



## Agenda Item

**A**

**Meeting:** IAASB Consultative Advisory Group

**Meeting Location:** Virtual Meeting

**Meeting Date:** June 7, 2022

**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 8–9, 2022 via Video Conference<sup>1</sup>**

### PRESENT

#### Representatives

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

<sup>1</sup> Due to the COVID-19 pandemic, the IAASB decided to hold the March 2022 IAASB CAG meeting via two videoconference sessions on March 8 and 9, 2022. The discussions of all the video conference sessions are captured within these minutes.

Ms. Asha Mubarak (only March 8)	Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)
Mr. Paul Munter	IOSCO
Dr. Claes Norberg	Business Europe (BE)
Dr. Christian Orth	AE
Mr. Daniel Pavas	Interamerican Accounting Association (IAAA)
Mr. Henry Rees	International Accounting Standards Board (IASB)
Mr. Gregg Ruthman	International Organization of Supreme Audit Institutions (INTOSAI)
Mr. Juan Carlos Serrano Machorro <sup>2</sup>	World Bank (WB)
Mr. Sanders Shaffer	International Association of Insurance Supervisors (IAIS)
Mr. Paul Sobel (only March 8)	Institute of Internal Auditors (IIA)
Mr. Paul Thompson	EFAA
Ms. Tara Wolf	International Actuarial Association (IAA)
Ms. Inanc Yazar	Organization for Economic Cooperation and Development (OECD)
Mr. Kazuhiro Yoshii	Japan Securities Dealers Association (JSDA)
Mr. Hüseyin Yurdakul	IOSCO
<b>Observers</b>	
Mr. George Kabwe	International Monetary Fund (IMF)
Ms. Dawn McGeachy	International Federation of Accountants (IFAC) Small and Medium Practices (SMP) Advisory Group
Ms. Barbara Vanich	United States Public Company Accounting Oversight Board (PCAOB)
<b>IAASB</b>	
Mr. Tom Seidenstein	IAASB Chair
Ms. Josephine Jackson (presenter – <b>Agenda Item B and C</b> )	IAASB Member and Working Group Chair
Ms. Sue Almond (presenter <b>Agenda Item E</b> )	IAASB Member and Task Force Chair
Mrs. Lyn Provost (presenter – <b>Agenda Item G and H</b> )	IAASB Member and Working Group Chair

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

Mr. James Gunn	Managing Director, Professional Standards
Mr. Willie Botha	IAASB Program and Technical Director
Ms. Beverley Bahlmann	IAASB Director
Ms. Sally Ann Bailey	IAASB Director
Ms. Natalie Klonaridis	IAASB Director
Ms. Amy Fairchild	IAASB Principal
Ms. Claire Grayston	IAASB Principal
Ms. Kalina Shukarova Savovska	IAASB Principal
Mr. Jasper van den Hout	IAASB Principal
Mr. Phil Minnaar	IAASB Senior Manager
Ms. Hanken Jane Talatala	IAASB Senior Manager
Mr. Armand Kotze	IAASB Manager
Mr. Dan Montgomery	Senior Advisor
Ms. Adriana Chircusi	Staff Fellow
Ms. Danielle Davis	Staff Fellow
<b>Public Interest Oversight Board (PIOB)</b>	Mr. Dave Sullivan

## **APOLOGIES**

### **Representatives**

Dr. Bello Lawal Danbatta	Islamic Financial Services Board (IFSB)
Ms. Jazmin Gamboa	Financial Executives International (FEI)
Ms. Mohini Singh	CFA Institute (CFA)
Ms. Conchita Manabat (March 9)	IAFEI
Ms. Asha Mubarak (March 9)	SLAASMB
Mr. Paul Sobel (March 9)	IIA

## Welcome – Agenda Item A

### OPENING REMARKS

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

### MINUTES OF THE PREVIOUS MEETING

The minutes of the previous IAASB CAG meeting held on November 30<sup>th</sup>, 2021, were approved.

## Listed Entity and Public Interest Entity (PIE) (Agenda Item B)

- To *OBTAIN* Representatives' views on the IAASB's draft project proposal for a narrow scope maintenance of standards project on listed entity and public interest entity (PIE), and
- to *OBTAIN* Representatives' views on key aspects of the initial proposals relating to enhanced transparency about independence in the auditor's report.

Ms. Jackson, Chair of the PIE Working Group introduced the topic, highlighting the ongoing coordination undertaken between the IAASB and IESBA in relation to IESBA's project on [Definitions of Listed Entity and Public Interest Entity](#) in 2019. She also provided an overview of the key elements addressed by the IAASB's draft project proposal on listed entity and PIE and outlined the PIE Working Group's initial proposals for enhanced transparency about independence in the auditor's report.

### DRAFT PROJECT PROPOSAL ON LISTED ENTITY AND PIE

Representatives commented as follows:

- Messrs. Pavas, Ishiwata and Ruthman, Mmes. Blomme, Manabat and Wei and Drs. Cela and Norberg expressed support for the draft project proposal.
- Mr. Pavas noted the relevance of the project for Latin America. He explained that a study is presently being undertaken in Colombia as to what entities should constitute a PIE, given that the definition is vague and allows local bodies to refine it for entities specified by law or regulation that can be designated as PIEs and the divergent stakeholder views as to what entities should constitute a PIE. Mr. Pavas noted that the definition of PIE is especially important for developing countries where there are many smaller listed entities.
- Mr. Ishiwata commented that the timeline to completion for track 2 extends over a long timeframe and suggested that the IAASB considers more effective use of its limited resources to enable completion of the actions proposed under this track.
- Mr. Pavas, Ms. Blomme and Dr. Cela emphasized the importance of aligning terminology across the IAASB and IESBA standards. Ms. Blomme cautioned that in aligning terminology, it should not inadvertently create additional requirements.
- Dr. Cela expressed support for addressing the differential requirements in the International Standards on Quality Management (ISQM) and International Standards on Auditing (ISA) noting this is important

for clarifying expectations and enhancing confidence in audit engagements performed for certain entities. He added doing so may also enhance the scalability of the standards.

- Ms. Wei and Dr. Norberg supported bifurcating the project into two tracks because this would enable addressing, as a priority, the disclosures relating to enhanced transparency about independence and to align with IESBA's effective date.
- Mr. Ruthman commented that there may be a time lag between the effective date of the revisions to the IESBA Code<sup>3</sup> and when jurisdictions are able to implement these revisions. He noted that this may result in a gap between jurisdictional ethical codes aligning with the ISAs. Ms. Jackson noted that it is recognized that jurisdictions will have their own effective dates given the need to undertake their national implementation and due process.
- Mr. Ruthman inquired whether the overarching objective as included in paragraph 400.8 of the revised Code would be subject to further public consultation as part of IAASB's narrow scope maintenance project on listed entity and PIE. Ms. Jackson explained that the overarching objective in paragraph 400.8 of the revised IESBA Code was exposed as part of IESBA's project on Definitions of Listed Entity and PIE. She explained that as part of IAASB's project, the IAASB would make reference to the overarching objective in its public consultation, for context, but would not solicit views on 400.8. The IAASB will obtain input on a tailored objective and guidelines for establishing differential requirements in the ISQMs and ISAs.

#### ENHANCED TRANSPARENCY ABOUT INDEPENDENCE IN THE AUDITOR'S REPORT

Representatives commented as follows:

##### *Public Consultation on the Options:*

- Messrs. Thompson, Yurdakul and Hansen, Ms. Yazar and Dr. Norberg supported including all three options in the Exposure Draft and supported obtaining stakeholder views on the three alternatives presented. Ms. Yazar commented that there are likely going to be divergent views given that there is a tradeoff in the options proposed between more or less transparency and consistency. She suggested that the IAASB should consider mitigation measures in this regard.
- Ms. Manabat suggested that only Options 1 and 2 should be presented in the Exposure Draft.

##### *Option 1:*

- Messrs. Munter, Yoshii, Pavas and Hansen and Mmes. Wei and Manabat noted their preference for Option 1. Messrs. Munter and Hansen noted their strong preference for more transparency in the auditor's report about independence and noted that Option 1 would achieve that. Mr. Yoshii commented that although Option 1 imposes a more onerous obligation to disclose and extends the transparency requirement to all circumstances when the relevant ethical requirements establish specific independence requirements for certain entities, it presents an approach that is reflective of the public interest for providing more transparency about independence. Mr. Pavas noted that Option 1 promotes consistency and allows for greater compatibility globally in auditor's reports for certain

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<sup>3</sup> The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

entities. Ms. Wei commented that Option 1 makes the requirement clear and demonstrates the intent of the IAASB to promote increased transparency in the auditor's report about independence.

- Ms. Blomme and Dr. Norberg noted their hesitation for supporting Option 1 because it is not aligned with the principle of the narrow scope project not to create additional or more onerous requirements beyond those proposed with the revisions to the Code.

*Option 2:*

- Dr. Norberg noted his support for Option 2.
- Mr. Munter and Ms. Wei noted that from the remaining options presented, the order of their preference is for Option 2 over Option 3.
- Ms. Blomme and Mr. Thomson expressed hesitation over whether Option 2 or Option 3 is preferred. Ms. Blomme noted that Option 2, although aligned with the requirements in Europe which apply to PIEs, would result in an additional requirement forming part of ISA 700 (Revised).<sup>4</sup> She noted that ISA 701<sup>5</sup> may be a more appropriate location because it deals with differential requirements for the auditor's report for certain entities. Mr. Thompson noted his concern about the impact of the additional transparency requirement on small and medium-sized practitioners and audits of entities that are not PIEs, and emphasized that it is important to consider a scalable solution for auditors of non-PIEs.

*Option 3:*

- Mr. Yurdakul noted his preference for Option 3 and commented that paragraph 28(c) of ISA 700 (Revised) already requires inclusion of a statement in the auditor's report that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit.
- Dr. Norberg and Mr. Hansen noted that Option 3 does not present a viable alternative. Mr. Wei noted that Option 3 is not preferred. Mr. Hansen noted that it should be clear for users of the financial statements where this information is reported (i.e., not to require users to search for this information, for example, on a website, in a transparency report, or elsewhere).

*Other Matters:*

- Mr. Munter noted that the IAASB is currently considering changes to ISA 700 (Revised) through several of its standard setting projects, including through its project on listed entity and PIE. He inquired of the IAASB's approach in this regard, noting that the collective impact of all changes to the auditor's report will need to be considered. Ms. Jackson acknowledged the possible impact to the auditor's report given the work under various IAASB projects, which includes exploring transparency in the auditor's report. However, she noted it is important to progress the individual projects. She also noted the ongoing coordination with the Auditor Reporting Consultation Group and that as the project on listed entity and PIE progresses, there will be a need to stand back at a later time and consider the wider impact to ISA 700 (Revised). Mr. Botha explained that currently there are three standard-setting projects in the IAASB work plan (i.e., the fraud, going concern and PIE projects) that are considering possible actions related to enhanced transparency that may also result in changes to the auditor's report. He noted that the IAASB's approach is to consider separately for each project what

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<sup>4</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>5</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

revisions are necessary to address the key issues identified from the information gathering and research activities undertaken. Mr. Botha noted that at a later time when the proposals are developed, the collective impact to the auditor's report will be considered, including the market impact and effective date(s) of different changes to the auditor's report when these projects are completed in relatively short succession. Mr. Botha noted that in the case of the listed entity and PIE project there is also a need to align with the effective date of IESBA.

#### PIOB COMMENTS

Mr. Sullivan emphasized the importance of the project from the public interest perspective and acknowledged the importance of the ongoing collaboration with IESBA. He noted that enhanced transparency about independence in the auditor's report is a very important public interest matter and encouraged the IAASB to gather feedback from all stakeholders for the proposals during exposure, including from investors and the profession.

#### WAY FORWARD

Ms. Jackson thanked the Representatives for their feedback. The Board will discuss the draft project proposal on listed entity and PIE at its March 2022 meeting. In June 2022, the IAASB will be presented with an Exposure Draft for approval, related to the enhanced transparency about the relevant ethical requirements for independence in the auditor's report (i.e., for track 1 or the project).

#### Going Concern (Agenda Item C)

To *OBTAIN* Representatives' views on the draft project proposal to revise ISA 570 (Revised), *Going Concern*

Ms. Jackson, Chair of the Going Concern Working Group introduced the topic. She highlighted the information gathering and research work undertaken by the IAASB in relation to going concern to date, and provided an overview of the key elements addressed by the draft project proposal to revise ISA 570 (Revised) as set out in **Agenda Item C.2**.

#### DRAFT PROJECT PROPOSAL TO REVISE ISA 570 (REVISED)

Representatives commented as follows:

##### *Overall Responses*

- Drs. Cela and Orth, Mss. Blomme and Vanich, Messrs. Hansen, Ishiwata, Munter, Rees, Sobel, Thompson and Yoshii all noted their support for the project to revise ISA 570 (Revised). Ms. McGeachy specifically conveyed the SMP Advisory Group support for the project. Ms. Wei expressed support for the project and from a capital market regulators perspective noted the relevance of the proposed actions for supporting improved audit quality with respect to going concern.

##### *Risk Identification and Assessment*

- Ms. Vanich supported the actions related to risk identification and assessment and suggested that, in addition to emphasizing the timely identification of events and conditions that may cast significant doubt on the entity's ability to continue as a going concern, to also consider highlighting, when events and conditions have been identified that may cast significant doubt on the entity's ability to continue

as a going concern, the effect and related impact on the broader identification and assessment of risks of material misstatement at the financial statement and assertion levels.

#### *Timeline Over Which the Going Concern Assessment is Made*

- Dr. Orth and Ms. Blomme highlighted the importance of the financial reporting standards in relation to going concern and supported that the going concern requirements for management should also be enhanced. They also emphasized the importance of a holistic approach in relation to addressing going concern that would involve liaison and coordination with accounting standard-setting bodies. Ms. Blomme noted that certain actions, such as the enhancements to the timeline over which the going concern assessment is made, can only be undertaken in conjunction with revisions to the applicable financial reporting framework because it would not be possible to require the auditor to consider a different period for the assessment than the period considered by management. Ms. Jackson agreed that for certain actions it may be difficult to undertake substantial revisions in the auditing standards without changes in the applicable financial reporting framework. However, Ms. Jackson also noted that there are other enhancements that can be made in this regard which will be considered as part of the project.

#### *Information from Sources External to the Entity*

- Ms. Vanich encouraged the Going Concern Working Group to reconsider the use of the words “readily available” in the proposed action related to information from sources external to the entity. She noted that this particular action should be focused on more relevant factors, such as the level of subjectivity involved in management’s assessment of an entity’s ability to continue as a going concern and the necessity to obtain evidence from sources external to the entity, rather than how easy it would be for the auditor to obtain such audit evidence. Mr. Hansen also noted that the response to consider readily available third-party information needed to be tailored to the circumstances. Ms. Jackson acknowledged these aspects noting that they would be further considered.

#### *Terminology*

- Ms. McGeachy emphasized the importance of providing a definition or description for *Material Uncertainty Related to Going Concern* because the term is not commonly understood.

#### *Management’s Assessment of Going Concern*

- Ms. Vanich supported embedding the relevant concepts of ISA 540 (Revised)<sup>6</sup> when designing and performing audit procedures, noting that this would enable a more robust evaluation of management’s assessment of going concern, especially when testing the use of significant assumptions.
- Ms. McGeachy noted the importance of establishing a more robust evaluation of management’s assessment of going concern by practitioners and reflected that there is lack of understanding among practitioners about the additional audit procedures that need to be performed in this regard.
- Mr. Sobel supported the proposed project objectives that support the public interest and for the project scope. He particularly noted the importance of the project objective to “*Establish a more robust*

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

*evaluation of management's assessment of going concern, including reinforcing the importance, throughout the audit, of the appropriate exercise of professional skepticism"* and called for its relevance to be maintained as the project progresses.

- Ms. Blomme referred to earlier work undertaken by AE on both fraud and going concern that was initiated in light of corporate failures and the risks exacerbated by the COVID-19 pandemic.<sup>7</sup> She also noted the renewed focus for going concern in Europe as a result of the heightened risk and ongoing uncertainties in certain sectors and countries. In light of current uncertainties in Europe, Dr. Orth questioned whether the project to revise ISA 570 (Revised) would consider the impact of subsequent events on management's assessment of going concern.
- Ms. Jackson acknowledged the relevance of these matters noting that the impact of subsequent events will be further considered in the course of the project.

#### *Professional Skepticism*

- Mr. Ishiwata and Ms. Vanich expressed support for inclusion of actions that emphasized a robust exercise of professional skepticism when performing procedures related to going concern.
- Mr. Ishiwata emphasized the importance of aligning with action-oriented terminology used in other ISAs when undertaking revisions to ISA 570 (Revised).
- Ms. Vanich questioned whether the IAASB's approach to professional skepticism should be reconsidered given the importance for the auditor to exercise professional skepticism throughout the audit, rather than emphasizing professional skepticism separately in each subject matter standard. Ms. Jackson acknowledged the ongoing efforts of the IAASB to appropriately emphasize the importance of exercising professional skepticism throughout the audit, and this was being done in the entire suite of ISAs.

#### *Transparency About the Auditor's Responsibilities and Work Related to Going Concern – Communication with Those Charged with Governance*

- Ms. McGeachy noted that it would be useful to consider providing guidance on strengthening communication with those charged with governance (TCWG) about going concern. Mr. Yoshii noted the importance to strengthen the communications with TCWG given the relevance TCWG have in providing information to shareholders and investors.

#### *Transparency About the Auditor's Responsibilities and Work Related to Going Concern – Transparency About Going Concern in the Auditor's Report*

- Messrs. Ishiwata, Munter, Hansen and Yoshii highlighted the importance of the actions related to enhancing transparency in the auditor's report. Messrs. Ishiwata and Yoshii specifically noted the importance of addressing the demands for providing more informational content in the Material Uncertainty Related to Going Concern paragraphs as well as enhancing transparency for situations when no material uncertainties have been identified. Messrs. Munter and Hansen added that providing more information about going concern in the auditor's report is a very important aspect for

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<sup>7</sup> See <https://www.accountancyeurope.eu/publications/going-concern-recommendations-to-strengthen-the-financial-reporting-ecosystem/> and <https://www.accountancyeurope.eu/publications/responses-to-fraud-and-going-concern-recommendations-to-strengthen-the-financial-reporting-ecosystem/>

investors and other users of audited financial statements. Ms. Jackson acknowledged the strong stakeholder support including from users, for enhanced transparency about going concern in the auditor's report, especially for "close call" situations.<sup>8</sup> She emphasized that the project proposal includes actions to further consider requirements and application material to address these situations as well as to consider enhancing the informational content of Material Uncertainty Related to Going Concern paragraphs.

- Mr. Yoshii noted that the disclosures related to going concern in the auditor's report appear to be less conspicuous than Key Audit Matters and observed that the prominence of such disclosures should be elevated.

#### *Liaison with IASB*

- Drs. Orth and Cela, Ms. Blomme and Messrs. Ishiwata and Ruthman expressed their support for the continued efforts to coordinate and liaise with the IASB over the course of the project. Mr. Ruthman noted that the two standard setters need to work "in harmony," and that it was important for both standard setters to be responsive and address the issues related to going concern such that the auditors can effectively perform their role and responsibilities.
- Mr. Munter noted his support for progressing with the IAASB's project on going concern. Whilst recognizing that, in an ideal situation, this would include a collaborative approach, Mr. Munter emphasized that it would not be in the public interest for the IAASB to delay its project so it can align with any future IASB project that may be undertaken with respect to going concern.
- Mr. Rees acknowledged the liaison ongoing between the IASB and IAASB as well as the mutual benefits and information sharing that has taken place. Mr. Rees updated the CAG on the work the IASB has undertaken with respect to analyzing the stakeholder feedback received from its [Third Agenda Consultation](#) and the resulting impact on the future work plan. Mr. Rees also noted that the New Zealand External Reporting Board has issued a standard<sup>9</sup> that focuses and consolidates going concern disclosures. Mr. Thompson and Ms. Blomme noted that the EFAA and AE have responded to the IASB's *Third Agenda Consultation*. They noted that in those responses the IASB was encouraged to further consider undertaking a going concern research project to identify changes which are needed in the financial reporting standards. Ms. Jackson acknowledged the close liaison with IASB. She noted that the project to revise ISA 570 (Revised) focuses on actions within the IAASB's remit and that the project is not dependent on changes in the financial reporting framework. She further noted that close liaison and engagement with the IASB is foreseen to continue.

#### *Scalability*

- Mr. Ruthman highlighted that more needs to be done in the public sector to raise awareness among management and TCWG to understand the importance of the going concern basis of accounting and their responsibilities regarding the assessment of going concern. He also noted that in the public

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<sup>8</sup> Situations when events or conditions were identified that may cast significant doubt on the entity's ability to continue as a going concern but, after evaluating the adequacy of disclosures in view of the requirements of the applicable financial reporting framework, and considering management's plans to deal with these events or conditions, management and the auditor conclude that no material uncertainty exists (i.e., "close call" situations).

<sup>9</sup> See [Going Concern Disclosures. \(Amendments To FRS-44\)](#).

sector, going concern matters can sometimes be very straightforward and that these circumstances should be taken into account when developing revisions to ISA 570 (Revised). Mr. Ruthman noted that, depending on the facts and circumstances, there needs to be an efficient way to tailor the auditor's response to evaluating management's assessment of going concern when such assessment is clearly straightforward.

- Dr. Cela and Mr. Thompson highlighted the need to consider scalability related to less complex entities (LCEs), as well as the use of clear, simple and concise language when developing revisions to ISA 570 (Revised). Ms. Jackson highlighted that the project will consider the Drafting Principles and Guidelines developed by the IAASB's Complexity, Understandability, Scalability and Proportionality (CUSP) Working Group (the CUSP Guidelines). In addition, Ms. Jackson acknowledged that as part of the information gathering and research activities, the IAASB hosted a series of roundtables on fraud and going concern, including a roundtable focused on audits of LCEs, where proportionality and scalability was discussed. Mr. Thompson questioned how the IAASB would ensure that the CUSP Guidelines are adhered to. Mr. Botha noted that the CUSP Guidelines will be discussed with the Board at its April 2022 meeting, when they will be finalized. Mr. Botha noted that these principles and guidelines are intended to be updated from time to time with new relevant content as they are intended to be an evolving non-authoritative document. He added that recently completed IAASB projects already benefited from a review of Staff supporting the CUSP Working Group and that going forward discipline will be required from the Board, Task Force's and Staff to adhere to and apply the CUSP Guidelines.

#### PIOB COMMENTS

Mr. Sullivan emphasized the importance of the project to revise ISA 570 (Revised) from the public interest perspective. He expressed support for the proposed actions in the draft project proposal, especially actions related to establishing a more robust evaluation of management's assessment of going concern and the actions to enhance transparency about the auditor's responsibilities and work related to going concern. Mr. Sullivan highlighted the importance for the IAASB to progress the project without delay, while noting the need to continue with the ongoing engagement and dialogue with the IASB. He also noted that it is important for the project timeline to consider an adequate time during exposure that would enable gathering feedback from all stakeholders, including from users of audited financial statements and from investors.

#### WAY FORWARD

Ms. Jackson thanked the CAG Representatives for their feedback. She noted that the Board will discuss the draft project proposal on going concern at its March 2022 meeting. In June 2022, the Going Concern Task Force intends to discuss and bring to the Board for input certain proposed actions included in the scope of the project proposal.

### Audit Evidence (Agenda Item D)

- To *REPORT BACK* on the September 2021 meeting
- To *OBTAIN* Representatives' views on the first full draft of proposed ISA 500 (Revised)

Ms. Almond, Chair of the Audit Evidence Task Force, introduced the topic by updating the IAASB CAG on the Audit Evidence Task Force's activities since the September 2021 meeting, including the preparation of the first draft of proposed ISA 500 (Revised) as presented in **Agenda Item E.2**.

Representatives commented as follows:

#### *Overarching Comments*

- Ms. Vanich strongly supported the proposals to adopt a principles-based approach in revising ISA 500.<sup>10</sup> Given that ISA 500 is a foundational standard, Ms. Vanich noted that the preservation of principles-based requirements is important to safeguard that the standard remains fit for purpose for future changes in the environment, including technology. Drs. Cela and Norberg and Messrs. Ishiwata, Yoshii, Yurdakul and Munter agreed.
- Dr. Norberg supported the direction of the proposals by the Audit Evidence Task Force and noted that the approach taken by the Task Force is responsive to the public interest issues identified.
- Dr. Cela noted his support for the direction of the proposals and, in particular, the consideration of the draft [CUSP Guidelines](#) as proposed by the CUSP Working Group. Given the clarity of the CUSP Guidelines, Dr. Cela questioned whether the same approach will be followed in finalizing the IAASB's International Standard on Auditing for LCEs. Ms. Almond noted that it is the intention of the IAASB to implement the CUSP Guidelines in all current and future projects. Mr. Botha agreed and noted that the LCE Task Force will apply the same guidelines.
- Mr. Thompson noted that the audit evidence project proposal was informed and developed based on a high degree of consultation with stakeholders and other information-gathering activities. Assuming his understanding is correct, Mr. Thompson asked whether such activities were helpful and whether it may be considered as a model for all IAASB projects going forward. Mr. Botha and Ms. Almond both acknowledged the benefits of the wide-range of consultation activities undertaken and Mr. Botha noted that such activities are now required for all projects in accordance with the IAASB's [Framework for Activities](#).
- Mr. Yurdakul asked the Audit Evidence Task Force to explore including a linkage between proposed ISA 500 (Revised) and ISA 230.<sup>11</sup>

#### *Objective of Proposed ISA 500 (Revised)*

- Mr. Yurdakul noted, in the objective of ISA 500, a change in focus from the design and performance of audit procedures to focusing on the evaluation of audit evidence. Given that audit evidence is measured as the output of audit procedures, Mr. Yurdakul noted concerns with:

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<sup>10</sup> ISA 500, Audit Evidence

<sup>11</sup> ISA 230, *Audit Documentation*

- The suggestion that the description and distinction between the different types of audit procedures may no longer be the appropriate focus in today’s environment; and
- The proposal to relocate the relevant application material in extant ISA 500 to the Appendix in proposed ISA 500 (Revised).

#### *Sources of Information*

- Mr. Yurdakul asked the Audit Evidence Task Force to consider whether the proposals in relation to information intended to be used as audit evidence prepared by a management’s expert are consistent with the auditor’s responsibilities relating to the use of the work of an auditor’s expert in accordance with ISA 620.<sup>12</sup>
- Mr. Ruthman noted that the requirements related to the work prepared by a management’s expert appear to be very specific and may contradict the objective of the overarching principles-based requirement to evaluate the relevance and reliability of information intended to be used as audit evidence. Accordingly, Mr. Ruthman also questioned whether the IAASB has considered including such requirement in a separate standard, similar to ISA 620 when using of the work of an auditor’s expert. Ms. Almond noted that the Audit Evidence Task Force considered whether the requirements relevant to the work prepared by a management’s expert belongs in ISA 500, and in doing so, noted that the origins of such requirements are based on historical IAASB projects and views expressed by IAASB stakeholders.
- Mr. Yurdakul noted that the proposals included in proposed ISA 500 (Revised) are heavily focused on audit evidence being the outcome of audit procedures. Mr. Yurdakul asked the Audit Evidence Task Force to recognize that there may be other sources of audit evidence, such as information obtained from business associates or the firm, including a firm’s quality control procedures for client acceptance and continuance.

#### *Professional Skepticism*

- Ms. Vanich and Dr. Norberg strongly supported the proposals of the Audit Evidence Task Force to reinforce the auditor’s exercise of professional skepticism when evaluating audit evidence. Ms. Vanich also noted:
  - Strong support for the proposed requirement in paragraph 8(a) of proposed ISA 500 (Revised).
  - That the proposed application material in support of paragraph 8(a) may reinforce the exercise of professional skepticism when evaluating the relevance and reliability of audit evidence, in addition to when designing and performing audit procedures to obtain sufficient appropriate audit evidence.
- Although noting support for the proposals to reinforce the auditor’s exercise of professional skepticism when evaluating audit evidence, Dr. Orth encouraged the Audit Evidence Task Force to:
  - Further emphasize the importance of exercising professional skepticism when evaluating whether sufficient appropriate audit evidence has been obtained; and

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<sup>12</sup> ISA 620, *Using the Work of an Auditor’s Expert*

- Strengthen the link between the auditor's consideration of fraud in proposed ISA 500 (Revised) and ISA 240.<sup>13</sup>
- Mr. Ishiwata noted that the guidance included in paragraph A44 of proposed ISA 500 (Revised) may be expanded to note that the same principle applies to information generated by an external source that is obtained by the auditor from the entity.
- Mr. Yurdakul asked the Audit Evidence Task Force to also emphasize the importance of professional judgment.
- Mr. Yurdakul noted that the required evaluation of relevance and reliability of information intended to be used as audit evidence may be subjective and asked the Audit Evidence Task Force to explore guidance to address the auditor's work effort.

### *Technology*

- Mr. Ishiwata noted that:
  - The standard should recognize a change in current audit practice, from an approach where audit procedures may be based primarily on sampling techniques to an approach where an entire population of transactions may be selected through the use of technology. Ms. Almond noted that the proposals in the application material do address circumstances where an entire population may be selected, such as the guidance in paragraph A80 of proposed ISA 500 (Revised).
  - In addition to the auditor's use of automated tools and techniques, the standard should also address the entity's use of technology when obtaining and evaluating audit evidence.
  - Notwithstanding the risks of automation bias when using technology, a balanced approach is encouraged given the expected benefits, including efficiency, when using technology in certain circumstances.
- Dr. Orth observed that the application material includes extensive guidance in relation to circumstances where the auditor may use technology. However, technology is not referred to in the requirements.
- Dr. Orth and Mr. Yoshii questioned whether the proposals adequately address the concept of "artificial intelligence."
- Although supportive of a principles-based approach, Mr. Munter encouraged the IAASB to consider the development of non-authoritative guidance to safeguard that the proposals remain relevant and responsive to changes in the environment, such as technology. Ms. Almond agreed and noted that the adoption of a principles-based approach led to the Audit Evidence Task Force's proposal to develop a non-authoritative guidance publication that includes examples to more specifically address how the principles of ISA 500 may apply when using technology. In particular, the Audit Evidence Task Force was of the view that locating such examples outside of the standard may be necessary because examples that refer to specific types of technology may easily become redundant or out of date.

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<sup>13</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

- Mr. Yurdakul asked the Audit Evidence Task Force to further explore whether the proposal to replace the term “electronic” with “digital” in the ISAs is appropriate in all instances.

#### PIOB OBSERVER’S REMARKS

Mr. Sullivan noted the PIOB’s support for a principles-based approach, in particular when considering the proposed audit evidence model. Therefore, regardless of its source, information has to be subject to audit procedures to become audit evidence. Mr. Sullivan also supported the high degree of coordination undertaken with other IAASB Task Forces and Working Groups, including the Fraud Task Force and the Technology and Professional Skepticism Consultation Groups. In addition, Mr. Sullivan supported the notion of a stand-back requirement in ISA 500 and noted the importance of appropriate documentation when obtaining and evaluating audit evidence.

#### WAY FORWARD

Ms. Almond thanked the Representatives for their comments and noted that the Audit Evidence Task Force intends to present a revised draft of proposed Exposure Draft ISA 500 (Revised) to the CAG in September 2022.

#### Group Audits and IAASB Work-Plan 2022–2023 (Agenda Item F)

- To *REPORT BACK* on the September 2021 meeting

Mr. Botha reported back on Group Audits (**Agenda Item F.1**) and the IAASB Work Plan (2022 – 2023) (**Agenda Item F.2**).

#### Assurance on Sustainability / Environmental Social and Governance (ESG) Information (Agenda Item G)

- To *RECEIVE* an update on the establishment of the IAASB’s Sustainability Assurance Consultation Group (SACG) and its work regarding Assurance on Sustainability / ESG Assurance

Mrs. Provost provided an overview of the factors driving the need for possible IAASB actions on sustainability / ESG reporting. She outlined the proposed scope of the IAASB’s work, and explained the issues and questions that will be considered by the IAASB Board in their March 2022 meeting.

#### GENERAL

Representatives commented as follows:

- Messrs. Thompson and Rees, Dr. Norberg, Mmes. Blomme and McGeachy were encouraged by the IAASB’s initiation of the project, and supported the IAASB’s work in this area. Ms. Blomme added that fragmentation is a key issue, therefore an international initiative is very important, rather than jurisdictional initiatives. Mr. Yoshii also highlighted the issue of fragmentation and added that, from the users’ perspective, the IAASB initiative is supported as it is framework neutral, with a broad view on sustainability information topics and intended users.
- Mr. Thompson noted the urgency of addressing assurance on sustainability / ESG reporting, given the rapid developments in regulation and market forces. He added that assurance on sustainability /

ESG reporting will have the same importance in the future as financial statement audits. He noted that there is increasing awareness that the IAASB is taking action. Mr. Yoshii added that in Japan the interest of the investors and companies has rapidly increased and noted that in addition to ESG analysts, financial analysts are also increasingly interested on how ESG information can be used in corporate analysis. Ms. Landell-Mills also observed the increasing reliance on sustainability / ESG information by investors.

- Mr. Rees provided an overview of the work undertaken by the International Financial Reporting Standards Foundation in creating the International Sustainability Standards Board (ISSB). He explained that there is increasing demand for sustainability information, and that the landscape is developing at a rapid pace. He noted the first two exposure drafts are expected to be published soon and encouraged feedback on the drafts. Mr. Rees emphasized that the focus of the ISSB is meeting investor demand for sustainability information while setting out a global baseline of sustainability-related disclosure standards that can be further extended to meet broader needs. Mr. Rees highlighted that assurance is a critical component to the overall success of sustainability / ESG reporting, and that this is a shared view that emerged from a recent roundtable of IOSCO's Sustainable Finance Task Force. He added that the ISSB is looking to collaborate with the IAASB.
- Ms. Blomme provided a brief update of developments in Europe for assurance on sustainability reporting, noting that initially limited assurance will be required, but after a few years, reasonable assurance may be mandatory. She indicated that AE will issue guidance in April 2022 that will support assurance practitioners to prepare for providing assurance, together with a roadmap to guide them through to reasonable assurance.
- Messrs. Ishiwata and Rees noted the importance of balancing the timeliness and appropriateness of the IAASB's work on assurance on sustainability / ESG reporting.
- Mr. Ishiwata encouraged the IAASB to have sufficient resources and diversity to support their work on the SACG as those are crucial for the project. Mr. Yoshii explained that to avoid fragmentation and secure resources, the IAASB should ensure it has access to resources with experience in providing assurance over ESG information.
- Ms. Landell-Mills questioned the actions that the IAASB has taken to ensure that the [IAASB Staff Audit Practice Alert On Climate-Related Risks](#) has been implemented. She noted that there are a number of ESG risks that impact the financial statements, which are often not appropriately captured in the financial statements, or not properly addressed by the auditor. She noted that in a recent report issued by the Carbon Tracker Initiative, only a few auditors indicated that they had addressed climate risks. As a result, she stressed that, notwithstanding the IAASB Staff alert, there is an implementation issue. Mrs. Provost acknowledged that the integration of sustainability / ESG information within the financial statements is a key issue in both the private and public sector, which would be considered by the IAASB in March 2022.
- Ms. Landell-Mills emphasized that it is extremely important to create a framework to define who are the legal recipients of the sustainability / ESG information, and to identify who is responsible for holding preparers and auditors accountable for the sustainability / ESG information and assurance thereon. She suggested that since the sustainability / ESG information may accompany the narrative aspects of the financial statements, shareholders and investors are normally the legal recipients. She emphasized the need for consistency between the financial statements and sustainability / ESG information.

## CHALLENGES IN PERFORMING ASSURANCE ENGAGEMENTS ON SUSTAINABILITY / ESG REPORTING

Representatives commented as follows:

- Mr. Thompson expressed his concern that professional accountants may not have knowledge and experience in sustainability / ESG subject matter and will have to rely on experts and may need to lead multidisciplinary teams. Mr. Thompson added that in Europe, there are efforts underway to enable non-audit or accounting firms to provide sustainability assurance. Mr. Thompson, therefore, explained that ISAE 3000 (Revised)<sup>14</sup> is not only used by auditors but also by non-auditors. Mr. Ishiwata added that the IAASB should consider non-accountants while continuing its work. Mrs. Provost responded that the IAASB is aware that non-auditors are performing these engagements and the IAASB would consider them as part of this project.
- Mr. Thompson, Dr. Norberg and Ms. McGeachy noted that the assurance of sustainability / ESG reporting will increasingly impact SMPs, given the market is moving from voluntary to mandatory reporting and assurance requirements. Ms. McGeachy and Mr. Thompson observed that this will become an area that firms will need to address in their practice. Mr. Thompson further noted that SMPs will need to build capacity to offer sustainability / ESG assurance services. Ms. McGeachy thanked the SACG for recognizing SMPs as a stakeholder. Dr. Norberg encouraged the IAASB to consider scalability while undertaking standard setting. Mrs. Provost agreed that SMPs and SMEs is an area the IAASB will focus on.
- Ms. Blomme outlined several issues encountered in practice for the IAASB's consideration:
  - Preconditions to perform the engagements, in particular since entities are still establishing their sustainability / ESG reporting, including the implications on the assurance engagement and the report;
  - Understanding the entity and environment;
  - Assurance on the materiality process;
  - The types of procedures to be performed;
  - Multidisciplinary expertise;
  - Completeness of the information; and
  - The assurance of narrative and forward-looking information.
- Mr. Ishiwata noted that proper coordination between the financial statements' auditor and assurance practitioner performing the assurance engagement on the sustainability / ESG reporting is essential.

## THE IAASB'S POSSIBLE ACTIONS FOR ASSURANCE ON SUSTAINABILITY / ESG REPORTING

Representatives commented as follows:

- Dr. Norberg supported a holistic approach due to the wide range of developments in sustainability / ESG reporting, adding that the IAASB should avoid getting lost in detail. However, Mr. Ishiwata encouraged an approach similar to the ISSB, i.e., establishing a global baseline assurance standard, and building on that with more specific standards. He added that the focus should be on climate first,

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<sup>14</sup> ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information

and then follow with topics based on the direction of the ISSB.

- Mr. Yoshii observed that even if new standards are developed that are not different from existing standards and guidance, stakeholders will want assurance standards to be developed to respond to developments with the ISSB and European Union. Ms. Blomme commented that for limited assurance engagements, ISAE 3000 (Revised) in combination with the Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting Assurance Engagements is sufficient, but it will be preferable to have a single standard (i.e., instead of needing to combine different standards and guidance).
- Mr. Thompson indicated support for a subject-matter specific ISAE, similar to the direction in the European Union. He emphasized that if the IAASB does not produce such a standard, the European Union will look elsewhere or internally. Dr. Norberg indicated that the decision on whether to adjust ISAE 3000 (Revised) or develop a subject-matter specific ISAE should be made by the profession, although it is important to take appropriate action on a timely basis. Mrs. Provost responded that a subject-matter specific standard is being considered by the IAASB, and once the IAASB identifies the key challenges, the IAASB will determine what is an appropriate mechanism for action.

#### ENGAGEMENT WITH STAKEHOLDERS

Representatives commented as follows:

- Ms. Blomme highlighted the importance of engaging with the European Commission and the Committee of European Audit Oversight Bodies (CEAOB), as they are looking to adopt a standard for reasonable assurance.
- Mr. Thompson noted that some entities that were scoped in by the European Financial Reporting Advisory Group might be useful to engage with as part of the IAASB project.
- Dr. Norberg encouraged the IAASB to reach out to a broader stakeholder group, including users and preparers of the sustainability / ESG information to understand the landscape and the scope and nature of reports. Mrs. Provost responded that the Sustainability Working Group will address this in its outreach plan.
- Mr. Yoshii encouraged the IAASB to engage with institutes and bodies that offer ESG qualifications and evaluations for analysts, such as the CFA Institute and the European Federation of Financial Analysts Societies-Commission on ESG.

#### PIOB OBSERVER'S REMARKS

Mr. Sullivan supported this initiative and observed that it is a very important and urgent subject from a public interest perspective. Mr. Sullivan noted that this project will take time over the next few years as the market will evolve. He added that the PIOB is very interested in the project. Mr. Sullivan acknowledged the IAASB's collaboration with different stakeholders and the forward outreach plan and recommended engaging with IESBA.

#### WAY FORWARD

Mr. Seidenstein and Mrs. Provost thanked Representatives for their feedback and comments. Mr. Seidenstein and Mrs. Provost explained that the IAASB is trying to determine what the most impactful items are that IAASB can address in a brief period of time to help advance consistency, quality and avoid

fragmentation to the assurance of sustainability / ESG reporting. Mr. Seidenstein provided details on some of the IAASB outreach with stakeholders including the ISSB, IOSCO, The Financial Stability Board, European Commission and CEAOB, noting that the IAASB is willing to take action. Mr. Seidenstein noted that it may be appropriate to tackle the development of standards in batches, focusing on the most impactful actions first, given time and resource constraints. Mrs. Provost added that the IAASB and IAASB CAG will be provided with an update on this topic at the IAASB CAG's September 2022 meeting.

### **Fraud (Agenda Item H)**

- To *REPORT BACK* on the November 2021 meeting; and
- To *OBTAIN* Representatives' views on selected topics on fraud in an audit of financial statements.

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

#### SUMMARY OF FEEDBACK RECEIVED

Representatives commented as follows:

#### *Transparency Reporting on Fraud*

- Messrs. Hansen and Thompson noted that the alternatives for transparency in reporting on fraud need not be mutually exclusive. Representatives noted the following in respect to the alternatives:
  - Ms. Landell-Mills supported alternative 1 (i.e., detailed description of the fraud risks identified, the auditor's response and the auditor's findings/ observations in the auditor's report).
  - Dr. Norberg, Messrs. Dalkin, Hansen, Thompson and Ms. Blomme supported alternative 2 (i.e., high-level description of the fraud risks identified and how the auditor addressed the fraud risks in the auditor's report).
  - Dr. Norberg, Mr. Dalkin, and Ms. Blomme supported alternative 3 (description of the extent to which the audit is considered capable of identifying and assessing risks of material misstatement due to fraud in the auditor's report).

Mrs. Provost clarified that the IAASB is not seeking Representatives' input on a preferred alternative, but rather on whether the alternatives for transparency in reporting on fraud are appropriate to discuss with users of the financial statements. Nonetheless, Mrs. Provost appreciated the Representatives' views as this provided indirectly insights in the viability of the alternatives presented. Mr. Dalkin added that, based on Representatives' views, the alternatives for transparency in reporting on fraud are appropriate to discuss with users of financial statements.

- Dr. Norberg and Ms. Blomme noted that any alternative developed for increasing transparency in reporting on fraud by the auditor should be mirrored in the equivalent reporting requirements applicable to management.
- Mr. Yoshii noted that users of financial statements may not fully understand the difference between the four alternatives presented, and therefore encouraged the IAASB to further clarify them. Mrs. Provost explained that the Fraud Task Force intends to provide examples in its outreach to users of the financial statements.
- Mmes. Vanich and Landell-Mills encouraged the IAASB to consider how transparency in reporting on

fraud can be entity-specific as boilerplate disclosures are not meaningful to users of financial statements.

- Dr. Norberg, Mr. Thompson and Ms. McGeachy encouraged the IAASB to make its proposals related to reporting on fraud scalable, particularly for LCEs. Mrs. Provost noted that scalability will be considered when making proposed changes to ISA 240.
- Messrs. Hansen and Thompson noted that the project is limited to fraud in an audit of financial statements and questioned whether the project should also address fraud in sustainability / ESG reporting (e.g., greenwashing). Mrs. Provost noted that fraud in sustainability / ESG reporting is out of scope of this project.
- Mr. Dalkin and Ms. Landell-Mills noted that transparency in reporting on fraud should be limited to the risks of material misstatement due to fraud in the financial statements, or is tied to some other threshold. Mrs. Provost clarified that transparency in reporting on fraud is limited to the risks of material misstatement due to fraud in the financial statements.
- Mr. Akihito noted that the proposed changes addressing communication with TCWG should be considered together with the proposed changes addressing transparency in reporting on fraud. He also noted that direct communication with “other auditors” may be useful and therefore suggested that the proposed changes should also consider the risk of disclosing confidential or sensitive information.

#### *Identifying and Assessing the Risks of Material Misstatement Due to Fraud*

- Ms. Vanich supported the proposed changes related to identifying and assessing the risks of material misstatement due to fraud. In this regard, she encouraged the IAASB to consider the PCAOB’s integrated standard addressing risk identification and assessment and fraud: *Auditing Standard 2110: Identifying and Assessing Risks of Material Misstatement*. Mrs. Provost noted that auditing standards on fraud in various jurisdictions (e.g., Japan, Netherlands, United Kingdom, United States) will be considered in developing proposed ISA 240 (Revised).

#### *Other Comments*

- Ms. McGeachy noted that others in the financial reporting ecosystem also play an important role in addressing the “expectation gap.”
- Mr. Akihito noted that requiring too many fraud procedures and documentation may undermine the auditor’s exercise of professional skepticism.

#### PIOB OBSERVER’S REMARKS

Mr. Sullivan supported the proposed changes to ISA 240 addressing risk identification and assessment, communication with TCWG and transparency in reporting on fraud. He highlighted the importance of explaining how the proposed changes will address the “expectation gap.”

#### WAY FORWARD

Mrs. Provost and Mr. Seidenstein thanked the Representatives for their thoughtful input on the selected topics on fraud in an audit of financial statements, which will also be discussed at the March 2022 IAASB meeting.

**Closing Remarks**

Mr. Dalkin thanked the IAASB CAG Representatives for their preparation and participation during the meeting. Mr. Dalkin also thanked IAASB Staff for the meeting arrangements and closed the meeting. The next IAASB CAG meeting will be held virtually on June 7.