

**Approved Minutes of the 123rd Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)
Held on April 21–22, 2021 via Video Conferences¹**

Voting Members

Present: Tom Seidenstein (Chair)
Len Jui (Deputy Chair)
Sue Almond
Chun Wee Chiew
Julie Corden
Kai Morten Hagen
Josephine Jackson
Sachiko Kai
Edo Kienhuis
Diane Larsen
Prof. Kai-Uwe Marten
Lyn Provost
Fernando Ruiz Monroy
Prof. Roger Simnett
Wendy Stevens
Isabelle Tracq-Sengeissen
Eric Turner
Imran Vanker²

Technical Advisors (TA)

Helene Agélii (Mr. Hagen)
Sara Ashton (Ms. Almond)
Vivienne Bauer (Mr. Monroy)
Wolf Böhm (Prof. Marten)
Fabien Cerutti (Ms. Tracq-Sengeissen)
Antonis Diolas (Mr. Chiew)
Johanna Field (Mr. Turner)
Hiram Hasty (Ms. Stevens)
Rene Herman (Prof. Simnett)
Susan Jones (Mr. Jui)
Thokozani Nkosi (Ms. Jackson)
Tania Sergott (Ms. Corden)
Jamie Shannon (Mr. Kienhuis)
Sylvia Van Dyk (Mrs. Provost)
Denise Weber (Ms. Larsen)
Kohei Yoshimura (Ms. Kai)

Non-Voting Observers

Present: Jim Dalkin (IAASB Consultative Advisory Group (CAG) Chair), Yosh'inao Matsumoto (Japanese Financial Services Authority)
Apology: Juan Maria Arteagoitia (European Commission)

Public Interest Oversight Board (PIOB) Observer

Present: Ms. Karen Stothers

¹ The IAASB held two video conference sessions on April 21–22. The matters discussed during these video conferences are captured within these minutes.

² Mr. Vanker was supported by Ms. Sinethemba Maseko at the April 21–22 videoconferences. After informing the Chair, Mr. Vanker and Ms. Maseko left the meeting on April 22 before the discussion commenced.

IAASB Technical Staff

Present: James Gunn (Managing Director, Professional Standards) (April 21), Willie Botha (Technical Director), Beverley Bahlmann, Amy Fairchild, Brett James, Natalie Klonaridis, Armand Kotze, Phil Minnaar, Kalina Shukarova Savovska, Hanken Jane Talatala, Jasper van den Hout, Angela Donnelly (IAASB Staff Fellow), Dan Montgomery (Senior Advisor – Technical Projects) (April 21), Nicki Bester (Independent Contractor).

IAASB agenda materials referred to in these minutes can be accessed on the IAASB's Website for the sessions held on [April 21–22](#). These minutes are a summary of the decisions made at the April 2021¹ IAASB video conferences, considering the issues and recommendations in the agenda material put forth by the Task Forces, Working Groups, Drafting Teams and Staff supporting the individual projects. These recommendations are made taking into account feedback from respondents to the IAASB's public consultations, in particular Exposure Drafts (EDs) of the IAASB's proposals, consideration of previous discussions of the Board and its CAG, and feedback from stakeholders through outreach activities.

1. Welcome

Mr. Seidenstein welcomed all participants to the April 21–22, 2021 IAASB videoconferences. Mr. Seidenstein also welcomed the public observers who were observing the meeting via the IAASB's YouTube channel.

2. Complexity, Understandability, Scalability and Proportionality (CUSP)

Prof. Simnett, provided an overview of the work of the CUSP Working Group and the Drafting Principles and Guidelines as set out in **Agenda Item 1-A**.

DRAFTING PRINCIPLES AND GUIDELINES

The Board strongly supported the Drafting Principles and Guidelines, indicating they will improve the quality of the drafting of International Standards on Auditing (ISAs). The Board also noted that the Drafting Principles and Guidelines will aid in addressing concerns raised by stakeholders with respect to the CUSP of the ISAs. The Board agreed with the CUSP Working Group's proposals for the Drafting Principles and Guidelines to be applied for the revision of standards or the development of new standards, rather than to the existing suite of ISAs. The Board also supported the Drafting Principles and Guidelines being a non-authoritative document, updated from time to time.

The Board provided the following directional guidance to the CUSP Working Group in finalizing the Drafting Principles and Guidelines:

- With respect to the formatting techniques applied in ISA 315 (Revised 2019),³ the Board supported the use of boxes to identify the examples in the application and other explanatory material, and had mixed views with respect to the use of boxes to present requirements. The Board encouraged the CUSP Working Group to clarify these matters in the Drafting Principles and Guidelines.

³ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

- The Board supported the retention of specific references to international standards other than ISAs, including those that refer to the International Ethics Standards Board for Accountants' (IESBA) *International Code of Ethics for Professional Accountants (including International Independence Standards)*⁴ and other financial reporting frameworks (such as the International Financial Reporting Standards and the International Public Sector Accounting Standards), but indicated these should be used sparingly and only when necessary, to clarify the IAASB's intent.
- With respect of the appendices that describe terms commonly used in the ISAs, the Board broadly supported these and asked the CUSP Working Group to consider whether it is possible to further reduce the number of terms used in drafting future ISAs.
- The Board broadly supported the principles and guidelines to address specific documentation requirements in standards other than ISA 230.⁵ The Board asked the CUSP Working Group to consider what other guidance can be provided to support the application of the documentation requirements in ISA 230 and other ISAs.

The Board also suggested to consider:

- Providing further clarity on the drafting implications of scalability and proportionality.
- Considering whether principles and guidelines could be included on how to draft standards that deal with audits of the smallest entities first and then build conditional requirements to deal with increasing complexity.
- Providing further clarity as to what application and other explanatory material should form part of the standard and what material would be better suited as other non-authoritative guidance.

WAY FORWARD

The Board supported the proposed way forward outlined by the CUSP Working Group. The Working Group will undertake targeted outreach to obtain stakeholder perspectives as it finalizes the Drafting Principles and Guidelines.

CAG CHAIR REMARKS

Mr. Dalkin thanked the Board and noted that the Drafting Principles and Guidelines are a step in the right direction towards simplification of the ISAs. Mr. Dalkin encouraged the CUSP Working Group to keep the Drafting Principles and Guidelines as simple as possible.

PIOB OBSERVER REMARKS

Ms. Stothers supported the work undertaken and highlighted that the Drafting Principles and Guidelines is important. Ms. Stothers emphasized that, over the past few years, the IAASB issued several standards that address key public issues and cautioned against taking decisions to redraft these standards while they are still being implemented.

⁴ International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

⁵ ISA 230, *Audit Documentation*

3. Fraud in an Audit of Financial Statements

Mrs. Provost provided an overview of feedback received on the Discussion Paper⁶ and other information-gathering activities on fraud in an audit of financial statements as set out in **Agenda Item 3**.

SUMMARY OF FEEDBACK RECEIVED AND POSSIBLE ACTIONS

Overall, the Board commended the significant amount of feedback gathered by the Fraud Working Group from the fraud-related information-gathering activities that had been undertaken and the responses to the Discussion Paper. In particular, it was highlighted that the work done to analyze academic research in this area was beneficial.

The Board provided feedback on possible actions set out by the Fraud Working Group, which had been developed based on the responses to the Discussion Paper and input from the other information-gathering activities. The Board encouraged the Fraud Working Group to focus on a more holistic approach, including further consideration about how the IAASB's global voice could be used in encouraging action by others, to address the public interest issues more effectively on fraud in an audit of financial statements. While the Board recognized standard-setting as a possible action, the Board also acknowledged that addressing the public interest issues on fraud would need to involve a collaborative, multi-stakeholder solution by all participants in the financial reporting ecosystem and could not be achieved solely through standard-setting by the IAASB.

STANDARD-SETTING

The Board noted that any changes to ISA 240⁷ should be proportionate and responsive to the feedback received from the fraud information-gathering activities and should only be made if it were considered that they would make an impact. Specific comments and suggestions on standard-setting included the following:

- The Board supported strengthening the auditor's consideration of fraud when identifying and assessing the risks of material misstatement. There was support for the auditor to focus on specific control activities that management had designed and implemented to prevent and detect fraud, as well as strengthening the auditor's considerations around tone at the top and corporate culture. There was also support for possible changes within the standard for the auditor to focus on fraud risk factors specific to the entity and its circumstances.
- The Board supported changes to enhance the auditor's communications with those charged with governance through greater two-way communication throughout the audit engagement (e.g., specific discussion with those charged with governance about the entity's risks of material misstatement due to fraud and challenging those charged with governance to demonstrate how they have addressed such risks).
- The Board considered possibly enhancing ISA 240 to make the auditors considerations around fraud that could occur in related parties stronger. However, it was noted that there is already sufficient material in ISA 550⁸ addressing fraud risk factors arising from related party relationships and

⁶ Discussion Paper, [Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit](#)

⁷ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁸ ISA 550, *Related Parties*

transactions that are relevant to the identification and assessment of the risks of material misstatement due to fraud.

- The Board did not support further pursuing the concept of a “suspicious mindset” but rather suggested enhancing the application of the existing concept of professional skepticism. There were mixed views about further exploring whether the use of a ‘suspicious mindset’ could be incorporated in ISA 240 in limited, specific circumstances, as it may be difficult to establish how to “switch on and off” between a skeptical and a suspicious mindset. It was also noted that the standard could be enhanced when fraud is suspected or identified and in demonstrating how the auditor applies professional skepticism in such circumstances.
- The Board supported clarifications around journal entry testing. However, there were mixed views about testing journal entries throughout the period given that this may involve a significant increase in the auditor’s work effort (unless appropriate to do so).
- The Board supported modernizing ISA 240 for advancements in technology through describing fraud risks introduced by the use of modern technology as well as the auditor’s use of technology to perform fraud-related procedures. There was also support for working collaboratively with the Technology Working Group to determine if non-authoritative guidance could be used to support the application of ISA 240.
- The Board did not support expanding the responsibilities of the auditor to detect all non-material fraud. However, the Board supported possibly developing non-authoritative guidance to help auditor’s understand what actions are necessary when non-material fraud is identified.
- The Board supported enhancing application material by explaining the types of unpredictability procedures that may be considered in an audit. It was noted that consideration should also be given to how these types of procedures may be applied in audits of less complex entities.
- The Board had mixed views on whether additional fraud-related specific documentation requirements are needed. However, it was acknowledged that further consideration of this would be needed once the other changes within the standard had been made as such changes may necessitate new specific documentation requirements.
- The Board had mixed views about requiring analytical procedures at the appropriate level of disaggregation at the planning and closing stages of the audit (unless necessary).
- The Board supported enhancing the linkages in ISA 240 to other ISAs where the relationship between ISA 240 and the relevant other standard was not clear.
- The Board did not support expanding the role of the auditor to detect third-party fraud that is not directly related to a material misstatement in the financial statements. However, the Board supported collaborating with the Technology Working Group to determine if non-authoritative guidance on cybercrime would be useful.

NON-AUTHORITATIVE GUIDANCE

The Board supported further exploring what non-authoritative materials may be needed during the course of the project, as well as after changes have been made to ISA 240, as appropriate.

AREAS WHERE FURTHER DISCUSSION IS NEEDED

The Board broadly agreed with the following matters highlighted in the issues paper that warrant further analysis and consideration by the Fraud Working Group and the Board at the June 2021 and July 2021 IAASB meetings:

- Determining whether, and how, forensic type procedures may be appropriate in an audit.
- Exploring whether a change to the definition of fraud is needed.
- Exploring whether to consider requiring more transparency in the auditor's report about the auditor's procedures on fraud.
- Exploring whether changes are needed to the introductory paragraphs of ISA 240 about the inherent limitations of an audit.
- Making the engagement team discussion more robust for the auditor's considerations around fraud.
- Clarifying the relationship between ISA 240 and ISA 250 (Revised).⁹
- Considering whether the presumed risk of fraud in revenue recognition should be retained, and whether there are other areas of high fraud risk that should be similarly treated.
- Considering what changes are needed related to procedures when fraud is detected or identified.
- Strengthening requirements about the auditor's considerations for external confirmations.

AREAS WHERE NO FURTHER ACTION IS RECOMMENDED

The Board broadly did not support enhancing requirements for engagement quality reviews. The Board also did not support further refining the description or developing a definition of "expectation gap" as described in the Discussion Paper, or further exploring the primary causes of the expectation gap.

OTHER MATTERS AND GENERAL COMMENTS

There was support for the work to be undertaken to better understand how frauds are being committed, including how they are executed and concealed, who is involved, what financial accounts are impacted, and how they are eventually detected (i.e., root-cause analysis), and directly linking such understanding in developing possible actions addressing fraud in an audit of financial statements.

The Board also broadly supported possible actions for ongoing activities to monitor the work of others, outreach, coordination with IESBA and other IAASB workstreams.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin highlighted the importance of establishing a nexus or connection between the understanding of how frauds are being committed and the possible actions addressing fraud in an audit of financial statements. Mr. Dalkin also cautioned the Board from extending the length of the auditor's report by including more on the auditor's fraud procedures in the auditor's report.

⁹ ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

PIOB OBSERVER'S REMARKS

Ms. Stothers recognized the comprehensive input from the fraud information-gathering activities and the clear steer by the Board to focus on the possible actions that most effectively address the public interest issues on fraud in an audit of financial statements.

WAY FORWARD

The Fraud Working Group will focus on matters highlighted in the issues paper that warrant further analysis and consideration at the June 2021 and July 2021 IAASB meetings as it progresses its work to develop a project proposal addressing fraud in an audit of financial statements.

4. Closing

Mr. Seidenstein thanked the IAASB Members, TAs, and Staff and closed the meeting.

5. Next Meeting

The next IAASB meeting will be held via video conferences on May 10–11, 2021. The next IAASB quarterly meeting will take place via video conference between June 14–23, 2021.