

**Meeting:** IAASB Consultative Advisory Group

**Meeting Location:** Virtual

**Meeting Date:** June 15, 2023

**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 7–8, 2023 in the IFAC Building, New York.**

**PRESENT**

**Representatives**

|                            |                                                                        |
|----------------------------|------------------------------------------------------------------------|
| Mr. Jim Dalkin             | Chair                                                                  |
| Ms. Valérie 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. Michael W. Fritz       | National Association of State Boards of Accountancy (NASBA)            |
| Ms. Jazmin Gamboa          | Financial Executives International (FEI)                               |
| Mr. Akihito Ishiwata       | International Organization of Securities Commissions (IOSCO)           |
| Ms. Natasha Landell-Mills  | International Corporate Governance Network (ICGN)                      |
| Dr. Bello Lawal Danbatta   | Islamic Financial Services Board (IFSB)                                |
| Dr. Conchita Manabat       | International Association of Financial Executives Institutes (IAFEI)   |
| Ms. Wei Meng               | World Federation of Exchanges (WFE)                                    |
| Ms. Asha Mubarak           | Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) |
| Dr. Claes Norberg          | Business Europe (BE)                                                   |
| Dr. Christian Orth         | AE                                                                     |
| Mr. Daniel Sarmiento Pavas | Interamerican Accounting Association (IAAA)                            |

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| Ms. Sandy Peters                 | CFA Institute (CFA)                                                |
| Mr. Henry Rees                   | International Accounting Standards Board (IASB)                    |
| Ms. Jeanne Riggs                 | IOSCO                                                              |
| Mr. Gregg Ruthman                | International Organization of Supreme Audit Institutions (INTOSAI) |
| Mr. Juan Carlos Serrano Machorro | World Bank                                                         |
| Mr. Paul Sobel                   | Institute for Internal Auditors (IIA)                              |
| Mr. Toshimitsu Suzuki            | Japan Securities Dealers Association (JSDA)                        |
| Mr. Paul Thompson                | EFAA                                                               |
| Ms. Tara Wolf                    | International Actuarial Association (IAA)                          |
| Mr. Hüseyin Yurdakul             | IOSCO                                                              |

**Observers**

|                    |                                                                                                |
|--------------------|------------------------------------------------------------------------------------------------|
| 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)                                |

**IESBA CAG Chair**

Mr. Gaylen Hansen

**Public Interest Oversight Board (PIOB)**

Mr. Dave Sullivan

**IAASB**

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| Mr. Tom Seidenstein   | IAASB Chair                                                                         |
| Ms. Josephine Jackson | IAASB Deputy Chair and Task Force Chair<br>(presenter- <b>Agenda item B and C</b> ) |
| Ms. Sue Almond        | IAASB Member and Task Force Chair<br>(presenter – <b>Agenda Item H</b> )            |
| Ms. Julie Corden      | IAASB Member and Task Force Chair<br>(presenter – <b>Agenda Item D</b> )            |
| Mr. Kai Morton Hagen  | IAASB Member and Task Force Chair<br>(presenter – <b>Agenda Item G</b> )            |

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| Mr. Willie Botha              | IAASB Program and Technical Director<br>(presenter – <b>Agenda Item I</b> ) |
| Ms. Sally Ann Bailey          | IAASB Director                                                              |
| Mr. Jasper van den Hout       | IAASB Director                                                              |
| Mr. Jan Thijs Drupsteen       | IAASB Principal                                                             |
| Ms. Amy Fairchild             | IAASB Principal                                                             |
| Ms. Claire Grayston           | IAASB Principal                                                             |
| Ms. Kalina Shukarova Savovska | IAASB Principal                                                             |
| Ms. Ida Diu                   | IAASB Senior Manager                                                        |
| Mr. Fadi Mansour              | IAASB Senior Manager                                                        |
| Ms. Hanken Talatala           | IAASB Senior Manager                                                        |
| Mr. Armand Kotze              | IAASB Manager                                                               |
| Ms. Michelle Harrison         | IAASB Associate                                                             |
| Ms. Megan Leicht              | IAASB Associate                                                             |
| Ms. Adriana Chircusi          | Staff Fellow                                                                |
| Ms. Danielle Davies           | Staff Fellow                                                                |
| Mr. Thokozani Nkosi           | Seconded                                                                    |
| Ms. Kazuko Yoshimura          | Seconded                                                                    |
| Mr. Dan Montgomery            | Senior Advisor                                                              |

**APOLOGIES**

**Representatives**

|                     |                                                                 |
|---------------------|-----------------------------------------------------------------|
| Ms. Annie Giraudou  | Organisation For Economic Cooperation and<br>Development (OECD) |
| Mr. Sanders Shaffer | International Association of Insurance Supervisors (IAIS)       |

**Observers**

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| Mr. George Kabwe | International Monetary Fund (IMF) |
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## 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 Members, IAASB Staff and public observers who were observing the meeting in person or via the IAASB's YouTube channel.

### MINUTES OF THE PREVIOUS MEETING

The minutes of the previous IAASB CAG meeting held on September 7-8, 2022 were approved.

## Going Concern (GC) (Agenda Item B)

- To *REPORT BACK* on the September 2022 meeting
- To *OBTAIN* Representatives' views on the exposure draft for proposed International Standard on Auditing (ISA) 570 (Revised 202X), *Going Concern*

Ms. Jackson, Chair of the Going Concern Task Force provided Representatives with an overview of the key proposals included in the exposure draft for proposed ISA 570 (Revised 202X),<sup>1</sup> including the changes made since September 2022. She highlighted the ongoing liaison and engagement with others on topics related to going concern, particularly with the International Accounting Standards Board (IASB).

Representatives commented as follows:

### OVERALL RESPONSES

- Mses. Vanich, Riggs, Meng, Messrs. Hansen, Rees and Dr. Cela acknowledged the progress and enhancements made since September 2022 and expressed support for the publication of the exposure draft of proposed ISA 570 (Revised 202X) for public comment.

### LIAISON WITH THE IASB

- Mr. Ishiwata emphasized the need to continue the dialogue with the IASB on going concern in the post-exposure period, and supported the importance of consistency and alignment between the requirements in the auditing standards and the IFRS Accounting Standards relating to management's responsibility for going concern. Ms. Jackson recognized the ongoing engagement with the IASB to date on this topic and acknowledged that the liaison will continue as the final pronouncement for proposed ISA 570 (Revised 202X) is being developed.
- Mr. Reese reiterated the importance of consistency between the proposed ISA 570 (Revised 202X) and the requirements in the IFRS Accounting Standards about management's responsibility to prepare financial statements on the going concern basis of accounting. He expressed the IASB's appreciation for the ongoing engagement and liaison with the IAASB on this topic, as well as that the ongoing dialogue is envisaged to continue as the IAASB develops the final pronouncement.

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<sup>1</sup> ISA 570 (Revised 202X), *Going Concern*

- Ms. Blomme emphasized that the proposals align in many respects with previous work undertaken by Accountancy Europe on going concern.<sup>2</sup> However, given that IASB had decided not to include a project on going concern in its workplan, the approach to the revisions does not address a “holistic approach” that would involve revisions to both the auditing and accounting standard standards to address matters relating to going concern. Ms. Jackson acknowledged that while the IASB has not undertaken a project to revise the financial reporting requirements related to going concern, the IAASB has focused on clarifying and enhancing the standard for matters within its own standard-setting remit.

#### TERMINOLOGY

- Ms. Meng expressed support for the Going Concern Task Force’s proposals for clarifying the whole phrase “may cast significant doubt” rather than the term “significant doubt” alone.

#### TIMELINE OVER WHICH THE GOING CONCERN ASSESSMENT IS MADE

- Dr. Norberg acknowledged that the drafting for the proposed change in the commencement date of the period of management’s assessment used as the basis for the auditor’s evaluation is clear and understandable. However, he questioned whether by extending the commencement date of the management’s assessment from the date of the financial statements to the date of approval of the financial statements, this may also lengthen the period for signing the auditor’s report because there may be circumstances that could result in prolonging the completion of the audit.
- Ms. Blomme noted that there were mixed views among members of Accountancy Europe regarding the proposed change in the commencement date of the period of management’s assessment. She explained there is support for the change in those jurisdictions that have already adopted a different commencement date (e.g., in the United Kingdom), while in other jurisdictions (e.g., countries of continental Europe), there was concern among members whether the proposals would be practical or enforceable. Ms. Jackson acknowledged the mixed views on this topic and that further comments from respondents will be sought from stakeholders during exposure.
- Ms. Blomme and Dr. Cela supported that the proposed change in the commencement date is very relevant to audits of public interest entities (PIEs) given the significant public interest for such entities. However, they suggested that for small and medium sized entities (SMEs) and non-PIEs the commencement date should remain harmonized with the requirements in the IFRS Accounting Standards. Ms. Jackson explained that the requirement had not been differentiated because feedback from roundtables and the discussion paper noted that going concern matters are relevant to entities of all sizes and complexities, including for SMEs and PIEs.

#### EVALUATING MANAGEMENT’S PLANS FOR FUTURE ACTIONS

- Ms. Riggs highlighted the importance of prospective financial information when evaluating management’s plan for future actions. She suggested elevating the relevant application material in paragraph A48 of proposed ISA 570 (Revised 202X) to a requirement for the performance of audit

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<sup>2</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/>

procedures when prospective financial information is particularly significant to management's plans for future actions.

#### PROFESSIONAL SKEPTICISM

- Mr. Ishiwata supported the enhancements for professional skepticism in proposed ISA 570 (Revised 202X). He emphasized the importance of ensuring that these requirements remain consistent with similar requirements included in ISA 540 (Revised),<sup>3</sup> those in proposed ISA 500 (Revised)<sup>4</sup> and enhancements being considered by the IAASB in its project on fraud. Ms. Jackson acknowledged the need for consistency as well as that these matters are being considered through the ongoing coordination with the Professional Skepticism Advisory Group and other IAASB task forces.

#### INFORMATION FROM SOURCES EXTERNAL TO THE ENTITY:

- Mr. Ishiwata suggested including examples when information from external sources provides contradictory information with the internal information used by management in its assessment of going concern, given this would provide useful guidance for the auditor how to address these situations.

#### COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE (TCWG):

- Ms. Vanich questioned whether certain discussions and inquiries of management required by proposed ISA 570 (Revised 202X) should also include communications with TCWG. Ms. Jackson noted that the Going Concern Task Force already included required discussions with TCWG, where appropriate, and strengthened the communication requirements with TCWG in proposed ISA 570 (Revised 202X). Ms. Jackson noted that the Going Concern Task Force would again look at the requirements related to communications with TCWG to ensure there was the right balance in terms of what is being communicated and when.

#### WRITTEN REPRESENTATIONS:

- Mr. Ishiwata noted the new requirement to request written representation whether management has the intent and ability to carry out specific courses of action in their plan for future actions. He highlighted that it is necessary for auditors to make this known to management in advance, given that a preparatory period may be necessary to implement the new requirement, as well as that management and TCWG should be made aware of the revised written representation requirement. Ms. Jackson noted that ISA 580<sup>5</sup> sets out the overarching requirements and guidance that deals with the auditor's responsibility to obtain written representations and that the subject-matter specific requirement for written representations in proposed ISA 570 (Revised 202X) does not undermine or limit the application of ISA 580.

#### TRANSPARENCY ABOUT GOING CONCERN IN THE AUDITOR'S REPORT:

- Ms. Meng supported the application material aiming to reduce boilerplate and highlighted the relevance of including entity specific information in the descriptions provided in the auditor's report.

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<sup>3</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>4</sup> Proposed ISA 500 (Revised), *Audit Evidence*

<sup>5</sup> ISA 580, *Written Representations*

She also supported the new application material to clarify that, in view of the requirements of the applicable financial reporting framework, “significant management judgement” is an appropriate concept to apply when determining if disclosures should be made about events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.

- Mr. Hansen suggested considering further guidance for circumstances when different approaches are used to conclude that no material uncertainty exists related to the entity’s ability to continue as a going concern by (a) management when developing its assessment, and (b) the auditor when evaluating management’s assessment. For example, a situation in practice may arise when the auditor and management concluded that there is no material uncertainty related to going concern, however they arrived at this conclusion using different methods. Ms. Jackson explained that such situations are not unique to going concern and may occur for example when auditing accounting estimates and related disclosures (e.g., when the auditor develops their own point estimate using a different method from management but still arrives at the same conclusion as management). She noted that the auditor’s objective is to obtain sufficient appropriate audit evidence to support management’s assertion on going concern as a basis for the auditor’s conclusions and the descriptions provided in the auditor’s report.
- Ms. Riggs cautioned that the wording of the explicit statements in the auditor’s report about the appropriateness of management’s use of the going concern basis of accounting and whether a material uncertainty has been identified, may be perceived as providing absolute assurance versus reasonable assurance. She noted that notwithstanding that these statements remain aligned with the Auditor’s Responsibilities for the Audit of Financial Statements section of the auditor’s report as required by paragraph 39(b)(iv) of ISA 700 (Revised),<sup>6</sup> because they are stated as “conclusions” they may imply absolute assurance. Ms. Jackson explained that the Going Concern Task Force kept the wording of the statements aligned with the Auditor’s Responsibilities for the Audit of Financial Statements section given this wording is already provided in the auditor’s report, including the auditor’s responsibility to “conclude” on these matters.
- Ms. Landell-Mills emphasized that from an investor’s perspective, transparency in the auditor’s report about going concern is very important including the auditor providing relevant, entity-specific information, and taking an independent view beyond management on the financial statements. She questioned whether the concept of the auditor not providing original information in the auditor’s report is a limitation in this regard and while recognizing this is a broader matter, suggested this to be further explored by the IAASB. Mr. Botha explained that the application material in proposed ISA 570 (Revised 202X) already draws on material included in ISA 701<sup>7</sup> which explains that original information is any information not made public by the entity. He noted that the commentary in the auditor’s report does not ordinarily provide original information because the auditor discusses how the matter was addressed in the context of the audit. Mr. Botha noted that the application material serves as a reminder for the auditor not to go beyond the “original information threshold”. Ms. Jackson also explained that in circumstances when the auditor expresses a modified opinion, the auditor is not precluded from providing information in the auditor’s report to support the basis for the modified opinion, as may be the situation when management included disclosures in the financial statements which are materially misstated.

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<sup>6</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>7</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

OTHER MATTERS:

- Dr. Cela expressed support for the examples in the application material to address scalability. He emphasized that the standard reflects a principle-based approach while addressing a complex topic such as going concern.
- Ms. McGeachy conveyed concerns regarding the proposal for an implementation period of approximately 18 months after approval by the IAASB of proposed ISA 570 (Revised 202X), noting this may be problematic in certain jurisdictions where legislative provisions would need to be amended.
- Mr. Ruthman questioned whether conforming and consequential amendments are necessary to the Auditor's Responsibilities for the Audit of Financial Statements section of the auditor's report, including if there are any opportunities for simplifications by reducing repetition and duplication with the Going Concern section.
- Mr. Yurdakul expressed views that in order to facilitate effective translation of proposed ISA 570 (Revised 202X) it is necessary to enhance the standards understandability (e.g., to shorten the phrases and sentences used in the text). In addition, he suggested instead of repeating material already included in other standards (e.g., ISA 315 (Revised 2019),<sup>8</sup> ISA 540 (Revised) and ISA 700 (Revised)) it would be more appropriate to cross-reference to the relevant paragraphs of these ISAs. Ms. Jackson explained that in developing the exposure draft for proposed ISA 570 (Revised 202X), an independent Complexity, Understandability, Scalability and Proportionality (CUSP) review was undertaken in October and November 2022 to ensure that the CUSP Drafting Principles and Guidelines have been consistently applied in the development of the proposed standard.

PIOB COMMENTS

Mr. Sullivan supported the proposals included in the exposure draft for proposed ISA 570 (Revised 202X) noting they address the public interest expectations for a more robust evaluation of management's assessment of going concern and enhanced transparency about the auditor's responsibilities and work related to going concern. He encouraged the IAASB to seek further views from investors during exposure whether the proposals included in the exposure draft enhance transparency in the auditor's report for "close call" situations.

WAY FORWARD

Ms. Jackson thanked Representatives for their feedback. In March 2023, the Going Concern Task Force will present to the Board for approval the exposure draft for proposed ISA 570 (Revised 202X).

**Assurance on Sustainability Reporting (Agenda Item C)**

- To *REPORT BACK* on the September 2022 meeting
- To *RECEIVE* an update on the IAASB's work regarding Assurance on Sustainability Reporting

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<sup>8</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*



- To *OBTAIN* Representatives' views on the IAASB's draft International Standard on Sustainability Assurance (ISSA) 5000<sup>9</sup>

Ms. Jackson introduced the topic by updating the IAASB CAG on the progress to date of the work performed by the Sustainability Assurance Task Force (SATF) on the proposed ISSA 5000. Ms. Jackson walked through the six priority areas and other key areas, providing a summary of how each area has been addressed, and when applicable, where each area has been addressed in proposed ISSA 5000

#### OVERARCHING COMMENTS

All CAG Representatives who commented thanked the SATF for the substantial progress made to date and noted their support for the overall approach in developing proposed ISSA 5000.

#### PRIORITY AREA: LIMITED VERSUS REASONABLE ASSURANCE

- Mr. Thompson, Dr. Norberg, and Ms. Blomme supported the approach of making a clear demarcation between limited and reasonable assurance, noting that in the European Union, limited assurance engagements will be required first and then in due course, reasonable assurance.
- Dr. Norberg supported the approach of one standard covering both limited and reasonable assurance. Dr. Orth added that even though the European Commission might prefer to have separate standards for limited and reasonable assurance, he is of the view that with the split and the two columns approach, proposed ISSA 5000 will achieve this purpose.
- Dr Orth, Mr. Dalkin and Ms. Blomme expressed their concern that the distinction between limited and reasonable assurance is not always explicit to the readers, especially those who are not necessarily familiar with IAASB's standards and asked the SATF to have a closer look at this issue. Ms. Blomme suggested developing a manual to guide the user in differentiating between limited and reasonable assurance. Ms. Jackson acknowledged the comment and noted that navigation through the standard will be easier with a digital version than with a traditional printed format, and that the SATF will take Ms. Blomme's suggestion into account when articulating the differentiation in the explanatory memorandum at the exposure draft stage.
- Mr. Thompson noted that the European sustainability reporting standards require companies to embrace double materiality, and accordingly stressed the importance of "impact materiality". Mr. Thompson noted that because of the "impact materiality", companies have to report on impacts through their value chain. This will result in a large number of SMEs that don't fall within the direct scope of the Corporate Sustainability Reporting Directive, which will be required to produce sustainability information for large companies in scope.
- Ms. Blomme asked the views of the SATF on whether the work effort on limited assurance is sufficient to avoid or to reduce "greenwashing", and how the SATF will respond to such a challenge when it arises. Ms. Mills questioned the usefulness of the limited assurance as it adds little value to investors and contributes to potential greenwashing. Ms. Mills suggested focusing on the development of a reasonable assurance standard and including a Key Matters section to provide users with information on how judgments have been made. Ms. Jackson explained that as with other standards, we have included material on bias, particularly in relation to qualitative information and narrative disclosures.

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<sup>9</sup> Proposed International Standard on Sustainability Assurance (ISSA™) 5000, *General Requirements for Sustainability Assurance Engagements*

Ms. Jackson noted that the SATF will look for other areas to draw attention to bias. Ms. Jackson also noted that the auditor reporting post-implementation review explored demand for extending the concept of key audit matters (KAMs) to other assurance reports. Respondents to the IAASB’s Auditor Reporting Post-Implementation Review stakeholder survey were not supportive of communicating KAMs in other assurance reports. However, the Board may consider including a question on KAMs in the explanatory memorandum.

- Mr. Ishiwata noted that regarding the standard being profession agnostic, it is important to collaborate with non-professional accountants’ assurance providers and standard setters for them such as the International Organization for Standardization and IIA and it is also important to have flexibility in proposed ISSA 5000 in order to make it easy for sustainability assurance providers to use. Regarding timeliness and to avoid rework as much as possible, Mr. Ishiwata proposed timely sharing of information about the draft standard and engagement with key stakeholders. Ms. Jackson pointed out the outreach activities already being carried out with Reference Group 1<sup>10</sup> as well as those planned in the future.
- Dr. Manabat noted that clarity is an important element of the standard being developed because it is intended to be used by both auditors and non-accountants, while most of the standards developed by IAASB are understood by practicing accountants. Ms. Jackson explained that while developing the standard, the SATF kept in mind that it will be used by accountants and non-accountants, and consequently might result in more explanation added to give clarity to non-accountants using proposed ISSA 5000.
- Ms. Wolf asked whether the standard is meant to cover all sustainability topics and if there is any flexibility in it to sort of cascade to limited moving to reasonable assurance. Ms. Jackson explained that the standard is developed in a way that is meant to be flexible, and that it supports the practitioners in conducting assurance on any type of sustainability reporting. Mr. Botha added that sometimes, a practitioner can perform both limited and reasonable assurance in one engagement, but on different aspects.

#### PRIORITY AREA: SUITABILITY OF CRITERIA

- Ms. Mills expressed her support for the overall direction of the work and stressed the need to be rigorous and ensure that this is absolutely directed towards investors in the public interest. Ms. Mills asked for clarification about the term “practitioner” and who is the ultimate client for this type of engagement. Ms. Jackson explained that the practitioner refers to the person who is engaged to perform the assurance work. Ms. Jackson also clarified that the entity is the organization responsible for preparing and reporting the information, but the user of that information and the assurance report is the ultimate person that the practitioner is directing their engagement towards.

#### PRIORITY AREA: SCOPE OF THE ASSURANCE ENGAGEMENT

- Ms. Riggs expressed her support for the project overall and highlighted that, given the migration toward integrated reporting, there is a need to clarify within the standard that sustainability information contained within audited financial statements would not utilize proposed ISSA 5000, but rather would utilize the standards being used to audit the financial statements.

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<sup>10</sup> A group of experts, representing other professional assurance practitioners, established to provide practical input for the development of Proposed ISSA 5000

- Mr. Sobel drew attention to the fact that scope can derive from the requirements of regulations or other standards not only from management. Mr. Sobel mentioned that if some sustainability information is excluded from the scope of the information reported or the assurance engagement, it should not relate to information required to be reported or assured by regulations.
- Ms. Blomme explained that in Europe, more information may need to be addressed in sustainability assurance engagements and reporting due to the European Union's Corporate Sustainability Reporting Directive and the requirement for digital reporting (taxonomy). Ms. Blomme expressed her concern that this may not be covered in the standard and asked if the SATF is considering addressing this issue in the future to allow auditors to understand how to address these additional requirements. Ms. Jackson highlighted that the SATF have discussed the issue of taxonomy with the European members of the SATF and that further consideration will be given in the future.

PRIORITY AREA: EVIDENCE

- Dr. Norberg supported the approach and highlighted the value chain in particular as a typical example of challenges that the standard should deal with especially in terms of differentiation between limited and reasonable assurance.
- Mr. Ishiwata noted that the Extended External Reporting (EER) guidance does not go beyond International Standards on Assurance Engagements (ISAE) 3000 (Revised)<sup>11</sup>, so more specific factors and detailed provisions should be included to be useful for assurance providers. For example, regarding forward-looking information and estimates it may be useful to refer to some provisions of ISA 540 (Revised). Mr. Ishiwata highlighted that based on outreach activities, EER guidance should be considered.
- Dr. Cela supported the proposed approach and noted that there are some limitations over the evidence, such as for SMEs most of the evidence relies on estimation, and accordingly this should be taken into consideration when assessing the reliability and quality of the evidence.
- Ms. Jackson acknowledged the comments and added that the SATF will take those points into consideration when finalizing the exposure draft.

PRIORITY AREA: SYSTEM OF INTERNAL CONTROL

- Mr. Sobel noted that COSO<sup>12</sup> will issue a guidance paper in April that covers internal controls over sustainability reporting. Mr. Sobel encouraged the SATF to read the guidance once issued although he doesn't anticipate significant differences with the provisions of proposed ISSA 5000. Ms. Jackson noted that the SATF will take into account the guidance when finalizing the exposure draft.
- Dr. Orth noted that there are some discussions in Europe around internal controls especially if it relates to the required test of the operating effectiveness of a control if the practitioner intends to rely on the control. Dr. Orth mentioned that this is usually an approach for reasonable assurance. Dr. Orth asked whether requirements 4 and 5 on page 25 of proposed ISSA 5000 are conditional similar to requirement 3 and whether the statement included about operating effectiveness is about the suitability of the design of controls. Ms. Blomme suggested that due consideration should be given to internal controls in limited assurance engagements compared to reasonable assurance

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<sup>11</sup> ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

<sup>12</sup> The Committee of Sponsoring Organizations of the Treadway Commission

engagements. Ms. Blomme proposed that the draft of proposed ISSA 5000 should have a slightly different approach or wording between limited and reasonable assurance. Ms. Jackson acknowledged the comments of Dr. Orth and Ms. Blomme, noting that the SATF will discuss the matter further with Corporate Sustainability Reporting Directive experts on the SATF.

- Ms. Vanich asked whether the standard should address the potential to have third parties start to provide services for reporting on internal controls. Mr. Dalkin highlighted the existence of some cautionary flags as a result of the potential significant involvement of specialists in the work of the practitioner, and accordingly, it may be beneficial to incorporate some of the considerations for auditors for that unique situation. Ms. Gamboa echoed the comment of Ms. Vanich and highlighted that from the US preparers' perspective even those companies that are furthest along the developing processes around sustainability data are still in the very early stages of having those processes be at the same level of rigor. Ms. Jackson acknowledged the importance of the third-party reporting identified by CAG Representatives and signaled that proposed ISSA 5000 requirements and application material covered this. Ms. Jackson noted that ISSA 5000 acknowledges that some practitioners who are not part of the firm may have already performed assurance work over aspects of the sustainability information, and includes requirements and guidance in this respect. For example, it emphasizes that the practitioner should understand the nature of the work performed, the competency of the individual performing the work, and the suitability of the criteria they applied.
- Dr. Norberg noted that internal control in sustainability reporting is a challenging area, particularly for first-time reporters as there is currently no global standard for internal control in sustainability reporting. Dr. Norberg highlighted that the practitioners will face challenges, especially in the initial engagements because of the absence of internal control systems over sustainability reporting.
- Ms. Wolf asked if sustainability assurance is going to be performed by non-accountants, and who is the professional body that will be governing them. Mr. Thompson mentioned that according to recent IFAC publication, only 15.3% of the sustainability assurance work in the United States is being done by non-accountants. Mr. Thompson also noted that in Europe, the Corporate Sustainability Reporting Directive allows practitioners other than auditors of the financial statements, to perform sustainability assurance engagements. Ms. Jackson clarified that it is very clear in the standard that when performing an assurance engagement and reporting under proposed ISSA 5000, the practitioners should have the appropriate assurance skills and competencies, irrespective of whether they are non-accountants. Mr. Seidenstein pointed out that according to recent research conducted by IFAC, at least one-third of the assurance engagements in the world are conducted by non-accounting professionals, and many of them use ISAE 3000 (Revised) among other frameworks. Mr. Seidenstein highlighted that one of the key elements of proposed ISSA 5000 is that practitioners must comply with the rigorous standards of ethics and quality management, and this is the main reason for the collaboration between the IAASB and IESBA. Mr. Seidenstein also noted that in IFAC's State of Play report there is a call for a global sustainability assurance standard and that IOSCO highlighted in their recent pronouncement the need for the standard to remain practitioner agnostic.
- Ms. Mills raised a question about who should employ the practitioners and whom the reports are intended for, and suggested that accountability and materiality should also be considered in this context. Mr. Botha noted the different levels of involvement in sustainability reporting and the importance of determining the intended user of the information. Mr. Botha highlighted that proposed ISSA 5000 addresses specific user needs, and that sustainability reporting is moving from voluntary regimes to mandatory regimes. In that context Mr. Botha noted that the focus of ISSA 5000 is on

general-purpose information that is driven by law, regulation, and sustainability reporting frameworks that provide criteria for the entity in determining the information that users will find useful. The practitioner's responsibility is to obtain sufficient appropriate evidence to support their conclusion, and they may rely on the work of other practitioners or internal audit. However, they must ensure that the work is adequate for their purposes.

- Mr. Wei stressed that all assurance service providers must comply with the same rigorous ethical and quality management requirements. Mr. Wei asked whether the SATF considers arranging for field testing during the exposure draft period, as this can be part of input collection to finalize the standard and reduce the need for guidance in the future. Ms. Jackson acknowledged the suggestion and clarified that there will be a fulsome comment period and that IAASB will be conducting significant outreach, including to obtain views on implementation or the operability of proposed ISSA 5000.
- Dr. Danbatta noted that internal control may be an area of concern since usually it is determined by management, and because of the lack of global standards on internal controls, there is an element of subjectivity as management is determining what is a sound control system. Dr. Danbatta also requested clarification on the aspect of proportionality regarding the nature and size of the institutions for which a sustainability assurance is being provided, or for the scope of the assurance engagement that, for example in the Islamic financial institutions, can be provided for a particular project rather than the whole institution. Ms. Jackson noted the standard is drafted to be scalable and to allow for engagements with a narrow or broad scope, as well as limited or reasonable assurance. Ms. Jackson highlighted the need for different types of assurance engagements based on the jurisdiction and the needs of users of the assurance report.
- Ms. Altbaum requested clarification on whether the SATF has identified any particular consideration regarding communication with TCWG, particularly where internal control deficiencies have been identified in relation to the level of maturity of the entity's processes for preparing sustainability information, especially in the early years of reporting. Ms. Jackson clarified that proposed ISSA 5000 includes requirements for communication with TCWG.

#### PRIORITY AREA: MATERIALITY

- Mr. Ishiwata noted that sustainability information includes quantitative information that is not only monetary information, but also non-monetary information, for example, greenhouse gas emissions. Therefore, when considering materiality each category should be considered separately. Mr. Ishiwata also noted that assuming the sustainability information in the consolidated financial statements, group level materiality, component level materiality, and materiality of value chain information, such as scope three greenhouse gas emissions, should also be separated. Ms. Jackson welcomed the suggestions of Mr. Ishiwata and the examples provided especially in relation to value chain materiality and noted that these will be taken into consideration for future discussions.
- Ms. Mills asked whether the definition of materiality used in the context of sustainability reporting is similar to that used in the audit of financial statements, which is information that would affect investor decision-making. Ms. Mills noted that quantitative thresholds are generally used as proxies for affecting decision-making, but in the context of the European Sustainable Finance Disclosures Regulation and non-financial information, the concept of using a quantitative threshold becomes irrelevant. Accordingly, Ms. Mills requested clarification on the definition of materiality. Ms. Jackson acknowledged the importance of the comment and stated that materiality is determined by the practitioner through the lens of the users of the sustainability information.

#### OTHER KEY AREAS: DEFINITIONS

- Dr. Orth noted that it would be helpful to understand what are the roadblocks that hinder the alignment of the definitions with those proposed by the IESBA as this is really essential to resolve and also with respect to the different reporting frameworks that would be subject to a limited or reasonable assurance engagement. Mr. Yurdakul enumerated certain definitions that are confusing: limited and reasonable assurance, partner, staff, and practitioner. Mr. Yurdakul also noted that the definition of misstatement is not correct and needs to be revised and aligned with the definition of misstatement by the International Sustainability Standards Board (ISSB). Ms. Jackson acknowledged the comment but mentioned that unless there is something actually fundamentally different in a sustainability assurance engagement compared to any assurance engagement or audit, those definitions would not be changed, but if more context is needed, some elaboration could be added to the application material. Ms. Jackson also highlighted that there will be some differences in the definitions between the IAASB and IESBA because ethical standards apply to professional accountants in business as well as in public practice, but both boards are working closely to make sure that variations exist only where necessary. Mr. Botha further commented that the IESBA is looking at the definition of sustainability in a broader context than the IAASB, as for the latter the sustainability information that the practitioner is looking at is defined in the context of a process that the entity has applied to produce that information. Mr. Botha highlighted that the variations between the two boards are not significant.
- Mr. Suzuki requested clarifications about the definition of disclosure and how broad it is, for example, does it cover the annual report only or does it include other information such Sustainable Finance Disclosures Regulation taxonomy requirements in the European Union. Ms. Jackson thanked Mr. Suzuki for the feedback and stressed that the SATF tried to keep the definition of disclosure as simple as possible and explained that disclosure is the aspect of the topic or the piece of sustainability information that the entity is reporting.

#### OTHER KEY AREAS: QUALITY MANAGEMENT

- Dr. Danbatta thanked the SATF for the work done on the part of the standard that addresses the concern raised about non-professional accountants providing assurance services. Dr. Danbatta believes that the requirement to comply with the IESBA Code will mitigate some of the risks as it provides a framework for all sustainability assurance providers to comply with relevant ethical requirements.
- Mr. Ishiwata expressed his concern to require all sustainability assurance providers to implement International Standard on Quality Management (ISQM) 1<sup>13</sup> from the initial phase as that may be impractical for assurance providers other than audit firms. Mr. Ishiwata suggested instead requiring a certain governance framework which has more flexibility than ISQM 1 at the initial stage. Dr. Cela added that assurance providers other than professional accountants should apply requirements that are at least at the level of ISQM 1 requirements. Ms. Blomme commented that the same standard needs to be required for all providers, as the same requirements will result in a level playing field. Ms. Jackson clarified that proposed ISSA 5000 requires compliance with ISQM 1 or other professional requirements or requirements in law or regulation that are at least as demanding as ISQM 1. Mr. Seidenstein further elaborated that this is the first time on a broad scale basis that the

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<sup>13</sup> ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

standards are going to be mandatory and regulated, and there should be rigorous ethical and quality management requirements to be applied by practitioners in applying proposed ISSA 5000 as there is on ISAE 3000 (Revised).

- Dr. Norberg agreed with the approach and concurred with the comments made by Mr. Seidenstein.

#### OTHER KEY AREAS: REPORTING

- Mr. Ruthman queried how ISA 720 (Revised)<sup>14</sup> relates to sustainability reporting. Mr. Ruthman asked how auditors' opinions will be expressed with respect to "Other Information", when that Other Information includes sustainability information that is being assured by another assurance provider, so there may be crossover between assurance and audit engagements. Mr. Ruthman questioned if there is a need to review ISA 720 (Revised) to make sure that auditors don't express a conclusion that they have nothing to report with respect to the Other Information that actually includes sustainability information, with an assurance report that expressed a modified opinion or perhaps used a different level of materiality. Mr. Ishiwata noted that when the audit of the financial statements is not conducted by same practitioner as the sustainability assurance engagement, the requirement of ISA 720 (Revised) could conflict between the judgment of auditors and sustainability assurance providers. Mr. Ishiwata suggested that certain provisions or guidance should be included to address such conflicts, such as sufficient communication between the auditor and sustainability assurance provider before issuance of each report. Ms. Altbaum added that the potential integration of sustainability information into the financial statements needs to be well implemented especially when this information is audited by a different practitioner, and for that purpose, good communication between the assurance provider and the auditor is key and should be emphasized.
- Mr. Thompson expressed his concerns over the type of sustainability reports issued by assurance providers especially when these reports start to be issued in the European Union in 2025. Mr. Thompson mentioned that companies reporting sustainability information, may not be sophisticated enough to meet the reporting requirements and that this could lead to a high number of adverse reports, disclaimers, or qualifications. Mr. Thompson acknowledged that the proposed reporting requirements are similar to those for financial statement audits, but fears that the standards may not be appropriate for sustainability reporting. Mr. Thompson also noted that there is a lot of discussion in the European Union around developing sustainability reporting standards, and there may be a high degree of expectation on the ability of assurance providers to provide limited assurance on critical matters, like material impacts. Ms. Jackson acknowledged the potential impact, but highlighted that it is ultimately the practitioner's responsibility to determine whether they are able to obtain sufficient appropriate evidence in order to draw the appropriate conclusion and report accordingly. Furthermore, Mr. Dalkin cited an example of a government situation where a number of organizations were required to have audits for the first time and approximately 80% of these organizations had disclaimed or modified opinions and it was somewhat expected.
- Mr. Ishiwata suggested, to add more clarity and understandability by the users, to include a table showing the different types of audit opinions similar to ISA 700 (Revised).
- Ms. Mills and Ms. Altbaum expressed their concerns about the (KAMs) not being addressed in the proposed standard, noting that from investors' perspective, transparency on what the critical assumptions were within the non-financial reports is very important and other matters would be really

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<sup>14</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

helpful and valuable. Ms. Mills supported the point made in the presentation that there should be consistency between the financial statements and the non-financial disclosures and if something is being presented within the non-financial information which is actually not consistent with what's being presented in the financial statements, it definitely needs to be commented on.

- Ms. Blomme acknowledged the existing standards around sustainability reporting and agreed with previous comments made. She suggested that the SATF should also consider practical aspects, such as the longer timeline for sustainability reporting and assurance compared to financial statements audit. Ms. Blomme raised concerns about potential qualifications in sustainability reporting and how they might affect financial statement audits, and she emphasized the importance of providing enough guidance to deal with a potential proliferation of issues and qualifications while maintaining transparency in the reporting.
- Ms. Altbaum noted that with regard to the auditor's ability to withdraw if he is unable to obtain sufficient appropriate audit evidence, it might be useful to provide guidance explaining that in most cases it is more useful for the user to see a disclaimer of opinion rather than the practitioner withdrawing. The guidance could also clarify the extreme circumstances in which withdrawal may be appropriate.
- Dr. Manabat suggested the preparation of a template report to serve as proper guidance, and this template to include an example for exceptions or qualifications as needed. Ms. Jackson drew attention to the fact that illustrative examples will be presented to the Board in the June 2023 meeting.
- Dr. Norberg shared the concerns raised by Mr. Thompson and Ms. Blomme about the proposed standard for sustainability reporting and suggested that it cannot be compared to financial reporting because the assumptions and starting points are different. Dr. Norberg also acknowledged the risk of numerous sustainability assurance reports issued being modified and he believes that the root cause of the problem is the European Union's short time frame for mandating the Corporate Sustainability Reporting Directive, which is a matter out of the IAASB's control. Dr. Norberg noted that in his opinion, it is too early to discuss KAMs. Ms. Jackson highlighted the fact that the feedback received from the post-implementation review, revealed less appetite for the development of KAMs at the moment, but this is an area that will be discussed with the Board.

#### OTHER MATTERS

- Mr. Bini noted that the IASB issued a public statement in October 2022 to consider the effect of sustainability and especially climate change on impairment tests. Mr. Bini sees this as a classic example of a cross-consideration between classical financial information and the sustainability report and he thinks that in the future this connection will be stronger and stronger and especially under the perspective of business valuation for impairment testing and valuation for financial reporting. Mr. Bini suggested considering this intersection between financial and sustainability reporting.
- Mr. Thompson acknowledged that it is very encouraging to see from the outset that scalability has been factored into the draft standard, reflecting the public interest framework. Mr. Thompson noted that there is a need to mobilize resources and build capacity before the implementation of the new standard for sustainability reporting. Mr. Thompson also mentioned that the ISSB has committed to developing further guidance and training materials and has already formed a multi-partner capacity-building program. Mr. Thompson stated that capacity building will be a monumental task for the profession.



- Dr. Danbatta asked whether the implementation date of the proposed ISSA 5000 has been set. Ms. Jackson highlighted that as part of the due process, IAASB will seek feedback on this matter in the exposure period. Ms. Jackson also noted that the IAASB is also coordinating with the IESBA on this matter.
- Mr. Dalkin asked Ms. Jackson what the biggest challenges she anticipates completing this project. Ms. Jackson highlighted that the SATF is drawing guidance from existing standards when developing proposed ISSA 5000, but because this is an overarching standard, the biggest challenge resides in striking the right balance in the provision of material for practitioners who are less familiar with IAASB's standards.

#### PIOB OBSERVER'S REMARKS

Mr. Sullivan expressed his appreciation to Ms. Jackson for the great presentation and congratulated her and the SATF on the remarkable work accomplished to date. Mr. Sullivan acknowledged that the project was responsive to the public interest, not only in terms of timeliness and scalability, but also because the framework was developed to be assurance provider neutral. He also acknowledged the outreach activities done by IAASB which is very important to any project, but especially a project of this magnitude. Mr. Sullivan noted that because of the impact this standard will have on the profession, he is of the view that the project will not be entirely completed by the end of 2024 when the final standard gets issued whether because pieces of the project that get carried over because they couldn't be addressed or as a result of the post-implementation review. As a result, Mr. Sullivan suggested that it is very important to start planning for what comes next, specifically what will be considered in the post-implementation review so that those matters can be monitored. However, Mr. Sullivan recommends that the SATF doesn't need to spend a lot of time on this area before the exposure draft, but certainly before the final standard is issued. Finally, Mr. Sullivan noted that the approach on the KAMs is very reasonable in terms of including a question in the explanatory memorandum to get feedback because it is a very important matter.

#### CLOSING REMARKS

Mr. Dalkin thanked Ms. Jackson and all the SATF members as well as the IAASB staff for the work done and highlighted that it is very encouraging to see such a great progress.

#### WAY FORWARD

Ms. Jackson thanked the CAG for their feedback, that will be taken into consideration in finalizing the exposure draft.

#### **Fraud (Agenda Item D)**

- To *REPORT BACK* on the September 2022 meeting
- To *OBTAIN* Representatives' views on selected topics related to revisions to proposed ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

Ms. Corden, Chair of the Fraud Task Force, introduced the CAG session by highlighting the topics previously discussed with the IAASB and the Fraud Task Force since the September 2022 IAASB CAG meeting. She updated Representatives about the Fraud Task Force's progress as it related to the remaining

proposed actions in the [project proposal](#). The CAG session was focused primarily on the discussion of the proposed changes on the selected topics outlined below.

Representatives commented as follows:

#### PROFESSIONAL SKEPTICISM

- Ms. Riggs suggested developing specific examples that may help practitioners demonstrate the exercise of professional skepticism throughout the audit (and not only when fraud or suspected fraud is identified). Ms. Corden responded that providing practical examples on professional skepticism will be addressed through developing non-authoritative guidance as indicated in the project proposal.
- Mr. Ishiwata cautioned about requiring excessive fraud-related audit procedures that may impede the auditor from appropriately exercising professional skepticism when faced with resource constraints when performing the audit engagement. He encouraged a balanced approach that considered market needs and the entity's risk profile, including changes made in different jurisdictions (e.g., in Japan, certain fraud-related audit procedures and audit documentation are required only for listed entities). Ms. Corden explained that changes made to fraud-related standards in different jurisdictions have been considered when revising proposed ISA 240 (Revised), including those made by Japan, the Netherlands, the United Kingdom and other jurisdictions, as appropriate.

#### IDENTIFYING AND ASSESSING RISKS OF MATERIAL MISSTATEMENTS DUE TO FRAUD

- Mr. Yurdakul highlighted the importance of the practitioner's consideration of fraud risk factors and the investigation of inconsistent or conflicting information that may be indicative of fraud. Ms. Corden noted that there are a number of proposed changes that address fraud risk factors, including an appendix, which was enhanced to provide an updated list of examples of fraud risk factors.
- Ms. Vanich emphasized the importance of the auditor's understanding of the entity when performing risk assessment procedures and considering where fraud could occur and when designing the audit procedures.

#### JOURNAL ENTRY TESTING

- Mr. Hansen supported the enhancement to determine the need to test journal entries and other adjustments throughout the period. While not explicitly requiring the testing of journal entries throughout the period, Ms. Corden explained that the proposed enhancement strengthened the work effort requirement from a "consideration" to a "determination" of the need to test journal entries throughout the period which would include documentation of the auditor's determination.
- Mr. Hansen emphasized the importance of assigning more experienced individuals when testing journal entries and other adjustments. He noted that auditors should also have a more "questioning mindset" when examining the underlying information supporting the journal entries. Ms. Corden responded that the changes to proposed ISA 240 (Revised) address engagement performance, including responsibilities for the direction, supervision and review of the auditor's work, taking into account the knowledge, skill and ability of the auditor performing the audit procedures. This enhancement is intended to address circumstances such as the work related to journal entry testing.
- Mr. Dalkin added that "top side" management adjustments should also be considered when performing journal entry testing.

#### FRAUD OR SUSPECTED FRAUD IS IDENTIFIED

- Ms. Riggs requested clarification about whether the proposed revision to “determine if control deficiencies related to the prevention or detection of fraud exist, when fraud or suspected fraud is identified” was intended to go beyond the requirements in ISA 315 (Revised 2019). If this was not the intent, Ms. Riggs suggested aligning the requirement more closely with the relevant internal control requirements in ISA 315 (Revised 2019) and ISA 265.<sup>15</sup> Ms. Corden clarified that the proposed changes are to be considered in the context of a fraud or suspected fraud that has been identified and that the wording is aligned with other ISAs, including ISA 315 (Revised 2019) and ISA 265.
- Mr. Ishiwata supported the “ramping up” of audit procedures when fraud or suspected fraud is identified and suggested further demonstrating the ramping up of audit procedures (particularly when management is involved in fraud or suspected fraud) through communicating with TCWG, exercising professional skepticism and testing journal entries.
- While acknowledging the importance of performing robust audit procedures when addressing fraud in an audit of financial statements, particularly when fraud or suspected fraud is identified, Mr. Pavas was concerned whether audit clients have the appetite to bear the extra costs incurred by the auditor in performing the enhanced fraud-related audit procedures.

#### TRANSPARENCY IN THE AUDITOR’S REPORT ON FRAUD

- Messrs. Dalkin and Hansen supported the IAASB’s decision not to include a specific requirement to communicate identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud in the auditor’s report.
- Mr. Hansen suggested providing guidance when there are identified significant deficiencies related to the prevention and detection of fraud (e.g., involving the entity’s legal counsel and communicating to regulatory and enforcement authorities). Ms. Corden noted that when fraud or suspected fraud is identified, proposed ISA 240 (Revised) requires (among other matters) for the auditor to determine if control deficiencies related to the prevention or detection of fraud exist and communicate to regulatory and enforcement authorities, as required.
- Mr. Dalkin recognized that the changes in proposed ISA 240 (Revised) for applying the KAM mechanism in ISA 701 were “artful” in the manner it allowed the auditor an alternative when considering whether to include communicating identified significant deficiencies in internal control relevant to prevention and detection of fraud in the auditor’s report.
- Absent the communication of fraud-related findings / observations in the auditor’s report, Ms. Riggs was concerned whether there would be meaningful progress in enhancing transparency in the auditor’s report on fraud.
- With respect to communicating KAMs related to fraud risks in the auditor’s report, Mr. Hansen cautioned about the use of boilerplate language. He encouraged communicating KAMs related to fraud risks that are meaningful to the entity (i.e., include entity-specific information). Ms. Corden believes that the proposed changes for applying a fraud lens on risk identification and assessment, including requiring robust engagement team discussions about fraud-related matters and developing

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<sup>15</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

application material on the filter for communicating KAMs related to fraud risks, would drive the auditor to include entity-specific information and avoid the use of boiler-plate language.

- With respect to the proposed change requiring a reference to the related disclosure(s), if any, in the financial statements, Mmes. Blomme and Riggs suggested clarifying, at least within application material, how the auditor may respond when there are no fraud-related disclosures in the financial statements. Ms. Corden understood the concerns raised on this topic, but at the same time recognized that requirements over management disclosures about fraud-related matters in the financial statements relate to the applicable financial reporting framework and is therefore beyond the remit of the IAASB. Nevertheless, the Fraud Task Force will be conscious of this matter when progressing discussions in this area.

#### AUDIT DOCUMENTATION

- Ms. Riggs and Mr. Hansen suggested removing the words “by the auditor” within the new proposed requirement to document “fraud or suspected fraud identified by the auditor” to broaden it to include fraud or suspected fraud identified, whether by the auditor, management, TCWG and others within the entity (e.g., whistleblowers). Ms. Corden clarified that the proposed change is intended to be broader than just fraud or suspected fraud identified by the auditor. Hence, further refinements to the wording will be made to clarify this point.
- Ms. Wolf expressed support for enhancements to document “significant professional judgments made,” which is considered important within the actuarial community.
- Dr. Norberg recognized that the proposed changes in audit documentation could drive changes in auditor behavior but encouraged a stronger and clearer indication of how the overall proposed revisions to ISA 240 (Revised) could change auditor behavior. Ms. Corden clarified that the enhancements are aimed at promoting consistent practice and changing auditor behavior. Such proposed changes, in addition to the enhance audit documentation requirements, also include for example:
  - Applying a fraud lens on risk identification and assessment.
  - Robust work effort requirements when fraud or suspected fraud is identified.
  - Transparency on fraud-related KAMs in the auditor’s report.

#### OTHER TOPICS

- Mr. Ishiwata encouraged enhancing the requirements on communications to regulatory and enforcement authorities.
- Ms. Blomme encouraged considering scalability when revising proposed ISA 240 (Revised), which could improve its usability for smaller practitioners. Ms. Corden responded that scalability is top of mind when drafting requirements and application material in proposed ISA 240 (Revised) and is a continuing topic for discussion during the Fraud Task Force meetings. Proposed actions include coordinating with the Less Complex Entity (LCE) Task Force when considering examples to illustrate the scalability of the requirements.

#### PIOB COMMENTS

Overall, Mr. Sullivan noted that the fraud project is one of the most important projects from a public interest

standpoint. He commended the IAASB’s work on this topic and is looking forward to progressing the project. While Mr. Sullivan acknowledged the importance of transparency in the auditor’s report on fraud, he also believes it is crucial to clarify what the auditor is going to do differently to address fraud in an audit of the financial statements.

He noted that one of the auditor’s key considerations when obtaining an understanding of the components of the entity’s system of internal control includes its design and operating effectiveness, and whether there are internal control deficiencies. Such consideration may inform the auditor of potential fraud risks, for example a well-designed system of internal control may be an indication that the risk of fraud is lower.

He also encouraged the consideration of external information when identifying and assessing the risks of material misstatement due to fraud. Ms. Corden highlighted the auditor’s considerations of external information in proposed ISA 240 (Revised) when obtaining an understanding of the entity and its environment, for example, short-selling reports, negative media attention and negative analysts’ reports.

#### WAY FORWARD

In June 2023, the Fraud Task Force will present the IAASB with a full draft of proposed ISA 240 (Revised). Expected approval of the exposure draft is targeted for December 2023.

The Fraud Task Force will also closely coordinate and liaise with the IESBA on the proposed changes such that relevant provisions in the IESBA *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) are holistically considered.

#### Less Complex Entities – Agenda Item G

- To *REPORT BACK* on the September 2022 Meeting
- To *OBTAIN* Representatives’ views on selected topics of the proposed standard for LCEs

Mr. Hagen introduced the topic, explaining the progression of the project since the September 2022 CAG Meeting, including key matters discussed by the IAASB since the public consultation on the [Exposure Draft of the proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities](#) (ED-ISA for LCE). He also summarized the [Exposure Draft for Part 10, Audits of Group Financial Statements of the proposed ISA for LCE](#) (ED-Part 10) which was released for public consultation in January 2023.

Representatives commented as follows:

#### PROPOSED REVISIONS TO PARTS 2–5

- Drs. Manabat, Cela and Norberg, Mr. and Thompson, and Ms. Blomme supported the direction of revisions in Parts 2-5. Ms. Blomme also supported the project overall. Mr. Hagen thanked Representatives for their comments and noted that documentation is a tricky area to find the right balance, not only for the ISA for LCE but for the ISAs as well.
- Ms. Blomme suggested clarifying that when a requirement is not applicable, the auditor is not required to document why. Mr. Hagen noted the LCE Task Force considered adding this but did not include it as it was not deemed necessary and there were concerns that it may not drive the right behavior.

- Ms. Mubarak noted the importance of including a key principle of ISA 230<sup>16</sup> that the auditor shall prepare audit documentation that is sufficient to enable an experienced auditor having no previous connection with the audit to understand the conclusions reached. Mr. Hagen noted that the principle is included in Part 2 of the ISA for LCE.
- Mr. Yurdakul noted concern regarding allowing too much professional judgment relating to documentation. He agreed with defining clear guidelines to ensure sufficient documentation. Mr. Hagen explained that based on the feedback on the ED-ISA for LCE there are different views around this area but by including both general and specific documentation requirements, concerns should be addressed. Dr. Norberg added that documentation is tricky to address, but is important.
- Dr. Norberg noted that the engagement letter is used by clients to understand “what they are paying for” and what standard is applied and suggested that the engagement letter should indicate the standard intended to be used. Mr. Fritz agreed. Mr. Hagen explained that the ISAs do not have a similar requirement, and that both an audit using the ISAs and the ISA for LCE should result in reasonable assurance. He also noted that jurisdictions can add such a requirement.

#### PROPOSED REVISIONS TO PART 6

- Dr. Norberg and Ms. Blomme supported the revisions proposed to make Part 6 more proportionate to LCEs. Dr. Norberg noted that in a typical LCE management and the owner will often be the same person and that Part 6 is proportionate to these circumstances.
- Ms. Wolf questioned if there would be a stand back included in Part 6, for the auditor to consider if the ISA for LCE is still relevant after risk identification and assessment is performed. Dr. Norberg agreed, noting that it is critical to find the right balance in determining which requirements from the ISAs will be included in Part 6 and which not. Mr. Sobel questioned if the ISA for LCE covers the situation where an LCE becomes a non-LCE since risks can change as an audit progresses. Mr. Hagen clarified that there are requirements for the auditor to consider if the entity is still an LCE throughout the audit. Mr. Hagen noted that if the entity is no longer an LCE (e.g., the auditor changes or enters into complex transactions) then the auditor has to transition to another standard. He noted that given that the Authority gives better direction on what the typical LCE is, it should also be easier for the auditors to decide if they are using the right standard or not. Mr. Botha added that the Task Force has worked on making clearer the group of entities in the spectrum of complexity that the ISA for LCE is targeting so that when auditors apply the Authority the auditors are more likely to “get it right”. Mr. Botha noted there may still be a chance that the auditor will have to go back to the ISAs, but in that case, they can “take credit” for the work performed so far. Mr. Botha clarified that the Task Force has not yet discussed with the Board the detailed respondent comments regarding transition.
- Mr. Ruthman noted that some of the public sector considerations in ISAs are not reflected in the ISA for LCE and encouraged the LCE Task Force to include more public sector specific considerations and include guidance that explains that there are additional public sector related considerations in the ISAs. Mr. Hagen noted that the LCE Task Force is still working through public sector considerations and will consider Mr. Ruthman’s comments. He also explained that the ISA for LCE is designed to be a stand-alone standard so there will not be direct references to ISAs but the relevant content will be included.

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<sup>16</sup> ISA 230, *Audit Documentation*

- Mses. McGeachy and Blomme noted that the auditor should not be required to test the design and implementation of controls when the auditor is not intending to rely on the controls. Mr. Hagen acknowledged that similar concerns have been raised by stakeholders and Messrs. Hagen and Botha explained that it is important for understanding the entity, for identifying risk of material misstatement and that it helps in planning the audit. Mr. Botha added that the testing of design and implementation of controls are only required for certain control activities and it is not that onerous.
- Mr. Hansen inquired about how the ISA for LCE addressed the performance of risk assessments, as some stakeholders want to address control risks and inherent risks together and some want them to be addressed separately. Mr. Botha explained that in ISA 315 (Revised 2019) the assessment of control risk and inherent risk are separated. In addition, for inherent risk, the auditor identifies the risks of material misstatements and then assesses them. For the ISA for LCE, to be proportionate to LCEs, the identification and assessment of inherent risk are combined and when the auditor is not relying on internal control the risk of material misstatement is equal to the inherent risk. Mr. Hagen noted that the requirement to consider and document against the set list of inherent risk factors has been removed but is now included in guidance on what to consider when assessing inherent risks, in order to reach the same outcome.
- Mr. Ruthman questioned the terminology used in the essential explanatory material (EEM) under paragraph 6.4.3E noting that “contemplate” is not as firm as “intention” when referring to the auditors’ intention to rely on controls. Mr. Hagen explained that this wording is consistent with Paragraphs 6 and A71 of ISA 315 (Revised 2019).
- Ms. McGeachy noted that the work effort verb of “consider” is more appropriate than “evaluate” for paragraph 6.3.6., for a typical LCE.

#### PROPOSED REVISIONS TO ACCOUNTING ESTIMATES

- Mr. Dalkin questioned if an accounting estimate that involves an actuary would be considered complex. Mr. Hansen added that the same question could be asked regarding the use of experts more generally. Ms. Wolf noted that she would not have concern if the ISA for LCE is permitted to be used when there is an accounting estimate (e.g., a pension reserve) and an expert to whom the auditor has access to is used for the audit procedures and the entity is still an LCE. Mr. Hagen explained that the LCE Task Force did discuss such examples and noted that it depends on the facts and circumstances whether an accounting estimate is complex.
- Dr. Norberg supported the direction. He noted that accounting standards could require complex measurement that do not reflect the complexity of the entity. Dr. Norberg added his support on the revisions to requirements and the Authority, noting the distinction between the accounting of an accounting estimate and complexity of an entity.
- Ms. Gamboa questioned whether there was intention to include examples or guidance on what will constitute complex methods or model and to help auditors interpret the word “typically” in the qualitative characteristic. Mr. Hagen noted the intention for supplemental guidance to help understand if engagements are in the scope or not.

#### OTHER COMMENTS

- Ms. McGeachy noted that there is a risk that the quantitative thresholds proposed to be included in the Authority will become “de facto” what a jurisdiction will use. She added that since only small sized

entities are used as examples, medium sized entities may not be permitted to use the standard. Mr. Hagen explained that the examples are trying to signal what type of engagements the IAASB considered when the standard was developed, and it is something that the jurisdiction need to consider when they evaluate or consider the use of the ISA for LCE and adjust for jurisdictional differences. Mr. Hagen added that whether the examples provided become de facto is up to the standard setters or regulators in the jurisdictions.

- Ms. Blomme and Dr. Cela applauded the release of ED-Part 10. Ms. Blomme noted that the exclusion of component auditors may be too restrictive. Mr. Thompson noted that they will respond to ED-Part 10 and may suggest broadening the scope.
- Dr. Cela noted that EFAA and the IAASB organized a webinar to update stakeholders on the project. Mr. Thompson added that there is significant global interest in the project given the number of participants and the geographical representation of the participants. He also noted that the project is in the public interest and would foster greater trust and confidence in SMEs' financial statements and helps to build the accountancy profession in the emerging and transitional markets.
- Mr. Ishiwata noted that IAASB is undertaking several important projects such as sustainability assurance, going concern and fraud and noted that IAASB's resources should be allocated to these projects given that these projects have a broader impact. Mr. Seidenstein explained that the resources used to develop the ISA for LCE are not diverting any resources from any other major public interest projects. He added that it is in the public interest to serve this group of stakeholders and that he believes that the IAASB's views are aligned with PIOB's.
- Mr. Ishiwata noted that component auditors are not prohibited from using ISA for LCE for the purposes of the group or statutory audit. He questioned whether they should be prohibited from the use of the ISA for LCE to assure a high-quality audit. Mr. Hagen noted that under ISA 600 (Revised)<sup>17</sup> the group auditor decides which auditing standards should be used for purposes of the group audit and that the component auditor needs to comply with those auditing standards. The component auditor may decide to use different auditing standards for a statutory audit.
- Mr. Hansen asked if audits of pension schemes and collective investment vehicles which were not included in the final PIE definition revised by IESBA, are excluded from the scope of ISA for LCE. Mr. Hagen explained that the LCE Task Force is considering further revisions to align with the PIE project.
- Mr. Dalkin questioned whether there are any coordination efforts with the IESBA. Mr. Hagen noted that the project team regularly coordinates with IESBA on matters of relevance.

#### PIOB COMMENTS

Mr. Sullivan noted that this project is in the public interest as this project has the potential to drive consistency in the execution of audits globally and improve the value of financial statements.

Mr. Sullivan noted that having transparency in the engagement letter about which auditing standard will be used is important. He acknowledged that in some jurisdictions the engagement letter represents a legal contract between the client and the auditor, and that it is important to take into account all of those considerations before concluding on the matter.

Mr. Sullivan asked if there will be guidance to assist auditors in the situation where the auditors may not be

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<sup>17</sup> ISA 600 (Revised), *Special considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)*



able to continue an audit or issue a clean audit opinion, for example due to inadequate systems of internal control. In addition, he asked whether examples will be included to assist auditors in making this determination. Mr. Hagen explained that in such situations the same principles apply as in the ISA and that the ISA for LCE includes similar safeguards for the auditor to follow.

Mr. Sullivan asked if there would be guidance on fraud risks relevant to LCEs. Mr. Hagen noted that Appendix 3 of the ISA for LCE includes fraud risks specific to LCEs and that additional EEM regarding LCE specific fraud risks has been added into Part 6 with the potential for further examples to be added in the implementation material.

#### WAY FORWARD

The LCE Task Force will discuss Part 2–6 and the material related to accounting estimates with the IAASB in March 2023. It is expected that the revised draft of the full ISA for LCE (excluding Part 10, *Group Audits*) will be discussed in June 2023, and final approval of the standard is anticipated in December 2023.

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

- To *REPORT BACK* on the June 2022 meeting
- To *PROVIDE* Representatives with an overview of the significant issues raised from responses to the Exposure Draft for Track 1 of the project, and to *OBTAIN* Representatives' views on the proposed direction and recommendations in finalizing the pronouncement
- To *UPDATE* Representatives on the PIE Task Force's proposals for addressing the project objectives relevant to Track 2 of the project

Ms. Almond, Chair of the PIE Task Force, introduced the topics for Track 1 and Track 2 that address narrow scope amendments to the ISQMs and ISAs to respond to the recent revisions to the IESBA Code in relation to listed entity and PIE.

Mr. Dalkin and Ms. Almond alerted Representatives that given Track 1 proposes only narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised)<sup>18</sup>, and the nature and extent of the revisions being proposed based on respondents' feedback to the ED, the PIE Task Force does not anticipate the need to further consult with the CAG before the planned approval of the final Track 1 pronouncement at the June 2023 IAASB meeting.

#### TRACK 1 – EXPOSURE DRAFT FOR PROPOSED NARROW SCOPE AMENDMENTS TO ISA 700 (REVISED) AND ISA 260 (REVISED)

Representatives received an overview of the significant comments received from respondents to the Exposure Draft (ED),<sup>19</sup> noting that the final pronouncement is targeted for approval by the IAASB at its June 2023 meeting. Representatives commented as follows:

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<sup>18</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

<sup>19</sup> See the ED [Proposed Narrow Scope Amendments to ISA 700 \(Revised\) and ISA 260 \(Revised\) as a result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for PIEs](#)

### *Conditional versus Unconditional Approach*

- Ms. Blomme, Meng, Messrs. Ruthman, Fritz and Drs. Norberg and Manabat expressed support for the conditional approach to revising paragraph 28(c) of ISA 700 (Revised) proposed in the ED to operationalize the transparency requirement in paragraph R400.20 of the IESBA Code. Ms. Blomme and Mr. Fritz also noted support for a conditional approach when contemplating revisions for International Standards on Review Engagements (ISRE) 2400 (Revised)<sup>20</sup> under Track 2 of the project that would mirror the proposed amendments in ISA 700 (Revised) included in the ED. Mr. Ruthman acknowledged that the proposals in the ED would present a suitable and workable solution for audits of entities operating in the public sector.
- Messrs. Ishiwata and Hansen expressed preference for an unconditional requirement that would mandate the transparency disclosure in the auditor's report in all cases. Mr. Ishiwata commented that this approach would provide the greatest level of transparency for intended users to understand which independence standards were applied. Mr. Hansen noted that an unconditional approach would provide the greatest level of global consistency when providing the disclosure in the auditor's report that the differential independence requirements for certain entities were applied. He also expressed support for the unconditional approach when contemplating revisions to ISRE 2400 (Revised) under Track 2 of the project. Ms. Almond noted that these views will be further deliberated by the IAASB in March 2023 and acknowledged that there were respondents who supported an unconditional approach. She emphasized that the PIE Task Force had reflected on all responses provided to the ED, across stakeholder groups, to determine an optimal recommendation to IAASB that addressed the comments received on exposure, including those who emphasized the need for jurisdictional flexibility and cautioned about the unintended consequences of an unconditional approach.

### *Responses to the Exposure Draft*

- Ms. Meng expressed support for approval of the final pronouncement, following the IAASB's consideration of stakeholder's comments received on exposure.
- Dr. Danbatta inquired whether the response rate to the ED is adequate, particularly in view of the shorter public comment period provided of 90-days. Dr. Manabat noted that the comment period is adequate considering the narrow scope nature of the proposed amendments, as well as the wide range of stakeholders represented in the 38 comment letters received. Messrs. Botha and Seidenstein noted that the response rate to the public consultation and the 90-day public comment period are satisfactory given that this is a narrow scope amendments project as well as because the IESBA's revisions on listed entity and PIE were recently subject to public comment through their own due process. In addition, Mr. Seidenstein noted that the responses received embody comments from representative organizations who reflect a wide range of organizations and stakeholders which specifically informed those responses.

### *Other Matters*

- Mr. Pavas discussed the importance of the project for developing economies and particularly certain countries in the Latin America region. He explained that for these jurisdictions it would be useful to include more specificity to the IESBA's definition of PIE given these countries have many smaller listed entities. Ms. Almond explained that the IAASB is considering the adoption of the IESBA's

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<sup>20</sup> ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

definition of PIE into the ISQMs and ISAs as part of Track 2 of the project, when further consideration will be provided for this matter, including providing examples of categories of entities that local bodies may consider when adding to the categories of entities included in their national definitions of PIE.

- Mr. Ishiwata noted that the implementation period to December 2024 to align with the effective date of the revisions to the IESBA Code is not long and suggested the IAASB consider sharing details to stakeholders about the narrow scope amendments in advance, as well as coordinating with the PIOB to consider earlier approval of due process. Ms. Almond noted the broad support from respondents to the ED for the proposed effective date, including the support to align the effective dates of the IAASB and IESBA revisions. She also commented that because the amendments proposed are narrow scope in nature, it is anticipated that the implementation period would be a sufficient period for practitioners to update templates and associated internal materials and for national adoption processes to occur.

#### TRACK 2 – NARROW SCOPE AMENDMENTS TO THE ISQMs AND ISAs IN RELATION TO LISTED ENTITY AND PIE

Representatives received an update of the PIE Task Force’s proposals to address the narrow scope actions contemplated by Track 2 of the project which were discussed by the IAASB at its December 2022 meeting. Representatives commented as follows:

##### *Overall Responses*

- Mses. Blomme, Meng, Gamboa, Messrs. Hansen, Fritz, Ruthman, Drs. Norberg, Manabat and Cela expressed their support for amending the differential requirements that currently apply to listed entities to apply to PIEs and for replacing the definition of “listed entity” with “publicly traded entity” in the ISQMs and ISAs.

##### *Adopting IESBA’s Definitions of PIE and “Publicly Traded Entity” in the ISQMs and ISAs*

- Messrs. Ruthman and Dalkin emphasized the importance of the proposals under Track 2 of the project for aligning the key concepts and definitions in the IAASB standards and the IESBA Code so they can continue to be applied together without confusion, given the many jurisdictions that utilize both.
- Ms. Blomme noted that jurisdictions in the European Union have legally determined definitions for listed entity and PIE. She inquired whether these legal definitions would have precedent over those adopted in the ISQMs and ISAs. Ms. Almond explained that the proposals for Track 2 include adopting the entire approach to the IESBA definitions of PIE and “publicly traded entity” which recognizes more explicit definitions established by law or regulation.
- Dr. Manabat commented that providing further clarifications on the applicability of the “publicly traded entity” definition could be helpful for certain jurisdictions, particularly to clarify whether entities who are inactive in terms of trading but still listed would meet the definition of “publicly traded entity”. Ms. Almond explained that IESBA’s definition of “publicly traded entity” excludes entities whose financial instruments might be listed but are not intended to be traded.

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

- Ms. Meng and Dr. Cela expressed support for amending the scope of engagements subject to engagement quality reviews to apply to PIEs. Ms. Meng also expressed support for communicating

KAMs for PIEs.

- Mr. Hansen inquired whether the proposals to amend the differential requirements for communicating KAMs to apply to PIEs would also apply to review engagements undertaken in accordance with the ISREs. Ms. Almond explained that communicating KAMs for review engagements undertaken in accordance with the ISREs is not required.
- Messrs. Ishiwata and Pavas commented that it is critical to carefully consider stakeholder needs when determining the scope of the extensions of the differential requirements. They noted that this is particularly relevant when determining the scope of entities subject to communicating KAMs, given it may only be relevant to communicate KAMs for certain subsets of PIEs or larger PIEs and to allow jurisdictions flexibility when determining the entities subject to communicating KAMs.

#### *Timing of the ED for Track 2*

- Mr. Ishiwata suggested that the proposals for Track 2 of the project are exposed for public comment after jurisdictions have already determined their national definitions of PIE. Mr. Botha noted that it is anticipated that the exposure draft for Track 2 will be presented to the Board for approval in June 2024 and the expected approval of the final pronouncement will be in June 2025. Mr. Botha explained that subject to feedback from stakeholders, an effective date of December 2026 may be possible which would result in a two-year misalignment gap from the time of the effectiveness of the IESBA's revisions. He noted that, notwithstanding the two-year implementation gap, there would be the benefit for constituencies to have already implemented the definitions of PIE of the IESBA Code in national jurisdictions.

#### PIOB COMMENTS

Mr. Sullivan emphasized the importance of the project from the public interest perspective and commented that implementing an unconditional approach to revising paragraph 28(c) of ISA 700 (Revised) would achieve greater consistency in auditor's reports more broadly. However, he acknowledged that the proposals in the ED for a conditional requirement provide a workable solution to operationalize IESBA's transparency requirement in paragraph R400.20 of the IESBA Code.

#### WAY FORWARD

Ms. Almond thanked Representatives for their feedback in advance of the planned approval of the final Track 1 narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) at the June 2023 IAASB meeting.

#### **Audit Evidence and Strategy and Work Plan 2024–2027 (Agenda Item I)**

- To REPORT BACK on the September 2022 meeting relating to the Audit Evidence project; and
- To REPORT BACK on the September 2022 meeting relating to the proposed IAASB Strategy and Work Plan 2024–2027(the Strategy and Work Plan)

Mr. Botha provided Representatives with an overview of the Report Backs as included in Agenda Item I.1 for the Audit Evidence project and Agenda Item I.2 for the Strategy and Work Plan.

## AUDIT EVIDENCE

Representatives had no remarks on the report back for the Audit Evidence project, except to reconfirm a number of points previously highlighted in relation to Technology. This included that although much has been done to address Technology in ED-500<sup>21</sup> and broad agreement with the principles-based approach that had been applied, a continuing focus on the impact of technology is important, also in relation to other standards in the ISA 500-series and elsewhere. In addition, the need for guidance (e.g., non-authoritative guidance), including in relation to specific topics or matters, cannot be underestimated.

## STRATEGY AND WORK PLAN

Representatives commented as follows:

- Mr. Thompson asked whether there were any particular outreach plans to get more input from small and medium sized practitioners to the public consultation. Mr. Botha recognized the importance of the small and medium practices constituency and indicated that various outreach engagements as part of the IAASB's general outreach program, for example, with the IFAC Small and Medium Practices Advisory Group, have highlighted the public consultation. In addition, the IAASB's normal social media channels were used to raise awareness.
- Mr. Dalkin asked Mr. Botha to provide a brief update on the CAG transition to the new Stakeholders Advisory Council (SAC) (the SAC is referenced in the Strategy and Work Plan). Mr. Botha referred CAG Representatives to the closed session during the October 3, 2022 special CAG meeting and reconfirmed a number of items from that meeting, including: the IAASB CAG and IESBA CAG will have their final meetings in September 2023 and there is a process to prepare 'close-off' files relating to ongoing projects for transition to the SAC; the new SAC will be launched in January 2024; the PIOB Standard Setting Boards' Nominations Committee (NomCom) will issue a call for nominations of SAC members, probably in the second quarter of this year, with a final decision on the members in the fourth quarter; current CAG representative organizations and individual representatives would be able to participate and nominate candidates; a separate process, in consultation with the PIOB and NomCom will be followed for the advance identification and appointment of an inaugural Chair or co-Chairs, to prepare for the launch of the SAC in 2024.

Mr. Botha indicated that the Strategy and Work Plan is targeted for approval in December 2023 and will be preceded by a meeting with CAG Representatives in September 2023, including a possible joint IESBA CAG and IAASB CAG session at that meeting.

## Technology Initiative – Agenda Item J

- To *INFORM* Representatives about the IAASB's activities in relation to technology, including disruptive technology
- To *OBTAIN* the Representatives' views on certain topics in relation to technology relevant to audit and assurance

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<sup>21</sup> Exposure Draft of proposed ISA 500 (Revised), *Audit Evidence*

Mses. Fairchild and Davies provided Representatives with an update of activities in relation to the IAASB's technology initiative, including the technology landscape in audit and assurance and findings from targeted research.

Representatives commented as follows:

#### PROJECT OBJECTIVES AND ACTIVITIES TO DATE

- Drs. Manabat and Norberg, Ms. Riggs and Mr. Fritz expressed their support for the IAASB's holistic approach and proposed actions in relation to technology. Mr. Seidenstein thanked Mses. Fairchild and Davies for their efforts and noted the success of allocating dedicated resources specifically for innovation.
- Mr. Sobel expressed interest in the thought experiments and suggested crowdsourcing both the ideas and the participants for future thought experiments. Ms. Davies and Mr. Seidenstein noted they would explore this further.
- Mr. Hansen agreed with the thought experiment approach and suggested connecting with accounting firms and professional accountancy organizations who may have significant projects ongoing in this area. Mr. Botha noted that the IAASB was regularly performing outreach, including with national standard setters and Forum of Firms in this area.
- Mr. Dalkin noted a recent interaction he had with a technology firm who believed they could provide assurance for a service organization control report despite not being accountants or auditors, noted that there may be a technology that arises unexpectedly that fundamentally changes the audit, and raised the importance of thinking about that sort of change.
- Ms. Gamboa highlighted an awareness that large multinational corporations are building artificial intelligence into finance processes, including preparation of financial statements, and suggested these companies may be open to connect with IAASB to help understanding how artificial intelligence is being incorporated.

#### TECHNOLOGY LANDSCAPE AND TRENDS

- Messrs. Fritz and Sobel and Dr. Norberg commended the IAASB for the technology landscape.
- Ms. Riggs agreed that artificial intelligence (AI) appeared to be the technology with the most significant impact on audit and assurance and noted that at some point in the future the question around reasonable versus absolute assurance may arise with the ability of AI to analyze full populations. Ms. Wolf agreed that artificial intelligence is an important area, particularly regarding the risk of bias.
- Mr. Fritz noted both auditor technology involved in auditing digital assets and AI for use in auditing controls as important technologies shown on the landscape.
- Dr. Manabat noted the increase in IT in facilitating audit and growth in technologies for use by smaller practitioners available in the market was driving the continued need to keep pace with technology enhancements.
- Mr. Sobel noted that quantum computing whilst deemed low impact today when considered on its own, could accelerate the impact of other technologies such as AI.

- Dr. Norberg noted that the constant development of technologies is likely to be the most disruptive factor.
- Ms. Vanich noted that the IAASB technology landscape was consistent with the PCAOB research findings and provided a brief update on recent technology related activities by the PCAOB, including staff research, publications and the use of a technology alliance working group.
- Mr. Ruthman noted that items on landscape are inputs to information and what might be missing is consumption of information, such as social media, that might be used for making decisions and therefore what the expectations are for the extent, speed and reliability of that information.
- Ms. Blomme and Dr. Orth noted the challenges around audit of, or assurance on, digitally enabled reporting and the need to find a solution to support this. Ms. Blomme also noted the audit requirements related to the Digital Services Act recently passed into European Union Law.

#### TECHNOLOGY ADOPTION RESEARCH FINDINGS

- Mr. Thompson recognized education including that of standard setters and regulators as a barrier to adoption of technologies and impressed on the need to put the information presented into the public domain as it may be useful to technology providers and others.
- Ms. Rigg noted the American Institute of Certified Public Accountants survey results showed respondents average tenure was 23 years and suggested reluctance to change may be linked to tenure, noting the importance of involving younger innovative individuals to help drive more rapid change.

#### PIOB REMARKS

Mr. Sullivan expressed support for the project and noted a concern around the expense of new technology and raised the need to consider the investment requirement with new technology that may be creating a difference between those corporations or firms that can invest and those that cannot, which may impact the technology landscape and adoption.

#### WAY FORWARD

In March 2023, the IAASB will receive an update on the technology initiative and activities to date.

#### **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 is intended to be a face-to-face meeting on September 7–8, 2023.