

|  |  |  |
| --- | --- | --- |
| **Meeting:** | IAASB Consultative Advisory Group | **Agenda Item**  **A.3** |
| **Meeting Location:** | Virtual Zoom Meeting |
| **Meeting Date:** | March 8–9, 2021 |

**Draft Minutes of the Public Session of the Meeting of the**

**INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)**

**CONSULTATIVE ADVISORY GROUP (CAG)**

**Held on December 1, 2020 via Video Conference[[1]](#footnote-1)**

**New York, USA**

|  |  |  |
| --- | --- | --- |
| **PRESENT**  **Representatives** |  | |
| Mr. Jim Dalkin | Chair | |
| Dr. Hysen Cela | European Federation of Accountants and Auditors for SMEs (EFAA) | |
| Dr. Bello Lawal Danbatta | Islamic Financial Services Board (IFSB) | |
| Mr. Robert J. De Tullio | Basel Committee on Banking Supervision (Basel Committee) | |
| Mr. Takeshi Hirai | International Organization of Securities Commissions (IOSCO) | |
| Ms. Conchita Manabat | International Association of Financial Executives Institutes (IAFEI) | |
| Ms. Wei Meng | World Federation of Exchanges (WFE) | |
| Mr. Paul Munter | IOSCO | |
| Dr. Claes Norberg | Business Europe (BE) | |
| Mr. Christian Orth | Accountancy Europe (AE) | |
| Mr. Daniel Pavas | Interamerican Accounting Association (IAAA) | |
| Mr. Henry Rees | International Accounting Standards Board (IASB) | |
| Ms. Noémi Robert | AE | |
| Mr. Gregg Ruthman | International Organization of Supreme Audit Institutions (INTOSAI) | |
| Ms. Laura Shiffman | Financial Executives International (FEI) | |
| Mr. Paul Sobel | Institute of Internal Auditors (IIA) | |
| Ms. Tara Wolf | International Actuarial Association (IAA) | |
| Ms. Inanc Yazar | Organization for Economic Cooperation and Development (OECD) | |
| Mr. Kazuhiro Yoshii | Japan Securities Dealers Association (JSDA) | |
| Mr. Hüseyin Yurdakul | IOSCO | |
| **Observers** |  | |
| Ms. Dawn McGeachy | International Federation of Accountants (IFAC) Small and Medium Practices (SMP) Committee | |
| Mr. Paul Thompson | EFAA | |
| **IAASB** | |  | |
| Mr. Tom Seidenstein | IAASB Chair | |
| Ms. Fiona Campbell | IAASB Deputy Chair | |
| Ms. Julie Corden | IAASB Member and Task Force Chair | |
| Ms. Josephine Jackson | IAASB Member and Working Group Chair | |
| Mr. Kai-Morten Hagen | IAASB Member and Working Group Chair | |
| Ms. Viviene Bauer | Technical Advisor | |
| Mr. Thokozani Nkosi | Technical Advisor | |
| Mr. Willie Botha | IAASB Technical Director | |
| Ms. Bev Bahlmann | IAASB Deputy Director | |
| Ms. Kalina Shukarova Savovska | IAASB Principal | |
| Mr. Jasper van den Hout | IAASB Principal | |
| Ms. Yvonne Chan | IAASB Manager | |
| Mr. Phil Minnaar | IAASB Manager | |
| Ms. Jane Talatala | IAASB Manager | |
| Ms. Angela Donnelly | Staff Fellow, IAASB | |
| Ms. Karen Sherrill | Executive Assistant | |
| **Public Interest Oversight Board (PIOB)** | Mr. Shigeo Kashiwagi | |
| **APOLOGIES** |  | |
| **Representatives** |  | |
| Mr. Henri Fortin | World Bank (WB) | |
| Mr. Gaylen Hansen | National Association of State Boards of Accountancy (NASBA) | |
| Mr. John Kuyers | Information Systems Audit and Control Association (ISACA) | |

Opening Remarks

Mr. Dalkin welcomed the Representatives to the meeting, including the IAASB Chair, Mr. Tom Seidenstein.

Mr. Dalkin also welcomed Mr. Shigeo Kashiwagi from the PIOB, the IAASB Working Group Chair, IAASB Staff and the observers.

**Audits of Less Complex Entities (LCEs) (Agenda Item A)**

|  |
| --- |
| To *OBTAIN* Representatives’ views on the project proposal for development of a separate standard to audit the financial statements of a less complex entity (LCE). |

Mr. Hagen, Chair of the LCE Working Group introduced the topic, explaining the basis for the development of the project proposal, as well as describing the work that had been undertaken in developing the initial draft of the standard.

Proposed direction forward

Representatives commented generally as follows:

* Mr. Dalkin questioned how the international Standards on Auditing (ISA) requirements could be incorporated to retain the robustness of those requirements (such as the recently revised standards such as ISA 540 (Revised) [[2]](#footnote-2) which were perceived to be complex) while still making appropriate for audits of LCEs. Mr. Hagen explained the process of the development of the initial draft, noting that all core requirements would be included as appropriate in the circumstances of an LCE audit. He referred to the ‘mapping’ document that had been prepared to help understand how the requirements from the ISAs had been incorporated. Mr. Hagen also explained that in order to manage the length of the [draft] audit standard, the standard does not include application material. Instead, he further explained that the structure of the [draft] audit standard follows the flow of the audit, with the objective of writing clear, principle-based requirements which would be more easily understood. He further explained that in the case of ISA 540 (Revised), the LCE Working Group had scoped out the complex estimates and included requirements which are relevant for non-complex estimates that would be more appropriate to audits of LCEs.
* Mr. Munter highlighted the importance of the scoping of the standard. Messrs. Munter and Hirai both supported excluding listed entities explicitly. Mr. Seidenstein agreed as to the importance of the scoping of the standard, and emphasized that it is not intended to apply to audits of listed entities. He also highlighted that individual jurisdictions would have the ability to decide whether or not to use the audit standard, as well as restrict its use further.
* Mr. Munter cautioned against changing the requirements too much as it may create confusion if the two sets of requirements were vastly different, but noted he did support further clarity within the requirements. He also noted a risk that the Board could inadvertently develop an audit standard for LCEs which would differentiate the standard relative to ISAs and which could lead to the perception of lower quality audits for LCEs, and questioned whether an alternative would be to rather develop educational materials for supporting LCE’s apply the ISAs. Mr. Hirai also cautioned about confusion with two sets of standards, also highlighting the need to maintain high-quality audits. Mr. Munter recommended that the project proposal highlight these issues so that they can be monitored and addressed. Mr. Hagen recognized that there is a risk of developing a two-tier system where audits of LCE’s were perceived to be of lower quality, but highlighted that the focus had been on maintaining the robustness of the ISA requirements and therefore maintain a high level of audit quality. Mr. Seidenstein also highlighted the input from the LCE Reference Group, noting that extensive continuous input from the LCE Reference Group. He added that this was put in place to add an additional layer of trust that the standard would achieve a high-quality audit.
* Mr. Hirai encouraged the Board to not widen the expectation gap further with another auditing standard. Mr. Munter encouraged that the LCE Working Group carefully monitor and mitigate these risks as the project progresses.

Representatives commented on the project proposal as follows:

* Ms. Robert, and Messrs. Cela, Norberg, De Tullio, Rees, Pavas and Sobel noted their strong support for the project. Ms. Robert and Dr. Cela highlighted the strategic importance of this project as a sustainable solution with respect to audits of LCEs in Europe. Mr. Pavas highlighted that the development of the audit standard for LCEs is very timely for Latin America, but noted that the scope of the audit procedures needed to be very clear in order for the standard to be successfully used.
* Dr. Cela noted that the audit standard for LCEs is a good solution that could be applicable for both statutory and voluntary audits of LCEs. Ms. Robert, and Messrs. Cela and Norberg highlighted that it is important that a solution for the challenges in audits of LCEs be developed on a global scale because of the present risk of fragmentation where national jurisdictions are developing their own solutions for audits of LCEs. Mr. Seidenstein emphasized that although developing guidance and educational material had been considered, it was decided that the risks of separate jurisdictions developing their own solutions for audits of LCEs could not be mitigated effectively in this manner and divergence at the international level would continue to emerge. He further added that this risk needed to be mitigated and hence the priority for this project.
* Ms. Robert and Dr. Cela highlighted the importance of careful scoping of the standard for audits of LCEs, noting that it would be helpful for examples to be developed to show how the standard may be applied in practice. Mr. Hagen explained that the LCE Working Group would further consider the development of guidance and/or implementation material to support the application of the [draft] audit standard, including what could be done by others.
* Ms. Robert noted that it would be important to understand the difference, as applicable, between applying the audit standard for LCEs and the ISAs, and being transparent in the auditor’s report about which standards have been used for the audit. Ms. Meng highlighted there is a need for auditors to document the reasons why an audit was considered an LCE and that this information should be available to users of such audit reports.
* Mr. De Tullio and Mr. Sobel noted that it would be necessary to address and clarify the point when an entity and its audit become complex and the standard is no longer appropriate, as well as how auditors would transition from one set of standards to the other. Mr. Sobel encouraged that a decision tree be considered to help auditors with the distinction between what is complex and what is less complex. Mr. Hagen explained that the introduction to the [draft] audit standard includes considerations with respect to its applicability, indicators for what makes an audit complex as well as a description of circumstances when the standard is not appropriate to be used. In this respect, Mr. Hagen also noted that there is a requirement to reaffirm the decision on scoping that is also included in the [draft] audit standard. Mr. Hagen further explained that more work needs to be done with respect to transitioning from one set of standards to another. He added that it is likely that the mapping exercise performed can be helpful in this respect as it can be clearly understood which requirements of the ISAs have not been included, or changed, in the [draft] audit standard for LCEs.
* Mr. De Tullio questioned what the implications for audit firms would be, in particular the need for maintaining different training and methodology for auditors applying the audit standard for LCEs versus those undertaking ISA audits. Mr. Hagen explained that because the audit standard for audits of LCEs is based on the ISAs, it is unlikely that there would be significant differences in training for auditors.
* Mr. Thompson highlighted that there are important lessons that can be learned from the International Accounting Standards Board’s (IASB) experience when developing the International Financial Reporting Standard for Small and Medium Sized Entities (IFRS for SME) Standard, especially as there were similar concerns expressed by stakeholders with respect to developing a two-tier system and a lower quality of standards relative to full IFRS. He noted that many of the concerns did not materialize. Mr. Thompson also noted that lessons could be learned from the IASB with respect to maintaining two sets of different standards, and highlighted the importance of the advisory role that the IFRS Implementation Group has in this respect. Mr. Dalkin also shared the USA experience where two sets of audit standards exist, i.e., the standards issued by the Public Company Accounting Oversight Board (PCAOB) applicable for audits of public companies and those issued by the American Institute of Certified Public Accountants (AICPA) applicable for audits of other entities. Mr. Dalkin noted that the differences between these two sets of standards arise mainly as a result of added regulatory requirements by the PCAOB.
* Mr. Rees highlighted the importance of external communications to emphasize that this standard is not of a lesser quality relative to the ISAs. Mr. Rees also explained that one of the decisions the IASB made with respect to the IFRS for SME was to periodically review the need for updates. He also explained that IFRS for SME has limited application guidance within the standard, however he added that the IASB did develop implementation materials and training modules to support its application.

PIOB Comments

Mr. Kashiwagi explained that from the PIOB’s perspective there is a preference for one set of audit standards but at the same time there is understanding for the need for this project. He therefore noted support for the project proposal. Mr. Kashiwagi highlighted that the PIOB concerns raised previously with respect to the project timeline have been addressed as the project proposal indicates a shorter timeline for completion of the audit standard for LCEs (i.e., in December 2022), which has been reduced by one year. In addition, he also noted that the concern with respect to the allocation of resources to support this project had also, to an extent, been mitigated by the establishment of the LCE Reference Group to supplement the activities of the LCE Working Group.

Way Forward

Mr. Hagen thanked the Representatives for their feedback. He explained that the LCE Working Group would be presenting the project proposal for developing an auditing standard for audits of LCEs, and an initial draft of the audit standard, to the IAASB for discussion in December 2020.

Closing Remarks

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

1. Due to the COVID-19 pandemic, the IAASB decided to hold the December 1, 2020 IAASB CAG meeting via video conference. The discussions are captured within these minutes. [↑](#footnote-ref-1)
2. ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* [↑](#footnote-ref-2)