

**Minutes of the 124th Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)
Held on May 10–11, 2021 via Video Conferences¹**

	Voting Members	Technical Advisors (TA)
Present:	Tom Seidenstein (Chair)	Helene Agéllii (Mr. Hagen)
	Len Jui (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)
	Kai Morten Hagen	Antonis Diolas (Mr. Chiew)
	Josephine Jackson	Johanna Field (Mr. Turner)
	Sachiko Kai	Hiram Hasty (Ms. Stevens)
	Edo Kienhuis	Rene Herman (Prof. Simnett)
	Diane Larsen	Susan Jones (Mr. Jui)
	Prof. Kai-Uwe Marten	Thokozani Nkosi (Ms. Jackson) (May 10)
	Lyn Provost	Tania Sergott (Ms. Corden)
	Fernando Ruiz Monroy	Jamie Shannon (Mr. Kienhuis)
	Prof. Roger Simnett	Sylvia Van Dyk (Mrs. Provost)
	Wendy Stevens	Denise Weber (Ms. Larsen)
	Isabelle Tracq-Sengeissen	Kohei Yoshimura (Ms. Kai)
	Eric Turner	
	Imran Vanker ²	

Non-Voting Observers

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

Public Interest Oversight Board (PIOB) Observer

Present:	Mr. Michael Hafeman
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¹ The IAASB held two video conference sessions on May 10–11. The matters discussed during these video conferences are captured within these minutes.

² Mr. Vanker was supported by Ms. Sinethemba Maseko at the May 10–11 videoconferences.

IAASB Technical Staff

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

Apology: Phil Minnaar

IAASB agenda materials referred to in these minutes can be accessed on the IAASB's Website for the sessions held on [May 10–11](#). These minutes are a summary of the decisions made at the May 2021¹ IAASB video conferences, considering the issues and recommendations in the agenda material put forth by the Task Forces, Working Groups and Staff supporting the individual projects. These recommendations are made taking into account feedback from respondents to the IAASB's public consultations, in particular Exposure Drafts (EDs) of the IAASB's proposals, consideration of previous discussions of the Board and its CAG, and feedback from stakeholders through outreach activities.

1. Welcome

Mr. Seidenstein welcomed all participants to the May 10–11, 2021 IAASB videoconferences. Mr. Seidenstein also welcomed the public observers who were observing the meeting via the IAASB's YouTube channel.

2. Audits of Less Complex Entities (LCEs)

Mr. Seidenstein introduced the session, explaining his approach to the Board's discussion to provide the LCE Task Force with clear direction in order to move forward to the June 2021 IAASB meeting.

AUTHORITY (PART A OF THE [DRAFT] INTERNATIONAL STANDARD ON AUDITING (ISA) FOR LCE)

Mr. Hagen walked through **Agenda Item 4-A** highlighting the key changes that had been made, including:

- (a) Making the role of the IAASB, the jurisdiction, firms and practitioners clearer.
- (b) To describe outright restrictions in the standard and the revised approach to entities with "PIE characteristicspublic-interest entities."
- (c) To better describe the overarching principles contemplated when designing the standard and the characteristics of complexity that are relevant for understanding when the standard is appropriate to be used.

General Comments

Overall, the Board was supportive of the approach for the proposed "authority" of the standard, noting that there was less subjectivity which is what had been needed. However, it was noted:

- That it was not clear who the authority was aimed at;
- How the various restrictions and limitations worked together (although it was highlighted that the diagram helped with the understandability of the process); and

- Which parties could make changes and where the changes could be made.

Some Board members also had the view that there was too much judgment still needed and encouraged that the descriptions in relation to the qualitative characteristics needed to be clearer to limit the judgment needed. It was also highlighted that it was not clear what the role of firms and practitioners are in regard to the authority of the standard.

Entities With “PIE Characteristics”

There were mixed views about the alignment with the IESBA’s proposals³ for entities with “PIE characteristics.” Some Board members continued to encourage alignment with the IESBA’s proposals, while other Board members highlighted that the IESBA’s proposals had not yet been finalized and that the IAASB should wait to understand the outcome of the consultation by the IESBA on these entities-PIE categories before aligning too closely.

Several Board members strongly encouraged further clarity about the restricted classes of entities and how they could be modified (i.e., clarifying if and when entities within the ‘PIE categories’ could be removed, the descriptions changed or the restrictions extended to include other entities).

The Board agreed with the Task Force’s view that the consultation on the [draft] ISA for LCE should not be an invitation for participants to provide comments on the IESBA’s proposals regarding the definition of PIEs, highlighting that this should be clear in the Explanatory Memorandum (EM). The Board also agreed that the IAASB and IESBA needed to continue to coordinate as the IESBA progressed its work on the definition of PIEs.

It was also noted that further guidance in the supplement guide was needed to provide context for the entities that were affected.

Considerations at the Jurisdiction Level

Some Board members expressed concern over potential misuse or inconsistency where a legislative body or other relevant local body in a particular jurisdiction allows use of the standard “as is” – i.e., with no additional guidance or restrictions. Some members highlighted that this was why providing clear guidance to firms and practitioners was important.

Some Board members suggested that listing what was, and was not, in the standard would be more straight forward and would alleviate some of the burden at the jurisdictional level.

One Board member highlighted that the IAASB’s pronouncements do not override local law or regulation that govern auditing and assurance matters, and encouraged that the LCE Task Force give further consideration to not creating issues in the event that local law or regulation is in conflict with this standard.

The Judgement of Complexity

It was highlighted that there was still too much subjectivity in the descriptions of the qualitative characteristics of complexity, and that further specificity was needed.

One Board member suggested reconsidering creating quantitative “hard” thresholds at a global level, for example based on employee numbers, that could be rebuttable at the jurisdiction level. Another Board

³ The Definition of Listed Entity and Public Interest Entity (PIE) Project currently being undertaken by the International Ethics Standards Board for Accountants (IESBA).

member described difficulties experienced in setting rules and thresholds even at the regional level and cautioned against this, while others agreed that it needed to remain principles based.

It was noted that some of the detail describing the qualitative characteristics of complexity in an audit of an LCE included in the Supplemental Guidance for the Authority of the Standard may be helpful in the Authority, although some members emphasized the need to keep the Part succinct. Board members expressed mixed views on whether the supplement should be part of the standard in order to ensure consistent application and appropriate authority, or remain as support material.

SUPPLEMENTAL GUIDANCE FOR THE AUTHORITY OF THE STANDARD

Consistent with the feedback received on Part A, Board members requested further clarity on how the restrictions could be modified.

It was also encouraged that further consideration be given to making the supplemental guide more succinct and easier to read. In particular, it was noted that Section I was too long, for example in relation to accounting estimates. It was also noted that Section I was confusing because sometimes the descriptions explained what “is an LCE” and then what “is not an LCE” depending on the qualitative characteristic in question. Lastly, concern was expressed that the section may be used as a ‘checklist.’

AUDITS OF GROUP FINANCIAL STATEMENTS

Mr. Hagen walked through the Extract for the EM relating to the exclusion of group audits in **Agenda Item 4-C**, explaining that the project to revise ISA 600⁴ had not yet concluded, and therefore impacted various aspects of what was to be included in the EM, including describing what a group audit is.

Board members were supportive of the inclusion of the topic in the EM in order to get input from stakeholders, noting that this would be important to inform the Board about the views on whether or not to include group audits as the standard is finalized. However, concern was raised that respondents may be biased in their choice because the selection of a particular option may cause further delays to the issuance of the final standard.

The Board expressed mixed views about the options as described. While the reason for using component auditors as a proxy for complexity in “Option 2” was acknowledged (considering the nature and proportion of requirements in ISA 600 covering component auditors and the reason one may be used), some Board members felt that it was not the most effective criteria to use as a proxy for complexity. Some Board members instead suggested other “cutoffs,” including where there are multiple jurisdictions, or jurisdictions in multiple countries. Other Board members suggested that there should just be two options: the inclusion or exclusion of group audits, with complexity of the group being addressed at the engagement level. Ms. Bahlmann proposed a potential path forward based on only two options to obtain the relevant detailed feedback needed, including respondent’s views on indicators of complexity.

Mr. Botha emphasized the need for having as much clarity in the EM as to the effects of the various options possible in order to give a clear direction for a path forward. Mr. Gunn suggested that the EM be clear on the background to why audits of group financial statements were not originally included in the [draft] ISA for LCE, and what the Board’s rationale was for that position.

After discussion over concerns that respondents may be “led” by its presentation and content, it was concluded that Appendix 1 (which provided more background about the detailed requirements that would

⁴ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

be included for each option) should not be included. It was noted, however, that the high-level impact of each option should be described in the EM.

The Board supported a question about the impact of excluding group audits but did not agree with the proposed question to determine a quantitative measure of how many audits would be impacted if group audits were excluded. Rather it was suggested that respondents be asked for more information about what drives complexity in group audits, which may help determine the impact of excluding group audits from the [draft] ISA for LCE. One Board member cautioned that open ended questions are harder to respond to, and harder to conclude on a clear path forward, particularly when the effect of different options has not been presented.

Regardless of the options proposed, Board members highlighted the importance of clarity about what a group audit means in the context of responding to the EM (specifically if the term only includes audits of different entities or also could include different components e.g., branches, locations etc.).

PIOB OBSERVER COMMENTS

Mr. Hafeman commended the Board on the robust discussions. He reiterated the importance of completing the ISA for LCEs as soon as practical, getting stakeholder input from all relevant stakeholders to ensure that what is in the draft standard will achieve a high audit quality, which would be in the public interest. He suggested that the consultation on the ED should enable the IAASB to obtain the input it needs to make a final decision on the treatment of groups, with such input based on stakeholders being given a clear picture of what the standard might look like. This might avoid the need for another round of consultation.

WAY FORWARD

The LCE Task Force will continue to finalize the [draft] ISA for LCE for discussion with the Board at the June 2021 IAASB meeting, and approval as an ED or public consultation.

3. Going Concern

Ms. Jackson provided an overview of feedback received on the Discussion Paper⁵ and other information-gathering activities and referenced the identified public interest issues as set out in **Agenda Item 5**.

PUBLIC INTEREST ISSUES

The Board broadly supported the identified public interest issues but asked for the public interest issues to be described in more detail in the project proposal.

SUMMARY OF FEEDBACK RECEIVED

The Board agreed that the message from stakeholders with regard to issues and challenges in ISA 570 (Revised)⁶ does not require a fundamental rewrite of the standard, but rather targeted updates in certain areas.

The Board noted the importance of focusing on actions that are within the Board's control and encouraged further exploration of the possible actions set out by the Going Concern Working Group. The Board also

⁵ Discussion Paper, [Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit](#)

⁶ ISA 570 (Revised), *Going Concern*

noted the importance of liaising with the International Accounting Standards Board and other accounting standard setters.

The Board emphasized the need for a multi-stakeholder approach to address the issues raised related to going concern and encouraged engaging with others on this topic.

POSSIBLE ACTIONS

The Board provided feedback on possible actions set out by the Going Concern Working Group, which had been developed for each of the matters identified from the responses to the Discussion Paper and input from the other information-gathering activities. The Board broadly supported further exploration of the possible actions presented and:

- Noted that further understanding the root cause of corporate failures may be useful but cautioned against spending too much time on that exercise given the breadth of information-gathering activities undertaken and evidence already collected.
- Noted that collaboration between the Fraud Working Group and Going Concern Working group will be important going forward.
- Broadly agreed with the recommendation to not further refine the description of the “expectation gap,” or further exploring the primary causes of the expectation gap. However, the Board encouraged consideration of educational support materials and continued dialogue with others.
- Broadly supported efforts to explore enhancement of linkages to other ISAs. In that regard the Board cautioned not to add further complexity or solely repeat content from other ISAs.
- Broadly supported efforts to explore how to emphasize and enhance the concept of professional skepticism. In that regard the Board noted that the Going Concern Working Group should monitor how this issue will be addressed in the IAASB’s Audit Evidence and Fraud workstreams.
- Broadly supported efforts to explore how to enhance the standard for a more robust challenge of management’s evaluation of the entity’s going concern and encouraged the Working Group to consider whether this would be needed in entities that have no significant risk factors related to their ability to continue as a going concern. The Board also noted that alignment with management’s responsibilities under the applicable financial reporting framework would be important.
- Broadly supported exploration of developing or revising definitions for terminology used in ISA 570 (Revised), such as “Material Uncertainty Related to Going Concern” or “Going Concern” but cautioned against changes that do not align with the applicable financial reporting framework.
- Broadly supported exploring an extension of the time horizon over which the going concern assessment is made for management’s assessment but noted that alignment with management’s responsibilities under the applicable financial reporting framework would be important.
- Broadly supported exploring enhanced transparency in the auditor’s report, particularly in situations where there is a “close call.” The Board cautioned that enhancements in this area should not result in boilerplate material in the auditor’s report.
- Broadly supported further actions clarify the difference between the Key Audit Matter section of the auditor’s report and the section related to a Material Uncertainty Related to Going Concern.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin supported the direction of the IAASB's work related to going concern.

PIOB OBSERVER'S REMARKS

Mr. Hafeman noted that the Board's action on going concern is welcome and in the public interest. He noted that it is encouraging that the IAASB is prepared to move forward—so that improvements can be made regardless of the extent of actions taken by financial reporting standard setters and others. and—He suggested that the Board should be more specific about the nature of the issues and the Board's goals in trying to address the issues. He also noted that reporting to regulators of an auditor's concerns about an entity may be required for prudentially regulated entities.

WAY FORWARD

The Going Concern Working Group will develop a project proposal, which is planned to be presented to the Board at its March 2022 meeting. Closing

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

4. Next Meeting

The next IAASB quarterly meeting, will be held via video conference between June 14–23, 2021.