

OBSERVATION MEMO IAASB
December 11-14 2023, New-York
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Disclaimer: The observer applies his/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 the meeting:

1) Objectives and achievement:

- The main objective of the IAASB in-person meeting held in New York from December 11 to 14, 2023 was to approve three projects:
 - the Strategy and Work Plan 2024-2027 in its final version for submission to the PIOB for its conclusions in April 2024,
 - ISA 240 Fraud for publication as an exposure draft in early February 2024,
 - Listed Entities & PIE Track 2 project for publication as an exposure draft in early January 2024.

The three projects were unanimously approved by the Board, with the exception of the Fraud project, for which one Board member abstained. (see Agenda item 2 below)

- In addition, a status report on Audit Evidence (ED-500) was presented by the task force in charge; this project has been resized to take into account the impact of technology and the links with risk responses (ISA 330). (see Agenda item 8 below)
- The Chair presented feedback from the outreach program on sustainability (ISSA 5000 ED), which highlighted the expectations of the profession and stakeholders, notably in terms of clarifying the different levels of assurance provided, materiality and a strong interest in a quick-start guide. (see Agenda item 6 below)

- Lastly, three international reporting standard setters – the IASB, ISSB and GRI – were invited to present updates on their standard setting activities and work programs.

2) Conduct of the meeting:

- All Board members were present and had prepared to take part in the meeting. With a positive attitude and an appropriate tone, the Chair ensured that any member who wished to do so was able to express his or her views on the various subjects; members’ attention was sustained throughout the meeting.
- The meeting was run efficiently and flexibly to meet the objectives set, and the timetable was respected.
- It should be noted that five board members whose terms were due to expire were attending their last meeting.

3) Consideration of Public Interest:

The presentations and discussions during the meeting did not reveal any neglect of the public interest. Overall, meeting participants showed appropriate attention to public interest considerations.

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Link to the last Public Interest Issues published: [PIOB’s PI Issues on IAASB projects 7 Nov 2023](#)

Agenda Item 2: Fraud

Objective and status of agenda Item:

The objective of the Fraud project is to clarify and emphasize 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 September 2023. At this meeting, the Task Force presented a revised draft of ISA 240 and conforming amendments for discussion. Based on the input received, the Task Force presented an updated draft of ISA 240 which was put to the Board vote and approved. The exposure draft should be published early February 2024, the comment period closing in June 2024 and a final approval foreseen in May 2025. The Task Force has continued to collaborate with the IESBA and other TFs (notably ongoing concern) and has conducted outreach actions.

SSB key discussion points:

The project presented to the Board in September 2023 has evolved in two main areas:

- Professional skepticism: authenticity of records and documents:
Deletion of the paragraph 20 lead-in sentence "*Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine*"
- Fraud or suspected fraud:
Re-ordering for a better flow of the requirements and application material dealing with fraud or suspected frauds (paragraphs 54-58 and A144-A157).

The Board exchanged general considerations on the role of the auditor with regard to fraud (permanent vigilance in the context of his mission and not a specific mission of fraud detection). Paragraphs 19 to 21 (Professional skepticism) were considered appropriate to reiterate this requirement.

Discussions focused on the suitability of ED-240 for the fraud risks associated with management estimates, and its compatibility with the problems associated with new technologies. Finally, an exchange took place on the impact of communicating fraud risks to the public, and the need to communicate with discernment so as not to draw attention to elements that would not be significant in terms of financial impact or control weaknesses.

The final point of discussion concerned the need to explicitly mention a "stand back requirement" in ED-240 once fraud warning signals had been noted and a risk assessment carried out. As this requirement is explicit in ISA 315, one Board

member was keen to see it reiterated in ED-240, and therefore abstained from the vote to approve the draft.

With the exception of the abstention explained above, the project was passed unanimously by the Board.

Observer comments:

Discussions were conducted with a high level of involvement from board members, and a spirit of listening and openness, particularly from task force members. Public interest considerations, such as professional skepticism, additional work to be carried out in the event of signs of fraud, and communication to governance bodies and the public in the final report, seem to me to have been taken into account, subject to the observation below.

The PIOB had, however, taken a note of the Task Force's proposal to delete the following sentence in ISA 240 but maintain it in ISA 200 ("*Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*"), paragraph A24: "The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary". This wording, contested and deleted in ED-240, if retained in ISA 200, would raise concerns about the degree of professional skepticism in the implementation of all ISAs.

Accordingly, the PIOB will pay particular attention to the results of the consultation, especially regarding the requirements for professional skepticism about the authenticity of audited documents, and the public's expectations in terms of fraud and fraud risk communication in the auditor's report.

Agenda Item 3: Listed entity – PIE – Track 2

Objective of Agenda Item:

Amendments to certain international standards (ISQMs, ISAs and ISRE 2400) as a result of the revisions to the definitions of listed entities and PIE approved in the IESBA Code in December 2021 (certified by the PIOB in April 2022). The PIE-Track 2 project complements Track 1 (fast moving narrow scope amendments to ISA 260 and ISA 700 certified by the PIOB in October 2023), which addressed transparency of independence requirements applicable to PIEs.

SSB key discussion points:

The project Task Force stressed the importance of coordinating work with the IESBA, with the aim of meeting the highest expectations of the stakeholders. The public interest issue at stake is the differential requirements for PIEs, particularly for ISAs relating to fraud and going concern, for which particular attention will be paid to comments during the exposure draft period.

The Board discussions also highlighted the importance of having a clear PIE definition, and a clear example encapsulated in the definition, which would facilitate the qualification as a PIE and avoid discussions in certain jurisdictions. With this in mind, one board member suggested that PIE's qualification should be validated by the auditing firm and not by a single partner.

It was discussed whether the standard would be weakened by the removal of the requirement to communicate fee-related matters with TCWG; it has been noted that the IESBA Code includes this requirement and that paragraph 14 (supplemented by A-19) of the ISA 200 standard imposes ethical requirements at the level of those in the IESBA Code for the practice of auditing in countries that have not formally adopted the IESBA Code.

The early adoption (90 days) of the PIE track-2 provisions was encouraged by the Task Force; one board member nevertheless asked for a 120-day deadline due to translation constraints.

One board member commented on the relevance of the definition in the context of non-financial communication issues. He pointed out that the current definition was very financially oriented and stressed the importance of taking public interest issues into account from a sustainability perspective.

The changes proposed by the PIE - Track 2 project were unanimously approved by the Board.

Observer comments:

It should be noted that the PIE - track 2 project has been accelerated, as it had previously been scheduled for completion in September 2024, with a later effective date of application.

The PIOB will subsequently assess the merits of reviewing the definition of a PIE in light of the new challenges of non-financial communication and the application of ISSA 5000.

Agenda Item 4: Strategy and Work Plan 2024-2027

Objective of Agenda Item:

Vote on IAASB's Strategy and Work Plan (SWP) final version for the period 2024-2027. Since the board's review of the draft SWP at its September 2023 meeting, which analyzed comments from the exposure draft period ending in April 2023, the IAASB has gathered inputs from PIOB, Monitoring Group members, audit regulators and IAASB CAG. An updated version of these comments was presented to the Board for approval.

SSB key discussion points:

A general remark was made in the introduction to the discussions, concerning the tone of the SWP - to be positive in presentation and not just defensive - and the need for clarity on the subject of the impact of technological developments on professional standards.

The planning committee outlined the changes made to the SWP since the September 2023 presentation, which concern the workplan section more than the strategy section, which undergoes little change.

The Technical Director emphasized that the demands expressed by the oversight bodies on internal controls would be taken into account in the planned work on ISA 500 (Audit evidence) and ISA 330 (The auditor's procedures in response to addressed risks). The work is scheduled to start in the first half of 2024.

A discussion took place among the Board members on the importance of technological developments in auditing practice, a topic which had been extensively discussed by the Board in September 2023. A consensus was reached on the need for the ISA 500 review to include a focus on the impact of technological developments.

In addition to discussions focusing mainly on the impact of technology and the interest of an overarching project on internal controls, two Board members expressed concern about the issue of materiality in ISSA 5000; it was indicated that non-authoritative guidance should be made available at the same time as the standard.

Some projects are postponed for reasons of resource availability: ISA 620 - Using the work of an auditor's expert, ISA 720 (Revised) – The auditor's responsibilities relating to other information - and Assurance engagements on digital reporting tagging.

The SWP for 2024-2027 was approved unanimously by the Board; it will be submitted to PIOB for its conclusions in April 2024

Observer comments:

The expectations expressed by the PIOB, particularly with regard to internal controls, have been taken into account in the SWP. Insofar as the IAASB is responding to this request in the context of a progressive revision of existing standards, and not through an overarching project, it will be necessary to monitor the level of changes proposed in the standards concerned.

Agenda Item 6: Sustainability

Objective of Agenda Item:

- Update on the global outreach conducted to gather feedback on the exposure draft of proposed ISSA 5000,

- Receive an update on the IESBA Sustainability project and the parallel project addressing the Use of Experts.

SSB key discussion points:

The IAASB Chair highlighted stakeholders' and professionals' expectations for a clear and comprehensible distinction between limited and reasonable assurance within the scope of ISSA 5000.

The need was also expressed for a quick-start guide to facilitate the launch of engagements to be carried out under ISSA 5000.

Interest was also expressed in avoiding the use of terms and expressions specific to the accounting profession and using language with terms from other professions.

With regard to the IESBA's Sustainability projects, it was pointed out that the project on the Use of Experts is now limited to experts external to the audited company, internal experts being assimilated to internal data providers.

Observer comments:

The IAASB has started to take note of the comment letters on the exposure draft, whose closing period was December 1, 2023. The Board meeting in April 2024 will be decisive in assessing the overall level of stakeholder support for this standard, and the points on which adjustments are considered necessary from a public interest perspective.

Agenda Item 8: Audit evidence

Objective of Agenda Item:

The objective of the project is to clarify auditor's responsibility regarding information used as audit evidence (AE). The project aims to adapt and modernize ISA 500 (as a consequence of changes to information used by auditors), clarifying its relationship with other standards, as well as the concept of sufficient appropriate audit evidence and fostering professional skepticism. The IAASB approved the project proposal in December 2020 and the ED of ISA 500 (Revised) in September 2022. The comment period was open until April 2023. The final standard was targeted for approval in June 2024.

The Task Force in charge of the project presented respondents' comments to ED-500 and initial orientations to the Board in September 2023.

SSB key discussion points:

The Board confirmed the value of an integrated approach between audit evidence and risk response. It was emphasized that Technology has now taken on the importance of the subject of audit evidence, and that stakeholders would not understand if technology was approached at its level of development in the 1950s.

The section on Automated Tools and Techniques should therefore be updated and expanded to reflect the presence of new information technologies such as algorithms and artificial intelligence, and their impact on the assessment of audit evidence.

Discussions took place between Board members on the notion of significance in terms of the relevance and reliability of information. Some Board members contested the reference to significance, believing that it lowered the level of requirements and therefore posed a risk to audit quality.

Observer comments:

The IAASB Board seems well aware of the importance of this project, which is receiving a great deal of attention. The risk of a new expectation gap has been raised on technology, which is a sign of the attention that the Task Force and the Board are paying to the public interest in this project.

The IAASB will consider additional drafting revisions to the standard at its March 2024 Board meeting; however, the original target of having a completed standard in April 2024 has been corrected in the SWP due to the broader scope of the project and the integrated approach. Work on ISA 500 (revised) will be put on hold while work progresses on risk response and technology.

Agenda Items 5, 7, 9: IASB, ISSB and GRI updates

Objective of Agenda Item:

To receive an update from the International Accounting Standards Board (IASB) and International Sustainability Standards Board (ISSB) from the IFRS Foundation and from the Global Reporting Initiative (GRI) on their standard settings activities and future plans.

SSB key discussion points:

These sessions were purely informative and did not give rise to any Board discussions.

Observer comments:

None

Agenda Item J: IAASB – IESBA joint session minutes

Objective of Agenda Item:

Communication to Board members of the minutes of the joint IAASB and IESBA meeting held on 21 September 2023 in New-York.

SSB key discussion points:

The minutes report on the exchanges between IAASB and IESBA on their Strategy and Work Plans 2024-2027.

They also indicate the communications made between the Boards on sustainability projects and the coordination efforts that are envisaged.

Observer comments:

The joint meeting was attended by two PIOB representatives.