Agenda Item 1-B

Draft Minutes of the 55th Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
Held on December 10–14, 2012 in New York, USA

	Voting Members	**Technical Advisors**
Present:	Arnold Schilder (Chairman)	Sue Almond (Mr. Murtagh)
	Dan Montgomery (Deputy Chair)	Brantley Blanchard (Ms. Mc Cabe)
	Arch Archambault	Wolf Böhm (Ms. Köhler)
	Jean Blascos	Marek Grabowski (Mr. Grant)
	Jianshen Chen	Jonas Hällström (Mr. Jönsson)
	Valdir Coscodai	Hiram Hasty (Mr. Kinney)
	Cédric Gélard	Susan Jones (Mr. Blascos)
	Jon Grant	Jon Rowden (Mr. Winter)
	Gert Jönsson	Isabelle Tracq-Sengeissen (Mr. Gélard)
	Merran Kelsall	Jacques Vandernoot (Mr. Pickeur)
	William Kinney	Denise Weber (Mr. Montgomery)
	Annette Köhler	Rick Wood (Mr. Archambault)
	Caithlin Mc Cabe	Ge Zhang (Mr. Chen)
	Brendan Murtagh	
	Marc Pickeur	
	Tomokazu Sekiguchi	
	Bruce Winter	
	Abdullah Yusuf	
Apologies:		Ricardo DeLellis (Mr. Coscodai)
		Sachiko Kai (Mr. Sekiguchi)
		Richard Mifsud (Ms. Kelsall)
		Pervez Muslim (Mr. Yusuf)

Non-Voting Observers

Present: Linda de Beer, Norio Igarashi
Apology: Juan Maria Arteagoitia

Public Interest Oversight Board (PIOB) Observer

Present: Rob Ward

IAASB Technical Staff

Present: Jim Sylph (IFAC Executive Director) (December 12–13), James Gunn (IAASB Technical Director), Beverley Bahlmann, Keesha Campbell, Al Hamilton, Kathy Healy, Brett James, Diane Jules, Gary Pflugrath (December 10, 13)[1]

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[1]   Temporary staff assigned to the Auditor Quality project.

1.   **Opening Remarks and Minutes**

WELCOME AND INTRODUCTIONS

Prof. Schilder welcomed the participants and official observers to the meeting. He welcomed, in particular, Mr. Ward, observing on behalf of the PIOB, Ms. Linda de Beer, IAASB Consultative Advisory Group (CAG) Chairman, and Norio Igarashi, Japanese Financial Services Agency.

Apologies were received from Mr. Arteagoitia, as well as from Technical Advisors Messrs. DeLellis, Mifsud and Muslim, and Ms. Kai.

Prof. Schilder noted that in reviewing activity in 2012 there was near perfect Board member attendance for all the board meeting days – only one member at one meeting due to visa issues, and one meeting day for another member due to travel delays. Prof. Schilder noted that, with full Board member attendance at this meeting, the record further improves.

Prof. Schilder noted that Ms. Diana Hillier, ISA 610 Task Force Chair and former IAASB Deputy Chair, will lead the IAASB's discussion on the material related to direct assistance included in proposed ISA 610 (Revised).[2] For part of the afternoon of December 10, Mr. Montgomery will join Ms. Hillier in attending the meeting of the International Ethics Standards Board of Accountants (IESBA) at which related discussions on proposed changes to the definition of 'engagement team' in the IESBA Code of Ethics will be held. However, Prof. Schilder noted that since the IESBA did not have an opportunity to discuss its final proposed changes with its CAG, the material on direct assistance in ISA 610 (Revised) and the changes proposed to the definition of 'engagement team' originally scheduled for approval by IAASB and IESBA, respectively, at their meetings this week are now planned for early 2013.

Prof. Schilder also welcomed public observers, in particular incoming Board member Mr. John Wiersema and his Technical Advisor Mr. Greg Shields.

Prof. Schilder thanked the Task Forces and staff for the hard work in preparing the meeting papers, with special thanks to staff that persevered with work responsibilities despite the events of Hurricane Sandy.

MEMBER ROTATIONS, APPOINTMENTS AND RE-APPOINTMENTS

Prof. Schilder noted that this will be the last Board meeting for Messrs. Jönsson, Kinney and Yusuf, whose terms with the Board will conclude at the end of 2012. He highlighted the numerous accomplishments and significant contributions each of these members have provided the IAASB over their terms. He thanked them for their tremendous service to the Board's work.

Prof. Schilder also noted that this would be the last meeting in a technical advisor capacity for Messrs. Hällström, DeLellis, Muslim, and Wood, and thanked them for their contributions and efforts in support of the IAASB.

Prof. Schilder acknowledged the new Board Member appointments and re-appointments from 2013 as follows:

- Mr. Montgomery is re-appointed as Deputy Chair for 2013.

- Mr. Coscodai has been reappointed to a second term.

- Mr. Hällström

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2   Proposed International Standard on Auditing (ISA) 610 (Revised), *Using the Work of Internal Auditors*

- Mr. Chuck Landes

- Mr. John Wiersema

Prof. Schilder congratulated these new members.

Prof. Schilder also welcomed Ms. Elaine German, the IAASB's new administrative assistant who will be working with Ms. Ameerah Brailsford in support of the IAASB. Prof. Schilder also noted that Ken Siong continues to support the IESBA until such time the vacant senior IESBA staff position is filled.

RECENT IAASB PUBLICATIONS

Prof. Schilder noted the publication of the exposure draft (ED) of proposed ISA 720 (Revised)[3] on November 14, 2012, which is open for comment through March 14, 2013. He also noted that the Staff Questions & Answers (Q&A) publication[4] and his speech "Directions in Auditing & Assurance: Challenges and Opportunities" at a public seminar in Melbourne, Australia in October are both now available on the IAASB's website.

RECENT PRESENTATIONS AND OUTREACH

Prof. Schilder highlighted a summary of presentations and outreach activities by IAASB leadership and Board members since September of 2012. He noted in particular the increasing level of activity by Board members in IAASB-related outreach, and reminded Board members to note to staff any planned outreach activities so that they can be tracked. He also asked Staff to include a list of presentations and outreach activities that happen between Board meetings as part of the Board's future public agenda material.

Prof. Schilder specifically noted the Contabilidad y Responsabilidad para el Crecimiento Económico Regional (CReCER) 6th Annual Conference for Accounting and Accountability for Regional Economic Growth in November 2012 in Nicaragua, which he attended with Mr. Gunn. At this conference, it was noted that Chile and El Salvador have now adopted the Clarified ISAs. He also noted that staff has recently learned of the use of the Clarified ISAs in Thailand, bringing the total number of jurisdictions using the Clarified ISAs to 85.

Prof. Schilder also noted that annually the chairs of the independent standard-setting Boards and other committees of IFAC meet around the IFAC Council meeting. At this year's Chairs' meeting, it was noted that a quarterly teleconference between the IAASB and IESBA Chairmen and senior staff would be a useful mechanism to discuss on-going or emerging matters of mutual interest.

MINUTES OF THE PREVIOUS MEETING

The minutes of the public session of the September 2012 IAASB meeting were approved as presented.

2. **Audit Quality**

Mr. Grant introduced the topic, providing a brief background to the work that had been undertaken on the project since the last IAASB meeting. He highlighted discussions with the IESBA, the International Accounting Education Standards Board (IAESB), and the IFAC Small and Medium Practices (SMP) Committee, as well as with the International Forum of Independent Audit Regulators (IFIAR).

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[3]   Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*

[4]   IAASB Staff Q&A, *Applying ISQC 1 Proportionately with the Nature and Size of a Firm*

He also noted that comments and suggested revisions had been received from some IAASB members on the version of the proposed Consultation Paper (CP)[5] that had been posted on November 20, and that an updated version was tabled, incorporating revisions made in response to the comments received prior to the meeting.

THE FRAMEWORK

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

In addition to editorial comments, the IAASB discussed and agreed the following:

- Whether the link between audit quality and the quality of financial reporting should be further highlighted by recognizing that the outputs of an audit would include those which are generally not visible to users outside the audited organization. These outputs may not be formerly reported, but may lead to improvements in financial reporting practices and internal control over financial reporting. The IAASB agreed with the Task Force's suggestion that additional clarification would be useful in describing output factors (refer to Section 2 *Output factors*).[6]

- The need for a more balanced discussion about the use of electronic, off-site review of working papers in the part of the document that deals with effective supervision and review of audit work (refer to Section 1 *Input Factors*).

- Whether there is merit in including a reference to joint audits in the part of the document that deals with the independence of the engagement team (refer to Section 1 *Input Factors*). An IAASB member was of the view that joint audits should be discussed as a way in which independence can be reinforced. The IAASB discussed the matter and determined that, on balance, it would not be appropriate to include such a reference, in particular, given the wide ranging views on whether joint audits strengthened or weakened audit quality.

AREAS TO EXPLORE

The IAASB discussed and supported the inclusion of the proposed section in the CP addressing "Areas to Explore." No IAASB members expressed a view that further areas to explore should be added, or that any of the areas to explore identified in the Framework should be removed.

ROLL-OUT PLAN

The IAASB discussed the proposed Roll-out Plan (refer to Agenda Items 2-B).

The IAASB identified a need for ongoing efforts to be directed towards the promotion of the Framework, including its use. The issuance of the CP is seen as merely the start of what will be a continuing process during the consultation period and after the document has been finalized. The IAASB recognized that careful consideration will need to be given to the resources required to undertake this effort.

Several IAASB members suggested that the IAASB may wish to consider other key stakeholders who could be contacted directly and who could be encouraged to respond to the CP. They include the Forum of Firms, IFIAR, the International Corporate Governance Network (ICGN) and other Member Organizations of the IAASB CAG, national standard setters (NSS), and academics.

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[5]   Agenda Item 2-A, *A Framework for Audit Quality* (Draft)

[6]   Paragraph 148 of Updated Agenda Item 2-A

CAG CHAIRMAN'S REMARKS

Ms. de Beer noted the interest of the CAG in the proposed Framework and that the CAG had provided constructive, albeit challenging input to the Task Force over the course of its development. She was pleased with the enhancements made to the proposed CP in response to CAG comments on the tone and balance in the document.

WAY FORWARD

After agreeing all necessary changes to the document, the IAASB unanimously approved the issuance of the proposed CP. The IAASB agreed that the exposure period for the CP should be 120 days.

Prof. Schilder congratulated the Task Force and staff and thanked them for their efforts.

3.   **Auditing Disclosures**

Mr. Archambault introduced the topic, explaining that the objective of the session is to obtain IAASB's views on the areas that the Task Force had identified for further consideration and thereby assist the Task Force in forming proposals for the forward direction of the project. He noted that the IAASB, together with the CAG, had directed the Task Force to first determine whether there were any areas within the existing ISAs that should be strengthened and, if so, determine the most appropriate way to do so.

In addition to Task Force meetings, Mr. Archambault noted that he and staff held teleconferences with:

- Staff from the International Accounting Standards Board (IASB) on their revenue recognition project, and on IASB's upcoming Disclosures Forum to be held in London in January 2013, which intends to bring together interested stakeholders such as regulators, preparers and investors to discuss issues in this area. He added that the attendees at this forum would be provided with an update on progress of the IAASB's project in this area.

- A member of Financial Accounting Standards Board (FASB) and its staff regarding their activities in this area, including their work on a Disclosures Framework. He emphasized that the objective of the projects of the accounting standard setters in this area were to make disclosures more effective, not necessarily to reduce disclosures. He added that although the IASB and FASB would be working independently, they would liaise to facilitate consistency as far as possible in the output from their initiatives in this area.

Mr. Archambault also noted that:

- Notwithstanding that there had been no specific outreach to the audit regulators to date, the Task Force was aware of the issues of the audit regulators in this area (such as IFIAR and the European Auditors Inspection Group (EAIG)) as they had been briefed during outreach meetings by IAASB leadership and staff.

- The Task Force had reviewed the Public Company Accounting Oversight Board's (PCAOB) risk standards for changes that they had made in relation to disclosures. He added that there were limited areas that the Task Force would further consider in their future deliberations on changes to the ISAs (if any).

- The Task Force was keeping up to date on other initiatives in this area, including Australia's consultation on disclosures and resulting recommendations encouraging preparers to focus on disclosures that are material and relevant.

Mr. Archambault also noted that as specific changes to the standards had not yet been identified, the volume of changes, at this stage, could not be determined. He also noted that the Task Force was still deliberating the issue of the vehicle for any further guidance, whether in the relevant ISAs as Application and Other Explanatory Material, or in a non-authoritative publication such as an International Auditing Practice Note (IAPN) or Staff Q&A publication.

TASK FORCE VIEWS ON THE ISAS

Planning and Risk Assessments

Mr. Archambault noted that the Task Force was of the preliminary view that the requirements in ISA 300[7] and ISA 315[8] were sufficient, but that additional guidance in some areas would be beneficial. The IAASB generally agreed with the Task Force's proposals regarding no changes to the requirements, and the suggestions for additional guidance. In response to IAASB comments, it was noted that:

- "Financial reporting process"' encompassed all types of disclosures, but further consideration would be given to making this clearer.

- The Task Force would further consider providing additional material to understand the various categories of disclosures that are addressed in each ISA.

- In relation to amending the existing assertion on presentation and disclosure, the Task Force would consider adding more about understandability, particularly arising from the increase in qualitative disclosures.

Materiality

Mr. Archambault noted that the Task Force had identified a few requirements in ISA 320[9] for further consideration, as in their view, and notwithstanding that they addressed quantitative disclosures, they did not address qualitative disclosures.

The IAASB also discussed the concept of "performance materiality" and whether, and how, it could be applied to disclosures. Mixed views were expressed, and Mr. Archambault noted that this was an area on which the Task Force would further reflect.

Responding to Identified Risks and Sufficient Appropriate Audit Evidence

Mr. Archambault noted that no gaps in the requirements in ISA 330[10] or ISA 500[11] had been identified by the Task Force, and therefore no further changes or enhancements to the requirements were being considered. However, as disclosures have continued to evolve, with qualitative and narrative disclosures becoming more important in financial reporting, the Task Force was of the view that guidance around evidence was needed and that they would further explore this area. In relation to this, Mr. Archambault explained that the Task Force was considering whether to further explore ISA 501[12] as an appropriate place to enhance the guidance in this area.

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[7]   ISA 300, *Planning an Audit of Financial Statements*

[8]   ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

[9]   ISA 320, *Materiality in Planning and Performing an Audit*

[10]   ISA 330, *The Auditor's Responses to Assessed Risks*

[11]   ISA 500, *Audit Evidence*

[12]   ISA 501, *Audit Evidence—Specific Considerations for Selected Items*

In response to IAASB comments, Mr. Archambault acknowledged the concern that additional guidance may lose its significance if it were to be presented in ISA 501, and that some of the value in additional guidance may be lost because of the nature of the wording used in the ISAs. He further clarified:

- That this project would not be extended beyond disclosures, however, it was noted that some of the principles and guidance developed in this area could be applied to other areas of the audit; and

- That the consideration for additional guidance was in ISA 501 and not ISA 500, which would remain a conceptual standard.

Evaluating Misstatements

Mr. Archambault noted that the Task Force had not identified any changes to the requirements, but had the view that more guidance could be further considered. The IAASB asked the Task force to consider further guidance addressing misstatements within the disclosure itself, taking into account the relevant importance of the disclosure.

Reporting

Mr. Archambault noted that the sufficiency and appropriateness of audit evidence in respect of disclosures would also need to be considered when the auditor forms an opinion and reports on the financial statements. He added that it would be very difficult for auditors to address the issue of "excessive disclosures" on their own, and that it would require the collaboration of all stakeholders to address this issue. In particular, he highlighted the accounting standard setters as having a role to play, and noted that the IASB's Disclosures Forum in January 2013 may provide further insight. He added that there were a few requirements in ISA 700[13] that could be further considered for enhancements to properly focus on disclosures when assessing the sufficiency and appropriateness of audit evidence.

GENERAL CONSIDERATIONS

Amongst other matters, the following were variously noted by IAASB members:

- Auditing presentation and disclosures should remain an integral part of the audit and the intention of the project was not to separate auditing procedures on these. Rather, in response to views expressed that auditors did not focus appropriately in this area, the Task Force should consider how to drive auditors to appropriately focus on presentation and disclosures in their audits.

- The Task Force's consideration of changes to the ISAs should be done notwithstanding the perceived deficiencies in the accounting standards in some of the identified areas.

- The findings from the ISA Implementation Monitoring project currently in progress should be taken into account before proposals for changes to the ISAs are recommended, as many of the issues, in particular relating to materiality, are pervasive to the whole audit, and not limited to disclosures.

- The Task Force may wish to consider further whether changes to ISA 260[14] are also needed.

- Other assurance standards of the IAASB, such as ISRE 2400[15] and ISRS 4410,[16] had recently been revised, and that any learnings from this project should be considered for consequential amendments to these other standards at a later time once the output from this project was known.

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[13] ISA 700, *Forming an Opinion and Reporting on Financial Statements*

[14] ISA 260, *Communication with Those Charged with Governance*

- The Task Force should further consider some of the relevant auditing definitions, primarily to update them to include the evolving types of disclosures.

WAY FORWARD

Mr. Archambault acknowledged the need for coordination with other projects as the Disclosure project continues, in order to consider whether any proposed changes to the ISAs to address identified issues arising from the efforts of the Disclosures Task Force overlap with potential changes to the standards arising from other IAASB projects, such as ISA Implementation Monitoring and Auditor Reporting Project. In this regard, he noted that that if any changes to the requirements were to be proposed, the intent would be that they add value while not being voluminous.

4.   **Using the Work of Internal Auditors (Including Direct Assistance)**

Prof. Schilder welcomed to the meeting Ms. Hillier, ISA 610 Task Force Chair, and Mr. Robert Franchini, IESBA Member and Chair of the IESBA Engagement Team Task Force.

Ms. Hillier introduced the topic, and provided background to the material presented. She also provided an overview of the activities conducted jointly by the IAASB and IESBA Task Forces in considering and responding to significant comments received on the IESBA's Exposure Draft, *Proposed Change to the Definition of "Engagement Team"* (ED–ET) relative to the provisions of the proposed ISA 610 (Revised) addressing direct assistance. As reflected in the agenda papers for the IAASB's consideration, amongst other matters, Ms. Hillier reported that the leaderships of the two Task Forces held two teleconferences with the International Organization of Securities Commissions (IOSCO) in November to obtain a further understanding of the concerns noted in its comment letter, and that IAASB and IESBA representatives also participated in the meeting of the EAIG in November at which the topics of the definition of engagement team and direct assistance were discussed.

Ms. Hillier noted that the IESBA is considering significant issues raised on the IESBA's ED–ET at its meeting this week, and that arrangements have been put in place for her to observe IESBA's discussions and update it on IAASB's discussions, and for Mr. Franchini to do the same for the IAASB.

Ms. Hillier explained that the IAASB had at its December 2011 meeting approved the requirements and application material of ISA 610 (Revised) relating to direct assistance, but withheld release pending completion of the deliberations by the IESBA on its ED–ET. As IESBA's proposed change to the definition of the engagement team was contingent on being satisfied about the adequacy of the safeguards reflected in the requirements regarding direct assistance in ISA 610 (Revised), some comments had been received in the responses to the IESBA's ED–ET that related to the ISA. In light of those comments, the Task Force is proposing a few, limited amendments to further clarify and strengthen the provisions of the ISA. Ms. Hillier then lead a discussion of the significant issues and Task Force recommendations.

As input to the IAASB, Mr. Franchini provided an update of the IESBA's discussions on the proposed changes to the definition of engagement team. He circulated a proposed revised draft of the definition which reflected the IESBA's deliberations to date, and noted that the IESBA has been updated on the progress of IAASB's discussions. Mr. Franchini noted that the IESBA would anticipate being in a position to vote in favor of the proposed definition, subject to consultation with its CAG in January 2013.

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15   International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

16   International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*

An IAASB member expressed concern with the concept of direct assistance in regards to the independence of internal audit personnel. Ms. Hillier provide a brief recapitulation of the process and deliberations of the IAASB in approving in December 2011 the provision of ISA 610 (Revised) pertaining to direct assistance. She noted that the IAASB has acknowledged that direct assistance is prohibited in some jurisdictions, and the concerns of respondents about threats to the independence of the external audit team (in fact or perceived) when internal auditors provide direct assistance under the direction, supervision and review of the external auditor. She explained, however, that the IAASB also noted that a number of jurisdictions allow direct assistance, that it is common practice in many others, and that the IAASB has taken appropriate steps to strengthen the framework for the auditor's judgments pertaining to the use of direct assistance and the safeguards necessary in light of the fact that internal auditors can exhibit objectivity, but are not independent of the entity. She further noted that the IAASB did not believe it is in the public interest to prohibit direct assistance, with the IAASB previously noting there has been no indication that the use of direct assistance has led to deficiencies in audit quality and acknowledging potential benefits such as strengthened relationship and more effective dialogue with the internal audit function, additional insights into the entity, and use of individuals that may have relevant expertise in particular areas.

The IAASB member also asked whether there is a need for further consultation on, or re-exposure of, the proposed material pertaining to direct assistance. Messrs. Schilder and Gunn noted that the IAASB considered and concluded on the question of re-exposure at its December 2011 meeting, and that the limited amendments proposed at this meeting are clearly only further clarifying, and not changing the substance, of the material on direct assistance.

After due deliberation, and except as outlined below, the IAASB agreed the recommendations of the Task Force and related proposed limited amendments to ISA 610 (Revised) as set out in the agenda material.

In addition to editorial changes, the IAASB further agreed:

- To elevate as a requirement the application material which explains that the direction, supervision and review by the external auditor of the work performed by the internal auditors needs to be sufficient in order for the external auditor to be satisfied that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work.

- To clarify and elaborate the application material describing factors that may be relevant when evaluating the existence and significance of threats to the objectivity of an external auditor, in particular the family and personal relationships and financial interests factors. In this regard, the IAASB also agreed that it may be helpful to acknowledge that material issued by relevant professional bodies for internal auditors may provide additional useful guidance.

- To clarify the application material pertaining to circumstances in which the significance of the threats to the objectivity of an internal auditor is such that there are no safeguards that could reduce them to an acceptable level.

The IAASB also agreed to set the effective date for the material on direct assistance for a period one year later than the effective date for ISA 610 (Revised) that was released in March 2012. It also supported the Task Force recommendation that ISA 610 (Revised) be re–released using a title that distinguishes it from the version released in March 2012 (e.g., "ISA 610 (Revised 2013)" and for the re–released standard to indicate those aspects that come into effect for audits of financial statements for periods ending on or after December 15, 2013 (i.e., the part addressing the use of the work of the internal audit function), and those aspects that come into effect a year later.

After agreeing changes to the text of proposed ISA 610 (Revised), seventeen of the eighteen IAASB members present indicated informally that they would anticipate being in a position to vote in favor of the material pertaining to direct assistance, subject to the IESBA's resolution of changes to Code's definition of engagement team. Mr. Jönsson noted that he would abstain for the same reasons he explained when he abstained from voting on the exposure draft of ISA 610 (Revised).

WAY FORWARD

In order the allow the IESBA time to consult with its CAG on comments received on its ED–ET, voting on the final material on direct assistance for inclusion in ISA 610 (Revised) was deferred to the February 2013 IAASB meeting.

5. **Assurance Engagements Other than Audits or Reviews of Historical Financial Information – ISAE 3000**

Mr. Kinney introduced the topic and provided background on the project's progress. He highlighted that the IAASB's discussions on both direct engagements and the terminology describing the limited assurance (LA) work effort would be critical in directing the Task Force's future work. He also noted that the limited nature of the revision of ISAE 3000[17] meant that the IAASB and the Task Force have a difficult task in responding to comments received on the ED without exceeding the scope of the project.

Except as outlined below, the IAASB agreed with the recommendations of the Task Force as set out in the agenda material.

TERMINOLOGY TO DESCRIBE THE LA WORK EFFORT

In relation to LA, Mr. Kinney noted that the IAASB had a better understanding of the work effort required for other recently approved standards. He highlighted that, for ISRE 2400 (Revised), the work effort primarily involves analytical procedures and inquiry, whereas for ISAE 3410,[18] the IAASB's debate on the LA work effort was informed by subject matter experts. However, he explained that, for ISAE 3000, it was not possible to define the procedures required in all circumstances due to the range of subject matters and criteria. Accordingly, Mr. Kinney noted that the Task Force was divided on whether the LA work effort should be described using technical terms such as "acceptable risk" (Option 1) or simpler words such as "likely" and "not likely" (Option 2). He explained that, in his view, it was important that the IAASB make the right choice as it was important to the public interest. Mr. Kinney also noted that a further question was whether the terms used in Option 2 could be defined or explained in context. He highlighted that other standard setters and regulators have grappled with this issue and they have been able to define these types of terms in their specific contexts.

Mr. Kinney explained that different LA engagements could involve different levels of assurance from just above "clearly inconsequential" to just below reasonable assurance (RA). However, he noted that, in any case, the assurance obtained must be likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.

IAASB members questioned whether the choice between Option 1 and Option 2 would affect the possible range of LA available under ISAE 3000. Mr. Kinney explained that, in his view, Option 2 limited this range

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[17] Proposed International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

[18] ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

of assurance when additional procedures were required due to the practitioner becoming aware of a potential misstatement (the "deep dive"), as it could be seen as implying that there is only one level of LA possible. However, other Board members believed that Options 1 and 2 had the same range, as the definition of a LA engagement did not differ between the two Options.

IAASB members also questioned whether Option 1 and Option 2 would result in the same work effort. Proponents of Option 1 believed that the work effort for Option 2 may be lower than for Option 1, as the terms "likely" and "not likely" could be interpreted in such a way as to reduce the work effort. However, the proponents of Option 2 believe that the work effort is the same, as the standard must be read as a whole, and other requirements, such as the "stand back" provision in paragraph 55A of proposed ISAE 3000 (Revised), establish the same work effort as for Option 1.

After further debate, the IAASB asked the Task Force to continue to develop Option 2 as a majority of members found it more understandable than Option 1 and did not believe the work effort would differ. The IAASB also noted that this was consistent with other IAASB standards and these issues had been debated prior to the approval of ISRE 2400 (Revised) and ISAE 3410. The Task Force was asked to draft explanatory material to further clarify Option 2. The IAASB concluded that Option 1 was technically correct, but would be difficult to apply in practice due to the complicated terminology used.

The IAASB also discussed whether the terms "likely" and "not likely" should be defined to aid understanding of Option 2. Some members supported definitions, as they believed that the terms may be interpreted differently in practice by different practitioners. However, most members believed that definitions would be difficult to agree, would be inconsistent with the approach taken elsewhere in IAASB literature, and may not help describe the practitioner's work effort. Accordingly, the Task Force was asked to further describe the terms via new application material.

DIRECT ENGAGEMENTS

IAASB members discussed the amendments proposed to ISAE 3000 (Revised) to more explicitly address direct engagements. Mr. Kinney highlighted that these changes were to broaden the application of the standard by amending requirements that some respondents believed were too heavily based on attestation engagements. This included some requirements which used the term "misstatements."

Location of Attestation and Direct Engagement Material

Some IAASB members expressed concern that the objectives of proposed ISAE 3000 (Revised) were not broad enough to support direct engagements and preferred putting the material on direct engagements in a separate new standard. These members also noted that the proposed changes to give greater focus to direct engagements had resulted in a complex and difficult standard, and separating the attestation material may enable the attestation element of proposed ISAE 3000 (Revised) to be issued in a more timely fashion.

However, other IAASB members noted that having separate standards to cover attestation and direct engagements may be more readable to some practitioners, but it would delay the finalization of proposed ISAE 3000 (Revised) and leave the IAASB without a single umbrella standard to cover all assurance engagements other than those regarding historical financial information. It was also noted that a single umbrella standard was needed to be consistent with the Framework,[19] that it enabled comparisons between the two types of assurance engagements, and that separating them out may give the

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[19]   *International Framework for Assurance Engagements*

appearance of one of the engagements being lesser or secondary to the other. Other IAASB members noted that their outreach within their jurisdictions indicated that many stakeholders who undertake direct engagements were supportive of the changes proposed by the Task Force.

Mr. Kinney highlighted that the IAASB's instruction to the Task Force at the June 2012 IAASB meeting was to keep both attestation and direct engagements in a single standard. He also noted that, if the two types of assurance engagements were in separate standards, then the two standards would contain a high degree of duplicative material. The IAASB concluded the discussion by agreeing that it was premature to decide if the requirements pertaining to direct and attestation engagements need to be separated, and that the Task Force should continue to develop proposed ISAE 3000 (Revised) to include both types of assurance engagements until the IAASB better understands the effect of separating them.

The IAASB supported the Task Force's efforts to distinguish the requirements for attestation and direct engagements via a tabular format in key areas. The Task Force was asked to consider whether an alternative presentation style, for example placing RA and LA in separate columns, and showing attestation and direct in separate rows, would further improve readability.

Changes to "Misstatements"

The IAASB discussed the Task Force's proposal to remove some of the references to "misstatements" to make it more applicable to direct engagements. IAASB members broadly did not support the amendments, as they found it difficult to translate the alternative terminology into a practitioner's work effort and were concerned that it made the standard difficult to comprehend.

The IAASB also considered the effect of reverting to the original usage of "misstatement." Some members did not believe that this would be appropriate for direct engagements, while others noted that the Task Force would need to draft language to explain how the term "misstatements" applied in direct engagements in the various places it is used in proposed ISAE 3000 (Revised). Mr. Kinney noted that the Task Force will continue developing proposed ISAE 3000 (Revised) without removing the term "misstatement" as it appeared, but would provide language to assist practitioners in applying the term to direct engagements.

LA REPORT

The IAASB discussed two alternatives for required statements in LA reports to indicate the limited nature of the assurance obtained. The first option was based on the language used in the ED of ISAE 3000 (ED–3000), whereas the second option was based on the language used in recently approved standards, notably ISAE 3410. The IAASB agreed to use the language from the recently approved standards, as this would be consistent with those standards, but asked the Task Force to consider whether the expression "the level of assurance obtained in a limited assurance engagement is substantially lower than [for reasonable assurance]" was correct for all LA engagements under ISAE 3000, particularly those where the assurance obtained may be close to RA.

APPLICATION OF ISAE 3000 BY COMPETENT PRACTITIONERS

The IAASB discussed the application of ISAE 3000 by competent practitioners other than professional accountants. Mr. Kinney noted that there were several jurisdictions and circumstances where the licensed auditors may not be professional accountants. Mr. Kinney also noted that respondents broadly supported the IAASB's proposal in ED-3000 to permit such competent practitioners to apply proposed ISAE 3000 (Revised), subject to the same ethical and quality control requirements that apply to professional

accountants, or other requirements that are at least as demanding. Mr. Kinney highlighted that the Task Force agreed with respondents who called for an explicit statement from non-"professional accountants" on the specific ethical and quality control standards they have used.

The IAASB supported application of proposed ISAE 3000 (Revised) by competent practitioners other than professional accountants. The IAASB also supported the Task Force's proposal to include a new requirement for such competent practitioners to specify the code of ethics and quality control requirements used in their assurance reports.

STRATEGIC REVIEW OF ISAE 3000

Mr. Kinney explained to the IAASB that the IAASB Steering Committee (SC) has asked the Task Force to consider the strategic issues facing the project and to set out a way forward in bringing the project to completion. He highlighted that the project is intended to be completed in September 2013, but that some tough decisions will have to be made to meet this deadline. He noted that it is unlikely that all the issues identified in the project so far will be resolved, or that the project can satisfy all views expressed in the comment letters on the ED. However, he added that the Task Force believes that its recommendations as set out in the agenda material are responsive to the mandate of the Task Force and the SC's request.

The IAASB broadly supported the Task Force's analysis of the strategic considerations, guiding principles and recommendations for the remainder of the project. However, IAASB members questioned whether the consequential amendments to other assurance standards could be deferred, recognizing that the IAASB may find the consequential amendments more difficult to complete at a later stage when the board is not actively addressing proposed ISAE 3000 (Revised). The IAASB asked the Task Force to further consider how consequential amendments, including those to the Framework, could be undertaken before the completion of the project.

OTHER MATTERS

Other than editorial comments, the IAASB also commented as follows:

- The conclusions shown for LA varied between positive form and negative form conclusions, and should be aligned throughout the requirements.

- Further explanatory material is needed to explain how the timing of procedures could vary between LA and RA.

- An IAASB member noted that the feedback she had received from stakeholders indicated that the definitions were still difficult to apply in practice, particularly for direct engagements. Other members did not support the definition of engagement risk, as in their view it inappropriately included scope limitations, or the definition of RA, as it did not use the phrase "high, but not absolute", which may add clarity.

- An IAASB member noted that not all public sector auditors see performance audits as assurance engagements. He added that only in a few countries, such as Australia, Canada, the United Kingdom (UK), and the United States (US) public sector auditors see standards in this area as important, but that there is a growing awareness from other jurisdictions that an appropriate standard could improve their work and provide greater credibility.

IAASB CAG CHAIRMAN'S REMARKS

Ms. de Beer noted that, in relation to the terminology used to describe the LA work effort, the CAG found Option 2 confusing but added that further explanation of what the terms mean in context would be useful in improving the clarity of the standard. She also noted that the CAG believes ISAE 3000 to be a very important and an umbrella standard for current and future ISAEs.

PIOB OBSERVER'S REMARKS

Mr. Ward noted that, due to the technical nature of the issue, it will be important for the IAASB to educate itself further on direct engagements so that it is satisfied that it is sufficiently informed about these types of engagements when concluding on finalize proposed ISAE 3000 (Revised). This will be a matter of attention by the PIOB in observing how the ISAE 3000 project progresses, and the IAASB may consider including in the Basis for Conclusions that accompanies the final standard an explanation of the process followed by the Board in this regard.

WAY FORWARD

Prof. Schilder thanked the Task Force and Mr. Kinney as Task Force Chair for their hard and long efforts to progress proposed ISAE 3000 (Revised). He asked the Task Force to prepare an educational presentation on direct engagements for a future IAASB meeting to inform the IAASB's consideration of an appropriate way forward for proposed ISAE 3000 (Revised). This should include examples of engagements under both LA and RA.

6. **Auditor Reporting**

Mr. Montgomery introduced the topic, noting the purpose of the session was to discuss the responses to the June 2012 Invitation to Comment (ITC) on auditor reporting. He acknowledged both the success of the three public roundtables, as well as the unprecedented level of responses to the ITC, double the amount received to the May 2011 CP. He thanked the Task Force, Technical Advisors and Staff for their significant efforts to analyze the responses to the ITC and provide the IAASB with a basis for its discussion. He also noted the significant outreach that had been conducted since the IAASB's last meeting, most recently with investor representatives from the Global Auditor Investor Dialogue. Using a slide presentation,[20] Mr. Montgomery gave an overview of the participants at the IAASB's third roundtable in Kuala Lumpur, Malaysia, summarizing the total roundtable participation as well. He also highlighted the number and categories of stakeholders who responded to the ITC, and reported overall feedback on the ITC.

An IAASB member noted the theme of the responses towards a more "holistic approach" to changes in financial reporting. He noted the strong view from many respondents to the ITC that it was important for the IAASB to be seen as responding to demands for change in auditor reporting on a timely basis, but suggested the IAASB should continue to liaise with others who may be in a position to improve financial reporting, in particular accounting standard setters, regulators and TCWG.

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[20] The slide presentation "IAASB Meeting Update" is available at: www.ifac.org/sites/default/files/meetings/files/20121210-IAASB-Auditor_Reporting_Slides-final.pdf. It includes high-level responses to the ITC, as well as details of material included in the meeting's agenda material.

AUDITOR COMMENTARY

Drawing attention to matters described in the agenda material, Mr. Montgomery provided a summary of overall views as to whether the concept of auditor commentary (AC) is an appropriate response to user demands. In particular, he highlighted the view that the value and focus of AC is likely more useful to respond to demands for auditors to provide greater transparency about the audit in light of the role of the audit in enhancing the credibility of financial reporting. Notwithstanding the challenges of responding to concerns expressed in relation to the overall objective of AC and how the concept could be operationalized, the IAASB agreed to continue to pursue the concept of AC, by which the auditor would provide more information in the auditor's report.

The Objective and Focus of AC

Mr. Montgomery noted the diversity of views as to whether the objective[21] of AC as included in the ITC was appropriate. The IAASB acknowledged the need to respond to concerns expressed about AC, in particular the strong view from most stakeholders that auditors should not be providing original information about the entity or its financial statements, as well as the need to preserve the discrete roles of management, TCWG and the auditor.

The IAASB was generally of the view that a focus on key audit areas and significant auditor judgment may be a useful way forward, rather than pursuing the dual objective included in the ITC. In this regard, the IAASB noted the following:

- Evolving the objective and changing the title of AC will be necessary to take into account feedback from respondents, in particular that the examples in the ITC would be more useful if they included context about the audit. It also will be important for the IAASB to clearly communicate the basis for its decisions in regard to AC. An IAASB member was of the view that it is important to signal to the IAASB's stakeholders that the IAASB has thoroughly considered the diversity of views in relation to AC, in particular concerns surrounding how it may be perceived, and intends to move forward in what it believes is an appropriate manner to respond to the demand for such information while recognizing the impediments associated with providing it.

- Preparers in particular were of the view that the auditor is not equipped to make business judgments about, or "tell the story" of, the entity, and it is the role of management to highlight matters that are important to users. Auditors are best placed to explain the key areas in the audit that was performed, based on the auditor's risk assessment. However, the IAASB acknowledged the interaction between areas of significant auditor judgment (which relate to how the audit was conducted) and significant management judgment (which relate to how the financial statements were prepared and presented by management). Some IAASB members were of the view that if the auditor was required to explain matters important to the audit, this would be highlighting key disclosures in the financial statements in many cases, due to the nature of the auditing concept of "significant risks".

- Related, the IAASB acknowledged that some of the demand for AC is due to concerns with the complexity of financial reporting frameworks. Calls for disclosures in the financial statements to be more relevant and understandable are being addressed by accounting standard setters, and there is a linkage between the IAASB's Disclosure project and its Auditor Reporting project.

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[21] The objective of AC, as included in the ITC, is "to highlight matters that are, in the auditor's judgment, likely to be most important to users' understanding of the audited financial statements or the audit."

- As suggested in the ITC, using discussions between the auditor and TCWG as the basis for auditor commentary is likely appropriate, to provide transparency to these discussions. In an IAASB member's view, while this may be seen by some as the auditor providing original information, it would be done in the context of reporting about the audit that was performed. Other IAASB members believed that, by the auditor explaining that certain matters had been discussed with TCWG, this would provide a signal to users that the matter was important and focus them on the related disclosures in the financial statements.

- An IAASB member suggested it may be more appropriate to discuss matters that would meet the criteria for AC in the Basis for Opinion paragraph, rather than in a separate section of the auditor's report, as the intent of this discussion in his view is to highlight what was most important in the audit. Another IAASB suggested that, regardless of where AC is presented, it was important that users of the auditor's report understand that the auditor's work on the matters discussed in AC is in the context of forming the opinion on the financial statements as a whole, rather than separate assurance on individual matters.

- An IAASB member also suggested it was important to consider to whom AC was being targeted in light of the broad range of intended users of the financial statements. In this member's view, the aim should be to communicate to those knowledgeable about the audit so that there is less of a need for standardized language.

- Revised examples will be useful to aid the IAASB's deliberations about a revised objective and requirements for AC, including the level of audit context that should be provided. To be responsive to comments received on the ITC, these examples need to do more than simply point to relevant disclosures in the financial statements.

- In considering a revised objective that focuses on key audit areas and significant auditor judgment, the IAASB may need to revisit how the key aspects of an ISA audit have been described in the Auditor's Responsibility section (for example, the concepts of significant risks and the auditor's approach to testing controls).

- Further consideration as to whether conforming amendments to ISA 260 may be necessary as a result of the IAASB's approach to AC, as well as on a broader basis in light of the EC proposals for long-form reporting to TCWG.

Matters of Audit Scope or Strategy

Mr. Montgomery noted there had been limited support for a discussion of matters of audit scope or strategy in the auditor's report. In response to a question as to the balance of support, Ms. Healy explained that some investors and regulators were of the view that such information could be useful, while auditors and NSS were of the view that this information is more appropriately provided to TCWG. It was also noted that the UK Financial Reporting Council (UKFRC) had conducted outreach to inform their response to the ITC, and found that investors were of the view that a discussion of materiality and audit scoping was useful to complement reporting by an entity's Board about the work of the audit committee. The IAASB agreed with the TF's recommendation that more outreach was needed to determine whether this type of information would be useful to investors, and a few IAASB members suggested there may be merit in leveraging the UKFRC's examples in the IAASB's outreach activities.

Emphasis of Matter and Other Matter Paragraphs

Mr. Montgomery noted the TF was of the view that the IAASB may need to consider retaining the concept of Emphasis of Matter (EOM) paragraphs because some respondents to the ITC were of the view that their use sends an appropriately strong signal to readers of the auditor's report that may be lost if such matters are simply included in AC among other matters that may be of less importance. The IAASB agreed, and asked the TF to further consider the following:

- If AC is to be focused on the audit, then all entities would likely continue to benefit from having a mechanism to draw attention to matters the auditor judged to be fundamental to users' understanding of the financial statements, although in many cases matters that would meet the threshold of "fundamental" in relation the financial statements are likely those areas that were most important in the audit.

- If retained, the nature of EOM paragraphs may need to be changed so that auditors could provide further context to explain why such matters were being emphasized.

- The decision whether to retain EOM paragraphs for all entities will also be affected by the IAASB's deliberations about continuing to pursue auditor reporting on going concern (GC), as the ITC suggested extant EOM paragraphs would be subsumed into the new section on GC.

- It is likely necessary to retain EOM paragraphs for non-listed entities, as these entities would not be required to include AC, although the IAASB recognized the use of EOM paragraphs for matters other than GC or litigation was rare in practice.

The IAASB also asked the TF to further consider whether to retain the concept of Other Matter (OM) paragraphs, and recognized that a revised objective for AC focused on the audit may overlap with the objective of OM paragraphs.

Requirements and Guidance to Implement AC

Mr. Montgomery noted the majority of respondents to the ITC were of the view that matters to be addressed in AC should be left to the judgment of the auditor. The IAASB asked the TF to develop criteria to guide robust auditor judgments about what matters to include in AC and the level of detail that should be provided, taking into account the support from many ITC respondents for the IAASB to explore using significant risks as the starting point for AC. Mr. Montgomery also noted that, at its November 2012 Standing Advisory Group Meeting, the PCAOB had explored using matters discussed with TCWG as the basis for enhancements to the auditor's report through required emphasis paragraphs related to the financial statements.

Entities for Whom AC Would Be Required

Mr. Montgomery explained that there were mixed views from respondents to the ITC on whether AC should be required for public interest entities (PIEs), listed entities only, all entities, or some other category of entities. The IAASB agreed that requirements for AC for listed entities should be developed on an initial basis, recognizing that a post-implementation review may be a useful means to inform the IAASB about whether wider application of requirements for AC would be appropriate, noting the following:

- Starting with requiring AC for listed entities only would allow the IAASB to obtain feedback in due course from investors in listed entities to determine if the concept is working as intended.

- It would not be appropriate for the IAASB to develop its own definition of PIEs, given that a definition exists in the IESBA *Code of Ethics for Professional Accountants.*

- NSS or securities regulators could require AC for PIEs, if they were of the view that there was a suitable national definition on which to base the requirement, and may elect to require AC for all entities.

- There may be a need to consider whether AC should be required for systemically important financial institutions that are not listed entities, for example large international banks. In this regard, it may be useful to consult with the Financial Stability Board, which is seeking to address these entities in the definition of PIEs.

- Consideration may also need to be given as to whether entities going public (i.e., that are becoming listed entities) should be required to provide AC.

In agreeing to require AC for listed entities only, the IAASB considered whether AC could be optional for non-listed entities or, alternatively, whether auditors of non-listed entities should be prohibited from including AC unless required to do so by law or regulation. The IAASB was of the view that this decision will be further informed by the objective of AC and the deliberations as to whether to retain EOM and OM paragraphs. Given the intent of improving transparency, some IAASB members were of the view that non-listed entities may find the concept relevant and may request their auditors to provide such information and auditors should not be precluded from doing so.

Additional Outreach in Advance of the Exposure Draft

Specific to outreach, it was noted that targeted discussions with different types of investors, users, preparers and TCWG in advance of the June 2013 ED would be useful, in particular to ensure the IAASB is moving in a direction that is likely to be of interest and have value to these stakeholders. However, the IAASB recognized that it would not be able to access all of its stakeholders in all regions in light of the planned timetable for the ED, and agreed such outreach would be conducted on a best endeavors basis. Further, the IAASB's usual mechanisms of discussion with the CAG, NSS and the Forum of Firms will also provide valuable input in advance of the ED. The IAASB also agreed that continued outreach and discussion with both the European Commission (EC) and PCAOB would be useful. Finally, the IAASB also agreed it was important to consider the most effective way to communicate about its progress and decisions made in the first half of 2013, as well as what type of communication could accompany the ED to explain the basis for the IAASB's proposals in light of the diversity of views in responses to the ITC.

IAASB CAG Chairman's Remarks

Ms. de Beer noted the CAG would likely find it damaging to the reputation of project and the Board if the IAASB would extend the anticipated timetable for the ED past June 2013. In particular, she was of the view that the IAASB would lose credibility with investors if it was unable to deliver on this timeline. She also noted her view that exposure in itself is a very successful and well formalized vehicle of outreach. She also highlighted that, while there seemed to be broad support for the current direction of the proposals, the IAASB would be unlikely to get all its stakeholders to agree to its proposals through the exposure process. However, the role of the IAASB is not to find a consensus view among all respondents but to do what is in the best public interest. She urged the IAASB to try to do as much outreach as possible in the timelines that had been established. She agreed the CAG would provide useful input, as it is a broad and diverse group, but acknowledged that obtaining the view of a broad range of investors will prove difficult, even with the involvement of the CAG.

In regard to the decision for which entities AC should be required, Ms. de Beer noted the CAG's views were diverse as to whether AC should be required for PIEs or listed entities only. Strong view are held by some CAG representatives that makes it difficult to argue that the concept of AC is not also relevant for non-listed entities, including SMEs, but from a practical and cost standpoint there likely needs to be an initial differentiation.

GOING CONCERN

Drawing attention to matters described in the agenda material, Mr. Montgomery provided a summary of overall views as to whether auditor reporting on GC is appropriate. He noted that that a number of respondents expressed support for including information about GC in a revised auditor report, in the form of the statements included in the ITC. Mr. Montgomery also noted that many of the respondents suggested that a more holistic approach to addressing GC would be appropriate, in particular in relation to calls for change to the accounting standards. In this regard, Mr. Montgomery provided an update on recent activities and developments at the IASB and FASB regarding GC.

Statements about Management's Use of the GC Assumption and the Identification of Material Uncertainties and a Holistic Approach to GC

Mr. Montgomery also highlighted views of respondents in relation to the auditor's conclusion as to the appropriateness of the use of the GC assumption and the statement whether material uncertainties had been identified. In light of the overall support noted in the responses to the ITC, the IAASB agreed to continue to explore auditor reporting on GC. However, the IAASB asked the TF to further consider what the most appropriate way forward would be to take into account concerns raised by respondents, for example whether reporting on GC should be required for all entities, or whether an approach based on the importance of GC considerations to the individual entity would be preferable. In this regard, the IAASB noted the following:

- Requiring auditors to include an explicit statement about the appropriateness of management's use of the GC assumption may have little value for many entities, in particular when the entity is in a sound financial position.

- Regarding the suggestion to include a statement as to whether material uncertainties have been identified, some IAASB members noted that requiring such a statement, without clarification in the accounting standards or disclosure by management, could result in misunderstanding or confusion by users or a widening of the expectation gap.

- Exception-based reporting may be a more meaningful way to ensure such matters receive the appropriate amount of attention from users. For example, rather than requiring the auditor statement on whether material uncertainties had been identified in all cases, it may be more appropriate to retain the concept of EOM paragraphs to highlight material uncertainties disclosed in the financial statements.

- In proposing auditor reporting on GC, the IAASB will need to carefully assess whether and how changes in accounting standards, including those that are being discussed by the IASB and the FASB, would affect auditor reporting and the underlying work effort in ISA 570.[22] This may have implications for the timing of any proposals related to auditor reporting on GC.

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[22]   ISA 570, *Going Concern*

- Concern was expressed about the impact of the IAASB not moving forward on its proposals in relation to GC, even if the prospective results of the projects by accounting standard setters and their timing is unclear. This concern acknowledged the importance that the EC attaches to having explicit statements by the auditor in relation to GC in the auditor's report. It was suggested that, given the support noted by respondents to the ITC, the IAASB could include a revised proposal in the exposure draft based on current ISA 570, and could amend its proposals after exposure to reflect the results of the projects of the accounting standard setters once these results become available.

Requiring the Auditor to Include Additional Information about the Auditor's Judgments Regarding the Identification of Material Uncertainties

Mr. Montgomery noted that the majority of respondents to the ITC did not support a requirement for auditors to provide additional information about auditor judgments regarding the identification of material uncertainties. The IAASB agreed that mandatory reporting would not be appropriate but noted that, given the linkage to objective and focus of AC, the auditor's work on GC may be among those matters considered for inclusion in AC if judged necessary by the auditor.

Need for Further Outreach for Banking and Financial Institutions

Mr. Montgomery noted that a few respondents suggested that there is a need for further outreach to determine the implications of reporting on GC for banking and financial institutions. The IAASB agreed and asked the TF to consider how this could best be done.

IAASB CAG Chairman's Remarks

Ms. de Beer noted the strong view of EC representatives who presented at a previous CAG meeting that there was a need for enhancements to the auditors' reporting responsibilities for GC. Considering this and based on the responses to the ITC, the IAASB will need to address the matter of GC. The CAG supports the IAASB's conclusion that moving forward while monitoring relevant developments in accounting standards.

GLOBAL CONSISTENCY IN AUDITOR REPORTING AND THE BUILDING BLOCKS APPROACH

Mr. Montgomery provided a summary of the feedback received from respondents to the ITC on the questions relating to the form and structure of a revised ISA auditor's report. He focused his presentation on respondents' views about global consistency in auditor reporting. Mr. Montgomery noted that the majority of respondents indicated a strong steer towards exploring global consistency in auditor's reports. He also noted that, though respondents generally recommended that the IAASB continue to strive for consistency in auditor reports, they also suggested that the IAASB continue to acknowledge in a revised ISA 700 that local law or regulation may prescribe the form and content of auditor reports. Ms. Healy provided some further information by way of examples to explain how the extant ISA 700 allows for flexibility, while attempting to drive consistency.

The IAASB considered whether it would be worthwhile to take a more prescriptive approach to revising the required minimum elements[23] to be included in an auditor's report when law or regulation prescribes the form and content of the auditor's report. The IAASB also considered feedback to the suggestion in the ITC that the IAASB would mandate the ordering of sections within the auditor's reports, or whether it

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[23] See paragraph 43 of ISA 700.

would be more appropriate to have prescriptive requirements about the use of titles, headings and subtitles in the auditor's report, so that users can easily recognize certain key elements in a revised ISA auditor's report

Consistent with the preliminary views expressed at the September 2012 IAASB meeting, the IAASB confirmed that the design of extant ISA 700, which allows flexibility when law or regulation prescribes the form and content of the auditor's report, should be retained. IAASB members acknowledged that there are national and jurisdictional challenges, including circumstances in emerging economies, for which flexibility in auditor reporting is useful.

Additionally, the IAASB agreed the following:

- The ordering of elements within the auditor's report would not be mandated, but appropriate guidance would be provided and a revised ISA 700 would include an illustrative auditor report showing the IAASB's preferred presentation. An IAASB member was of the view that the ordering of the minimum elements should be mandated, unless otherwise prescribed by local law or regulation.

- The use of mandatory titles, subtitles and headings should be explored to provide the appropriate balance between consistency and relevance in auditor reports.

- IAASB should encourage NSS to refer to ISAs in their auditor reports when national auditing standards are the same, or based on the ISAs.

The IAASB also noted the importance of alignment, to the extent practicable, with others currently addressing auditor reporting, including the EC, UKFRC and PCAOB.

Mr. Montgomery thanked the IAASB for its comments, echoing the views of respondents who indicated that determining the right balance between consistency and flexibility would prove challenging. He further noted that the TF would continue to refine the concepts described in Appendix 4 in the ITC as a basis for the IAASB's ongoing discussion about the building blocks approach.

IAASB CAG Chairman's Remarks

Ms. de Beer noted that previous CAG meeting discussions about matters relating to consistency, relevance and flexibility indicate that a balance needs to be reached. She noted that there was a strong view of the CAG that consistency, albeit not the ultimate objective, is very important in order to enhance readers' understanding of the auditor's report and to avoid dilution of the ISA brand. However, it is recognized that what is meant by the term consistency as it relates to auditor reporting will continue to evolve.

PIOB REMARKS

Mr. Ward congratulated the IAASB on the high caliber conversation on the topic, and outlined his views on how certain key stakeholders contribute to a quality audit, and how the public interest is served. He noted that investors are looking as to whether the audit complies with the relevant standards, whether it has a sound basis in light of the underlying work effort, and whether they get additional insight and value from auditors. In his view, preparers were less concerned about insight and value and focused instead on compliance. Regulators tend to want similar things as investors, and if they find value in the auditor's insight, may require this to be part of the audit and therefore a compliance activity. He encouraged the IAASB to consider these various facets in trying to determine an appropriate way forward.

In response to questions from the IAASB, Mr. Ward noted that while some insights may be interesting to investors and others, the insights may not have value to the investor's decision-making. Prof. Schilder commented that Mr. Ward's discussion highlighted the linkages between auditor reporting and audit quality, and the increasing level of interaction between all those in the financial reporting supply chain. He noted the role that regulators can play in enhancing the public's perception about the value of the audit, but noted that audit regulators are just beginning to work as a group and are presently more focused on compliance and inspections.

CLOSING

Prof. Schilder thanked the IAASB for its contributions, noting the discussion was stimulated by the excellent work of the TF and Staff in assimilating the responses to the ITC. He thanked the TF and Staff for these efforts and noted significant progress had been made, which will enable the TF to further work towards the planned June 2013 ED.

7.   **Staff Publication – Communication about Audit, Review and Compilation Services**

Mr. Gunn provided the IAASB with an update of Staff's progress in considering the development of a communication that compares and contrasts the value and benefits of the audit, review and compilation services addressed by the IAASB's standards, in accordance with the *IAASB Strategy and Work Program 2012–2014*.

Mr. Gunn drew attention to the considerations by Staff noted in the Board's agenda material, including the discussion on the objective, target audience and scope of the publication. He noted that Staff has solicited the preliminary views of the SC in these regards and that it was broadly in support of the staff recommendations. In particular, it supported the inclusion of agreed-upon procedures (AUP) engagements in the scope of any such publication. Mr. Gunn also noted that Staff had received feedback from the SMP Committee indicating that the AUP engagement is an area where there is a lack of awareness by users, and that it also supported including AUP engagements within the publication.

Mr. Gunn also drew attention to areas requiring further consideration in particular when developing the publication, including the following:

- The extent to which it will be necessary to explain the meaning and value of an audit, beyond a high level, in comparing and contrasting its value and benefits to other services.

- How important concepts (e.g., reasonable and limited assurance) may be described in a relatively simple manner, while remaining faithful to the technical descriptions. He noted that the SC has suggested that Staff should consider describing the different types of procedures that may be performed with respect to the different services as a way to illustrate the differences between limited and reasonable assurance.

- How any statements about value and benefits should be described, including whether, and to what extent, it will be necessary to validate those statements.

- When comparing and contrasting the values between different services, how to avoid inadvertently suggesting that one service is of more value than another, for example, for a particular circumstance or user group, or inadvertently promoting one service over another.

The IAASB expressed general support for further progressing this initiative and the direction that Staff is considering in developing the publication. Staff was encouraged to consider seek further input from the SMP Committee, as well as others, in developing the publication.

Prof. Schilder also noted that Staff had received references to other national publications that might be leveraged, and welcomed other suggestions from the IAASB.

Mr. Gunn thanked the IAASB for their feedback, and noted that the timing of the proposed publication will be subject to the SC's further consideration of the IAASB's priorities in the upcoming months and availability of resources.

8.   **ISSAI Implementation Initiative**

In his capacity as the International Organization of Supreme Audit Institutions' (INTOSAI) Financial Audit Subcommittee (FAS) Chair, Mr. Jönsson provided an overview[24] of the International Standards of Supreme Audit Institutions (ISSAIs) Implementation Initiative (or "3i"). He explained that the INTOSAI had been established in 1957. INTOSAI have stepped up its activities in the last ten years, now focusing more on standard setting. He added that cooperation with the IAASB in this regard had been crucial.

Mr. Jönsson explained that the objective of the "3i" initiative is to facilitate the implementation of the ISSAIs with a comprehensive capacity building program covering financial, compliance and performance audits, and noted that the initiative was the responsibility of the INTOSAI Development Initiative, a specific INTOSAI body for professional training. He noted that the use of ISSAIs was not mandatory but was encouraged, and therefore having support for their effective implementation was important. He added that the program, which is still in its infancy, provided support for implementation and training, initially for Supreme Audit Institutions (SAIs) in English speaking developing countries. He also noted that there are plans to develop the program into Spanish, French and Arabic.

He provided further insight into the activities associated with the initiative, and added that the PSC and subcommittees involved in the initiative had partnered with various regional organizations, participating SAIs and the World Bank to work together on the program.

Prof. Schilder thanked Mr. Jönsson for his informative presentation and his efforts in this important initiative.

9.   **PIOB Observer's Remarks**

Mr. Ward thanked the IAASB for the warm welcome he had received and the opportunity to provide comments. Mr. Ward noted that he has attended three of the last five IAASB meetings and that there was a process in place for the PIOB representatives to stay informed of the IAASB activities and meetings. Mr Ward noted that for reasons of continuity and efficiency, Ms. Diplock had been appointed as PIOB team leader for the IAASB for the next 12 months, and she would be supported in this role by Messrs. Hafeman and Ward.

Mr. Ward reported briefly that PIOB was analyzing the results of its recent consultation, as well as that of the Monitoring Group, indicating that there was broad support for the current PIOB oversight structure and also for extending the PIOB's oversight to the International Public Sector Accounting Standards Board.

Mr. Ward congratulated the IAASB on significant and very impressive improvements made to the Audit Quality project in 2012, and the progress on the Auditor Reporting project. He noted that these projects are at the heart the profession and they are the types of projects that make the IAASB very relevant. Mr.

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[24]   The slide presentation "IAASB Meeting Update" is available at: www.ifac.org/sites/default/files/meetings/files/ISSAI.

Ward noted that audit quality can be viewed differently by different stakeholders, and in his view, audit quality is a "process" and not a "project" and so is the work of the IAASB.

Mr. Ward noted that the Board's discussion during the week was robust and he was satisfied that public interest has been served.

Prof. Schilder thanked Mr. Ward for his remarks.

10. **Next Meeting**

The next meeting of the IAASB is scheduled for February 12–14, 2013 in Brussels, Belgium.

11. **Closing Remarks**

Prof. Schilder briefed the IAASB on the discussions of the SC at its meeting during the week. Amongst other matters, the SC noted the good progress that had been made on key projects during the IAASB meeting. Other topics discussed included:

- The implications of the demands of current projects along with anticipated staffing constraints on IAASB's current and forward work plan, with staff to prepare an analysis of forward timetables for consideration at the next SC meeting.

- The importance of timely minutes.

- Initial considerations relating to the development of the next IAASB strategy and work program, commencing in 2015. Discussions included whether the strategy should take a longer-term perspective of five-years in contrast to the typical three-year period. Such an approach, which takes into account comments from respondents on the last SWP, may enable a better understanding by stakeholders of the IAASB's medium-to-longer term priorities while better forecasting the IAASB's shorter term deliverables.

- Whether more could be done to further promote and raise stakeholder awareness of the Board's activities, and how such efforts could be further coordinated.

- The Objectives and Responsibilities of the SC as set out in the Terms of Reference (TOR), including whether the SC was acting in accordance with those objectives and responsibilities. The SC was of the view that it is acting in accordance with the TOR, however, it agreed that future SC agendas should include a question to determine if there is anything missing or other matters that should be discussed. The SC also noted that it was satisfied with its current TOR, and did not see a need for change.

- Recent IESBA developments, including two project proposals on *Long Association of Senior Personnel (Including Partner Rotation) with an Audit Client* and *Non-Assurance Services*. The SC acknowledged the need for regular dialogue and liaison between the staffs of both Boards, and also with the International Accounting Education Standards Board.

In relation to SC composition, Prof. Schilder noted that there are no changes for 2013.

Prof. Schilder thanked the IAASB members, technical advisors, observers and staff for their contributions to the meeting. He then closed the meeting.