

## Agenda Item A

**Meeting:** IAASB Consultative Advisory Group

**Meeting Location:** Virtual Meeting

**Meeting Date:** March 8–9, 2022

**Draft Minutes of the Public Session of the Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)  
CONSULTATIVE ADVISORY GROUP (CAG)  
Held on November 30, 2021 via Video Conference**

### PRESENT

#### Representatives

Mr. Jim Dalkin	Chair
Mr. Ishiwata Akihito	International Organization of Securities Commissions (IOSCO)
Ms. Hilde Blomme	Accountancy Europe (AE)
Dr. Hysen Cela	European Federation of Accountants and Auditors for SMEs (EFAA)
Mr. Rob Choromanski <sup>1</sup>	IOSCO
Ms. Jazmin Gamboa	Financial Executives International (FEI)
Mr. Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Ms. Natasha Landell-Mills	International Corporate Governance Network (ICGN)
Ms. Wei Meng	World Federation of Exchanges (WFE)
Dr. Claes Norberg	Business Europe (BE)
Dr. Christian Orth	AE
Mr. Daniel Pavas	Interamerican Accounting Association (IAAA)
Mr. Gregg Ruthman	International Organization of Supreme Audit Institutions (INTOSAI)

<sup>1</sup> Mr. Choromanski was attending the meeting as the Representative of the IOSCO. The officially appointed Representative of IOSCO, Mr. Paul Munter, was unable to attend the meeting.

Mr. Juan Carlos Serrano Machorro <sup>2</sup>	World Bank (WB)
Mr. Henry Rees	International Accounting Standards Board (IASB)
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)
Mr. Kazuhiro Yoshii	Japan Securities Dealers Association (JSDA)
Mr. Hüseyin Yurdakul	IOSCO

**Observers**

Mr. George Kabwe	International Monetary Fund (IMF)
Ms. Barbara Vanich	United States Public Company Accounting Oversight Board (PCAOB)

**IAASB**

Mr. Tom Seidenstein	IAASB Chair
Mr. Len Jui	IAASB Deputy Chair
Mrs. Lyn Provost (presenter – <b>Agenda Item A</b> )	IAASB Member and Working Group Chair

**IAASB STAFF**

Mr. Willie Botha	IAASB Program and Technical Director
Ms. Beverley Bahlmann	IAASB Director
Ms. Sally Ann Bailey	IAASB Director
Ms. Amy Fairchild	IAASB Principal
Mr. Jasper van den Hout	IAASB Principal
Mr. Phil Minnaar	IAASB Senior Manager
Ms. Hanken Jane Talatala	IAASB Senior Manager
Mr. Armand Kotze	IAASB Manager

<b>Public Interest Oversight Board (PIOB)</b>	Dr. Yugui Chen
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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.

## **APOLOGIES**

### **Representatives**

Mr. Mauro Bini	International Valuation Standards Council (IVSC)
Dr. Bello Lawal Danbatta	Islamic Financial Services Board (IFSB)
Mr. Robert J. De Tullio	Basel Committee on Banking Supervision (Basel Committee)
Ms. Asha Mubarak	Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)
Ms. Conchita Manabat	International Association of Financial Executives Institutes (IAFEI)
Mr. Paul Munter	IOSCO
Ms. Inanc Yazar	Organization for Economic Cooperation and Development (OECD)

### **Observers**

Ms. Dawn McGeachy	International Federation of Accountants (IFAC) Small and Medium Practices Advisory Group (SMPAG)
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## 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' (IESBA) CAG Chair, Mr. Hansen. Mr. Dalkin also welcomed Dr. Chen from the PIOB, the IAASB's Fraud Working Group Chair, Ms. Lyn Provost, 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 IAASB CAG meeting held on September 8–9, 2021, were approved. The minutes of the previous joint IAASB-IESBA CAG meeting, held on September 8, 2021, were also approved, subject to the approval by the IESBA CAG's during its next meeting in March 2022.

## Fraud Project – Agenda Item A

### Fraud Project

- To *REPORT BACK* on the March and September 2021 IAASB CAG meetings; and
- To *OBTAIN* the IAASB CAG Representatives' views on the draft project proposal to revise ISA 240.<sup>3</sup>

Mrs. Provost provided Representatives with an update on the IAASB's development of the fraud project proposal.

### SUMMARY OF FEEDBACK RECEIVED

Representatives commented as follows:

#### *Emphasis on the Auditor's Role and Responsibilities (Including the Responsibilities of Others in the Financial Reporting Ecosystem)*

- Messrs. Ishiwata, Hansen, Thompson and Ms. Landell-Mills pointed out that ISA 240 gives undue emphasis as it relates to the inherent limitations of an audit but not enough emphasis on the auditor's responsibilities regarding fraud. They were of the view that focusing on and clarifying the auditor's responsibilities about what the auditor will do rather than what they will not do may help narrow the expectation gap (performance/delivery gap). Mrs. Provost expressed appreciation for the support for proposals to emphasize the auditor's role and responsibilities regarding fraud and acknowledged the importance of how the auditor's role and responsibilities are described.
- Ms. Blomme highlighted the importance of the role that others (e.g., management, those charged with governance (TCWG), regulators, etc.) play in the financial reporting ecosystem in addressing fraud. She encouraged the IAASB to think about how it could use its global voice to encourage others to play their part in addressing the issues regarding fraud. Mr. Hansen noted that the IAASB, the International Federation of Accountants (IFAC) or other stakeholders may consider actions such as encouraging the sharing of information about fraud through mechanisms such as a fraud center (e.g., recent trends in cyber fraud) that may enable fraud to be more proactively addressed. Mrs. Provost

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<sup>3</sup> International Standard on Auditing (ISA) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

reiterated that all parts of the financial reporting ecosystem are essential to help effectively narrow the expectation gap. While the IAASB could not on its own ‘close’ the expectation gap, she explained that strengthening ISA 240 will help narrow it (which is predicated on the revised standard being appropriately applied). She explained that the proposed actions include initiatives of an educational nature or other outreach that are within the remit of the IAASB. She further explained that the proposed actions also include continued dialogue and engagement with others (e.g., IFAC’s International Panel on Accountancy Education) on issues that relate to actions that are not solely within the IAASB’s remit and require efforts from others in the financial reporting ecosystem.

#### *Specialized Skills*

- Messrs. Hansen and Kabwe expressed support for proposals addressing specialized skills. In circumstances that need the use of forensic skills (or specialists), Mr. Hansen noted it would be important to clarify whether such circumstances would still form part of the audit engagement or be considered a separate other assurance engagement (or a non-attest service). Mr. Kabwe noted that having a robust set of criteria is critical in identifying circumstances when it is appropriate for the auditor to consider the need for specialized skills, including the use of forensic specialists. Mrs. Provost highlighted that the possible actions relating to “forensic specialists” have been expanded to address “specialized skills” (including forensic skills) more broadly, recognizing the need for skills other than forensic skills in addressing fraud.

#### *Responses to the Assessed Risks of Material Misstatement*

- Mmes. Wolf and Landell-Mills highlighted the fraud risk from management bias in developing accounting estimates (e.g., estimates relating to insurance reserves) and noted that this matter needs to be addressed in the project proposal. Mr. Dalkin noted the importance for the auditor to consider conflicting external information when considering the risk of fraud. Mrs. Provost noted that the proposed actions in the draft project proposal includes focusing on an emphasis on management bias as an indicator of fraud when considering the appropriateness of accounting estimates, and strengthening the link to the procedures required in ISA 540 (Revised).<sup>4</sup> She further noted that the proposals include considering a stand-back requirement in ISA 240 to evaluate all relevant audit evidence obtained, whether corroborative or contradictory.

#### *Written Representations from Management*

- In extending the existing written representations on fraud in ISA 240, Mr. Ishiwata noted it is important for auditors to communicate the required written representations from management at an early stage in the audit so that management has ample time to respond and take appropriate action. Mrs. Provost acknowledged it is helpful to communicate the required written representations early in the process, which may also form part of the proposals.

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

- Mr. Sobel highlighted two aspects of technology in the current environment— the use of technology that enables fraud, as well as the auditor’s ability to use technology in detecting indicators of fraud. He also encouraged the IAASB to consider the upcoming key updates to the [Fraud Risk Management](#)

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<sup>4</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

[Guide](#) of the Committee of Sponsoring Organizations of the Treadway Commission, emphasizing the impact of technology on fraud (anticipated in quarter 2 of 2022). Mrs. Provost noted that the project proposal intends to address both aspects of technology (i.e., fraud risks presented by the use of technology, as well as the auditor's use of technology to perform fraud-related procedures). She also explained that ongoing activities in the project will include staying closely connected with all stakeholder groups as the project advances to consider developments in different jurisdictions that may be relevant to the revision of ISA 240.

*Procedures When Fraud Is Identified or Suspected, Including the Relationship Between ISA 240 and ISA 250 (Revised)*<sup>5</sup>

- Depending on the applicable law, regulation or relevant ethical requirements, Mr. Pavas noted other jurisdictions may have more stringent requirements addressing fraud than those in ISA 240. In such instances, he noted that it may be useful to provide guidance in navigating the required actions to be taken when responding to identified fraud or suspected fraud. Mrs. Provost noted the proposed actions include designating a separate section in ISA 240 for required audit procedures when fraud is identified or suspected, with guidance to navigate the required actions to be taken when responding to identified or suspected fraud under ISA 240, non-compliance under ISA 250 (Revised), and non-compliance with laws and regulations under the IESBA Code.<sup>6</sup>

*Professional Skepticism*

- Mmes. Blomme, Meng and Landell-Mills expressed support for the proposals addressing enhancing the auditor's exercise of professional skepticism throughout the audit. Mmes. Blomme and Landell-Mills encouraged clarity around the auditor's considerations in maintaining professional skepticism throughout the audit. Ms. Meng noted that the findings from the additional root cause analysis of fraud cases reinforces the proposed actions addressing professional skepticism. Mrs. Provost thanked Representatives of their support for proposals to reinforce the exercise of professional skepticism throughout the audit (and the standard).

*Transparency with TCWG and in the Auditor's Report on Fraud-Related Responsibilities and Procedures*

- Mmes. Blomme and Meng expressed support for the proposals addressing transparency. Ms. Blomme noted it would be useful to provide guidance through a "decision tree" when determining the auditor's actions when addressing transparency (i.e., whether with TCWG, in the auditor's report or both). Ms. Meng noted that the findings from the additional root cause analysis of fraud cases reinforces the proposed actions addressing transparency. Mrs. Provost acknowledged the support for transparency but at the same time recognized the challenges ahead in determining a balanced approach in addressing this matter, given the mixed views expressed by stakeholders on this matter. She noted that the comment about having steps in process ("decision tree") when addressing transparency is a good thought to take forward.

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<sup>5</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

<sup>6</sup> The IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

### *Scalability*

- Messrs. Ishiwata and Thompson recognized the importance of considering scalability in revising ISA 240 and noted that the proposed actions addressing risk identification and assessment include illustrating the scalability of the requirements by providing examples that are more relevant to less complex entities (LCEs). Given the proposed separate standard for audits of LCEs, Mr. Ishiwata suggested to refrain from using the term LCE when revising ISA 240 to avoid confusion. In addition, Mr. Thompson queried whether the separate standard for audits of LCEs would be expected to incorporate the changes being proposed to revise ISA 240. Mrs. Provost explained that scalability is one of the qualitative characteristics set out in the Public Interest Framework<sup>7</sup> that will be considered in revising ISA 240 (e.g., identifying circumstances when it may be appropriate to use specialized skills, including forensic skills). She further explained that the project will also consider the conforming and consequential amendments arising from this project in the separate standard for audits of LCEs (if any). Mrs. Provost also noted that changes to ISA 240 would be considered in future conforming amendments to the proposed separate standard for audits of LCEs, similar to any other revisions that may result from updates to existing or new ISAs.

### *Other comments*

- Mr. Ishiwata noted that while there are many key issues identified that will be addressed by a project on fraud, “balance” needs to be kept in mind in revising ISA 240 to refrain from changes that are onerous, overburden the auditor or that may inadvertently result in unintended challenges when maintaining professional skepticism.
- Mr. Ishiwata suggested that the proposed actions include addressing circumstances especially when there is an auditor change and how that impacts the audit when performing fraud procedures (for the successor auditor).
- Mr. Dalkin suggested the IAASB to consider the effectiveness of the existing requirements in ISA 240 when revising the standard.
- Mrs. Provost acknowledged the comments.

### **PIOB OBSERVER’S REMARKS**

Dr. Chen noted that the PIOB applauds the Fraud Working Group’s efforts in progressing the project proposal and recognizes that it has been responsive to the PIOB’s recommendations in formulating the proposals. He further noted that the PIOB supports the project objectives to achieve the public interest, particularly clarifying the role and responsibilities of the auditor for fraud in an audit of financial statements. As cited in the agenda papers, he agreed that the introductory paragraphs in ISA 240 explaining the inherent limitations of an audit can be misleading and result in misunderstanding of the auditor’s obligations. He noted that clarifying the role and responsibilities of the auditor will lead to how and to what extent the auditor will have to exercise professional skepticism and therefore undertake procedures that will facilitate effective responses to identified risks.

He explained that it is foreseeable that by the time the revised standard becomes effective, the strengthened requirements in the revised ISA 240 may pose a big challenge for auditors. Therefore, Dr. Chen noted it

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<sup>7</sup> Public Interest Framework published by the Monitoring Group in July 2020 (as part of their report “[Strengthening the International Audit and Ethics Standard-Setting System](#)”)

may be helpful to focus on activities that are educational in nature (including communication activities during the course of project) to keep auditors better informed of the project's progress. He further noted that this may also improve the auditors' readiness in terms of how the revised standard may potentially impact their fraud-related responsibilities and procedures.

In closing, Dr. Chen noted that the proposed project on fraud is critically important in terms of responding to stakeholders' needs, achieving high quality audits and narrowing the expectation gap to better serve the public interest.

#### WAY FORWARD

Mrs. Provost and Mr. Seidenstein thanked the Representatives for their strong support and thoughtful input on the project proposal. The Fraud Working Group planned to present the project proposal for discussion and approval at the December 2021 IAASB meeting.

#### **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.