

**Minutes of the 135<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)  
Held on December 5–9, 2022 in New York, United States of America<sup>1</sup>**

	<b>Voting Members</b>	<b>Technical Advisors (TA)</b>
Present: <sup>2</sup>	Tom Seidenstein (Chair)	Helene Agélii (Mr. Hagen)
	Len Jui (Deputy Chair)	Sara Ashton (Ms. Almond)
	Sue Almond	Viviene Bauer (Mr. Monroy)
	Chun Wee Chiew	Wolf Böhm (Prof. Marten)
	Julie Corden	Fabien Cerutti (Ms. Tracq-Sengeissen)
	William Edge	Antonis Diolas (Mr. Chiew)
	Kai Morten Hagen	Johanna Field (Mr. Turner)
	Josephine Jackson (December 6-9)	Diane Hardesty (Ms. Larsen)
	Sachiko Kai	Rene Herman (Mr. Edge)
	Edo Kienhuis	Susan Jones (Mr. Jui)
	Diane Larsen	Yvette Lange (Prof. Maroun) <sup>∨</sup>
	Prof. Warren Maroun <sup>∨</sup>	Thokozani Nkosi (Ms. Jackson)
	Prof. Kai-Uwe Marten	Tania Sergott (Ms. Corden)
	Lyn Provost	Jamie Shannon (Mr. Kienhuis)
	Fernando Ruiz Monroy	Sylvia Van Dyk (Mrs. Provost)
	Wendy Stevens	Brian Wilson (Ms. Stevens)
	Isabelle Tracq-Sengeissen	Kazuko Yoshimura (Ms. Kai)
	Eric Turner	

**Non-Voting Observers**

Present: Jim Dalkin (IAASB Consultative Advisory Group (CAG) Chair), Yosh'inao Matsumoto (Japanese Financial Services Authority), Rogier Wezenbeek (European Commission) (December 6 and 7)<sup>∨</sup>

**Public Interest Oversight Board (PIOB) Observer**

Present: Mr. Michael Hafeman

**IAASB Technical Staff**

Present: James Gunn (Managing Director, Professional Standards) (December 5), Willie Botha (Program and Technical Director), Sally Ann Bailey, Jan Thijs Drupsteen, Amy Fairchild, Claire Grayston, Natalie Klonaridis, Armand Kotze, Kalina Shukarova Savovska, Jasper van den Hout, Adriana Chircusi (Staff Fellow),<sup>∨</sup> Dan Montgomery (Senior Advisor – Technical Projects).

Apology: Hanken Talatala, Danielle Davies (Staff Fellow)

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<sup>1</sup> The December 2022 IAASB meeting was held in-person in New York USA, with videoconference dial-in available.

<sup>2</sup> Participants were present in person, except for those marked with "∨", who joined via videoconference using Zoom.

## **Welcome and Introduction**

- The Chair welcomed members, technical advisors and official observers, and public observers via YouTube, to the December 2022 IAASB meeting.
- The Chair also welcomed Mr. Jan Thijs Drupsteen, who have joined the IAASB staff from December 1, 2022 as well as the incoming Board Members from January 1, 2023, Mr. Schollum and Mr. Morris.
- The Chair updated the Board on the outreach performed since the September 2022 meeting, highlighting the extent of the IAASB's interactions with its key stakeholders across various projects.

## **Meeting Topics**

- [Approval of Minutes \(Agenda Item 1\)](#)
- [Strategy and Work Plan 2024-2027 \(Agenda Item 2\)](#)
- [Audits of Less Complex Entities \(Agenda Item 3\)](#)
- [Going Concern \(Agenda Item 4\)](#)
- [Fraud \(Agenda Item 5\)](#)
- [Listed Entities and Public Interest Entities \(Agenda Item 6\)](#)
- [Sustainability Assurance \(Agenda Item 7 and 8\)](#)

### **Approval of Minutes (Agenda Item 1)**

#### **Decision**

1. The Board approved the minutes of the September 2022 IAASB quarterly meeting as presented on December 5, 2022.

### **Strategy and Work Plan 2024–2027 (Agenda Item 2)**

#### **Decisions**

2. After presenting an updated version of the Consultation Paper on the IAASB's Strategy and Work Plan for 2024 – 2027 (the Strategy and Work Plan), the Board unanimously approved the Strategy and Work Plan, with 18 affirmative votes out of 18 Board members in attendance. The revisions made in finalizing the Strategy and Work Plan, which addressed Board members' comments, indicated in markup are highlighted in:
  - [Agenda Item 2-C](#): Strategy and Work Plan 2024–2027 – Marked from Agenda Item 2-B; and
  - [Agenda Item 2-D](#): Strategy and Work Plan 2024–2027 – Approved.
3. The Board agreed with the proposed consultation period of 90 days.

#### **Directions**

##### *Strategy*

4. Board members suggested a number of changes to the Strategy, including:
  - With respect to the proposed strategic objectives, clarifying the different views that exist about whether the Board should undertake implementation support activities and highlighting that others (e.g., jurisdictional / national auditing standard setters) may also play a role in supporting

the implementation of the Board's standards.

- With respect to the proposed strategic actions:
  - Clarifying that the Board will make a determination in the context of each project about whether to issue first-time implementation support materials, and that such materials may be developed by the IAASB, or the IAASB may facilitate and support action by others. It was suggested to make changes throughout the Strategy and Work Plan to highlight this.
  - Having separate bullets for implementation support materials and post-implementation reviews as these are two separate workstreams.
  - Adding the Board's commitment to work more sustainably.

#### *Work Plan*

5. Board members suggested a number of changes to the Work Plan, including:
  - With respect to the section on implementation support activities, clarifying the Board's proposed role with respect to first-time implementation support materials and non-authoritative guidance (and to separate these two items).
  - With respect to the section, "Our next projects", providing a steer as to the prioritization of the possible new standard setting projects that may commence in 2024–2027, including with respect to sustainability and other assurance engagements.
6. The Board had mixed views on the footnote that states that there may be a need for a possible project to revise ISAE 3000 (Revised)<sup>3</sup> (footnote 30 in **Agenda Item 2-B**). Some Board members were of the view that ISAE 3000 (Revised) should not be revised while others were of the view that it should.

#### *Request for Comments*

7. Board members suggested a number of changes to the Request for Comments section, including:
  - Highlighting that respondents are not required to answer all questions. The Board was of the view that this may increase responses from stakeholders that normally do not respond to the Board's consultations and may help some respondents given that there are three public consultations due in April 2023.
  - Clarifying the question with respect to the Board's coordination with the International Ethics Standards Board for Accountants (IESBA).
  - Having a "catch all" question that asks respondents whether there are any other matters that the Board should consider in finalizing the Strategy and Work Plan.

### **Other Substantial Matters**

#### *IAASB CAG Chair Remarks*

8. Mr. Dalkin noted that the CAG was actively involved in the development of the Strategy and Work Plan and was supportive of issuing the Strategy and Work Plan for public consultation.

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<sup>3</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

### *PIOB Observer Remarks*

9. Mr. Hafeman thanked the Board for the thorough discussion especially on the strategic driver that addresses the Board's involvement in the implementation of its standards and the discussion on whether the Board should commit to work more sustainably. He noted that the PIOB is neutral about what the IAASB's next projects could be and noted that respondents to the consultation paper will provide the Board with direction.
10. Mr. Hafeman congratulated the Board on the approval of the Strategy and Work Plan. He noted that the consultation paper has improved significantly because of the thorough Board discussions and noted that the Consultation Paper is of high-quality.

### *Next Steps*

11. The Strategy and Work Plan will be published mid-January with a 90-day consultation period.

## **Audits of Less Complex Entities (LCE) (Agenda Item 3)**

### **Decisions**

#### *Approval of the Exposure Draft of Part 10, Audits of Group Financial Statements (ED-Part 10)*

12. After presenting an updated version of proposed Part 10, *Audits of Group Financial Statements* and the related Authority, the IAASB voted on, and unanimously approved the exposure draft of proposed Part 10 along with the proposed conforming amendments resulting from Part 10, with 18 affirmative votes out of the 18 Board members in attendance. The revisions made in finalizing the exposure draft (ED-Part 10), which addressed Board members' comments, are indicated in mark up in:
  - [Agenda Item 3-C – UPDATED](#) – Proposed Part 10 Audits of Group Financial Statements; and
  - [Agenda Item 3-H](#) – Audits of LCEs – Authority (Group Audit Extracts).
13. The Board agreed with the proposed consultation period of 90 days, even though there were concerns raised that the exposure of Part 10 will overlap with two other consultations.

#### *Part 6 – Risk Identification and Assessment*

14. On balance, the Board supported the direction of the revisions to proposed Part 6.

#### *The Authority - Quantitative Thresholds*

15. The Board agreed to include two examples of a size threshold for which the use of the standard may be appropriate (i.e., the European Commission's definition of a "small enterprise" and another contrasting example that also broadens the geographical scope of the examples) in the main body of the authority. The Board also agreed to explain how the size thresholds may be considered by legislative or regulatory authorities or relevant local bodies with standard-setting authority when quantitative thresholds are determined for their jurisdiction.

#### *Approach to Objectives and Essential Explanatory Material*

16. The Board supported the LCE Task Force's proposal to keep the approach to objectives in the proposed International Standard on Auditing (ISA) for LCE the same as in the Exposure Draft. The Board also supported the LCE Task Force's proposed approach relating to Essential Explanatory Material (EEM).

## Directions

### *Part 10 – Audits of Group Financial Statements*

17. Before approving ED-Part 10, Board members suggested changes to Part 10 and the Authority, including:
- Expanding the EEM as it relates to the determination which resources are needed to perform the group audit engagement and the components at which to perform audit work.
  - Adding a new requirement for the engagement partner to consider the possible effects on the audit if the engagement partner, after the acceptance and continuance of the group audit engagement, concludes that sufficient appropriate audit evidence cannot be obtained. It was noted that such a requirement was needed as access to information may have greater complexity in a group audit than in a single entity.
  - Including a prohibition to exclude group audits involving the use of component auditors from the scope of the proposed ISA for LCE, except in limited circumstances where physical presence is needed for a specific audit procedure such as an inventory count or physical asset verification. The Board was of the view that an exception for limited circumstances should be explained in the explanatory memorandum that accompanies ED-Part 10.

### *Part 6 – Risk Identification and Assessment*

18. The Board provided various suggestions to the LCE Task Force on how to further enhance proposed Part 6, including:
- Reversing the proposed revisions to the presumption of fraud risk relating to revenue recognition in order to be consistent with the decisions made in the IAASB's [fraud project](#).
  - Further revising the requirements relating to understanding the entity's process to prepare its financial statements for clarity and consistency with ISA 315 (Revised 2019).<sup>4</sup>
  - Clarifying the required inquiries with management, including with regard to non-compliance with laws and regulations.
  - Revisions to other areas of drafting for clarification and understandability of requirements and EEM.

## Other Substantial Matters

### *Re-Exposure of the Authority and Part 6*

19. The Board questioned whether the Authority and Part 6 should be re-exposed together with exposure of ED-Part 10. The Program and Technical Director explained that under the IAASB's due process, the Board will vote on the re-exposure of a pronouncement or part of a pronouncement after the Board has voted on a final pronouncement.

### *IAASB CAG Chair Remarks*

20. Mr. Dalkin supported the approval of ED-Part 10 for exposure given the interest in the project from CAG Representatives.

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<sup>4</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

21. In relation to the discussion on quantitative thresholds, Mr. Dalkin noted that CAG Representatives had raised concerns regarding the inclusion of the European Commission’s definition of a “small enterprise” as an example in the Authority. Mr. Dalkin noted that the IAASB consideration should be broader than just a focus on the European Union.

#### *PIOB Observer Remarks*

22. Mr. Hafeman commended the discussions, including regarding the use of component auditors for specific activities and relating to Part 6 which focused on clarifying expectations, achieving proportionality and maintaining consistency with other standards.
23. Regarding the proposed 90-day exposure period of ED-Part 10, Mr. Hafeman noted that the period seems appropriate, but he suggested a broader consideration of the implications of having other projects being exposed at the same time.
24. Mr. Hafeman noted that the discussion on quantitative thresholds should help the LCE Task Force in developing clear guidance that is relevant to all jurisdictions when setting quantitative thresholds for their jurisdiction. Mr. Hafeman also noted that the quantitative thresholds should be appropriate to the circumstances of the jurisdiction and the IAASB should avoid giving the impression of being European Union centric.

#### *Next Steps*

25. The IAASB will publish the ED-Part 10 in January 2023 with a 90-day comment period. This comment period will allow, subject to the nature and extent of comments received, the Board to approve Part 10 at the same time as the remaining Parts of the proposed ISA for LCE (i.e., in December 2023).
26. The LCE Task Force will continue to work on the drafting of updates to further areas identified as in need of more significant revisions, for discussion with the Board in March 2023.

### **Going Concern (Agenda Item 4)**

#### **Decisions**

27. The Board was presented with a first full draft standard of proposed ISA 570 (Revised), *Going Concern*, as included in [Agenda Item 4-A](#) and the conforming and consequential amendments arising from the revision of ISA 570 (Revised) set out in [Agenda Item 4-B](#).
28. The Board supported the Going Concern Task Force’s:
  - Approach to the remaining actions of the project proposal for the revision of ISA 570 (Revised) to address the key issues for information from sources external to the entity and audit techniques – use of technology.
  - Changes made to proposed ISA 570 (Revised) in response to feedback for the topics that were previously deliberated at the June and September 2022 IAASB meetings.
  - Proposals for the conforming and consequential amendments, including not to pursue further revisions for paragraphs 52 and 54(a) of ISRE 2400 (Revised).<sup>5</sup>
29. The Board agreed that pursuing enhanced transparency about going concern in the auditor’s report as reflected in proposed ISA 570 (Revised) is an appropriate response to stakeholder input and that

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<sup>5</sup> International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

further views from users in this regard should be sought on exposure. This decision was made in response to views that continue to be expressed by some Board Members regarding the requirements in paragraphs 21A and 22(c), including whether the:

- Requirements should be extended to apply for audits of all entities.
- Key audit matters section of the auditor's report would be a more appropriate mechanism to provide the disclosure.
- Enhanced transparency would add useful information for intended users of auditor's reports.

## Directions

30. The Board provided directional input for the substantial matters outlined below to be considered by the Going Concern Task Force in the development of the exposure draft.

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

- Enhance the application material to recognize that the auditor's procedures may also include:
  - Conducting interviews with representatives of external finance providers (e.g., loan officers) to verify the existence and terms of borrowing facilities.
  - Inquiries of legal counsel and discussions with group auditors when obtaining sufficient appropriate audit evidence about the ability and intent of a third or related party to provide financial support to the entity.
- Clarify that a written confirmation from a third or related party, including the entity's owner-manager, may also be relevant when obtaining sufficient appropriate audit evidence about the supporting party's "ability" to provide financial support.
- Consider whether in paragraph A16D:
  - The scalability example addressing Assumptions should also refer to the entity's ability and intent to execute future actions, given it discusses assumptions based on internally developed plans for future restructuring of the entity's business units.
  - Guidance relevant to the auditor's procedures should also be provided when management has not applied an appropriate method, assumptions, and data in its assessment of going concern.

### *Audit Techniques – Use of Technology*

- Revise the example in paragraph A16BB such that it aligns more closely with the guidance relating to the auditor's evaluation of whether calculations are applied in accordance with the method and are mathematically accurate.

### *Terminology*

- Consider whether the phrase "individually or collectively" should be retained in certain instances (e.g., in the definition of Material Uncertainty (Related to Going Concern)).

### *Risk Identification and Assessment*

- Consider whether to:

- Provide further guidance to enhance the linkages with ISA 315 (Revised 2019) in relation to significant disclosures and ISA 540 (Revised)<sup>6</sup> in relation to accounting estimates.
- Add a reference to climate-related risks to the list of non-exhaustive examples of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

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

- Improve the flow and connectivity of the requirements in the section and in doing so, consider leveraging the layout of paragraph 22 of ISA 540 (Revised).
- Add an explicit requirement for the auditor to have a discussion with management to understand the effects of events or conditions on management's assessment of going concern that have not been previously identified or disclosed to the auditor, given it would be onerous for the auditor to perform additional procedures without first making inquiries of management.
- Clarify the relationship between the example in paragraph A19B and the requirement in paragraph 16D with the auditor's responsibilities set out in ISA 560.<sup>7</sup>
- Clarify the relationship between the requirements in paragraphs 16E and 16BB and the application material in paragraph A19B when additional information becomes available after management has made its assessment of going concern.

#### *Professional Skepticism*

- Add to the requirement in paragraph 18A that before evaluating the implications for the audit or the auditor's opinion, the auditor should first be required to obtain further audit evidence. In addition, to consider whether the requirement can be made more specific to going concern matters.
- Improve the connectivity and flow of the guidance provided in paragraphs A22A and A22AA.

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

- Consider whether the requirement in bullet (b) in paragraph 13B continues to be relevant, and if not, whether it should be removed and/or become part of the explanation in the application material.

#### *Communication with Those Charged with Governance (TCWG)*

- Consider whether the communication with TCWG should also address the circumstance outlined in paragraph 16BB (i.e., existence of events or conditions that management has not previously identified or disclosed to the auditor).

#### *Considerations Specific to Public Sector Entities*

- Remove from the example in paragraph A25BB the reference to disclosures of whether future budgetary resources will likely be sufficient to sustain public services.

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

<sup>7</sup> ISA 560, *Subsequent Events*



### *Transparency About Going Concern in the Auditor's Report*

- Consider whether:
  - Further consideration is necessary for circumstances when the auditor issues a hybrid opinion<sup>8</sup> or for circumstances when company records are lost but the entity is a going concern and will continue its operations for the foreseeable future.
  - The use of the term “concluded” is appropriate in the separate section on Going Concern as this may be perceived that the auditor is providing piecemeal opinions in the auditor's report.
  - The requirement in paragraph 21B(d) should be removed. Comments were made that these requirements should be distinguished from an emphasis of matter paragraph, given that in the case of the latter, the auditor is required to state that the auditor's opinion is not modified in respect of the matter emphasized.

### *Conforming and Consequential Amendments*

- Consider including a consequential amendment to the auditor's responsibilities<sup>9</sup> to acknowledge that for a listed entity a description is provided in the auditor's report about how the auditor evaluated management's assessment of going concern.

## **Other Substantial Matters**

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

31. One Board member continued to express concern regarding the proposed change in the twelve-month commencement date in the period of the auditor's evaluation of management's assessment of going concern to the date of approval of the financial statements, without a corresponding change in the requirements of applicable financial reporting framework (e.g., International Financial Reporting Standards) for the minimum period of management's assessment of going concern.

### *IAASB CAG Chair Remarks*

32. Mr. Dalkin thanked the Board noting his appreciation for consideration of comments provided by CAG Representatives in September 2022 and for the enhancements made to the draft standard in relation to the considerations specific to public sector entities.

### *PIOB Observer Remarks*

33. Mr. Hafeman highlighted his appreciation for the quality of the discussion around the auditor's more robust evaluation of management's assessment of going concern for circumstances when management has not considered all identified events or conditions that may cast significant doubt about the entity's ability to continue as a going concern, noting the PIOB's support that this contributes to strengthening the standard.

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<sup>8</sup> The term “hybrid opinion” is used in the context that in some jurisdictions financial statements may include performance information and that it may be common for the auditor to issue an unmodified opinion on the financial statements, but provide a disclaimer of opinion on the performance information.

<sup>9</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 39(b)(iv)

34. Mr. Hafeman commented that providing transparency in the auditor’s report remains an important area in terms of meeting stakeholders’ needs for information about the work performed by the auditor and the risks identified in relation to going concern. He highlighted the need to respond to user requests for additional disclosures in the auditor’s report about going concern matters and to seek to provide such information in the most useful way possible. Mr. Hafeman also emphasized the importance to further consider whether the proposed revisions should extend beyond listed entities and apply for public interest entities.
35. Mr. Hafeman also emphasized that in circumstances when there is a close call, the auditor may need to provide original information in the auditor’s report about events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. He encouraged the Board to consider whether in such cases it would be appropriate for the auditor to describe in the auditor’s report further information about those events or conditions, noting this circumstance would be parallel to when the auditor would issue a qualified opinion, and in that case, would also be disclosing original information in the auditor’s report.

*Next Steps*

36. In March 2023, the Going Concern Task Force intends to present to the Board an exposure draft of proposed ISA 570 (Revised) for approval.

**Fraud (Agenda Item 5)**

**Decisions**

*Fraud and Suspected Fraud*

37. The Board supported the direction taken by the Fraud Task Force.

*Transparency in the Auditor’s Report on Fraud*

38. The Board agreed with the Fraud Task Force’s proposal to use a filter for communicating about risks of material misstatement relating to fraud that is similar to the filter used to communicate key audit matters.
39. The Board agreed with the Fraud Task Force’s proposal to include the communication of fraud-related key audit matters in the Key Audit Matters section of the auditor’s report.
40. The Board agreed not to include a requirement in proposed ISA 240 (Revised)<sup>10</sup> to communicate in the auditor’s report identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud as:
  - An audit of financial statements does not have as an objective and is not designed to identify significant deficiencies in internal control such as to conclude and report on the operating effectiveness of internal controls.
  - Depending on whether the auditor adopts a substantive or controls-based approach, the auditor may get different outcomes as deficiencies in internal control may be identified not only during the risk assessment process, but also during other stages of the audit.

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<sup>10</sup> Proposed ISA 240 (Revised), *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

*Draft of Proposed ISA 240 (Revised)*

41. The Board was broadly supportive of the drafting presented in [Agenda Item 5-B](#). The Board provided some specific drafting comments for further consideration by the Task Force.

**Directions**

*Fraud and Suspected Fraud*

42. In addition to several suggestions on how to enhance the flowchart set out in paragraph 13 of [Agenda Item 5](#), the Board provided direction for the matters outlined below, to be considered by the Fraud Task Force as the actions of the project are progressed:
- Simplify the scenarios as set out in **Agenda Item 5**, paragraph 16, because ultimately the auditor has to address either fraud or suspected fraud.
  - Add a scenario for when legally determined fraud has been perpetrated. In such a situation, it was suggested that the auditor should, among other matters, be required to assess whether the deficiency in internal control has been resolved.
  - Explore adding the following actions that the auditor may consider when determining the implications for the audit engagement as a whole:
    - Determining whether to involve a specialist.
    - Assessing the impact on other engagements, including engagements from prior years.
    - Determining whether consultation with others within the firm is needed, including consulting with the engagement quality reviewer, if applicable, and others within the firm that are responsible for managing quality at the firm level.

*Transparency in the Auditor's Report*

43. The Board provided direction for the matters outlined below, to be considered by the Fraud Task Force as the actions of the project are progressed:

Fraud-Related Key Audit Matters

- Draft the requirements in proposed ISA 240 (Revised) in such a manner that they drive the auditor to include entity-specific information and avoid the use of boilerplate language. In that regard it was also noted that auditors may often communicate revenue recognition and management override of controls as fraud-related key audit matters. The Board suggested to draft the standard in such a manner that auditors are encouraged to communicate matters other than revenue recognition and management override of controls as fraud-related key audit matters as well (based on the auditor's identification of risks of material misstatement due to fraud during the audit). In addition, the Board noted that the fraud-related key audit matters presented as illustrations in Appendix 2 of **Agenda Item 5** could be other than the presumed fraud risks (revenue recognition and management override of control) in order to illustrate more entity-specific fraud-related key audit matters.
- Clarify how the auditor should communicate a matter that is determined to be both a key audit matter (as determined by ISA 701)<sup>11</sup> and a fraud-related key audit matter (as determined by

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<sup>11</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

proposed ISA 240 (Revised)). In this regard it was noted that the illustrations provided in Appendix 2 of **Agenda Item 5** did not clearly illustrate how the filter in proposed ISA 240 (Revised) would result in different key audit matters being disclosed versus using the filter in ISA 701.

- Explore whether the same filtering mechanism could be used to communicate key audit matters and fraud-related key audit matters.

Identified Significant Deficiencies in Internal Control that Are Relevant to the Prevention and Detection of Fraud

- Explore other options to provide more transparency over identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud.
- Explore adding application material to encourage auditors to communicate observations about significant deficiencies more generally (i.e., significant deficiencies in internal control that are related to error and fraud).

### Other Substantial Matters

#### *IAASB CAG Chair Remarks*

44. Mr. Dalkin suggested to explore government's practices for disclosing significant deficiencies in internal control as some public sector auditors are required to communicate significant deficiencies in internal control in the auditor's report. In this regard Mr. Dalkin noted that, initially, some public sector auditors may have perceived these requirements as being onerous, however current practice is that the communication of significant deficiencies in internal control in the auditor's report appears to be working well.

#### *PIOB Observer Remarks*

45. Mr. Hafeman commended the IAASB for the progress made and discussions held. He noted that the Board had agreement on a way forward for each of the topics discussed.
46. With respect to the communication of fraud-related key audit matters, Mr. Hafeman noted that he would have preferred to have these key audit matters in a separate section but that he understands the Board's rationale for including them in the Key Audit Matters section.
47. Mr. Hafeman noted his disappointment on the Board's decision not to include a requirement in proposed ISA 240 (Revised) to communicate in the auditor's report identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud. He noted that the PIOB was encouraged by the Board's direction in September 2022 to keep exploring a way forward on this topic and that the PIOB's quarterly report identifies the communication of identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud as a public interest matter.

#### *IAASB Chair Closing Comments*

48. Mr. Seidenstein noted that the Board had listened to the arguments from different stakeholders and based on informed discussions over a number of Board meetings, concluded not to include a requirement to communicate in the auditor's report identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud. He added that, in his view, the Board is

proposing significantly enhanced transparency requirements and chose to eliminate only one option after carefully considering the possible benefits and drawbacks. Mr. Seidenstein concluded that it is important to consider the 'total package' of proposals that have been developed in achieving the objectives of the fraud project.

#### *Next Steps*

49. In June 2022, the Fraud Task Force will present the Board with a full draft of proposed ISA 240 (Revised).

### **Listed Entities and Public Interest Entities (PIEs): Track 2 (Agenda Item 6)**

#### **Decisions**

50. The Board agreed to the following:
- Adopting, in the authority of ISQM 1<sup>12</sup> and ISA 200<sup>13</sup> the:
    - Objective in paragraph 400.8 of the IESBA Code<sup>14</sup> for establishing differential requirements for PIEs; and
    - Further explanation of the objective, which has been based on paragraph 400.10 of the IESBA Code, and tailored to be suitable for the ISQMs and ISAs.
  - Including examples in the Complexity, Understandability, Scalability and Proportionality (CUSP) Drafting Principles and Guidelines that address when differential requirements for PIEs may be appropriate, which may be used for future projects.
  - Extending the differential requirements in ISQM 1, ISA 260 (Revised),<sup>15</sup> ISA 700 (Revised) and ISA 701 for listed entities to apply to PIEs, however subject to the further directions discussed below.
  - Bifurcating paragraph 17 of ISA 260 (Revised) and paragraph 40(b) ISA 700 (Revised) into two parts, i.e.:
    - A part that applies to all audit engagements and addresses communication with TCWG about compliance with relevant ethical requirements regarding independence.
    - A part that applies to audits of financial statements of PIEs, and addresses further communication with TCWG on matters related to independence, such as relationships that bear on independence.

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<sup>12</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements*

<sup>13</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>14</sup> The International Ethics Standards Board for Accountants' (IESBA) *International Code of Ethics for Professional Accountants (including International Independence Standards)*

<sup>15</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

- To defer any discussion of extending the differential requirements in paragraphs 21 and 22(b) of ISA 720 (Revised)<sup>16</sup> until a broader revision of this standard (contemplated as part of the IAASB Strategy and Workplan for 2024–2027) is undertaken.
- Including a central list of factors and examples in the authority of ISQM 1 and ISA 200 to evaluate the extent of public interest of an entity, in considering whether it is appropriate to apply differential requirements applicable to PIEs to entities other than PIEs. The Board agreed to base the factors and examples on paragraphs 400.9, 400.18 A2 and 400.19 A1 of the IESBA Code.
- Adopting the IESBA definition of PIE and “publicly traded entity” into the definitions in ISQM 1, ISA 200 and the Glossary of Terms, and including further requirements and application material from the IESBA Code that address the scoping of PIEs.
- Changing the introductory and application material in the ISQMs and ISAs as a consequence of extending the differential requirements for listed entities to apply to PIEs and adopting IESBA’s definition of PIE and “publicly traded entity.”

## Directions

### *Extending the Differential Requirements for Listed Entities in the ISQMs and ISAs to PIEs*

51. Although the Board supported pursuing extending the differential requirements for listed entities in the ISQMs and ISAs to PIEs (with the exception of ISA 720 (Revised)), the Board requested the following:
- More specifically considering the implications of revising ISQM 1 at this time (in particular related to applicability of engagement quality reviews), given the imminent effective date of the standard.
  - Including a specific question in the explanatory memorandum on whether the differential requirements for communicating key audit matters for listed entities should be extended to apply to PIEs.

### *Other Matters in the Proposed Drafting in Agenda Item 6-A*

52. The Board provided the following suggestions for the drafting in [Agenda Item 6-A](#):
- Using consistent terminology when referring to entities that are not PIEs.
  - Clarifying paragraph A29D in ISQM 1 and paragraph A76D in ISA 200, given that as presently drafted, the application material implies that the auditor makes a separate determination as to whether law, regulation or professional requirements have included entities in the PIE definition for reasons unrelated to the significant public interest in the financial condition of these entities.
  - Clarifying certain terms used in the PIE definition, such as “taking deposits from the public” or “providing insurance to the public,” and using IESBA’s Basis for Conclusions in doing so.
  - Clarifying paragraph A29C of ISQM 1 and in paragraph A76C of ISA 200 to explain when, and by whom, the factors are used in evaluating the extent of public interest in the financial condition of an entity.

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<sup>16</sup> ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

- Considering whether the factor “whether in similar circumstances, a predecessor firm has applied differential requirements for public interest entities to the entity” in paragraphs A29G of ISQM 1 and A76G of ISA 200 is necessary, given it may not always be appropriate to rely on the determination by a predecessor firm.
- Adding the factor “entities with a high public profile, or whose management or owners may have a high public profile” to paragraph A130 of ISQM 1, given it may not be appropriate to have as a general consideration for all of the differential requirements in the ISQMs.

### **Other General Matters**

53. The Board provided the following suggestions on the examples in paragraph 18 of Agenda Item 6, which includes proposed guidelines for inclusion in the CUSP Drafting Principles and Guidelines:
- Refine the example in paragraph 18(a), given it is very broad.
  - Further clarify the example in paragraph 18(c) to better align with external reporting in accordance with ISQM 1.

### **Other Substantial Matters**

#### *IAASB CAG Chair Remarks*

54. Mr. Dalkin thanked the Board for the engaging discussion.

#### *PIOB Observer Remarks*

55. Mr. Hafeman expressed the PIOB’s appreciation for the IAASB’s broad support for the proposals. He noted that this represents an excellent example of leveraging the work of IESBA as a basis to achieve to the greatest extent possible convergence with the definitions and key concepts used in the IAASB standards and the IESBA Code. Mr. Hafeman commented that the PIOB will be looking forward to the further work undertaken for Track 2, for example, in relation to the implications of extending the differential requirements for listed entities in ISA 720 (Revised) to apply to PIEs.
56. Mr. Hafeman noted that in recent years there has been more emphasis placed in international standards on banking and insurance supervision, for example, on the need for good disclosure and transparency by those institutions. He added that the international standards set by regulators of such institutions do not distinguish whether banks or insurance companies are listed or not as there is an expectation from stakeholders to have access to quality information about those companies in all circumstances.

#### *Next Steps*

57. In March 2023, the PIE Task Force intends to present to the Board respondents’ feedback from the public consultation for the proposed narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) related to Track 1 of the project.

## Sustainability Assurance (Agenda Item 7 and 8)

### Decisions

#### *Aggregation and Disaggregation for Purposes of Performing the Engagement ([Agenda Item 7](#))*

58. The Board noted their support for the diagram illustrating the concepts of aggregation and disaggregation but provided direction on how the concepts are described and applied in Proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*, as further explained in the “directions” section below.

#### *Definitions ([Agenda Item 7-A](#))*

59. The Board supported several definitions and provided direction on certain terms, as further explained in the “directions” section below.

#### *Part 3: Acceptance and Continuance ([Agenda Item 7-B](#))*

60. The Board expressed different views on whether the requirement to obtain a preliminary knowledge of the engagement circumstances and determining whether the preconditions for an assurance engagement are present, should be combined, but on balance agreed to retain two separate requirements to emphasize the matters encompassed in the preliminary knowledge.

#### *Part 4: Evidence ([Agenda Item 7-C](#))*

61. The Board agreed the following:
- Documentation requirements for specific matters, such as documentation requirements for identifying and assessing risks of material misstatement, are necessary.
  - The location of the requirements for documentation should be as follows:
    - The core principles of documentation should be included in Part 4.
    - Specific requirements for documentation related to a particular element of the engagement should be included in the part addressing that element.

### Directions

#### *Guiding Principles Used in Developing the Requirements and Application material of Proposed ISSA 5000 ([Agenda Item 7](#))*

62. The Board requested the Sustainability Assurance Task Force to further consider the following guiding principles:
- Excluding material that addresses a concept that a practitioner with knowledge of the assurance framework and sustainability reporting would be expected to be knowledgeable about: the Board noted:
    - Varying understanding of sustainability assurance engagements across professional accountants, and non-accountants and the need for consistency.
    - That the standard needs to be stand-alone (i.e., explain all concepts, and not rely on an understanding from other sources).
    - Adding appropriate material to support understandability should not be avoided because



of concerns about length.

- Excluding material that provides context or insights on sustainability topics or specific frameworks as Proposed ISSA 5000 is designed to be framework neutral: the Board noted that it is important that the proposals are appropriate for engagements on sustainability information prepared under reporting frameworks being developed, and encouraged providing examples reflecting those frameworks.

*Aggregation and Disaggregation for Purposes of Performing the Engagement (Agenda Item 7)*

63. Although the Board supported the concepts of aggregating and disaggregating the sustainability information for purposes of performing the sustainability assurance engagement, the Board asked the Sustainability Assurance Task Force to further consider various aspects of how this has been addressed in Proposed ISSA 5000, including whether the terms “aggregating and disaggregating” are appropriate. Suggestions and considerations for the Sustainability Assurance Task Force included the following:

- Clarifying that:
  - Management is responsible for the aggregation or disaggregation of the information disclosed in accordance with the applicable criteria, including exploring whether a requirement is needed for the practitioner to understand management’s aggregation or disaggregation.
  - In order to perform the assurance engagement, the practitioner “aggregates and disaggregates” the disclosures, and would take into account how management has aggregated or disaggregated the information in presenting such information, and the requirements of the applicable criteria. The Board noted that there may be circumstances when the practitioner’s “aggregation or disaggregation” of the disclosures differs from managements.
- With respect to paragraphs 5L and 5R of [Agenda Item 7-D](#):
  - Clarifying the level at which the disaggregation would take place, and how that disaggregation is used for purposes of materiality, risk identification and assessment and evaluating misstatements. The Board observed that the level of disaggregation for risk identification and assessment may be more granular than the level of disaggregation for materiality. The Board emphasized the need for a consistent understanding and flexibility appropriate to the engagement circumstances.
- With respect to paragraph 6 of Agenda Item 7-D:
  - Simplifying the requirement, because it could directly refer to the conclusion(s) in the practitioner’s report without requiring the practitioner to aggregate the information for the purposes of the conclusion in the practitioner’s report.
  - Exploring whether the location of this paragraph is appropriate in Part 5 or Part 8, or otherwise clarifying how the aggregation of the information is used.
- Exploring alternative terminology to describe the aggregation and disaggregation, as the Board found the terminology confusing.

64. With respect to the proposed defined term “disclosures,” the Board requested the Sustainability

Assurance Task Force to further consider:

- The term “disclosures,” as the Board noted that the term may be confusing in the context of the generally understood meaning of disclosures.
- Whether the term “disclosures” has been used consistently throughout the standard in the appropriate context.
- Whether referring to disclosures about topics “and” aspects of the topics is appropriate, because it is not possible for there to be disclosures about a topic, without such disclosures also addressing aspects of those topics.
- Whether the use of the terms “topics” and “aspects of the topics” is consistent with terminology in sustainability reporting standards and frameworks, and clarifying whether topics and aspects of the topics are the underlying subject matter.

*Definitions in Proposed ISSA 5000 (Agenda Item 7-A)*

65. The Board provided suggestions on the definitions, including the following:

- “Engagement leader”: Considering the consistency with other definitions (e.g., “personnel” and “partner”), and with other IAASB Standards, and removing the reference to public sector. The Board also noted the importance of coordination with the International Ethics Standards Board for Accountants (IESBA).
- “Criteria”: Reconsidering whether it is appropriate to refer to “presentation and disclosure,” and simplifying the explanation of “entity-developed criteria.”
- “Assertions”:
  - Reconsidering the reference to “recognition, measurement, presentation and disclosure” because “recognition” is associated with accounting concepts and frameworks, and “presentation and disclosure” are also types of assertions.
  - Referring to the applicable criteria to create the appropriate linkages.
- “Assurance skills and techniques”: Adding critical thinking, professional skepticism, and professional judgment to explain the skills and techniques needed.
- “Management’s expert”: Considering whether the reference to “expertise in a field other than assurance” is appropriate.
- “Professional judgment”: Referring to the applicable criteria in the definition.
- “Sustainability information”: Considering whether the definition could be clarified, or addressing the scoping considerations (i.e., what the sustainability information refers to) more clearly elsewhere in the standard.

66. The Board suggested the Sustainability Assurance Task Force consider adding the following definitions:

- “Risk of material misstatement,” given the differences between limited and reasonable assurance.
- “Further procedures,” given that “risk procedures” are defined.

67. The Board acknowledged that without a definition of “sustainability,” the standard will need to be clear about its scope and when it applies, and consideration will be needed about the meaning of other related terms, such as “sustainability competence.”

*Part 3: Acceptance and Continuance ([Agenda Item 7-B](#))*

68. The Board suggested clarifying the extent of work effort, or differentiation in work effort between understanding the engagement circumstances at the acceptance and continuance phase, versus the understanding obtained in planning the engagement and identifying and assessing risks of material misstatement.
69. The entity's process to identify reporting topics was recognized by the Board as a critical part of the preliminary knowledge, and so the Board suggested the requirement in paragraph 1 could be more direct on understanding this process as part of the preliminary knowledge.
70. The Board suggested:
- Articulating all of the matters in the application material in paragraph A1 that the preliminary knowledge would include, such as matters within the definition of engagement circumstances and understanding of the criteria.
  - Providing more context in paragraph A3 for the reference to the practitioner’s determination of materiality for the assurance engagement in paragraph 7 of Part 5, by clarifying that it is a different concept to the materiality referred to in the first sentence of paragraph A3.
  - Providing further application material in paragraph A4 on the impact of deficiencies in the entity’s process to prepare the sustainability information on acceptance or continuance.
  - Clarifying the meaning of “additional knowledge” in the application material in paragraph A6, to support scalability of the work effort in different circumstances and considering how it relates to paragraph A7.
  - Clarifying the meaning of the term “less complex engagements” in the context of sustainability engagements in paragraph A8.
  - Considering elevating the application material in paragraph A18 to a requirement for the practitioner to evaluate whether management has a reasonable basis for the sustainability information.
  - Including reference to entity-developed criteria in paragraph A29.
  - Considering inclusion of definitions for each of the characteristics of suitable criteria to support the application material in paragraph A30, regarding evaluation of whether the criteria exhibit those characteristics.
  - Clarifying the application material in Paragraphs A47-A49 to explain a “meaningful level of assurance” and linking to paragraph 2.
  - Providing more fulsome consideration in paragraph 9 and 10 of the circumstances when the practitioner is required to accept or continue an engagement, as required by law or regulation, despite the preconditions not being met and clarifying the practitioner’s response.
  - Providing an example in application material in paragraph A54 of circumstances imposed by the entity which may lead to withdrawal from the engagement.

*Part 4: Evidence (Agenda Item 7-C)*

71. The Board supported in principle the level of granularity of the requirements and application material developed by the Sustainability Assurance Task Force for evidence, while recognizing that this is based on Proposed ISA 500 (Revised)<sup>17</sup> and therefore may be subject to future change in response to feedback from respondents to the Proposed ISA 500 (Revised). The Board had mixed views on whether:
- The requirement in paragraph 9 of Proposed ISA 500 (Revised) should be retained at the same level of granularity in proposed ISSA 5000, or more principles based (as proposed by the Sustainability Assurance Task Force).
  - The requirement in paragraph 10 of Proposed ISA 500 (Revised) regarding accuracy and completeness of information intended to be used as evidence should be a requirement, or application material (as proposed by the Sustainability Assurance Task Force).
72. The Board also asked the Sustainability Assurance Task Force to:
- More explicitly address information intended to be used as audit evidence from external sources.
  - Consider including the application material from paragraphs A9 and A14 of Proposed ISA 500 (Revised) that addresses obtaining additional audit evidence.
  - Consider whether additional application material addressing automated tools and techniques is needed.
  - Better distinguish between limited and reasonable assurance in this Part.
  - Address authority bias in paragraph A3 of Agenda Item 7-C.
  - Consider whether the requirement in paragraph 6 of Agenda Item 7-C is appropriately located in this Part.

*Part 5: Planning (Agenda Item 7-D)*

73. The Board suggested reconsidering whether aggregation risk and performance materiality should be addressed in the requirements. The Board provided suggestions of how it could be addressed, recognizing that performance materiality may not be suitable for all circumstances.

*Part 8.1: Accumulation and Consideration of Identified Misstatements (Agenda Item 7-D.1)*

74. The Board suggested providing further clarification about the evaluation of misstatements, in the context of engagements that may have a different scope. Specifically, the Board noted the need to clarify whether the practitioner's conclusions about the misstatement in aggregate would be expected to be consistent regardless of the scope of the engagement. The Board noted that the evaluation of misstatements at the disclosure level should be consistent across engagements of different scope, however, the evaluation may differ at the aggregate level if the scope of the engagement is different.

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<sup>17</sup> [Proposed ISA 500 \(Revised\), Audit Evidence](#), currently on exposure for public comment

*Part 6: Risk of Material Misstatement ([Agenda Item 7-E.1](#))*

75. The majority of the Board supported the direction of paragraph 1L of Agenda Item 7-E.1 (i.e., that the purpose is to identify disclosures where material misstatements are likely to arise). However, the Board encouraged the Sustainability Assurance Task Force to consider the following as the standard is further developed:
- The level of the practitioner's consideration of areas of potential misstatements. The Board observed that paragraph 1L of Agenda Item 7-E.1 is more granular than ISAE 3000 (Revised) and ISRE 2400 (Revised) because it refers to the "disclosures" where material misstatements are likely to arise (rather than "areas" in ISRE 2400 or the sustainability information more broadly in ISAE 3000). The Board noted that the reference to "disclosures" (i.e., the level of disaggregation) would need to be further refined as a result of any changes to paragraph 5L in Agenda Item 7-D (Part 5).
  - The differentiation in work effort between limited and reasonable assurance, including how the required understanding in paragraphs 1L and 1R would drive the practitioner's work effort to respond to the risks. The Board encouraged the Sustainability Assurance Task Force to solicit feedback from regulators and other key stakeholders, and highlight this specific issue in the Explanatory Memorandum.
76. The Board provided the following suggestions and comments on the matters that the practitioner is required to understand:
- Considering whether paragraph 1R of Agenda Item 7-E.1 should also include the components of internal control in the list of matters that need to be understood, so that it is also linked to the overall purpose of the risk procedures.
  - For limited assurance engagements, better connecting the practitioner's understanding of the components of internal control and how the practitioner identifies where material misstatements are likely to arise in paragraph 15L of Agenda Item 7-E.1 (i.e., in reasonable assurance engagements, this link is created through the evaluation of the components).
  - More robustly addressing an understanding of the entity's process to identify reporting topics.
  - More prominently locating the understanding of the information system, given its importance to identifying and assessing risks.
  - Exploring whether the practitioner should be required to understand elements of the entity's monitoring component in a limited assurance engagement.
  - Providing further guidance on paragraph 16R of Agenda Item 7-E.1.
  - Seeking stakeholder input on terminology, given that it is based on ISA terminology and may not be widely understood (e.g., inherent risk factors).
77. With regards to other matters in Agenda Item 7-E.1, the Board requested the Sustainability Assurance Task Force to consider:
- Amending paragraph A6L as the Board did not agree that risk procedures alone will provide sufficient appropriate evidence in any circumstances.
  - Building in the concept of a spectrum of risk to help the practitioner focus more on the higher risks.

- Addressing the immaturity and informality of the information systems and varying sources of information used to prepare the sustainability information.
- Addressing pervasive risks arising from fraud and greenwashing.

### **Substantial Matters**

78. The Chair of the IESBA Sustainability Working Group presented an update to the Board on the current status of the IESBA' projects addressing sustainability reporting and assurance of sustainability information. The close collaboration between the IESBA and IAASB was emphasized.

### **Other Substantial Matters**

#### *IAASB CAG Chair Remarks*

79. Mr. Dalkin appreciated the quality of the discussion and thoughtfulness. Mr. Dalkin noted that if the standard is being designed for the accountancy profession, then less detail may be appropriate because auditors may approach the engagement in a very similar way. However, if the standard is being designed for various professionals, a lack of detail may not be appropriate because professionals may approach the engagement very differently.
80. Mr. Dalkin encouraged IESBA, as part of their update to the IAASB, to address independence when the assurance provider is also the preparer of the sustainability information.

#### *PIOB Observer Remarks*

81. Mr. Hafeman complimented the Board on the rapid progress made in developing a high-quality standard on sustainability assurance. He recognized the good discussions of the board and the amount of work done by those involved in putting the materials together.
82. Mr. Hafeman encouraged the Board to continue its focus on making the standard understandable to a diverse range of potential users, for example by using clear and consistent terminology and drafting the requirements in a manner that does not assume that the reader is an experienced auditor. He noted that doing so would support a consistent understanding, and assist regulators and users of the assurance reports in understanding the level of assurance being provided and the work effort that supports this assurance.
83. Mr. Hafeman further noted the excellent discussion about the appropriate level of detail to include in the overarching standard, for example, the discussion on the extent of material adapted from Proposed ISA 500 (Revised). He observed the active discussion on risk identification and assessment and that it seemed to provide useful direction to the task force. He also highlighted the importance of further consultation with stakeholders in the area of risk identification and assessment.

#### *Next Steps*

84. In March 2023, the Sustainability Assurance Task Force will present draft requirements and application material for the remaining Parts of the proposed standard that were not presented in December 2022. The SATF will also present further proposals on key requirements in the Parts discussed in December 2022.
85. The SATF will continue outreach activities and collaboration with key stakeholders.

**Other Matter Considered**

86. Mr. Seidenstein thanked outgoing Board Members, Ms. Provost and Mr. Jui, for their service and dedication to the IAASB during their 6year tenure on the Board.

**Closing**

Mr. Seidenstein thanked the IAASB members, TAs and IAASB Staff for the efforts leading up to, and during, the December 5–9, 2022 Board meeting. He then closed the public session.

**Next Meeting**

The next quarterly IAASB meeting will be held in New York from March 20–24, 2023. Details of the meeting will be communicated in due course.