



Executive briefing on the IAASB's activities, no 4, 2009

The International Auditing and Assurance Standards Board (IAASB) is a standard-setting body established by the International Federation of Accountants (IFAC). In 2009 Assistant Auditor General Mr. Steen Bernt Jensen, Denmark, serves as a public member of the IAASB upon suggestion from INTOSAI's Professional Standards Committee (PSC). Project Director Mr. Jonas Hällström, Sweden, serves as his technical advisor. IAASB issues the International Standards on Auditing (ISA) as well as a range of other standards for the accounting business. The International Standards of Supreme Audit Institutions (ISSAI) issued by INTOSAI include a set of implementation guidelines on financial auditing, SSAI 1000-1999, which are based on the ISAs. By the executive briefings the PSC Chair wishes to inform the INTOSAI community of the main issues discussed by IAASB and encourage all SAIs with an interest in these matters to contribute with views and input.

► Previous executive briefings on the IAASB's activities can be found on <http://psc.rigsrevisionen.dk/composite-113.htm>

► The IAASB meeting materials can be found on <http://www.ifac.org/IAASB/Meetings.php>

The agenda for the IAASB meeting in December 2009

IAASB meets on 7-10 December 2009 in San Francisco. Mr. Jonas Hällström will participate on behalf of Mr. Steen Bernt Jensen in order to convey INTOSAI's perspectives on the issues discussed. Among other issues, the agenda includes the following:

1. Assurance engagements and Supreme Audit Institutions

The IAASB will continue its discussion on key issues relating to the revision of its *international standard on other assurance engagements than audits and reviews of historical financial information*, ISAE 3000. Some of the issues may also touch upon the overall *international framework on assurance engagements* and other IAASB standards. The ISAE 3000 is a generic and relatively brief standard applicable to all kinds of engagements in which a conclusion is to be expressed with either reasonable or limited assurance on any other subject matter than historical financial information. The IAASB will discuss if such assurance engagements may be combined with engagements covered by other IAASB standards in a single report. The task force suggests that performance audits conducted by Supreme Audit Institutions of the Westminster system (a single auditor general) may fall under the concept of a "direct reporting" assurance engagement. In the present standards an assurance engagement is described as a three-party relationship involving a practitioner, a responsible party and the intended users. Using the SAIs as an example, the task force suggests that there may be additional parties involved as the engaging party (the parliament) may differ from the party responsible for the subject matter (a government agency). The IAASB is also to consider if it can be clarified how "assertion based" engagements should be distinguished from the "direct reporting" engagements. The proposed distinction is:

- in an assertion based engagement (e.g. an audit of financial statements) the responsible party (management) has made an evaluation of the subject matter (the financial result and position) and asserts that certain criteria have been complied with. The practitioner (auditing firm) expresses reasonable or limited assurance about this assertion (the financial statements have been produced in accordance with the applicable accounting standards)
- in a direct reporting engagement, it is the practitioner who performs the evaluation *and* expresses reasonable or limited assurance about the outcome of the evaluation. The IAASB standards currently contain very limited directions on direct reporting engagements.

► Link: <http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0169&ViewCat=1199>

Relevance to INTOSAI: Mr. Andrew Baigent from the SAI of UK represents INTOSAI in the IAASB task force. The PSC has established an open network of SAIs with an interest in the issue. The PSC Subcommittee on Performance Auditing has considered the IAASB concept of assurance engagements and has found these to be of limited general relevance to the performance auditing conducted by advanced SAIs. The new compliance audit guidelines (ISSAI 4000-4200) have introduced the IAASB's concepts on assurance engagements including "direct reporting engagements" into INTOSAI's standards and may be affected by the IAASB revision. The PSC Secretariat is aware of 1-3 SAIs who prefer to refer all of their general tasks to the IAASB concepts. These are therefore likely to be very directly affected by any changes implemented in the standard by the IAASB. A large number of SAIs are using the ISAE 3000 standard for

more specific tasks. Inquiries made by the Secretariat of the PSC's Financial Auditing Subcommittee are suggesting that these are mainly tasks of a broadly financial auditing nature. Comments and inputs on the issue are most welcome.

2. The auditor's reports

An IAASB working group has considered a number of recent research studies on the way users perceive the reports issued by auditors under the international standards on auditing (cf. ISA 700). The IAASB will discuss the working group's key messages:

- Auditor's reports are valued by users and particular as to whether the report is qualified or not.
- The value of the standard unqualified audit report is mainly symbolic: it is valued due to its existence. The current content is not considered useful, among other because the report lacks information about the particular audit performed and the audit findings.
- The audit expectation gap surrounding the scope and purpose of an audit of financial statements, and the auditor's role and responsibilities in that regard, is persistent and very hard to overcome.
- The users' perception of the scope and quality of audits and their perception of the auditor's report seem to be inextricably linked.

►Link: <http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0169&ViewCat=1191>

Relevance to INTOSAI: The financial audit guidelines of the ISSAIs concern the application of the IAASB's international standards on auditing and include ISSAI 1700 on the auditors reporting under ISA 700. Some SAIs are issuing audit reports in the standard format provided by these standards to the general public, government agencies and in some cases also to the parliament. In addition, many SAIs are using the reports issued by auditing firms. The IAASB discussion provides SAIs with an opportunity to come forward with their views on how the format of reporting works in practice. All inputs are welcome.

3. Other issues discussed

- Approval of exposure of a new draft standard ISAE 3420 on the proper compilation of pro forma financial information included in prospectuses

►Link: <http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0169&ViewCat=1192>

- The ongoing revision of the ISRE 4410 on engagements to compile financial information

►Link: <http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0169&ViewCat=1190>

Relevance to INTOSAI: SAIs with an interest in these matters are invited to come forward.

The proceedings of the last meeting in September 2009

At the last IAASB meeting the board among other subjects discussed the concepts and purpose of review engagements. The discussion revealed a wide range of viewpoints held by the members from the different countries and auditing firms. The IAASB, however, generally seems to settle for a hybrid approach in which a review engagement is defined by a certain level of limited assurance as well as with reference to certain audit procedures. Based on the discussion, it seems unlikely that the conclusion of a review engagement will be changed to a positive form as suggested by the task force, which the IAASB has established to revise the standard ISRE 2400 on Engagements to Review Financial Statements.

► **The minutes of the meeting can be found on <http://www.ifac.org/IAASB/Meetings.php>**

Are you aware?

All International Standards of Supreme Audit Institutions are published on www.issai.org. Subscribe to the e-mail update service and be kept informed of any new drafts within your field of interest. ►Link: <http://www.issai.org/composite-355.htm>

Any comments or suggestions?

Any points of views related to the IAASB's agenda and of relevance to INTOSAI's members may be directed to Adviser Kristoffer Blegvad, the PSC Secretariat, by e-mail to kb@rigsrevisionen.dk with copy to psc@rigsrevisionen.dk. Many of the issues will also be discussed by the IAASB on future occasions.

PSC Secretariat

Landgreven 4 • P.O.Box 9009 • DK-1022 Copenhagen K

Phone: +45 33 92 84 00 • Fax +45 33 11 04 15 • psc@rigsrevisionen.dk