasonable diligence and understand that the GHG statement is prepared and assured to appropriate levels of materiality. Instead, application material on this issue should be provided.

- Application material, adapted from the exposure draft of the proposed revised ISRE 2400 regarding the practitioner's signature should be provided.
- Application material should also be provided noting the need to design and perform tests of the operating effectiveness of controls if the practitioner intends to rely on those controls in determining the nature, timing and extent of other procedures.
- The text regarding uncertainties in the example reports for both reasonable and limited assurance engagements should be moved to be part of the description of the entity's responsibilities for the GHG statement.
- The example report for limited assurance engagements should not itemize particular assurance procedures, as doing so runs the risk of those procedures being interpreted as "standard" procedures for a limited assurance engagement with respect to GHG statements.

APPROVAL

After agreeing all necessary changes to the document, 17 of the 18 IAASB members present in person or by teleconference or represented by proxy approved the proposed ISAE 3410 for exposure with a comment period until early June 2011.

Mr. Sekiguchi, abstained from voting. While he complimented the Task Force on the quality of the draft, he indicated that he was not yet able to state confidently that the draft ISAE would form an acceptable standard should no comments be received on exposure. In particular, he stated his concerns about (a) requiring risk assessment procedures for limited assurance engagements; and (b) whether the reporting requirements for limited assurance engagements are sufficiently robust given that the level of assurance varies significantly among limited assurance engagements, including the question of whether the level of detail regarding procedures performed can effectively convey the right message about the level of assurance being communicated.

5. Strategy Consultation

Prof. Schilder introduced the topic. Ms. Healy then presented comments received from the IFAC SMP Committee and led a review of the proposed revised consultation paper. She noted that the revisions take into account comments received from the IAASB and the IAASB CAG at their respective September 2010 meetings. Except as outlined below, the IAASB agreed the recommendations of the Task Force as set out in the meeting papers.

POSSIBLE ACTIONS TO IMPLEMENT THE PROPOSED STRATEGY

In supporting the proposed list of possible projects, the IAASB agreed the following:

- The IAASB's outreach and communication activities will be of heightened importance not only in support of adoption and implementation of its standards, but also to ensure the IAASB is able to influence current debates on issues facing the profession. Accordingly, the IAASB agreed that the consultation paper should note that, while IAASB aims to be

proactive, it recognizes that the IAASB alone cannot resolve some of the issues identified as affecting the accounting and auditing professions. It also agreed that the consultation paper should make reference to the IAASB's response to the European Commission's (EC) Green Paper, as a means to illustrate the IAASB's engagement in these debates which are likely to be relevant beyond Europe.

- The list of current projects should include the IAASB's initiative to liaise with the IASB and provide input on aspects of the IASB's proposed standards that may have potential verifiability or auditability issues. In this regard, the IAASB acknowledged the continuing benefit of the initiative in assisting the IAASB in monitoring international financial reporting developments for any implications on its work program.
- The list of suggestions for additional projects should include:
 - Consideration of whether a new standard or guidance is necessary to address the auditor's responsibilities relating to preliminary announcements, in light of the discussions in the project to revise ISA 720.⁷
 - A project to monitor developments in integrated reporting, giving context to what is contemplated by the term "integrated reporting". In this regard, the IAASB acknowledged the work underway by the International Integrated Reporting Committee, the possible future impact of that work on the auditor's report, and the possible future need for assurance on elements of integrated reporting.
- Reference should be made to the current project to revise ISAE 3000 in the context of suggested projects on assurance on corporate governance reports, sustainability, and internal control.
- Determination of whether to commence the project included in the 2009–2011 work program to consider whether to develop certain conceptual aspects of ISAs, such as audit evidence and professional judgment, should be made in the context of the findings from the ISA Implementation Monitoring project.
- It should be specifically noted that, while the IAASB has identified a number of anticipated new projects that are likely to be commenced in 2012–2014, decisions on the scope and planned output of each of these projects would only be made on the basis of a project proposal discussed with the IAASB CAG and approved by the IAASB in accordance with due process.
- Respondents should be asked to identify which new project they believe should be the IAASB's top priority. In this regard, the IAASB acknowledged that, in deciding which future projects it should undertake, it would need to consider how each of the three areas of the proposed strategic focus would be addressed.

In relation to extant ISAE 3400,⁸ some IAASB members were of the view that a revision of the standard would be preferred over withdrawal as the standard remains in use in a number of jurisdictions. However, the IAASB acknowledged the difficulty in developing international

⁷ ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

⁸ ISAE 3400, *The Examination of Prospective Financial Information*

standards in this area due to the differences in national regulatory frameworks. The IAASB agreed that further dialogue with regulators may be necessary in this regard.

RESOURCE-RELATED CONSIDERATIONS

Several IAASB members highlighted the need for the consultation paper to explain that the proposed medium-term strategy and work program are set in the context of the IAASB's current operational structure. While this structure is unlikely to change in the immediate future, matters noted in the Monitoring Group's review of the IFAC reforms may have operational implications. Accordingly, it was suggested that the consultation paper should emphasize that the possible projects and actions to implement the proposed strategy have been designed taking into account what the IAASB believes it can accomplish in the context of this operational structure during 2012–2014. The IAASB also agreed that the consultation paper should refer to the expected 600-hour annual commitment of individual Board members and the indicative plan to increase the complement of IAASB technical staff from 7 to 8 members over the period.

In addition, the IAASB agreed that respondents' attention should be drawn to:

- The capacity that may be available for additional projects beyond those anticipated projects likely to be commenced in 2012–2014; and
- The effects that outreach activities, the findings of the ISA Implementation Monitoring project, the fundamental debates about the role of the auditor, and unforeseen events beyond the IAASB's control may have on the future work program.

OTHER MATTERS

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

- The *Chairman's Statement* should not make reference to specific national standard-setters and other bodies. It should, however, acknowledge the IAASB's interaction with its CAG.
- In response to the IFAC SMP Committee suggestion that the *Guide for Respondents* be repositioned to draw readers' attention to the key areas requiring their consideration, the IAASB agreed that the *Chairman's Statement* could make reference to the Guide for Respondents to achieve this objective.

APPROVAL

After agreeing all necessary changes to the document, all 18 IAASB members present or represented by proxy approved the proposed IAASB strategy and work program for consultation with a 90-day comment period.

6. Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

Mr. Kinney introduced the topic, providing an overview of the background to the project. He noted that comments had been received from the SMP Committee, including its support for the Assurance Framework⁹ to include those issues that are common to all assurance engagements.

⁹ *International Framework for Assurance Engagements* (the Assurance Framework)

Comments had also been received from Mr. Cowperthwaite in his capacity as chair of the ISRE 2400 Task Force. Mr. Kinney also noted that the Task Force had followed a principle whereby, if it were to prove too difficult to develop wording that is clearly better than that in extant ISAE 3000 with respect to any particular issue, then the wording in the extant ISAE would be retained.

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

DEFINITION OF “LIMITED ASSURANCE ENGAGEMENT”

The IAASB discussed the fact that the definition of a limited assurance engagement, as proposed, requires there to be a reasonable assurance engagement to use as a comparison, and whether this precluded limited assurance engagements from existing as stand-alone engagements. It was also discussed whether defining a limited assurance engagement in terms of reducing engagement risk may be inconsistent with the approach taken in the proposed revised ISRE 2400 and whether, if this definition were to be retained, a requirement to evaluate whether engagement risk had been reduced appropriately would be needed. The IAASB noted that the proposed definition of a limited assurance engagement is built on the extant definition, which does not appear to have caused any difficulties in practice. Accordingly, the IAASB agreed to retain the concept of risk in the definition of a limited assurance engagement.

ETHICAL REQUIREMENTS AT LEAST AS DEMANDING AS THE IESBA CODE

The IAASB discussed whether the draft ISAE provides sufficient guidance about how to determine whether national ethical requirements are “at least as demanding as the IESBA Code.” It was noted that it would be impractical for the IESBA or IAASB to assess individual national codes or similar requirements given the number of jurisdictions and broad range of engagements to which ISAE 3000 would apply. Further, it would likely be necessary for individual practitioners to make this decision, perhaps with the assistance of legal advice, in respect of specific engagements. The IAASB asked that the Task Force consider whether the term used in the ISAs (i.e., “relevant ethical requirements”) or phrase used in the IESBA Code (i.e., “not ... less stringent (unless) prohibited from complying with certain parts of this Code by law or regulation”) would better convey relevant expectations, and to liaise with the IESBA on the matter.

OTHER MATTERS – ISAE 3000

In addition to editorial comments, the IAASB agreed that:

- Consideration should be given to whether a different objective should be established for direct reporting engagements.
- The revised ISAE 3000 should include all key material necessary for it to be understood on its own, as users of the standard do not ordinarily refer to the Assurance Framework, which is not a standard.
- Consideration should be given to adding public sector considerations to the acceptance and continuance requirements to cater for situations in which the public sector auditor is unable to decline an engagement.

- The preconditions for an engagement should also refer to obtaining a meaningful level of assurance.
- Consideration should be given to whether guidance on using the work of a practitioner's expert could be broadened to encompass the work of other practitioners and internal audit.
- The requirement to obtain evidence to corroborate written representations for reasonable assurance engagements only should be deleted since the issue is better addressed in the application material.
- Additional guidance on the approach to subsequent events should be provided, drawing on the guidance in the proposed revised ISRE 2400.
- In relation to the summary of the work performed in the report, the requirement should be reworded so that the summary can be more or less detailed depending on the circumstances of the engagement.
- The Task Force should further consider whether the concept of a material misstatement in the context of direct engagements is appropriately explained in the draft, and how this concept is affected by the fact that the practitioner is the measurer or evaluator.
- The requirements in respect of the practitioner's signature, the date of the report and the location of the practitioner's office should be made consistent with those in ISA 700.¹⁰
- Consideration should be given to whether the discussion of rational purpose for limited assurance engagements can be clarified by further clarifying the level of assurance that is meaningful to intended users.
- A list of example reports should not be included with the proposed exposure draft as the nature of both the underlying subject matter and the subject matter information is the driver for the report. In addition, the variety of potential subject matters covered by ISAE 3000 would reduce the usefulness of example reports.

ASSURANCE FRAMEWORK

Mr. Kinney explained that the draft revised Assurance Framework represented only what remained from the extant Assurance Framework after the relocation of relevant material to ISAE 3000 pursuant to the IAASB's earlier decisions in this project.

The IAASB considered whether the Assurance Framework should cover all engagements addressed by IAASB pronouncements and not just assurance engagements. It was noted that any substantive changes to the Assurance Framework beyond conforming amendments may require additional elements of due process, such as a formal project proposal. It was also noted that as much of the material in the extant Assurance Framework had been brought into ISAE 3000, another option would be to withdraw the Assurance Framework. However, the impact on the ISAs and ISREs would need to be carefully considered before proceeding with any such action.

After further deliberation, the IAASB decided to retain the Assurance Framework with essentially the same structure as the extant document, but with the text revised to reflect consequential amendments due to changes to ISAE 3000.

¹⁰ ISA 700, *Forming an Opinion and Reporting on Financial Statements*

WAY FORWARD

The IAASB asked the Task Force to present revised drafts of ISAE 3000 and the Assurance Framework for consideration and approval for exposure at the March 2011 IAASB meeting.

7. IOSCO Presentation on Auditor Communications

Ms. Erhardt, Chair of the International Organization of Securities Commissions' (IOSCO) Standing Committee No. 1, briefed the IAASB on the outcome of the 2009 IOSCO consultation on auditor communications. She noted, in particular, the clear consensus that has developed among a broad spectrum of commentators in both the IOSCO consultation and in other recent public debates on the subject of auditor reporting, that a project to enhance auditor reporting would seem to have merit.

Among other matters arising from the IOSCO and other recent consultations that are important in advancing the policy debate, Ms. Erhardt highlighted her following personal remarks for the IAASB's consideration in taking its work on auditor reporting forward:

- (a) *Scoping of a project on auditor reporting.* Auditor reporting has wide boundaries that extend to corporate governance and financial reporting frameworks and related regulatory arrangements. Furthermore, these systems are generally not homogenous, and the degree of reliance on auditor reporting will vary with national regulatory systems. To realize near-term benefits in auditor reporting, it may be wise to focus on possible courses of action that are achievable in view of those existing frameworks.
- (b) *IAASB consultation on auditor reporting.* Such a consultation would be of wide interest to many constituencies. A key consideration would be to provide opportunity for various constituencies to express a view as to whether proposed avenues of change identified by IAASB would be acceptable, recognizing that it will be necessary to consider what changes in auditor reporting are practically achievable. This will be important to manage a very wide range of expectations regarding what auditor reporting should encompass, and for purposes of transparency.
- (c) *Role of auditor reporting standards issued by the IAASB.* The ISAs are used in many countries for the benefits they have in terms of international convergence towards best practices in auditing, including in the area of auditor reporting. However, for auditor reporting in particular, there will likely always be some areas of national difference given the underlying differences in legal systems and corporate governance arrangements. Initiatives aimed at improving auditor reporting and related standards should therefore recognize that fact. The alternative of the standards representing the norm in auditor reporting in all respects is less likely to be less achievable.

Ms. Erhardt acknowledged the IAASB's role among a number of stakeholders exploring constructive changes in auditor reporting, and wished the IAASB well in its future endeavors.

Prof. Schilder thanked Ms. Erhardt for her perspectives, and conveyed the IAASB's appreciation to IOSCO for sharing the results of its consultation initiative.

8. Auditor Reporting

Mr. Montgomery introduced the topic and provided an update on the activities of the Auditor Reporting Working Group during the year. He indicated that the Working Group's focus has largely been on monitoring various recent policy debates on auditor communications and reporting, including the 2009 IOSCO consultation on auditor communications and aspects of auditor reporting addressed in the European Commission's October 2010 Green Paper on audit policy. He explained the Working Group's view that evidence in the various debates clearly supports the need to explore changes to auditor reporting, and specifically to enhance the auditor's report to better meet users' needs.

Mr. Montgomery also noted that from the various initiatives undertaken on the topic around the world to date, there is a sufficient basis for the Working Group to recommend that the IAASB pursue the development of a consultation paper. This consultation paper would seek to obtain constituents' views on what avenues the IAASB should explore in seeking to enhance auditor reporting, and the level of support for various possible options. This information would then guide the Working Group's subsequent recommendations to the IAASB on possible future standard-setting projects addressing auditor reporting, and also support any necessary project proposals.

IAASB members commented as follows:

- The context of auditor reporting is extremely varied. An exploration of ways to enhance auditor reporting would need to take account of factors such as:
 - The nature of the entity concerned and external stakeholders' needs for information about the audit and about the entity. Smaller entities are clearly distinguishable from public interest entities in respect of both types of information. It would be important when exploring possible areas of change to give appropriate attention to the potentially different information needs of stakeholders for SMEs. Accordingly, if there is a clearly identified need for change, consideration should be given to whether such change may to a large extent be focused only on public interest entities.
 - The context of public sector auditing – where auditor reporting typically is done in the context of an expanded audit scope, for example in accordance with the wider scope of accountability arrangements that sometimes exists for public sector entities.
 - The interaction of the external audit with corporate governance and corporate reporting models, including the need for further development of disclosure and assurance frameworks that go beyond the requirements of existing financial reporting frameworks.
- Given that there are various channels through which information is conveyed to an entity's stakeholders, in seeking to address information needs it would be important to understand why users need particular types of information and how they would use such information. The auditor may not necessarily be the optimal provider of certain types of information, for example, information about the entity, even if the auditor has obtained such information by virtue of the audit.
- Users of corporate information are generally most interested in information about the

entity, and perhaps less so in information about the audit process, albeit that the latter may be of some interest. If they show an interest in understanding more about the audit, it is more likely that such interest would be directed towards better understanding the quality of the audited financial information and the quality of the entity's corporate governance.

- In most cases, particularly for public interest entities, it can be expected that the entity's management and those charged with governance would always prefer to take on the role of providing corporate information to external stakeholders. Equally, it can be expected that the auditor's role would clearly be focused on providing assurance to enhance the credibility of financial information for users' benefit.

Although there was unanimous support for the development of a consultation paper, the IAASB encouraged the Working Group to consider the following matters:

- The scope of the consultation would be a central consideration. The role of auditors is ordinarily part of the regulatory regime and cannot be independently changed. It would be difficult not to touch on areas where users' expectations of auditor reporting raise questions about the scope of the audit itself. Accordingly, consideration of what is achievable in enhancing auditor reporting may need to include some reconsideration of the scope of the audit itself.
- Pragmatism is key in identifying a viable way forward, given that stakeholders such as investors will always have many needs. The key aims of the consultation should be to identify possible areas to explore for changing the auditor reporting model that will address perceived information needs of users and the desire for auditor assurance on a wider range of information, in a manner that will advance the quality of corporate information disclosure and the auditor's role in relation to that information.
- In considering possible areas for change, the key consideration should be the range of users' information needs raised concerning auditor reporting, rather than focusing only on the needs of the external stakeholders of public interest entities.
- Consideration should be given to including illustrations of models of auditor reporting that are used or are being developed in some countries in order to facilitate respondents' consideration of possible avenues of change that may be preferred.
- An important consideration is comparability in auditor reporting. Development of "free-form" reporting for general purpose financial statements has historically been a highly problematic area, and the need for comparability has tended to be an overriding concern for users. There will always need to be sufficient guidance in reporting standards to ensure comparability.
- The IAASB should continue liaising with other stakeholders such as regulators who are considering changes in auditor reporting, and co-ordinate efforts with them as far as possible to promote harmonization of auditor reporting across different jurisdictions.

Mr. Montgomery noted the Working Group's aim to develop the consultation paper within a relatively accelerated timeframe so as to be able to co-ordinate efforts with other bodies that are currently addressing the topic. Doing so would also enable the IAASB to consider on as timely a basis as possible what standard-setting projects on the topic might be needed in the near future.

WAY FORWARD

The IAASB asked the Working Group to present a draft of the consultation paper for its consideration at the March 2011 IAASB meeting.

9. Audit Implications of Financial Statement Disclosures

Ms. Hillier introduced the topic, noting that comments had been received from the IFAC SMP Committee urging consideration of SMP and small and medium-sized entity issues.

Except as outlined below, the IAASB agreed with the matters set out in the proposed Discussion Paper (DP).¹¹

SUFFICIENT APPROPRIATE AUDIT EVIDENCE

IAASB members generally supported the direction of the proposed DP. Some IAASB members, however, commented on the need for greater clarity in the discussion of the various views on obtaining sufficient appropriate audit evidence in relation to different types of disclosures. In particular, it was noted that the discussion of the viewpoint on the audit of the process of preparing disclosures was difficult to follow in the context of ISA requirements. Other IAASB members noted that a discussion of this viewpoint is necessary as it shows the challenges faced by auditors in approaching certain types of disclosures. After further deliberation, the IAASB agreed that the section should be restructured and clarified to place greater emphasis on the examples provided.

OTHER MATTERS

In addition to editorial changes, the IAASB asked that:

- The DP clarify that, as disclosures are often finalized quite late in the financial reporting process, some of the auditor's risk assessment procedures relative to disclosures may also be performed quite late in the audit process.
- The DP reflect the greater involvement of SMPs in the disclosure preparation process than auditors of larger entities.
- The discussion on the availability of evidence for different types of disclosures be expanded.
- The DP further emphasize the existing requirements and guidance on disclosures in ISA 540.¹²
- It be made clear that the discussion on judgments on understandability and completeness would be relevant for regulators as well as auditors.
- Further discussion be provided regarding the challenges faced by auditors in assessing narrative disclosures, particularly those that are "boilerplate."
- The DP highlight an entity's non-compliance with a law or regulation of critical importance

¹¹ Proposed Discussion Paper, *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*

¹² ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures*

as an additional example of a disclosure that may be useful to users even if not quantitatively material.

CONSULTATION QUESTIONS

A number of IAASB members were of the view that targeting the questions to specific stakeholder group, such as preparers, auditors and investors, would help in garnering more responses. In addition, while there was agreement that there should be an additional question asking for views on the current ISA requirements and guidance, IAASB members noted that the number of questions was overwhelming. Accordingly, the IAASB asked that the Working Group reconsider the questions with a view to making them more focused for each identified stakeholder group.

WAY FORWARD

The IAASB agreed on the issuance of the Discussion Paper, subject to appropriate refinements to the text and the consultation questions as discussed. A comment period until June 2011 should be provided to allow respondents ample time to consider the matters raised in the paper and submit comments.

10. Audit Quality

Mr. Crawford introduced the topic, noting the objective of seeking the IAASB's views and agreement on both the proposed direction for the consultation phase of the project and the proposed thought piece on the topic.¹³ He highlighted the main comments from the IFAC SMP Committee. He then led a discussion of the Task Force's proposal for the development of an international audit quality (AQ) framework and the proposed thought piece.

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

PROPOSED CONSULTATION PHASE

Objectives

IAASB members generally expressed broad support for the proposal to develop an international AQ framework and acknowledged that there would be merit in leveraging the work done by the UK Financial Reporting Council in developing an AQ framework in the UK. Many IAASB members commented that an AQ framework would fulfill a number of very valuable purposes, including establishing a foundation for debate on AQ, stimulating further research on AQ, assisting the IAASB in setting appropriate standards, facilitating dialogue with those charged with governance, helping stakeholders assess AQ and make decisions about it, and providing input into the ISA Monitoring project. A few IAASB members, however, questioned whether there was sufficient clarity in the ultimate objectives of this phase of the project, particularly what the IAASB would intend to achieve with a framework, what such a framework would be used for, and whether there was a clear end to the project. The IAASB broadly supported the proposed direction but asked the Task Force to reflect further on the objectives and whether they could be clarified.

¹³ Proposed thought piece, *Audit Quality: An IAASB Perspective*

Scope

A few IAASB members were strongly of the view that the approach to the consultation phase should be holistic, recognizing that factors other than the ISAs also have an influence on AQ. They noted that there would be greater value in pursuing this phase of the project if its scope were not limited to just the inputs to AQ. A few other IAASB members, however, suggested a need to consider a narrower scope and cautioned against setting unrealistic expectations. They felt, in particular, that extending the scope to a consideration of the financial reporting supply chain could be too broad. However, other IAASB members were of the view that the supply chain cannot be ignored given the interdependencies of the various links in the chain in ensuring delivery of high-quality financial information to the users. After further deliberation, the IAASB agreed that it would be appropriate to pursue a holistic, multi-dimensional approach to developing the proposed framework.

Involvement of Stakeholders

Several IAASB members emphasized the importance of seeking a collaborative approach to the consultation phase, noting that the project would send a more powerful message if it involved stakeholders. In particular, the importance of obtaining regulatory buy-in was highlighted, as was the need to appropriately involve the IESBA, International Accounting Education Standards Board (IAESB), and the IFAC Compliance Advisory Panel. Nevertheless, while seeking collaboration would be important, there was broad agreement that the IAASB should lead the project as it is best positioned to do so. In this regard, it was suggested that the thought piece could be leveraged in seeking stakeholder engagement and obtaining their particular perspectives on AQ.

PROPOSED THOUGHT PIECE

The IAASB considered and agreed on the issuance of the proposed thought piece as presented, subject to emphasizing in the closing section the collaborative approach to the project, softening some of the references to the ISAs as influencing or contributing to AQ, and refining some of the graphical illustrations in the document. The IAASB asked that the Task Force circulate an updated draft of the thought piece for fatal-flaw clearance prior to issuance in January 2011.

WAY FORWARD

The IAASB asked the Task Force to present a way forward for the consultation phase, refined as necessary, for its consideration and approval at the March 2011 IAASB meeting.

11. Monitoring Group Review

Mr. Sylph briefed the IAASB on the final report and recommendations of the Monitoring Group (MG) regarding the MG's review of the IFAC Reforms,¹⁴ and on IFAC's anticipated way forward. He noted that while IFAC in principle accepts the recommendations, a number of these will require further discussion with the MG. He highlighted a number of competing timelines for addressing the recommendations, given the need for consideration by the IFAC Public Interest

¹⁴ The MG's report, *Review of the IFAC Reforms – Final Report*, was issued on November 8, 2010 pursuant to its June 2010 consultation paper on its assessment of the implementation of the 2003 IFAC reforms.

Activity Committees (PIACs) concerned as well as IFAC itself. A complicating factor is anticipated changes in the MG team in 2011.

Mr. Sylph noted that some of the recommendations may require changes to the PIACs' due process, which will require discussion with the PIOB. In addition, he flagged a number of timing constraints to the implementation of the recommendations:

- Given that the call for nominations for 2012 has already been issued, any changes to IAASB members' responsibilities as a result of the recommendations would not become effective until 2013 at the earliest.
- It would not be possible to consider operational changes until the 2012 IFAC budget has been developed.
- Some of the recommendations, if adopted, will require changes to IFAC's constitution, which cannot be considered before November 2011.

In terms of the way forward, Mr. Sylph indicated that IFAC staff is considering the operational implications of the recommendations with a view to identifying areas for further discussion with the MG in early 2011. He noted IFAC's intention to involve the leadership of the PIACs and the individual PIACs as appropriate as the implications and the timing of any related actions are considered. An IAASB member was of the view that it would be important to clarify with the MG which recommendations it believes will further advance the public interest, given that the IAASB's current processes already represent best practice.

Mr. Hafeman noted that the PIOB is in a similar position as IFAC with regard to the MG recommendations pertaining to the PIOB. In particular, further discussion between the PIOB and the MG will be needed to better understand the implications of the recommendations and how the PIOB might implement them. He was of the view that those recommendations that directly affect the PIOB's operations will require the greatest attention, whereas other recommendations will require further clarification.

12. Staff Frequently Asked Question - ISA 600¹⁵

Mr. Gunn introduced the topic, explaining that an issue of interpretation of ISA 600 had been raised by some IESBA members and firms regarding the meaning of the phrase "ethical requirements that are relevant to the group audit." The question was whether this phrase extends the application of the IESBA Code to all component auditors within a group audit, particularly in relation to independence, which might then be seen as overriding the IESBA Code.

Mr. Gunn noted staff's view that the IAASB did not intend this outcome. However, a technical advisor noted that the IAASB was careful in drafting this wording (i.e., "ethical requirements... relevant to the group audit," rather than "...to the group auditor") to account for the differing approaches taken by different jurisdictions, some of which require the application of national ethical requirements to component auditors and others that do not require this or forbid it. Some IAASB members noted that this matter was commonly encountered by the larger firms and that a clarification from the IAASB would be helpful. An IAASB member noted the need for caution

¹⁵ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

in describing the matter to avoid any suggestion that the IAASB might be interpreting the IESBA Code or national ethical requirements.

Mr. Gunn highlighted the Steering Committee's view that an amendment to ISA 600 was not warranted at this stage, and that any amendment should be considered in the context of other changes that might be necessary in a future revision of ISA 600.

After further deliberation, the IAASB agreed staff's recommendation to issue the proposed Frequently Asked Question (FAQ) on the IAASB website to clarify the matter, subject to the FAQ emphasizing that independence requirements in a group audit situation are determined by national bodies, which may have adopted the IESBA Code.

13. PIOB Observer's Remarks

Mr. Hafeman complimented the IAASB on the successful outcome of the meeting, with five documents approved for consultation. While the level of discussion was generally high, he encouraged all IAASB members to participate fully in the deliberations. He was of the view that technical advisors had made an appropriate contribution to the discussions. Nevertheless, he saw room for a higher level of contribution from them.

Mr. Hafeman commented on the good progress in improving the clarity of the IAASB's pronouncements, and welcomed the clear distinction between reasonable and limited assurance engagements in the proposed ISAE 3410. He commented that it would be useful for the IAASB to further distinguish a review from an audit generally and that this may assist in efforts to communicate with users. Further, he suggested that the IFAC PIACs should collaborate to see whether a consistent policy on the use of flowcharts could be developed to assist users in better understanding the standards.

Mr. Hafeman provided a brief update on the PIOB's current activities, including the PIOB's response to the Monitoring Group report. While the PIOB generally agreed with the Monitoring Group's recommendations in principle, further discussion was needed in certain specific areas.

In closing, Mr. Hafeman shared his view that IAASB members have generally endeavored to act in the public interest, and that the PIACs have always been responsive to the PIOB's comments. He welcomed the IFAC initiatives on defining terms such as "public interest" and "professional accountant," noting that the PIOB's sixth public report would deal directly with the former concept. Finally, he expressed the view that the current oversight model of the PIACs is sound and that any changes should only be made to enhance the public interest.

Prof. Schilder thanked Mr. Hafeman for his comments.

14. Next Meeting

The next IAASB meeting is scheduled for March 14–18, 2011 in Paris, France.

15. Closing Remarks

Prof. Schilder thanked the IAASB members, technical advisors, observers and staff for their contributions to the meeting and conveyed his best wishes for the holiday season. He then closed the meeting.