

**Agenda Item****A.1**

**Meeting:** IAASB Consultative Advisory Group  
**Meeting Location:** New York, USA  
**Meeting Date:** September 10–11 , 2019

**Approved Minutes of the Public Session of the Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)  
CONSULTATIVE ADVISORY GROUP (CAG)**

**Held on March 5–6, 2019**

**New York, USA**

**PRESENT****Members**

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| Mr. Jim Dalkin   | Chairman  |
| Mr. Mauro Bini   | International Valuation Standards Council (IVSC)                      |
| Ms. Vânia Borgerth (only March 5 <sup>th</sup> )       | Associação Brasileira de Instituições Financeiras de Desenvolvimento  |
| Mr. Hysen Cela   | European Federation of Accountants and Auditors for SMEs (EFAA)       |
| Dr. Bello Lawal Danbatta (only March 6 <sup>th</sup> ) | Islamic Financial Services Board (IFSB)                               |
| Mr. Henri Fortin                                       | World Bank  |
| Mr. Gaylen Hansen                                      | National Association of State Boards of Accountancy (NASBA)           |
| Ms. Tara Hansen (only March 5 <sup>th</sup> 2019)      | International Actuarial Association (IAA)                             |
| Mr. Takeshi Hirai                                      | International Organization of Securities Commissions (IOSCO)          |
| Mr. Nigel James  | IOSCO   |
| Mr. Kristian Koktvedgaard                              | Business Europe (BE)  |
| Ms. Conchita Manabat                                   | International Association of Financial Executives Institutes (IFEI)   |
| Ms. Asha Mubarak                                       | Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAAMB) |
| Mr. Daniel Pavas                                       | Interamerican Accounting Association (IAAA)                           |
| Ms. Noémi Robert                                       | Accountancy Europe (AE)   |
| Mr. Gregg Ruthman                                      | International Organization of Supreme Audit Institutions (INTOSAI)    |

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| Ms. Mohini Singh (only March 5 <sup>th</sup> ) | CFA Institute (CFA)                                      |
| Mr. Paul Sobel                                 | Institute of Internal Auditors (IIA)                     |
| Mr. Myles Thompson                             | Accountancy Europe (AE)                                  |
| Mr. Nic van der Ende                           | Basel Committee on Banking Supervision (Basel Committee) |
| Mr. Kazuhiro Yoshii                            | Japan Securities Dealers Association (JSDA)              |
| Mr. Hüseyin Yurdakul                           | IOSCO  |

**Observers**

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|----------------------|---|
| Ms. Dawn McGeachy    | International Federation of Accountants (IFAC) Small and Medium Practices (SMP) Committee |
| Ms. Megan Zietsman** | United States Public Company Accounting Oversight Board (PCAOB)                           |

**IAASB**

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|---|------------------------------------|
| Ms. Fiona Campbell (Acting Chair)                                     | IAASB Deputy Chairman and TF Chair |
| Mr. Marek Grabowski   | IAASB Member and TF Chair          |
| Mr. Len Jui   | IAASB Member and TF Chair          |
| Mr. Roger Simnett (by video conference on March 5 <sup>th</sup> 2019) | IAASB Member and TF Chair          |
| Mr. Willie Botha  | IAASB Technical Director           |
| Ms. Beverley Bahlmann   | IAASB Deputy Director              |
| Mr. Brett James   | IAASB Deputy Director              |
| Mr. Armand Kotze  | IAASB Analyst                      |
| Ms. Joy Thurgood  | IAASB Principal                    |
| Ms. Jane Talatala   | IAASB Manager                      |
| Mr. James Grosvenor   | IAASB Principal                    |
| Mr. Phil Minnaar  | IAASB Manager                      |

**International Ethics Standards Board for Accountants (IESBA)**

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| Ms. Sylvie Soulier | IESBA Member |
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| <b>Public Interest Oversight Board (PIOB)</b> | Ms. Maria Helena Pettersson |
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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.

**APOLOGIES**

**Members**

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| Mr. Obaid Saif Hamad Al Zaabi | Gulf States Regulatory Authorities (GSRA)                    |
| Mr. John Kuyers               | Information Systems Audit and Control Association (ISACA)    |
| Ms. Wei Meng                  | World Federation of Exchanges                                |
| Ms. Anne Molyneux             | International Corporate Governance Network (ICGN)            |
| Ms. Sarah Ovuka               | Financial Executives International (FEI)                     |
| Mr. Henry Rees                | International Accounting Standards Board (IASB)              |
| Mr. Sanders Shaffer           | International Association of Insurance Supervisors (IAIS)    |
| Ms. Inanc Yazar               | Organization for Economic Cooperation and Development (OECD) |

**Observers**

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| Mr. Simon Bradbury | International Monetary Fund (IMF) |
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## March 05, 2019<sup>1</sup>

### Welcome

#### OPENING REMARKS

Mr. Dalkin welcomed the Representatives, including new Representatives, Ms. Tara Hansen (IAA) and Ms. Asha Mubarak (SLAAMB), as well as the new PCAOB observer, Ms. Megan Zietsman. Mr. Dalkin noted that due to unforeseen circumstances, the IAASB Chairman, Prof. Arnold Schilder, was unable to attend the meeting. However, acting on his behalf, Mr. Dalkin welcomed the Deputy Chair of the IAASB, Ms. Fiona Campbell.

Mr. Dalkin also welcomed Ms. Maria Helena Pettersson from the PIOB as well as the IAASB Task Forces and WG Chairs, IAASB Staff, as well as the observers.

#### MINUTES OF THE PREVIOUS MEETING

Mr. Dalkin presented the minutes of the previous meeting to the CAG. No comments were noted and the minutes were approved.

### ISA 315 (Revised)<sup>2</sup> – Risk Identification and Assessment (Agenda Item B)

- To *OBTAIN* Representatives' views on the proposed way forward to address the comments to Exposure Draft ISA 315 (Revised) (ED-315)

Ms. Campbell provided Representatives with an overview of the responses received to ED-315, as well as an update on the ISA 315 Task Force's initial thoughts about how to address the broader issues and concerns raised relating to complexity, scalability and understandability.

Mr. Dalkin acknowledged the work done by the ISA 315 Task Force to address the broader concerns raised by respondents, but expressed concern about the extent of the requirements and application material within the standard, specifically noting that the volume of this material may be interpreted as being too prescriptive, noting that this may be perceived to contradict the objective of 'principle-based' standards. Messrs. Hansen and van der Ende expressed support for the direction of the project.

Messrs. Sobel, Hansen and Van den Ende emphasized the need to keep the standard principles based. These Representatives also noted the complexity that was still in the standard but had the view that by its nature the standard would likely be complex.

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<sup>1</sup> The minutes present the discussions in the order that they were taken. This may not be the same as that indicated on the agenda.

<sup>2</sup> International Standards on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

With regard to the new drafting approach, including the moving of material to the definitions and significantly revising the application material, Representatives commented on this revised approach to drafting as follows:

- Messrs. Dalkin, Sobel, Hansen, Hirai and Ms. McGeachy supported efforts by the ISA 315 Task Force to reduce the length of the standard, and accordingly, when considering the alternative approaches to present the requirements (see **Agenda Item 4.A**), support was expressed for ‘option 2.’ However, Mr. Hirai cautioned that if the Board moved forward with the use of definitions as presented then education about how they should be used would be needed.
- Mr. Fortin acknowledged the objective of ‘option 2’ (as presented in **Agenda Item 4.A**), but questioned the flow of the standard using this approach. He also noted that there may also be too much upfront which may impact how users of the standard understood the rest of the standard. Ms. Campbell agreed that this may imbalance the standard, explaining that the ISA 315 Task Force were exploring different ways to enhance the understandability of the standard, but without making it more complex.
- Mr. Thompson commended the use of definitions to simplify the standard, however noted that although it dealt with complexity it didn’t really address scalability.
- When considering alternatives to reduce the length of the requirements, Mr. James cautioned against the removal of ‘requirements’ to ‘non-authoritative’ material, highlighting the need to balance the robustness of the requirements with the desire to reduce length while maintaining understandability. Mr. Hirai also cautioned about maintaining the robustness of the standard while still considering scalability. Ms. Campbell noted that there is no intention to dilute the robustness of the requirements. Instead, and as presented in option 2, of **Agenda Item 4.A**, she noted that the ISA 315 Task Force proposed an alternative to help complexity and understandability by using shorter sentences and the use of definitions, adding that the ISA 315 Task Force was very mindful of the need to keep the requirements robust.
- Mr. Yoshii expressed caution about the deletion of the detail that was in paragraph 17, noting that this should therefore be appropriately explained within the application material.
- Notwithstanding concerns about the extent of explanatory or application material, Ms. McGeachy cautioned against the removal of some existing and very helpful explanatory guidance that is currently included in the application material. It was suggested that this material could be captured in non-authoritative (or similar) guidance material external to the standard.
- Mr. Hansen highlighted that part of the complexity related to the long sentences, and in some cases, the way they were put together, and urged the IAASB to further consider shorter, more succinct sentences. Ms. Zietsman echoed calls for the standard to be shorter but noted that simply making the sentences shorter may impact the understandability of the requirements as it may be more difficult to know what to do. However, she also acknowledged that shortening the sentences would make it easier to read. Mr. Pavas also agreed that shorter, principles-based standards were not necessarily easier to use.
- Ms. Zietsman cautioned that option 2, as presented in **Agenda Item 4.A**, will only be effective if auditors appropriately understand the relevant definitions or principles, and therefore a fine balance remains between a principle and providing guidance to explain such principle in practical terms. Ms.

Zietsman also agreed that the application material includes helpful explanatory guidance, however, in some areas, the extent thereof may exceed the objective or scope of application material as described in ISA 200.<sup>3</sup> Ms. Zietsman supported the suggestion to include some of this guidance in non-authoritative guides external to the standard.

- Mr. Koktvedgaard supported an emphasis on the purpose of each requirement, however, he cautioned against this being a separate consideration within the requirement – the purpose should be evident when considering the requirement itself. He noted that clear and concise requirements may reduce the extent of application material that is required. Ms. Campbell explained that this was the intent of the ISA 315 Task Force, i.e., to integrate or present the purpose of the required procedures into each requirement. As an example, Ms. Campbell referred to the proposed revisions to paragraph 17 of ED–315 (**Agenda Item 4.A**).

Messrs. Koktvedgaard, Pavas and Dalkin, and Ms. McGeachy emphasized the need for guidance. Ms. Zietsman further emphasized the importance of guidance to support principles-based standards. Ms. Campbell agreed, and noted that the ISA 315 Task Force would explore what guidance was needed to support the proper application of the revised standard.

#### SCALABILITY

Mr. James noted that scalability is equally as important as complexity, and therefore that this had to be a focus as the standard is finalized. Mr. Hirai noted that the issue of scalability could be covered in the application material. Ms. Campbell fully agreed with these observations and acknowledged that scalability and complexity are both seen as a priority by the ISA 315 Task Force. Ms. Campbell further noted that in the view of the ISA 315 Task Force, scalability cannot be fully addressed within the requirements. Instead, the intention of the ISA 315 Task Force is to address scalability in the application material where appropriate, and outside of the standard through the use of educational material such as non-authoritative guidance or frequently asked questions.

Mr. Van den Ende cautioned the ISA 315 Task Force against making changes that may not sufficiently address the more complex situation auditors may encounter, emphasizing the need to be to scale up for more complex situations where necessary.

#### AUDITS OF LESS COMPLEX ENTITIES

Messrs. Van den Ende and Fortin both commented on the interaction of the changes being made to ISA 315 (Revised) and the work that would be done in project related to Audits of Less Complex Entities (LCEs), highlighting the importance of clarity about how they would interrelate. Ms. Campbell noted that often work done in one project informs the work of another project, which is the case in this instance. She highlighted that ISA 315 (Revised) could not be held up to wait for work to be progressed in relation to audits of LCEs, but noted that the discussions about the way that ISA 315 (Revised) is drafted will inform the deliberations in relation to audits of LCEs.

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<sup>3</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

## UNDERSTANDING THE SYSTEM OF INTERNAL CONTROL

Mr. Sobel acknowledged the ISA 315 Task Force's efforts to align the system of internal control with the COSO Internal Control – Integrated Framework.<sup>4</sup>

Mr. van der Ende fully supported the clarifications relating to the design and implementation of controls (D&I), highlighting the importance and benefit to auditors of these procedures, even when undertaking a fully substantive audit approach. Although Mr. Thompson supported the clarifications, he questioned whether the extent of the required work effort where an entity has limited controls is clear. Ms. Campbell agreed that this area remains a challenge as there may be larger entities with simple systems of internal control that may be audited through substantive procedures only. However, she highlighted that this concept supports the notion that scalability, and therefore the extent of D&I procedures largely depends on the degree of complexity (as opposed to size of an entity) and the ISA 315 Task Force believes this can be demonstrated through the use of examples.

Ms. Zietsman highlighted the importance of examples to demonstrate the importance of controls in situations where substantive procedures alone are not enough.

Mr. Fortin questioned whether there was a difference between a 'system' and 'technology,' and why the latter term was not used. In addition, he questioned whether other recent developments (such as block chain) were considered by the ISA 315 Task Force when drafting the proposals. Ms. Campbell responded by explaining that the terminology as proposed is compliant with the COSO framework, and even though the standard intends to be framework neutral, the COSO framework is generally accepted and understood by auditors. In response to recent developments such as block chain, Ms. Campbell noted that the ISA 315 Task Force was cautious not to include specific examples of technology, as this in itself may date the standard once new technologies emerge. Nonetheless, the standard requires the auditor to consider how the entity utilizes information technology and consequently, the auditor has to consider risks that may arise through the use of information technology (IT).

Mr. Sobel highlighted that an entity's internal audit department generally has an intimate understanding of an entity's system of internal control. Given this knowledge, Mr. Sobel questioned whether it would be useful to explicitly require the auditor to consult with the entity's internal audit department, if applicable, when obtaining an understanding of the entity's system of internal control. Mr. Sobel acknowledged that the standard does include other responsibilities in relation to the internal audit function, and in particular when obtaining an understanding of the entity's process to monitor the system of internal control.

## SUFFICIENT AND APPROPRIATE AUDIT EVIDENCE

With reference to the proposal to replace '*sufficient appropriate audit evidence*' with '*to obtain audit evidence that provides an appropriate basis for*' in paragraph 17 of ED-315, mixed views were expressed by Respondents:

- Recognizing that the term '*sufficient and appropriate audit evidence*' is generally associated with the relevance and reliability of audit evidence in drawing conclusions on which to base the auditor's opinion, Messrs. Dalkin, Fortin, Ruthman and James supported the proposed change.
- Ms. Zietsman supported the change noting that the initial proposal could lead to some confusion as

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<sup>4</sup> Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control – Integrated Framework*

it may lead to interpretations that risk assessment procedures alone may be sufficient in addressing risks of material misstatement. She further noted that notwithstanding that risk assessment procedures do provide audit evidence, they are used as the basis for determining further audit procedures to reduce audit risk to an acceptable level.

- Mr. Hansen noted that auditors are familiar with the term '*sufficient and appropriate audit evidence*' and therefore the proposed revision may be confusing.
- Mr. Van der Ende opposed the proposed change, as he believed the auditor should always aim to obtain '*sufficient and appropriate audit evidence*,' no matter the context.

#### SUSCEPTIBILITY TO FRAUD AS AN INHERENT RISK FACTOR (IRF)

Messrs. Koktvedgaard and Sobel noted that fraud is integral to the risk assessment process and due to its inherent risk attributes, it should continue to be included as an IRF.

Ms. Zietsman noted that the output of the risk assessment process is the determination of risks of material misstatement, and these may be due to fraud or error. Ms. Zietsman therefore expressed concern that it may be confusing if the consideration of fraud is treated as both an input to the risk assessment process as well as an output. Accordingly, in her view, fraud by itself does not necessarily belong as an IRF. Instead, and with appropriate emphasis on the risk of fraud and references to ISA 240,<sup>5</sup> the IAASB could consider including the risk of or susceptibility to intentional or unintentional manipulation. In doing so, the auditor would reach the same conclusion, irrespective whether 'fraud' is included as an IRF or otherwise. Mr. Koktvedgaard and Ms. Hansen supported this conclusion.

Mr. van der Ende highlighted the importance of public interest aspects of fraud, noting the importance of cross-referencing between the ISAs, in particular between ISA 315 (Revised) and ISA 240. Mr. Dalkin encouraged the Board to give more recognition to fraud more generally within the standard.

Ms. Campbell thanked the Representatives for their views, and noted that there appeared to be consensus that fraud has to be appropriately emphasized during the risk assessment process, although not necessarily as an IRF. Ms. Campbell also reminded the CAG of the many references to fraud already within ISA 315 (Revised) (as was noted in the Explanatory Memorandum to ED-315 and was supported by the Board), and also further highlighted that there is a separate standard on the auditor's specific considerations relating to fraud therefore that ISA 315 (Revised) was not intended to cover all aspects of the auditor's considerations regarding fraud.

#### REASONABLE POSSIBILITY OF MISSTATEMENT AND MORE THAN REMOTE

Although supportive of the threshold of 'reasonable possibility,' strong support was expressed for the proposal to remove the term '*more than remote*' from the definition of '*relevant assertions*' by Ms. Robert and Messrs. Hansen and Dalkin.

#### SIGNIFICANT RISK

With regard to the change to the definition of significant risk:

- Mr. Sobel acknowledged the responses to ED-315 in relation to the term '*likelihood or magnitude*' in

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<sup>5</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

the definition of significant risk. However, Mr. Sobel noted that in his view, there may be circumstances where both criteria are not necessarily required to justify the determination of a significant risk. Accordingly, he expressed concern with the proposed revision. Messrs. van der Ende and Fortin expressed the same concern, noting that either criteria could trigger a significant risk.

- Mr. Yoshii expressed support for the proposal to change the term to ‘likelihood and magnitude,’ however, he noted that the auditor should be able to apply discretion or professional judgment under the particular circumstances. Mr. Yoshii provided an example of natural disasters in Japan where the likelihood may be perceived to be low, however, it remains possible and does occur from time to time. Mr. Hirai supported this view that there may be circumstances, based on the auditor’s professional judgment, where there may be a significant risk based on low likelihood but high magnitude.
- Ms. Robert supported the notion that the determination of a significant risk includes an element of subjectivity and suggested that the standard should emphasize that professional judgement should be applied by the auditor.

Ms. Campbell responded that, in the view of the ISA 315 Task Force, the reason for identifying significant risks relates to the auditor’s response to those risks, which is a greater work effort than if it is not determined to be a significant risk. However, with the introduction of the concept of a ‘spectrum of risk,’ the revisions in the standard still drive the auditor to an increased response (i.e., work effort) to address a risk that is higher, regardless of if it is designated as a significant risk or not. She also emphasized the judgmental nature of the decisions to be made regarding whether a risk is designated a significant risk or not. Ms. Campbell also reminded Representatives that respondents to ED–315 expressed significant concerns that a scenario where the risk of material misstatement has a really low likelihood, but high magnitude, was interpreted to mean that there was always a significant risk, and the Task was therefore trying to address those concerns.

#### STAND-BACK REQUIREMENTS

Ms. Zietsman noted that the stand-back in ED–315 may be redundant, although she is aware that there were mixed views in response to this question in ED-315. Mr. Dalkin supported the view that the stand-back in ED–315 may be redundant.

#### PIOB OBSERVER’S REMARKS

Ms. Pettersson noted her appreciation for the discussions surrounding the controversial topics of complexity and scalability. In addition, she noted that:

- There is an inherently high or significant risk due to fraud as a result of the manipulation of accounting estimates. In this context, she encouraged a greater awareness of these risks could be embedded in ISA 315 (Revised).
- The standard should emphasize the use of technology (such as data analytics) to validate management’s assumptions in respect of accounting estimates.

Ms. Campbell noted her appreciation for the comments and clarified that the susceptibility to misstatement for accounting estimates is expressly dealt with in ISA 540 (Revised).<sup>6</sup> Nonetheless, through the introduction of the inherent risk factors (in both ED–315 and ISA 540 (Revised)), the auditor’s risk

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<sup>6</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

assessment would naturally gravitate towards accounting estimates that have a higher susceptibility to misstatement due to, for example, subjectivity and complexity. In relation to the use of technology, Ms. Campbell noted that the validation of management’s assumptions is generally associated with the auditor’s response to assessed risks of material misstatement,<sup>7</sup> and therefore not entirely within the scope of ISA 315 (Revised). However, Ms. Campbell recognized that this element may be addressed in the scope of the activities of the IAASB Technology Working Group.

#### IAASB CAG CHAIRMAN REMARKS

Mr. Dalkin highlighted broad support expressed by the CAG for the proposals as presented in option 2 of **Agenda 4.A**. Notwithstanding the support, he reiterated the concern that the proposals appear to focus on complexity, but not scalability. Mr. Dalkin thanked the CAG Representatives for their contribution to the discussions.

#### ISA 600<sup>8</sup> – Group Audits (Agenda Item C)

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| <ul style="list-style-type: none"><li>• To <i>RECEIVE an update</i> on the status of the project</li></ul> |
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Mr. Jui introduced the topic by explaining the ISA 600 Task Force’s activities to date and the Task Force’s views on the possible changes to the scope of a group audit and the definitions in the ISA.

#### SCOPING A GROUP AUDIT

The Representatives commented as follows:

- Mr. Dalkin supported the ISA 600 Task Force’s proposals to focus on the risks of material misstatement in scoping a group audit (also referred to as the ‘top down approach’) instead of the identification of components. He noted that auditors focus too much on the identification of significant components and should focus more on addressing the identified risks of material misstatement. This approach would be more aligned to the approach required by ISA 315 (Revised). Messrs. Hansen, Thompson, and Hirai and Ms. Zietsman agreed.
- Ms. Zietsman noted that the PCAOB has a project to revise its group audits standard as well and that the PCAOB’s staff is working on a recommendation on the way forward. She explained that the direction taken by the PCAOB is similar to the direction proposed by the ISA 600 Task Force as it focusses on understanding the component auditor, focuses on proper supervision, direction and review and highlights the importance of the group engagement team’s involvement. In addition, she noted that the PCAOB’s standard also focuses on risks instead of components. She added that focusing on components has helped firms build their methodologies, but that today’s world is different and that an approach that focuses on risks makes more sense.
- Mr. Hirai noted that the ‘top down approach’ may not work well in situations where the component auditor has influence over the conduct of the group audit because the component is very material to the group audit. Mr. Yoshii questioned whether the ‘top down approach’ will work as it may be hard to identify where the risks of material misstatement are in a group. He highlighted that it is important

<sup>7</sup> ISA 330, *The Auditor’s Responses to Assessed Risks*

<sup>8</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

to focus on the entity's corporate governance as well. With respect to the situation where the component auditor holds a lot of power, Mr. Jui noted that the group auditor signs the opinion and should therefore be responsible for the group audit and that the ISA 600 Task Force will look into the issue, leveraging off the requirements in ISA 220 (Revised).<sup>9</sup>

- Mr. Fortin suggested not to use the term 'top-down approach' as this term does not clearly describe the approach suggested by the ISA 600 Task Force and might be seen by component auditors as putting them in a subservient role.

#### OTHER MATTERS

The Representatives commented as follows:

- Mr. Dalkin questioned whether an auditing standard on group audits is needed given the revisions to the quality management standards and ISA 315 (Revised). Mr. Jui explained that the principles for a group audit may be included in other ISAs but that the auditor should consider additional matters in a group audit, for example, scoping the group audit, communication with component auditors and the assessment of relevant ethical requirements.
- Ms. Manabat noted several matters that make a group audit complex that should be considered by the ISA 600 Task Force including the use of shared service centers, the use of technology, use of another auditor's report and non-controlled entities. Mr. Jui noted that the ISA 600 Task Force will consider these matters.
- Mr. Hansen highlighted the importance of considering relevant ethical requirements in a group audit engagement and supported liaising with IESBA. Ms. Manabat agreed.
- Mr. Hansen questioned how a group auditor should deal with independence when the group auditor is different than the component auditor. Mr. Jui noted that the ISA 600 Task Force will consider this issue as part of this project.
- Mr. Thompson noted that setting component materiality, including how to deal with aggregation risk, is a major issue in practice. He noted that further guidance is needed to address the inconsistencies and reduce the confusion. Mr. Jui noted that the ISA 600 Task Force identified this issue and plans to address this matter.
- Mr. Dalkin noted that the communication between the group auditor and the component auditor is too formalized and is more focused on the mechanics than the risks. Messrs. Ruthman and Hirai agreed. Mr. Hirai highlighted the importance of two way communication between the group auditor and the component auditor and that the component auditor also needs to proactively communicate with the group auditor. Mr. Jui noted that this is one of the issues that the ISA 600 task Force will address.
- Mr. Hirai noted the importance of the group auditor's involvement in the component auditor's work and questioned whether the engagement quality reviewer at a group level should monitor the work of the component auditor and communicate with the component auditor.
- Mr. Fortin noted that the revised standard should address the interactions between the group auditor and the statutory auditor as well as it affects how audits are performed. He noted that stakeholders

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<sup>9</sup> Proposed ISA 220 (Revised), *Quality Control for an Audit of Financial Statements*

such as the Basel Committee and IFEI can provide the ISA 600 Task Force with input on this matter. Mr. Jui noted that the ISA 600 Task Force plans to reach out to various stakeholders to obtain their input.

- Mr. Hansen noted that the situation where a group auditor is also a component auditor is confusing and suggested clarifying this situation.
- Mr. Hansen noted that the access to documentation seems to be a political issue and questioned whether standard-setting could solve this issue. Instead, he was of the view that the access to documentation should be solved on a national level. Mr. Jui noted that group management has access to all documentation for the group financial statements and that auditors should also have access to all information. He added that regulators see this as an important issue as well and that they support addressing it in the revisions of ISA 600.
- Mr. Hansen noted that some stakeholders question whether a group auditor has done enough work to sign the auditor's report as the majority of the audit work may have been performed by another auditor. Mr. Jui explained that the IAASB issued a staff audit practice alert on the responsibilities of the engagement partner in circumstances when the engagement partner is not located where the majority of the audit work is performed and that the PCAOB issued a practice note on this matter. He added that proposed ISA 220 (Revised) also addresses the issue as it relates to whether or not the engagement partner has been sufficiently and appropriately involved in the audit to be able to take responsibility for managing and achieving quality on the engagement, but that the ISA 600 Task Force will consider making changes to ISA 600 to address this matter more specifically in the context of group audits.

#### WAY FORWARD

The ISA 600 Task Force will continue to work on the issues identified and will update the CAG on its progress in September 2019.

#### **Audit Evidence and Technology (Item D)**

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| <ul style="list-style-type: none"><li>• To <i>RECEIVE</i> an update and presentation on a potential audit evidence project and an update on the IAASB's Technology Working Group.</li></ul> |
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Mr. Dohrer provided an overview of the history of the IAASB's work on technology and data analytics. He further explained that the Data Analytics Working Group had evolved into the Technology Working Group, and outlined the focus and intended outputs of the Technology Working Group. Mr. Dohrer also provided an update on the IAASB's developments related to audit evidence, including the issues driving the need for change, the areas that may need to be considered by the IAASB, and key proposals arising from the AICPA's audit evidence project that are important considerations for the IAASB.

Representatives commented as follows:

- Mr. Dalkin questioned whether the attributes of information to be considered by the auditor, as proposed by the AICPA, would be applicable to all forms of evidence. Mr. Dohrer explained that the attributes provide a framework for the auditor in evaluating the evidence in all scenarios. He emphasized that the main goal is to address the concept of persuasiveness of audit evidence in the context of what the auditor is trying to achieve, i.e., if the auditor is persuaded to conclude, then the

evidence is likely sufficient.

- Mr. Yurdakul questioned whose perspective is relevant when evaluating the persuasiveness of audit evidence, for example, from the perspective of the auditor, the regulator, or others. Mr. Dohrer highlighted that this is an issue that has been considered by the AICPA, and noted there are other areas in the ISAs where a judgment is made based on a perspective, notably ISA 230.<sup>10</sup> Mr. Dohrer concluded that the AICPA has used the same perspective as ISA 230 for addressing the sufficiency and appropriateness of audit evidence, i.e., an experienced auditor, having no previous connection with the audit.
- Mr. N. James noted the importance of the concept of authenticity because of the increasing ability to manipulate information and questioned how much emphasis is being placed on this concept. Mr. Dohrer explained the AICPA's approach to addressing authenticity of data and provided an example of how authenticity and sufficient appropriate audit evidence would be considered when the only information obtained by the auditor has been acquired from an external internet-based source.
- Ms. Manabat highlighted the increasing use of shared service centers and the use of technology to facilitate the interaction with and operation of the shared service centers. She explained that this has resulted in the rise of non-traditional source documentation. Mr. Dohrer acknowledged the relevance of shared service centers to the project and how the evolution in technology has not only given rise to new types of information, but has also affected traditional information.
- Mr. Sobel noted that the accelerated use of technology creates risks for firms regarding issues such as confidentiality of data and reliability of IT applications. Mr. Cela indicated that technology is impacting all firms and regulators and emphasized the importance of this being addressed in proposed ISQM 1<sup>11</sup> and proposed ISA 220 (Revised). Mr. Dohrer explained that the IAASB has addressed the firm and engagement team's responsibilities for the use of technology in proposed ISQM 1 and proposed ISA 220 (Revised).
- Ms. Singh highlighted the PCAOB's project on technology. Ms. Zietsman explained that the PCAOB has undertaken extensive work on technology, including gathering information from inspections and economic research. She added that the PCAOB has analyzed this information to consider the most appropriate action, noting the challenge of taking appropriate action at the right time and in the appropriate form, as a premature response could inadvertently impede progress. She emphasized the importance of the IAASB and PCAOB working together. Mr. Dohrer explained the IAASB's project history related to data analytics, and that the IAASB is monitoring the PCAOB's work.
- Ms. Singh and Mr. Thompson noted the extensive use of XBRL in many jurisdictions and questioned whether the IAASB has considered the demand for assurance on XBRL filings. Mr. van der Ende also noted the use of XBRL in the Netherlands and the new XBRL filing requirements in the European Union.<sup>12</sup> Mr. B. James explained that the IAASB had previously initiated a project on XBRL but the project was discontinued because the need for a global standard on assurance on XBRL was not

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<sup>10</sup> ISA 230, *Audit Documentation*

<sup>11</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits of Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

<sup>12</sup> Starting January 1, 2020, all EU issuers (approximately 5,300 EU companies) will be required to use the global open source XBRL electronic data reporting format when drawing up their financial reports.

clear and that requirements across jurisdictions were inconsistent. Mr. Dohrer noted that XBRL is an emerging issue that would be monitored by the new Technology Working Group.

#### PIOB OBSERVER'S REMARKS

Ms. Pettersson commended the IAASB's efforts to initiate the audit evidence project. She questioned the timing of the project, noting the urgent need to address the issues. Ms. Pettersson emphasized that digital information is a topic that is significant for the profession and should be considered given its significance globally and noted the participation of firms in digitalizing information. Ms. Pettersson further noted the need for a data standard to bring uniformity to information that enables comparison between entities and across periods. Mr. Dohrer explained the timeline of the AICPA's project. He further emphasized that the IAASB is only commencing its work, and has to go through a proper process in working through the issues and developing proposals.

#### WAY FORWARD

Mr. Dohrer thanked the Representatives and Observers for their feedback.

#### **Audits of Less Complex Entities (Agenda Item E)**

- To *REPORT BACK* on the September 2018 meeting
- To *RECEIVE an update* on the project

Prof. Simnett introduced the topic explaining the IAASB's journey in the development of the Discussion Paper (DP), *Audits of Less Complex Entities: Exploring Possible Actions to Address the Challenges*.

Prof. Simnett highlighted recent initiatives specifically targeted at audits of less complex (or smaller) entities, which included a published consultation on a "Nordic Standard for Audits of Small Entities" by the Nordic Federation of Public Accountants (NRF), noting that the draft had not been finalized and was therefore not in use. Mr. Dalkin suggested that the IAASB learn from the NRF's experiences in developing its proposals (for example, using simpler language and less complexity in the standards), which may prove useful in developing standards not just for LCEs but for all stakeholders. Messrs. Pavas and Fortin also suggested that the IAASB draw from the experience of the International Accounting Standards Board (IASB) with respect to its project on a separate "*IFRS for SMEs*." As an advocate for "developing a separate auditing standard," Mr. Pavas pointed out that it had also been considered a contentious issue for the IASB to develop a separate "*IFRS for SMEs*," but noted that the IASB had seen the need and developed its separate standard. Mr. Fortin noted that it is incumbent upon the LCE Working Group to draw lessons from the IASB's experience to have a better and informed judgment as to why a separate auditing standard would be an appropriate or an inappropriate response to the issues and challenges in the audits of LCEs.

Representatives were supportive of the IAASB's proposed DP, and several Representatives, including Messrs. Yurdakul and Hirai, were pleased about the progress made by the IAASB to progress its work in relation to audits of LCEs through the proposed DP. Mr. Fortin also recognized the LCE Working Group's efforts to approach this project with an open mind. Ms. McGeachy and Mr. Hansen highlighted the urgency, timeliness and importance of the project. Ms. McGeachy noted that until the IAASB formulates a global solution that is fit-for-purpose with respect to audits of LCEs, national standard setters may be inclined to

develop their own solutions. Prof. Simnett thanked the Representatives for supporting the IAASB's activities to collect more evidence to support an appropriate way forward.

In discussing the content of the DP, concerns were also expressed by Representatives about distinguishing LCEs:

- Messrs. Dalkin and Hansen noted that there may be many areas where the requirements would be applicable regardless of whether the entity is an LCE or not (e.g., ISA 540 (Revised)) and cautioned against an approach where applicable requirements may not be included. Prof. Simnett acknowledged this as one of the challenges related to finding a suitable action to address issues and challenges related to auditing LCEs. He added one of the considerations would be to develop requirements that are appropriate and clear.
- Mr. Pavas cautioned that users of financial statements still wanted an audit, with the same audit opinion regardless of size of the entity. However, he encouraged the IAASB to develop standards that are proportionate to the type of entity being audited.
- Mr. Yurdakul was concerned that the use of the term LCE may cause the IAASB to lose sight of small- and medium-sized entities (SMEs). It was also highlighted that determining an entity as less complex would also likely involve significant judgment on the part of auditors in considering whether the qualitative characteristics of SMEs qualify or disqualify the entity as an LCE. While the evolving business environment is driving increasingly complex structures and transactions (e.g., fair value estimates, impairment), Mr. Hansen was also concerned that determining whether an entity is simple or complex under the current definition of the term LCE may be oversimplifying the issues and challenges with respect to audits of LCEs. Ms. Robert suggested a question on the qualitative characteristics of LCEs in the proposed DP. Prof. Simnett acknowledged the challenge of using 'less complex' versus "smaller" entities, noting that further consideration will be given to this.
- Mr. Hirai noted that the proposed DP only highlighted disadvantages for the possible action "revising the suite of ISAs", which in his view, may create the perception that the IAASB is leaning towards developing a separate auditing standard. In the interest of presenting a more balance information in the proposed DP, Mr. Hirai suggested to present both pros and cons of "possible actions to be explored," where appropriate. Prof. Simnett agreed and noted that further consideration would be given to this.

Ms. Bahlmann emphasized that while the discussion has historically been around the difficulty in applying the ISAs to SMEs, it is the complexity of the audited entity that is the major characteristic related to difficulty of application. Therefore, the IAASB is of the view that it is appropriate to consider the qualitative characteristics of being less complex rather than only the size of an entity when considering possible actions to enable the IAASB's standards to remain fit-for-purpose. Ms. Bahlmann also noted that the proposed DP included questions to obtain stakeholders' views about the proposed way that LCEs could be described (i.e., qualitative characteristics of LCEs).

Representatives also provided suggestions for further IAASB consideration:

- In light of cited key statistics within the DP, Mr. Fortin suggested that it would be useful for the IAASB to gather information about the number of audits of LCEs around the world to help support the IAASB's work in this area.

- Ms. McGeachy suggested clarifying the definition of the term LCE by making clear whether the term also applies to not-for-profit entities or micro public sector entities. She noted that stakeholders, who may not be fully informed about the project, may not be able to infer that the term LCE also applies to such types of entities.
- Ms. McGeachy suggested enhancing the proposed DP with an acknowledgement that most professional accountancy organizations use “cookie-cutter” checklists to comply with requirements of the ISAs, which may not be fit-for-purpose for auditing all types of LCEs. She added that in most cases, small- and medium-sized practitioners (SMPs) do not have the resources to tailor such checklists, which further supports the need for less complex standards for audits of LCEs. However, while recognizing the concerns about checklists, Mr. Hansen expressed that his view was that checklists are important in the audits of LCEs (for example, as a memory jogger).
- Ms. Robert and Mr. Dalkin suggested that the IAASB undertake further research activities for additional possible solutions other than developing a separate auditing standard, for example exploring other solutions that have been developed by some jurisdictions (e.g., the ‘extended review,’ or other types of engagements developed by Denmark or Switzerland) It was highlighted that the IAASB may find it useful to consider whether such other solutions can be fit-for-purpose globally.
- Ms. Robert suggested that the IAASB reach out to regulators and policy makers. Ms. Robert noted that the “*Nordic Standard for Audits of Small Entities*” was not implemented because regulators and policy makers would not adopt such a standard. Therefore, the views of regulators and policy makers would help the IAASB understand the viability of future possible actions.
- Mr. Fortin also noted the importance of outreach in emerging economies in Asia and Africa, where the issues and challenges in the audits of LCEs are particularly relevant (i.e., there are a significant number of LCEs in emerging economies).

Prof. Simnett thanked the Representatives for the suggestions, noting that further consideration would be given to these matters. Ms. Bahlmann further noted that the LCE Working Group is currently in the process of arranging outreach activities with regulators and policy makers (e.g., Paris Conference in May 2019) and conducting roundtable discussions with SMPs in South America and Hong Kong to hear and understand their views relevant to the audits of LCEs. The LCE Working Group will also consider conducting outreach activities in emerging economies in Africa.

With regard to the “possible actions to be explored” to address the issues and challenges identified in the audits of LCEs as presented in the DP, mixed views were expressed by Representatives:

- With regard to revising the suite of ISAs—Mr. Yurdakul expressed concerns about separate sections with considerations within the ISAs, noting that the extant considerations were not properly used.
- With regard to developing a separate auditing standard—Messrs. Yurdakul expressed support for “developing a separate auditing standard.” Messrs. Hirai and Hansen expressed strong concerns about developing a separate auditing standard as it may not be in the public interest. It was noted that a separate auditing standard for LCEs may be perceived by stakeholders as a different type of audit (i.e., it may create a two-tier profession or a “second class” audit) even if it is designed to provide the same level of assurance (i.e., reasonable assurance). However, if the IAASB did develop a separate auditing standard for auditing LCEs, Mr. Hirai expressed support for the “possible features” of a separate auditing standard based on the existing ISA framework as outlined in the proposed DP.

- Mr. Hirai expressed support for developing guidance or other specific related actions for auditors of LCEs in light of his concerns about the development of a separate audit standard.

Ms. Bahlmann emphasized that the IAASB has not committed to any particular course of action, but noted that it is rather exploring a range of possible actions, and is looking for input to obtain stakeholders' views about these possible actions through the consultation process. Ms. Bahlmann also articulated the LCE Working Group's thinking to be neutral in developing the proposed DP, and that it had been mindful of including sufficient and balanced information for context in order to elicit informed feedback about the potential courses of action for the IAASB.

#### WAY FORWARD

Mr. Dalkin noted the Representatives' support for the proposed DP, but encouraged the IAASB to further consider the concerns and suggestions that had been raised by Representatives. Prof. Simnett thanked the Representatives for their comments and views, and noted that the proposed DP would be discussed at the March 2019 IAASB meeting in Toronto, Canada.

#### Quality Management Projects (Agenda Item H)

- To *REPORT BACK* on the September 2018 meeting
- To *RECEIVE an update* on the projects

Mr. James and Ms. Klonaridis provided Representatives with a presentation about the approved Exposure Drafts in relation to International Standard on Quality Management 1 (ISQM 1), International Standard on Quality Management 2 (ISQM 2) and International Standard on Auditing 220 Revised (ISA 220 (Revised)).

#### IAASB Strategy and Work Plan (Agenda Item I)

- To *RECEIVE* an update on the IAASB strategy
- To *DISCUSS* the IAASB's Future Strategy

Mr. Botha introduced the topic, explaining how the IAASB had developed its Consultation Paper (CP), *Proposed Strategy for 2020–2023 and Work Plan for 2020–2021*, (Strategy and Work Plan) and further elaborated on the IAASB's proposed new Framework for Activities which would be developed to support the Strategy and Work Plan. Mr. Botha noted that the CP was out for public comment until June 4, 2019.

Mr. Dalkin expressed support for the direction of the Strategy and Work Plan. Representatives also broadly supported the direction, noting the following regarding the matters set out in the CP:

- Mr. Dalkin encouraged the IAASB to find alternative ways to address issues, and not necessarily revert to standard-setting if there was a quicker, more appropriate way to address the issue (for example, an "interpretation" or other non-authoritative guidance may be more appropriate).
- Mr. Dalkin noted that there was not enough in the Strategy about the future of audit. In particular, he emphasized that more specificity was needed in areas like EER and other types of non-financial assurance. Messrs. Sobel, Ruthman and van der Ende agreed, highlighting that the Strategy was inward focused whereas the IAASB should be more engaging on what others are doing. It was also

noted that it was important that the IAASB did not lag behind in these evolving areas. Mr. Dalkin encouraged the Board to think boldly in relation to the future of audits. Mr. Botha explained that the purpose of the information gathering and research phase of the Framework for Activities would focus on areas where future work is needed. He further noted that more needed to be done on developing the processes and procedures for the work undertaken by the IAASB in this activity area, and that further consideration would be given to how this could be made more clear in the Strategy and Work Plan as the IAASB develops its Framework of Activities.

- Mr. Thompson encouraged the Board to continue to monitor developments in the United Kingdom and their impact on the Board's activities, in particular in relation to the Bryden Review.
- Mr. Ruthman emphasized the need to find strategic partners in relation to the Board's work in relation to technology.
- Mr. Van der Ende strongly encouraged the Board to consider its resources, particularly in light of the proposals in the Monitoring Group review. Mr. Botha noted that a clear focus of the IAASB would be on ensuring adequate resources to undertake the work it had committed to, and that further consideration would be given to how others, such as national standard setters, could be leveraged.
- Mr. Dalkin highlighted the need for an electronic version of the IAASB's handbook. However Mr. Kocktvedgaard questioned whether the ISAs are ready for this change, or whether more was needed to be done before they were transformed into an electronic format.
- Mr. Fortin encouraged the Board to think more strategically, which could be helped by a swat analysis. Mr. Danbatta also agreed that some kind of gap analysis was needed. Mr. Dalkin also encouraged the Board to consider the completeness of the work it commits to.
- Mr. Van der Ende highlighted the need for the Board to complete the work that it has started. Mr. Fortin also encouraged stability of the standards. Ms. McGeachy supported this, and highlighted the importance of the project on audits of LCEs in this regard. She also emphasized the importance of this project with regard to the IAASB's future work. Mr. Botha acknowledged the importance of the project on audits of LCEs as part of the future work of the IAASB.

Mr. Fortin encouraged that more thought be given to how the CAG contributes to the strategic process, and whether this needed to be reconsidered.

#### PIOB OBSERVER'S REMARKS

Ms. Pettersson highlighted the importance of the development of the Strategy and Work Plan. She emphasized the importance of determining priorities and timelines, and making these transparent. She highlighted the importance of the need for the Strategy and Work Plan to be flexible so that the PIOB could approve it in light of future changes from the Monitoring Group review. She noted that the PIOB looked forward to seeing the final work plan in light of the topics that the IAASB had been encouraged to progress (such as technology and going concern), including information about how these would be progressed, as well as more information in the work plan on the resources (including collaboration efforts) that would support the planned work.

### Extended External Reporting (EER) (Agenda Item K)

- To *REPORT BACK* on the September 2018 meeting (**Agenda Item K**)
- To *RECEIVE* an update on the project (Agenda Item **K-2**)

Mr. Grabowski provided an update on phase 1 of the project, noting that the name of the project had been changed to demonstrate the broad type of reporting the project encompasses, whilst recognizing that it has moved beyond emergence. He also highlighted the extent of the global outreach events at which the EER Task Force met with over 250 participants and obtained input and perspectives for phase 1 of the project. Mr. Grabowski also informed the CAG that, in January 2019, the IAASB had agreed to publish a consultation paper (CP) for phase 1, which includes, and seeks stakeholder input on, the draft guidance developed to date and on two other papers. The CP also includes an explanatory memorandum. The two additional papers contain some limited contextual information addressing how subject matter information results from measuring or evaluating subject matter elements against the criteria and on the four key factor model for credibility and trust in EER reports updated for stakeholder feedback previously received.

#### NATURE OF THE GUIDANCE

Mr. Dalkin expressed the CAG's support for the project. He asked about the nature of the guidance, which is non-authoritative guidance on applying ISAE 3000 (Revised)<sup>13</sup> in EER assurance engagements, and whether, given its importance, the material should be a standard.

Mr. Grabowski noted that the decision not to develop a standard at this stage was made when the project was approved, with strong stakeholder feedback to that effect, because these types of reporting are still in the early stages, and that a standard, at this time, might discourage experimentation, which would not be in public interest. Non-authoritative guidance, on the other hand, would still allow practitioners to experiment in exploring the challenges in assurance engagements over EER reports, but in a more structured way.

#### SCOPE OF AN EER ASSURANCE ENGAGEMENT

Mr. Dalkin expressed concern that if EER assurance engagements were permitted that only covered selective elements of the EER report and that could be either reasonable or limited assurance engagements, stakeholders may be confused about the type of assurance provided in individual EER engagements, which would not be in the public interest.

Mr. Grabowski responded that the EER Task Force recognized that these are significant public interest issues, and that they were being addressed in phase 2. He expressed the view that guidance on challenges in agreeing the scope of the engagement would focus on considering these matters in the context of determining whether there is a rational purpose for the engagement, a key pre-condition to acceptance of an EER assurance engagement. The user perspective was an important factor in this determination, something that the phase 1 draft guidance already emphasized. He noted, for example, that if it isn't evident how the EER engagement enhances trust in the report, there may not be a rational purpose for the engagement. He also noted that the issues raised also would have implications for the practitioner's report and that the challenges in this area would also be addressed in phase 2.

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<sup>13</sup> International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

## MATERIALITY

Representatives commented as follows:

- Mr. van der Ende asked for elaboration on what is in phase 1 and phase 2 regarding materiality.
- Mr. Koktvedgaard asked whether the practitioner needed to address materiality explicitly if the entity is not engaging with users of the EER report to determine materiality.

In response, Mr. Grabowski noted that both the IAASB concepts of relevance and materiality have a primary focus on the user perspective. Relevance is addressed in evaluating suitability of criteria and materiality in planning and performing assurance procedures to identify misstatements and in evaluating identified misstatements. In Phase 1, the EER Task Force developed guidance on applying relevance to evaluate criteria, both in general terms and in relation to what is called a “materiality process”, and applying materiality in evaluating whether misstatements – individually or taken together with other misstatements – rise to the level of a material misstatement. In Phase 2, the EER Task Force will develop guidance in applying the concept of “performance materiality” in designing procedures to obtain sufficient appropriate evidence.

Mr. Grabowski also indicated that many companies have specific processes to identify and engage with users on matters relating to relevance and materiality. In other cases, companies may in addition or alternately consider relevance and materiality by evaluating in a logical manner, given the nature and circumstances of their business, the significance of the known impacts the business has to identify what they would expect to be relevant or material to users.

## ISSUES RELATED TO THE AUDIT OF FINANCIAL STATEMENTS AND THE EER ENGAGEMENT

Representatives had the following comments:

- Mr. Dalkin noted that the IESBA CAG was considering non-audit services and questioned whether there were threats to independence because in practice the practitioner was both preparing the report and providing assurance on it.
- Mr. Cela questioned whether it would be appropriate for the same practitioner to perform both an EER assurance engagement and an audit of financial statements for the same entity.
- Mr. Pavas noted that, in many jurisdictions, EER reports and related assurance engagements may become mandatory and that it may be impossible to avoid the financial statement auditor also performing an EER assurance engagement for an entity.

Mr. Grabowski indicated that the IAASB’s research had not identified the self-review threat as a major challenge or issue to be addressed in the project. He noted that such an issue could arise if the preparer has not done a good job in preparing the EER report such that the practitioner does extensive work in developing corrections to be made to the report and subsequently self-reviews that work. He also indicated that the EER Task Force would consider the need to consult with the IESBA on such issues if they are to be addressed in the guidance.

Mr. Grabowski also agreed that practitioners may be called on to do both the financial statement audit and an EER assurance engagement for the same entity. He also noted that there may be good reason to have the same practitioner do so, even if the EER report is not an integrated report, given that investors use information in EER reports together with information in the audited financial statements to support their

decision-making. One challenge that may arise, if financial statement auditors are asked to do so is whether they have the necessary competence to do so. He also pointed out that phase 2 would address challenges related to having the necessary competence to accept and perform an EER assurance engagement.

#### NEXT STEPS

Mr. Thompson asked whether there would be a separate consultation on the guidance on new matters developed in phase 2, or whether it would simply be included in an exposure draft of the combined guidance during phase 2.

Mr. Grabowski confirmed that a combined exposure draft of the guidance would be exposed for comment in phase 2. This would include both the guidance developed in phase 1, updated to reflect comments resulting from the present consultation, and the guidance on new matters developed in phase 2.

#### PIOB COMMENTS

Ms. Pettersson noted that the issues discussed should be raised with the IAASB for its consideration and that she would report back to the PIOB on the public interest issues.

#### **Closing Remarks**

##### IAASB CAG CHAIRMAN REMARKS

Mr. Dalkin thanked the CAG Representatives for their preparation and participation during the meeting.

##### PIOB OBSERVER'S CLOSING REMARKS

Ms. Pettersson noted her appreciation for the willingness of the Representatives to share their views on challenging and public interest matters. Ms. Pettersson further noted that there are significant opportunities for enhancements in the auditing profession and expressed her support for the Representatives' comments to be recognized at IAASB level.