

**Draft Minutes of the 15<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD  
Held on June 13-17, 2005  
In Rome, Italy**

**Voting Members**

*Present:* John Kellas (Chairman)  
Denise Esdon (Deputy Chair)  
Mowafak Al Yafi  
Philip Ashton  
Craig Crawford  
Sukanta Dutt  
Josef Ferlings  
John Fogarty  
Rogério Gollo  
Jan Bo Hansen  
Gen Ikegami  
Ian McPhee  
Bodo Richardt (June 15-17)  
Roger Simnett  
Roberto Tizzano  
Gérard Trémolière

*Apologies:* Inga-Britt Ahlenius  
Will Rainey

**Technical Advisors**

Kelly Ånerud (Ms Ahlenius)  
Wolfgang Böhm (Mr Ferlings)  
Cédric Gélard (Mr Trémolière)  
Jon Grant (Mr Rainey)  
Diana Hillier (Mr Ashton)  
Chuck Landes (June 14-17) (Mr Fogarty)  
Richard Mifsud (Mr McPhee)  
Tania Sergott (Mr Hansen)  
Makoto Shinohara (Mr Ikegami)  
Sylvia Smith (Mr Crawford)  
George Tucker (Ms Esdon)

Tan Shook Kheng (Mr Dutt)

**Non-Voting Observers**

*Present:* Thomas Ray  
Hisashi Yamaura  
David Damant

**Guests**

*Present:* Stavros Thomadakis, Chair, PIOB (June 14-15)  
Graham Ward, President, IFAC (June 14)  
Ian Ball, Chief Executive, IFAC (June 14)

**IFAC Technical Staff**

*Present:*

Jim Sylph (Technical Director), James Gunn, Jan Munro (June 15-17), Michael Nugent, Alta Prinsloo, Ken Siong, Jan Tyl (June 14-17)

## 1. Opening Remarks and Minutes

### WELCOME AND INTRODUCTIONS

Mr. Kellas thanked the Consiglio Nazionale dei Dottori Commercialisti for their kind invitation to Italy, and for the arrangements made for the meeting.

Mr Kellas noted that Mr Landes had been appointed as technical advisor for Mr Fogarty. Mr Kellas also indicated that three guests would be attending the meeting: Mr Thomadakis, Chair of the Public Interest Oversight Board (PIOB) (June 14<sup>th</sup> and 15<sup>th</sup>); Mr Ward, IFAC President (June 14<sup>th</sup>); and Mr Ball, IFAC Chief Executive (June 14<sup>th</sup>).

Apologies had been received from Ms Ahlenius and Mr Rainey. In addition, Mr Richardt advised that he would only be able to attend the meeting later in the week.

Proxies were noted as follows: Ms Ånerud for Ms Ahlenius and Mr Grant for Mr Rainey.

### MINUTES OF PREVIOUS MEETING

The minutes of the public session of the previous IAASB meeting were approved as presented, subject to a minor editorial amendment.

## 2. Related Parties

Mr Kellas noted that the IAASB CAG had discussed this project at its June 2005 meeting. He also noted that the International Accounting Standards Board (IASB) had recently responded to the task force's written request for interpretive guidance regarding the requirement to disclose related party transactions. The IASB indicated that such guidance would not be developed, as the IASB preferred to issue principles-based standards rather than detailed guidance.

Mr Trémolière led a review of the proposed revised ISA 550, "Related Parties."

### FINANCIAL REPORTING FRAMEWORKS THAT DO NOT REQUIRE RELATED PARTY DISCLOSURES

The IAASB discussed circumstances where the applicable financial reporting framework does not establish related party disclosure requirements and the auditor is only required to report whether the financial statements have been prepared in accordance with that framework, as opposed to whether they give a true and fair view or are fairly presented. It was noted that in such situations, the auditor would be unable to require management to provide disclosures not required by the applicable financial reporting framework. Absent this disclosure requirement, however, there would be a risk that the financial statements could be misleading because of undisclosed related party relationships or transactions. The IAASB agreed that in such circumstances, the auditor should be required to have an understanding of the entity's related party relationships and transactions sufficient to evaluate whether the financial statements are likely to be misleading as a result of these relationships and transactions.

### INTRODUCTORY OVERARCHING REQUIREMENT

The IAASB discussed the relationship between the overarching requirement in the introduction relating to the auditor's assessment and response to identified risks, and the general requirements in ISAs 315 and 330. It was noted that this overarching requirement could appear to be additional to the

general requirement to assess risk in ISA 315. After due deliberation, the IAASB agreed to retain the requirement but asked the task force to reconsider its wording.

#### WORK EFFORT IN ADDRESSING RISKS

The IAASB discussed the nature, extent and timing of the auditor's work effort in addressing risks, and how that would affect the structure of the ISA. It was unclear whether the proposed requirements to identify related party relationships and transactions were mandatory or subject to the auditor's assessment of risks. By including identification procedures as part of the response to assessed risks, the timing of these procedures also appeared to be late in the audit. In addition, it was important to recognize that the main risk with related party relationships and transactions was the risk of non-identification. The IAASB considered the possibility of introducing a rebuttable presumption of significant risk of non-identification, and of structuring the ISA so that there would be mandatory identification procedures to address such a presumed significant risk. After discussion, the IAASB agreed that the ISA should emphasize that, because of the nature of related parties, certain audit procedures should always be carried out as part of the auditor's risk assessment procedures to identify related party relationships and transactions.

#### OTHER CHANGES

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

- In relation to the inherent uncertainty regarding complete identification, the term "reasonable expectation" should be changed to "reasonable assurance."
- In the definition of material misstatement resulting from related parties, there should be clarification that the other financial effects of related party relationships or transactions are independent of the financial reporting framework.
- Classification and measurement issues are relevant and should be covered, in addition to disclosures.
- It was not necessary to have a definition for "horizontal group" and the appendix elaborating on it should be deleted.
- The section addressing the responsibilities of management and those charged with governance should be deleted.
- Guidance on discussion among the engagement team should be streamlined to focus on specific related party matters only.
- The reference to related party risk factors should be replaced with a reference to circumstances or conditions that give rise to risks.
- In the situation where the auditor identifies previously unidentified related parties, the auditor should request management to identify related party transactions with these parties for the auditor's further evaluation.
- The task force should consider positioning the guidance on materiality in the section dealing with evaluation of related party disclosures.
- In relation to the requirement for the auditor to be satisfied that arm's length assertions are substantiated, the task force should consider refocusing the requirement so that the auditor is required to obtain audit evidence about such assertions.

- In relation to communications with those charged with governance, the task force should consider introducing further guidance in the risk assessment section dealing with how those charged with governance exercise oversight of management's processes for identifying and disclosing related party relationships and transactions.
- The proposed requirement to obtain written representations from shareholders should be deleted as it is effectively covered by external confirmations.
- The guidance dealing with reporting should be replaced with appropriate references to ISA 700 and the proposed ISA 701. In addition, the task force should consider appropriate conforming amendments to ISA 700.

The IAASB asked the task force to consider its comments and to present a second read of the proposed revised ISA at the September 2005 meeting.

### **3. Special Reports**

Mr Dutt noted that the CAG had considered this item at its June 2005 meeting. He then led a review of the proposed ISA 701, "The Independent Auditor's Report on Other Historical Financial Information" and the proposed ISA 800, "The Independent Auditor's Report on Summary Audited Financial Statements."

#### PROPOSED ISA 701

##### *One or More Specific Elements, Accounts or Items of a Financial Statement*

Mr Dutt noted that the CAG supported the proposal to retain guidance relating to auditors' reports on one or more specific elements, accounts or items of a financial statement. The IAASB agreed with the task force's suggestion that (a) the explanatory memorandum to the exposure draft should pose a specific question on the retention of the standards and guidance, and (b) the illustrative reports should include an illustration of a true and fair/present fairly report on a single item.

##### *Financial Reporting Framework*

The task force explained that a financial reporting framework may encompass a number of sources of varying authority, that is, a financial reporting framework may encompass more than just accounting standards and legal requirements. Unless the financial reporting framework is an established financial reporting framework recognized as suitable for the intended use, or specifically required to be used by law or regulation, the auditor considers whether it exhibits the characteristics of suitable criteria described in the International Framework for Assurance Engagements (the Framework). The IAASB agreed that this extension of the definition of a financial reporting framework referred to above should apply only for purposes of the proposed ISA.

##### *Disclosure of the Financial Reporting Framework*

The IAASB considered whether there should be a specific reference to, or description of, the financial reporting framework in the financial information. Although the financial reporting framework itself may not always require such disclosure in the financial information, the IAASB agreed that it is the financial information primarily that should contain suitable or appropriate reference or description, in addition to the auditor's report.

### *Wording of Audit Opinion*

The IAASB discussed whether the audit opinion should refer to whether the financial information is *properly* prepared in accordance with the relevant framework, when that framework is not designed to achieve fair presentation. After due deliberation, the IAASB agreed to retain the qualifying word “properly” as it appropriately reflects the judgments made in forming the opinion.

### PROPOSED ISA 800

#### *Condensed Financial Statements*

The IAASB considered whether the term “condensed financial statements” should be retained, in addition to “summary financial statements.” It was noted that there may not be universal acceptance of the meaning of the word “condensed.” As such, the IAASB agreed to retain only the term “summary financial statements.”

#### *Availability of Full Financial Statements*

It was questioned whether the auditor could evaluate whether the full financial statements from which the summary financial statements have been derived, will in fact be available to the intended users. The IAASB agreed that the full financial statements should be available to the users without undue difficulty, unless provided otherwise by law or regulation. Accordingly, the IAASB agreed that the proposed ISA 800 should provide guidance on the factors the auditor should consider in making this evaluation.

#### *Criteria*

The IAASB discussed the nature of criteria for summary financial statements. While the proposed ISA 800 could not establish criteria, the IAASB agreed that the criteria applied by the responsible party should result in summary financial statements that (a) can be recalculated from the financial statements from which they have been derived, and (b) are not misleading in the circumstances. The IAASB also agreed that the criteria applied should be available to the intended users to enable them to understand how the summary financial statements have been prepared.

#### *Wording of Opinion*

The IAASB debated the wording of the opinion, noting that even suitable criteria could allow for a range of outcomes regarding how much information is included in the summary financial statements. The term “appropriately summarize” was questioned, as it could imply a narrower range of acceptable outcomes than would in fact be the case. After further deliberation, the IAASB agreed that the most appropriate term for the wording of the auditor’s opinion would be “are an appropriate summary of the financial statements from which they have been derived.” In addition, the IAASB agreed that the explanatory memorandum should specifically ask for respondents’ views on this proposed wording of the opinion.

### OTHER CHANGES

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

- Where the auditor is required by law or regulation to express an opinion, but the responsible party refuses to make changes to the summary financial statements the auditor considers necessary, the auditor should express an adverse opinion rather than a qualified opinion.

- The phrase “in all material respects” should not be used in the auditor’s opinion.
- The proposed ISA 800 should refer to the summary financial statements as containing information necessary so as not to be *misleading*, as opposed to preventing *misrepresentation* of the financial statements from which they have been derived.
- The auditor’s report should caution that reading the summary financial statements is not a substitute for reading the financial statements from which they are derived.

#### APPROVAL

The IAASB reviewed revised drafts of the proposed ISAs 701 and 800 reflecting the changes agreed during the earlier discussions, and approved their issue as an exposure draft. The closing date for comments was set as October 31, 2005.

Mr Ashton voted against the issue of the proposed ISA 701 on the grounds that:

- (a) There was an undue extension of the meaning of “financial reporting framework” through the inclusion of concepts such as widely recognized and prevalent industry practices, and accounting literature; and
- (b) It was inappropriate to use the terms “give a true and fair view” and “are presented fairly, in all material respects,” in relation to specific elements, accounts or items of a financial statement.

Mr Gollo also voted against the exposure of the proposed ISA 701 on the same grounds as Mr Ashton in (b) above.

Mr Grant (as proxy for Mr Rainey) abstained from voting on the proposed ISA 800. He was of the view that the attempt to accommodate the legal requirements of different jurisdictions and to adhere to the Framework resulted in a document of such complexity that it would not be understood by practitioners or improve existing practice. He further thought it preferable that the topic be addressed by national standard setters, and that if an international standard was to be issued, it should be classified as an assurance engagement standard rather than an ISA to provide appropriate flexibility to national standard setters.

#### 4. Audit Documentation

Mr Kellas reported that 42 comment letters were received on the exposure draft of ISA 230, “Audit Documentation,” and presented the task force’s recommended disposition of the main issues the respondents raised.

##### PRIMARY OBJECTIVE OF AUDIT DOCUMENTATION

The task force proposed, in response to the comments received on exposure, to introduce a specific requirement for audit documentation to be prepared on a timely basis as this would help to enhance the quality of the audit by facilitating effective review of the work performed. The IAASB agreed, but suggested that emphasis should also be given to the benefit (in terms of accuracy and quality of record) of preparing audit documentation contemporaneously with the work performed.

Respondents had raised concerns over the proposed requirement for audit documentation to demonstrate compliance with ISAs and applicable law and regulation. It seemed that this may be misunderstood as possibly requiring documentation of compliance with every requirement of every

ISA. The task force proposed to address this issue by the addition of explanatory material to indicate the intention behind the requirement. The IAASB agreed with this proposed improvement.

#### DOCUMENTATION OF DEPARTURES FROM REQUIREMENTS

The task force proposed to amend this proposed requirement, in response to comments on exposure, so that the focus is placed on documenting how the alternative procedures performed achieve more effectively the objective of the audit, rather than on documenting the reasons for the departure. Although this reflected the wording of the Preface to the ISAs, concern was raised in the discussion that the focus should not be on the objective of the audit but rather on the specific objectives of the audit procedures. In addition, it was questioned whether it was appropriate for the condition for departure to be that the alternative is “more effective” rather than simply “effective.”

Mr Kellas noted that it would not be practicable to change this wording without also amending the Preface. However, the matter is also linked to the Clarity proposals. The IAASB agreed to defer any final decision on this issue, including the need for explanatory guidance, pending the conclusion of the IAASB’s deliberations on the Clarity project.

#### TIME LIMIT FOR COMPLETING THE ASSEMBLY OF THE FINAL AUDIT FILE

There had been a wide range of responses to the guidance relating to a time limit for completing file assembly. The task force proposed to introduce a basic principle in ISQC 1 requiring a firm to establish policies and procedures for engagement teams to complete file assembly without undue delay. This new principle would add an element of rigor to the proposal, while at the same time allowing firms the flexibility, within the constraints of the principle, to establish specific time limits for the various types of engagement they undertake.

Concern was raised about the meaning of the term “without undue delay,” as it could be subject to varying interpretations. Some members suggested that the standard could be clearer if it imposed a specific time limit. Others recognized the difficulties of that more prescriptive approach. After further deliberation, the majority of the IAASB agreed that a basic principle should be established in ISQC 1, but the task force should reconsider the appropriateness of the term “without undue delay.”

#### DEFINITION OF EXPERIENCED AUDITOR

The task force proposed to expand the definition of ‘experienced auditor’ in response to comments received on exposure. As part of the change, it was proposed that the experienced auditor’s level of knowledge was to be sufficient to conduct quality control reviews or inspections. It was suggested that this raised further issues of interpretation and, after further deliberation, the IAASB agreed to remove the sufficiency qualifier relating to quality control reviews. In addition, the IAASB asked the task force to consider reinstating the term “reasonable” in relation to the understanding of audit processes, etc.

#### DOCUMENTATION OF REVIEW

Respondents had expressed concern regarding the intention of the proposed requirement in the exposure draft relating to the documentation of review, as it seemed to imply a requirement to sign off on each working paper reviewed. Mr Kellas explained that the intention was for the documentation to provide evidence of who reviewed the work performed, and that the task force proposed new explanatory guidance to emphasize that it would not be necessary for the auditor to

sign off on every working paper reviewed, provided there was evidence that the totality of the work had been reviewed. Some members questioned how the requirement to document who reviewed the work performed would be operationalized. Others noted that there was a risk of going into matters of methodology and technology if the standard discussed specific operational details of the process of documenting the review itself. After further deliberation, the IAASB agreed that the standard should retain a principles-based focus on the review of the work performed.

In the discussion of this section of the revised draft, the task force was asked to consider whether the documentation of work performed should make clear when that work was completed. Further, it was suggested that the task force consider whether there was sufficient guidance as to the meaning of the documentation of review (for example, that the working papers were considered to be complete).

#### OTHER CHANGES

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

- In relation to changes to audit documentation after the file has been assembled, the task force should consider whether terminology other than “changes” would be more appropriate, for example, “clarifications.”
- In relation to the retention of abstracts or copies of the entity’s records, the qualifier “if they are needed to understand the work performed” should be deleted.
- In relation to the nature of audit documentation, guidance should emphasize that audit documentation is not a substitute for the entity’s records.
- It should be clarified that the preparation of a summary of significant matters would be particularly helpful for large and complex audits.
- The requirements and guidance on confidentiality, safe custody and retention should be expanded to address firm policies and procedures for a broader range of engagements, and such requirements and guidance should be moved to ISQC 1.

The IAASB asked the task force to consider its comments and present a revised draft for approval as a final standard at the September 2005 meeting.

#### **5. Management Representations**

Mr Fogarty noted that the objective of the session was to build upon the first issues paper presented at the March 2005 IAASB meeting. He outlined the main issues to be addressed within the project as follows.

- *Management representations as audit evidence and the nature of such evidence.* In the task force’s view, management representations do provide audit evidence. Such evidence is in the nature of (a) evidence of management’s acceptance of responsibility and accountability for the financial statements (“general representations”), and evidence at the assertion level, in terms of written responses to inquiries relating to individual financial statement items (“specific representations”).
- *Whether management representations provide sufficient appropriate audit evidence.* The task force believed that management representations do not provide sufficient appropriate audit evidence on their own, as they merely corroborate existing audit evidence. Such corroboration would be needed for sufficient appropriate audit evidence.

- *Reasons for obtaining management representations when other evidence exists.* The task force proposed that general representations be made requirements, to underscore the importance for audit completion of obtaining evidence of management's acceptance of its responsibility and accountability for the financial statements. Consequently, if management refused to provide a general representation, the auditor would be unable to conclude that sufficient appropriate audit evidence had been obtained, and the auditor would need to consider a disclaimer of opinion or withdrawal from the engagement. If the auditor were unable to obtain a specific representation, the auditor would ordinarily qualify the auditor's opinion.
- *Whether management representations can be a substitute for the entity's books and records.* The task force believed that management representations should be obtained only in relation to recorded transactions, and thus it would not be appropriate to use management representations as a substitute for the entity's books and records.

Mr Fogarty noted that the IAASB CAG had identified a number of issues for further consideration by the task force, including (i) how to manage the process of obtaining specific representations to prevent a proliferation of representations; and (ii) whether it would be appropriate to deal with representation matters in two separate letters. The task force's intention was to reduce, rather than increase, the number of representations and, therefore, it did not intend to create a proliferation of representations that some members of the CAG feared. Mr Fogarty also noted that the CAG had raised the question of materiality with respect to specific representations.

After due deliberation, the IAASB agreed the following:

- The concept of general and specific representations should be pursued, but the current definition of management representation in the Glossary should be retained.
- The concept of responsible persons, as defined in ISA 260, should be adopted for the purposes of establishing requirements to obtain management representations.
- The revised ISA should not result in a proliferation of specific representations or in representations replacing other sources of audit evidence.
- Consideration should be given to whether other relevant general representations exist and should be included.
- Consideration should be given to the wording of the requirements such that their purposes are clear.
- Representations should be linked to management responsibilities as described in ISA 700.
- General representations should be obtained in the form of a management letter only. Significant specific representations might be included in the management letter; however, they would ordinarily be part of audit evidence.
- The illustrative letter should include all representations required by this and other ISAs to provide appropriate guidance.

The IAASB asked the task force to consider its comments and present a first read of the proposed revised ISA 580 at the December 2005 meeting.

## 6. Review of Interim Financial Information by the Auditor of the Entity

Ms Esdon noted that the IAASB CAG had considered this item at its June 2005 meeting. She then led a review of the draft revised ISRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity."

### OBJECTIVE OF REVIEW

The IAASB discussed how best to articulate the objective of a review. Some CAG members had noted that the proposed objective in the draft ISRE 2410 was not sufficiently specific to drive consistency among auditors. The IAASB noted that the draft gave significant guidance with respect to work effort, which would improve consistency in practice. In addition, the draft stated that the auditor reduces to a moderate level the risk of expressing an inappropriate conclusion when the interim financial information is materially misstated. The IAASB noted that although a moderate level of risk is not mentioned in the International Framework for Assurance Engagements, such reference in the draft ISRE 2410 would not be contrary to the Framework, as the Framework leaves open the option for subject matter-specific standards to stipulate particular assurance levels for limited assurance engagements. Accordingly, the IAASB agreed no further change was necessary.

### FAIR PRESENTATION OF CONDENSED FINANCIAL STATEMENTS

The IAASB discussed whether condensed financial statements could achieve fair presentation and the related implications for the auditor's conclusion on the condensed financial statements. After due deliberation, the IAASB agreed that (a) the terms "present fairly/true and fair" should only be used in the context of a complete set of financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, and (b) the term "prepared in all material respects" should be used in all other circumstances.

### LIMITATIONS ON SCOPE

While a limitation on the scope of the auditor's work would, ordinarily, prevent the auditor from completing a review and issuing a review report, the IAASB considered whether an auditor should be permitted to issue either a qualified review report or a disclaimer of conclusion regarding a limitation in certain cases. The IAASB discussed the factors and related interactions that could apply in such circumstances. After due deliberation, the IAASB agreed that:

- (a) An auditor does not accept a review engagement knowing that management will impose a scope limitation;
- (b) If, after accepting the engagement, management imposes a scope limitation, the auditor requests that management remove the scope limitation. If management refuses to do so, the auditor is unable to complete the review and express a conclusion. If there is a legal or regulatory requirement to report, the auditor disclaims a conclusion and provides in the review report the reason why the review report cannot be completed; and
- (c) In those rare circumstances where there is a limitation on scope that is not imposed by management and the limitation on scope is clearly confined to one or more specific matters that, while material, are not pervasive, the auditor modifies the review report. The modified review report indicates that except for the matter which is described in an explanatory paragraph to the review report, the review was conducted in accordance with the ISRE.

In addition to editorial changes, the IAASB also agreed to recognize that although inquiries are made primarily to persons responsible for financial and accounting matters, they are not entirely limited to those individuals.

#### APPROVAL AS AN ISRE

The IAASB reviewed and discussed a revised draft of the document, reflecting the changes agreed during the earlier discussions. Mr Sylph, IAASB Technical Director, confirmed that due process had been followed and there was no need to re-expose the proposed ISRE 2410. The IAASB unanimously approved the issue of ISRE 2410 as a final standard, effective for reviews of interim financial information for periods beginning on or after December 15, 2006, with earlier adoption being permitted.

#### 7. Convergence

Mr Kellas led the discussion on the proposed paper on international convergence. The objective of the paper is to advise the IFAC Board on the interpretation of paragraph 4 of Statement of Membership Obligation (SMO) 3, "International Standards, Related Practice Statements and Other Papers Issued by the IAASB," i.e., the meaning of national pronouncements "incorporating" IAASB pronouncements. The IAASB CAG had considered this matter at its June 2005 meeting, and advised the IAASB to take a restrictive approach as there would be risks if national standard setters could change IAASB pronouncements and if practitioners applying the resulting national pronouncements could still claim compliance with the IAASB pronouncements.

#### FORMAT OF PRONOUNCEMENTS

Two possible approaches to "incorporation" were contrasted: (a) the requirements and guidance in an ISA could be published together in a national pronouncement; or (b) the requirements of an ISA could be inserted into a legal instrument, with the guidance published separately by the profession.

According to the proposed advice, both approaches would meet the convergence principle that the national pronouncements incorporate all the requirements and guidance of the IAASB pronouncements. While the second approach was inherently valid, concern was expressed that the national requirements and guidance would not have the same authority as those in the related ISA. The IAASB agreed that it was important to emphasize that the authority of its pronouncements should not be undermined.

The IAASB also agreed that where ISAs have been amended to enable incorporation, national standard setters should demonstrate how the approach taken has actually resulted in full incorporation of ISAs, i.e. without changing their meaning.

#### ADDITIONS, DELETIONS AND OTHER AMENDMENTS

The IAASB discussed the circumstances in which national standard setters could add to, delete from, or otherwise amend the requirements or guidance in ISAs for them to be effective in the relevant jurisdictions. After deliberation, the IAASB agreed:

- Not to put forward to the IFAC Board the proposed principle that requirements or guidance in ISAs may be deleted or otherwise amended if necessary to be effective in the relevant jurisdictions; and

- The principle that requirements or guidance may be deleted or otherwise amended where application is not permitted by law or regulation, should be broadened to include the case where this is necessary for the ISAs to be consistent with law or regulation.

#### OTHER MATTERS

The IAASB also discussed related matters, including:

- Whether a practitioner should be permitted to claim compliance with IAASB standards, or only with the national pronouncements;
- Clarifying the meaning of the terms “additions,” “deletions,” and “other amendments” in relation to editorial changes;
- How the IAASB’s practice statements should be dealt with; and
- How to recognize that an IAASB pronouncement may not be adopted in a given jurisdiction if it is not relevant in that particular environment.

The IAASB agreed that:

- The proposed advice should not specify the circumstances under which a practitioner can claim compliance with the ISAs in the auditor’s report. This matter is dealt with in ISA 700 (Revised), “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements;” and
- The references in the proposed advice to the IAASB’s practice statements should be retained. The future of practice statements will be decided as part of the clarity project.

The IAASB approved submission of the proposed advice to the IFAC Board, subject to the agreed changes being processed.

### **8. Clarity**

Mr Kellas introduced the issues paper, noting that a wide range of responses had been received to the Clarity exposure draft and consultation paper, and explained the proposal of the task force and the basis thereof. He reported that the IAASB CAG had considered the project at its June 2005 meeting and, while expressing general support for the proposal, advised of the need to progress quickly. He reported also that a forum has been organized for July 2005 to obtain the views of key stakeholders regarding the proposal, with the intention of proceeding with confidence if feedback from the forum is positive.

#### FUNDAMENTAL PRINCIPLES

The IAASB agreed not to proceed with the further development of the fundamental principles of auditing as part of the clarity project, on the following basis:

- The development of the fundamental principles offers the least direct benefit in terms of clarifying IAASB’s standards, including how they are to be drafted in the future, and in terms of influencing auditor behavior. At the same time, reaching international agreement on the principles will be a significant and time-consuming challenge. The risk of delaying progress on other elements of the proposal outweighs the perceived benefits.

- A systematic study of the principles, including the concepts that underpin auditing and assurance engagements, is needed in order for the IAASB to consider adequately the completeness and appropriateness of the proposed principles. The timeframe for conducting such a study is beyond that which is considered appropriate in terms of implementing the clarity project. Accordingly, the task of identifying, formulating and reaching consensus on the fundamental principles of auditing may better be served through a separate, properly scoped future project, rather than as a component of the overall clarity project.
- The ‘principles-based’ nature of IAASB’s standards may be demonstrated better, and made more effective, through the identification of objectives than by the proposed principles. Further, the IAASB may be able to use the experience and knowledge gained through identifying such objectives as input to any future development of the fundamental principles.

The IAASB asked that Staff track any conceptual issues that arise from the project or as other ISAs are revised to provide a basis for a possible project proposal to develop a conceptual framework at a later stage.

#### OBJECTIVES

The IAASB agreed in principle to the proposal that: (i) each ISA should clearly identify, in a separate section of an ISA, the objective(s) to be achieved by the auditor; and (ii) the auditor should have an obligation to meet the stated objective(s).

The IAASB agreed in principle that such objectives should be established at a reasonably high level within an ISA (i.e., at the overall level for each ISA), while maintaining a clear linkage between the objectives and the requirements of an ISA. The IAASB recognized, however, that in some cases it may be appropriate to identify objectives at a lower level within an ISA (for example, for major groups of requirements within ISAs as appropriate), or in relation to specific procedures whose objectives are not self-evident. The IAASB concluded that applying the concept of objectives more fully in the ISAs (for example, by rephrasing all requirements as objectives) may impede the speed at which the clarity proposal may be implemented. Further, it was noted that the benefit to be derived from doing so may be marginal as many of the extant requirements are clear in terms of their objective(s).

The IAASB also agreed that the imperative for the auditor to achieve the stated objective(s) should be clearly enunciated in both the Preface and within the corpus of ISAs, preferably ISA 200, “Objective and General Principles Governing an Audit of Financial Statements.”

Regarding the proposal that the auditor should be required to meet the stated objective(s) not only by complying with the relevant requirements of the ISA, but also by performing additional procedures that, in the auditor’s judgment, are appropriate in the particular circumstances, it was questioned whether an audit could be considered deficient if an auditor has met all the requirements of a given ISA but the requirements do not achieve the objective of the ISA. It was noted that the IAASB cannot anticipate all circumstances and set specific rules in advance that are all-encompassing. The IAASB asked the task force to consider further this issue and how best to articulate the relative roles of objectives and requirements.

## REQUIREMENTS AND DEPARTURES

The IAASB agreed in principle to the proposal to revert to a single level of professional requirements introduced by the term “should” (retaining broadly its current meaning), as opposed to the two different levels proposed in the exposure draft (“shall” and “should”), for the following reasons:

- The revised proposed meaning of “should” may have given the impression that more departures from requirements were expected in the future than hitherto, and this had not been the intention;
- Having two levels of professional requirements would likely create translation difficulties, as some languages did not distinguish between “shall” and “should”;
- Having two different meanings for the term “should” when extant and redrafted ISAs co-exist over a number of years could result in confusion; and
- Setting objectives for requirements would effectively replace the proposed “shall” level of requirements, as the auditor would have an absolute obligation to achieve each objective.

Mr Kellas noted that the IAASB CAG had also expressed general support for the revised approach, although some CAG members had suggested it would be helpful if the requirements were “shall” statements, particularly if ISAs were to have legal backing in some jurisdictions.

The IAASB agreed in principle also that, as proposed: (i) a departure from a requirement, in those exceptional circumstances where the auditor judges it necessary to do so, should be in relation to the objective(s) of the requirement; and (ii) an obligation should be established for the auditor to document how the alternative procedure(s) performed in the circumstances achieved the objective(s) of the requirement.

The IAASB also concluded that the wording of the extant Preface that permits the auditor to depart from a [requirement] only where it is necessary to do so in order to achieve more effectively the objective is incorrect. It was agreed that the Preface should be amended to eliminate the words ‘more effectively,’ such that a departure is permitted only where it is necessary to do so in order to achieve the objective. Since the Preface might not be adopted in all jurisdictions, the documentation requirement should also be included in the ISAs themselves, most likely within ISA 230, “Audit Documentation.”

## PRESENT TENSE

The IAASB agreed that sentences containing the present tense relating to action on the auditor’s part should be redrafted on a case-by-case basis to clarify whether the specific action is a requirement.

## RESTRUCTURING

The IAASB agreed in principle to the proposal that ISAs should be restructured into three main sections: (i) objective(s); (ii) requirements, along with essential explanatory material; and (iii) application guidance that explains the proper application of the ISA. It was noted that restructuring offers an opportunity to re-package the flow of the requirements within an ISA such that they can be read more easily in relation to the particular subject matter to which they relate and on the whole, within the context of all of the requirements of an ISA. The decision of the IAASB, however, was conditional on the following:

- That, as proposed, all of the sections of a restructured ISA together comprise the ISA, and should be labeled as such, to avoid any potential weakening of the ISAs.
- That, as proposed, the auditor would be required to (a) comply with the requirements, and (b) consider the application material as part of understanding and applying the requirements, to avoid any notion that the application material may be overlooked or ignored by auditors.

The following matters were also noted:

- Restructuring will require considered redrafting given that requirements are currently drafted to be interpreted in the context of accompanying gray-letter guidance.
- Public Sector Perspectives should be integrated into the redrafted ISAs with the assistance of INTOSAI.
- A full evaluation of the relative authority of ISAs and IAPS should be deferred at this stage as the issue was not germane to the clarity project.

#### REDRAFTING AND THE ELIMINATION OF DUPLICATION

The IAASB agreed in principle to the proposal to: (i) introduce redrafting improvements, such as greater use of bullet points, headings and sub-headings and improved sentence structure, where practicable; and (ii) redraft ISAs to reduce or eliminate duplication to the extent practicable, as part of the clarity project.

The IAASB recognized that duplication of material across ISAs affects the overall flow and complexity of the ISAs, increases the translation burden, and introduces greater room for inconsistency. However, it also recognizes that different users of the ISAs have different backgrounds and needs, and that some may find the repetition or paraphrasing of the relevant underpinning requirements (or 're-telling the story') helpful in understanding a particular ISA or how the ISAs interrelate as a whole. It was therefore agreed that:

- Reducing duplication should not take precedence over maintaining understandability. Some duplication would be inevitable, but it should be kept to a minimum. Where duplication is necessary, it should preferably be by cross-reference or verbatim as opposed to paraphrasing.
- The extent of redrafting to reduce duplication should to be determined on a case-by-case basis, bearing in mind what is most effective from the users' point of view.

The IAASB asked that the task force revise the redrafting of ISA 240 to re-insert some of the deleted material.

With respect to the drafting options of placing guidance for SMPs in redrafted ISAs at the end of the application material as a separate section or included at relevant points, suitably headed, within the application material, the IAASB asked the task force to consult the IFAC SMP Permanent task force as to which option it considers to be more useful and effective.

## IMPLEMENTATION

The IAASB agreed in principle to the proposed implementation approach that seeks to achieve improvement in the clarity of as many ISAs as practicable in the shortest timeframe possible. It was agreed, however, that:

- ISA 300, “Planning an Audit of Financial Statements,” should be included as part of the first set of redrafted ISAs given its relationship to the audit risk ISAs.
- ISA 200 should be maintained as a ‘moving draft’ throughout the clarity improvement process until towards the end of the project.

Although it was accepted that it is appropriate to delay the finalization of a number of current exposure drafts in order to issue final ISAs that are both revised as well as redrafted in accordance with the clarity proposal, the IAASB recognized that there may be cases where the completion of a certain project(s) as soon as possible might be of particular importance to stakeholders. This may be the case, for example, with the proposed ISA on Group Audits. In this regard, the views of participants at the July forum should be sought.

## ILLUSTRATIVE REDRAFTED ISAS

The IAASB provided the task force with a number of preliminary editorial and substantive comments on aspects of the illustrative redrafted ISA 315, “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatements,” and ISA 240, “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements.”

The IAASB asked that the task force present revised versions of redrafted ISAs 315 and 240, along with the redrafted and restructured versions of ISAs 330 and 500 for discussion at the September 2005 IAASB meeting.

## 9. Sustainability – Response to Royal NIVRA Exposure Drafts

Professor Simnett noted that the Sustainability task force had received comments after the March 2005 IAASB meeting from a number of IAASB members and technical advisors, as well as the Sustainability Experts Advisory Panel, which the task force had now incorporated into the proposed response to the Royal NIVRA’s exposure drafts (Proposed Standard for Assurance Engagements 3410, “Assurance Engagements Relating to Sustainability Reports,” and Proposed Standard for Assurance Engagements 3010, “Practitioners Working with Subject Matter Experts from Other Disciplines on Non-Financial Assurance Engagements”).

In preparing this response to Royal NIVRA, particular attention had been paid to the consistency of the NIVRA exposure drafts in relation to the International Framework for Assurance Engagements and ISAE 3000. This provided the opportunity to further consider application issues with respect to the Framework and ISAE 3000 in the context of a specific subject matter.

## ROLE OF STAKEHOLDER ENGAGEMENT AND ITS IMPACT ON THE COMPLETENESS ASSERTION

The IAASB discussed whether cost/benefit considerations would ordinarily make it impractical for the auditor to do sufficient work to express a “reasonable assurance” conclusion on completeness. It was noted that in this context completeness had two separate components: (i) whether all the relevant

issues were identified; and (ii) whether the entity's performance with respect to those issues was fully disclosed.

#### **GUIDANCE FOR ASSURANCE ENGAGEMENTS REGARDING SUSTAINABILITY REPORTS**

The IAASB discussed the appropriateness of its providing guidance for assurance engagements with respect to sustainability reports. It was noted that an increasing number of professional accountants in various countries were providing assurance on sustainability reports, and so it was in the public interest for standards to address this work. It was noted, however, that ISAE 3000 already covered such engagements, and given the IAASB's current workload, there was no guarantee that it would have the opportunity to provide specific guidance in this area in the near future. The IAASB nevertheless agreed to cooperate with Royal NIVRA in completing their standards.

After further deliberation, the IAASB agreed that the response, when finalized by task force, should be signed by Professor Simnett, as Chair of the task force and of the SEAP, and staff. The response should also include the following caveat: "While members of the IAASB have briefly reviewed these comments, they do not necessarily represent the views of the IAASB."

#### **10. Due Process**

Mr Kellas noted that the PIOB had reviewed the IAASB's proposed statement of due process and working procedures on a preliminary basis, and did not identify any significant issues. The PIOB had, however, requested a comparison of the proposed due process with those of other comparable standard-setting bodies.

Mr Thomadakis, Chair of the PIOB, noted that the PIOB would hold further deliberations on the proposed statement at its September 2005 meeting. He also indicated that the due processes of the various IFAC Public Interest Committees should be similar.

#### **11. Urgent Issues and Interpretations Committee**

Mr Kellas noted that the IAASB Steering Committee had discussed the timing of the formation of the Urgent Issues and Interpretations Committee (UIIC). Given the potential changes to be introduced as a result of the Clarity project, the Steering Committee had recommended, and the IAASB agreed, that it would be preferable to defer the establishment of the UIIC until after the finalization of the Clarity project.

#### **12. Next Meeting**

The next meeting of the IAASB is scheduled for September 12-16, 2005 in New York, USA.

#### **13. Closing Remarks**

Mr Kellas thanked Mr Tizzano and the Consiglio Nazionale dei Dottori Commercialisti for welcoming the IAASB and hosting the meeting, and for assisting with the necessary arrangements.

Mr Kellas closed the meeting.