

IAESB CAG Meeting – New York, United States, February 9, 2010

DATE: JANUARY 28, 2010
TO: IAESB CAG
FROM: ARNOLD SCHILDER
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BOARD (IAASB)
SUBJECT: IAASB REPORT

Section 1 Report Overview

- 1.1 This report summarizes the activities of the IAASB since October 2009. It highlights the main developments from our most recent meeting in December 2009, and provides an update on ongoing IAASB initiatives.

Section 2 Meeting Update

- 2.1 At its December 2009 meeting the IAASB discussed issues related to the following technical projects:
- Proposed new International Standard on Assurance Engagements (ISAE) 3420, *Assurance Reports on the Proper Compilation of Pro Forma Financial Information Included in Prospectuses*.
 - Revision of International Standard on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements*, as part of IAASB's broader project to develop standards for services that provide suitable alternatives to an audit of financial statements.
 - Revision of ISAE 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.
 - Development of guidance on auditing complex financial instruments, including the status and authority that should attach to any new International Auditing Practices Statement arising from this project.
 - Planned consultations to inform its project on eXtensible Business Reporting Language (XBRL), and a Staff Questions & Answers (Q&A) publication highlight the growing use of XBRL internationally and addressing auditor responsibilities under International Standards on Auditing (ISAs) with regard to XBRL tagged-data. (The Staff Q&A was subsequently issued in January 2010.)
- 2.2 In addition, the IAASB approved commencement of a new project to revise ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*.

Section 3 Significant Project Status/Updates

Auditor Communications

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- 3.1 At its December 2009 meeting, the IAASB considered key messages concerning user perceptions of the standard auditor's report identified from analysis of relevant information on that subject. This information included findings from four research studies jointly sponsored with the American Institute of Certified Public Accountants (AICPA) that examined the nature of user perceptions regarding the financial statement audit and the auditor's report among various classes of financial statement and audit report users in international settings. It also included developments in jurisdictions such as the United Kingdom (UK), France and Japan. The IAASB will continue its deliberations at future meetings with a view to determining what actions, if any, should be taken to further enhance auditor communications.
- 3.2 The IAASB responded to the International Organization of Securities Commissions' (IOSCO) Consultation Report on Auditor Communications indicating that we are not in a position to comment on the issues raised at this early stage of IAASB's own work to examine and deliberate the issues. We noted, however, that we believe the work of the IOSCO Technical Committee will provide a further important source of information, and that we would be pleased to discuss with IOSCO how best to incorporate the current efforts of the Technical Committee in the deliberations of the IAASB.

Audit Quality

- 3.3 At its December 2009 meeting, the IAASB held exploratory discussions on the topic of audit quality, with a focus on: (1) perspectives on, and approaches to, audit quality that resonate with the IAASB's work; (2) the extent to which audit quality can be assessed or measured from users' perspectives; and (3) the scope of any potential IAASB project on audit quality. The IAASB recognized that a wide range of research, thought leadership and policy analysis work has already been undertaken on the subject by various parties, and noted in particular that the UK Financial Reporting Council's (FRC) Audit Quality Framework provides a helpful starting point.
- 3.4 The IAASB generally agreed on the importance of putting the ISAs in proper context in the broader debate about audit quality, as the ISAs are not the only determinant to audit quality. It was also recognized that the debate about audit quality should not be taken in isolation but viewed as part of the wider context of debates about how to improve corporate governance and financial reporting globally. In addition, IAASB acknowledged the importance of user perceptions of audit quality.
- 3.5 The IAASB agreed to establish a working group to consider the input from this preliminary discussion and to explore a possible way forward. As further input to the Board's considerations, I have invited Ms. Cynthia Fornelli, Executive Director of the Center for Audit Quality (CAQ), to address the IAASB at its March 2010 meeting. The CAQ is an autonomous nonprofit public policy organization affiliated with the AICPA dedicated to enhancing investor confidence and public trust in the global capital markets.

IASB Liaison—Annual Review of Financial Reporting Trends

- 3.6 The IAASB continues to progress its liaison activities with the International Accounting Standards Board (IASB) to help ensure that relevant auditing considerations are part of

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the input to the development of International Financial Reporting Standards and other relevant standards by the IASB. As part of this initiative, at its December 2009 meeting the IAASB received an address from IASB Member Prabhakar Kalavacherla on activities of the IASB and liaison activities between IASB and IAASB.

- 3.7 Also as part of this initiative, the IAASB held its inaugural session of a general review of contemporary financial reporting trends. The objective of the review was to consider developments in accounting which may have broad pervasive implications for auditors and to the considerations of the IAASB and its liaison efforts with the IASB. Such review sessions are important for purposes of enabling the IAASB to identify early implications of key accounting proposals for its current and future work program. The IAASB envisage that at least one such review session will be held annually.
- 3.8 Arising from the December discussion, the IAASB noted the increasing trend to more qualitative disclosures, the increasingly greater importance being placed on disclosures both within and outside of the financial statements, and the importance of their completeness and understandability. More generally, the IAASB also noted concerns arising about the degree of audit effort being applied to financial statement disclosures, including how audit concepts such as materiality are being applied. The IAASB agreed to establish a working group to consider the matter further and to explore possible ways forward.

Progress against IAASB’s Strategy and Work Program

- 3.9 At its December 2009 meeting, the IAASB reviewed its progress against planned 2009 activities as set out in its Strategy and Work Program. In brief, the IAASB has tracked closely against plan, with progress being made on nearly all major planned initiatives. This had been achieved alongside success on several additional IAASB and staff initiatives deemed necessary, such as development of ISA modules and the release of four staff publication during the course of the year. The only projects scheduled to commence in 2009 which the IAASB has not yet started are: (i) revision of ISAE 3400, *The Examination of Prospective Financial Information*; and (ii) consideration of a new assurance standard on sustainability. The IAASB agreed to defer these projects until it further progresses deliberations on proposed ISAE 3420¹ and proposed ISAE 3410, *Assurance on a Greenhouse Gas Statement*, respectively.
- 3.10 At its March 2010 meeting, the IAASB will begin the process to develop its strategy and work program for the period 2012-2014. I anticipate I will engage the IFAC Board in a more robust discussion of its views as to potential future projects later in 2010.

Section 4 Critical Environmental Issues

European Commission (EC/the Commission) Adoption

- 4.1 Supporting the EC’s adoption of ISAs under its 8th Company Law Directive remains an important strategic objective for the IAASB, and we have been engaging key European

¹ ISAE 3402 was issued in December 2009 and is effective for service auditors’ assurance reports covering periods ending on or after June 15, 2011.

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Union representatives when possible to progress this important initiative. In particular, in conjunction with IFAC's Translation function, assistance is being provided to translating bodies on their translating and adoption efforts in every way possible.

- 4.2 In November 2009, portfolios responsibilities for the next Commission were announced by the European Commission President, José Manuel Barroso. Michel Barnier has been appointed the new Commissioner with responsibilities for the Internal Market and Services portfolio.
- 4.3 We look forward to the results of the EC's *Consultation on the Adoption of International Standards on Auditing*, and further updates from the EC regarding its plans for adoption of the ISAs. In the interim, I participated in the Institut der Wirtschaftsprüfer Symposium held at the European Parliament in November 2009 and delivered an address on the significance of ISAs for medium-sized practices. On February 8, 2010, I am also scheduled to present at an EU conference at which I will speak on the adoption and implementation of ISAs.

International Relations and Communications

Public Interest Oversight Board (PIOB)

- 4.4 I participated in the PIOB meeting held on December 3-4, 2009. At this meeting, the PIOB considered and approved the due process relating to new ISAE 3402, *Assurance Reports on Controls at a Service Organization*.

International Federation of Independent Audit Regulators (IFIAR)

- 4.5 The IAASB's relationship with IFIAR continues to strengthen. Notably, IFIAR has extended a standing invitation to the IAASB to attend its fall meetings. I will be the IAASB's representative at these meetings.
- 4.6 Also, there continues to be active liaison between the IAASB and IFIAR: the IAASB's Clarity ISA Implementation Monitoring Task Force has been liaising with the Chairman of IFIAR's Standards Coordination Working Group on matters of mutual interest.

Public Company Accounting Oversight Board (PCAOB)

- 4.7 In January 2010, IAASB Deputy Chair, IAASB Technical Director, IFAC Executive Director Professional Standards, and I had an information meeting with PCAOB Board members Dan Gozler (acting chair), Steve Harris and Charlie Niemeier, PCAOB Chief Auditor and Director of Professional Standards Marty Baumann, and PCAOB staff. I reaffirmed the IAASB's willingness to work closely with PCAOB to help minimize creation of any major new differences between each Board's standards.
- 4.8 The meeting produced a number of constructive outcomes: agreement to share information concerning IAASB's work on the auditor's report as possible input to discussion on the topic at a future PCAOB Standards Advisory Group meeting; interest in learning from one another regarding outreach to the investor community as part of the standards-setting process; possible participation by senior members of PCAOB staff on IAASB's work regarding audit quality and auditing disclosures (in addition to PCAOB's

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current participation on IAASB’s project addressing guidance on auditing complex financial instruments); and agreement to develop common speaking points about the relationship between IAASB and PCAOB for purposes of stakeholder presentations.

- 4.9 A follow up meeting between IAASB and PCAOB representatives has been agreed for June 2010 to provide an opportunity to gauge progress on these collaborative efforts and to exchanges views with incoming PCAOB members.

IAASB Consultative Advisory Group

- 4.10 Following the IAASB CAG meeting in September 2009, Linda de Beer has been elected the incoming IAASB CAG chair and her appointment has been confirmed by the PIOB. Her term commences in September 2010. Linda is currently serving as one of two Representatives on the CAG from the World Federation of Exchanges. She previously served as a Representative for Eastern Central and Southern African Federation of Accountants.

- 4.11 The next IAASB CAG meeting is scheduled for March 1-2, 2010 in Barcelona, Spain,

National Auditing Standard Setters

- 4.12 The 10th IAASB-National Auditing Standard Setters meeting is scheduled for April 29-30, 2010 in Vienna, Austria. While the agenda has not yet been formalized, discussion is anticipated on matters on the IAASB’s agenda in 2010, the IAASB’s strategy for 2012-2014, considerations relating to small- and medium-sized entities and small and medium practices, as well as matters of international relevance and convergence.

International Association for Accounting Education and Research (IAAER)

- 4.13 The IAASB continues to progress its collaborative initiative with the IAAER and the Association of Chartered Certified Accountants (ACCA). In December 2009, the Programme Advisory Committee, on which the IAASB is well-represented, agreed to fund four research projects of relevance to the IAASB’s work program. These projects relate to the areas of audit methodology, professional judgment, XBRL and ISA convergence.

Other Liaison and Communications Activities

- 4.14 Since the date of the previous report, IAASB representatives have attended or participated in the following events:
- American Accounting Association’s 2010 Auditing Section Mid-Year Conference in San Diego, USA in January 2010
 - Amsterdam Business School Accountancy Department of the University of Amsterdam in Amsterdam, The Netherlands in November 2009
 - Consultative Committee of Accountancy Bodies Training Providers Forum 2009 on Clarified ISAs for Providers of Audit Software, Training & Methodologies in London, United Kingdom in November 2009

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- Council of the Institute of Certified Public Accountants of Kenya in Nairobi, Kenya in November 2009
- Institut der Wirtschaftsprüfer Symposium, European Parliament in Brussels, Belgium in November 2009
- Fédération des Experts Comptables Européens (FEE) Council Meeting in Brussels, Belgium in December 2009
- Institute of Chartered Accountants in India USA Study Tour, New York, USA in December 2009
- Vrije Universiteit, Amsterdam, the Netherlands in November 2009

Section 5 Other Matters

IAASB Handbook

- 5.1 It is anticipated that the 2010 edition of the Handbook of IAASB pronouncements will be released by the end of March 2010. An electronic version of the Handbook will be made available for downloading on IFAC's website free of charge. Print copies will also be available for purchase on a cost recovery basis.

Status of Staff Publications

- 5.2 Queries have been received from some key stakeholders for example, the European Group of Auditors' Oversight Bodies and some European regulators, regarding the status of staff publications such as staff audit practice alerts and Q&As. In response to these inquiries, Staff has expanded the IAASB website to include explanatory information on the status of Staff publications as well as the developmental process followed in their production.²

² This information, and all Staff publications issued to date, can be accessed at <http://web.ifac.org/publications/international-auditing-and-assurance-standards-board/practice-alerts-and-q-as>.

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IAASB Member and Staff Matters

- 5.3 The December 2009 IAASB meeting was the last for IAASB member and Deputy Chair John Fogarty. John has made a significant contribution to the work of the IAASB over his six years of service, and I extend my sincere thanks to him for all his efforts. We are fortunate to have John's continued participation on the IAASB through his services as Chair of two ongoing IAASB projects. I welcome Diana Hillier as the new Deputy Chair. We have already begun a strong collaborative effort on many outreach activities. I also extend my sincere thanks to IAASB member Steen Bernt Jensen who completed his term on the Board at the December 2009 meeting.
- 5.4 IAASB Member Ashif Kassam was awarded the ACCA 2009 Special Achievement Award for outstanding contributing to the accounting profession and to society during the year. One of the points considered in making the award was Ashif's involvement in the IAASB.
- 5.5 In December 2009, IAASB Technical Manager Kathleen Healy was promoted to Senior Technical Manager. Also in December 2009, IAASB Technical Manager Jessie Wong was conferred her doctorate by Monash University in Melbourne, Australia.