

## Agenda Item

# A.1

**Meeting:** IAASB Consultative Advisory Group

**Meeting Location:** Virtual Zoom Meeting

**Meeting Date:** September 8–9, 2020

**Draft Minutes in Mark-Up** of the Public Session of the Meeting of the  
**INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)**  
**CONSULTATIVE ADVISORY GROUP (CAG)**

**Held on March 10–11, 2020**

**New York, USA**

Due to the COVID-19 pandemic, the IAASB took the decision at the time of the March meeting to facilitate the proceedings in a dual format, namely in-person and providing Representatives with the option to attend virtually via videoconference.

### PRESENT

#### Members – In Person

Mr. Jim Dalkin	Chair
Mr. Robert J. De Tullio	Basel Committee on Banking Supervision (Basel Committee)
Mr. Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Ms. Natasha Landell-Mills	International Corporate Governance Network (ICGN)
Mr. Christian Orth	Accountancy Europe (AE)
Mr. Daniel Pavas	Interamerican Accounting Association (IAAA)
Ms. Noémi Robert	AE
Mr. Gregg Ruthman	International Organization of Supreme Audit Institutions (INTOSAI)
Mr. Paul Sobel	Institute of Internal Auditors (IIA)
Mr. Paul Thompson <sup>1</sup>	European Federation of Accountants and Auditors for SMEs (EFAA)
Ms. Tara Wolf	International Actuarial Association (IAA)

#### Members – Virtual Attendance

Mr. Takeshi Hirai	International Organization of Securities Commissions (IOSCO)
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<sup>1</sup> As agreed with the IAASB CAG Chair, Mr. Thompson represented the EFAA on behalf of Dr. Hysen Cela.

Mr. Nigel James	IOSCO
Dr. Claes Norberg	Business Europe (BE)
Mr. Henry Rees	International Accounting Standards Board (IASB)
Mr. Sanders Shaffer	International Association of Insurance Supervisors (IAIS)
Ms. Laura Shiffman	Financial Executives International (FEI)
Ms. Mohini Singh	CFA Institute (CFA)
Mr. Kazuhiro Yoshii	Japan Securities Dealers Association (JSDA)

#### **Observers – Virtual Attendance**

Ms. Megan Zietsman**	United States Public Company Accounting Oversight Board (PCAOB)
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#### **IAASB – In Person**

Mr. Tom Seidenstein	IAASB Chair
Mr. Robert Dohrer (presenter – <b>Agenda Item I</b> )	IAASB Member and Working Group (WG) Chair
Mr. Len Jui (presenter – <b>Agenda Item F</b> )	IAASB Member and Task Force (TF) Chair
Mr. Willie Botha	IAASB Technical Director
Ms. Beverley Bahlmann	IAASB Deputy Director
Mr. Brett James	IAASB Deputy Director
Ms. Natalie Klonaridis	IAASB Principal
Ms. Kalina Shukarova Savovska	IAASB Principal
Ms. Joy Thurgood	IAASB Principal
Mr. Phil Minnaar	IAASB Manager
Ms. Jane Talatala	IAASB Manager
Mr. Armand Kotze	IAASB Analyst

#### **IAASB – Virtual Attendance**

Ms. Fiona Campbell	IAASB Deputy Chair
Ms. Julie Corden (presenter – <b>Agenda Item B</b> )	IAASB Member and TF Chair
Mr. Roger Simnett (presenter – <b>Agenda Item N</b> )	IAASB Member and WG Chair

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\*\* Views expressed by PCAOB Representative represent her views and do not necessarily reflect the view of the PCAOB Board or other Board members or staff.

Ms. Lyn Provost (presenter – **Agenda Item D** – ISA 220 (Revised)) IAASB Member and TF Chair

Mr. Imran Vanker (presenter – **Agenda Item G** – ISQM 2) IAASB Member and TF Chair

Mr. Jasper van den Hout (observing **Agenda Item F**) IAASB Principal

**Public Interest Oversight Board (PIOB)** Mr. Shigeo Kashiwagi (virtual attendance)

## **APOLOGIES**

### **Members**

Mr. Mauro Bini	International Valuation Standards Council (IVSC)
Dr. Hysen Cela	EFAA
Mr. Henri Fortin	World Bank (WB)
Mr. John Kuyers	Information Systems Audit and Control Association (ISACA)
Ms. Conchita Manabat	International Association of Financial Executives Institutes (IAFEI)
<a href="#"><u>Ms. Asha Mubarak</u></a>	<a href="#"><u>Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)</u></a>
Ms. Wei Meng	World Federation of Exchanges (WFE)
Ms. Inanc Yazar	Organization for Economic Cooperation and Development (OECD)
Mr. Hüseyin Yurdakul	IOSCO

### **Observers**

Mr. Simon Bradbury	International Monetary Fund (IMF)
Ms. Dawn McGeachy	International Federation of Accountants (IFAC) Small and Medium Practices (SMP) Committee

**March 10–11, 2020**

## **Welcome**

### OPENING REMARKS

Mr. Dalkin welcomed the Representatives to the meeting, including the IAASB Chair, Mr. Tom Seidenstein and the International Ethics Standards Board for Accountants (IESBA) CAG Chair, Mr. Gaylen Hansen.

Mr. Dalkin also welcomed Mr. Shigeo Kashiwagi from the PIOB as well as the IAASB TF and WG Chairs, IAASB Staff, as well as the observers.

### MINUTES OF THE PREVIOUS MEETING

Mr. Dalkin presented the minutes of the IAASB CAG meeting in September 2019 to the Representatives. No comments were noted and the minutes were approved.

## **Proposed ISQM 1<sup>2</sup> – Quality Management at Firm Level (Agenda Item C)**

### Quality Management – ISQM 1

- To *REPORT BACK* on the September 2019 meeting
- To *OBTAIN* Representatives' views on the proposed way forward with regard to identified aspects of draft proposed ISQM 1

Ms. Corden provided an overview of respondents' feedback on the questions in Exposure Draft (ED) ISQM 1 (ED-ISQM1) that had not been previously discussed with the CAG, including questions related to monitoring and remediation, external communications, networks, public interest, governance and leadership, resources and service providers. Ms. Corden also explained the changes made to proposed ISQM 1 since issuing ED-ISQM 1, including changes to the firm's risk assessment process and the approach to quality objectives and responses in the standard.

Representatives commented as follows:

### THE FIRM'S RISK ASSESSMENT PROCESS AND THE APPROACH TO QUALITY OBJECTIVES AND RESPONSES

- Mr. Dalkin enquired about the impact of proposed ISQM 1 on a small firm and how such firms would demonstrate compliance with proposed ISQM 1. Ms. Corden emphasized that proposed ISQM 1 will be a change for firms. Ms. Corden further explained that how a firm achieves the quality objectives may vary, and the collective achievement of the quality objectives would result in the achievement of the overall objective of the standard. She added that the risk factors in the standard are intended to assist firms in thinking about the risks to achieving the quality objectives, and are focused on the nature and circumstances of the firm to drive a mindset that is focused on scaling the system to be suitable for the firm's circumstances. However, she emphasized that there is ~~no not-a~~ requirement for

<sup>2</sup> Proposed International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

firms to demonstrate that they have considered every risk factor in proposed ISQM 1 for every quality objective and document a complex matrix that evidences that they have done so. Ms. Corden explained that in a simpler firm, there may be fewer and less concise quality risks, as the standard allows firms to scale down the system to their nature and circumstances, while still maintaining a robust system. Ms. Corden added that more complex firms may need a more elaborate risk assessment process. Mr. Dalkin emphasized the importance of education and communication to smaller firms to clarify the intent that firms are not expected to address the risk factors as a checklist. Ms. Corden highlighted that outreach will be taking place with the IFAC SMP Committee prior to the March 2020 IAASB meeting.

- Ms. Zietsman highlighted the importance of proposed ISQM 1 to the PCAOB, given the recent PCAOB Quality Control Concept Release. Ms. Zietsman emphasized her support for the approach in the firm's risk assessment process. She emphasized that the factors provide a good structure and are important in driving scalability upwards and downwards, although indicated the need to demonstrate how they will operate for less complex firms.
- Mr. Hirai indicated his support for the term "quality risk considerations" and defining the term, because it is more consistent with the recently approved ISA 315 (Revised 2019)<sup>3</sup> and could drive more proactivity in identifying and assessing quality risks. Ms. Corden indicated that in the December 2019 IAASB meeting, the IAASB supported the principle of introducing quality risk considerations and aligning concepts with ISA 315 (Revised 2019), but the IAASB had encouraged the ISQM 1 Task Force to consider whether the term "quality risk considerations" is the most appropriate term, and whether the definition of the term is needed.
- Mr. Ruthman suggested that the risk factor in paragraph 22E(a)(i)(c) of proposed ISQM 1, which addresses the characteristics and management style of leadership, is too subjective and could result in firms making judgments that would not produce the intended result. He encouraged the ISQM 1 Task Force to adjust the factor such that it is more neutral. Ms. Corden acknowledged the suggestion and explained that this factor was intended to address how the firm's culture and commitment to quality are driven by leadership. She suggested that some of the explanations in the application material could be moved to the requirement to clarify its intent.
- Mr. Yoshii suggested that compensation, promotion and other incentives should be included in the factors in paragraphs 22E and A24A of proposed ISQM 1, as well as in the definition of deficiencies and in paragraph 23 of proposed ISQM 1 as part of the culture of the firm. Ms. Corden explained that compensation, promotion and other incentives are addressed in paragraph 65D of proposed ISQM 1 and the related application material, and in the 'resources' component.
- Ms. Robert indicated that ~~the~~ applying the factors may be challenging, and firms may develop complex matrices to map all of the factors set out in proposed ISQM 1. She added that if the intent is for the factors to be conditional, then they should not be in the requirement. Ms. Corden explained that the factors need to be considered because they focus on the nature and circumstances of the firm and the engagements it performs. Ms. Corden added that firms are not expected to have an elaborate matrix to demonstrate how they considered the factors, although would need to include in their documentation how they reached their conclusions on the quality risks. Ms. Corden emphasized

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<sup>3</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

that paragraph A214 of proposed ISQM 1 was added to clarify that firms are not expected to document every factor considered and instead focuses firms on documenting the reasons for the assessment of the quality risks.

- Ms. Zietsman suggested clarifying paragraph 22G of proposed ISQM 1 to improve consistency with paragraph 22D of proposed ISQM 1 and also suggested adding application material to clarify that if the firm establishes additional quality objectives, the firm may subsequently determine that they are no longer needed. Ms. Corden acknowledged the suggestions and clarified that the intent is that the firm can remove the additional quality objectives.
- Mr. James encouraged the ISQM 1 Task Force to undertake a post implementation review of proposed ISQM 1 and enquire from firms what additional quality objectives were established, in order to identify best practices and possible additional quality objectives that may need to be included in the standard.

#### MONITORING AND REMEDIATION

- Mr. Dalkin asked Ms. Corden to clarify how the severity and pervasiveness of deficiencies is addressed in proposed ISQM 1, emphasizing the importance of this concept so that firms are not sidetracked by immaterial issues. Ms. Corden explained that the evaluation of deficiencies would be undertaken individually and in aggregate, similar to how the evaluation of misstatements would be undertaken in an audit. Ms. Corden added that there could be deficiencies which on their own do not affect the achievement of a quality objective, however when aggregated with other deficiencies may affect the achievement of a quality objective. Ms. Corden further clarified that the overall evaluation of the system of quality management is affected by the severity and pervasiveness of deficiencies, as well as other considerations such as the root cause and remediation of the deficiency. Ms. Corden noted that it is important that deficiencies are identified because it drives continual improvement.
- Ms. Zietsman supported the direction of this component, adding that the changes have been responsive to the feedback from respondents to ED-ISQM 1, the CAG and the IAASB.
- Ms. Zietsman provided various suggestions on paragraphs 44 and 45 of proposed ISQM 1. With respect to paragraph 44 she suggested a more explicit reference to monitoring the monitoring activities and questioned the need for referring to ongoing and periodic monitoring activities, explaining that it could be difficult to measure “appropriate” in this context and that some firms may not need to undertake ongoing monitoring activities. With respect to paragraph 45, she indicated that the reference to paragraph 44 was confusing and seemed circular, and that there may be different layers in thinking about the matters in paragraph 44.
- Ms. Zietsman commented on the definitions of findings and deficiencies. With respect to the definition of deficiencies, she supported the application material but raised concern that the definition is not clear, and that an appropriate threshold is needed to support consistent application. With respect to the definition of findings, she suggested that the description in part (ii) (“that indicates that one or more deficiencies may exist”) should also apply to part (i). Mr. Hirai also commented on the relationship between findings and deficiencies, indicating that the difference between findings and deficiencies is not clear, and encouraged the ISQM 1 Task Force to develop a flowchart or guidance of how to evaluate findings and deficiencies. Ms. Corden indicated that the definitions would be a key point of discussion for the IAASB in the upcoming meeting.

- Mr. Hirai indicated support for retaining the reference to three years in the application material for the inspection of completed engagements in paragraph A169A, however indicated that there is not a need to take into consideration scalability of this application material.
- Mr. Ruthman sought clarity on whether the IAASB had considered the objectivity of the individuals assigned operational responsibility for monitoring and remediation from the individuals assigned ultimate responsibility for the system of quality management. Ms. Landell-Mills agreed with the view, emphasizing that from an investor perspective, it is important that the firm has independent monitoring. Ms. Klonaridis explained that the requirements in paragraph 22AA of proposed ISQM 1 apply to the individuals assigned operational responsibility for monitoring and remediation, and also drew attention to paragraph 46 of proposed ISQM 1 addressing the objectivity of the individuals performing the monitoring activities. Ms. Klonaridis added that respondent feedback to the ED had highlighted concerns regarding the prescriptiveness of the requirements addressing the assignment of roles and responsibilities to individuals in the firm and how smaller firms would comply with such requirements, and that a requirement for the individuals assigned operational responsibility for monitoring to be objective would likely be challenging for smaller firms to implement.

#### EVALUATION OF THE SYSTEM OF QUALITY MANAGEMENT

- Mr. Hirai indicated support for how the standard addresses the evaluation of the system of quality management. He suggested that the explanation in paragraph 27 of Agenda Item 4 of the March 2020 IAASB meeting should be included in the introduction of proposed ISQM 1 to promote proactiveness in identifying deficiencies.

#### EXTERNAL COMMUNICATION

- Ms. Zietsman supported how proposed ISQM 1 addresses transparency reports and encouraged the IAASB to continue to monitor and engage in conversations on this topic. She explained that while transparency reports provide visibility, it is a complex and evolving topic and it is not the role of the IAASB to define what is a transparency report or what it should include, as there is a lack of global consistency and agreement in what the concept means, what should be communicated and the extent to which matters should be prescribed. She added that if the IAASB did define transparency reports or the information to be included in the reports, it could stifle innovation that is organically taking place. Ms. Zietsman further explained that proposed ISQM 1 is dealing with the establishment of a system, and while a transparency report is related to that, the preparation of a transparency report is not core to the fundamental objective of the standard. She therefore cautioned that further efforts to consider or address transparency reports could inadvertently distract and derail the ISQM 1 project overall. Mr. Dalkin agreed and emphasized that Europe is further ahead than other jurisdictions, and that in the public sector it could be challenging to develop a report that is geared towards a firm. Mr. Hansen highlighted that transparency reports should not be promotional documents and cautioned that until such time as audit quality indicators as more well developed and accepted, it will be challenging to drive consistency in how firms communicate externally.
- Ms. Landell-Mills indicated that investors welcome transparency reports, which are important to informing investors and providing a mechanism to bring investors closer to auditors. Mr. Ruthman also encouraged a more explicit requirement for transparency reports. Both Ms. Landell-Mills and Mr. Ruthman highlighted that transparency reports hold auditors accountable for having robust systems

in place and could drive a more effective system of quality management. Ms. Landell-Mills further suggested that firms should have the transparency reports assured, and the need for a framework to be developed to support consistency and comparability of transparency reports. Ms. Robert also indicated support for more open communication, however highlighted the need for the standard to be clearer about what information should be communicated. Mr. Yoshii indicated support for communication externally but emphasized that it is important to rather focus on what information should be disclosed, instead of what the form of communication is called. He cautioned that should the standard require transparency reports without specifying the content, the content disclosed could be poor. He suggested that the IAASB highlight transparency reports or audit quality reports as best practice and that the IAASB continue to consider what type of information should be disclosed. Ms. Corden explained that the IAASB views external communication as very important, however there is a need to be principles-based to reflect appropriate scalability and promote innovation. She explained that the application material is intended to be thought provoking about what is communicated.

- Mr. Yoshii suggested that paragraph A151 of proposed ISQM 1 also include information about staff compensation.

#### NETWORK REQUIREMENTS OR NETWORK SERVICES

- Mr. De Tullio enquired about circumstances when network firms adapt or supplement the network requirements or network services, and whether the network would be expected to consider whether changes should be made at the network level, i.e., that such adaptations or supplementations may be indicative of a need for the network requirements or network services to be updated. Ms. Corden indicated that a similar comment had been raised in recent outreach with a monitoring group member, who emphasized the need for the information to feed back to the network because the network requirements or network services may not be appropriate. Ms. Corden added that the standard addresses communication to the network when the firm identifies a deficiency in a network requirement or network service but could go further than communicating deficiencies.
- Ms. Landell-Mills indicated that not enough had been done on networks and enquired whether it is clear to external stakeholders that there could be a variation in quality across a network. She also enquired about the communication of key audit matters and how this has improved communication with investors about quality. Ms. Corden indicated the need to obtain feedback from users about the usefulness of communication of key audit matters, which would form part of the IAASB's planned auditor reporting post implementation review.
- Ms. Zietsman recognized the efforts of the ISQM 1 Task Force in advancing this topic. She added that a network level standard would be challenging, and that it would be difficult to enforce such a standard. She further noted her support for addressing the firm's reliance on the network by emphasizing the accountability of the firm for its system of quality management, including the firm's understanding of the network requirements or network services and what the network expects of the firm. Ms. Zietsman noted that indirect pressure would be placed on the network through proposed ISQM 1, particularly related to consistency across the network as networks would need to support firms' implementation of the standard and improve information sharing. She added that the PCAOB's outreach with larger networks has revealed significant effort in preparing for the standard, and that networks have realized the benefit of implementing the standard centrally.



SCALABILITY, TAILORING THE SYSTEM OF QUALITY MANAGEMENT, COMPLEXITY, PRESCRIPTIVENESS AND  
DEVELOPING A STANDARD THAT CAN BE APPLIED IN ALL CIRCUMSTANCES

- Mr. Thompson acknowledged the efforts made to address scalability and that it is an improvement from ED-ISQM 1, although indicated that he was not yet able to conclude that the latest draft is truly scalable. Mr. Thompson added that proposed ISQM 1 is a more robust and effective standard than extant ISQC 1. Ms. Robert indicated that it is difficult to assess if ~~it~~ the standard is scalable enough and urged the IAASB to consider this in their deliberations in the upcoming March 2020 meeting, taking into account the feedback from the IFAC SMP Committee from the upcoming outreach. Mr. Thompson suggested that should it be determined that a separate standard should be developed for audits of less complex entities, it may pose a question as to whether a separate quality management standard should be developed for less complex firms. Ms. Corden noted Mr. Thompson's support, and indicated that it would not be possible to commit to a separate standard at this time.
- Mr. Pavas enquired about the development of guidance for SMPs. Ms. Robert echoed the importance of the guidance. Mr. Botha explained that the IAASB is working to identify the nature of implementation support material that would be provided by the IAASB, and material that should be developed by others, such as IFAC and National Standard Setters. He added that if there is longer-term guidance, this would be within the remit of others. He noted that the IAASB has continued to emphasize the importance of the IFAC SMP Committee guidance. He explained that as part of the IAASB's strategy and workplan, the IAASB will continue to collaborate with others.

EFFECTIVE DATE

- Mr. Pavas highlighted concern regarding the implementation date, noting the extent of changes and efforts that will be needed for implementation. Mr. Orth questioned whether the firm would need to also have tested the system of quality management by the effective date, raising concern that a December 2022 effective date could conflict with firms' busiest season. Ms. Corden noted that the IAASB would be discussing the effective date in the upcoming March 2020 meeting, in particular to clarify what it means to have a system of quality management in place by the effective date. Ms. Corden added that the intent is firms would be expected to have the system designed and implemented by the effective date, and the cycle of monitoring and remediation and evaluation would come into effect after the effective date. Ms. Corden explained that the firm determines when the monitoring and remediation and evaluation should be undertaken, which could commence at any time throughout the year following the effective date. Mr. Seidenstein emphasized that there is public interest pressure to have the standard in place as soon as possible. Mr. James added that the IAASB had discussed the effective date in September 2019, and that the Board will have a final discussion on the effective date when approving the final standards.
- Mr. Orth suggested that a December effective date may not be suitable as there are multiple activities, such as client acceptance and continuance and planning for engagement quality reviews, which should be undertaken prior to the commencement of the engagements (i.e., a December effective date would be too late in preparation for engagements with a December year-end). He therefore suggested that a June 2023 effective date may be more appropriate. Ms. Klonaridis explained that the effective date of proposed ISQM 1 will need to coincide with proposed ISA 220 (Revised)<sup>4</sup> and

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<sup>4</sup> Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

proposed ISQM 2,<sup>5</sup> and that a December date is typically used for the ISAs. Ms. Klonaridis added that irrespective of which date is selected, practically firms may need to plan ahead to take into consideration the effective date of the standards and when requirements will become applicable for the engagements performed by the firm.

- Mr. Hirai indicated support for ~~the~~ how the effective date has been described in proposed ISQM 1 and further suggested more explicitly stating that within one year from the effective date, the firm is required to evaluate the system of quality management. Mr. Hirai highlighted his support for the standards to be effective as soon as possible.

#### OTHER COMMENTS

- Ms. Landell-Mills emphasized the importance of governance and leadership. She asked to what extent good corporate governance practices have been considered, such as the appointment of independent directors. Ms. Corden explained that governance and leadership is a key aspect of proposed ISQM 1 and the standard focuses on the responsibilities of leadership of the firm. She added that in order to provide prominence to the importance of leadership's role, essential requirements have been included in the upfront requirements of proposed ISQM 1.
- Mr. James asked whether the ISQM 1 Task Force had considered ongoing reviews being undertaken in other jurisdictions, such as the United Kingdom, Australia and the Netherlands, and whether there were any matters arising from these reviews that may inform the standard. Ms. Corden noted that the ISQM 1 Task Force has been considering ongoing discussions in other jurisdictions as the standard is being progressed.

#### PIOB OBSERVER'S REMARKS

Mr. Kashiwagi welcomed the ISQM 1 Task Force's efforts and acknowledged the various perspectives raised by the CAG representing a variety of stakeholder groups. He added that progress has been made in the right direction and that the draft has been improved and streamlined.

#### WAY FORWARD

Ms. Corden thanked the Representatives and Observers for their feedback. Mr. Dalkin highlighted that the standard would be considered by the IAASB for final approval in June 2020.<sup>6</sup>

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<sup>5</sup> Proposed International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*

<sup>6</sup> Due to the effects of the COVID-19 outbreak, the IAASB made certain revisions to its Work Plan in April 2020, after the IAASB CAG meeting, which included deferring the approvals of proposed ISQM 1, ISQM 2 and ISA 220 (Revised) to the September 2020 IAASB meeting.

## Proposed ISA 220 (Revised) – Quality Management at the Engagement Level (Agenda Item D)

### Quality Management – ISA 220 (Revised)

- To *REPORT BACK* on the September 2019 meeting
- To *OBTAIN* Representatives' views on the proposed way forward with regard to identified aspects of draft proposed ISA 220 (Revised)

Ms. Provost introduced the topic. In addition to the specific questions posed to the CAG, she also invited comments on any other significant issues related to the draft of ISA 220 (Revised).

Representatives commented as follows:

### ENGAGEMENT TEAM DEFINITION

Ms. Provost highlighted that the proposed engagement team definition and the new guidance provided in draft ISA 220 (Revised). Ms. Provost also noted that, as a result of substantial coordination with the IESBA, the IESBA will be considering a proposal to revise its engagement team definition in the IESBA Code of Ethics for Professional Accountants (IESBA Code) and to develop independence requirements for component auditors in relation to the group audit at the March 2020 IESBA meeting.

- Ms. Zietsman expressed support for the simpler, principles-based definition that will allow for further evolution in the composition of engagement teams. She also supported the ongoing collaboration with IESBA on this matter.
- Mr. Hansen questioned whether “performing audit procedures” was broad enough to include other activities within the firm related to an audit engagement, such as in-firm valuation experts.
- Ms. Robert questioned whether there are barriers in ISA 220 (Revised) that would deter group auditors from using firms outside the firm’s network. She also questioned whether the IAASB has considered the effect on the audit market. Ms. Provost responded by noting that ISA 220 (Revised) provides links to proposed ISA 600<sup>7</sup> and that the ISA 220 Task Force has added more guidance on where proposed ISA 600 (Revised) would apply. She also noted that the ISA 600 Task Force may consider whether proposed ISA 600 is imposing barriers on using component auditors from outside of the group auditor’s network.
- Mr. Pavas noted that, in Latin America, international networks that belong to the Forum of Firms (FOF) are required to conduct a review of quality on member firms, but not of specific engagements. He highlighted that if network rules require compliance with the proposed ISQMs, firms may not have enough partners to support those reviews. Mr. Dalkin asked whether the ISA 220 Task Force had considered the impact on engagement quality reviews.

### SCALABILITY AND ENGAGEMENT PARTNER’S RESPONSIBILITY FOR AUDIT QUALITY

- Mr. Hansen supported for the concept of distinguishing the requirements in this way, but he suggested that the ISA 220 Task Force consider whether there could be a clearer differentiation

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<sup>7</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

between those requirements for which the engagement partner has sole responsibility and those the engagement partner can assign to other members of the engagement team.

- Ms. Provost indicated that the IAASB supported the revised wording at its December 2019 meeting, but asked the ISA 220 Task Force to develop an example to show that the proposed standard is achievable for larger, more complex engagements. She drew attention to the draft illustrative example, which shows how the firm's policies or procedures may differ when dealing with engagement team members who are part of the firm compared to those who are not.

#### PIOB COMMENTS

Mr. Kashiwagi welcomed the proposed changes and supported the discussion that had taken place at the CAG meeting.

#### WAY FORWARD

Ms. Provost thanked the representatives and observers for their feedback. She noted that proposed ISA 220 (Revised) is planned for approval at the June 2020 IAASB meeting.<sup>8</sup>

#### ISA 600 – Group Audits (Agenda Item F)

##### ISA 600 – Group Audits

- To *REPORT BACK* on the September 2019 meeting
- To *OBTAIN* Representatives' views on proposed Exposure Draft ISA 600 (Revised)

Mr. Jui introduced the topic by explaining the ISA 600 Task Force's activities since the September 2019 IAASB CAG meeting and by explaining the ISA 600 Task Force's proposals related to the group engagement team's responsibilities and the involvement of component auditors under the risk-based approach to planning and performing a group audit (the risk-based approach), the restructuring of the standard, restrictions to access people and information, materiality considerations in a group audit, documentation, and considerations regarding the exposure period and effective date.

Representatives commented as follows:

#### GROUP ENGAGEMENT TEAM RESPONSIBILITIES AND INVOLVEMENT OF COMPONENT AUDITORS UNDER THE RISK-BASED APPROACH

- Mr. Hirai and Ms. Zietsman supported the ISA 600 Task Force's direction with respect to the role of component auditors in the risk-based approach.
- Mr. Dalkin noted that extant ISA 600 was perceived to be mechanical and prescriptive. Mr. Jui agreed and noted that the risk-based approach was developed to address these concerns and to be responsive to evolving group structures.

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<sup>8</sup> Due to the effects of the COVID-19 outbreak, the IAASB made certain revisions to its Work Plan in April 2020, after the IAASB CAG meeting, which included deferring the approvals of proposed ISQM 1, ISQM 2 and ISA 220 (Revised) to the September 2020 IAASB meeting.

- Mr. Hirai noted that group structures are becoming more complex and that the use of information technology is often extensive. In that regard, he questioned whether proposed ISA 600 (Revised) should have more guidance on the use of information technology, for example by including examples in Appendix 2 and 3. Ms. Zietsman noted that the use of information technology is sufficiently addressed by the standard and that the concepts included are aligned with current practice. Mr. Jui explained that proposed ISA 600 (Revised) only addresses matters that are special considerations related to group audits and that the standard builds on other standards such as ISA 315 (Revised 2019). Mr. Jui noted that the ISA 600 Task Force obtained input from an IT specialist and that two ISA 600 Task Force members were also members of the ISA 315 Task Force. Mr. Jui further noted that the ISA 600 Task Force was of the view that proposed ISA 600 (Revised) includes sufficient guidance on the use of information technology.
- Ms. Zietsman suggested to clarify, in paragraph 40, that the group engagement team should communicate with component auditors on a timely basis and throughout the group audit engagement. Ms. Zietsman further suggested to clarify that some of the matters required by paragraph 41 should be communicated as they happen (for example, non-compliance with laws and regulations or indicators of possible management bias), while other matters could be communicated towards the end of the audit. In addition, she noted that for some of the matters in paragraph 41, the group engagement team may want to understand how the component auditor addressed the matter. Mr. Hirai added that component auditors should, in addition to uncorrected misstatements as required by paragraph 41(c), also communicate corrected misstatements to the group engagement team as such misstatements may be indicative of internal control deficiencies that are common across components.
- Mr. Hirai noted that it is not clear why paragraph 34 uses 'discuss' and paragraph 35 uses 'evaluate' when both paragraphs deal with further audit procedures to be performed by component auditors. He also noted that the ISA 600 Task Force could clarify what is expected from the group engagement team in its interactions with component auditors.
- Mr. Hansen asked whether the wording used in paragraphs 10 and 16 could be more consistent. Paragraph 10 states that the group engagement partner shall be sufficiently and appropriately involved, while paragraph 16 states that the group engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of the component auditor. Ms. Zietsman noted that paragraph A15 explains that the group engagement partner may assign responsibilities to other members of the engagement team, but that it may not be clear that responsibilities may be assigned to component auditors (for example, with respect to direction and supervision at the component level).
- Ms. Landell-Mills commented that it is important for investors to understand the nature of the relationship and frequency of interaction between the group engagement team and component auditors. She also questioned whether this standard increases the group auditor's exposure to liability. Mr. Jui noted that the standard was revised to enhance audit quality and that the auditor's liability may depend on the auditor's jurisdiction.

#### RESTRUCTURING

- Messrs. Hansen and Dalkin and Ms. Zietsman supported the restructuring. Mr. Hansen added that the public interest is not well served if the group engagement team's assessment of the group's ability

to continue as a going concern is done at the end of the audit, and therefore he supported the new location of the going concern section.

- Mr. Hirai noted that paragraph 25 does not cover communications from the component auditor to the group engagement team on going concern. In that regard, he noted that component auditors may identify events or conditions that may cast significant doubt on the group's ability to continue as a going concern. Mr. Jui noted that the wording in paragraph 25 has been changed to 'discuss' to emphasize the two-way communication between the group engagement team and component auditors. Mr. Hansen questioned why the group engagement team needs to discuss with component auditors any events or conditions that may cast significant doubt on the component's ability to continue as a going concern. Ms. Zietsman agreed with the matters raised by Messrs. Hirai and Hansen and added that this requirement should be clarified.

#### RESTRICTIONS ON ACCESS TO PEOPLE AND INFORMATION

- Ms. Landell-Mills noted that investors would like transparency about any restrictions on access to people and information and questioned whether this could be disclosed in the auditor's report. Mr. Jui noted that the auditor may include a key audit matter on restrictions on access to people and information.
- Ms. Zietsman supported the ISA 600 Task Force's direction on restrictions on access to people and information. She noted that restrictions on access to people and information for a non-controlled entity or business unit (e.g., an equity accounted investee) are different than for a consolidated entity or business unit and questioned whether more guidance is needed to explain that obtaining access to people and information may be more difficult in such circumstances. Ms. Zietsman suggested to add more context on why asking for a different filing date (as noted in paragraph A27) may overcome access issues, and on how access restrictions may call into question the integrity of group management (as noted in paragraph A28).

#### MATERIALITY CONSIDERATIONS IN A GROUP AUDIT

- Ms. Zietsman supported the new definition on aggregation risk. She questioned whether the definition of component performance materiality should refer to 'amounts' as this may imply that there is more than one component performance materiality for a single component. Ms. Zietsman also suggested that the ISA 600 Task Force consider the consistency between this definition, paragraph 26 and the related application material.

#### DOCUMENTATION

- Mr. Hirai suggested to include a requirement to document the group engagement team's determination of components for purposes of planning and performing audit procedures in a group audit, given the change in the definition of a component. Mr. Hirai also suggested to include a list of matters related to communication with component auditors that should be documented, for example, the group audit instructions from the group engagement team and the engagement completion document sent by the component auditors. In addition, he noted that the examples of the group engagement team's documentation of its involvement in the work of component auditors, as set out in paragraph A126, should be a requirement.

#### OTHER MATTERS

- Ms. Zietsman suggested that the ISA 600 Task Force considers the wording of some of the requirements in the acceptance and continuance section as it is not clear that these requirements relate to the acceptance and continuance decision. In that regard, she specifically noted paragraphs 11 and 16.
- Mr. Sobel noted that the order of the five components of the system of internal control in Appendix 2 is aligned with ISA 315 (Revised 2019), but that the order is different from the COSO Framework<sup>9</sup> and therefore may confuse stakeholders.

#### WAY FORWARD AND EFFECTIVE DATE

- Mr. Dalkin asked Mr. Jui what the current plan is for finalizing the standard and when the IAASB CAG would next be updated. Mr. Jui noted that the Board will vote on the Exposure Draft of proposed ISA 600 (Revised) at its March 2020 meeting. He also noted that the ISA 600 Task Force aims to present a high-level summary of the responses to the Exposure Draft to the IAASB CAG in the IAASB CAG's September 2020 meeting. Mr. Seidenstein added that, if the Board approves the Exposure Draft of proposed ISA 600 (Revised) in March, it will be published in the latter part of April 2020.
- Mr. Orth suggested to align the effective date of ISA 600 (Revised) with the effective dates of the quality management standards.<sup>10</sup>

#### PIOB REMARKS

Mr. Kashiwagi thanked the ISA 600 Task Force for its work and supported the overall direction of the project.

#### Quality Management – ISQM 2 (Agenda Item G)

##### Quality Management – ISQM 2

- To *REPORT* back on the September 2019 meeting.
- To *OBTAIN* Representatives' views on the ISQM 2 Task Force's proposed revisions relating to:
  - Engagements subject to an engagement quality (EQ) review in proposed ISQM 1; and
  - The objectivity of the EQ reviewer, including a mandatory cooling-off period for individuals moving into the role of EQ reviewer after having served as the engagement partner in proposed ISQM 2.

Mr. Vanker introduced the topics. In addition to the specific questions posed to the CAG, Representatives were also asked whether there are any other matters that should be considered by the Board before finalizing proposed ISQM 2.

<sup>9</sup> Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Enterprise Risk Management—Integrated Framework* ~~Internal Control – Integrated Framework~~

<sup>10</sup> The quality management standards consist of Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, Proposed ISQM 2, *Engagement Quality Reviews*, and Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*.

Representatives commented as follows:

#### SCOPE OF ENGAGEMENTS SUBJECT TO AN EQ REVIEW

- Representatives were supportive of the ISQM 2 Task Force's proposed revisions on the scope of the engagements subject to an EQ review. Mr. Dalkin reiterated that the CAG was fully supportive of the direction of proposed ISQM 2 from its inception. In addition, Messrs. Dalkin, Orth and Ruthman also noted that the proposed revisions relating to the third bucket provided a good “catch-all” category and provided a balanced and workable approach (for example, in the public sector), in determining engagements for which an EQ review is an appropriate response to assessed quality risks.
- Mr. Orth suggested considering including in the first bucket (i.e., audits of financial statements of listed entities) entities going public with an initial public offering. Mr. Vanker highlighted that the related application material for the third bucket (i.e., engagements subject to an EQ review as an appropriate response to assessed quality risks) included engagements that involve reporting on financial or non-financial information that is expected to be included in a regulatory filing, or that may involve a higher degree of judgment, such as pro forma financial information to be included in a prospectus.
- Mr. Thompson recognized the ISQM 2 Task Force's efforts to engage with the IFAC SMP Committee and suggested that the ISQM 2 Task Force continues to coordinate with IESBA in relation to its project on the [Definitions of Listed Entity and PIE](#). Mr. Vanker confirmed that the ISQM 2 Task Force will continue to coordinate with the IESBA on this project and noted the IAASB has two correspondent members on that project's task force.

#### OBJECTIVITY AND COOLING-OFF PERIOD

Representatives were generally supportive of the ISQM 2 Task Force's proposed revisions on objectivity and a mandatory cooling-off period. The proposed revisions require a mandatory two-year cooling-off period (or longer if required by relevant ethical requirements) before an engagement partner can assume the role of EQ reviewer, and apply to all engagements for which an EQ review is performed. Messrs. Dalkin and Gaylen noted that an EQ review is an important aspect of audit quality and expressed support for the cooling-off period in proposed ISQM 2. Ms. Wolf noted the proposed revisions relating to objectivity and a cooling-off period in proposed ISQM 2 are reasonable (resource constraints notwithstanding). Mr. Seidenstein highlighted that comments received during the exposure period relating to public interest and investor perspectives fully supported a mandatory cooling-off period in proposed ISQM 2.

Other comments and suggestions included:

- Ms. Landell-Mills noted that the mandatory two-year cooling-off period may be too short and suggested clarifying how the independence of the EQ reviewer is addressed in proposed ISQM 2.
- While agreeing that the proposed revisions are sensible measures from an investor and a regulatory perspective, Ms. Robert and Mr. Orth raised concerns about the impact or constraint of an additional mandatory cooling-off period in proposed ISQM 2 on the existing internal engagement partner rotation and external firm rotation requirements (e.g., European Union). Mr. Norberg also raised concerns about how this would impact engagements performed for European businesses.
- Mr. De Tullio suggested carving out the mandatory cooling-off period in proposed ISMQ 2 for small- and medium-sized practices.



- Ms. Zietsman noted that it was important to have the requirements for the EQ reviewer in one location but suggested exploring a similar exemption provided for smaller firms in the PCAOB standard for EQ reviews.

In closing, Mr. Vanker clarified whether Representatives have any other matters that should be considered by the Board before finalizing proposed ISQM 2. Mr. Vanker noted no further comments from Representatives other than the proposed effective date of the three quality management standards raised by Mr. Orth (i.e., effective for reporting periods beginning on or after December 15, 2022). In addition, Mr. Vanker emphasized that an EQ review is not needed for every engagement other than those covered within the three categories of engagements subject to an EQ review in proposed ISQM 1. Mr. Vanker further observed that some network firms are already implementing mandatory cooling-off periods for the same purpose of safeguarding the EQ reviewer's objectivity.

#### WAY FORWARD

Mr. Dalkin noted the broad support expressed for the proposed revisions but encouraged the IAASB to further consider the concerns and suggestions that had been raised. Mr. Vanker thanked the Representatives for their comments and noted that the proposed revisions will be discussed at the March 2020 IAASB meeting. Mr. Vanker also noted that proposed ISQM 2 is planned for approval at the June 2020 IAASB meeting.<sup>11</sup>

#### Audit Evidence (Agenda Item I)

##### Audit Evidence

- To *REPORT BACK* on the September 2019 meeting
- To *RECEIVE an update* on the activities of the IAASB Audit Evidence Working Group

Mr. Dohrer provided an overview of the information gathering and targeted outreach activities of the IAASB's Audit Evidence Working Group (AEWG) since the September 2019 IAASB CAG meeting.

Representatives commented as follows:

- Mr. Sobel highlighted some of the unique challenges associated with blockchain technology which may not be associated with other types of evolving technologies. Given these challenges, Mr. Sobel asked whether blockchain was being considered as a separate workstream in the information gathering and outreach activities. Mr. Dohrer acknowledged the importance of understanding the accuracy and completeness of the underlying data when using technology. He explained that the discussions have been focused more broadly on the application of professional skepticism and the credibility of the sources of information, and in the context of blockchain, that a key issue is who has access to the blockchain. Mr. Dohrer also explained that the approach is to explore possible principle-based solutions that may apply to technology more broadly, and that blockchain has not been a specific point of focus.

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<sup>11</sup> Due to the effects of the COVID-19 outbreak, the IAASB made certain revisions to its Work Plan in April 2020, after the IAASB CAG meeting, which included deferring the approvals of proposed ISQM 1, ISQM 2 and ISA 220 (Revised) to the September 2020 IAASB meeting.

- Ms. Shiffman asked whether the AEWG has solicited input from preparers of financial statements regarding audit evidence. Mr. Dohrer noted the difficulty in engaging with preparers on audit-related topics, however he welcomed further dialogue with Ms. Shiffman to discuss and explore the perspectives of preparers in relation to audit evidence. Mr. Dohrer highlighted that the scope of the information gathering and outreach activities extends to the entity's use of technology in preparing financial statements and how this may affect the audit.
- Ms. Landell-Mills noted concern in relation to the explanations in key audit matters in auditor's reports that often appear overly focused on information used by management and lack references to sources of evidence outside of management. Mr. Dohrer acknowledged the concern, in particular related to accounting estimates, and emphasized the importance of exercising professional skepticism in challenging management's information. He added that in developing ISA 540 (Revised),<sup>12</sup> the Board deliberated the extent to which external sources of information should be considered, which may not be practicable in every instance. Mr. Dohrer further noted that extant ISA 500<sup>13</sup> requires the auditor to obtain evidence about the accuracy and completeness of information produced by the entity, however, since external information is not subject to the same requirement, stakeholders have expressed concern about the auditor's responsibility to consider the accuracy and completeness of such information. He added that the AEWG is exploring this issue, particularly in circumstances when external information contradicts management's information.
- Ms. Robert asked for clarification regarding the scope of the project, noting that the presentation by Mr. Dohrer appeared to suggest that the scope has been broadened to include the revision of other ISAs. Mr. Dohrer confirmed that the scope of the project remains on the topic of audit evidence, as contemplated by ISA 500, however the issues associated with audit evidence may also be relevant to other ISAs. Mr. Dohrer explained that as part of considering the feedback from the information gathering and outreach activities and the AEWG's recommended further actions, the feedback on the other ISAs would be considered but standard setting may not necessarily be the resulting action. Mr. Seidenstein agreed, adding that the information gathering and outreach activities were intended to provide evidence to support proper scoping of the activities of the Board related to audit evidence, in line with the IAASB's new 'Framework of Activities.'<sup>14</sup>
- Mr. Dalkin noted the current project undertaken by the Auditing Standards Board of the American Institute of Certified Professional Accountants' (AICPA) to revise AU-C section 500, *Audit Evidence*. Mr. Dalkin asked about the extent of consultation with the AICPA to leverage their work. Mr. Dohrer expressed his support for coordination or knowledge sharing with national standards setters. Mr. Dohrer added that the work being undertaken by the AICPA is one of the sources of information that will be referenced in presenting findings and recommendations to the Board in June 2020.

#### WAY FORWARD

Mr. Dohrer thanked the Representatives for their feedback and noted that all the feedback, together with the results of the information gathering and outreach activities, will be provided to the Board at the June 2020

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<sup>12</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>13</sup> ISA 500, *Audit Evidence*, paragraph 9

<sup>14</sup> As part its Strategy for 2020–2023 and Work Plan for 2020–2021, the IAASB is developing a *Framework for Activities*, the concept of which is to better articulate how the IAASB organize its efforts to deliver on committed actions.

IAASB meeting, including the AEWG's recommendations for possible further actions, such as guidance or standard setting, if it is identified that further action is necessary.

### Less Complex Entities (Agenda Item N)

#### Less Complex Entities

- To *REPORT BACK* on the March 2019 meeting
- To *PROVIDE* Representatives' an overview of the feedback to date related to audits of Less Complex Entities (LCEs), including from the Discussion Paper (DP) and to *OBTAIN* Representatives' views of the work being undertaken by the LCE Working Group in relation to the way forward for IAASB action in relation to Audits of LCEs.

Prof. Simnett, Chair of the LCE Working Group introduced the topic and invited comments on the specific questions posed to the CAG.

#### PROPOSED DIRECTION FORWARD IN RELATION TO AUDITS OF LCEs

Representatives and Observers commented as follows:

- Messrs. De Tullio and Hansen explained that the Financial Accounting Standards Board (FASB) had recently published a *Guide for Small Businesses* which provides a deferred application date for certain pronouncements and that it may be useful for the LCE Working Group to consider further learning from the FASB how the guide, and especially how the delayed effectiveness of the standards, has been structured.
- Mr. De Tullio supported the LCE Working Group's proposed way forward to consider a multi-workstream approach to address the challenges with audits of LCEs. He questioned whether it would be more practicable to take an approach to first revise the standards that are presently in draft (for example ISA 220 and ISA 600) rather than revising all the ISAs in a single substantial project. Prof. Simnett noted that the revision of some standards which respondents to the DP noted as especially challenging for LCEs (such as ISA 315 (Revised)<sup>15</sup> and ISA 540 (Revised))<sup>16</sup> had already been recently revised and therefore for those standards it would be difficult to make further revisions at this stage. He added that for the standards forming part of the quality management standards series,<sup>17</sup> this approach could possibly be considered but noted that it may be too late in the process considering the stage of these projects. He also highlighted that before any revisions to the ISAs could be made, there are steps which need to be undertaken including the development of drafting principles and guidelines for a revised presentation of the standards. He noted that once these drafting principles and guidelines had been developed, only then could they then be applied to any standards under revision.

<sup>15</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

<sup>16</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*.

<sup>17</sup> The quality management standards series includes three exposure drafts, International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; ISQM 2, *Engagement Quality Reviews*, and International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*.

- Mr. Thompson inquired about the percentages of the respondents to the DP who agreed with the options proposed. Prof. Simnett and Ms. Bahlmann explained that there had been mixed views from respondents to the options proposed in the DP, with no overwhelming clear majority for any of the options as the only solution. It was noted that respondents recognized the need to revise the ISAs as an ideal solution, but acknowledged this would not be practicable in the short term, and therefore the option of the separate standard as an effective and efficient approach in the shorter term was supported. Prof. Simnett also added that respondents to the DP had noted that guidance within methodologies had proved to have some success in assisting engagement teams in managing some of the challenges relating to audit work for smaller entities, and the LCE Working Group therefore planned to further understand the nature and extent of this guidance to determine whether it could help inform the IAASB's work efforts in this area. He further explained that this could be done through further understanding various methodologies and related guidance being used for audits of smaller entities, such as those used by Big 4 accounting firms.
- Mr. Hansen had the view that “an audit is an audit,” and therefore practitioners would need to read and understand the standards in order to apply them effectively. He cautioned of the risk of creating a two standard regime where audits of LCEs may be considered a “light audit” category, which may adversely affect the profession.
- Messrs. [Hirai Kazuhiro](#) and Hansen and Ms. Landell-Mills emphasized that should a separate standard for audits of LCEs be developed, then the description of LCEs should explicitly exclude listed companies, companies with public accountability and those with public debt, so as to avoid application of the separate auditing standard to those entities based on interpretation.
- As a number of CAG members could not attend this session, Mr. Dalkin reminded participants that during previous CAG discussions, CAG Representatives encouraged that a “building-blocks approach” be considered as a possible approach to revising the ISAs (with a goal of achieving reasonable assurance). Mr. Seidenstein noted that through the development of drafting principles and guidelines for a revised presentation of the standards, the scalability of the standards to their “building-blocks” may be addressed. Further, Mr. Seidenstein emphasized the notable and increasing stock of standards addressing audits of LCEs being developed by various jurisdictions and regions world-wide. He added that one of the decisions that would need to be considered going forward is the scope of the separate standard, i.e., for which companies it would be suitable, taking into account the strong preference that listed companies and those with public accountability be excluded from the scope. Mr. Botha confirmed that it is possible to achieve reasonable assurance in different ways, noting that as this had already been achieved by IAASB with other standards, it could be possible with respect to the development of a separate standard for audits of LCEs.
- Ms. Robert questioned whether there would be convergence between the proposed workstreams planned at some time in the future. She further explained that if the “building-blocks” had been properly identified then the separate standard would be the first building block. Prof. Simnett and Ms. Bahlmann explained that at this point it would be difficult to anticipate whether, and/or at which point, both workstreams may converge, however this would be considered as the projects were progressed and a decision made at a later time. It was highlighted that the work under both workstreams would inform the other, and the LCE Working Group anticipates many synergies between the workstreams.

## PIOB COMMENTS

Mr. Kashiwagi emphasized that at the last CAG meeting where this topic was discussed (in March 2019), a strong concern had been expressed on developing a separate standard for audits of LCEs as this may lead to a “two-tier” profession. He therefore encouraged that there is just one set of standards. In addition, he highlighted that securities regulators have a strong preference for audits of listed companies and companies with public debt to be based on a single, high quality auditing standards, as is the case with the current ISAs, without consideration if the entity is complex or less complex. He also added that further consideration should be given to the ~~timing-timeline required to implement~~ the proposals.

## WAY FORWARD

Prof. Simnett thanked the Representatives for their feedback, and acknowledged the need to further consider the scope of the entities for which the separate standard for audits of LCEs could apply. He noted that the LCE Working Group would continue to explore the “core building-blocks” within the present ISAs in order to identify the most effective approach to be used to develop a separate standard.

## Other Agenda Items

Due to the COVID-19 pandemic, the IAASB condensed and reduced the IAASB CAG agenda to facilitate a virtual meeting for those Representatives who were unable to physically attend the meeting in New York. Mr. Botha, assisted by other IAASB Staff as applicable, provided a high-level overview of the following projects that were initially included in the agenda, but subsequently excluded or significantly reduced when finalizing the revised condensed agenda:

- **Report Back Agenda Items:**
  - Agenda Item C – ISRS 4400 (Revised) <sup>18</sup>
  - Agenda Item K – IESBA Code Conforming Amendments
  - Agenda Item O – ISA 315 (Revised 2019)
- **Update on Project and Report Back Agenda Items:**
  - Agenda Item E – IAASB Strategy for 2020–2023 and Work Plan for 2020–2021
  - Agenda Item H – Extended External Reporting
  - Agenda Item J – Technology

## Closing Remarks

### IAASB CAG CHAIRMAN REMARKS

Mr. Dalkin thanked the CAG Representatives and Observers for their preparation and participation during the meeting. Mr. Dalkin also acknowledged and thanked staff for the meeting arrangements and closed the meeting.

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<sup>18</sup> International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*