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Committee: IAASB Consultative Advisory Groups

Meeting Location: New York

Meeting Date: March 8-9, 2011

Proposed IAASB Strategy and Work Program for 2012-2014—Report Back and Update

Objectives of Agenda Item

1. To provide a report back on proposals of the Representatives on this project as discussed at the September 2010 CAG Meeting.

2. To receive an update on the issuance of the consultation paper (CP), *Proposed IAASB Strategy and Work Program for 2012-2014*.

Papers to Be Referred to during Discussion

3. The discussion on this topic will follow the structure of this CAG Paper. Within this paper, reference is made to **Agenda Item E.1**, the final CP as issued, to facilitate the discussion.

Project Status and Timeline

4. The IAASB approved the CP (**Agenda Item E.1**) at its December 2010 meeting. The CP was released for public comment on January 3, 2011 and comments are requested by April 4, 2011. **In addition to sharing views during this session via their Representatives, CAG Member Organizations (MOs) are strongly encouraged to submit formal responses in order for the IAASB to hear about where its future time should be spent on new projects to best meet its public interest mandate, in light of the resource limitations discussed within this paper.** A full discussion of the summary of significant comments received on the CP is planned for the September 2011 IAASB CAG and IAASB meetings.

5. The Appendix to this paper provides a project history, including links to the relevant CAG documentation.

September 14-15, 2010 CAG Discussion

6. Below are extracts from the draft minutes of the September 2010 CAG meeting,[1] and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

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[1]   The minutes will be approved at the March 2011 IAASB CAG meeting.

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IAASB CAG Agenda (March 2011)
Agenda Item E
Proposed IAASB Strategy and Work Program for 2012-2014—Report Back and Update

Representatives' Comments	Task Force/IAASB Response
OVERALL ISSUES REGARDING THE PROPOSED STRATEGY CONSULTATION PAPER	
Mr. Roussey asked if it was possible to include in the strategy consultation paper a summary of the performance of the IAASB in delivery on the previous strategy. In his view, doing so would enhance the credibility of the IAASB by illustrating the significant work effort of the last three years, and may mitigate some of the criticism that may arise from the MG report. Prof. Karim suggested that reports that the IAASB provides to the PIOB could be used for this purpose.	Point taken into account. While the IAASB did not believe it was necessary to include a summary of delivery on the previous strategy (in part because this information is contained in the IAASB's annual report), it did agree that including a Chairman's Statement to highlight the IAASB's work under the *Strategy and Work Program, 2009–2011*, along with acknowledgement of the time required for deliberations to progress the current work program. In addition, the Consultation Paper also includes a detailed discussion of the IAASB's current projects that are expected to extend into 2012 and beyond. *See pages 6–7, Column A on pages 14–17, and pages 22–30 of Agenda Item E.1.*
Mr. Koktvedgaard noted that the IAASB needed to co-ordinate well with the other IFAC standard-setting boards.	Point accepted. The CP acknowledges the need for the IAASB to work with other IFAC Boards and Committees. *See page 6, as well as paragraphs 34, 44, 46, 61 and 66, of Agenda Item E.1, which describe interactions with the IFAC Small and Medium Practices Committee, the Professional Accounting Organization Development Committee, the Compliance Advisory Panel, Communications and Translations.*
Mr. Bradbury suggested that the wording describing the shared standard-setting relationship and the interaction between the PIOB and the CAG could be better described. He preferred previous language that referred to the IAASB as a standard-setting body designated by, and operating under the auspices of, IFAC. This language also noted the IAASB is subject to the oversight of the PIOB.	Point noted. The current wording is understood to be an appropriate reflection of the arrangements that have been established. Nevertheless, pursuant to the Monitoring Group Recommendation #13, the PIOB, IFAC and the CAG Chairs and CAG members will undertake further examination in 2011 to provide for a shared understanding of the technical

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Representatives' Comments	Task Force/IAASB Response
Mr. Bradbury also highlighted that there was repetition of material in the first four pages.	consultative and advisory role of the CAGs. Point accepted. *See the background information on page 3 as well as Appendix 3 of Agenda Item E.1.*
Further, he noted that the diagram on page 9 which describes the IAASB's relationship with its stakeholders could be presented in a more sophisticated format. Prof. Schilder requested that Mr. Bradbury provide his suggestions regarding the possible improvements to the IAASB staff directly.	Point accepted. *See the diagram on page 11 of Agenda Item E.1.*
Mr. Robberecht asked for clarification on paragraph 9, 4th bullet of the draft consultation paper on the proposed IAASB Strategy and Work Program for 2012-2014, which states as one of the other international pronouncements developed by the IAASB being "ISQCs are to be applied for all services falling under the ISAs, ISAEs and ISRSs" as in the past the IAASB referred to ISQC 1 or equal high-quality standards.	Point noted. The paragraph referred to in the discussion has now been subsumed into the table in Appendix 1 of Agenda Item E.1. The *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services* sets forth the authority of ISQCs, namely that "ISQCs are written to apply to firms in respect of all their services falling under the IAASB's Engagement Standards." Mr. Robberecht is correct in that, while the general expectation is that ISQC 1[2] will be applied in ISA audits, ISA 220[3] is premised on the basis that the firm is subject to ISQC 1 or to national requirements that are at least as demanding.
Mr. Robberecht explained that the EC has not yet taken a decision on the possible adoption of the ISAs but also has not rejected them, and that, in addition to being a member of the IAASB CAG, it is actively assisting in translations while also participating in the Monitoring Group, financing the PIOB, and being an observer to the IAASB meetings. He noted that the forthcoming EC	Point noted. The IAASB will continue to follow with interest the EC's discussions on its Green Paper. *See paragraphs 40–42 of Agenda Item E.1, which discuss adoption of the clarified ISAs.*

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[2] ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

[3] ISA 220 , *Quality Control for an Audit of Financial Statements*, paragraphs 2 and A1

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Representatives' Comments	Task Force/IAASB Response
Green Paper will discuss adoption as one part of AQ. Prof. Schilder explained that, while the IAASB was disappointed about the delay, the IAASB has been focusing its outreach efforts on those European countries that have not adopted ISAs yet. Prof. Schilder also noted that a theme of his discussions in many countries had been that they were concerned about Europe failing to lead in ISA adoption. He commented that there needed to be communication supportive of ISAs to give the message that Europe, while delaying, was still interested in ISAs. Mr. Robberecht noted that the question of a possible ISA adoption in practice is mainly an issue for the audits of non-listed companies as the Forum of Firms has committed to the consistent application of the ISAs. Mr. Fleck supported Prof. Schilder's comments about the importance of EC recognition of ISAs, noting that the EC needs to show leadership in the financial crisis by requiring the best available standards. Mr. Fleck disagreed with Mr. Robberecht's comment about the de facto adoption of ISAs for listed companies in the European Union (EU) because he believes that the issue is important for domestic audits, not just transnational audits. Ms. Blomme supported Mr. Fleck's comments.	
LIST OF POSSIBLE ACTIONS	
Mr. Kuramochi noted that the JFSA is considering requiring assurance on prospective financial information. Prof. Schilder noted that comments on the ED on ISAE 3420 may help with any revision of the assurance standard dealing with prospective financial information.[4] Ms. Hillier noted that ISAE 3400 had been adopted only by a few jurisdictions, though many jurisdictions have developed differing version so the IAASB needs to understand the issues before proceeding.	Point accepted. The IAASB agreed that the CP should acknowledge this initiative as it had been included in the 2009–2011 work program. *See anticipated project B.3 on page 15 of Agenda Item E.1, which notes that the IAASB intends to determine whether ISAE 3400 should be withdrawn or revised; additional information is included in paragraphs 57–59 of Agenda Item E.1.*
Regarding the development of industry-specific	Point accepted. The IAASB agreed to include

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[4]   ISAE 3400, *The Examination of Prospective Financial Information*

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Representatives' Comments	Task Force/IAASB Response
guidance, while supporting the proposals to develop or revise the banking guidance, Mr. Windsor suggested that the IAASB should undertake a project regarding the audit of insurance companies, with actuaries as part of the audit team. He further noted that the IASB insurance project makes this a good time to consider the audit implications. Ms. Blomme noted that she had a greater appreciation for the need for the projects on IAPS 1004[5] and IAPS 1006[6]. Mr Koktvedgaard noted that the IAASB needed to be cautious in choosing to develop sector-specific guidance and standards, and should look at whether there are any broader issues that can be considered, such as insurance contracts rather than insurers. Prof. Schilder acknowledged that broader projects are preferred.	the project in the CP as a suggestion for an additional project, but noted the challenges that had been previously identified in developing industry-specific guidance on an international basis. In addition, the CP notes that the IAASB's current consultation on the status and authority of IAPSs proposes that IAPSs only be developed in particular circumstances *See the suggestion for additional project C.1 on page 14 of Agenda Item E.1; further information is included in paragraphs 71–72 of Agenda Item E.1.*
Mr. Cassel expressed support for ISAs, noting that International Organization of Supreme Audit Institutions (INTOSAI) includes the ISAs in its recently finalized International Standards for Supreme Audit Institutions (ISSAI) and that implementation guidance was a key concern for INTOSAI. He also noted that the projects that most interested INTOSAI were: reporting by auditors, with the critical question of how to make the reports interesting to read and how to limit the expectation gap; and assurance on corporate governance statements and internal control. Mr. Pannier supported Mr. Cassel's comments, noting that there needed to be focus on the public sector, including the costs and benefits of using ISAs, and that case studies would be helpful in this regard. Mr. Damant supported Mr. Cassel's comment on the need for projects related to corporate governance.	Points accepted. Further collaboration with INTOSAI to promote the use of ISAs in the public sector is discussed in the CP. *See paragraphs 47–48 of Agenda Item E.1.* The IAASB agreed to include both corporate governance and internal control in the CP as suggestions for additional projects. In addition, the CP notes that the IAASB's current consultation on the status and authority of IAPSs proposes that IAPSs only be developed in particular circumstances *See the suggestions for additional projects C.5 and C.6 on page 15 of Agenda Item E.1; further information is included in paragraphs 78–81 of Agenda Item E.1.*

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[5]   IAPS 1004, *The Relationship Between Banking Supervisors and Banks' External Auditors*

[6]   IAPS 1006, *Audits of the Financial Statements of Banks*

Matters for CAG Consideration

Proposed Strategy and Overview of Possible Projects and Actions to Implement the Proposed Strategy

7. Developed after an extensive consultation process, the current Strategy focuses on the following three areas:

   (a) Developing (and revising) standards (and pronouncements); with focus on, amongst others, standards that facilitate the effective operation of the world's capital markets, those that address demand for other assurance services, and those that address the needs of SMEs and SMPs;

   (b) Monitoring and facilitating adoption of those standards; and

   (c) Responding to concerns about the implementation of the standards by activities designed to improve the consistency with which they are applied in practice.

8. Paragraphs 8–14 of **Agenda Item E.1** explain the IAASB's view that, based on the findings of the initial strategy survey, these areas of strategic focus remain appropriate. However, the graph on page 10 of **Agenda Item E.1** notes the expectation that the IAASB needs to do more with respect to adoption and implementation of its standards. The *Guide for Respondents*, included on page 20 of **Agenda Item E.1**, solicits feedback from respondents on whether they agree with this view.

9. As noted in paragraph 12 of **Agenda Item E.1**, the CP focuses on the IAASB's medium-term strategy and, accordingly, both the proposed strategy and the possible projects and actions to implement the proposed strategy have been developed in the context of the current operational structure of volunteer Board members and the current budgetary resources. In the future, it may be necessary to consider whether the current operational structure is appropriate in light of what the IAASB aims to achieve in developing and executing its longer-term strategy (for example, in response to matters noted in the Monitoring Group's (MG) review of IFAC's implementation of its 2003 reforms[7]). For purposes of this consultation, however, the key assumptions set forth on page 18 of **Agenda Item E.1** assume the IAASB will continue to operate under the same structure in the immediate future, and the possible projects and actions to implement the proposed strategy have been designed taking into account what the IAASB believes it can accomplish in the context of this operational structure during the period 2012–2014.

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[7] The IFAC Reforms changed the structure and processes for the auditing, ethics, and education standard-setting boards supported by IFAC. The Reforms called for the MG to perform a five-year review of their implementation. The MG's recommendations can be accessed at www.iosco.org/monitoring_group/pdf/MG_Doc_4.pdf. IFAC intends to work with the MG to determine how these recommendations can best be addressed, and the IAASB will continue to consider how these recommendations may affect its future operational structure and standard-setting activities.

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10. The table on pages 14–19 of **Agenda Item E.1** contains an overview of possible projects and actions to implement the proposed strategy. This has been developed taking into account discussion with the IAASB CAG, debates flowing from projects on IAASB's current agenda, and the results of the initial strategy survey. The projects are classified based on the three areas of strategic focus. The projects have been further categorized as follows:

   - Current Projects (Column A)—Projects on the IAASB's current agenda that are expected to extend into 2012 and beyond. These have been incorporated into the table to give context to the level of the IAASB's activity during 2012–2014. Project histories for these projects, including their objectives, can be found at www.iaasb.org/Projects.php. See *Further Discussion on Key Elements of This Consultation—Section I* of the CP (pages 22–30 of **Agenda Item E.1**).

   - Anticipated Projects Likely to Commence in 2012–2014 (Column B)—Projects identified through consultation which the IAASB believes should be added to its work program. Some of these projects were anticipated in the current Work Program and have not yet commenced. *Further Discussion on Key Elements of This Consultation—Section II* of the CP (pages 31–34 of **Agenda Item E.1**) explains the IAASB's rationale in proposing to add these projects to its future work program.

   - Suggestions for Additional Projects (Column C)—These projects were suggested by respondents to the strategy survey or have been raised by others during consultation. *Further Discussion on Key Elements of This Consultation—Section III* of the CP (pages 34–38 of **Agenda Item E.1**) provides context to these recommendations, including some matters that may need to be considered if respondents believe one or more of these actions should be added to the future work program.

11. Appendix 4 of the CP (pages 45–46 of **Agenda Item E.1**) contains a list of current (ongoing) actions, which the IAASB intends to continue during 2012–2014. Many of these activities are the primary means by which the IAASB promotes the adoption and implementation of its standards. While not necessarily activities on which the Board itself currently spends a significant amount of time, meaningful staff time is devoted to these efforts, which in turn reduces the amount of time available for technical projects.

Prioritization of Current Projects, Anticipated New Projects, and Suggestions for Additional Projects

12. The *Guide for Respondents* on page 20 of **Agenda Item E.1** provides context to the IAASB's views as to the possible actions to implement the proposed strategy included on pages 14–19 of **Agenda Item E.1**. It notes that the IAASB intends to devote the majority of its efforts on the projects in Column A through 2011 and into 2012 and beyond to progress these projects on a timely basis. If respondents to the CP support commencing the majority of the anticipated projects (Column B), the IAASB currently anticipates it will have resources and time to commence 3 further new projects, although substantive activity for these new projects would not be expected to commence before 2013.

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13.   The CP therefore specifically asks respondents to select the top three projects either from, or in addition to, the list of suggestions for additional projects (Column C) that they believe would best meet the IAASB's public interest mandate. However, outreach activities, the findings of the ISA Implementation Monitoring project, the fundamental debates about the role of the auditor, and unforeseen events beyond the IAASB's control may require the IAASB to amend its Work Program or reprioritize its agenda.

14.   The IAASB notes that, depending on the priorities identified by respondents, the balance of the IAASB's future time spent on auditing and implementation of the ISAs as compared to development of new assurance standards may vary significantly. For this reason, the CP notes that it would also be helpful to understand which one project (either from Column B, Column C or an additional action not included in either column) respondents would identify as the IAASB's top priority, in order for the IAASB to consider how each of the three areas of strategic focus would be addressed in the future Work Program.

Matters for CAG Consideration

1.   What significant environmental issues, in the CAG's view, should weigh heavily on the IAASB's consideration in forming its future strategy and work program in light of its public interest mandate?

2.   Following these views, are there specific projects (whether from Columns A, B, or C in the table on pages 14–19 of **Agenda Item E.1**) that deserve priority attention relative to matters discussed in paragraphs 12–14 of this paper?

Material Presented – IAASB CAG PAPER

Agenda Item E.1	Consultation Paper, *Proposed IAASB Strategy and Work Program for 2012–2014*

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Appendix
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Project History

Project: IAASB Future Strategy and Work Program for 2012-2014

<u>**Summary**</u>

	CAG Meeting	**IAASB Meeting**
Project Commencement	March 2010	March 2010
Development of Proposed Strategy and Work Program (up to Consultation)	September 2010	September 2010 December 2010
Consultation	January 2011	January 2011

<u>**CAG Discussions: Detailed References**</u>

Project Commencement	<u>March 2010</u> See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5251 See CAG meeting minutes (in Agenda Item B of the following material): http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211
Development of Proposed Strategy and Work Program (Up to Exposure)	<u>March 2010</u> See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5251 See CAG meeting minutes (in Agenda Item B of the following material): http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211 See report back on March 2010 CAG meeting (in paragraph 2 of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5691 <u>September 2010</u> See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5691 See CAG meeting minutes (in Agenda Item G of the following material):

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| | See draft September 2010 CAG meeting minutes at Agenda Item D. |
| | See report back on September 2010 meeting in paragraph 6 of this CAG paper. |