

## Draft Minutes of the 33<sup>rd</sup> Meeting of the INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

Held on December 8-11, 2008 in Brussels **[CLEAN]**

### Voting Members

Present: John Kellas (Chairman)  
Denise Esdon (Deputy Chair)  
Phil Cowperthwaite  
Craig Crawford  
Josef Ferlings  
Jon Grant  
Diana Hillier  
Susan Jones  
William Kinney  
Kjell Larsson  
Caithlin McCabe  
Ian McPhee  
Marcel Pheijffer  
David Swanney  
Jianhua Tang  
Gérard Trémolière  
Abdullah Yusuf

### Technical Advisors

Kelly Ånerud (Mr. Larsson)  
Wolfgang Böhm (Mr. Ferlings)  
Cédric Gélard (Mr. Trémolière)  
Josephine Jackson (Ms. Jones)  
Richard Mifsud (Mr. McPhee)  
Daniel Montgomery (Ms. Esdon)  
Jon Rowden (Ms. Hillier)  
Tania Sergott (Ms. McCabe)  
Greg Shields (Mr. Cowperthwaite)  
Sylvia Smith (Mr. Crawford)  
Hans Verkruijsse (Mr. Pheijffer)

Apologies: John Fogarty

Ashif Kassam (Mr. Kinney)  
Chuck Landes (Mr. Fogarty)  
Asad Ali Shah (Mr. Yusuf)

### Non-Voting Observers

Present: David Damant, Leslye Givarz, Norio Igarashi, and Jean-Philippe Rabine

Present: Public Interest Oversight Board (PIOB) Observers  
Antoine Bracchi, Susana Novoa

### IAASB Technical Staff

Present: Jim Sylph (Executive Director), James Gunn, Kathleen Healy, Michael Nugent and Ken Siong

## 1. Opening Remarks and Minutes

### WELCOME AND INTRODUCTIONS

Mr. Kellas welcomed the participants to the meeting. He also welcomed:

- Mr. Bracchi and Ms. Novoa, observing on behalf of the PIOB;
- Prof. Schilder, the incoming Chair of the IAASB;
- Ms. Givarz, observing on behalf of the US PCAOB;
- Ms. Jackson, technical advisor to Ms. Jones; and
- Prof. Roger Simnett, co-Chair of the Emissions Task Force, who will present the topic at the meeting.

He noted that Mr. Gert Jönsson, Chair of the INTOSAI Financial Audit Guidelines Subcommittee, and Mr. Ian Ball, IFAC Chief Executive, would observe part of the meeting later in the week.

Apologies were received from Messrs. Fogarty, Kassam, Landes and Shah. Ms. Sergott was noted as proxy for Mr. Fogarty.

Mr. Kellas noted that this would be the last meeting for five IAASB members (Ms. Esdon and Messrs. Larsson, McPhee, Pheijffer and Trémolière), who are rotating off at the end of the year. He thanked them for their service.

Mr. Kellas noted the following appointments or re-appointments to the IAASB from January 1, 2009:

- Appointments: Messrs. Gélard, Kassam and Montgomery (current technical advisors to IAASB members), and Mr. Tomokazu Sekiguchi.
- Re-appointments: Ms. Hillier and Messrs. Cowperthwaite and Swanney.

In addition, Mr. Steen Jensen has been appointed to replace Mr. Larsson, who is resigning from the IAASB at the end of the year due to other professional commitments.

Mr. Fogarty has been appointed Deputy Chair for a one-year term.

Mr. Kellas noted the resignation of Mr. Shah as Mr. Yusuf's technical advisor, as he has been appointed as a member of the IFAC Board. He bid farewell to Ms. Ånerud as this would be her last meeting before she joins IFAC in early 2009 in a new role managing translations.

Finally, Mr. Kellas noted that Ms. Joanne Moores of the New Zealand Institute of Chartered Accountants was expected to join the IAASB staff in early 2009.

### OTHER MATTERS

Mr. Kellas noted that subject to the progress of the agenda, consideration would be given to whether IAASB members might attend the Fédération des Experts Comptables Européens' (FEE) Audit Regulation Conference on the afternoon of December 9<sup>th</sup>.

Mr. Kellas drew attention to an additional agenda item, being a matter for clarification in ISA 220 (Redrafted)<sup>1</sup> and ISA 620 (Revised and Redrafted)<sup>2</sup> in relation to the status of an external expert on accounting or auditing who has been consulted by the auditor. This was a matter that the IAASB CAG Chairman had noted in his review of papers in advance of the December 2008 PIOB meeting but it was not a matter that the CAG itself had raised. It was therefore not a matter that affected the IAASB's due process in respect of these documents in so far as it affects CAG, but the IAASB CAG Chairman considered that there was scope for improving the clarity of the standards without changing their substance.

The ISAs scheduled for approval at this meeting would, subject to IAASB approval, be presented to the PIOB at its February 2009 meeting.

Mr. Kellas noted that the fair value staff audit practice alert was issued on October 6<sup>th</sup>. He indicated that Mr. Fogarty had subsequently presented the alert at a Forum of Firms' symposium. He also indicated that it has proven difficult to identify a potential author for the proposed plain man's guide to fair values. He noted that the issue of going concern appeared now to require priority attention and that staff are considering whether a similar alert might be issued on this topic.

A Clarity Update staff communication was issued in October 2008 as a reminder of the significant effort that will be needed for implementation of the clarified ISAs.

#### MINUTES OF PREVIOUS MEETING

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

## **2. Service Organizations – ISA 402 (Revised and Redrafted)**<sup>3</sup>

Ms. Esdon introduced the topic. She noted that as agreed at the September 2008 IAASB meeting, the Task Force had circulated an updated draft of the ISA to the IAASB in advance of this meeting for initial comment on how the Task Force had dealt with points raised at the September meeting. She thanked those IAASB members who had provided comments. She also noted that correspondence from the IFAC SMP Committee had been received, indicating their support of the revised draft.

Ms. Esdon then led a review of the revised draft of the proposed ISA.

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

#### APPLICABILITY OF THE ISA TO SHARED SERVICE CENTERS

Ms. Esdon noted that the Task Force had further considered wording to address the applicability of the ISA to shared service centers. It was suggested that the references to shared service centers could be moved to the application material, as a few IAASB members did not believe the reference in the Scope section was appropriate given the complex nature of shared service centers. However, after further deliberation, the IAASB determined that the paragraph relating to the applicability of the ISA

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<sup>1</sup> ISA 220 (Redrafted), "Quality Control for an Audit of Financial Statements."

<sup>2</sup> ISA 620 (Revised and Redrafted), "Using the Work of an Auditor's Expert."

<sup>3</sup> ISA 402 (Revised and Redrafted), "Audit Considerations Relating to an Entity Using a Service Organization."

to shared service centers should be deleted as the matter was more appropriate as a topic for a separate project in the future.

#### SUBSERVICE ORGANIZATIONS

The IAASB agreed the Task Force's recommendation to emphasize more prominently within the ISA that if the services of a subservice organization that is used by a service organization are not covered in the Type B report received from the service organization, further work will be needed to obtain sufficient appropriate audit evidence. The IAASB, however, determined that the new requirement should appropriately limit the user auditor's further work to subservice organizations *where the latter's services are relevant to the audit of the user entity's financial statements*, and require the user auditor to apply the requirements of the ISA with respect to those services.

#### PRICING SERVICES

Ms. Esdon explained that it was suggested that further guidance be added to discuss whether a pricing service would meet the definition of a service organization, or whether a pricing service is more comparable to an expert. After deliberation and consultation with practitioners in financial services, the IAASB determined that no reference to pricing services should be included in the ISA, as stating whether or not a pricing service is a service organization would remove the important element of professional judgment in the auditor's determination as to how a pricing service is relevant to the audit of the financial statements of a user entity.

#### OTHER MATTERS

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

- The terms "Type A" and "Type B" should be changed to "type 1" and "type 2," respectively, to be consistent with the definitions used in U.S. Statement on Auditing Standards (SAS) No. 70,<sup>4</sup> which is widely used in practice as the basis for preparing a service auditor's report.
- For clarity, the requirement for the user auditor to modify the user auditor's opinion should address the circumstance where the user auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organization relevant to the audit of the user entity's financial statements. Guidance should be provided to further explain the circumstances in which a modification to the auditor's opinion may be necessary.

#### APPROVAL

After agreeing all necessary changes to proposed ISA 402 (Revised and Redrafted), the IAASB members present or represented by proxy unanimously approved the ISA. The IAASB assessed whether there was a need to re-expose the ISA. The IAASB agreed that the changes made to the exposure draft were in response to the comments received from respondents and, accordingly, re-

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<sup>4</sup> SAS 70, "Service Organizations." As discussed further in the minutes of the discussion on ISAE 3402, the AICPA Auditing Standards Board (ASB) has recently issued an exposure draft of revisions to SAS No. 70. It continues to use the terms "type 1" and "type 2."

exposure was not necessary. Mr. Sylph advised the IAASB that it had adhered to its stated due process in finalizing the ISA.

The ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009. The issue of the final ISA is subject to confirmation from the PIOB that due process has been followed.

### **3. Communicating Deficiencies in Internal Control – ISA 265<sup>5</sup>**

Mr. Cowperthwaite introduced the topic. He noted that as agreed at the September 2008 IAASB meeting, the Task Force had circulated an updated draft of the ISA to the IAASB for initial comment on the Task Force's treatment of matters discussed at that meeting in advance of this meeting. He thanked IAASB members who had provided comments. He also noted that the Task Force had received comments from the IFAC SMP Committee and that he would be highlighting those as appropriate during the discussion.

Mr. Cowperthwaite then led a review of the revised draft of the proposed ISA.

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

#### DEFINITION OF SIGNIFICANT DEFICIENCY

An IAASB member expressed some concern regarding the use of the term "significant deficiencies" in the ISA to describe deficiencies in internal control that the auditor is required to communicate to those charged with governance. He was of the view that in an integrated audit conducted in accordance with the PCAOB's Auditing Standard 5 (in which the term is also used with a similar meaning) to meet the internal control reporting provisions of US public company law, the search for material weaknesses means that significantly more significant deficiencies are likely to be identified than in an audit conducted in accordance with ISAs without any explicit additional reporting requirement in respect of internal control. Thus, using the same term in the ISA could lead to confusion among those charged with governance.

An IAASB technical advisor noted that the term "significant deficiencies" was introduced in the ISA for purposes of converging with the terminology of the PCAOB standard to the extent practicable. He was, however, of the view that it is unclear from the ISA whether the term has the same meaning as that in the PCAOB standard. He noted that if the term as used in the ISA has a meaning different from the PCAOB standard, the question would arise as to why the same term is being used as this would lead to the expectation of convergence when there is in fact none. On the other hand, if the same meaning is intended, the IAASB would be importing the logical extension of the PCAOB definition of material weaknesses (i.e. not reducing the prevention and detection of material misstatements to a remote likelihood) into the meaning of significant deficiencies (hence, not reducing the prevention and detection of material misstatements to a less than remote likelihood), given that the PCAOB standard defines significant deficiencies relative to material weaknesses. The IAASB technical advisor added that there would also be a significant danger of importing into the ISAs the logical extension in the PCAOB standard of the meaning of reasonable assurance in relation

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<sup>5</sup> ISA 265, "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management."

to internal control and audits of financial statements (i.e., reasonable assurance would be equivalent to a remote likelihood of risk).<sup>6</sup>

The IAASB noted these concerns but reaffirmed its view that the term “significant deficiency” in the ISA is not being defined by reference to material weakness as generally understood in the context of the PCAOB standard, and that the term “material weakness” is neither used nor defined in ISAs. The concerns raised by the IAASB technical advisor related to the distinction between material and significant deficiencies, which is of no concern to the ISAs. Further, PCAOB “material weaknesses” as identified for public reporting purposes would, if identified in an ISA audit, be treated as “significant deficiencies” and dealt with accordingly in reports to those charged with governance. Finally, the IAASB did not accept that its approach had any implications for the meaning of reasonable assurance in relation to internal control or the audit of financial statements in the ISAs. The IAASB determined that the proposed definition in the draft ISA should remain unchanged.

#### LOCATION OF THE IDENTIFICATION REQUIREMENT

An IAASB member expressed the view that it would be inappropriate to include in this ISA the requirement for the auditor to determine whether, on the basis of the audit work performed, the auditor has identified one or more deficiencies in internal control. He felt that this requirement duplicated an existing requirement in ISA 330 (Redrafted),<sup>7</sup> and as the requirement was effectively an identification requirement, it should not be included in an ISA that deals with communication. Further, he was of the view that it would be more appropriate to have the requirement in ISA 330 (Redrafted) as this would serve to determine whether further audit work is necessary. Another member pointed out that there would be no duplication as the requirement would be transferred from ISA 330 (Redrafted) to ISA 265. In addition, the requirement itself would have no effect on the work effort as the auditor would already have identified the risks of material misstatement, and responded to the assessed risks. After further deliberation, the IAASB determined that no changes should be made in this regard.

#### OTHER MATTERS

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

- The title of the ISA should be changed to “Communicating Deficiencies in Internal Control to Those Charged with Governance and Management,” for greater clarity.
- The guidance that the auditor may discuss the relevant facts and circumstances of the auditor’s findings with management when determining whether deficiencies have been identified should remain in application material and not elevated to a requirement, as doing so would introduce some overlap with the requirement to communicate deficiencies to management, which would be considered to have been fulfilled through discussion of such facts and circumstances with management.

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<sup>6</sup> ISA 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”

<sup>7</sup> ISA 330 (Redrafted), “The Auditor’s Responses to Assessed Risks.”

- The ISA should not impose a requirement that the communication of deficiencies other than significant deficiencies to management be in writing, contrary to what the IFAC SMP Committee had suggested, as a requirement to communicate in writing would create a barrier to constructive dialogue between the auditor and management.
- There should not be a requirement for the auditor to inform those charged with governance of the fact that the auditor has communicated to management deficiencies other than significant deficiencies, as this could be interpreted as implying that those other deficiencies are now also significant deficiencies. Further, imposing such a requirement in every case would appear excessive. Rather, the main point should be discussed in application material.
- Guidance explaining that “where the auditor judges that a deficiency does not merit management’s attention, that deficiency is inconsequential,” should be deleted as the reference to the term “inconsequential” is unnecessary given that it is not used elsewhere in the ISA.
- The conforming amendment to ISA 600 (Revised and Redrafted)<sup>8</sup> should specify that “the group engagement team shall determine which identified deficiencies in internal control to communicate to those charged with governance and group management in accordance with ISA 265,” to ensure that the requirement also includes a requirement to communicate to those charged with governance.

#### APPROVAL

After agreeing all necessary changes to proposed ISA 265, the IAASB members present or represented by proxy unanimously approved the ISA and related conforming amendments. The IAASB assessed whether there was a need to re-expose the ISA. The IAASB agreed that the changes made to the exposure draft were in response to the comments received from respondents and, accordingly, re-exposure was not necessary. Mr. Sylph advised the IAASB that it had adhered to its stated due process in finalizing the ISA.

The ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009. The issue of the final ISA is subject to confirmation from the PIOB that due process has been followed.

Mr. Cowperthwaite expressed thanks on behalf of the Board to Mr. Ashton, the previous Chair of the Task Force, for leading the project up to the exposure draft stage.

#### **4. Agreeing the Terms of Audit Engagements – ISA 210 (Redrafted)<sup>9</sup>**

Mr. McPhee introduced the revised draft of proposed ISA 210 (Redrafted) and related conforming amendments to other ISAs. He explained that the IAASB was satisfied that significant issues had been settled at its September 2008 meeting but that it had asked the Task Force to present a revised draft of the ISA for final approval at this meeting to allow the IAASB time to reflect on the proposed final wording. Mr. McPhee drew the IAASB’s attention to two additional matters the Task Force had

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<sup>8</sup> ISA 600 (Revised and Redrafted), “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors).”

<sup>9</sup> ISA 210 (Redrafted), “Agreeing the Terms of Audit Engagements.”

addressed subsequent to the September 2008 meeting, as set out in the agenda material for the meeting. He then led a review of the revised draft.

Except as noted in the following, the IAASB agreed the changes made to the September 2008 version of the proposed ISA and related conforming amendments, and the recommendations of the Task Force as set out in the agenda material.

#### MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL

An IAASB member was of the view that the phrase “necessary to *enable* the preparation of the financial statements that are free from material misstatement” in the proposed description of management’s responsibility for internal control, as set out in the premise on which an audit is conducted, may be too absolute. Internal control, no matter how well designed, cannot provide absolute assurance that the financial statements will be free from material misstatement.

The IAASB determined that the wording of the premise in relation to management’s responsibility for internal control is appropriate. However, the IAASB agreed that it would be appropriate to explain, as part of the guidance in the ISA, that while management maintains such internal control as it determines is necessary, internal control can provide an entity with only reasonable assurance about achieving the entity’s financial reporting objectives due to the inherent limitations of internal control. It also agreed that that the guidance should make clear that management’s agreement of its responsibility for internal control does not imply that the auditor will find that internal control maintained by management has achieved its purpose or will be free of deficiencies.

#### AGREEMENT ON AUDIT ENGAGEMENT TERMS

The IAASB expressed some concern over the Task Force’s proposal to expand paragraph A20 of the proposed ISA to state: “Ordinarily, the terms of the audit engagement are agreed with those charged with governance.” While the IAASB accepted that this proposal responded to the view expressed by some IAASB CAG members that the auditor should deal directly with those charged with governance when agreeing the terms of the audit engagement, the IAASB noted that the roles of management and those charged with governance in agreeing the terms of the audit engagement depend on the entity’s governance structure and relevant law or regulation; in some case the agreement may, by necessity, be with either management or those charged with governance.

After further deliberation, the IAASB agreed that: (i) the Task Force’s proposed addition to paragraph A20 should be withdrawn; and (ii) the requirement related to paragraph A20 for the auditor to agree the terms of the audit engagement should be amended to indicate that the agreement of terms is with management *or those charged with governance, as appropriate*. This directs the auditor to the appropriate arrangements in the circumstances, while not suggesting that one approach is appropriate in all cases.

#### LAW OR REGULATION THAT PRESCRIBES EQUIVALENT RESPONSIBILITIES OF MANAGEMENT

Some IAASB participants questioned the proposed requirement in paragraph 12 of ISA 210 (Redrafted) that permits the auditor to use the wording of law or regulation to describe the responsibilities of management in the audit engagement letter or other form of written agreement, when such law or regulation prescribes responsibilities for management similar to those described in

the ISA and, in the auditor's judgment, they are equivalent in effect to those set out in the ISA. The IAASB participants were of the view that the auditor should be required to use the wording of law or regulation in such circumstances, thereby enhancing consistency of practice. The majority of the IAASB, however, felt that the current proposed wording was appropriate. The intent of the ISA is to encourage use of the wording in the ISA in the interests of consistency both domestically and globally, while allowing the use of different wording when it is necessary to do so and the prescribed conditions are met. Further, to establish a requirement for the auditor to use the wording of law or regulation would impose an obligation on the auditor to evaluate in all cases the equivalency of wording established in law or regulation and in the ISA. Such an exercise is unlikely to be relevant in the majority of cases. Accordingly, the IAASB determined that no substantive change should be made to the current proposed wording.

#### OTHER MATTERS

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

- The definition of 'preconditions for an audit' in proposed ISA 210 (Redrafted) should be amended to refer to management only, rather than both management and, where appropriate, those charged with governance, in relation to the use of an acceptable financial reporting framework. This change recognizes that it is unlikely those charged with governance will be the party responsible for the choice and use of the framework in the preparation of the financial statements. In addition, the IAASB agreed that reference to those charged with governance should be added to the definition in relation to the agreement to the premise on which an audit is conducted.
- Paragraph 11 of proposed ISA 210 (Redrafted), which permits the auditor not to record some of the terms of the audit engagement in a written agreement where law or regulation prescribes them in sufficient detail, should be amended to require that reference be made in the written agreement to the fact that such law or regulation applies.
- The example audit engagement letter in proposed ISA 210 (Redrafted) should be addressed to management or those charged with governance.
- The penultimate sub-paragraph of the definition of the premise in paragraph 13(j) of ISA 200 (Revised and Redrafted) and paragraph 8 of ISA 580 (Revised and Redrafted),<sup>10</sup> which describe the responsibilities of management, and, where appropriate, those charged with governance, for the preparation of the financial statements in the context of a fair presentation framework, should be amended to address cases where reference is made to either "the preparation and fair presentation of financial statements" or "preparation of financial statements that give a true and fair view" in accordance with the applicable financial reporting framework.
- Paragraph 11 of ISA 580 (Revised and Redrafted), which deals with the required written representation from management concerning information provided to the auditor and about the completeness of transactions, should be amended to align more closely with the provisions of ISA 210 (Redrafted).

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<sup>10</sup> ISA 580 (Revised and Redrafted), "Written Representations."

## APPROVAL

After agreeing all necessary changes to the revised draft, the IAASB members present or represented by proxy unanimously approved ISA 210 (Redrafted) and the related conforming amendments to other ISAs. The IAASB assessed whether there was a need to re-expose the ISA. The IAASB agreed that the changes made to the exposure draft were in response to the comments received from respondents, and accordingly, re-exposure was not necessary. Mr. Sylph advised the IAASB that it had adhered to its stated due process in finalizing the ISA.

The ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009. The issue of the final ISA is subject to confirmation from the PIOB that due process has been followed.

### **5. Proposed Amendment of Guidance Material in ISA 220 (Redrafted)<sup>11</sup> and ISA 620 (Revised and Redrafted)<sup>12</sup>**

Mr. Kellas introduced the topic, noting that the IAASB CAG Chairman had raised the concern that there is a possible ambiguity about whether an external specialist in accounting or auditing, who is engaged by the firm, is a member of the engagement team; and, whether it makes any difference whether that person is consulted or is more involved. He summarized the concern raised and the recommendations as set out in the agenda material for the meeting.

The IAASB agreed that clarification of the guidance in ISA 220 (Redrafted) and ISA 620 (Revised and Redrafted) would be helpful in the circumstances. It confirmed that it was not the intent of the IAASB that a person using expertise in a specialized area of accounting or auditing be considered a member of the engagement team if that person's involvement with the engagement is only consultation.

## APPROVAL

After agreeing the revised wording of the proposed amendment, the IAASB confirmed its view that the amendment does not alter the original intent of the IAASB when it approved ISA 220 (Redrafted) and ISA 620 (Revised and Redrafted), or change what is required under the ISAs. The IAASB also confirmed its view that, as the change clarifies the ISAs without affecting its substance, no further due process steps are required. The IAASB members present or represented by proxy then unanimously approved the clarifying amendment to ISA 220 (Redrafted) and ISA 620 (Revised and Redrafted).

### **6. Review of Clarified ISAs for Consistency**

Mr. Kellas introduced the topic, noting that staff has conducted a review of all ISAs to identify minor changes of wording and structure that improve the consistency of the approved clarified ISAs without changing their substance. He indicated that if any IAASB member was uncomfortable with a proposed change for any reason, or if there was any uncertainty about whether a proposed change affects the substance of an approved ISA, the proposal would be withdrawn and the wording of the

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<sup>11</sup> ISA 220 (Redrafted), "Quality Control for an Audit of Financial Statements."

<sup>12</sup> ISA 620 (Revised and Redrafted), "Using the Work of an Auditor's Expert."

relevant ISA would be retained as originally approved. Mr. Bracchi noted that the PIOB agrees with this process for purposes of finalizing the set of clarified ISAs.

Mr. Gunn summarized the process followed by staff in conducting the review. He noted that while the consistency review did not include consideration of the completeness of the objectives for the ISAs overall, this aspect had been considered at the outset of the project and nothing had come to staff's attention during the review to suggest that there were gaps in the objectives of the final clarified ISAs. He also noted that staff had reviewed all footnotes and, having discussed some of them with the Clarity Task Force Chair, was satisfied that they did not contain substantive content that would be better included in the body of the relevant ISAs. Mr. Gunn then led the IAASB through the agenda material.

Except as noted in the following, the IAASB agreed the recommendations and proposed changes to the clarified ISAs as set out in the Agenda Items 4-A through 4-C of the agenda material.

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

- The proposed changes to the scope paragraph of clarified ISA 220 and the definition of internal control in clarified ISA 315 should not be made as they introduce subtle differences to the intent of the wording in those ISAs. The wording of the approved ISAs should be retained.
- Paragraph A28 of clarified ISA 260 should be further amended to state: "... that the entity designs, implements and maintains appropriate internal control to ~~provide reasonable assurance~~ with regard to ..."
- The proposed change for the introductory wording of the documentation requirement in clarified ISAs 220, 240, 250, 260, 300, 315, 320, 330, 450, 540, 550, 600 and 610 is cumbersome and should therefore be amended, as appropriate, to read: "The auditor shall include in the audit documentation ...". In each case, the documentation requirement should include a footnote reference to paragraphs 8-11 and paragraph A6 of clarified ISA 230.
- Where appropriate, the wording "law, regulation or other authority" should be used consistently throughout the ISAs in relation to paragraphs dealing with considerations specific to public sector entities.
- With respect to the proposed changes to clarify the application of ISAs to other circumstances, the IAASB agreed that the proposed additional wording to paragraph 2 of clarified ISA 200 should be redrafted to state: "... ISAs do not address the responsibilities of the auditor that may exist in legislation, regulation or otherwise in connection with, for example, the offering of securities to the public. Such responsibilities may differ from those established in the ISAs. Accordingly, while the auditor may find aspects of the ISAs helpful in such circumstances, it is the responsibility of the auditor to ensure compliance with all relevant legal, regulatory or professional obligations." The IAASB, however, did not agree with the proposal to delete paragraph A1 of clarified ISA 560 and the final sentence in paragraph 2 of clarified ISA 720 as these paragraphs provide important guidance that has been subject to specific debate by the IAASB. Accordingly, the wording of these approved ISAs should be retained.
- With respect to the direction to be taken in updating the Glossary of Terms, the extant definition of 'governance' should be amended to be made consistent with clarified ISA 260.

The IAASB noted that the principles of the drafting changes agreed to as part of this Agenda Item should be applied, as appropriate, to the three final clarity ISAs scheduled for approval at this meeting. The IAASB also agreed that the drafting conventions applied throughout the Clarity Project, including those agreed to as part of this Agenda Item, should be documented for future reference to ensure consistency of drafting by the IAASB.

#### APPROVAL

After agreeing the revised wording of certain of the recommended changes, the IAASB confirmed its view that the changes clarify the approved ISAs without affecting their substance. The IAASB members present or represented by proxy then unanimously approved the clarifying changes to the ISAs.

Mr. Gunn indicated that all changes to originally approved ISAs will be posted to the IAASB website in marked format to assist those who have already begun adopting or translating approved ISAs.

#### WITHDRAWAL OF IAPS 1005<sup>13</sup> AND IAPS 1014<sup>14</sup>

The IAASB agreed with the recommendation that it should at this meeting, having been satisfied during the course of the Clarity project that all relevant material in IAPS 1005 and IAPS 1014 has been incorporated in the clarified ISAs, approve the future withdrawal of those IAPSs when the clarified ISAs come into effect. The IAASB members present or represented by proxy unanimously approved the withdrawal of IAPS 1005 and IAPS 1014 effective for audits of financial statements for periods beginning on or after December 15, 2009.

### **7. Implementation Support**

Mr. Sylph briefed the IAASB on a staff proposal for implementation support on the set of clarified ISAs. He noted that this is an initiative included in the 2009-2011 IAASB strategy and work program, and that the proposal had been considered by the Steering Committee.

IAASB members were supportive of the proposal, and made the following comments and suggestions:

- The modules will be ideal for educational use in classrooms and will stimulate academic lectures and research.
- While the proposal contemplates that the IAASB Chair would give presentations at targeted conferences, consideration should be given to also using other IAASB members in giving presentations.
- While the larger firms may not be in significant need of implementation support, the initiative will be very helpful to smaller practitioners. Nevertheless, care should be taken in not undermining the IFAC SMP Committee's efforts on its Guide to ISAs.
- Notwithstanding the proposal's suggested approach to focus mainly on the newly revised ISAs, consideration should be given to developing appropriate modules focusing on such fundamental

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<sup>13</sup> International Auditing Practice Statement (IAPS) 1005, "The Special Considerations in the Audit of Small Entities."

<sup>14</sup> IAPS 1014, "Reporting by Auditors on Compliance with International Financial Reporting Standards."

standards as the risk assessment and quality control standards. A focus on the risk assessment ISAs, in particular, may have a greater impact on audit quality.

- The modules would be more helpful from INTOSAI's perspective if they were to include additional background information.
- Consideration should be given to developing a module focusing on the newly revised ISAs 800, 805 and 810.<sup>15</sup>

Mr. Sylph asked the participants to share with IAASB staff any relevant implementation support materials they may have from national standard setters, firms and others. Mr. Kellas noted that, if successful, this initiative may become a standard IAASB practice. He also noted that the presentation of some of the modules could be given by an academic member of the IAASB, who might provide input on teaching approaches to help refine the presentations.

#### **8. Proposed Amendment of Guidance Material in ISA 250 (Redrafted)<sup>16</sup>**

Mr. Kellas introduced the topic, noting that the US Auditing Standards Board (ASB) has raised with the Steering Committee its concern that there is a possible ambiguity in the requirement in paragraph 13 of ISA 250 (Redrafted). He noted that the ASB identified the issue as it progresses its own project to clarify its auditing standards. He summarized the concern raised and the recommendations of the Steering Committee as set out in the agenda material for the meeting.

The IAASB agreed that clarification of the guidance in ISA 250 (Redrafted) would be helpful in the circumstances. It confirmed that it was not the intent of the IAASB to require the auditor to obtain sufficient appropriate audit evidence regarding compliance with all provisions of a direct-effect law or regulation but only with those that did have a direct effect on the determination of material amounts and disclosures in the financial statements. The IAASB was concerned, however, that the wording of the proposed amendment results in a slight change to the focus of the requirement in paragraph 13. That requirement directs the auditor to obtain sufficient appropriate evidence regarding compliance with relevant provisions of direct-effect laws and regulations, but the amendment implies the need to obtain audit evidence only in relation to the amounts and disclosures in the financial statements. This is not consistent with what is expected under the ISA in terms of obtaining assurance about what is, as well as what also should be, recorded in the financial statements in compliance with relevant laws and regulations. After further deliberation, the IAASB agreed that the wording of the amendment should make clear that the aim of the requirement in paragraph 13 is for the auditor to obtain sufficient appropriate audit evidence regarding the determination of amounts and disclosures in the financial statements in compliance with the relevant provisions of those laws and regulations that have a direct effect.

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<sup>15</sup> ISA 800 (Revised and Redrafted), "Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks;" ISA 805 (Revised and Redrafted), "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement;" and ISA 810 (Revised and Redrafted), "Engagements to Report on Summary Financial Statements."

<sup>16</sup> ISA 250 (Redrafted), "Consideration of Laws and Regulations in an Audit of Financial Statements."

## APPROVAL

After agreeing the revised wording of the proposed amendment, the IAASB confirmed its view that the amendment does not alter the original intent of the IAASB when it approved ISA 250 (Redrafted) or change what is required under the ISA. The IAASB also confirmed its view that, as the change clarifies the ISA without effect to substance, no further due process considerations are required. The IAASB members present or represented by proxy then unanimously approved the clarifying amendment to ISA 250 (Redrafted).

Mr. Bracchi noted that the PIOB has no objection to the IAASB approval of the amendment to ISA 250 (Redrafted) from a due process point of view. In the future, however, he recommended that the IAASB should make clear in the agenda paper who is raising such an issue to the IAASB's attention. In addition, the disposition of the issue should not in any sense be a negotiation between the IAASB and the party raising the issue. Mr. Kellas had confirmed during the discussion that the ASB had raised the issue, and indicated that the disposition is IAASB's alone based on the discussion at the meeting including amendments to the original proposed wording.

Mr. Bracchi further indicated that while the PIOB accepts that it is appropriate for the IAASB to amend the ISA in light of its work under the Clarity project, the IAASB should not presume that the PIOB would necessarily find the processes followed in this case acceptable in other future circumstances. Mr. Kellas indicated that it is not the intent of the IAASB to set a precedent in terms of due process or otherwise in terms of how the IAASB would handle similar circumstances in the future. Mr. Kellas suggested that the IAASB may wish to explore some mechanism to address matters of clarity or interpretation, including whether a series of interpretation-type documents should be issued to avoid piecemeal changes to the ISAs.

## 9. Emissions Assurance

Mr. Kellas introduced Prof. Roger Simnett, co-chair, with Ms. McCabe, of the Task Force, and Dr. Jeroen Kruijd, a member of the Project Advisory Panel (PAP).

Ms. McCabe introduced the topic, noting that because this project involves expertise beyond financial statement auditing, a PAP of fourteen experts had been set up to advise the Task Force. Ms. McCabe also noted that the views of a range of stakeholders, including regulators and preparers of emissions inventories, had been obtained at four roundtables held in Australia (2), North America and Europe, some of which had also been attended by IAASB members and technical advisors.

## BACKGROUND

Prof. Simnett, with Ms. McCabe and Dr. Kruijd, led the IAASB through the Background section of the Issues Paper and a general discussion of emissions reporting and assurance, including such matters as: direct methods of measuring emissions versus indirect methods of calculating an estimate of emissions; mechanisms to prevent "cherry-picking" and double counting; limitations on the sources of evidence; the use of emissions information and the potential for both that information and the assurance report to be misunderstood; the coverage and operations of Emissions Trading Schemes (ETSs); the relevance of a Monitoring Plan under the European ETS; how the reporting entity concept applies to emissions reporting; the demand for guidance regarding both voluntary disclosures and disclosures required by regulations; the relevance of professional accountants' skills

and the role of the IAASB in this field; the meaning of the completeness assertion with respect to an emissions inventory; the commonality of some of the terminology used in this field with that used by financial statement auditors and the challenge of ensuring consistency of meaning; and, whether an approach analogous to ISA 720 (Redrafted)<sup>17</sup> is relevant with respect to “other information” published with an emissions inventory.

#### FORM OF OUTPUT

Ms. McCabe noted that when approving this project, the IAASB anticipated that the final output was likely to be a new ISAE, but recognized the possibility that another form of output may be appropriate, either as an interim step or as a final product. The IAASB noted that the roundtables held to date indicated a strong desire amongst stakeholders for the IAASB to develop an ISAE, and for that ISAE to be developed without undue delay.

The IAASB agreed that an ISAE should be developed. The IAASB also considered whether another, interim output should be produced, e.g., a Consultation Paper based on the issues paper presented at this meeting. It was agreed that an interim step would likely delay the ultimate publication of an ISAE and in any case would be unnecessary given the feedback that had been received via the roundtables. It was also noted that it would be beneficial for the Explanatory Memorandum accompanying the exposure draft of a proposed ISAE to include some of the background material and issues discussed in the agenda material.

#### LEVELS OF ASSURANCE

Ms. McCabe noted that discussions at the roundtables had indicated some confusion about the meaning of limited assurance in the context of subject matters such as emissions reporting; in particular, some participants appeared to think that limited assurance is an appropriate response when the subject matter of an assurance engagement is “soft,” or when systems used to produce the subject matter information are immature. The IAASB noted that this is not consistent with the approach adopted in the International Assurance Framework and ISAE 3000,<sup>18</sup> and agreed that it should not be adopted for emissions assurance – if a practitioner could not issue an unmodified reasonable assurance report because of, for example, a soft subject matter or immature systems, then an unmodified limited assurance report could not be issued either.

Ms. McCabe also noted that discussions at the roundtables had indicated a strong demand for guidance on both reasonable assurance and limited assurance. The IAASB agreed that the Task Force should aim to draft guidance on both levels of assurance, and noted that the project to revise ISRE 2400<sup>19</sup> will likely consider topics such as the application of the risk model to limited assurance engagements that will be of assistance in determining the work effort required for a limited assurance engagement on emissions information. The IAASB suggested that in drafting the ISAE, the Task

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<sup>17</sup> ISA 720 (Redrafted), “The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements.”

<sup>18</sup> International Standard on Assurance Engagements (ISAE) 3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information.”

<sup>19</sup> International Standard on Review Engagements (ISRE) 2400, “Engagements to Review Financial Statements.”

Force should first concentrate on the work effort necessary for a reasonable assurance engagement, and then consider how that work effort should vary for a limited assurance engagement.

#### PROFESSIONAL ACCOUNTANTS

Ms. McCabe noted that ISAE 3000 was written for application by professional accountants and is therefore built on a foundation that assumes that the person taking responsibility for the assurance report (the engagement partner), has the training and qualifications of a professional accountant. Nonetheless, ISAE 3000 is sometimes referenced in assurance reports prepared by non-accountants. The IAASB discussed what steps should be taken in preparing the Emissions ISAE with respect to this matter. Options considered included: requiring that the ISAE be applied by professional accountants only; noting in the ISAE that it was written for application by professional accountants only; requiring that anyone who follows the ISAE also follow, for example, ISQC 1 (Redrafted)<sup>20</sup> and the IFAC Code of Ethics for Professional Accountants (the Code); and requiring disclosure in the assurance report of whether the assessor followed ISQC 1 (Redrafted), the Code, etc.

It was noted that it would be in the public interest for all assurers, not just professional accountants, to follow the ISAE where it requires more effective procedures to be applied than would otherwise be the case; however, it was also noted that it would be contrary to the public interest for non-accountants to claim compliance with the Emissions ISAE if they did not: (a) have the appropriate training and qualifications to ensure the ISAE was properly understood and applied as intended, or (b) comply with ISQC 1 (Redrafted), the Code, etc.

The IAASB agreed that although it may be unlikely that actions taken by the IAASB will prevent non-accountants from inappropriately referring in assurance reports to the ISAE, the ISAE should nonetheless: (a) state the fact that an underlying assumption in the development of the ISAE is that the person taking responsibility for the assurance report (the engagement partner), has the training and qualifications of a professional accountant; and (b) require disclosures in the assurance report of the training and qualifications of those performing the engagement, and possibly require a statement of compliance with ISQC 1 (Redrafted), the Code, etc.

#### MATERIALITY

The IAASB discussed the application of the materiality concept to this subject matter. It was noted that while materiality is well understood with respect to financial reporting, the concept may need some further interpretation in the context of emissions. Factors noted for the Task Force's further consideration include:

- Whether, and if so how, the concept of materiality when applied to emissions extends beyond the effect of errors or omissions on user decision-making to, for example, environmental impact.
- Whether the ISAE should define materiality for the purpose of emissions engagements, and whether an alternative word, such as significance, should be used.

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<sup>20</sup> International Standard on Quality Control (ISQC) 1 (Redrafted), "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements."

- The effect of different decisions that may be based on the emissions information; for example, in an ETS, there may be a direct, proportional, and identifiable relationship between the assured quantity of emissions and a consequent flow of funds (e.g., a fine for over-emitting) from or to the entity.
- The relationship between the concepts of materiality and precision, particularly given (a) the more quantitative nature of emissions information relevant to disclosures in financial statements; and (b) the inherent potential for a high degree of estimation uncertainty when measuring emissions.
- Whether it is appropriate to require that the materiality level be: agreed with users (for example, regulators), identified in the criteria, or disclosed in the assurance report.

#### REQUIREMENTS OF OTHER ISAS

The IAASB discussed the extent to which the requirements of other ISAs should be incorporated into this ISAE. It was noted that, like proposed ISAE3402,<sup>21</sup> a large volume of requirements and guidance could potentially be incorporated, and that judgment will need to be exercised to ensure balance. Similarly, the decision with respect to ISAE 3402 that ISAs should not be incorporated by reference applies to this ISAE also. It was further noted that the IAASB's strategic plan includes considering in early 2009 a project to update ISAE 3000. This project may potentially involve the development of a separate series of ISAEs on, for example, planning, documentation and use of experts. Where such topics are adequately covered in ISAE 3000 or in a separate series of ISAEs, the IAASB agreed that they need not be covered in this ISAE unless there is an emissions-specific perspective that needs to be added.

#### OTHER MATTERS

- The IAASB noted a preference for assertion-based engagements, but asked the Task Force to consider further whether direct reporting engagements should also be covered, particularly if they are required by regulators. The Task Force was also asked to clarify whether an engagement in which the emitter prepares and takes responsibility for the emissions inventory, but does not include with that inventory an explicit assertion to the effect that it is fairly presented in accordance with the criteria, should be considered an assertion-based engagement or a direct reporting engagement.
- The IAASB agreed that the ISAE should clearly distinguish between the various sources of inventory uncertainty and their differing effects on the assurance process, which may include: declining the engagement; requesting that the emissions inventory include better disclosure of uncertainty or of the basis upon which comparatives have been recalculated; considering the risk of overstatement prior to the allocation of emissions credits and understatement after the allocation of emissions credits; and, identifying whether different users may find different levels of uncertainty acceptable.
- The IAASB agreed that criteria may be considered suitable whether they are set by regulation or are part of a voluntary disclosure regime; and that while regulatory criteria may be suitable for

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<sup>21</sup> Proposed ISAE 3402, "Assurance Reports on Controls at a Third Party Service Organization."

the purposes of the regulator who set them, they may not be suitable for other users. The Task Force was also asked to consider whether the “preconditions of an audit,” as detailed in ISA 210 (Redrafted), should be adapted and included in the ISAE.

- The ISAE should strongly discourage recommendations being included in the assurance report. Reasons for this include the potential for recommendations to confuse users as to the proper interpretation of the practitioner’s conclusion, the fact that users other than management and those charged with governance are unlikely to have a sufficient understanding of the context of the engagement to be able to properly interpret recommendations, and the difficulty of identifying which recommendations, and what level of detail, should be included in the report. It was noted that including recommendations may be appropriate when communicating with management and those charged with governance.
- The IAASB agreed that the Task Force should explore the competencies required of a professional accountant and of a multi-disciplinary team when undertaking an emissions assurance engagement.
- The IAASB agreed that the ISAE should not allow for joint signing of a single assurance report by a professional accountant and an expert in another field. It was noted that the issue of joint engagements in the context of environmental audits had been considered by the former International Auditing Practices Committee (IAPC), the predecessor of the IAASB. The position the IAPC had reached was that joint signing of a single report is inappropriate when the professional accountant accepts sole responsibility unless the professional accountant’s team is also fully competent in the other signatory’s field of expertise. It was also noted that joint signing of a single report in which responsibility is divided is fraught with difficult communication issues and jurisdiction-specific legal issues that are beyond the scope of this project.

#### NEXT STEPS

The IAASB asked the Task Force to present a draft proposed ISAE for a “first read” at the June 2009 IAASB meeting.

#### **10. Service Organizations – ISA 3402**

Ms. Esdon introduced the topic, noting that the comment period for ED-ISAE3402<sup>22</sup> had ended in May 2008, and that forty-seven responses had been received. Ms. Esdon also noted that the Task Force had actively tried to engage the service organization community. A letter with a copy of the exposure draft had been sent to thirty-seven service organizations in various parts of the world. The forty-seven responses to ED-ISAE3402 included five responses from service organizations.

#### AICPA SAS 70

Ms. Esdon noted that the AICPA’s Auditing Standards Board (US ASB) is undertaking a project to revise SAS 70,<sup>23</sup> and in November 2008 released an exposure draft (ED-SSAS<sup>24</sup>) based on ED-

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<sup>22</sup> Exposure draft of proposed ISAE 3402, “Assurance Reports on Controls at a Third Party Service Organization.”

<sup>23</sup> Statement of Auditing Standards 70, “Reports on the Processing of Transactions by Service Organizations.”

ISAE3402. Given that the comment period for ED-SSAS ends in February 2009, and recognizing SAS 70's prominent position in the global marketplace, the IAASB agreed to adjust the planned project time line for finalizing ED-ISAE 3402 to enable the Task Force to liaise with the US ASB to ensure that the final ISAE and final SSAS are as closely aligned as practicable. Ms Esdon noted that a joint meeting of the ISAE 3402 Task Force with the US ASB Task Force is planned for March 2009. Ms. Esdon discussed the differences between ED-ISAE 3402 and ED-SSAS as identified by AICPA staff. She noted that a number of these apparent differences are in fact differences of form only, or misunderstandings about the intent of ED-ISAE 3402, and most are expected to be reconciled satisfactorily through discussion at the joint Task Force meeting.

#### ASSERTION-BASED ENGAGEMENTS

The Explanatory Memorandum accompanying ED-ISAE 3402 requested views on the proposal that the ISAE be written for application to assertion-based engagements. Ms Esdon noted that of the forty-two respondents who commented on this matter, thirty-six supported the proposal. A number of those respondents had made additional suggestions or comments, which the Task Force has considered and would, in some cases, address through proposed changes, for example, making it more explicit in the ISAE that management should have a sound basis for the assertion it makes.

Of the six respondents who opposed the proposal, three were service organizations. The IAASB noted that publication of ED-SSAS offered another opportunity to consult the service organization community on this matter, particularly in the USA, which is the primary jurisdiction where service organization engagements are direct reporting engagements rather than assertion-based engagements. It was noted that consultations in the UK revealed that service organizations in that jurisdiction are comfortable with assertion-based engagements, but are concerned by the assertion wording used in the examples appended to ED-ISAE 3402. The IAASB asked the Task Force to further consider this wording, and the issues raised in the comment letters, particularly issues raised by service organizations and issues relevant to the public sector, and to attempt to reduce any misunderstandings that may have arisen about the assertion-based model. For example, it appears that some service organizations may be under the impression that their responsibilities under the assertion-based model are far broader than under a direct reporting model, which is not the case. The IAASB also asked the Task Force to consider whether face-to-face liaison with service organizations, perhaps in conjunction with the US ASB, would be possible.

#### SUITABLE CRITERIA

The Explanatory Memorandum accompanying ED-ISAE 3402 requested views on whether the minimum elements of suitable criteria specified in the exposure draft are appropriate. Ms. Esdon noted that of the thirty-eight respondents who commented on this matter, twenty-nine respondents supported the minimum elements; either as stated, or with some changes to improve the wording, while nine respondents offered a range of comments and suggestions for major changes. Ms. Esdon noted that having analyzed the comments, the Task Force is considering some clarifications and minor amendments, but does not expect to recommend major changes. The IAASB asked the Task

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<sup>24</sup> Proposed Statement on Standards for Attestation Engagements (SSAE), *Reporting on Controls at A Service Organization*.

Force to consider whether the ISAE could more clearly articulate the relationship between risks, control objectives and suitable criteria, and whether the approach adopted could be reconciled with that adopted in the PCAOB's AS 5.<sup>25</sup>

#### DISCLOSURE OF SAMPLE SIZES

The Explanatory Memorandum accompanying ED-ISAE 3402 requested views on whether the description of tests of controls included in a Type B report should include the disclosure of sample sizes only when a deviation from controls is found. Ms. Esdon noted that of thirty-seven respondents who commented on this proposal, twenty-six supported it. The IAASB discussed the alternative proposal suggested by three respondents that for ISAE 3402 reports to be useful, in particular to user auditors, both sample sizes and the factors and significant judgments made in their determination ought to be disclosed. The IAASB concluded, however, that such disclosures are unnecessary since, in the absence of a deviation being noted by the service auditor, user auditors are entitled to base their audit procedures on the premise that controls are operating effectively for the period covered in the Type B report. It was also noted that such disclosures would also present a complicating factor that would increase the cost of both service auditor and user auditor engagements.

#### RESTRICTIONS ON USE OR DISTRIBUTION OF THE SERVICE AUDITOR'S REPORT

The IAASB discussed the proposed requirement for the service auditor's assurance report to identify its purpose(s) and intended users, the related application material to which notes that "ISAE 3000 requires that when the criteria used to evaluate or measure the subject matter are available only to specific intended users, or are relevant only to a specific purpose, the assurance report includes a statement restricting the use of the assurance report to those intended users or that purpose." Three respondents recommended that the ISAE explicitly require restriction of the assurance report, and two respondents argued for a more flexible approach noting that restrictions are common in some jurisdictions. The IAASB agreed to adopt a principles-based approach to restricting the use of the assurance report or the purpose for which that report may be used, recognizing that it is not always appropriate to restrict the service auditor's report. The IAASB asked the Task Force to further consider the implications, for restricting the assurance report, of whether it is the criteria or the assurance report itself that is publicly available.

#### OTHER MATTERS

- The IAASB agreed that it would not be appropriate to include the requirements of ISAs in the ISAE by reference only, because to do so would not result in sufficient clarity as to which requirements of the ISAs should be applied or how they ought to be adapted. It was noted that the Task Force will review individual suggestions made by respondents for inclusion of specific requirements and application material from ISAs.
- The IAASB agreed that ISAE 3000, when revised, should include a requirement similar to that proposed in ED-ISAE 3402 to evaluate whether an external expert, whose work is to be used in an assurance engagement, has the necessary objectivity for the purposes of the engagement.

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<sup>25</sup> PCAOB Auditing Standard No. 5, "An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements."

- Ms. Esdon noted that earlier in the meeting, the IAASB had decided to exclude reference to shared service centers when approving ISA 402 for issue. It was agreed that ISAE 3402 should also exclude reference to shared service centers, and that other decisions made by the IAASB with respect to ISA 402 should be adopted in ISAE 3402 where relevant (for example, changing the terminology from Type A and Type B reports to type 1 and type 2 reports, respectively).
- The IAASB agreed that ISAE 3402 should not state that it can be adapted as necessary for engagements to report on non-financial controls, but rather that such engagements should be conducted under ISAE 3000 and that ISAE 3402 may provide guidance in those circumstances. The IAASB asked the Task Force to consider whether this decision should be reflected in the title of the ISAE, and whether additional guidance on, for example, understanding the scope of the subject matter and the criteria, should be added.
- The IAASB agreed that it is not its role to prepare, refer to, or endorse any specific control objectives. Ms. Esdon noted that the extant SAS 70 Audit Guide, which the US ASB intends to update, includes specimen control objectives, and that the Task Force will discuss this issue with the US ASB at the joint Task Force meeting in March.
- It was noted that the Type B service auditor's conclusion in the sample audit reports appended to proposed ISAE 3402 contains 3 separate opinions, and that the lead-in wording includes the phrase "in all material respects." The IAASB asked the Task Force to consider whether this phrase should apply only to the opinion about the fair presentation of the description of the system.

#### NEXT STEPS

The IAASB asked the Task Force to report on its joint meeting with the US ASB Task Force and present a revised draft of proposed ISAE 3402 at the June 2009 IAASB meeting.

#### **11. Effectiveness Review**

Mr. Kellas briefed the IAASB on a proposal to consider draft Terms of Reference for a task force to develop and implement a process to carry out reviews of the effectiveness of implementation of IAASB standards. He noted that this is an initiative included in the 2009-2011 IAASB strategy and work program, and that the proposal had been considered by the Steering Committee. He stressed that this initiative could not be done by the IAASB alone, and that it would need to involve others, such as audit regulators, firms and other stakeholders. He cautioned that such a review of the standards was not meant to imply that this exercise would be a general reopening of the standards for consultation; rather it was meant to determine whether, on the basis of initial implementation of any specific standard, there were matters in the standard that could be made clearer.

IAASB members were supportive of the proposal, and made the following comments and suggestions:

- It might be worthwhile for the review to consider whether certain extant standards have been properly implemented, such as the fraud, risk assessment and quality control standards. This would be of particular relevance to the small and medium practices community. Mr. Sylph cautioned that the view expressed could well be that these standards need to be clarified, which of course has now been done. He noted that the Task Force would have to make

recommendations about when to begin the effectiveness review and on which particular standards.

- Since not every jurisdiction has an audit regulator, it may take time to gather the information needed to support this review. Also, the question of whether it is possible to do such a review on an individual standard basis will need to be answered, probably through consultation with regulators as to how their approach is structured. Mr. Kellas supported this view, noting that the task force will be charged with producing a manageable process.
- Independent practitioners and academics in many countries have expertise in conducting studies on effectiveness and could be consulted during the development of the IAASB's process.
- Findings from this process could be integrated with the IAASB's medium-term strategy, including the determination of whether certain ISAs that were only redrafted should be revised. It will need to be clear in the approach how the IAASB intends to respond to the findings of this review.
- It will be important to consider what is meant by "effectiveness" in order to determine who best to involve in the consultations. For example, one could view this as meaning whether the standards are easy to understand. On the other hand, if the goal of the exercise is to support and enhance audit quality, the focus would need to be on those who are applying the ISAs in practice, as well as investors and other stakeholders.

Mr. Kellas noted that Mr. Grant had been invited to chair the task force and would be well placed to be able to liaise with the chair of the International Forum of Independent Audit Regulators (IFIAR). Mr. Grant and the task force will work to refine the terms of reference if deemed so necessary.

The IAASB members present or represented by proxy then unanimously approved the draft terms of reference for the task force.

## **12. Closing Remarks**

Mr. Bracchi congratulated the Chairman and IAASB members for successfully completing the clarity project, and praised their dedication, as evidenced especially through the five unanimous votes achieved at the meeting. He paid tribute to the Chairman for his outstanding leadership of the IAASB.

Prof. Schilder noted his respect for the IAASB's professionalism and teamwork, and praised the Chairman for his patience and leadership. He looked forward to chairing the IAASB next year.

Mr. Kellas expressed great confidence in handing over the chairmanship of the IAASB to Prof. Schilder and conveyed his best wishes to him. Mr. Kellas also thanked Ms. Esdon for her support as Deputy Chair throughout his term as Chairman, and for her counsel at the appropriate times.

Mr. Kellas closed the meeting.

## **13. Next Meeting**

The next meeting of the IAASB has been scheduled for March 16-19 in New York, USA.