

Agenda Item**A.1**

Meeting: IAASB Consultative Advisory Group
Meeting Location: Virtual Zoom Meeting
Meeting Date: March 8–9, 2021

**Approved 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, 2020 via Video Conference¹
New York, USA**

PRESENT**Representatives**

Mr. Jim Dalkin	Chair
Mr. Mauro Bini	International Valuation Standards Council (IVSC)
Dr. Hysen Cela	European Federation of Accountants and Auditors for SMEs (EFAA)
Dr. Bello Lawal Danbatta (only Sept. 9)	Islamic Financial Services Board (IFSB)
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	International Association of Financial Executives Institutes (IAFEI)
Ms. Asha Mubarak	Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)
Mr. Paul Munter	IOSCO
Dr. Claes Norberg	Business Europe (BE)
Mr. Christian Orth	Accountancy Europe (AE)

¹ Due to the COVID-19 pandemic, the IAASB decided to hold the September 2020 IAASB CAG meeting via two video conference sessions on September 8 and 9, 2020. The discussions of all the video conference sessions are captured within these minutes.

Mr. Daniel Pavas	Interamerican Accounting Association (IAAA)
Mr. Henry Rees	International Accounting Standards Board (IASB)
Ms. Noémi Robert	AE
Mr. Gregg Ruthman	International Organization of Supreme Audit Institutions (INTOSAI)
Mr. Sanders Shaffer	International Association of Insurance Supervisors (IAIS)
Ms. Laura Shiffman	Financial Executives International (FEI)
Ms. Mohini Singh	CFA Institute (CFA)
Mr. Paul Sobel	Institute of Internal Auditors (IIA)
Ms. Wei Meng	World Federation of Exchanges (WFE)
Ms. Tara Wolf	International Actuarial Association (IAA)
Ms. Inanc Yazar (only Sept 9)	Organization for Economic Cooperation and Development (OECD)
Mr. Kazuhiro Yoshii	Japan Securities Dealers Association (JSDA)
Mr. Hüseyin Yurdakul	IOSCO

Observers

Mr. George Kabwe	International Monetary Fund (IMF)
Ms. Dawn McGeachy	International Federation of Accountants (IFAC) Small and Medium Practices (SMP) Committee
Mr. Paul Thompson	EFAA
Ms. Megan Zietsman**	United States Public Company Accounting Oversight Board (PCAOB)

IAASB

Mr. Tom Seidenstein	IAASB Chair
Ms. Fiona Campbell	IAASB Deputy Chair
Ms. Julie Corden (presenter – Agenda Item B)	IAASB Member and Task Force Chair
Mr. Robert Dohrer (presenter – Agenda Item D)	IAASB Member and Working Group Chair
Ms. Josephine Jackson (presenter Agenda Item F)	IAASB Member and Working Group Chair
Mr. Len Jui (presenter – Agenda Item C)	IAASB Member and Task Force Chair

** 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.

Mr. Kai-Morten Hagen (presenter – Agenda Item E)	IAASB Member and Working Group Chair
Ms. Lyn Provost (presenter – Agenda Item B)	IAASB Member and Task Force Chair
Mr. Roger Simnett (presenter – Agenda Item E)	IAASB Member and Working Group Chair
Mr. Imran Vanker (presenter – Agenda Item B)	IAASB Member and Task Force Chair
Mr. Willie Botha	IAASB Technical Director
Ms. Bev Bahlmann	IAASB Deputy Director
Mr. Brett James	IAASB Deputy Director
Ms. Natalie Klonaridis	IAASB Principal
Ms. Kalina Shukarova Savovska	IAASB Principal
Ms. Joy Thurgood	IAASB Principal
Mr. Jasper van den Hout	IAASB Principal
Ms. Yvonne Chan	IAASB Manager
Mr. Phil Minnaar	IAASB Manager
Ms. Jane Talatala	IAASB Manager
Mr. Armand Kotze	IAASB Analyst
Ms. Angela Donnelly	Staff Fellow, IAASB
Public Interest Oversight Board (PIOB)	Mr. Shigeo Kashiwagi
APOLOGIES	
Representatives	
Mr. Henri Fortin	World Bank (WB)
Mr. John Kuyers	Information Systems Audit and Control Association (ISACA)

Welcome – Agenda Item A

OPENING REMARKS

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

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

MINUTES OF THE PREVIOUS MEETING

The minutes of the March 2020 IAASB CAG meeting were approved.

Quality Management Projects² – Agenda Item B

Proposed ISQM 1

Quality Management Projects

- To *REPORT BACK* on the March 2020 meeting
- To *OBTAIN* Representatives' views on the ISQM 1 Task Force's proposals on external communications and how the standard addresses the public interest and how it is related to the objective of the standard.

Ms. Corden provided an overview of the changes made to proposed ISQM 1 since the previous discussion with the CAG, including changes to the objective of the standard, external communications and human resources.

OBJECTIVE OF PROPOSED ISQM 1

Representatives commented as follows:

- Mr. Dalkin emphasized the importance of the message about the public interest and the connection to the objective of the standard, as set out in paragraph 15 of proposed ISQM 1. He noted that the issue relates to its appropriate location in the standard. Mmes. McGeachy, Zietsman and Wei supported the location of paragraph 15 of proposed ISQM 1. Ms. Zietsman emphasized that the objective of the standard needs to be measurable so that it can be implemented in a consistent way by firms. Mr. Munter indicated that he did not have a strong preference for the placement of the paragraph and noted that the emphasis on public interest in the standard is appropriate. Mr. Hirai did not support the relocation of the paragraph from the introduction to the objective and emphasized the need for a concise objective.
- Mr. Yurdakul noted that standards exist for the public interest, and therefore supported a statement about public interest in proposed ISQM 1. However, he indicated that the statement needs to be

² The Quality Management projects are: Proposed International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; Proposed ISQM 2, *Engagement Quality Reviews* and Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*.

stronger and suggested explaining how the standard serves the public interest.

- Mr. Munter suggested that the objective should reflect a mindset of continual improvement that is embedded in the firm's culture. Ms. Zietsman highlighted that the notion of continual improvement and proactive management of quality is embedded in the robust risk-based approach to management of quality, which is an ongoing process that takes into account the evolving nature of the firm and its environment, and the need for the firm to be nimble. Ms. Corden agreed with Ms. Zietsman, noting that the notion of continual improvement is intertwined throughout the standard. She added that the material that will accompany the standard could possibly explain how this is the case.
- Ms. Wei suggested that the public interest should be emphasized as part of the drafting conventions when setting standards.
- Ms. Landell-Mills enquired about whether the Public Interest Oversight Board supported the location of paragraph 15 of proposed ISQM 1.

EXTERNAL COMMUNICATIONS

Representatives commented as follows:

- Mr. Dalkin recalled the robust conversation that the CAG had related to external communications at the March 2020 CAG meeting. He reiterated that communication with those charged with governance could, in some cases, be in the form of a transparency report.
- Ms. Manabat indicated her support for the proposals.
- Mr. Thompson noted his support for the new requirement being directed at audits of listed entities and added that it is a clear indication of the efforts made to address the scalability of the standard.
- Ms. Zietsman recognized the ISQM 1 Task Force's efforts in addressing a challenging issue. She added that in her view, it would be more appropriate to address the issue at a national level, given the variance in expectations, requirements and customary practices across jurisdictions. As a result, she supported the principles-based requirements, rather than prescriptive requirements that could result in boilerplate communications in some jurisdictions. Mr. Sobel also supported the approach and agreed that the requirements should be principles-based.
- Mr. Ruthman and Ms. Landell-Mills sought clarity on the intended purpose of the requirement and what it aims to achieve, for example, whether it is intended to assist with auditor selection or performance monitoring. They indicated that once it is determined what the purpose of the requirement is, it can then be established whether the requirement achieves that purpose, including whether it is appropriately aimed at audits of financial statements of listed entities and whether the proposed level of transparency is sufficient. Mr. Orth noted that the communication with those charged with governance serves multiple purposes. Ms. Corden agreed that the purpose of the communication is multi-faceted.
- Ms. Landell-Mills indicated that more granular disclosure and transparency would be helpful and that for listed entities the proposed level of transparency could go further. Ms. Robert suggested that a balance is needed between the level of transparency and granularity, and the effectiveness of the communications, i.e., highly transparent and granular communication may be boilerplate and ineffective, while more high-level communication may be more effective. Ms. Corden explained that the standard encourages external communication beyond transparency reports, by requiring the firm

to have policies or procedures to address what other types of external communications may be appropriate, and the information to be provided.

- Mr. Yoshii inquired as to why paragraph A126 of proposed ISQM 1 distinguishes between information provided to those charged with governance and communications with external parties. He indicated that the information listed is relevant to all external parties.
- Ms. Zietsman highlighted that the nature of the information to be communicated lends itself to a two-way conversation with those charged with governance, rather than formal written communication, and therefore suggested that the application material emphasize that the communication could be accomplished through a conversation.
- Mr. Sobel suggested that the standard address communication to those charged with governance about the firm's decisions related to the expertise assigned to perform the audit engagement.

OTHER COMMENTS

Other comments from Representatives were as follows:

- Mr. Thompson and Ms. McGeachy indicated that their concerns about the scalability of the standard have been abated, noting that the current draft is more scalable. Ms. McGeachy highlighted that the readability of the standard has improved.
- Mr. Dalkin enquired about how proposed ISQM 1 has addressed component auditors. Ms. Corden explained that the definition of engagement team includes component auditors, and that proposed ISQM 1 needs to reflect how firms deal with the resources used on engagements, particularly given the recent proposals related to proposed ISA 600 (Revised).³ She added that regardless of whether the component auditor is from within or outside the firm's network, the firm has a responsibility related to the resource. Ms. Corden clarified that the nature of the firm's responsibility and the policies or procedures designed by the firm to address the resources will vary based on factors such as where the member of the engagement team comes from, and how they are used on the engagement. She noted that ordinarily the evaluation of the competence and capabilities of the engagement team members is done at the engagement level, and that proposed ISQM 1 emphasizes the firm's responsibility to have a system of quality management to support the engagement team in performing the evaluation and ensuring that there are sufficient appropriate resources to perform the engagement.
- Ms. Robert noted her concerns about including component auditors in the definition of engagement team, given that it increases the responsibility on the firm and engagement team for the component auditors. She explained that it could drive negative consequences on the audit market as firms may be more inclined to use network firms in performing audits, instead of non-network firms. She encouraged the IAASB to undertake an impact assessment of the proposals on the audit market. Dr. Cela and Mr. Pavas agreed with Ms. Robert's concerns. Ms. Corden noted that the ISQM 1 Task Force has coordinated with the ISA 600 Task Force, and the standard is therefore aligned with proposed ISA 600 (Revised). She explained that typically the evaluation of the competence and capabilities of the engagement team members is undertaken by the engagement partner at the

³ Proposed ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

engagement level. She also explained that current practice is for the firm to have a methodology based on the standards that sets out how the engagement partner is expected to evaluate the competence and capabilities of the engagement team members. Ms. Corden emphasized that there would unlikely be a change from current practice in terms of the competence and capabilities being evaluated at the engagement level. However, she highlighted that proposed ISQM 1 underscores the need for the firm to have a methodology in place (i.e., through their policies or procedures), in order to address any quality risks that arise in relation to the competence and capabilities of the engagement team members. Ms. Zietsman supported Ms. Corden's explanation and added that the focus needs to remain on the individuals performing the work, who may come from different sources. She emphasized how the structure of teams has evolved in recent years and that there are no longer clear distinctions between individuals working for the firm or outside the firm. As a result, she supported how the standard has addressed the issue with foundational principles. Ms. Zietsman also noted that it is essential that the evaluation of the competence and capabilities of engagement team members rests with the engagement partner, in order to avoid any perception that the firm has primary responsibility for this matter. She noted that the firm's role is to support the engagement partner when the engagement team members are not competent and capable.

- Mr. Munter highlighted the need to have processes in place to manage resources from both within the firm's network and outside the network, and emphasized the need for the Quality Management standards and proposed ISA 600 (Revised) to be aligned in this respect.

PIOB OBSERVER'S REMARKS

Mr. Kashiwagi indicated that the PIOB appreciated the ISQM 1 Task Force's efforts in addressing the issues related to the objective of the standard and external communications. He noted that the PIOB is supportive of the ISQM 1 Task Force's proposals.

WAY FORWARD

Ms. Corden thanked the Representatives for their feedback. Mr. Dalkin highlighted that the standard would be considered by the IAASB for final approval in September 2020.

Proposed ISQM 2

Quality Management – ISQM 2

- To *REPORT* back on the March 2020 meeting.
- To *OBTAIN* Representatives' views about any other matters for consideration by the Board before finalizing the requirements and application material for:
 - Engagements subject to an engagement quality (EQ) review in proposed ISQM 1; and
 - Proposed ISQM 2.

Mr. Vanker briefly introduced the topic and asked Representatives whether there were any other matters that should be considered by the Board before the Quality Management standards are finalized.

Representatives commented as follows:

- Mr. Orth asked whether there was appropriate coordination with IESBA Representatives and Staff relating to the alignment with the proposed revisions to the IESBA Code⁴ addressing the objectivity of EQ reviewers (now broadened to cover “appropriate reviewers” as described in the IESBA Code). In response, Mr. Vanker noted that throughout the life of the Quality Management projects, there has been extensive coordination among the Quality Management Task Force Chairs and with IESBA Representatives and Staff.
- Mr. Yurdakul suggested providing additional guidance in the application material relating to significant judgments in proposed ISQM 2. In response, Mr. Vanker noted that proposed ISQM 2 takes a principles-based approach with respect to significant judgments, and that further guidance is already provided in the application material (paragraphs A35-A43), including a reference in paragraph A36 to the examples of significant judgments in proposed ISA 220 (Revised).

Mr. Dalkin noted the broad support expressed by Representatives for proposed ISQM 2.

PIOB COMMENTS

Mr. Kashiwagi noted the PIOB’s support for proposed ISQM 2 and recognized the extensive coordination between the two Boards with respect to the Quality Management projects.

WAY FORWARD

Mr. Vanker thanked the Representatives for their feedback and broad support of proposed ISQM 2 and noted the planned approval of the Quality Management standards at the September 2020 IAASB meeting.

Proposed ISA 220 (Revised)

Quality Management – ISA 220 (Revised)

- To *INFORM* Representatives on the ISA 220 Task Force’s activities since the March 2020 CAG Meeting
- To *REPORT BACK* to the CAG on comments of the CAG Representatives on this project at the March 2020 CAG Meeting

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

THE PUBLIC INTEREST AND THE OBJECTIVE OF PROPOSED ISA 220 (REVISED)

Mrs. Provost noted that the ISA 220 Task Force proposes moving introductory material on the public interest to follow the Objective.

Representatives commented as follows:

- Ms. Zietsman and Mr. De Tullio expressed support for relocating the material on the public interest to follow the Objective to better accentuate the importance of achieving quality on the engagement

⁴ IESBA’s *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

on the public interest.

- Mr. Hirai expressed a preference for retaining the material on the public interest in the introductory section as it was too long for the objectives section. He also questioned whether the Board's plans to consider the public interest in future projects for new or revised ISAs.

Ms. Provost noted that the embedding the public interest concept was important in the Quality Management standards and that the Board would consider how to address it in future projects as those projects are developed.

ENGAGEMENT RESOURCES

Representatives and Observers commented as follows:

- Ms. Zietsman and Mr. De Tullio expressed support for the principles-based approach to addressing engagement resources that provides a framework focusing on having the right resources to do the right work at the right time. In particular, it was noted that the principles allowed for the current environment to continue to evolve as the firm's policies or procedures may allow for different actions depending on whether the engagement resources are from the firm, the network or outside the network.
- Ms. Robert and Mr. Thompson expressed concerns that proposed ISA 220 (Revised) and proposed ISA 600 (Revised) might create an inadvertent impact on the usage of smaller firms as component auditors. Mr. Thompson noted that the Board could consider performing an impact assessment on the effect on the audit market in relation to component auditors, and that this could be considered by the ISA 600 Task Force.

Mrs. Provost noted that proposed ISA 220 (Revised) provides a framework for determining that sufficient and appropriate resources are available for the engagement under different engagement team structures now in use and those that will continue to evolve.

PIOB COMMENTS

Mr. Kashiwagi indicated that the proposed ISA 220 (Revised) addressed the issues raised by the PIOB.

WAY FORWARD

Ms. Provost thanked the Representatives for their feedback. She noted that proposed ISA 220 (Revised) is planned for approval at the September 2020 IAASB meeting.

Proposed ISA 600 (Revised) – Group Audits (Agenda Item C)

ISA 600 (Revised) – Group Audits

- To REPORT BACK on the March 2020 meeting
- To RECEIVE an update on the activities of the project

Mr. Jui introduced the topic by updating the IAASB CAG on the ISA 600 Task Force's activities since the March 2020 IAASB CAG meeting.

Representatives commented as follows:

- Ms. Schiffman noted that ISA 315 (Revised 2019),⁵ proposed ISA 220 (Revised) and proposed ISA 600 (Revised) are interrelated. Because the effective dates of these standards are not aligned, she suggested that non-authoritative guidance may be needed for management to understand the effect on audits in the coming years because of the different effective dates of these standards. Mr. Hirai suggested that it was important to align the effective date of proposed ISA 600 (Revised) with the effective dates of the Quality Management standards. Mr. Jui noted that the Board discussed the issuance of non-authoritative guidance, such as a bridging document or staff guidance, that explains the interactions between the Quality Management standards and extant ISA 600.⁶
- Mr. De Tullio questioned whether the Exposure Draft of proposed ISA 600 (Revised) (ED-600) should specifically address access issues as a result of the COVID-19 pandemic. Mr. Jui explained that ED-600 was approved at the beginning of the pandemic and that additional guidance was added in that regard. He added that if respondents to ED-600 think that more guidance is needed, the ISA 600 Task Force will consider adding application material.
- Mr. Thompson noted that some Representatives expressed concerns in the session on the Quality Management standards that ED-600 may raise concerns about the risk that component auditors may be disadvantaged if work on group audits was concentrated with larger firms and asked the IAASB to be alert to those concerns. Mr. Jui noted that the ISA 600 Task Force will address any comments in that regard received on exposure and encouraged everyone to listen to the second webinar on proposed ISA 600 (Revised). In this webinar, the ISA 600 Task Force explained that the involvement of component auditors is often critical in the new approach to planning and scoping a group audit.

PIOB REMARKS

Mr. Kashiwagi supported ED-600's direction and noted that he is looking forward to reading the comment letters from IAASB CAG membership organizations.

WAY FORWARD

After the comment deadline closes, the ISA 600 Task Force will analyze the comments received on ED-600 and will discuss key themes arising from the comment letters with the Board in December 2020.

Audit Evidence (Agenda Item D)

Audit Evidence

- To *REPORT BACK* on the March 2020 meeting
- To *RECEIVE* an update on the activities of the project
- To *OBTAIN* Representatives' views on the draft Project Proposal

⁵ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

⁶ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Mr. Dohrer introduced the topic by updating the IAASB CAG on the Audit Evidence Working Group's activities since the March 2020 IAASB CAG meeting and highlighted key aspects of the draft project proposal to revise ISA 500.⁷

DRAFT AUDIT EVIDENCE PROJECT PROPOSAL

Representatives commented as follows:

- Mr. Dalkin noted the recently completed project of the Auditing Standards Board of the American Institute of Certified Professional Accountants' (AICPA) to revise clarified (AU-C) Section 500 and asked about any key learnings that the Audit Evidence Working Group may leverage on in progressing the revision of ISA 500. Mr. Dohrer explained that the AICPA's project represents only one of many sources of information that are considered by the Audit Evidence Working Group. Nonetheless, by monitoring the AICPA's project, the Audit Evidence Working Group has observed that there is significant opportunity to modernize the standard, in particular to recognize the evolution of technology. In addition, the Audit Evidence Working Group has noted that many of the foundational concepts of ISA 500 remain appropriate, which therefore supports the preservation of a principles-based approach in revising ISA 500.
- Dr. Norberg noted the importance of the project given continual developments in technology and supported the overall direction as indicated in the project proposal. Mr. Munter and Ms. Zietsman agreed. Dr. Norberg noted that changes to sources of information and technology may also affect preparers of financial statements and expressed his willingness to help the project by, for example, reaching out to Business Europe's stakeholders to obtain further perspectives about key aspects of the project.
- Mr. Munter noted that academic research indicates that the perceived resistance by auditors to use technology appears to be driven by two different factors:
 - Insufficient knowledge or familiarity with technology, coupled with a general resistance to change; and
 - Auditing standards do not sufficiently address the use of technology.

In appropriately scoping the project to address the auditor's use of technology, Mr. Munter cautioned that each theme may require a different strategy or approach. He therefore encouraged the IAASB to carefully identify and be clear about the objectives of the project. Ms. Zietsman agreed and added that some of the issues identified may have broad implications which would be challenging to address through targeted changes to ISA 500 and conforming and consequential amendments to other standards only. Nonetheless, Ms. Zietsman supported the scope of the proposed project, noting that the inclusion of other standards may be too onerous to effectively respond to key audit evidence related issues. Mr. Dohrer agreed with the assertion that the scoping of the project is critical.

- With specific reference to technology, Ms. Zietsman also noted:
 - The importance of coordination with the IAASB's Technology Working Group, in particular related to the appropriate allocation of responsibilities.

⁷ ISA 500, *Audit Evidence*

- That the use of technology to gather or obtain audit evidence may give rise to different risks which may give rise to possibly different audit procedures to respond to the assessed risks of material misstatement. However, the auditor's consideration of foundational concepts, such as 'sufficient appropriate audit evidence' should not be different.
- The findings arising from the PCAOB's research project on data and technology. For example, there are concerns that standard-setting activities may impose requirements on auditors to use technology in performing an audit. In that regard, Ms. Zietsman supported the IAASB's objective to preserve the principles-based nature of ISA 500 which will continue to allow auditors to use more traditional techniques in obtaining audit evidence. Ms. McGeachy supported this notion and cautioned that any prescriptive requirements in relation to technology may adversely affect some small and medium practices that may not have access to the necessary resources to comply with such requirements.
- That the COVID-19 pandemic has provided a unique opportunity to observe how existing concepts and definitions of ISA 500 have stood up against technological developments and auditing practices in a virtual environment. Mr. Sobel and Ms. McGeachy agreed and noted that the issuance of non-authoritative guidance would be helpful given the effects that technology has on the audit and the anticipated approval of the standard in June 2023. As an example of where non-authoritative guidance may be helpful, Ms. McGeachy referred to application material in ISA 500⁸ which notes that audit evidence provided by original documents is more reliable than audit evidence provided by other types of documents, including documents that have been transformed into electronic form.
- Mr. Rees supported the overall direction of the project. In particular, Mr. Rees welcomed the emphasis on how professional skepticism could be reinforced when evaluating information to be used as audit evidence.
- Ms. Zietsman suggested to further emphasize and expand upon on the concepts of:
 - Persuasiveness of audit evidence. Ms. Zietsman noted that the right type of audit evidence is already embedded in the current definition of sufficiency. Therefore, if the audit evidence is persuasive, only a limited amount of audit evidence may be sufficient. On the other hand, obtaining more of the same type of audit evidence may not compensate for its lack of appropriateness.
 - Contradictory and corroborating evidence when obtaining information to be used as audit evidence. Ms. Zietsman noted that the auditor should consider all evidence and, in doing so, should not dismiss evidence that may be contradictory. Although these principles are included in the recently approved ISA 540 (Revised)⁹ and ISA 315 (Revised 2019), Ms. Zietsman suggested to establish and consolidate these principles in ISA 500. Mr. Rees agreed and noted that these principles are more important in today's audits given the greater use of accounting estimates and related management judgments because of new accounting standards.

⁸ ISA 500, paragraph A31

⁹ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

PIOB REMARKS

Mr. Kashiwagi supported the direction of the draft audit evidence project proposal and noted that additional public interest matters may be identified as the project progresses. Mr. Kashiwagi also referred to some concerns that were raised about the proposed length or timeline of the project, noting that an approval date of June 2023 may not be in the public interest. Accordingly, Mr. Kashiwagi noted that the PIOB would welcome the issuance of non-authoritative guidance during the interim.

WAY FORWARD

Mr. Dohrer noted that the draft project proposal will be presented to the IAASB for discussion and approval at the December 2020 IAASB meeting.

Audits of Less Complex Entities (LCEs) (Agenda Item E)

To *PROVIDE* Representatives' with an overview of the proposals to develop a separate standard for audits of LCEs and on the information-gathering activities with respect to the complexity, understandability, scalability and proportionality (CUSP) workstream; and to *OBTAIN* Representatives' views of the work being undertaken by the LCE and CUSP Working Groups.

Prof. Simnett, Chair of the CUSP Working Group and Mr. Hagen, Chair of the LCE Working Group introduced the topic, explaining the work within the two streams, respectively.

PROPOSED DIRECTION FORWARD IN RELATION TO CUSP WORKSTREAM

Representatives commented as follows:

- Messrs. Thompson and Pavas and Ms. Robert supported the direction of the IAASB on the two workstreams. Ms. Manabat emphasized the importance of this work for the IAASB.
- Messrs. Hansen and Hirai inquired whether the CUSP workstream would clarify the differences and distinctions between how “proportionality” and “scalability” are referred to with respect to the IAASB standards. They explained that it would be helpful to provide further clarity concerning the meaning of the terminology applied as it was currently not clear what each workstream would address and there could be duplication of efforts if these terms were not clearly understood. Prof. Simnett explained that as part of the CUSP workstream the working group would further explore these terms and clarify as appropriate. He also noted that it is envisioned that the separate standard workstream would also address scalability and proportionality in the context of audits of LCEs.
- Dr. Cela noted that the work of both workstreams are interrelated, and therefore it is very important that both workstreams progress in parallel. Prof. Simnett agreed and noted that as the work is progressing under both workstreams, it is important that information and learning beneficial for both workstreams is shared between the CUSP and LCE Working Groups. He also noted that both workstreams are being supported by the same IAASB staff to enhance this coordination.
- Ms. Zietsman and Mr. De Tullio recognized the importance of the work being performed in both workstreams. They highlighted that the CUSP workstream would impact all the ISAs, and that the work envisioned under this workstream is not specific to LCEs only. Ms. Zietsman noted that some of the IAASB Clarity conventions were not used consistently, and added that there had been more complexity introduced to the standards in the more recent IAASB projects (such as ISA 315 (Revised

2019) and ISA 540 (Revised)). Mr. Pavas agreed that the complexity of the ISAs had increased and welcomed the IAASB's efforts in this regard. Ms. Zietsman also emphasized the need to develop a strategy about how any changes to the standards would be applied once the drafting principles and guidelines have been finalized in order to prevent unintended changes to the ISAs. Prof. Simnett explained that the decision on how the standards will be revised will be considered further by the IAASB once the drafting conventions and guidelines have been finalized but noted that there is a preference for revisions to be made on a prospective basis, i.e., as standards are opened up for revisions on a going forward basis.

- Dr. Norberg questioned if it would be possible to evaluate how the two workstreams would run in parallel considering their different development approaches, i.e., the CUSP workstream being at an information gathering stage (and seemed to be more of a desktop process), while the development of the separate standard for audits of LCEs standard-setting and including more extensive outreach activities. Mr. Seidenstein noted that the work of the CUSP Working Group would start to feed into current projects of the IAASB, as standards are opened up and revised the principles will start to be applied. He further explained that the projects were different in nature, and that the development of the separate standard necessitated a separate reference group to help the development of a usable and appropriate standard in the very short timeline.
- Mr. Dalkin highlighted that the ISAs have increased in volume over the recent past and encouraged the CUSP workstream to also consider the root causes of why this had occurred. Prof. Simnett acknowledged the importance for understanding the root causes and noted that a detailed review was performed when the responses to the Discussion Paper¹⁰ were analyzed.

PROPOSED DIRECTION FORWARD IN RELATION TO AUDITS OF LCEs

Representatives commented as follows:

- Mr. Munter and Ms. Wei emphasized that while developing the separate standard for audits of LCEs it is important to achieve the objective of a high-quality audit, regardless of the size of the entity and its complexity. Ms. Wei encouraged the LCE Working Group to consider how the audit opinions of entities audited under the separate standard would impact the future potential access of LCEs to the capital market given that investors expect the same high-quality financial information and audits from companies of all sizes and complexities. Prof. Simnett and Mr. Hagen noted that the development principles of the separate standard for audits of LCEs underline that the standard will be developed with the same level of assurance as the ISAs (i.e., reasonable assurance) and that under both approaches the quality of the audit will not be compromised.
- Messrs. Yurdakul, Yoshii, Munter and Hansen and Ms. Landell-Mills and Singh highlighted that in previous discussions representatives had expressed concerns that a separate standard for audits of LCEs could result in lower quality audits being performed (because of weaker standards), and a “two-tier” system of audits. It was explained that having one set of global auditing standards would prevent such risk, notwithstanding the pressure from local and regional standard setters who are seeking solutions for audits of LCEs. Mr. Hansen and Ms. Landell-Mills cautioned that public interest entities should be scoped out in addition to listed entities. Mr. Hagen noted that the IAASB would carefully consider what needed to be done to not create a two-tier system, or the perception that an audit using

¹⁰ Discussion Paper, Audits of LCEs: *Exploring Possible Options to Address the Challenges in Applying the ISAs*

the separate standard was of a different quality. He explained that the principles for the development of the separate standard were based on the ISAs, and in that way it was envisioned that a high-quality audit would be performed using the separate standard.

- Mr. Ruthman emphasized the importance of the applicability of the separate standard. He further explained that further consideration would need to be given to when entities beyond listed entities are ‘scoped out’ and how they may be impacted if unable to use the standard, for example, if entities using public funding are scoped out this may inadvertently potentially scope out some public sector entities when they may be less complex by nature.
- Ms. Mubarak supported the development of a separate standard for audits of LCEs. She cautioned that simplification may not be as easy as it may first appear for some topics (such as procedures to verify the estimates used in financial statements or with respect of audits of group financial statements). She highlighted that Sri Lanka has developed a separate standard for auditing very small and economically non-significant entities, and that auditors have the option to use this standard provided the applicability criteria are met.
- Mr. Sobel supported the use of a decision tree (as presented in the IAASB June 2020 issues paper) to assess applicability but noted that it may be necessary to provide further clarity as to the degree of professional judgement that would be needed when making such determination. Mr. Hagen explained that the LCE Working Group’s thinking had further evolved since the IAASB June 2020 paper and that further changes to the applicability of the separate standard (and flowchart) are currently being developed. He noted that the LCE Working group was focused on the complexity of the audit and had heard from other outreach that the applicability needed to be clear, and less judgmental (or more prescriptive).
- Ms. Robert noted general support for the principles that had been set out for the development of the separate standard. She also encouraged further outreach with legislators and regulations in various jurisdictions, as they would impact the decision to apply the separate standard in those jurisdictions, and it would be helpful to connect with these stakeholders as early as possible to obtain their support. She also highlighted outreach with the LCE Reference Group as a good source of practical and technical knowledge, noting that the group was mainly composed of practitioners.
- Dr. Cela supported the development of the separate standard, and indicated that such standard will be applicable for compulsory and contractual audits of LCEs, and would help those jurisdictions that are seeking and developing solutions for audits of LCEs.
- Mr. Rees expressed support for development of the separate standard. He highlighted that the IASB is currently consulting on the future of its IFRS for SME Standard.¹¹ He noted that some of the questions that the IASB is thinking about could be useful context for the development of the IAASB’s separate standard for audits of LCEs, such as whether the IFRS for SME Standard should continue to align with full IFRS or could the requirements be developed more independently from the full IFRS. He highlighted the importance of the applicability to determine who can use the separate standard as that will affect its content and how the standard is drafted.

¹¹ International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities standard (SME Standard)

- Mr. Dalkin noted that it would also be useful to consider if there would be any unintended consequences when developing the separate standard for audits of LCEs, including the determination of its applicability.

PIOB COMMENTS

Mr. Kashiwagi highlighted the concerns previously raised with respect to the allocation of resources to these projects and the length of time for the work envisioned under both workstreams. He emphasized the need for the workstreams to progress in shorter timelines, considering the urgent need for these projects. Mr. Seidenstein explained that work on both projects has been progressing very quickly and it is envisioned that an exposure draft for the separate standard for audits of LCEs will be published mid-2021, at the same time it is envisioned that the drafting principles and guidelines will also be published for public consultation.

WAY FORWARD

Prof. Simnett and Mr. Hagen thanked the Representatives for their feedback. The LCE Working Group is working towards presenting a project proposal, and a first draft of the separate standard, to the IAASB for discussion in December 2020. Discussions with the Board on the work of the CUSP workstream is planned for January 2021, where proposals for the drafting principles and guidelines will be discussed.

Fraud and Going Concern (Agenda Item F)

Fraud and Going Concern

- To *RECEIVE an update* on the information-gathering activities of the IAASB Staff with regard to fraud and going concern

Ms. Jackson introduced the topics. Ms. Donnelly provided an overview of the information gathering and targeted outreach activities completed to date by the IAASB staff and also provided an overview of the planned future activities with regards to these topics. Ms. Donnelly invited feedback from the Representatives on the information presented.

Representatives broadly expressed support for the IAASB's work on fraud and going concern and commented as follows:

- Mr. Dalkin noted that auditors might benefit from a stand-back that requires them to consider all facts collectively and 'see the big picture,' as opposed to only looking at the details. Mr. Dalkin added that if auditors had done this in some of the more high-profile frauds in recent years, they may have identified 'red flags.' Ms. Landell-Mills agreed, emphasizing the importance of auditors standing back and maintaining a questioning mindset in order to deliver an opinion as to a true and fair view, as opposed to solely delivering a compliance opinion. She added that a stand-back requirement already exists in the UK and noted that they are now assessing if and how transparency can be enhanced with regards to the procedures the auditor performs in order to deliver a true and fair view, including stand back procedures.
- Ms. Landell-Mills highlighted concern with use of the phrase "Expectation Gap," noting that it presumes the fault lies with those who hold the expectations (i.e., users of financial statements). She added that the issue may lie with auditors too, for example, through a delivery gap, where auditors fail to deliver what is expected. Messrs. Munter, and Orth and Ms. Robert agreed that the use of the

phrase “Expectation gap” could be misleading. However, Mr. Orth encouraged the IAASB staff to continue to explore these concepts in a structured approach. Ms. Jackson responded that we intend to take a structured approach and have incorporated this in the IAASB’s Discussion Paper. Ms. Jackson added that the IAASB had used information gathering activities to frame and define the expectation gap in the IAASB Discussion Paper, which includes three components: the knowledge gap, the performance gap and the evolution gap. She further explained that the performance gap is where auditors do not do what is required by the standards; the knowledge gap is where there is a difference between what people believe auditors do and the reality of what the standards require; and the evolution gap is where there is a need for change based on evolving expectations.

- Ms. McGeachy emphasized the importance of coordination with the IASB. She also expressed that the SMP Advisory Group would respond to the IAASB’s Discussion Paper issued on these topics.
- Ms. Robert also agreed on the importance of coordination with the IASB but highlighted that the ISAs also apply where IFRS is not used as the applicable financial reporting framework. She also emphasized the importance of considering the entire financial reporting ecosystem as there are other participants who may need to do more to narrow the gap, including management and those charged with governance. Ms. Donnelly responded that in the IAASB’s Discussion Paper, the IAASB discusses the importance of the broader financial reporting ecosystem in helping narrow the expectation gap.
- Mr. Rees acknowledged support for continued coordination between the IAASB and the IASB on the topic of going concern and pointed out that going concern is not currently on the IASB’s active agenda. Mr. Rees explained that over the past few months, IASB stakeholders have raised questions on going concern disclosures as well as what basis of preparation is required when a company is not a going concern. Mr. Rees explained that there are some who think there should be more specific disclosures in the IFRS framework, which will be discussed at a national standard setters meeting later in September 2020. Mr. Rees explained that the IASB will perform its agenda consultation to gather views from stakeholders on whether their active agenda remains appropriate, which will help the IASB determine whether going concern should become more of an agenda priority.
- Ms. Wei noted that forming a diverse group of working group members from across the globe would be helpful to consider environment factors in capital markets globally.
- Mr. Munter encouraged the IAASB to steer the conversation on these topics to help users and auditors themselves understand the objectives and responsibilities of auditors. Mr. Munter noted that the IAASB should focus on what an audit is, as opposed to what it is not. Mr. Munter also expressed concern that as more activities are migrated to a remote approach in the current environment, there may be a negative impact on the auditor’s assessment of corporate culture and tone at the top due to lack of face-to-face conversations and in-person interactions which may offer valuable information through tone and body language. Mr. Munter added that this is particularly important since high-profile frauds are often related to an auditor’s failure to identify issues with corporate culture and tone at the top.
- Ms. Manabat questioned whether the IAASB could brief the CAG on the highlights of the fraud-focused technology roundtable that occurred on September 2, 2020. Ms. Donnelly responded that the IAASB will summarize the highlights in a future publication that will be shared with the CAG once complete.

- Mr. Yoshii highlighted that the knowledge gap may be narrowed through increased dissemination and transparency of information related to the audit.
- Mr. De Tullio questioned what the end goal of these initiatives are, i.e., whether the IAASB is aiming to revise the auditing standards or promote education for the readers of the financial statements. Ms. Bahlmann responded that the information-gathering activities will help inform the direction the IAASB's future activities, including whether standard setting is necessary or not. She added that at this point no decisions had yet been made.

PIOB OBSERVER'S REMARKS

- Mr. Kashiwagi expressed support for this initiative and expressed that it is very important and timely from a public interest perspective. Mr. Kashiwagi commented that the PIOB is very interested in the views that will be expressed in response to the discussion paper. He also noted his interest in whether the IASB will add the going concern issue as a project on their agenda.

WAY FORWARD

Ms. Jackson thanked Representatives for their feedback. Ms. Donnelly explained that the IAASB will be provided with an update on the fraud initiative at the December 2020 meeting and the going concern initiative at the February 2021 meeting, and the CAG will receive an update on both fraud and going concern activities at the March 2021 meeting.

IAASB Work Plan (Agenda Item G)

IAASB Work Plan

- To RECEIVE an update on the IAASB Work Plan for 2020–2021

Mr. Seidenstein and Ms. Bahlmann introduced the topic by updating the IAASB CAG on the Board's response to the COVID-19 pandemic and the changes made to the IAASB's Work Plan to respond to the changing environment.

Representatives commented as follows:

- Mr. Dalkin questioned when the IAASB will have physical meetings again. Ms. Bahlmann explained that all meetings up to December 2020 would be virtual but noted that the IAASB's leadership is keen to have physical meetings again. She added that this would be dependent on how the pandemic further develops (e.g., when traveling is permitted again and our volunteers' and staff's level of comfort to travel), and noted that the IAASB would continue to monitor the situation and keep the IAASB CAG informed on a timely basis.
- Mr. Thompson commended the IAASB with how it dealt with the consequences of the pandemic for its stakeholders, in particular the agility and ability to adapt to the circumstances. He added that the staff audit practice alerts related to the COVID-19 pandemic are particularly useful and suggested further coordination with IFAC to distribute these publications to a wider audience. Ms. McGeachy agreed and added that the staff audit practice alerts were timely, of a high quality and comprehensive. Mr. Seidenstein reminded the Representatives to follow the IAASB on social media as this would help create further awareness about the IAASB's publications.

- Ms. McGeachy noted support for the IAASB’s plan to continue to monitor the implementation dates for recently revised standards and noted that the Board should remain flexible.
- Mr. Sobel commended the Board on a comprehensive Work Plan, noting that he recognized that there are a lot of factors or variables that influence the outcome of the Work Plan. He encouraged the IAASB to continue to reach out to its stakeholders, for example through roundtables, to obtain timely input.
- Mr. Yoshii questioned when the IAASB will finalize the guidance on extended external reporting (EER). He noted the importance of the EER guidance and would like to discuss the guidance before it is issued. Ms. Bahlmann explained that the comment deadline for the Consultation Paper closed in July and that the CAG will have time to discuss the guidance before it is finalized. Mr. Botha added that the guidance is developed with the support of the World Business Council for Sustainable Development and that the guidance is expected to be approved at the March 2021 IAASB meeting.

Closing Remarks

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