



OBSERVATION MEMO | IAASB

New York, June 20-23 and 28, 2023

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Disclaimer: The observer applies his own judgment in identifying and communicating matters of public interest and due process at the meeting, and is responsible to the PIOB Technical Committee in doing so and in reporting on the observation. The views and opinions expressed in this Observation Memo are personal and belong solely to the observer and do not necessarily reflect or preclude the PIOB Board's position.

SUMMARY OF KEY ISSUES FROM THE MEETING:

- This meeting dealt with several important standard-setting projects, with one project reaching the final approval stage and another the approval of an exposure draft.
- The Board devoted significant time at this meeting to the project on ISSA 5000 International Standard on Sustainability Assurance. The full standard, including application material and appendices, were considered. Revisions were made in response to the Board's discussions and an exposure draft (ED) was unanimously approved.
- The Board discussed a revised draft of ISA 240 Fraud and conforming amendments, which focused on strengthening and clarifying the requirements, with no pushback that would weaken the requirements. I noted that reporting will be important and supported the Chair's suggestion that when an ED is issued there should be a specific question to ascertain whether the approach to providing transparency through the Key Audit Matters (KAM) will meet stakeholders' needs.
- On the ISA for LCEs, the Board considered proposed revisions to most parts of the standard, except for Part 10 on Group Audit, which will be discussed during the mid-quarter call in July. The discussions highlighted the need to clarify the relationship between this standard and the ISAs and to continue to "sell" this standard in light of the concerns of some stakeholders about its potential use. I suggested that an analysis of the standard in relation to the qualitative characteristics of the PIF should be prepared, the results of which could be useful in communication with stakeholders. I also highlighted the importance of the Board's upcoming discussion, planned for



September, on how the ISA for LCE will be aligned with future changes in the ISAs – and vice versa.

- The Board approved changes to the ISAs under Track 1 of the Listed Entity and Public Interest Entity (PIE) project. These changes address transparency of independence requirements applicable to PIEs, with an effective date aligned with the IESBA's PIE pronouncement of December 15, 2024. One Board member dissented, expressing concerns about whether the additional disclosure would provide useful information and that it would add complexity to audit reports.
- The first four days were an in-person meeting, with all members being present in person in New York, although two technical advisors attended virtually. The fifth day was a virtual meeting, which took place during the following week to enable the preparation of a revised draft of ISSA 5000.
- There was generally good attention by the TFs and the Board to public interest considerations and to responding to stakeholders' input.
- The chair was effective in encouraging the participation of members, while helping to move the Board toward clear positions on the issues under consideration. Members actively participated in the discussions.
- The chairs of the TFs and the staff were well prepared and presented the issues clearly.
- The meeting was efficiently run, with flexibility exercised in adjusting the agenda to make efficient use of time.

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This document covers agenda items in item-number order.

Link to the Public Interest Issues: [PIOB PI Issues - IAASB projects April 2023 \(ipiob.org\)](https://www.ipiob.org/PI-issues-IAASB-projects-April-2023)

Link to the Briefing Memo: [insert]

Agenda Item 2. SUSTAINABILITY ASSURANCE

Objective and Status: The objective of this project is to develop an overarching standard for assurance on sustainability reporting, which will support the consistent performance of quality sustainability assurance engagements. The standard should be suitable for all sustainability topics and disclosures, and neutral with respect to both the reporting framework and the type of assurance provider. The task force (TF) presented a full draft of ISSA 5000 in March 2023, as well as the Introduction section and illustrative reports in the mid-quarter call in April 2023. At this meeting, the Board is expected to approve the exposure draft (ED) of ISSA 5000.

IAASB Key Discussion Points: This agenda item was dealt with over four days. On Tuesday, the TF Chair introduced the topic, highlighted the project objectives, and indicated that performance against selected qualitative characteristics of the Public Interest Framework (PIF) will be documented in the Explanatory Memorandum (EM), which will accompany the Exposure Draft (ED). She reported on recent meetings with the IAASB Consultative Advisory Group (CAG) and national standard setters. The CAG Chair highlighted group audits and greenwashing as areas of particular interest. Then the TF Chair, along with other members of the TF and Drafting Team, walked through the draft requirements and related application material paragraphs. These discussions were completed on Tuesday, while a short session on Wednesday morning dealt with conforming and consequential amendments to other standards, exposure period, implementation period, effective date, and the matters to be included in the EM. The TF met at various times throughout the week to discuss the Board's input and prepare revised wording of parts of the standard. The revisions were distributed on Thursday afternoon and discussed by the Board on Friday.

The Board did not raise any fundamental concerns about the draft during the initial discussions. The Board provided input to the TF on a variety of issues which required further consideration or drafting refinements. Issues with potential public interest implications included:

- The Board highlighted the need for consistency between the discussion of sustainability information in the Introduction and the manner in which the term is defined. Regarding the definition of sustainability matters, reference to the impacts of economic matters on an entity might create an unintended link to going concern assessment. Also, there was some concern about whether the governance aspect of sustainability was being dealt with at an appropriate level. Efforts being undertaken to coordinate with other standard setters, including the IESBA, to seek consistent terminology were noted and will continue.

- The Board discussed the roles of “another practitioner” and when they would be considered part of the engagement team. This has implications on the extent to which their work is supervised.
- The Board discussed the approach to dealing with fraud in this standard, which might be clarified through cross references and highlighted in the EM.
- The discussion of terms of the engagement indicated that documentation is not required to include the responsibilities of the practitioners, although such documentation is required in the assurance report. Although this is consistent with the extant ISAs, it might be in the public interest to include such a requirement.
- Some Board members suggested that more guidance on materiality would be useful, particularly to non-accountant practitioners. The need to achieve an appropriate level of detail in this standard was noted, along with the possibility that guidance might be provided in other ways, such as non-authoritative guidance and educational materials.
- Some Board members suggested that the limited and reasonable assurance engagements might be more clearly differentiated, in terms of both work effort and reporting.
- In some cases, “other information” will be the financial statements, while in other cases it might be other sustainability information on which no assurance is being provided. A Board member suggested that the assurance report should explicitly describe the purpose of reading the other information. The Chair noted that stakeholders often raise this issue.

During Friday’s session, the TF Chair highlighted the targeted revisions that had been distributed to the Board and invited comments. Several Board members expressed satisfaction with the direction of the changes made to the draft and, in response to a question posed by the Chair, no members identified “fatal flaw” issues which they would have hoped to discuss during this session.

Board members commented on specific aspects of the targeted revisions and all of their comments were responded to. Responses varied, including explaining the rationale for the change, agreeing to a further change during the session, taking the issue back to the TF for further consideration, or agreeing to seek input through the EM.

The TF and drafting team met after the close of Friday’s Board meeting to continue work on the draft, with the objective of distributing a revised full draft on Monday, June 26 (the draft was circulated mid-afternoon, New York time).



During a virtual session on Wednesday, June 28, the TF Chair walked through the draft and Board members had the opportunity to comment. The comments with potential public interest implications included:

- This standard might unduly limit the application of ISAE 3410 on assurance of Greenhouse Gas reports. In response to this concern, revised wording was agreed and a question on this issue will be included in the EM.
- Some of the wording of the application material on materiality (A263A) might be confusing. It was agreed to retain the draft wording and reconsider it, if necessary, in response to any comments from stakeholders.
- The TF Chair proposed to reinstate wording from the previous draft in relation to the Practitioner’s Responsibilities section of the assurance report (169(g)(ii) and A480), to preserve consistency with ISAE 3000. Potential concerns about this wording will be noted in the EM.

Staff confirmed that due process had been followed on this project and the Chair called for a vote to approve the ED. The Board unanimously approved the ED. The ED and EM will be ready in a few weeks. All but one Board member voted to approve the changes.

The Chair said that notices will be posted on social media and asked Board members to leverage them and prepare stakeholders to provide input. The outreach plan in support of this project was discussed in the Executive Session.

PIOB Observer’s Comments: At the end of Tuesday’s discussion, I commended the TF and other drafters for their work since the previous meeting and the Board for providing good input.

I suggested adding “clarity” to the list of qualitative characteristics of the PIF that are being analyzed for this project. I highlighted several issues discussed by the Board that seem to be the most challenging to deal with:

- The definitions of sustainability matters and sustainability information, where it will be important to continue efforts to align with the IESBA, reporting standards, and concepts of sustainability;
- Other practitioners, where the discussion highlighted the importance of sorting out who will be involved in the process and how;

- Clearly defining the work effort, such as differentiating the work required under limited and reasonable assurance engagements and the requirements regarding other information, as well as clearly reporting on such matters.

At the end of Friday's discussion, I commended the TF and drafting team on their progress in dealing with the Board's comments and preparing revised wording. I said that I was looking forward to seeing a full draft on Monday, which will give a better picture of what the full standard will look like, and to the Board's discussion on June 28. (The CAG Chair said that the discussions seemed responsive to the issues raised at the recent CAG meeting and that the CAG is looking forward to the issuance of an ED, which will be discussed at the next CAG meeting.)

During the virtual session on Wednesday, June 28, I commended the TF and drafting team on their work since Friday's session. I noted that excellent questions had been identified for the EM and expect that many comments will be received. I said that I was looking forward to discussion of the outreach plan in the Executive Session, as it will be important to get input from a wide range of stakeholders, including practitioners and others who might not be accustomed to responding to IAASB exposure drafts. (The CAG Chair said that the Board had landed in a good spot and reiterated the CAG's interest in having an ED issued.)

Agenda Item 3. FRAUD

Objective and Status: The objective of the Fraud project is to enhance and clarify the role and responsibilities of the auditor in relation to fraud in an audit of financial statements, through the enhancement of ISA 240 and conforming amendments to other ISAs. The IAASB approved the project proposal in December 2021 and discussed proposed changes to ISA 240 at previous meetings, most recently in December 2022. At this meeting, the TF presented a revised draft of ISA 240 and conforming amendments for discussion. Based on this input, the TF will present an updated draft of ISA 240 in September 2023, with the aim of having the Board approve an ED in December 2023. The TF will also continue to collaborate with the IESBA and other TFs and will develop an outreach plan.

IAASB Key Discussion Points: The Board's discussion raised several issues with potential public interest implications, including:

- The need to be clear regarding the differences between fraud, suspected fraud, and alleged fraud and to use these terms in a consistent manner.

- There are numerous cross references to other ISAs, which are useful. However, the incremental requirements related to fraud should be clear.
- Some Board members were concerned that long lists of fraud risk factors in the Application Material (AM) might be counterproductive if they are interpreted as required checklists, leading to unnecessary work in situations where risks are low.
- An active Board discussion highlighted the need for clarity on the requirements and guidance for dealing with fraud or suspected fraud, and the respective roles of the auditor and management in this process.
- The approach of reporting on fraud within the Key Audit Matters including Fraud (KAMs) continues to be supported by the Board, since some matters relate to both fraud and other issues. The Chair suggested that a question could be included in the EM, once an ED is approved, to seek stakeholder feedback on this approach.

PIOB Observer's Comments: I commended the Board on having a good discussion, which focused on strengthening and clarifying the requirements, with no pushback that would weaken the requirements.

I noted that reporting will be important and supported the Chair's suggestion that when an ED is issued there should be a specific question to ascertain whether the KAM approach will meet stakeholders' needs.

(The CAG Chair said that this work seems responsive to the CAG's desire for change.)

Agenda Item 4. ISA FOR LCEs

Objective and Status: The IAASB is developing a stand-alone ISA for audits of financial statements of less complex entities (LCEs). The IAASB had previously discussed the IAASB had previously discussed revisions to specific parts of the ISA for LCEs in light of feedback on the ED. In addition, the ED for Part 10 (Group Audits) was approved in December 2022 and the comment period for it closed in May 2023. At this meeting, the TF will propose revisions to most parts of the standard, except for Part 10, which will be discussed during the mid-quarter call in July. The IAASB aims to approve the final ISA for LCEs in September 2023 (advanced from December 2023).

IAASB Key Discussion Points: The Board's discussion raised several issues with potential public interest implications, including:

- A statement in the draft Preface provoked an active discussion: “P.1B. When an audit engagement is undertaken using this standard, the International Standards on Auditing do not apply to the engagement. They may, however, provide additional guidance in relation to an audit performed in accordance with the ISA for LCE.” Many Board members were concerned that the second sentence would create an expectation that an auditor applying this standard should have knowledge of the ISAs and look there for guidance. The Board agreed that this sentence should be deleted. Also, the conforming amendments to the Preface of the ISAs will be revised to clarify that the ISA for LCE is separate from the ISAs.
- A Board member expressed concern about the statement that “the ISA for LCE does not include any requirements... addressing the auditor’s use of a report on the description, design, or operating effectiveness of controls at a service organization (i.e., a type 1 or type 2 report), as an auditor of a typical LCE would ordinarily not need to rely on such a report.” After discussion, the Board concluded that it would be appropriate to use such reports to help gain an understanding of controls, but this would not constitute reliance.
- The Board discussed the possible extension of this standard to enable its use for the auditing of summary financial statements. Doing so would require the reopening of ISA 810, which the Board was unwilling to do.
- The TF Chair reported that 60 comment letters had been received on Part 10 Group Audits but have not yet been discussed by the TF. Many of the comments appear to relate to the criteria used to determine whether this standard can be used for a group audit, rather than the requirements.

PIOB Observer’s Comments: I noted the good discussion of the need to clarify the standalone nature of the ISA for LCE in relation to the ISAs.

I also acknowledged the need to continue to “sell” this standard in light of the concerns of some stakeholders about its potential use. I suggested that an analysis of the standard in relation to the qualitative characteristics of the PIF should be prepared, the results of which could be useful in communication with stakeholders.

I also highlighted the importance of the Board’s upcoming discussion, planned for September, on how the ISA for LCE will be aligned with future changes in the ISAs – and vice versa.

The CAG Chair had no additional comments, noting that the CAG has not discussed this project recently.



Agenda Item 5. LISTED ENTITY AND PIE

Objective and Status: This narrow-scope project originated from the IESBA project to review the definitions of Listed Entity and Public Interest Entities (PIE) in the Code of Ethics, with a key objective to achieve convergence between concepts in the Code and ISAs. The IAASB approved a project proposal to address PIE matters in its March 2022 meeting, which is being developed in two phases or tracks. Track 1 (fast moving) will address transparency of independence requirements applicable to PIEs (with an effective date aligned with the IESBA's PIE pronouncement of December 15, 2024). Track 2 will address convergence of concepts between the Code and ISAs and other matters, to be finalized by September 2024 (with a later effective date). The IAASB approved an ED for Track 1 in June 2022 and will discuss revisions made since the last discussion in March 2023, with a view to approve the final pronouncement at this meeting. Track 2 was not discussed at this meeting.

IAASB Key Discussion Points: During a brief session on Wednesday, the TF Chair described key changes made to since the March meeting. No substantive issues were raised during this session. Board members had the opportunity to meet informally with TF members during an extended lunch period on Thursday.

On Friday, the TF Chair explained changes made to the draft. She highlighted the discussions held with MG members regarding the rationale for the approach that was being taken, which will also be explained in the Basis for Conclusions. She also noted that an assessment against the PII characteristics most relevant to the project was included in the issues paper.

No Board members commented on the latest draft, so staff confirmed that due process had been followed on this project and the Chair called for a vote to approve the changes. All but one Board member voted to approve the changes. The dissenting member expressed concern about whether the additional disclosure provides useful information to users, noting that the title of the report is already "report of the independent auditor", so the additional complexity detracts from the report. The member suggested that an alternative basis for additional disclosure, such as a transparency report, would provide more information to users. The member also expressed concern that this would continue a trend of adding more and more complexity to audit reports, and believes the extant requirements are better.

The Board unanimously agreed that re-exposure of these changes was unnecessary. The effective date of the changes will align with that of the related changes to the IESBA Code.



The revised text will be posted next week, while the final amendments will be issued after PIOB certification.

PIOB Observer's Comments: Before the Board voted on the changes, I commended the Board on its coordination with the IESBA and its outreach to MG members to explain the approach. I said that it was good to see Track 1 coming to completion and I was looking forward to Track 2.

Closing Comments

PIOB Observer's Comments (on the Meeting Overall):

I commended the Board on a productive meeting, with good progress on a variety of projects and active participation by Board members. I endorsed the flexibility that was exercised in adjusting the agenda to make efficient use of time.

A videoconference meeting is scheduled for July 26, to discuss the ISA for LCE project. The September meeting will be four days duration, from Monday to Thursday, September 18-21.