

**Minutes of the 119<sup>th</sup> Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)  
Held on December 7–11, 2020 via Video Conferences<sup>1</sup>**

	<b>Voting Members</b>	<b>Technical Advisors (TA)</b>
Present:	Tom Seidenstein (Chair)	Helene Agélii (Mr. Hagen)
	Fiona Campbell (Deputy Chair)	Sara Ashton (Ms. Almond)
	Sue Almond	Vivienne Bauer (Mr. Monroy)
	Chun Wee Chiew	Wolf Böhm (Prof. Marten)
	Julie Corden	Fabien Cerutti (Ms. Tracq-Sengeissen)
	Robert Dohrer	Antonis Diolas (Mr. Chiew)
	Kai Morten Hagen	Johanna Field (Mr. Turner)
	Josephine Jackson	Hiram Hasty (Mr. Dohrer)
	Len Jui	Rene Herman (Prof. Simnett)
	Sachiko Kai	Susan Jones (Mr. Jui)
	Prof. Kai-Uwe Marten	Thokozani Nkosi (Ms. Jackson)
	Lyn Provost (December 8-11)	Tania Sergott (Ms. Corden)
	Fernando Ruiz Monroy	Jamie Shannon (Mr. Sharko)
	Rich Sharko	Sylvia Van Dyk (Ms. Provost)
	Prof. Roger Simnett	Denise Weber (Ms. Campbell)
	Isabelle Tracq-Sengeissen	Kohei Yoshimura (Ms. Kai)
	Eric Turner	
	Imran Vanker <sup>2</sup>	
Apology:	<i>None</i>	
	<b>Non-Voting Observers</b>	
Present:	Jim Dalkin (IAASB Consultative Advisory Group (CAG) Chair), Yosh'inao Matsumoto (Japanese Financial Services Authority)	
Apology:	Juan Maria Arteagoitia (European Commission)	

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<sup>1</sup> Due to the COVID-19 pandemic, the IAASB decided to hold the December 2020 IAASB meeting via a number of video conference sessions during the weeks of December 7 and 11, 2020. The discussions held during these video conferences are captured within these minutes.

<sup>2</sup> Mr. Vanker was supported by Mr. Yussuf Choonara during the December 2020 IAASB meeting.

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

Present: Ms. Karen Stothers

### **IAASB Technical Staff**

Present: James Gunn (Managing Director, Professional Standards) (December 10-11), Willie Botha (Technical Director), Beverley Bahlmann, Yvonne Chan, Brett James, Natalie Klonaridis, Armand Kotze, Phil Minnaar, Kalina Shukarova Savovska, Hanken Jane Talatala, Joy Thurgood, Jasper van den Hout, Angela Donnelly (IAASB Staff Fellow), Dan Montgomery (Senior Advisor – Technical Projects), Pauline Irwin (Extended External Reporting (EER) Staff Lead) (December 9)

IAASB agenda materials referred to in these minutes can be accessed on the IAASB's Website for the sessions held [December 7–11](#). These minutes are a summary of the decisions made at the December 2020 IAASB meeting, in light of the issues and recommendations in the agenda material put forth by the Task Forces, Working Groups, Drafting Teams and Staff supporting the individual projects. These recommendations are made taking into account feedback from respondents to the IAASB's public consultations, in particular Exposure Drafts (EDs) of the IAASB's proposals, consideration of previous discussions of the Board and its CAG, and feedback from stakeholders through outreach activities.

## **1. Welcome and Approval**

Mr. Seidenstein welcomed all participants to the December 2020 IAASB virtual meeting. Mr. Seidenstein specifically welcomed the incoming Board members, Mr. Kienhuis, Ms. Larsen and Ms. Stevens, and Mr. Thokozani Nkosi who is Ms. Jackson's TA. He then also welcomed the public observers who were observing the meeting via the IAASB's YouTube channel.

Mr. Seidenstein further updated the Board on the outreach performed during the fourth quarter of 2020, highlighting the extent of the IAASB's interactions with its key stakeholders for various projects.

## **2. Audits of Less Complex Entities (LCEs)**

### **PROJECT PROPOSAL**

Mr. Hagen provided the Board with an overview of **Agenda Item 2-A**, the project proposal for a project to develop a separate standard for audits of LCEs.

Mr. Hagen noted that a draft version of the project proposal was discussed with the IAASB CAG Representatives at a meeting in early December 2020. The IAASB CAG Representatives generally supported the project proposal and emphasized the importance of the applicability (or scoping of the standard). It was encouraged that the project proposal also include that further consideration will be given to whether, and how, public interest entities are recognized in the applicability of the standard.

The IAASB was supportive of the draft project proposal and in addition to various editorial suggestions, suggested the LCE Working Group make changes to:

- Clarify how users would be impacted by the new standard.
- Emphasize the scoping to assist understanding when the standard is appropriate to use, and clarify the role of each jurisdiction in adopting the standard.

- Make clear that the objective is to develop a standard that 'can' and 'will' be used.
- Explain that further consideration will be given on how to support the implementation of the standard.
- More robustly explain the link with the Complexity, Understandability, Scalability and Proportionality (CUSP) Working Group's activities.
- Recognize the importance of this project to the IAASB's mandate as the international auditing standard setter.
- Recognize the impact on education, training and professional development for auditors.

#### PIOB OBSERVER'S REMARKS

Ms. Stothers emphasized the importance and urgency of this project from a public interest perspective, and highlighted the need to continue to progress this project as a matter of urgency.

#### APPROVAL OF THE PROJECT PROPOSAL

After presenting an updated version of the project proposal, and discussing the final changes, the IAASB unanimously approved the project proposal to draft a separate standard for the audit of LCEs with 18 affirmative votes out of the 18 IAASB members who participated in the virtual meeting.

#### DRAFT SEPARATE STANDARD

The Board was broadly supportive of the direction and many of the specific proposals of the LCE Working Group as included in **Agenda Items 2 and 2-B**. However, some concern and caution was expressed on certain aspects, and the LCE Task Force was encouraged to further consider these aspects. The Board was also supportive of continuing to use the LCE Reference Group in an advisory capacity to further progress the draft separate standard. The Board noted that the comments from this group had been interesting and helpful.

With regard to the overall standard, some Board members had the view that the length was appropriate, and that it had been developed with LCE's in mind. However, other Board members encouraged the LCE Working Group to simplify the separate standard and it was noted that it needed to better focus on the lower end of complexity. It was also noted that certain aspects of areas that could become more complex should be included (as had been done in the draft presented). It was highlighted that the balance between what was in and what wasn't in should meet the needs of the stakeholders it is intended for. It was noted that a simpler standard would lead to a narrower applicability.

#### APPLICABILITY OF THE SEPARATE STANDARD

Although there was support for the approach to how the applicability had currently been described, mixed views were expressed about the applicability of the standard. Some Board members had the view that there was too much judgment involved which would result in inconsistency in practice, and questioned whether it would be consistently applied as it is currently described. Concerns were also expressed about how complexity had been described. The LCE Task Force Chair acknowledged that more consideration about the scoping of the separate standard would be needed.

Some Board members had the view that something simpler was needed as complexity would be too hard to describe (and then be applied consistently), highlighting that the entry point to the standard needs to be as clear as possible. The LCE Task Force was encouraged to further consider how the International

Accounting Standards Board (IASB) describes the entry point to their standard for small- and medium-sized entities and whether a concept of ‘public accountability’ (which is what the IASB uses) would be a better entry point into the IAASB’s separate standard. A few Board members were of the view that the decision about whether the standard could be used or not, should be left to individual jurisdictions (i.e., law or regulation would be used to impose limitations for its use).

Further matters with regard to how complexity had been described included:

- That the description was too detailed and may be confusing for some.
- That further consideration of what the effect of the International Ethics Board for Accountants (IESBA’s) work on “public interest entities” is needed once that work had been advanced.
- Further considering whether listed entities that were less complex could use the separate standard (although the majority of those Board members commenting on applicability agreed that *all* listed entities should be excluded).
- How the nature of the entity and the nature of transactions which drive complexity, was contemplated within the scoping of the standard, as this was not clear.
- That it was not clear that the applicability, as described, did not really focus on what was more “challenging” to audit.
- Comments about the specific topics highlighted in describing complexity, including the need for further consideration of the needs of individual jurisdictions and how complexity for these topics may be different to how the topic was currently described in the applicability section of the draft (for example, retirement benefit plans in Japan).

One Board member also noted that switching to describe what was more complex may be confusing and asked to consider describing what was less complex.

#### STRUCTURE AND FLOW OF THE DRAFT SEPARATE STANDARD

Board members strongly supported presenting the draft separate standard using the flow of the audit. However, one Board member had the view that Section 3 on the broad concepts should be moved forward within the standard. The Board also generally supported keeping quality management for the audit in a separate section. Some members of the Board questioned whether the requirements relating to audit evidence more broadly should be moved to a later part of the standard. Board members also questioned whether the requirements related to concluding the audit were situated in the right place.

#### INTRODUCTORY BOXES

The LCE Task Force was encouraged to further consider the content of the introductory boxes. Although supportive of having these introductory boxes, it was noted that they were not consistent and in some cases were not that helpful. It was highlighted that the introductory boxes to Sections 4 and 5 (for planning and risk identification and assessment) included helpful material and the other introductory boxes should also be revised to reflect similar information. It was also noted that these boxes should not contain any matters that required action.

#### OBJECTIVES

The Board was broadly supportive of how the objectives had been presented in the draft separate standard.

## DEFINITIONS

There were mixed views about the current approach to referring to the definitions in the Glossary. It was highlighted that the standard needed to be standalone and therefore would need to include the definitions within the standard. It was acknowledged that in a digital version this would be less of an issue.

## USING CORE REQUIREMENTS OF THE INTERNATIONAL STANDARDS ON AUDITING (ISAs)

The Board was generally supportive of aligning the separate standard with the core ISA requirements that are appropriate for an LCE audit. However, there were mixed views about whether the requirements of the draft separate standard should fully align with the wording in the ISAs, or whether they should be rearticulated, as appropriate, for an LCE audit. Those Board members supporting alignment with the ISAs noted that the consistency would help avoid confusion as to what would need to be done in similar circumstances. However, it was also noted that the standard needed to be appropriate for audits of LCE's and that they should be articulated in a way that is understandable by the audience for whom it is intended.

## ISAs NOT ADDRESSED IN THE DRAFT SEPARATE STANDARD

The Board generally supported the ISAs that had not been included in the separate standard (i.e., ISA 610 (Revised 2013),<sup>3</sup> parts of ISA 501<sup>4</sup> and ISA 701<sup>5</sup>). One Board member asked the LCE Task Force to further consider those situations where key audit matters are voluntarily included in the auditor's report, and how this could be incorporated in the separate standard.

A few Board members also encouraged that further consideration be given to being able to refer back to the ISAs where a topic was not covered within the separate standard. However, a few Board members strongly cautioned against using parts of the ISAs when undertaking an audit using the separate standard as this would make reporting difficult and may also have other unintended consequences.

## ESSENTIAL MATERIAL

Although supportive of a short standard, some Board members questioned the feasibility of not having more application material for implementing the standard. Other Board members were supportive of the approach as presented in the draft separate standard and noted that further consideration about an implementation guide would be needed. The LCE Task Force was encouraged to develop an approach to what essential material is included.

One Board member noted the importance of consideration about the 'negative' requirements within the ISAs that had not been picked up in draft that was presented.

A few Board members also encouraged the LCE Task Force to consider whether to present the standard in a tabular approach.

## GROUP AUDITS

There were mixed views about the inclusion of audits of group financial statements within the scope of the separate standard. On balance and after some discussion, the Board agreed not to include audits of group financial statements in the exposure draft, but rather set out the impact of including audits of group financial

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<sup>3</sup> ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

<sup>4</sup> ISA 501, *Audit Evidence—Specific Considerations for Selected Items*

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

statements in the separate standard and ask for stakeholder views on this in the explanatory memorandum accompanying the ED.

If audits of group financial statements were to be included, there were mixed views about a 'bright line' as to what kind of groups be included (i.e., where the "cutoff" of for more complex groups would be). It was also agreed that when exploring the matter of group audits with stakeholders, questions would be included as to the appropriate scope of a group that should be included, if at all.

It was also highlighted that coordination with the ISA 600 Task Force would be needed in light of the discussions about what constitutes group financial statements.

#### USING SERVICE ORGANIZATIONS AND EXPERTS

The Board was generally supportive of including some requirements in the separate standard for those situations where an entity uses service organizations.

Mixed views were expressed by Board members about whether the use of an expert should be included in the separate standard. Those supporting the exclusion of experts in the separate standard noted that if the auditor does not have the skills to audit something, then the underlying item is likely more complex and therefore the scope of the separate standard should not include experts.

A few members did not support including either service organizations or experts, noting that this was an example where referencing back to the ISAs could be made.

#### STANDALONE STANDARD

Some Board members were supportive of a completely standalone standard with no direct reference back to the ISAs if a matter was not covered by the separate standard. Other Board members asked that consideration be given to keeping the standard simpler and allowing reference back to the ISAs where needed. One Board member highlighted issues with reporting if the separate standard included such a reference, explaining that it would be difficult to determine compliance with a set of standards or standard in such cases.

It was also noted that it would be inappropriate to refer to the ISAs in the auditor's report for an audit using the separate standard as the ISAs would not have been fully complied with. One Board member questioned how the standalone standard would be adopted in the future if it were not more intricately linked to the ISAs (i.e., there would not be an accumulated knowledge about the ISAs if there was not such a link and an auditor did not know or use the ISAs).

#### REPORTING

Mixed views were expressed about the limited material with regard to reporting. This was one area where some Board members who would prefer a standalone standard noted that the ISAs could be referred to for reporting.

A few Board members noted that the requirements for reporting would need to continue to be considered as the scoping of the standard is progressed, as scoping would affect the reporting. It was, however, emphasized that the auditor's report should be transparent about what standard(s) had been used in a particular audit.

## OTHER MATTERS

A few Board members questioned whether enough had been included within the separate standard in respect of the new requirements introduced in ISA 220 (Revised). A Board member also questioned whether there was sufficient content in the standard in relation to ISA 315 (Revised 2019),<sup>6</sup> in particular in relation to the entity's system of internal control. In addition, it was noted that the scoping of the standard would impact how much should be included in the separate standard and that, at this stage it may be too hard to determine whether there was sufficient content in the separate standard in relation to a particular topic until the scope of the separate standard was clearer.

One Board member expressed concern about the content of the mapping of the ISAs to the separate standard as it may not contain enough detail as to why a particular requirement was omitted. This Board member encouraged the LCE Task Force to focus on this mapping to help Board members understand why a requirement was included or not.

## IAASB CAG CHAIR'S REMARK

The IAASB CAG Chair noted support for the direction of the development of the separate standard, highlighting that many of the matters raised by Board members had been similar to the discussions at the IAASB CAG meeting. He expressed a preference for a standalone standard.

## PIOB OBSERVER'S COMMENTS

The PIOB Observer complimented the Board on the thorough discussion on this very important public interest topic and looked forward to further progress on the separate standard.

## 3. Audit Evidence

### PROJECT PROPOSAL

Mr. Dohrer provided the Board with an overview of **Agenda Item 3-A**, the draft ISA 500<sup>7</sup> project proposal (the draft project proposal).

Mr. Dohrer noted that a draft version of the project proposal was discussed with the IAASB CAG Representatives at the September 2020 IAASB CAG meeting. The IAASB CAG Representatives noted broad support for the project and recommended that, given existing guidance in other ISAs, consideration is given to whether the concept of persuasive audit evidence should be introduced to ISA 500.

The IAASB was supportive of the draft project proposal and in addition to various editorial suggestions, suggested the Audit Evidence Working Group (AEWG) add the following:

- Additional emphasis on the development of a principles-based standard that would contribute to the standard being scalable to a wide variety of circumstances and so that it remains fit for purpose.
- Clarify that the scope of consequential amendments may include that requirements from ISA 500 are relocated to another standard, however the project does not include the broader revision of any other standard.

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<sup>6</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>7</sup> ISA 500, *Audit Evidence*

- Specifically recognize that the IAASB will explore whether the material in ISA 220 (Revised),<sup>8</sup> in relation to professional skepticism, may be drawn upon.
- Clarify that future coordination activities will include the consideration of the work of the IAASB's Fraud Working Group, Audits of LCE Working Group and the CUSP Working Group.

#### PIOB OBSERVER'S REMARKS

Ms. Stothers emphasized the importance and urgency of the Audit Evidence project from a public interest perspective, in particular because the relevance of many of the issues identified were further exacerbated during the COVID-19 pandemic.

#### APPROVAL OF THE PROJECT PROPOSAL

After presenting an updated version of the project proposal, based on the recommended additions, no further changes were required and the IAASB unanimously approved the project proposal to revise ISA 500 with 18 affirmative votes out of the 18 IAASB members who participated in the virtual meeting.

#### ISSUES AND RECOMMENDATIONS

Mr. Dohrer explained that the AEWG identified four issues that were considered to be fundamental by the AEWG to the direction and progression of the project, and provided an overview of the four issues, as outlined in **Agenda Item 3**.

#### PURPOSE AND SCOPE OF ISA 500

The Board broadly supported the AEWG's observations in relation to the role of ISA 500 and its interaction with the other ISAs. Although the Board agreed that there is overlap in the objectives of ISA 500 and ISA 330,<sup>9</sup> the Board expressed mixed views about whether clarity is needed regarding the purpose and scope of ISA 500. In particular, the Board:

- encouraged the Audit Evidence Task Force (AETF) to consider whether a proposed change in the focus of the objective of ISA 500 (i.e., away from designing and performing audit procedures) is appropriate in the context of its relationship with other ISAs, and whether doing so could weaken the linkages with the ISAs. For example, the Board noted that there are ISAs other than ISA 315 (Revised 2019) and ISA 330 that deal with the performance of audit procedures to obtain sufficient appropriate evidence. The Board further noted that clarifying the objective and scope is not a priority.

One Board member asked the AETF to further consider whether a change in the objective will result in ISA 500 still being aligned with the IAASB's International Framework for Assurance Engagements.

The Board broadly supported the proposal to further clarify and enhance the relationship of ISA 500 with other ISAs in the application material. The Board asked the AETF to specifically consider linkages with:

- ISA 220 (Revised), including the different types of biases that may affect the engagement team's professional judgments, and possible actions the auditor can take to mitigate impediments to the exercise of professional skepticism at the engagement level.

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<sup>8</sup> ISA 220 (Revised), paragraphs A35–A36.

<sup>9</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

- ISA 315 (Revised 2019), including that risks of material misstatement at the assertion level are assessed in order to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence.

#### THE CONCEPT AND EVALUATION OF SUFFICIENT APPROPRIATE AUDIT EVIDENCE

The Board broadly supported the proposal to introduce the concept of persuasive audit evidence in ISA 500. However, the Board questioned whether the proposal to define persuasiveness of audit evidence is practicable, noting that the concept is intended to address the combination of the sufficiency and appropriateness of audit evidence, and that there is a spectrum of persuasiveness.

The Board also broadly supported introducing factors in relation to, or attributes of, information that may be considered by the auditor when making judgments about information to be used as audit evidence. However, the Board cautioned that the factors and attributes may have unintended consequences and create an unnecessary burden.

In addition, the Board asked the AETF to further consider:

- The definition of audit evidence.
- Whether the category of “auditor generated information” is necessary and appropriate, given that the initial source of such information is either an “internal information source” or an “information source external to the entity.”
- The proposed work effort (i.e., “evaluate” or “consider”) in relation to the evaluation of information to be used as audit evidence given that the work effort may vary based on the particular circumstances.
- Simplifying the proposed factors and attributes, and:
  - Combining terms that overlap;
  - Using terms that auditors are familiar with;
  - Providing guidance for circumstances when the consideration of an attribute or factor may not be practicable; and
  - Clarifying the meaning of the term bias, including whether it includes both intentional and unintentional bias.
- The proposal to enhance application material on the auditor’s consideration of the “authenticity” of audit evidence in ISA 500, given that this concept is addressed in ISA 240.<sup>10</sup> In considering the linkages with ISA 240 more broadly, the Board encouraged the AETF to consider the Consultation Paper and Impact Assessment of the United Kingdom (UK) Financial Reporting Council, in relation to proposed ISA (UK) 240 (Updated January 2020).<sup>11</sup>

#### PROFESSIONAL SKEPTICISM

The Board broadly supported the proposals of the AETF to emphasize the need for the auditor to exercise professional skepticism in making judgments about information to be used as audit evidence.

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

<sup>11</sup> Proposed ISA (UK) 240 (Updated January 2020), *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

#### THE DISTINCTION BETWEEN SOURCES OF INFORMATION IN ISA 500

The Board expressed caution about no longer distinguishing between “information produced by the entity” and “information sources external to the entity.” In particular, the Board noted that the application material may still need to distinguish between the different sources of information.

The Board broadly supported the proposal to enhance the application material to clarify the scope of ISA 500 in circumstances where the auditor is unable to gain access to the source of information to be used as audit evidence to evaluate the relevance and reliability of the information.

#### USING INFORMATION FOR DIFFERENT TYPES OF AUDIT PROCEDURES

The Board provided the following comments on the required work effort when considering the relevance and reliability of information to be used as audit evidence, as it relates to different types of audit procedures. The Board asked the AETF to consider the following:

- The documentation burden that could arise, given the work effort and factors that need to be considered by the auditor.
- Circumstances where the same information may be used for more than one audit procedure.
- Emphasize the relative importance of the purpose of the audit procedure itself. In relation to risk assessment procedures, the Board noted that it may also be helpful to emphasize the auditor’s required evaluation of whether the audit evidence obtained from risk assessment procedures provides an appropriate basis for the identification and assessment of risks of material misstatement.<sup>12</sup>

#### WAY FORWARD

The AETF will make changes to ISA 500 based on Board members’ feedback. The AETF will bring further matters for discussion to the March 2021 meeting.

#### 4. Group Audits

Mr. Jui updated the Board on the work of the ISA 600 Task Force since the publication of the [ED](#) of proposed ISA 600 (Revised) (ED-600),<sup>13</sup> including the outreach performed, as presented in **Agenda Item 4**. The following sets out the more significant comments from the Board in response to the ISA 600 Task Force’s proposals.

#### SCOPE AND APPLICABILITY

The Board had mixed views on the ISA 600 Task Force’s proposal to include all entities with branches or divisions that are subject to a consolidation process in the scope of proposed ISA 600 (Revised). Some Board members noted that such an approach would be overly burdensome and could have unintended consequences as it would increase the scope of the standard significantly. Other Board members supported the ISA 600 Task Force’s proposals noting that the proposals would clarify the entry point to the standard. The Board asked the ISA 600 Task Force to consider:

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<sup>12</sup> ISA 315 (Revised 2019), paragraph 35

<sup>13</sup> Proposed ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- Clarifying which entities would be scoped in and which not, by providing more context for the Task Force's proposals; and
- Removing or clarifying paragraph A17 of ED-600, as the distinction between the aggregation of separate financial information and accounting performed centrally was deemed to be confusing.

With respect to the definition of group financial statements, the Board asked the ISA 600 Task Force to consider focusing on the aggregation process rather than the consolidation process and, if the ISA 600 Task Force decides to continue referencing the consolidation process, clarifying that the term has a different meaning in proposed ISA 600 (Revised) than in financial reporting frameworks. The Board had mixed views on the ISA 600 Task Force's proposal to either repeat or refer to paragraph A1 of ISA 220 (Revised), to address respondent comments regarding paragraph 2 of extant ISA 600.<sup>14</sup>

#### DEFINITION OF COMPONENT

The Board broadly supported the Task Force's proposals as set out in Section II of **Agenda Item 4**. The Board asked the ISA 600 Task Force to consider:

- Using the explanation in the issues paper as the basis for developing wording for the Introduction or application material to proposed ISA 600 (Revised); and
- Explaining that flexibility is needed for the group engagement team to plan and perform group audits given increasingly complex group structures, and that the decision to combine entities or business units for purposes of the group audit is based on the group engagement team's understanding of the group's financial reporting processes, which may be organized in a manner that is different from the group's legal structure.

#### RISK-BASED APPROACH

The Board had mixed views on the removal of the concept of significant component. Board members who supported retaining the concept noted that it is a backstop for making sure that sufficient work is performed and noted that it is easier to apply in practice than the risk-based approach. Other Board members supported the Task Force's direction as set out in Section III of **Agenda Item 4**, noting the advantages as set out in the Explanatory Memorandum to ED-600. In developing a way forward, the Board asked the Task Force to consider:

- Developing a framework on how to identify, assess and respond to the risks of material misstatement in a group audit;
- Whether the United States Public Company Accounting Oversight Board's standards include guidance that may be useful in developing a framework on how to apply the risk-based approach;
- Including a stand-back requirement that requires the group auditor to evaluate the audit evidence obtained for financially significant components;
- Identifying circumstances when an audit of a component may be required.

The Board also had mixed views on the ISA 600 Task Force's proposals to require component auditors to communicate identified misstatements in component financial information that have been corrected, in addition to uncorrected misstatements. Some Board members supported this requirement while others

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<sup>14</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

disagreed noting that it may be overly burdensome to communicate all corrected misstatements, particularly for group audits with a large number of components. The Board asked the ISA 600 Task Force to consider a requirement to report corrected misstatements above a specified threshold.

With respect to the other proposals as set out in Section III of **Agenda Item 4**, the Board also asked the ISA 600 Task Force to consider:

- Whether the proposed changes to clarify the involvement of component auditors based on stronger linkages to ISA 315 (Revised 2019) and ISA 220 (Revised) is sufficient. The Board suggested that the proposed ISA 600 (Revised) be more explicit on how to address the issues identified related to the involvement of component auditors;
- Being neutral on the use of non-network component auditors;
- Clarifying that the group engagement team is not solely responsible for identifying, assessing and responding to risks of material misstatements but that the group engagement team is ultimately responsible; and
- Emphasizing the importance of two-way communications, and to further consider the form and content of conclusions from component auditors.

#### DEFINITION OF ENGAGEMENT TEAM

The Board generally supported the ISA 600 Task Force's proposals as set out in Section IV of **Agenda Item 4** and asked the ISA 600 Task Force to consider:

- Clarifying the diagram included on page 32 of **Agenda Item 4**; and
- Liaising with IESBA on matters related to the definition of engagement team to avoid unintended consequences, including the proposed change of the term 'group engagement team' to 'group auditor.'

#### PIOB OBSERVER'S REMARKS

Ms. Stothers thanked the ISA 600 Task Force for its work and noted that the discussion was thoughtful, robust and thorough.

#### WAY FORWARD

Based on the Board's comments, the ISA 600 Task Force will further develop its thinking on the key themes discussed in the December 2020 meeting. In the March 2021 meeting, the ISA 600 Task Force will present drafting related to the key themes and will present a summary of respondents' comments and the ISA 600 Task Force's recommendations on the way forward related to some of the other questions in the Explanatory Memorandum to ED-600.

## 5. Extended External Reporting Assurance

#### BACKGROUND

Mrs. Provost presented an overview of the enhancements and changes made to the proposed non-authoritative guidance, as well as to proposed Supplement B, to respond to the feedback received from the IAASB at the IAASB's September 2020 meeting and from other stakeholders.

The IAASB expressed strong support for the amended draft EER guidance. The Board noted that the EER Task Force had appropriately responded to the comments from the public consultation, and that the addition of further examples and enhanced diagrams made the proposed guidance more practical.

The IAASB highlighted the following matters for further consideration by the EER Task Force in finalizing the proposed guidance:

- In the Appendix *Limited and Reasonable Assurance – EER Illustrative Table* (which was presented as **Agenda Item 5-C**), it was noted that it is important to illustrate the range for limited assurance, and to avoid suggesting that there are particular ‘points’ for the lower and upper end of the range (irrespective of whether one or two columns are used for limited assurance).
- To not include the draft material on ‘double’ and ‘dynamic’ materiality in the proposed guidance as it would not be appropriate to introduce new concepts through non-authoritative guidance without formally consulting.
- With regard to Example 15 of Supplement B, it was noted that it may not be common for this type of engagement to be performed as a reasonable assurance engagement. It was added that if an illustration of reasonable assurance was to be retained, consideration should be given to whether the illustrative procedures presented would be sufficient for reasonable assurance.

#### WAY FORWARD

The EER Task Force will update the draft guidance based on the Board’s feedback during the meeting, and for the editorial and other written comments received from Board members after the meeting. The EER Task Force will present the final non-authoritative guidance on EER Assurance for approval at the March 2021 IAASB meeting. The EER Task will also continue to work with IAASB Staff to identify an appropriate form in which the proposed guidance might be published.

#### OTHER MATTER

Mrs. Provost noted that Pauline Irwin’s secondment comes to an end in December. Mr. Seidenstein thanked Ms. Irwin for her services to the Board and for her work on the EER project.

### **6. Fraud in an Audit of Financial Statements**

Ms. Campbell introduced the session, providing an overview of the information gathering undertaken. She emphasized that the issues paper circulated to the Board contained preliminary views formulated by the Fraud Working Group and noted that no recommendations will be made until a full analysis of the responses to the Discussion Paper had been undertaken.

Ms. Donnelly updated the Board on additional outreach that had taken place since the materials for the Board meeting were posted, including meetings with (1) the South Africa Corporate Reporting Users Forum (CRUF) and (2) the UK CRUF.

Ms. Donnelly also noted that the UK Financial Reporting Council had launched a consultation on the proposed revision of its UK auditing standard on fraud, and explained that the Fraud Working Group would consider the proposed changes as it moves forward with this project.

#### REBUTTAL OF PRESUMED RISK OF MATERIAL MISSTATEMENT DUE TO FRAUD IN REVENUE RECOGNITION

The Board broadly supported maintaining the *rebuttal of presumed risk of material misstatement due to fraud in revenue recognition*. Board members agreed it is not in the public interest to remove this requirement. However, some Board members noted that further consideration should be given to explore whether there are other areas that also need such a focus (i.e., where fraud risks often present themselves in today's environment).

Board members also suggested to consider:

- Whether the presumed risk of material misstatement due to fraud in revenue recognition may cause practitioners to focus attention mostly in the area of revenue recognition, and therefore insufficient attention may be given to other areas where other fraud risks are present (for example, property valuations, inventory, etc.).
- Clarifying the work effort needed to rebut the presumed risk, including requirements that will result in clear and consistent documentation when the rebuttal of the presumed risk is determined to be appropriate.

#### CLARIFYING THE EXTENT OF JOURNAL ENTRY TESTING REQUIRED

The Board was broadly supportive of the Fraud Working Group's preliminary views regarding clarifying the extent of journal entry testing required.

The Board encouraged the Fraud Working group to clarify why journal entry testing is required, how testing should be performed, and the nature, timing and extent of testing required, as well as how quality management aspects impact the auditor's considerations about fraud. It was also noted that there should be a greater focus within the engagement team discussion on the risks of material misstatement due to fraud and that this should extend throughout the audit not just in the planning phase.

#### SUPPLEMENTAL AUDIT REQUIREMENTS (ADDITIONAL TO ISA 240) IN OTHER JURISDICTIONS.

The Board was broadly supportive of the Fraud Working Group's preliminary views regarding possible actions and related considerations relating to supplemental audit requirements (additional to ISA 240) in other jurisdictions. Some Board members also suggested further understanding was needed about how effective the changes made to the Japanese fraud audit standard have been.

#### OTHER MATTERS

Board members suggested to consider:

- Scalability and proportionality concerns regarding any possible future requirement around the use of forensic specialists.
- Whether guidance is necessary to better link identification of fraud risk factors to the risk assessment performed at the financial statement and assertion levels.
- Clarification of management's responsibilities and the responsibilities of those charged with governance to prevent and detect fraud.
- Continued coordination with the Technology Working Group.

#### IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted the IAASB CAG's Representatives support for the IAASB's efforts on this workstream. Mr. Dalkin noted that the IAASB CAG's Representatives encouraged the Fraud Working Group to consider a new stand-back provision, and suggested to analyze recent fraud cases to determine whether additional audit procedures may have identified those frauds had they been performed.

#### PIOB OBSERVER'S REMARKS

Ms. Stothers expressed support for the IAASB's work on fraud given its importance to the public interest. She suggested to consider performing outreach with experts related to cybersecurity and crime to identify weaknesses that may have parallels with the work being performed on fraud.

#### WAY FORWARD

The Fraud Working Group will consider feedback received from the Board as it progresses towards a project proposal in September 2021.

#### **7. IAASB CAG Chair's Closing Remarks**

Mr. Dalkin thanked the task forces and working groups for considering and addressing the IAASB CAG Representatives' perspectives and comments in the relevant discussions.

#### **8. PIOB Observer's Closing Remarks**

Ms. Stothers noted that the meetings were well structured and the discussions were robust, with balanced input from all Board members.

#### **9. Closing**

The minutes of the September 2020 IAASB meeting and November 10-11, 2020 videoconference were approved as presented.

Mr. Seidenstein thanked the outgoing Board Members (Ms. Campbell, Mr. Dohrer and Mr. Sharko) for their contributions to the IAASB throughout their tenure. He also thanked the IAASB members, TAs and IAASB Staff for the efforts leading up to, and during, the Board meeting. He then closed the public session of the meeting.

#### **10. Next Meeting**

There are two planned Board videoconferences for the first quarter of 2021. These videoconferences will be held on January 26 and February 10–11, 2021. The next IAASB meeting will be held via several video conferences between March 15–19, 2021.