



## PIOB’s Public Interest issues: IAASB projects

The PIOB’s recommendations are based on the proposals discussed by the IAASB as of May 2021.

For further information and details about the IAASB projects, please refer to the IAASB website: <http://www.iaasb.org/consultations-projects>

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### ONGOING PROJECTS/INITIATIVES

#### **Going Concern Initiative**

##### **Explicit reference to Going Concern should be included in the Auditor Report**

In light of corporate and audit failures in the past and the additional going concern risk placed on entities due to Covid-19, auditors have an important role to play in this regard to serve the public interest.

The PIOB believes that it would be in the public interest for auditor reports to make explicit reference to going concern. The IAASB should explore how this might be implemented. For example, it might require a conclusion as to whether the going concern assumption applied in the preparation of the financial statements under the relevant financial reporting framework was appropriate.

Acknowledging that this initiative is still at an early stage, based on information gathering activities and stakeholders outreach undertaken, the PIOB encourages the IAASB to consider root-cause analyses of corporate failures relating to going concern, to assess the specific challenges and potential shortcomings in the ISAs that need to be addressed in this regard.

#### **ISA 600 Group Audits**

This project originated at the request of different stakeholders, including regulators, who found the group audits needed to be strengthened. The PIOB acknowledges the public interest issues identified by the IAASB in revising ISA 600<sup>1</sup>, as well as the enhancements introduced in the ED, including the issues previously raised by the PIOB, such as the importance of the communication and cooperation between the

<sup>1</sup> E.g. encouraging quality management at the engagement level; fostering an independent and skeptical mindset of the auditor; reinforcing the communication during the audit between the group engagement team and the component auditors.

### **ISA 600 Group Audits**

group auditor and the component auditors.

The PIOB believes that particular attention should be paid to the following public interest issues, before the standard is finalized, in order to strengthen group audits:

#### **Scope and applicability of the standard**

The scope of the standard must be clear and should consider more than just the legal structures when determining whether an audit would be subject to the standard. Significant audit risk can be more than just in the legal structure.

#### **Ultimate responsibility for the group audit**

The standard must retain that ultimate responsibility for the group audit is placed on the group auditor.

#### **Effective coordination between the group auditor and the component auditors**

The standard must clearly communicate that the group auditor is required to carry out effective coordination with the component auditors and oversight of the work performed by them. To ensure effective coordination and oversight, the standard should establish the minimum requirements on how to do this.

#### **Relevant documentation in the group audit file**

The standard must clearly establish the minimum content of the group auditor's file, which must be sufficient to facilitate regulatory assessment. Experience has shown that it can be difficult to assess after an audit failure to what extent the group auditor has overseen the work performed by component auditors and taken appropriate action based upon the evidence provided.

### **Audits of Less Complex Entities (LCEs) – ISA for LCEs**

#### **Expectations of a separate ISA for LCEs**

The PIOB welcomes the IAASB project to explore the needs and concerns of LCEs. The separate LCEs standard is important to address the calls to scale down the audit requirements for Small and Medium Entities and, at the same time, ensure that assurance is not weakened.

#### **Scope of a separate ISA for LCEs**

The scope of the standard should be sufficiently restrictive to limit application to the correct entities (i.e. those that are truly less complex).

[New] The IAASB discussed the exclusion of group audits from the scope of the ISA for LCEs. It will propose different options (excluding or including group audits) in the ED and will seek stakeholders' views. The PIOB welcomes the upcoming

**Audits of Less Complex Entities (LCEs) – ISA for LCEs**

consultation. Those options need careful consideration. The inherent complexity of groups and the likelihood of audit failures at group level may outweigh the less complex nature of some or all of the entities included in the group. The inclusion of requirements for the group auditor and component auditors in the ISA for LCEs also needs a careful assessment, as it could add complexity to the standard, which is aimed at achieving simplicity.

**Resources and timing of the projects on LCEs**

As a result of the consultations and outreach undertaken on audits of LCEs, the PIOB acknowledges the projects to develop a separate standard for LCEs and to address complexity, understandability, scalability and proportionality in the ISAs going forward (the “CUSP” project, to develop Drafting Principles and Guidelines).

The PIOB acknowledges the important balance to be struck between the urgency expressed for such a separate standard, and achieving the right quality based on consultation and deliberation. Timely progress remains a critical matter of public interest.

**Audit Evidence**

**Relevance and urgency of the project**

The project on Audit Evidence has become even more important as the Covid pandemic has introduced a high level of uncertainty that impacts accounting estimates, requiring more work from auditors and exercise of professional skepticism, especially on evidence and evaluation of risk of material misstatement. This reinforces the need of a timely project.

**[New] Objective of the project**

The “modernization” of the standard, as one of the objectives of the project, has introduced references to concepts such as “automated tools and techniques”, “blockchain”, information in digital form, etc., which are already extensively used by the audit profession.

The PIOB urges the IAASB to ensure that the revision of ISA 500 goes beyond embedding concepts already used in the audit practice. Recognizing the potential rapid technological evolution, the IAASB should develop an effective principles-based standard to navigate through new technologies and highlight appropriate areas for the exercise of professional skepticism in the evaluation of audit evidence.

**Coordination among TFs and SSBs**

Audit Evidence is deeply interrelated with Technology and requires close

**Audit Evidence**

coordination among the Working Groups and Task Forces for both the IAASB and the IESBA, to avoid duplication of efforts and to ensure appropriate sharing of information.

**Technology**

**Importance of Technology as a theme throughout the suite of ISAs**

The IAASB should continue to integrate and consider the pervasive impact of technology in the consideration of its standards and the value of non-authoritative guidance as a potential approach for a timely response to public interest needs, where appropriate.

**Professional Skepticism**

**Strengthening Professional Skepticism in the ISAs**

At the time of the “Invitation to Comment”, the PIOB recommended that the IAASB pay attention to Professional Skepticism, because it relates to going concern, auditor independence and management bias.

The PIOB welcomes greater focus being placed on Professional Skepticism across the projects currently or recently developed by the IAASB, such as ISA 540, ISA 315, the three Quality Management Standards. The PIOB also welcomes the emphasis given to Professional Skepticism in the non-authoritative material of the Extended External Reporting (EER) project. Professional Skepticism is key in EER and impediments to its exercise may arise in this type of engagements.

The PIOB highlights the need to consider how auditors should document PS and encourages the IAASB to further strengthen the notion of PS throughout the standards.

**PROJECTS COMPLETED IN MARCH 2021**

**Extended External Reporting (EER)**

**Societal impact of EER**



### **Extended External Reporting (EER)**

It is important for the public to understand the IAASB's work on EER, as EER has a very strong impact on groups that work for environmental, social and governance improvements.

The PIOB welcomes the non-authoritative guidance on EER issued by the IAASB, which should be helpful for practitioners. The PIOB believes the public interest would benefit from added communication related to guidance. Communication should target other stakeholder groups, namely preparers and users of EER reports, who are the ultimate beneficiaries of EER assurance.

The PIOB also supports the IAASB's efforts to continue monitoring the current developments in the field of sustainability reporting, which will likely call for further assurance requirements in the upcoming years.