

## Agenda Item 1

**UPDATED (mark-up)**

**Meeting:** IAASB Consultative Advisory Group

**Meeting Location:** Virtual Zoom Meeting

**Meeting Date:** November 30, 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 September 8–9, 2021 via Video Conference<sup>1</sup>**

#### **PRESENT**

##### **Representatives**

Mr. Jim Dalkin	Chair
Mr. Mauro Bini	International Valuation Standards Council (IVSC)
Ms. Hilde Blomme	Accountancy Europe (AE)
Dr. Hysen Cela	European Federation of Accountants and Auditors for SMEs (EFAA)
Mr. Robert J. De Tullio	Basel Committee on Banking Supervision (Basel Committee)
Mr. Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Mr. Takeshi Hirai	International Organization of Securities Commissions (IOSCO)
Ms. Natasha Landell-Mills	International Corporate Governance Network (ICGN)
Ms. Conchita Manabat (only September 8)	International Association of Financial Executives Institutes (IAFEI)
Ms. Wei Meng	World Federation of Exchanges (WFE)

<sup>1</sup> Due to the COVID-19 pandemic, the IAASB decided to hold the September 2021 IAASB CAG meeting via two video conference sessions on September 8 and 9, 2021. The discussions of all the video conference sessions are captured within these minutes.

Ms. Asha Mubarak	Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)
Dr. Claes Norberg	Business Europe (BE)
Mr. Christian Orth	AE
Mr. Daniel Pavas	Interamerican Accounting Association (IAAA)
Mr. Gregg Ruthman	International Organization of Supreme Audit Institutions (INTOSAI)
Mr. Juan Carlos Serrano Machorro <sup>2</sup>	World Bank (WB)
Mr. Sanders Shaffer	International Association of Insurance Supervisors (IAIS)
Mr. Paul Sobel	Institute of Internal Auditors (IIA)
Mr. Paul Thompson	EFAA
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
<b>Observers</b>	
Mr. George Kabwe	International Monetary Fund (IMF)
Ms. Dawn McGeachy	International Federation of Accountants (IFAC) Small and Medium Practices (SMP) Advisory Group
Ms. Barbara Vanich (only September 9)	United States Public Company Accounting Oversight Board (PCAOB)
<b>IAASB</b>	
Mr. Tom Seidenstein	IAASB Chair
Mr. Len Jui (presenter – <b>Agenda Item B</b> )	IAASB Deputy Chair and Task Force Chair
Ms. Sue Almond (presenter <b>Agenda Item D</b> )	IAASB Member and Task Force Chair
Mr. Kai-Morten Hagen (presenter – <b>Agenda Item F</b> )	IAASB Member and Task Force Chair
Mr. Roger Simnett (presenter – <b>Agenda Item H</b> )	IAASB Member and Working Group Chair
Ms. Lyn Provost (presenter – <b>Agenda Item I</b> )	IAASB Member and Working Group Chair

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<sup>2</sup> Mr. Serrano Machorro was attending the meeting as the Representative of the World Bank. The officially appointed Representative of the World Bank, Ms. Xiomara Morel, was unable to attend the meeting.

Mr. Willie Botha	IAASB Technical Director
Ms. Beverley Bahlmann	IAASB Deputy Director
Mr. Brett James	IAASB Deputy Director
Ms. Natalie Klonaridis	IAASB Deputy Director
Ms. Amy Fairchild	IAASB Principal
Ms. Kalina Shukarova Savovska	IAASB Principal
Mr. Jasper van den Hout	IAASB Principal
Mr. Phil Minnaar	IAASB Manager
Ms. Hanken Jane Talatala	IAASB Manager
Mr. Armand Kotze	IAASB Analyst
Mr. Dan Montgomery (presenter – <b>Agenda Item G</b> )	Senior Advisor and Task Force Chair
Ms. Angela Donnelly	Staff Fellow
<b>Public Interest Oversight Board (PIOB)</b>	Dr. Yugui Chen

## **APOLOGIES**

### **Representatives**

Dr. Bello Lawal Danbatta	Islamic Financial Services Board (IFSB)
Ms. Jazmin Gamboa	Financial Executives International (FEI)
Ms. Conchita Manabat (Apologies September 9)	IAFEI
Mr. Henry Rees	International Accounting Standards Board (IASB)
Ms. Barbara Vanich (Apologies September 8)	PCAOB

## Welcome – Agenda Item A

### OPENING REMARKS

Mr. Dalkin welcomed the Representatives to the meeting, the IAASB Chair, Mr. Seidenstein, and the International Ethics Standards Board for Accountants' CAG Chair, Mr. Hansen. Mr. Dalkin also welcomed Dr. Chen from the PIOB, IAASB Task Force and Working Group Chairs, IAASB Staff and public observers who were observing the meeting via the IAASB's YouTube channel.

### MINUTES OF THE PREVIOUS MEETING

The minutes of the previous IAASB CAG meeting held on March 8–9, 2021, were approved.

## ISA 600<sup>3</sup> – Group Audits (Agenda Item B)

### ISA 600 – Group Audits

- To *REPORT BACK* on the March 2021 meeting; and
- To *OBTAIN* Representatives' views on proposed ISA 600 (Revised).

Mr. Jui, Chair of the ISA 600 Task Force, introduced the topic by updating the IAASB CAG on the ISA 600 Task Force's activities since the March 2021 IAASB CAG meeting, including how the ISA 600 Task Force progressed the draft of proposed ISA 600 (Revised).

### RISK-BASED APPROACH

Representatives commented as follows:

Mr. Orth supported the proposed changes, specifically the additions to emphasize the important role that components auditors play in all phases of a group audit as set out in paragraph 3C and the application material. He noted that the ISA 600 Task Force has been very responsive to respondents' comments on the exposure draft of Proposed ISA 600 (Revised) (ED-600).

### DOCUMENTATION

- Mr. Dalkin noted that the IAASB CAG has been of the view that the group auditor should take responsibility for the group audit and that this can be evidenced through documenting the group auditor's involvement. Mr. Orth and Ms. Manabat agreed.
- Mr. Orth supported the ISA 600 Task Force's proposals on documentation, including that the group auditor uses professional judgment in determining the need to review component auditor documentation. Mr. Munter also supported the ISA 600 Task Force's proposals on documentation and noted that the component auditor's documentation forms the basis for the group audit opinion.
- Mr. Hansen noted that the documentation of the component auditor's competency and capabilities is often limited in practice and questioned whether the standard includes sufficient guidance in this

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<sup>3</sup> Proposed International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

regard. Mr. Jui explained that proposed ISA 600 (Revised) builds upon the principles in ISQM 1<sup>4</sup> and ISA 220 (Revised)<sup>5</sup> and that requirements related to competence and capabilities in those standards also apply in a group audit. He added that the ISA 600 Task Force spent considerable time aligning proposed ISA 600 (Revised) to and ISA 220 (Revised). Mr. Botha agreed and referred to the guidance in paragraphs A41 – A44. Mr. Munter also noted that proposed ISA 600 (Revised) should be read in conjunction with the Quality Management standards<sup>6</sup> given that the Quality Management standards will be in place when proposed ISA 600 (Revised) becomes effective. Mr. Orth agreed and added that the group auditor should also take into account the regulatory environment, the knowledge of the engagement team and the engagement team structure when evaluating the competence and capabilities of the component auditor. He noted that it may be useful to add application material in that regard. Mr. Munter responded that the proposed standard addresses the competency and capabilities sufficiently and that non-authoritative guidance could be added later.

#### OTHER MATTERS

- Ms. ~~W~~Meng thanked the ISA 600 Task Force for addressing the key public interest issues ~~as set out in Agenda Item B.4, Appendix 2 and supported the changes to the standard~~. Mmes. Manabat and Mubarak agreed. Ms. ~~W~~Meng noted that ~~almost all a lot of~~ listed entities are multi-national entities group audits and was of the view that proposed ISA 600 (Revised) will enhance audit quality and will therefore benefit investors ~~around the world~~.
- Mr. Munter noted that the ISA 600 Task Force has been responsive to respondents' comments on ED-600. Ms. McGeachy agreed.
- Messrs. Munter and Sarmiento and Mmes. Mubarak and ~~W~~Meng supported the enhancements related to two-way communications between the group auditor and components auditors. In that regard, Mr. Munter highlighted the importance of having timely and regular communications.
- Mr. Dalkin noted that proposed ISA 600 (Revised) is a special considerations standard and asked Mr. Jui to explain what that means. Mr. Jui explained that ISA 600 builds on the other ISAs and that group auditors, in addition to complying with ISA 600 (Revised), should also comply with all other ISAs. He added that the standard addresses practical matters in applying the other ISAs in a group audit and noted that the ISA 600 Task Force enhanced the linkages to other standard in several ways, including by including referring to the foundational standards. Mr. Botha added that the special considerations arise because there is a consolidation process in a group audit and component auditors may be involved.

#### EFFECTIVE DATE

- Mr. Sobel supported the Task Force's proposed effective date and noted that it is realistic. Messrs. Munter and Orth and Ms. Mubarak agreed. Mr. Munter noted that setting the effective date of a standard is a balancing act. On one hand, the earliest possible effective date will help to achieve

<sup>4</sup> 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*;

<sup>5</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>6</sup> The Quality Management standards are ISQM 1, ISQM 2, *Engagement Quality Reviews*, and ISA 220 (Revised)

improvements to audit quality while, on the other hand, sufficient time is needed to implement the standard. Ms. Mubarak added that time is needed to translate the standard.

- Mr. Dalkin asked Mr. Jui to explain how the effective date of ISA 600 (Revised) relates to the effective date of the Quality Management standards. Mr. Jui explained that the Quality Management standards will be effective one year before ISA 600 (Revised) and that the ISA 600 Task Force discussed the need for transitional guidance to explain how ISA 220 (Revised) works with extant ISA 600. Mr. Botha added that the guidance will be high-level and focused on how to apply the principles in ISA 220 (Revised) as the transitional guidance will have a limited shelf life. Mr. Munter supported the approach as set out by Messrs. Jui and Botha.
- Mr. Hansen questioned whether the standard could be effective as of December 15, 2022, for listed entities given the impact of the COVID-19 pandemic. Mr. Botha explained that a staggered implementation approach is not practical as firms in any event will need to update their methodologies and training and 12 months is not sufficient for that. In that regard, he noted that insufficient time for implementation may be detrimental to audit quality.

#### PIOB OBSERVER'S REMARKS

Dr. Chen noted the PIOB's support for the direction of the proposed revisions on key matters, including the public interest issues as identified by the PIOB.

#### WAY FORWARD

Mr. Jui noted the ISA 600 Task Force will update the drafting of proposed ISA 600 (Revised), and plans to present to the IAASB, for approval, an updated version of the standard in December 2021.

#### Work Plan 2022–2023 (Agenda Item C)

##### Work Plan 2022–2023

- To *RECEIVE* an update on responses to the IAASB's consultation; and
- To *OBTAIN* Representatives' views on the initial draft Work Plan for 2022–2023.

Messrs. Seidenstein, Botha and van den Hout, and Ms. Bahlmann introduced the topic by updating the Representatives on the responses to the [Survey consultation](#) and the development of the draft Work Plan for 2022–2023 (the Work Plan).

Representatives commented as follows:

- Ms. Blomme noted that the European Union (EU) will require mandatory assurance on Environment, Social and Governance (ESG) reporting for all large entities within the EU. She highlighted that the requirement will initially be limited assurance but added that the expectation is that the EU will require reasonable assurance on all ESG reports within three to five years. In that regard, she emphasized the importance of the IAASB developing a set of standards that provide assurance on ESG reporting. She added that if such standards are not available, the EU may select another set of standards or develop standards itself. She encouraged that the IAASB take the lead on assurance standards for ESG reporting. Mr. Thompson agreed and added that the market is currently fragmented as different

standards, including ISAE 3000,<sup>7</sup> are currently used to provide assurance on ESG reporting. In that regard, he also noted that many non-CPAs are providing assurance on ESG reporting and that they don't need to comply with relevant ethical requirements and continuing professional development requirements which was of concern. Ms. Blomme noted that some stakeholders find ISAE 3000 confusing as it includes limited and reasonable assurance in one standard. Mr. Seidenstein explained that the IAASB is closely following the developments around ESG reporting and that the Board is ready to act as needed. The IAASB believes that a fragmented market is not in the public interest. He furthermore noted that the IAASB's actions should be informed by the specific needs of stakeholders and gaps in existing standards highlighted that ESG reporting standards also need to mature. Mr. Seidenstein added that the IAASB is in a good place to move forward on assurance on ESG reporting given the recently issued guidance on Extended External Reporting (EER) and our assurance standards (e.g., ISAE 3000 and ISAE 3410).<sup>8</sup> He encouraged the Representatives to inform their stakeholders about recent IAASB initiatives (e.g., EER guidance) and standards (e.g., ISAE 3000) Mr. Dalkin agreed that ISAE 3000 provides a solid basis for assurance on ESG reporting.

- Mr. Ishiwata noted that the demand for sustainability reporting and reporting on climate change is expected to grow quickly and suggested that sufficient resources need to be available to act, if needed. Mr. Yoshii and Ms. Manabat agreed. Mr. Yoshii noted several initiatives globally related to climate change disclosures and ESG reporting more broadly. He added that investors' decisions are influenced by climate change and that the disclosures are not always sufficient. Mr. Seidenstein noted that the IAASB was actively considering a resource to support efforts in this area.
- Ms. Landell-Mills noted that there is a lot of focus on assurance on reporting on non-financial information but that there is not enough focus on the audit of non-financial information, where that is required. In that regard she questioned why the assurance standard or guidance on climate change disclosures is included under 'Assurance' and not under 'Audit' in Table B of the draft Work Plan as presented in **Agenda Item C-2**. She added that financial statements need to properly reflect climate-related risks and that auditors need to actively identify inconsistencies between the assumptions used for accounting estimates and the companies' policies related to climate change. In that regard she provided several examples. She concluded by emphasizing that addressing climate-related risks is in the public interest and that auditors have an important role to play, and therefore encouraged the IAASB to further build on its [Staff Audit Practice Alert on Climate-Related Risk](#). Mr. Seidenstein noted the IAASB's willingness to consider what needed to be done from an assurance and audit standpoint but noted that it was important to understand the specific areas requiring action. He also noted that it was important not to conflate the issues between financial and non-financial information.
- With respect to Table B in the draft Work Plan, Ms. Blomme supported the topics on ISRE 2410,<sup>9</sup> ISA 330<sup>10</sup> and an Assurance Standard or Guidance on Climate Change Disclosures. Mr. Thompson supported the topics included in the draft Work Plan generally.

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<sup>7</sup> International Standards on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

<sup>8</sup> ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements*

<sup>9</sup> International Standards on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

<sup>10</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

- Mr. Pavas noted that, similar to ESG reporting, different standards are being developed globally to provide assurance on internal control reporting and encouraged further consideration of this.
- Mr. Bini noted that few investors responded to the survey and questioned whether that would have influenced the outcome of the ranking the eight themes. He added that investors are generally very interested in assurance on climate change disclosures.

Mr. Seidenstein concluded by emphasizing that there is a real risk for fragmentation but that the IAASB is ready to act, if needed. He further highlighted that the IAASB will continue to closely monitor the development in non-financial reporting and adjust the work plan accordingly.

#### PIOB OBSERVER'S REMARKS

Dr. Chen noted the PIOB's support to conduct further information-gathering activities on 'Assurance for Climate Change Disclosures.' In relation to the IAASB's existing projects, Dr. Chen recommended that the importance of such projects is also continually monitored.

#### Audit Evidence (Agenda Item D)

##### Audit Evidence

- To *REPORT BACK* on the March 2021 meeting
- To *RECEIVE* an update on the project

Ms. Almond, Chair of the Audit Evidence Task Force, introduced the topic by updating the IAASB CAG on the Audit Evidence Task Force's activities since the March 2021 meeting.

Representatives commented as follows:

- Mr. Ishiwata noted the importance of the different types of sources of information intended to be used as audit evidence. In particular, Mr. Ishiwata emphasized the importance of differentiating between different sources of information, including:
  - External sources that are third parties;
  - External sources that are related parties; and
  - Internal sources, given that such information may be subject to management bias.

Ms. Almond noted the nuance in distinguishing between different types of external information sources and indicated that the comment will be considered.

- Mr. Ishiwata noted the importance of emphasizing the risk of automation bias, and at the same time encouraging the use of technology given the benefits in using technology in certain circumstances. Ms. Almond agreed that it is important to strike the right balance between addressing automation bias and encouraging auditors to use automated tools and techniques.
- Dr. Cela noted that the scope of conforming and consequential amendments, resulting from the proposed revisions to ISA 500,<sup>11</sup> should include revisions to the ISA of Financial Statements of Less

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<sup>11</sup> ISA 500, *Audit Evidence*



Complex Entities (LCE), which has been approved for exposure by the Board at the June 2021 IAASB meeting. Ms. Almond agreed with the comment and indicated that it would be considered.

- Ms. Blomme noted the Audit Evidence Task Force's ongoing work regarding the auditor's responsibilities in relation to technology, professional judgment and external information sources. Ms. Blomme asked the Audit Evidence Task Force to consider the auditor's work effort, in particular at what point the auditor has undertaken sufficient work to fulfill their responsibilities.

#### PIOB OBSERVER'S REMARKS

Dr. Chen noted that there appears to be some degree of duplication of requirements related to audit evidence throughout the suite of ISAs. Dr. Chen supported considering whether such requirements may be better placed in ISA 500, however cautioned that relocating requirements from other ISAs to ISA 500 may give rise to omissions across the ISAs. He suggested it may be meaningful to carefully evaluate whether some requirements are more appropriately located in ISA 500, and as such infer that such requirements are applicable to different phases of the audit.

#### WAY FORWARD

Ms. Almond noted that the Audit Evidence Task Force will continue to develop proposed ISA 500 (Revised) and intends to present the first full draft of the proposed standard to the IAASB CAG and Board in March 2022.

#### Development of a Separate Standard for Auditing Financial Statements of Less Complex Entities (Agenda Item F)

##### Less Complex Entities

- To *RECEIVE* an update on the project while the exposure draft is out for consultation.

Mr. Hagen, Chair of the LCE Task Force, introduced the topic by providing an update on the progression of the project since the March 2021 IAASB CAG meeting. He summarized the key discussions and outputs from the March, May and June 2021 IAASB meetings, including noting the approval of the exposure draft (ED-ISA for LCE) in June 2021 (ED-ISA for LCE was published in July 2021 and was presented in **Agenda Item F.2**). Mr. Hagen also provided an overview of the key topics the IAASB is hoping to receive feedback on during the consultation period and summarized the planned outreach activities.

Representatives commented as follows:

Mr. Thompson and Ms. McGeachy expressed strong support for the project and the extended period for consultation. Mr. Thompson welcomed the robust outreach program and explained that he hoped to organize additional regional outreach activities within Europe in association with partners, including AE. He also highlighted the importance of hearing from small- and medium-sized practitioners and small- and medium-sized entities.

Mr. Dalkin closed the session by commending the IAASB on the speed of developing and publishing ED-ISA for LCE and noted that the IAASB CAG was looking forward to hearing the public views.

## WAY FORWARD

After the conclusion of the comment period for ED-ISA for LCE on January 31, 2022, the LCE Task Force will consider the comments received on ED-ISA for LCE from the consultation and outreach, and make changes as necessary to the proposed standard. The IAASB will update the IAASB CAG on its progress on this project later in 2022.

**Auditor Reporting Post Implementation Review (Agenda Item G)****Auditor Reporting**

- To *RECEIVE* an update on the post-implementation review of the new and revised Auditor Reporting Standards.

Mr. Montgomery, Chair of the Auditor Reporting Implementation Working Group, provided Representatives an update on the post-implementation review of the new and revised Auditor Reporting Standards<sup>12</sup> and ISA 720 (Revised).<sup>13</sup>

Representatives commented as follows:

- Mr. Hansen appreciated the update and inquired whether the reporting of non-financial information (e.g., sustainability reporting or reporting on ESG factors) is an area that was considered to be part of the scope of the post-implementation review of the Auditor Reporting Standards and ISA 720 (Revised). Mr. Botha agreed that non-financial information reporting is becoming more prominent, but noted that the post-implementation review focused on the auditor's report as a result of an audit of financial statements. Mr. Botha explained that it is important not to conflate these matters because there is a risk of confusion when the impression is created that non-financial information that is not part of the financial statements is covered by the auditor's opinion on the financial statements.
- Mr. Thompson inquired if there was any evidence from the post-implementation review that key audit matters (KAM) were being communicated in auditor's reports on a voluntary basis (i.e., when not otherwise required). Mr. Montgomery explained that there was not much evidence that indicated broad voluntary communication of KAM for non-listed entities.
- Mr. Orth noted that the auditor's report is an overall opinion on the financial statements and noted that it is important not to be providing separate opinions on certain matters within the financial statements (i.e., piecemeal opinions).

## WAY FORWARD

With the presentation of its recommendations to the Board at the September 2021 IAASB meeting, the Auditor Reporting Implementation Working Group has completed the post-implementation review of the new and revised Auditor Reporting Standards and ISA 720 (Revised). For purposes of completing its

<sup>12</sup> The revised Auditor Reporting Standards comprise: ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*; ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*; ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*; ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*; ISA 570 (Revised), *Going Concern*; ISA 260 (Revised), *Communication with Those Charged with Governance*; and conforming amendments to other ISAs.

<sup>13</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

mandate, subject to the IAASB's direction, the Auditor Reporting Implementation Working Group has proposed to continue to provide support and input to the IAASB's Going Concern, Fraud and Public Interest Entities Working Groups as they progress their work on these topics, and to develop certain non-authoritative support materials as included in the September 2021 IAASB agenda papers. Future work plan decisions will be made as contemplated in the IAASB's [Framework for Activities](#) for certain possible standard-setting activities that may be warranted as highlighted in the Auditor Reporting Implementation Working Group's recommendations.

### **Complexity, Understandability, Scalability and Proportionality (CUSP) (Agenda Item H)**

#### Complexity Understandability Scalability Proportionality

- To *OBTAIN* Representatives' views on key aspects of the proposed CUSP Drafting Principles and Guidelines

Prof. Simnett, Chair of the CUSP Working Group, provided Representatives an overview of the Drafting Principles and Guidelines developed under the CUSP workstream.

#### DRAFTING PRINCIPLES AND GUIDELINES

Representatives commented as follows:

- Mr. Munter questioned what the IAASB is aiming to achieve through developing the Drafting Principles and Guidelines, especially with respect to the reference to the Clarity drafting conventions. Prof. Simnett noted that the objectives of the project include providing a common understanding of how the ISAs are drafted and promoting consistency and clarity in drafting. Prof. Simnett added that the Clarity drafting conventions have been used as a basis for developing the drafting principles and guidelines considering these have stood very well over time and are considered relevant for the ISAs.
- Ms. Blomme supported the objectives of the drafting principles and guidelines, but noted that there are mixed views when it comes to the scalability and proportionality principles as they do not address the 'building-blocks' approach to the ISAs. Prof. Simnett explained that the concept of 'building-blocks' is incorporated in the drafting principles and guidelines. He highlighted that, because the requirements in ISAs apply to audits of all entities, there is a need for any scalability or proportionality considerations contained in them to be as clear as possible and include specific considerations for certain entities and sectors in the application material. Mr. Botha also noted that the package of actions and solutions being developed by the IAASB to address scalability and proportionality of the ISAs includes the development of the non-authoritative guidance on documentation, the ISA for LCE, and the digitization of the handbook. Mr. Botha noted that the specific points and problem areas identified for individual standards are captured in Category A matters, in accordance with IAASB's Framework for Activities. Mr. Botha added that the Board needs to be disciplined in consistently applying the drafting principles and guidelines.
- Ms. Blomme supported the principles related to complexity and understandability of the ISAs and indicated that there is a need for strong leadership in order to enforce that the principles are being consistently followed in drafting of future ISAs.
- Ms. Blomme questioned whether the right due process is being followed as the drafting principles and guidelines are not subject to a public consultation. Mr. Botha explained that IAASB's due process

only applies for IAASB pronouncements and that the Board has debated the drafting principles and guidelines publicly, and will post them on the IAASB's website.

- Mr. Ishiwata noted that undertaking outreach with stakeholders is important before finalizing the drafting principles and guidelines, particularly regarding translation matters.
- Mr. Ishiwata noted that further clarification should be provided in the drafting principles and guidelines on when to use a particular presentation format, for example, the use of the presentation techniques in ISA 315 (Revised 2019).<sup>14</sup>
- Mr. Yurdakul questioned whether the project would result in a review of all ISAs to align them with the CUSP drafting principles and guidelines. Mr. Seidenstein noted that, in his view, it would not be a good use of the Board's time given other important public interest matters, such as assurance on non-financial information. He added that applying the drafting principles and guidelines as standards are developed or revised is a reasonable approach.
- Mr. Pavas commented that this is an important project for the South America region and encouraged that translation into Spanish be provided which would be helpful for their enforcement in this region.

Mr. Dalkin noted that the IAASB CAG will continue to be interested in this project, particularly in light of the interactions with the ISA for LCEs project.

#### WAY FORWARD

Prof. Simnett noted that the CUSP WG will continue to progress the development of the Drafting Guidelines and intends to present a final version to the Board in March 2022,

#### Fraud (Agenda Item I)

- Fraud To *PROVIDE* Representatives with an update on the status of the IAASB's work related to fraud and the Board discussions held to date.

Mmes. Provost, Chair of the Fraud Working Group, and Bahlmann provided Representatives with an update on the status of the IAASB's work on fraud and the Board discussions held to date, including the Board decisions at the April, June and July 2021 IAASB meetings.

#### SUMMARY OF FEEDBACK RECEIVED

Representatives commented as follows:

#### *Exploring Revisions in ISA 240<sup>15</sup> to Increase Transparency in the Auditor's Report Describing Fraud Related Matters*

- Mr. Yoshii and Mmes. Meng and Landell-Mills expressed support for proposals to further explore more transparency in the auditor's report. They noted that describing fraud related matters in the auditor's report may be helpful in narrowing the expectation gap. In response, Ms. Provost expressed appreciation of the support for proposals to further explore more transparency in the auditor's report. She noted 'other' actions that may help in narrowing the expectation gap include emphasizing the

<sup>14</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>15</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

importance of all stakeholders in the financial reporting ecosystem (i.e., all have a role to play in addressing issues raised on fraud).

- Ms. Landell-Mills emphasized that more transparency in the auditor's report is key from an investor's perspective, but expressed interest about the nature of the mixed views expressed. In response, Ms. Provost explained that respondents supporting more transparency in the auditor's report had varying views about matters to be disclosed in the auditor's report (e.g., description of fraud-specific procedures performed, explanation of the extent the audit was capable of detecting irregularities, including fraud, fraud specific KAMs, identified significant control deficiencies and weaknesses relating to fraud, etc.). She further explained that respondents who did not support more transparency on fraud in the auditor's report noted the unintended consequences of undermining the effectiveness of the auditor's procedures by disclosing what the auditor does to all parties, including fraudsters. In addition, she added that some also had the view that more transparency in the auditor's report may not be as helpful because it can be susceptible to 'boilerplate' disclosures.
- Ms. Meng encouraged continued outreach with key stakeholders to further explore more transparency in the auditor's report.

#### *Enhancing Transparency With Those Charged With Governance (TCWG)*

- Mr. De Tullio and Ms. Blomme expressed support for proposals to strengthen the required communications in ISA 240 with TCWG. They noted such proposals may be helpful in emphasizing that role of TCWG in the prevention and detection of fraud. They also recognized the importance of the role of all stakeholders in the financial reporting ecosystem in addressing the issues related to fraud. Ms. Provost explained that the issues related to fraud need to be addressed through the combined efforts in standard-setting by the IAASB and other actions from all participants in the financial reporting ecosystem, including TCWG. She highlighted 'tone at the top' and company culture as being critically important factors in the prevention and detection of fraud.

#### *Revising the Introductory Paragraphs in ISA 240 About Responsibilities of the Auditor and the Inherent Limitations of an Audit.*

- Mr. Munter expressed support for proposals to use clearer and more positive language on the role of the auditor in the introduction to ISA 240. He noted emphasizing the responsibilities of the auditors first before explaining the inherent limitations of an audit in the introduction to ISA 240 may be helpful in changing the mindset of auditors that the auditor's responsibilities are not diminished by the inherent limitations of an audit. Ms. Provost noted that the proposed project includes proposals to revise and enhance the introductory paragraphs in ISA 240 to emphasize the auditor's responsibilities in relation to fraud.

#### *Using Forensic Specialists in an Audit of Financial Statements*

- Messrs. Munter and Yoshii expressed support for proposals to require the consideration of the use of forensic specialists in certain circumstances. They noted such proposals may be helpful in strengthening risk identification and assessment and will also be an effective potential response to identified fraud risks, suspected fraud or actual fraud. Ms. Provost noted the proposed project includes proposals to consider requirements and application material in ISA 240 for the auditor to consider the need for specialized skills, including forensic skills. Such proposals are intended to strengthen risk identification and assessment. ~~She further noted using forensic specialists following~~

~~a risk-based approach will be particularly helpful to less complex entities thereby maintaining scalability of the standard.~~

- Mr. Ishiwata encouraged continued outreach with key stakeholders regarding the use of forensic specialists to take into account the differences in the audit approaches and practices among countries and industries. He noted Japan's "Standard to Address Risks of Fraud in an Audit" provides examples of the use of forensic specialists (e.g., inquiries of management and journal entry testing).

#### *Enhancing the Application of Professional Skepticism*

- Mr. Yoshii expressed support for proposals regarding reinforcing the auditor's exercise of professional skepticism and the Board's decision not to introduce a concept of 'suspicious mindset' in the ISAs. He noted the concept of professional skepticism does not change the auditor's initially neutral view about management's integrity. However, he noted that a suspicious mindset seems to presuppose the existence of fraud, which may cause a strain in the auditor's relationship with TCWG and management (e.g., may cause difficulties for the auditor to obtain information about fraud). Instead of pursuing the concept of a suspicious mindset, he supported enhancing the application of the existing concept of professional skepticism. In response, Ms. Provost expressed appreciation of the support for proposals regarding professional skepticism.
- Mr. Dalkin asked for a clarification as to what enhancements to the application of professional skepticism would entail (i.e., whether it would entail enhanced documentation requirements regarding the exercise of professional skepticism, emphasis on the exercise of professional skepticism throughout the duration of the engagement, or another action). Ms. Provost explained that the 'how' of enhancing the application of professional skepticism would still need to be considered by the Fraud Working Group and would form part of the project. She added that one of the challenges in this area is how to document the exercise of professional skepticism, not just as it relates to fraud in ISA 240, but across the standards.

#### *Clarifying the Definition of Fraud*

- Mr. Hansen queried whether the concepts of bribery and corruption will be included in the definition of fraud for purposes of a financial statement audit. Ms. Provost noted the proposed project will include proposals to clarify the definition of fraud, possibly through application material or non-authoritative guidance to illustrate how concepts like bribery and corruption are interlinked with fraud for purposes of an audit of financial statements.

#### *Making the Engagement Team Discussion More Robust*

- Mr. Hansen noted it would be challenging to expand on what is required to change auditor behavior to make the engagement team discussion more robust. Ms. Provost agreed and recognized the challenges of positively changing auditor behavior through standard-setting.

#### *Technology Considerations in the Current Environment*

- Mr. Yoshii expressed support for proposals regarding technology considerations in the current environment. He noted advances in new technologies are making it possible to audit all transactions rather than using audit sampling in performing audit procedures. He also noted there are existing research or studies about the use of artificial intelligence to detect fraud. Ms. Provost noted the

support for proposals regarding technology considerations in the current environment.

*Clarifying the Auditor's Actions When Non-Material Fraud is Suspected or Identified*

- Mr. Dalkin expressed support for the Board's decision not to expand the scope of the auditor's responsibilities to detect all non-material fraud.
- Mr. Munter queried whether the proposals regarding non-material fraud need to emphasize that determining materiality considers both quantitative and qualitative factors. He added that quantitatively non-material amounts of risk of misstatement due to fraud may qualify as 'material' when considering the relevant qualitative factors. Ms. Provost noted the proposed project includes proposals to clarify the auditor's actions when non-material fraud is suspected or identified. She further noted ~~almost all many~~ frauds start small and grow more material over time, and that the proposals ~~on regarding~~ non-material fraud aims to address ~~this such growth trends~~.

*Further Considering the Presumed Risk of Fraud in Revenue Recognition and What Changes are Needed*

- Ms. Blomme queried what forms the basis of the proposals regarding the rebuttable presumption of fraud risk in revenue recognition. She noted this topic was not included in the scope of the Discussion Paper.<sup>16</sup> Ms. Bahlmann noted issues regarding the rebuttable presumption of fraud in revenue recognition were identified from the roundtable discussions; responses to the Discussion Paper; and other matters raised to date. She ~~noted~~ ~~explained~~ stakeholders called for clarity around the concept of the rebuttable presumption of fraud risk in revenue recognition (i.e., when, and how to rebut) and had mixed views as to whether it remains appropriate, or whether it should be extended to other areas of the audit. She ~~noted~~ ~~highlighted~~ the additional work performed to further analyze the root cause(s) of recent fraud cases indicated that revenue is still a primary area where fraud typically occurs. She also added that this finding supported the Board's decision not to expand or remove the rebuttable presumption of risks of fraud in revenue recognition.
- Mr. Ishiwata encouraged continued outreach with key stakeholders regarding the rebuttable presumption of fraud risk in revenue recognition to take into account the differences in the audit approaches and practices among countries and industries.

*Strengthening Requirements About the Auditor's Considerations for External Confirmations*

- Ms. Blomme queried what forms the basis of the proposals regarding external confirmations. She noted this topic was not included in the scope of the Discussion Paper. Ms. Bahlmann noted issues regarding external confirmation were identified from responses to the Discussion Paper; and areas of focus in the current environment. She noted although there was not a strong call for changes on external confirmations in relation to fraud, this is an area of focus in the current environment by many in the financial reporting ecosystem (i.e., due to recent frauds where external confirmations were problematic).

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<sup>16</sup> Discussion Paper, [Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit](#)

### Other Comments

- Ms. McGeachy noted there are a number of key public interest issues related to fraud in an audit of financial statements. She therefore encouraged ongoing engagement with others throughout the duration of the project to properly inform the IAASB's decisions in addressing the key public interest issues related to fraud. Ms. Provost ~~agreed~~~~recognized~~ there are a number of key public interest issues related to fraud. She noted this highlights the importance of prioritizing topics that are key in addressing the public interest issues, or where there are mixed views. She added that #it is anticipated that more time and resources would be needed to work through some of these issues where there are very strong views.
- Mr. Dalkin reiterated auditors might benefit from a stand-back provision that requires them to consider all facts collectively (e.g., by also looking into analyst reports) and 'see the big picture,' as opposed to only looking at the details. Ms. Bahlmann noted the proposed project includes proposals to incorporate recent changes in ISA 315 (Revised 2019), including the stand-back provision, to make fraud risk identification and assessment more robust. She also noted addressing this topic includes proposals to update the fraud risk factors currently included in ISA 240 (e.g., fraud risk factors identified from short sellers reports).

### PIOB OBSERVER'S REMARKS

Dr. Chen encouraged meaningful revisions in ISA 240 to strengthen the auditor's effectiveness in detecting and reporting fraud. He also highlighted the importance of further exploring more transparency in the auditor's report in light of the corporate failures and scandals across the globe in recent years.

### WAY FORWARD

Ms. Provost thanked the Representatives for their feedback. The Fraud Working Group planned to develop a project proposal for discussion and approval by the IAASB in December 2021. A separate call with Representatives was planned for December 2021<sup>17</sup> to discuss the draft project proposal.

### Cyber Security (Agenda Item J)

Mr. Nette, Chief Executive Officer and Co-Founder of Hive Systems, provided the Representative with a presentation on cyber security.

### Closing Remarks

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

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<sup>17</sup> Thereafter, the final date for the separate call with Representatives to discuss the project proposal was scheduled to take place on November 30, 2021.