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**IAASB Public Interest Issues to be discussed
PIOB Board meeting in September 2020**

The purpose of this paper is to promote the debate, among PIOB Board members, on the most urgent and latest public interest issues on IAASB projects, as well as to conclude on the outstanding issues for projects which are close to finalization. New issues should be discussed to be possibly included in the PIOB's public interest issues lists.

This paper does not replace the Public Interest Issues lists published in the PIOB website and updated as of July 2020, which reflected the discussions held at the SSBs and at the PIOB Board meetings in June, with the information available at that time. The Briefing Memo for the last IAASB meeting (September) is accessible in the PIOB Intranet:

<https://ipiob.org/intranet/index.php/oversight-documentation/iaasb-oversight-documentation>

The PIOB Board should focus on the following IAASB projects:

- Quality Management Standards (QMS): ISQM 1, ISQM 2 and ISA 220
- Fraud and Going Concern initiatives

Quality Management Standards: ISQM 1, ISQM 2 and ISA 220

The objective of the discussion on the QMS is to:

- Provide an UPDATE on progress made and latest proposals in the standards
- Conclude on the STATUS of P.I. issues raised by PIOB, in view of PIOB approval in December (subject to IAASB discussion and approval in September)

The IAASB will discuss the latest proposals to the three QMS at the September meeting, with a view to approve them.

Among the main changes to the three standards, there are the following:

1. The introductory material on public interest has been relocated to the objective of the standard (consistently in ISQM1 and ISA 220);
 2. The external Communications section has been enhanced in ISQM1;
 3. The scope of Engagement Quality Reviews in ISQM2 has been aligned with ISQM1.
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1. Public Interest reference moved to the objective of the standards (ISQM1 and ISA 220)

The IAASB has considered the PIOB's public interest issue on the objective of the standard, which continues to be compliance oriented rather than focused on audit quality. The

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current proposals move the reference on the public interest (previously included in the introduction of the standard) to the objective of the standard (par. 15), aiming to give more prominence to the public interest and to clarify how performance of quality engagement is related to the objective.

We need to acknowledge that, at this stage, the objective will not include the focus on audit quality but we need to note that, at least the “proximity” of the public interest concept in the objective, is an enhancement of the objective itself.

2. External Communications and requirement to communicate with TCWG in ISQM1

The IAASB introduced a new requirement to communicate with TCWG when performing an audit of financial statements of listed entities about “how the System Of Quality Management (SOQM) supports the consistent performance of quality engagements”. The PIOB recommended extending such requirement to external parties (e.g. investors, oversight bodies, regulators). The IAASB introduced in the standard, in par. 34 (e) ii, a requirement for firms to establish policies and procedures that “address when it is otherwise appropriate to communicate with external parties about the firm’s system of quality management”. Additionally, the application material (par. A129) states: “The firm’s determination of when it is appropriate to communicate with external parties about the firm’s system of quality management is a matter of professional judgment”.

We acknowledged that Transparency Reports are provided as an example of external communication in ISQM1 in the Application Material and have not been elevated to a requirement. However, the requirements recently introduced on external communications can be seen as an enhancement of the standard.

3. Scope of Engagement Quality Reviews in ISQM2

The PIOB recommended to include all PIEs in the scope of Engagement Quality Reviews (EQRs).

EQRs, as aligned with ISQM1, are required in the following cases:

- audits of financial statements of listed entities;
- audits or other engagements for which an EQR is required by law or regulation;
- audits or other engagements for which the firm determines that an EQR is an appropriate response to address quality risks.

The ED of ISQM1 also included in the scope “audits of financial statements of entities that *the firm determines are of significant public interest*”, which has been deleted in the final proposed text. However, in the application material, under the cases of EQRs required by law or regulation (par. A133), it is explained that “*law or regulation may require an EQR to be performed... for entities that are public interest entities as defined in a particular jurisdictions*”. In the final text, the “judgment” of which entities are considered of public interest is moved from the “firm” (as drafted in the ED) to the particular jurisdictions which may have defined PIEs (as drafted in the proposed final text).

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We need to acknowledge that the IESBA is currently working on the project of definition of PIEs and Listed Entities and that the ISAs refer to the listed entity concept rather than to the PIE concept. Coordination between the two SSBs is ongoing and, at this stage, provisions in ISQM2 do not include the PIE concept but rather leave to the discretion of jurisdictions to define what a PIE is and, consequently, when an EQR is required.

PIOB's Public interest issues as of September

The PIOB raised a number of public interest issues during the development of the QMS.

On ISQM1: the objective of a QMS should focus on high quality audits (and in ISA 220 as well); the firm's business model should not interfere with AQ; networks need to be addressed in ISQM1; transparency reports or other forms of external communication should be required in ISQM1; complexity and scalability of the standard should be achieved (please refer to the list published in the PIOB website, updated in July 2020).

Some of these issues have been addressed, or at least taken into account, in the standard (there is a reference to the firm's business model and how it may adversely impact audit quality; networks considerations have been embedded across the whole standard; scalability examples have been introduced in the Application Material).

As described above, the IAASB proposals include the public interest as a reference in the objective of the standard (both in ISQM1 and in ISA 220) and include as a requirement communication with TCWG on quality issues, as well as with external parties, subject to the exercise of professional judgement (in ISQM1).

On ISQM2: at this stage, the coordination with IESBA on ethical requirements (which was recommended by the PIOB), has been taking place; the requirements for EQRs have been clarified or enhanced in ISQM2. The issue which has been partially addressed is on the scope of EQR, as described above. The PIOB will need to follow the progress of the PIE definition project (developed by IESBA) and to what extent it will replace the concept of listed entities used in the ISAs.

Fraud and Going Concern initiatives

The objective of the discussion on Fraud and Going Concern (F&GC) is to:

- Provide an UPDATE on IAASB discussions during the August call and comments received from CAG representatives during the September CAG meeting
- Debrief PIOB on the Fraud and Technology Roundtable held by IAASB on 2 September, attended by PIOB Board members
- DELIBERATE and AGREE on PI issues identified that should be included in the PIOB's PI issues list

PIOB had identified Fraud and Going Concern as critical public interest issues that should be prioritized in the Strategy and Work Plan for 2020-2023. They were included in the

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IAASB WP for 2021 with clear milestones: the project proposal for Fraud is expected to be approved by IAASB in Q2 of 2021 and for Going Concern in Q3 of 2021.

The Fraud and Going Concern (F&GC) WG has started information gathering activities on these two topics to identify key areas where additional targeted research needs to be focused.

Main outreach activities carried out/planned:

1. Meetings with UK and Japan NSS to discuss their national fraud and GC standards
2. Roundtables to further gather views and feedback on specific topics:
 - a. Fraud and Technology – 2 September – PIOB attended as official observer the September 2 roundtable. ***PIOB members who attended, are invited to share their views on the roundtable.***
 - b. Expectation gap (F&GC) - 28 September
 - c. Fraud procedures for LCEs – 7 October
3. Staff Discussion Paper (DP) - to gather views on the “expectation gap” for both F&GC. The DP was issued on 15 September with a 120-day comment period. Issues addressed in the DP:
 - Fraud: use of forensic specialists, questions on enhanced controls on fraud and extending the auditors responsibility to report on these, and the importance of third-party fraud.
 - Going Concern: concept of GC, material uncertainty, and transparency in the audit report.
4. Continued coordination with IASB on Going concern

Public interest issues:

The initial draft of the DP presented to the IAASB in August was too technical, with a significant focus on technical aspects of ISA 240 and ISA 570. This risked limiting the contribution of stakeholders to those from the profession. This issue was raised by the PIOB Observer and by some of the IAASB board members during the August 11 call. The draft version of the DP circulated for the IAASB CAG had been improved, reorganizing the content for a better flow, removing technical references, and providing more open/general questions.

In the past, the PIOB’s request that the audit report includes an explicit opinion on the GC for the audited entity was refuted on the grounds that the IFRS reporting framework does not explicitly require management to issue an attestation on GC. To bridge this gap, **clear coordination between the IAASB and IASB is necessary**. While this is highlighted as one of the activities the IAASB will carry out for this project, it is not clearly and prominently developed in the CP, to solicit feedback on the subject.

Q1. Are there any PI issues in relation to the F&GC initiatives that should be identified and communicated to IAASB at this point?

Q2. How can the PIOB contribute to address the GC issue and reinforce the IAASB-IASB collaboration?