European Audit Committee Leadership Network

tapestry NETWORKS

EACLN SUMMARY OF THEMES

Artificial intelligence, courage on the board, climate and nature related reporting, Israel-Gaza, and the audit of fraud

May 2024

On April 10–11, 2024, members of the European Audit Committee Leadership Network (EACLN) met in Madrid for the following discussions:

- **Artificial Intelligence (AI) and audit innovation** with Richard Jackson, global assurance AI leader, EY and Paul Goodhew, global assurance innovation & emerging technology leader, EY
- **Courage when the stakes are high (*The Testing Point* movie)** with Michael Herlihy, co-writer of the film, and former independent director, John Lewis Partnership
- **Climate disclosures—dialogue with ISSB** with Sue Lloyd, vice chair, International Sustainability Standards Board (ISSB)
- **Sustainability: TNFD framework and nature-related financial disclosures** with Tony Goldner, executive director, Taskforce on Nature-related Financial Disclosures (TNFD) and Amparo Moraleda, Environment Social and Governance (ESG) committee chair, Maersk

EACLN members joined the European Growth Audit Network (EGAN) for a series of optional further discussions:[1]

- **Israel, Gaza, and the outlook for business** with Ronen Koehler, former IDF submarine captain, currently advisor to CEOs of Israeli technology companies
- **Discussion on proposals to enhance auditor procedures on fraud** with Jasper van den Hout, director, International Auditing and Assurance Standards Board (IAASB)

For a list of meeting participants, see Appendix 1 (pages 14-15).

This *Summary of Themes*[2] provides an overview of the following discussions:

EY Building a better working world

EACLN Meeting:

Artificial intelligence and audit innovation

AI is changing the way we live and work, and its adoption across companies is accelerating. *"AI is impressive and advanced, and innovation is coming not every month but every week,"* said Beatriz Sanz Sáiz, global consulting data and AI leader, EY. Because AI tools are widely available, many employees are using them without prior authorization, presenting boards with a new range of risks. Audit committees, tasked with overseeing risk in general and the integrity of financial data, must understand how the use of AI impacts their governance responsibilities. But AI also holds the potential to transform a company's processes and outputs, and members were eager to hear about these possibilities.

Mr. Jackson and Mr. Goodhew explained recent developments in AI and described steps for strong governance.

- **Clarity around what AI is and what it isn't**. Members questioned what the difference is between data analytics and AI, "*How do you distinguish between the capabilities*?" Mr. Jackson answered that *"There is no single definition of AI."* But, he added, *"When thinking about it using a simple lens, AI creates and recreates human behavior. This adds context to why there are risks using it—because risks exist in humans."* Mr. Jackson and Mr. Goodhew described common uses of AI and examples of the technology in use—for example, Netflix's 'hyper personalization'.
- **AI tries to replicate human behavior—but cannot yet do everything.** On the role of technology in the workplace, Mr. Goodhew said, *"It's not necessarily replacing what the human does but extending human capabilities."* Mr. Jackson agreed: *"It's not a sentient being but we talk about it almost like it's a person: "It hallucinates," but the software still has a map that sits behind what it's doing."* He added, *"But it can't do everything humans can do yet."*
- **Companies are deploying more AI and are eager to learn further ways to leverage it.** Members reported various ways their companies are integrating AI into business processes. Some use it to optimize planning and boost productivity, and some employ AI to relieve humans of tedious tasks, such as analyzing hours of recorded conversations in call centers. While uses of AI have been mostly in operational areas, Mr. Goodhew noted the increasing use of AI to produce analysis and data that may end up in the financial statements. Mr. Jackson added that AI technology can also provide a useful summation of a meeting, which may be helpful for minute taking. While some organizations have not yet deployed AI, all members wondered where it could be leveraged within their companies. One member described the current research on this in their company: *"The whole company is working on how to implement AI where it makes sense in our different businesses. There are a lot of people working on this. They're very excited about the potential use of these new tools."*
- **AI introduces new risks to the company and challenges for internal audit.** Members are cautious about using AI. They raised several concerns:

- **AI can amplify human biases.** *"Technology doesn't create bad behavior, humans do. Technology builds on bad behaviors and amplifies them,"* said Mr. Jackson. He added, *"The quality of outputs is based on the quality and hygiene of the data that goes in. For example, in the case of mortgage lenders, if credit has been granted to a population of over- or underserved communities, this bias in the data is trained into the AI. It's not the technology that introduces bias; it amplifies what is already there. The importance of trying to understand where there could be bias in the technology and how the quality of inputs can affect the financial information is paramount."* But correcting this behavior can also be difficult. Mr. Goodhew explained: *"There can be bias in the program where the programmers have tried to correct it but over-corrected. It's important to look at how the technology was developed and understand the validity of the inputs and outputs. You can modify the algorithm to put emphasis on certain answers to correct bias, but this can lead to overadjustment."*
- **AI can make internal fraud harder to detect and more costly to combat**. AI makes coding achievable for non-coders. Mr. Jackson explained, *"A lot of code is very specific. It requires the exact syntax and it's highly repetitive. AI is able to take directions as simple as "I want the right code that will do X." You say it in plain English, and it'll translate it to the nuances and the syntax of what the code is required to do. And it can replicate it at speed."* Members discussed how this can increase the risk of fraud and make it difficult to catch. As one put it, *"You can see the scope for rogue coding and things going wrong."* Another said, *"The problem is when someone really wants to commit fraud, it's not easy to identify. If they're clever and know what they want to do and are determined, they can use all the control measures against us. The more automated the control measures are, and the more tools are based on AI, the easier it is. When you know the mechanism, you can bypass the controls."*

  Ms. Sanz Sáiz described how coding can be used to input fake data such as bogus transactions. *"Synthetic data can be developed. It's a new risk. I consider it to be the number one auditing risk in the new AI era."* One member asked, *"Data can be changed, the damage done, but there's no trace?"* Ms. Sanz Sáiz replied, *"It's impossible to distinguish."* But with the rapid advancement of technology this is expected to change in the near future.
- **Data privacy is becoming more demanding.** *"There's a new challenge: data privacy,"* said Ms. Sanz Sáiz, *"You can argue that a file or document has copyright protection, but policies that apply to knowledge are different to policies that apply to data. You can use generative AI to extract not the data but the knowledge from a document and use synthetic data to translate that knowledge into 'real' data and then move from there. Governance needs to adapt. We need to think about adopting new principles starting with privacy."*

  One member noted how the implementation of AI could increase the risk that employees gain access to confidential data in the company's file hosting system. She said, *"Before, if the company didn't have perfect technology governance to protect its internal files, it didn't matter because nobody was going to the OneDrive of the CEO to find documents. Now, because of AI, if the CEO* *makes a mistake like saving a document in the wrong place or without the right protections, everyone in the company could find and access the data."*

- **Strong technology governance is key to balancing innovation and mitigating risks.** Members agreed that safe AI use across the company relies on strong AI governance. Understanding risk tolerance and establishing safeguards is a good start. One said, *"It's about working out where your limits are, and creating governance around these limits."*

  Members agreed that understanding where AI is being used is critical. Another noted this is particularly important to comply with forthcoming regulation, *"There are new rules coming on disclosure. There are required disclosures, but you also need to explain how you came to each decision, so it's important to know when using generative AI where changes have been made by a self-learning tool because otherwise, we may get into deep trouble."* EY's Marie-Laure Delarue emphasized the importance of making sure to *"strike the right balance between the hype, press announcements, excitement around AI, and strong governance over AI. You must ask yourself, "Are we in control? Do we really know what the outcome is going to be?" There are risks of early adoption of technology. It looks great but it is in its infancy, and everyone is still learning."*

Key questions for audit committees

Mr. Jackson and Mr. Goodhew shared four questions that audit committees can ask to better understand critical aspects of their company's AI security.

Strategy	What is your organization's AI strategy?
Governance	Does your organization have a dedicated governance framework?
Visibility	Do you have visibility on how AI is being deployed across your organization?
Risk management	How is your organization identifying and addressing risks associated with the use of AI?

- **AI will significantly change the auditing and assurance landscape.** AI's capabilities are advancing at a remarkable rate and its applications are growing. Members saw two demonstrations of new AI tools that EY has developed or tested to assist with auditing and assurance. Many wondered how internal audit or audit committees might leverage AI in their company and discussed using AI to check the accuracy of financial statements, detect frauds, and identify anomalies.

A forthcoming ViewPoints will provide additional detail on the themes discussed during the session.

Courage when the stakes are high (*The Testing Point* movie)

Boards and individual board members are being more closely scrutinized for their actions. Making time to reflect and address shortcomings is essential. Members watched the movie *The Testing Point*[3],a drama in which a new non-executive director is appointed to the board of a UK firm and asked to investigate problems at a subsidiary. Her investigation uncovers issues including bullying, sexual harassment, questionable accounting practices, and environmental damage, but it also becomes apparent that the problems extend to the parent company and its leadership.

Members discussed the themes from the movie with Michael Herlihy, one of its executive producers and co-authors. He explained that many of the situations in the storyline were drawn from his personal experiences in the corporate world. He and co-author Nigel Paton wrote and produced *The Testing Point* to help business leaders reflect on why they can be reluctant to call out questionable behavior, even when it is obvious. Several key themes emerged:

- **Courage falls on a spectrum.** Mr. Herlihy pointed to a character in the movie who demonstrated cowardice when her boss pressures her to make questionable accounting decisions. When the same character later finds her courage and rushes to share consequential news, she shows fearlessness but also generates chaos. *"Fearless people can be brilliant, but also dangerous,"* he said, *"They charge into things and don't think about the consequences. Cowardice and courage are two ends of the spectrum, and the question is where to find the right point of balance."*
- **Integrity is imperative and multifaceted**. People of integrity understand their own weaknesses and ensure that they do not inhibit their ability to follow through. Recounting some of his personal experiences, Mr. Herlihy said, *"After almost every single problem came to light, we noticed there were people who knew what was going on and didn't say. The public relations department might say on behalf of the board, 'We at Global MegaCorp Inc. are profoundly shocked'—but it didn't come as a big shock to me. Consciously or not, I came to the conclusion that my interests were better served by keeping my head down than speaking out."*
  - **Speaking out is the duty of every board member, even in the face of significant personal cost.** A member recounted a situation where directors resigned or were removed for pushing back on major decisions, but then had to justify their actions to other companies where they have board seats. One member responded, *"They stood for their integrity. That's our role as a non-executive director. The decision to speak up reinforces our independence. If you don't speak up, you compromise. Speaking up does not constrain the role of an independent director, it defines it."*
  - **Speaking out may generate benefits.** After she voted no on a board resolution, a member said the decision *"got me on the right side of management, especially below the C-suite, who appreciated the fact that someone was speaking up."* Members emphasized that how you speak up is important. One said, *"You can earn respect by speaking up, but you have to do it right. It's a matter of style."* Another agreed: *"You don't want to be someone disagreeing all the time but if you can force issues to come back to the board once or twice, you can get to the right decision."* One member noted that taking time to build relationships with your colleagues can help from being the only one to say no*, "If you are the only one who speaks up, it doesn't work—you need to invest in your relationships beforehand."*
  - **Integrity requires dealing with and accepting all the facts**. In the movie, whistleblowing complaints are given short shrift, with the implication that senior management and the board just 'did not want to know.' Those complaints resurfaced when the other issues came to light, illustrating the importance of timely acceptance even of unpleasant news. Citing a scene in which the CEO asks the sales director if the company will make the yearend numbers, Mr. Herlihy said,

"When the sales director says, 'It's going to be tough, but…' the CEO needs to say 'Stop, you are telling me we are not going to make the numbers.' But the CEO instead listens with confirmation bias and hears that it will be tough, but we'll be okay."

- **Culture and tone are closely connected.** The movie portrays *"a hubristic board chairman and a CEO, both of whom vastly overestimate their own capabilities,"* said Mr. Herlihy. *"What resonated with me from a corporate governance perspective is the criticality of setting the right tone and creating a culture that allows people to speak up if they see something they don't feel comfortable with. It has to start at the top and be constantly reinforced throughout the organization,"* said a member. A comment about the connection between board culture and people dynamics around the board table led a member to observe that diversity in style is essential. Near the conclusion of the movie, the director who conducted the investigation points out that in many ways the head of the troubled division was just doing what he thought he had been hired to do. *"There was clearly groupthink in the chain of command, and nobody in the movie took a step back to ask what are the real issues, and how do we tackle them? That's the true role of the board—to step back, be skeptical, and understand the deeper issues,"* concluded the member.
- **Robust performance is not proof of strong culture.** When a company is delivering good financial results, its board may be tempted to assume that the culture is effective. But a member observed: *"When things are going well, the key question is not 'How much time to spend on monthly performance?' but 'How much time to spend on the scenarios where something could go wrong?'"*
- **A 'superstar' CEO can end up driving bad behavior.** *"Most of us may deal with a charismatic CEO at some point, usually brought in as a 'savior' with a turnaround plan,"* said a member. *"In such a situation, the board may give the charismatic leader more freedom and exert less control, for example, allowing them to select their own CFO. For me, this is an area of concern."* Members also noted that boards need to look beyond the technical and professional qualifications of potential executives, but also to their personal ability to lead with integrity.

Climate disclosures—dialogue with ISSB

Ms. Lloyd described the ISSB's new standards for sustainability-related disclosures IFRS-S1: General Requirements for Disclosure of Sustainability-related Financial Information and IFRS-S2: Climate-related Disclosures, and explained the Board's efforts toward supporting implementation of those standards. She noted that the standards became effective for annual reporting periods beginning January 1, 2024.

While the ISSB does not directly control reporting regulation or enforcement, the organization obtains input from regulators and investors to establish a global baseline for sustainability-related financial disclosures for capital markets, including climate-related disclosures. The goal is to improve comparability of information and interoperability with other sustainability-related standards. *"Our global baseline is really relevant for lots of different purposes. It builds efficiency in the reporting system,"* she noted.

Ms. Lloyd explained that the ISSB standards were developed to focus on the information needs of capital markets investors. She added, "*Information should be provided to the extent that it is reasonably expected to influence investment decisions*." She contrasted this with the European Sustainability Reporting Standards (ESRS) currently being implemented in Europe. *"The ESRS do not focus only on investor needs but takes into account broader stakeholders: trade unions, employees, as well as public policy objectives*," she explained, adding, *"The standards look different because the mindset is different. If you pick up the ISSB standards it clearly reads 'Tell us what investors really need to understand how something like climate affects your business, how you'll manage it, and how it affects future prospects.' If you pick up the ESRS climate requirements, the visible tone is 'Tell us what we need to know about what your company is doing to mitigate climate risk*.'" Ms. Delarue reinforced this: *"European reporting has a political agenda, a target in time, they want to use reporting as an element to get to where they want to land."*

EACLN members expressed support for the ISSB's efforts to help facilitate reporting under more than one set of standards. One member said, *"I'm struck once again by how thoughtful, pragmatic, and empathetic the standards and your approach are to encourage the right behaviors. I applaud you."* Members highlighted broader concerns around sustainability reporting:

- **Interoperability of different sustainability-related standards**. As audit chairs of companies operating globally, EACLN members worry about standards with different requirements.
    - **Differences with ESRS.** Ms. Lloyd described the efforts to align on requirements for climate-related disclosures. *"If you use ISSB standards and the climate-related disclosure requirements of ESRS you can essentially align the disclosures to meet both the European Union's and ours in an efficient way so not to duplicate the reporting,"* she said. She explained that much time was spent on aligning definitions where practicable. Alignment of the definition of materiality was a major achievement. *"For ESRS you need to think both financial materiality and impact materiality; you can use the same test when you think financial materiality to satisfy ESRS and ISSB standards,"* she said. However, she noted that there are still some significant differences, such as the reporting of carbon credits. The European Union's view is to not recognize these as they have the objective of reducing carbon emissions and offsetting credits may therefore conceal the true situation. She added that the ISSB will continue to consider how they can be disclosed so as to meet both sets of reporting requirements.

      Ms. Lloyd noted that there are situations where the standards don't automatically align because of specific reporting choices that companies can make. She added that the ISSB is working with EFRAG to describe the areas of commonality, as well as those areas where incremental disclosures will be required because the ESRS require more granularity.
    - **Differences with the US Securities Exchange Commission's (SEC) climate-related disclosure requirements**. Ms. Lloyd noted good commonality between the required climate-related disclosures of the SEC and the ISSB standards, adding that it is possible to apply the ISSB standards in a way that would at least partially meet the SEC's requirements. She

expressed optimism there will be further alignment in the future. She also highlighted that some US companies would still use ISSB standards because some of the information provided may better satisfy those making investment decisions.

- **Comparability of the information being disclosed**. Ms. Lloyd acknowledged that when sustainability-related information is first reported comparability may be an issue. But, with time, she expects there to be rapid change and increasing alignment for companies with similar profiles. She explained that the standards are designed to narrow choices and therefore improve comparability, such as using greenhouse gas (GHG) protocols and requiring disclosure of choices and assumptions to users.
- **Investor needs for climate information reported.** Ms. Lloyd explained that the disclosure requirements in the ISSB standards were developed to serve a wide range of investors. However, she highlighted that often what investors would find relevant and useful is "*information about sustainability-related risks and opportunities that is industry specific*." In addition, she noted that, beyond disclosure of absolute Scope 3 GHG emissions, investors focused on how these emissions impact the company—for example, on the future business model; the biggest pinch points; areas where the company needs to make adjustments to meet stakeholder expectations.
- **Uncertainty about information underlying the reported metrics.** Many required disclosures are based on estimates and involve measurement uncertainty. The ISSB seeks to make clear that:
  - It is expected that disclosures of Scope 3 GHG emissions will be based on estimates: *"In fact, they should be based on estimates,"* added Ms. Lloyd.
  - Where estimates are involved, the ISSB expects that the cost of information to refine the estimates will be balanced against the benefit of more precise disclosures to users.
- **Regulation overriding the pragmatic approach taken by the ISSB**. A member expressed concern about best practices, which will evolve with time, becoming regulatory requirements and the different behaviors that will result. Ms. Lloyd acknowledged this issue: *"It's a constant debate and a continued effort. We are working hard to make sure those involved in regulation and implementation, and execution, are aware of why we have certain reliefs and allowances for different processes in our standards to encourage inclusion and best practice*. *We have been having conversations with the International Organization of Securities Commissions (IOSCO), security regulators, and the International Auditing and Assurance Standards Board (IAASB) about how we work together to create expectations for how things might start off with one approach and will then improve over time. We try to do what we can to influence, to get as much efficiency as we can that will provide some trust in the system to get things going*."
- **Inconsistencies between accounting and sustainability concepts**. Ms. Lloyd explained, *"The accounting consolidation concept sets the boundary of entities you need to provide information for (i.e., the parent company and its subsidiaries). Then to measure emissions and capture for that group,*

the GHG protocol concepts are overlayed. However, there may be accounting adjustments not necessarily included in the GHG protocols, such as operating leases, that may cause a disconnect. The ISSB standards ask for disclosure of segregated reported emissions information for a group to help identify these differences. This is an area we will still look at further going forward."

Looking ahead, Ms. Lloyd highlighted next steps for the ISSB, including deciding which projects for standard setting would next commence—possibly on biodiversity and ecosystem services—and efforts with other stakeholders to ensure the provision of comparable information about sustainability-related risks and opportunities for effective global capital markets.

Sustainability: TNFD framework and nature-related financial disclosures

In September 2023, the TNFD published its recommendations on a risk management and disclosure framework, encouraging companies to disclose the financial impacts of nature-related risks and opportunities on their operations. Mr. Goldner said that *"nature is no longer a corporate social responsibility issue, but a core and strategic risk management issues alongside climate change."* Mr. Goldner explained:

- **There is more to nature than climate**. Climate is just one part of nature. The TFND recommendations encompass everything other than GHG emissions that affects biodiversity and nature—the "four realms" of land, fresh water, oceans and the atmosphere.
- **The importance of interoperability with other required sustainability disclosures**. The TNFD recommendations were developed using the same structure as the Taskforce for Climate-related Financial Disclosures (TCFD), which forms the basis for many current standards for climate-related reporting. This approach is essential in light of an ever-increasing reporting burden.
- **The importance of market input into the development process**. The development of the framework was transparent, with ongoing market input into the various iterations. Mr. Goldner highlighted that in early 2024, 320 companies initially signaled their intention to start publishing nature-related disclosures using the TNFD recommendations (as TNFD Early Adopters).
- **The content of the TNFD's recommendations**:
    - **Recommended disclosures**. Mr. Goldner highlighted a key difference to the TCFD disclosures: *"Climate disclosures are constructed to address what we **don't** want: emissions into the atmosphere. The unit of measurement is a negative measurement. For nature-related disclosures, we have taken the opportunity to count more of what we **do** want if we are to build back the planet. We distinguish between positive and negative metrics. The difference could be fundamental in how we think about business and finance, so that society recognizes what is being done."* This approach was commended by members.

- **Guidance for assessing which nature-related issues are material.** Mr. Goldner described the approach set out in the framework—the LEAP approach: **Locate** your interface with nature; **Evaluate** your dependencies and impacts; **Assess** your risks and opportunities; **Prepare** to respond and report. A member expressed concern about what could be included in the supply chain for nature-related reporting purposes, in a similar way to reporting Scope 3 emissions. Mr. Goldner explained that climate and nature are fundamentally different—nature is localized so it is more about the risks to a business in a specific location. *"We are introducing a significant new concept in reporting on nature: 'dependencies.' How dependent on the ecosystem and nature is your business in that location? Examples could be biomass, water, pollination of bees etc."*
- **Metrics**. Mr. Goldner explained the challenges of deciding on reporting metrics in the absence of universally accepted metrics for the four realms. He added that while there are thousands of metrics that TNFD identified, they eventually included 14 core metrics based on scientifically demonstrated drivers of nature loss.
- **Guides to help with implementation**. Mr. Goldner indicated that TNFD had produced supporting material to assist with implementation of the recommended disclosures.

Members discussed the many challenges facing companies related to sustainability reporting more broadly. Ms. Moraleda described some of the challenges she has experienced, and good practices that she has seen on global company boards:

- **Clarity on the scope of the audit committee's remit**. "*One common theme in all my companies that we're discussing: where does the audit committee charter start and end, what are the overlapping areas, who's responsible for what, and how to define the audit committee's remit so there are no white spaces*," noted Ms. Moraleda. She highlighted the importance of being clear on what matters go to the audit committee and what goes to an ESG committee. A member agreed, "*The coordination between the two committees is more and more of a need, joint sessions are happening quite naturally. My bigger concern is coordination with the board too*."
- **Materiality is at the foundation of reporting**. Members reinforced the importance of a rigorous discussion of materiality. Ms. Moraleda noted that at every board session Maersk runs a joint session on double materiality, which helps ongoing identification of significant risks and key performance indicators (KPI) that will be reported.
- **Reporting overload**. Ms. Moraleda highlighted the many standards for sustainability reporting and cautioned against trying to be everything to everyone. "*At Maersk, the ESG committee agreed to do an inventory of everything we're reporting about, all external disclosures and commitments, to make sure we understand that we can live up to our reported commitments*." A member agreed, "*We are going through a reset on all the companies where I am audit committee chair. We have recognized there are problems because we have had too many externally reported metrics, internal KPIs etc. and we're doing a sort between those that are material and those that are not*."

- **Determining the number of KPIs to report on.** Ms. Moraleda highlighted the tensions of reporting on KPIs, noting that there are different views on how many need to be reported. "*We need to strike the right balance of what we think is a fair description of the KPIs that are representative of the company*," she said. A member reinforced these challenges, "*The issue of deciding on the number of KPIs is often linked to the lack of joint and proper discussion between board and management on this topic. Effective deep dive sessions really help solve problems, but even in the best companies you need to ask for these sessions to happen*." EY's Julie Linn Teigland encouraged companies to start with reporting fewer KPI's, but emphasized the importance of consistently reporting those KPIs, adding, *"You can report more later."*
- **Linking executive compensation to KPIs**. Ms. Moraleda noted that this is still a work in progress. *"To be able to incentivize on ESG you need to make sure you can measure, with a proper baseline to start. Some metrics are easier to measure than others, such as health and safety where the ESG aspect is clear. The short-term and long-term emissions targets are more complicated, depending on industry. Meeting the expectations of every stakeholder is a significant challenge. You need to keep each KPI relevant so that it has an impact. But we are getting there."*
- **Reporting is improving as the landscape matures.** Ms. Moraleda acknowledged that as companies progress with their sustainability reporting efforts, processes and disclosures advance. She highlighted the move from 'ivory tower' reporting to operations-based reporting as sustainability is embedded in companies' strategies and operations.
- **The competitive advantage of companies may diminish as sustainability pushes costs up.** "*For every board I am on, decarbonization and ESG is inflationary, it drives costs up. Stakeholders demand more but are less willing to share the costs—how fast and far we go has an impact on competitive advantage, in the short and long term. That will impact all stakeholders. There is lots of education needed that this all comes with a cost*," Ms. Moraleda said.

Crossover sessions with EGAN members:

Israel, Gaza, and the outlook for business

Israel's technology sector has shown significant growth and global influence over the past decade. But it faces challenges. Mr. Koehler and members discussed the factors that contributed to Israel's success as a global leader in innovation and entrepreneurship and how they would continue to build business resiliency.

Discussion on proposals to enhance auditor procedures on fraud

As fraud evolves and remains pervasive, the IAASB has published changes to the International Standards on Auditing (ISAs) to enhance auditors' procedures on fraud and to make the fraud auditing standard consistent with its recently revised risk assessment standard. Mr. van den Hout explained that the objectives of the project are to clarify the role of the auditor with regard to fraud; to reinforce professional skepticism when undertaking auditing procedures; to promote consistent behavior and facilitate effective responses in the face of possible fraud; and to enhance transparency in reporting.

Members expressed concern about the volume of regulation for companies in Europe. A member noted that some new standards are also contradictory, and that *"all this legislation is making it impossible to focus on running the company. We already have dedicated time to ensure compliance of the company is many different jurisdictions, but the volume of regulation is making Europe less competitive than the rest of the world."* Citing differences in regulations globally, the member urged standard setters to *"find common ground. Make it simpler."* Mr. van den Hout appreciated the concerns and explained that the new fraud auditing standard will be globally adopted and will therefore not just affect Europe.

A member questioned the need for changes to the fraud auditing standard, describing a fraud that had occurred recently and speculating whether changes to the fraud auditing standard would have identified it. Mr. van den Hout explained the history of the project and the drivers of the need for the changes but highlighted that the procedures are aimed at auditors and not at companies themselves. He added that some of the changes reflect what good auditors would ordinarily be doing anyway. He noted that the changes do not extend the responsibilities of the auditor in relation to a financial statement audit, and do not go as far as to require forensic procedures.

Fraud is a complex topic, and all stakeholders have a role to play in combating it. A member stressed the importance of training and education on the proposed changes, *"otherwise it is just another rule."* Ms. Delarue highlighted the importance of auditors' processes for accepting or declining to audit clients, and the role of fraud risk in that process: *"The only protection of your brand is to sometimes walk away from a high-risk client."* Members encouraged the IAASB to focus on processes for identifying fraud and on how auditors assess and manage risk. Audit chairs showed little appetite for any definitive statement about fraud being included in the auditor's report. They emphasized the importance of maintaining professional skepticism throughout the audit.

Tapestry Networks intends to use the discussion to develop a comment letter to submit to the IAASB on its proposals on the audit of fraud in financial statements.

Appendix 1: Participants

The following EACLN members participated in all or part of the EACLN and crossover meetings:

José Miguel Andrés Torrecillas, BBVA
Germán de la Fuente, Santander
Ana de Pro Gonzalo, STMicroelectronics
Carolyn Dittmeier, Illy Caffe
Renato Fassbind, Nestlé
Byron Grote, Tesco and AkzoNobel
Marion Helmes, Heineken and Siemens Healthineers
Liz Hewitt, Glencore
Pilar López, Inditex
Benoît Maes, Bouygues
John Maltby, Nordea
Nathalie Rachou, Veolia
Maria van der Hoeven, TotalEnergies

The following EACLN members participated virtually in part of the EACLN meeting:

Laurence Debroux, NovoNordisk and Exor
Karen Gavan, Swiss Re
Margarete Haase, ING
Dagmar Kollmann, Deutsche Telekom

The following EGAN members participated in all or part of the crossover meeting:

Nadja Borisova, BlaBlaCar and Pomegranate Investment AB
Carolyn Dittmeier, Illy Caffè
Brenda J. Eprile, Atlantica Sustainable Infrastructure plc, Westport Fuel Systems, Inc.
Ana García Fau, Cellnex
Christoph Hütten, Brockhaus Technologies
Linda McGoldrick, Alvotech, Compass Pathway, and Cranial Technologies
Antonella Mei-Pochtler, Westwing Group
Sandra Stegmann, Bechtle AG

EY was represented by the following in all or part of the EACLN and crossover meetings:

Marie-Laure Delarue, Assurance, Global Vice Chair, EY
Jean-Yves Jégourel, Country Managing Partner, Germany, EY
Hildur Eir Jónsdóttir, Assurance Managing Partner, EY
Hermann Sidhu, EMEIA Assurance Leader, EY
Julie Linn Teigland, EMEIA Area Managing Partner, EY

Tapestry Networks was represented by the following in all or part of the meeting:

Beverley Bahlmann, Executive Director
Jonathan Day, Chief Executive
Todd Schwartz, Executive Director
Hannah Skilton, Associate
Abigail Ververis, Project and Event Manager

Endnotes

[1] These were optional sessions on the morning of April 10 with members of the European Audit Committee Leadership Network and European Growth Audit Network.

[2] *Summary of Themes* reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Quotations in italics are drawn directly from members and guests in connection with the meeting but may be edited for clarity.

[3] Members can request to view the film by using the contact form on the website www.thetestingpoint.com.