

# AGENDA PAPER

IFRS Advisory Council Meeting

LONDON 18 – 19 June 2012

**Agenda ref 5**

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TOPIC	Building the IFRS network: Interaction between IAASB and IASB
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PRESENTER	Prof. Arnold Schilder, IAASB Chairman Dan Montgomery, IAASB Deputy Chair
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This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council. The views expressed in this paper are those of the authors. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS.

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## **International Auditing and Assurance Standards Board Update Presentation for June 2012 IFRS Advisory Council meeting**

**IAASB**

**International Auditing and  
Assurance Standards Board  
Update**

Prof. Arnold Schilder, IAASB Chairman  
Dan Montgomery, IAASB Deputy Chair

IFRS Advisory Council Meeting  
London, UK  
June 19, 2012

**Agenda**

- IAASB Strategy and Work Program 2012–2014
- IAASB-IASB Liaison
- Disclosures
- Auditor Reporting, incl. Going Concern

**IAASB**

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## IAASB Strategy and Work Program, 2012-2014

- Released June 2012
- Premised on prioritization of the Auditor Reporting project
- Other current projects
  - Audit Quality : Towards an International Framework
  - Assurance engagements ("ISAE 3000 Revised")
  - The auditor's responsibility for other information
- New projects and other initiatives
  - Estimates/fair values, including third-party pricing sources (ISAs 540/500)
  - Banking (auditor/supervisor relationship and communication)
  - Auditor role and responsibilities relating to preliminary announcements
  - Activities to further support implementation of the ISAs (SMEs/SMP's)

## IAASB Strategy and Work Program, 2012-2014 (cont.)

- Continued focus on adoption and effective implementation of the ISAs and the IAASB's other standards
  - Challenges similar to IASB in relation to calls for the development of implementation guidance
  - Possible consideration of an (annual?) improvements project based on findings from ISA Implementation Monitoring project
- Continued emphasis on liaison, outreach, communication
- New working group to monitor developments and inform IAASB's longer-term strategy re assurance on integrated reporting, corporate governance and internal control

## IAASB-IASB Liaison

- IAASB-IASB Liaison standing Working Group to monitor developments and respond to IASB pronouncements
- IAASB comments on IASB exposure drafts – auditability and verifiability issues
  - Recent : Revenue from Contracts with Customers, Investment Entities
- Pre-ballot “fatal flaw” review of exposure drafts
- Opportunities for joint IASB-IAASB outreach
- Future coordination and cooperation (Disclosures? Going Concern?)

## Disclosure and its Audit Implications

- Disclosures Discussion Paper : Feedback Statement – January 2012
  - Collaborative solutions needed, particularly with accounting standard setters (IASB and FASB)
  - Concerns about materiality – variability and uncertainty when concept applied to disclosures
  - Support for a disclosures framework – to guide judgments made by both preparers and auditors and to reduce complexity
  - Auditability – requirements for preparers to support disclosures made
  - How can the IASB and IAASB work together in this important area?

## The Call for Change in Auditor Reporting

- May 2011 consultation paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change*
  - Now is the time for change, but no clear agreement on what change
  - Audit is valued, but auditor's report could be more informative
  - Users, in particular investors, want more relevant and decision-useful information about the entity, the financial statements and the audit
  - Explore more holistic change to the financial reporting model
  - Be mindful of the discrete responsibilities of management/those charged with governance and the auditor

## The IAASB's Response

- Auditor Reporting #1 priority
  - IAASB progressing revisions to the auditor reporting standards, and other standards as appropriate, on an accelerated basis
- Invitation to Comment (ITC): Approved 15 June 2012
  - Sets out the IAASB's indicative direction regarding suggested improvements to the auditor's report
  - Describes the IAASB's perspectives on value and impediments of options
  - Includes an illustrative auditor's report to solicit feedback from global stakeholders, especially investors and other users
  - Will inform the IAASB's standard-setting proposals (current plans for June 2013 exposure draft and June 2014 final standards)

## Auditor Commentary

- Suggested new section in the auditor's report 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
  - Provide a "roadmap" to help users to better navigate complex financial reports
  - Provide additional context to the matters highlighted (e.g., explaining why the matter was important from an audit perspective or briefly describing the auditor's procedures and findings)
  - Provide information about key judgments made by the auditor in planning and executing the audit to provide more transparency regarding how the audit was conducted

## Going Concern (GC)

- Significant impetus coming from global financial crisis and related policy debates and proposals, including EC proposals and UK Sharman report
- ITC will suggest a requirement for auditor's report to include:
  - Conclusion about appropriateness of management's use of GC assumption
  - Statement about whether material uncertainties have been identified
- Clarification of guidance on GC in ISAs may be necessary
  - Close coordination with IASB highly desirable
- Areas where further guidance in IFRSs may be beneficial:
  - Clarifying the relationship (or distinction) between "use of GC assumption" and "ability to continue as a GC"
  - Meaning of "significant doubt" in relation to concept of material uncertainty
  - Nature and extent of management disclosure of a material uncertainty