

## Observation Memo: IAASB CAG

September 12-13, 2023

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*Disclaimer: The observer applies her 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 Meeting:

The [IAASB CAG meeting](#) was held in a hybrid format, on September 12-13, 2023.

The meeting was chaired by the IAASB CAG Chair, Jim Dalkin.

The [two-day meeting agenda](#) was published on the IAASB website in advance of the meeting. This memo's organization follows the ordering of the topics for discussion on the agenda.

The meeting ran smoothly – with approximately half of the participants participating virtually and the other half in person – and allowed for the active participation of all attendees.

### Discussion of Meeting Agenda Topics:

#### *Agenda Item (A) – Previous Minutes Approval*

Minutes were approved without change.

#### *Agenda Item (B) – Sustainability Reporting Assurance Standard (ISSA 5000)*

##### Key discussion points:

In June the IAASB CAG had a separate, short on-line meeting on ISSA 5000, prior to the release of the exposure draft. See June CAG observation meeting memo.

At this CAG meeting, the time allotted for ISSA 5000 was a mini-roundtable where four questions were posed to CAG members for discussion. The questions and key points raised are noted below.

##### *Question #1: Is Standard an Appropriate Global Baseline?*

- Many stakeholders are just beginning their consideration of the standard, so thinking on this global baseline is still in process.

- It was noted by a member that group audits are not covered by ISSA 5000 and may be an issue given this (group accounts of large companies) are a starting point for the adoption of ESRs in Europe.
- It was noted that limited assurance in ISSA 5000 may be too close to the standard for financial reporting. (i.e., It was not clear why this was considered a negative).
- There was a comment made about greenwashing. It was challenging to understand given the standard doesn't mention greenwashing.

*Question #2: Importance of Fundamental Premises on Ethics and Quality*

- The discussion centered around the underlying system of quality management – specifically, ISQM 1 versus another quality management standard.
- It was noted that the governmental auditing standards do not have a separate ISQM standard, but language regarding quality management is similar and this may be a possibility for ISSA 5000.
  - It was noted that enforceability will be a challenge in the sustainability space – given different providers – and that there may be a need to have disclosures in the report on differences that may be/are in quality management standards.
- There was a comment by investor/corporate governance participant regarding the fact that this may encourage competition.
- It was noted there will be outreach in the roundtables to non-professional accountant assurance providers.
- It was noted that ISAE 3000 is currently being used on existing reports which are done mostly by non-professional accountants.

*Question #3: Appropriate Consideration of Materiality Assessment, Including Double Materiality?*

- There was a good deal of discussion regarding financial versus double materiality. (i.e., An important public interest issue.)
- It was stated that assurance providers have a materiality that is different from management materiality. (i.e., This was not explained in detail given the financial reporting materiality would presume an investor perspective would be the basis for management and assurance provider's assessment of materiality.)
- I posed the question regarding whether or how users/investors/the public would know the materiality being applied – especially if they are different.
- There was a discussion of an FAQ being provided on the materiality assessment process as part of the standard.

*Question #4: Does Standard Result in Sufficiency of Transparency in the Assurance Reports?*

- There was a discussion of KAMs. Many stated they can't imagine starting with KAMs. It was noted that KAMs aren't required in limited assurance.
- Someone noted that the second batch of companies required to adopt the ESRs in Europe may struggle to get completed. This may result in the need for qualified or disclaimer of opinions. There is a lot which may occur here... scope limitations, modifications, etc. It was noted that regulators may need to give some flexibility.

*Other*

There was a discussion regarding the use of experts.

PIOB observer’s comments:

As an observer to the meeting, I noted the significant pace and momentum of the IAASB’s work. Noting also that it appeared the right questions were being asked as well as the feedback coming from the questions. I observed that when doing the outreach and roundtables the IAASB may have to lay out some of the information in a form that it’s more accessible to non-professional accountants and users/investors. I observed that this is an evolution and journey that requires transparency for all stakeholders to understand what is going on.

Agenda Item (C) – Audits of Less Complex Entities

Key discussion points:

The presentation commenced with the IAASB staff reviewing the journey (i.e., history) of the project as well as the meetings held this year.

The IAASB staff presented a summary of the types of comment letters received from the group audits exposure draft – the number and type of the letter received. Not a lot of discussion about it more broadly just that there would be “proportionate” revisions.

There was slide (see clip to right) regarding the continued prohibition on the use of the component auditors which noted at the bottom that that the proposed way forward was: *Not to change the prohibition and provide additional guidance in the proposed standard and supplemental guidance.*

The IAASB staff then discussed the minor revisions made to the preface and authority, Parts 1-6, and Parts 7-10. There was only minimal discussion and input on the revisions.

The slide, titled "Prohibition related to the use of component auditors", summarizes feedback on ED-Part 10. It is divided into three main sections: "Supporting the proposed prohibition" (green), "Disagree with the proposed prohibition" (red), and "Requests for Clarifications or Guidance" (blue). Under "Supporting the proposed prohibition", there are three sub-sections: "As described in the ED" (bullet: Agreed that generally not typical for LCE - exemption is appropriate), "Expand exemption" (bullet: Provided other examples where component auditors are used in LCEs), and "Narrow exemption" (bullet: Exemption may be used too widely). Under "Disagree with the proposed prohibition", there are two sub-sections: "Not a proxy for complexity" (bullets: Not focused on complexity of the entity, Limit adoption, Adds complexity to decision-making) and "Define component auditors" (bullet: Examples or guidance on what situations). A final orange box at the bottom states: "Proposed way forward: Not to change the prohibition and provide additional guidance in the proposed standard and supplemental guidance".

PIOB observer’s comments:

Followed up on the July PIOB observer comment regarding ... *“providing clarifications and guidance within the standard where appropriate regard component auditor, rather than in the Authority Supplemental Guide, to increase their visibility”* ... PIOB staff noted they believed the discussion was considered in the July draft.

Agenda Item (D) – Going Concern & Listed Entity and Public Interest Entity

Key discussion points:

The meeting included a quick report back on both the Going Concern & Listed Entity and Public Interest Entity projects from the March meeting. Key points were as follows:

- The Going Concern project ED comment period has just closed and there will be a summary and discussion with the IAASB in July 2024.
- The Listed Entity and Public Interest Entity way forward was noted as being dependent on the PIOB approval in early October.

**PIOB observer’s comments:**

No public interest issues were raised or noted.

*Agenda Item (E) & (F) – Private Session & Closed*

In both the private and closed session there was discussion regarding the SAC (CAG replacement process).

The process and timelines were reiterated and discussed.

*Agenda Item (G) – Audit Evidence*

**Key discussion points:**

The task force (TF) member went through the slide presentation in the pre-read materials (G.1) addressing key comments received from respondents to the exposure draft (ED) and TF’s proposed recommendations to address them. The picture below highlights (by heat map color) the major themes, and their importance, of the comment letter responses.

Number of comments were made by CAG participants regarding those major themes including the following:

- There may be more detail needed around the principles.
- Believe that technology may not have been sufficiently addressed in the ED but recognizing that inclusion of case studies/examples may become obsolete quickly.
- There was a discussion of relevance vs. reliability.
- There was a discussion of whether and what the stand-back requirement means here and the number of times it is mentioned throughout the standards.



There was a discussion regarding the recommendation on the Conditional Requirement for Accuracy and Completeness and whether Option 1 or Option 2 should be selected (i.e., see page 10 of G.1)

- *Option 1* – Remove paragraph 10 and add essential material to the requirement in paragraph 9 to explain that accuracy and completeness are ordinarily significant attributes for information from sources internal to the entity.
- *Option 2* – Replace paragraph 10 with a new requirement to obtain audit evidence about accuracy and completeness for information from sources internal to the entity, supported by essential material.

Most participants, other than professional accountants, preferred Option 2.

PIOB observer's comments:

From a PIOB observer perspective, I noted we believe the areas proposed by the TF for the discussion with CAG representatives were aligned with the most relevant and frequent concerns raised by all categories of stakeholders. Noted that the specific recommendations will need to be developed in more detail and deliberated by the IAASB, but they seem to be going in the right direction to address some of the challenges raised in the consultation.

I also noted that it would be helpful if the auditing profession would better explain the technologies being used and their application as investors, users are not currently able to reconcile auditors stating their ability to use Generative AI and new technologies on client data, but when it comes to financial reporting standard setting we are hearing the technology doesn't exist to improve reporting. There is an inability to reconcile the information.

I also noted that investors have a bit of a different view regarding the trade-off of relevance versus reliability. Investors want more focus on relevance versus reliability and that is something that auditors are generally surprised by. Noting for example, that reliability doesn't matter if the information is not relevant, so investors place primacy on relevance.

*Agenda Item (H) – Fraud*

Key discussion points:

The task force (TF) member went through the slide presentation in the pre-read materials (H.1) addressing the modifications/enhancement related to auditors' responsibilities related to identification, communication, and documentation of fraud as well as the work effort required of auditors if fraud or suspected fraud is identified as well as to the transparency/reporting of fraud via KAMs.

Number of comments were made by CAG participants regarding:

- Ensuring that communication by auditors is done to those charged with corporate governance not with, or just to, management as they may be involved in the fraud (i.e., investor comment).
- The communication may be very different depending on the size of the organization (i.e., preparer comment)
- That there are qualitative not simply quantitative factors to consider in evaluating materiality of fraud (i.e., investor comment).

The task force member responded to the comments. There were no comments that would alter the state of the project at this stage.

PIOB observer's comments:

I observed that we support the IAASB in strengthening the standard, with a view to approving the ED at the December 2023 meeting. I also noted that we look forward to the upcoming consultation, which will provide feedback on the transparency point (fraud under KAM vs. fraud as a separate heading in the auditor's report).

## *Agenda Item (I) – IAASB Strategy & Workplan*

### Key discussion points:

#### *Strategic Themes and Drivers*

There was a discussion of the strategic themes and drivers. Key points raised by CAG members and discussed included:

- A query to IAASB regarding how the Board scans the landscape for key strategic themes or drivers. Is it passive or active in searching for issues?
- It was also noted that there generally is a bias as to who responds to these consultations.
- It was then queried as to whether the IAASB seeks input from those who are impacted but do not necessarily respond.
- It was noted that an even greater emphasis on technology may be needed. Not just tools being used for existing audit procedures, but new audit work (i.e., auditing generative AI).

#### *Work Plan*

The workplan (Sustainability, Projects Already Underway, and Possible New Projects) were discussed in the context of both engagements related to audits and reviews and sustainability and other assurance engagements.

CAG members made observations around the following topics:

- Materiality – Materiality guidance was noted as possible project.
- Sustainability – The need for a series of standards around ISSA 5000 were noted as possibly important.
- XBRL Digitization – There was a discussion regarding assurance over sustainability.
- Internal Controls Over Financial Reporting (ICFR) – It was queried whether there was a desire for a standard on assurance over ICFR. Some noted this was covered by ISAE 3000 (i.e., but that's not really the level of assurance needed by investors, for example).
- ISA 540 – One participant noted the need for ISA 540 post implementation review.
- Integrated vs. Linear Approach to Standard Setting – There was discussion of the need for an integrated as compared to linear approach to standard setting.
- Investor Transparency & Engagement – Investor representative spoke on transparency on the audit and engagement with auditors.

## *Overall Comments*

### PIOB observer's comments:

Asked about my comments regarding the meeting overall and this week of meetings collectively (including IESBA), I made a couple of overarching comments:

- *A Great Deal of Work & Progress* – Noted a significant amount of work and progress has been made and that the sustainability is a bit of constrained optimization, as Tom likes to refer to it, considering the evolving nature of the sustainability reporting standards, the need for assurance over such sustainability information and the differences in professionals providing the assurance over sustainability information.
- *Implementation Issues Will Arise & Need Contemporaneous Consideration* – Observed that there may be a need for a monitoring of implementation issues/questions as the ethics and

assurance standards are first used – rather than waiting for a post implementation review – to address or raise issues in the marketplace.

- *2025 Will Be Our First Look, Which Will Bring Questions* – I observed that 2025 – which is within the workplan period – will be the period where users/investors/stakeholders begin to see outputs of the sustainability reporting and assurance standards and that there are likely to be many questions from users/investors/stakeholders and some measure of satisfaction/dissatisfaction articulated. There will likely be follow-on work to address those issues.
- *Sustainability Assurance Standards Are Meant to Be Framework Agnostic: The Users (Public Interest) Associated with Each is Not Framework Agnostic* – I observed that though the sustainability assurance standards are meant to be disclosure framework agnostic, the frameworks are not consistent or agnostic as to who the users of the information and who the “public” represents in the context of their respective uses of the information. The PIOB PIF focuses on capital market participants versus all stakeholders, and we may need to consider more closely whether “public interest” is framework agnostic.
- *Noted the Desire for Level Playing Field* – I noted that there is a desire for there to be a level playing field amongst assurance providers – for professional accountants and non-PAs – by the professional accountants (so that they can compete in the marketplace) but also by investors/users/stakeholders in that they don’t want an ecosystem with different levels of assurance, which they cannot discern from the reporting by assurance providers.
- *Noted the Regulators Have a Role in Leveling the Playing Field* – I noted that regulators likely have a role to play in leveling that playing field via their requirements and that this is not something the IAASB can resolve itself through the standards.
- *Creation of Sustainability Reporting Standards Will Bring Fresh Look to Financial Reporting Standards* – I noted the discussion of sustainability ethics and assurance will in their creation and contrast – and use by non-professional accountants – raise awareness to matters within financial reporting ethics and assurance standards that users/investors/stakeholders may not have previously focused on.