



Public Interest Oversight Board

PIOB PUBLIC INTEREST ISSUES: IAASB PROJECTS

MAY 2019

PUBLIC INTEREST OVERSIGHT BOARD

C/Oquendo, 12 28006 Madrid, Spain

Telephone: +34 91 782 05 28

www.ipiob.org

The PIOB's recommendations are based on the proposals discussed by the IAASB as of March 2019.

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

Update of this document: May 22, 2019

ISA 315, IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

PIOB RECOMMENDATION	DESCRIPTION
Impact and risk of the use of technology	<p>The PIOB encourages the IAASB to address the impact and risk of the use of technology on risk identification and risk assessment (e.g. big data, data analytics, cyber risks and cyber security), and the importance of professional skepticism.</p> <p>The PIOB appreciates the inclusion in the ED of several provisions addressing technology and application material that include references to professional skepticism and automated tools and techniques.</p>
Risk of unintentional weakening of requirements in the standard	<p>While addressing complexity and scalability of ISA 315, there is a risk that revisions to the standard may unintentionally result in weakening the requirements.</p>

PROFESSIONAL SKEPTICISM (PS)

PIOB RECOMMENDATION	DESCRIPTION
Strengthening Professional Skepticism in the ISAs	<p>At the time of the "Invitation to Comment", the PIOB recommended the IAASB to pay attention to PS, because it relates to going concern, auditor independence, and management bias.</p> <p>The PIOB welcomes placing greater focus on PS across the projects currently or recently developed by the IAASB, such as ISA 540, the three Quality Management Standards, ISA 315 and Extended External Reporting. 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.</p>

IAASB 2020-2023 STRATEGY AND WORK PLAN

PIOB RECOMMENDATION	DESCRIPTION
Projects to be included in the Strategy and Work Plan (SWP)	<p>The 2020-2023 SWP should include projects on data analytics, technology, assurance on non-financial information, going concern, networks, fraud, and audit firm business model.</p> <p>The PIOB acknowledges that some of these topics, such as fraud, going concern and technology, are listed in the draft SWP as possible future activities. However, they are not clearly identified as future projects.</p>
Need to broaden the consultation on the Strategy	The PIOB welcomes the outreach efforts of the IAASB, and encourages it to further solicit responses from a broader number of stakeholders.
Identification of resources to execute the SWP	The IAASB's agenda includes a large number of important projects, with ambitious and tight timelines. It would be helpful, in the SWP document, to identify project prioritization and the resources allocated for each project and determine whether they are sufficient.

ISQM1 "QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF FINANCIAL STATEMENTS, OR OTHER ASSURANCE OR RELATED SERVICES ENGAGEMENTS"

PIOB RECOMMENDATION	DESCRIPTION
The firm's business model (BM) should not interfere with Audit Quality (AQ)	<p>The audit firm's BM should promote AQ. The BM includes the governance structure of the firm, adherence to ethical requirements by the firm's management and by the auditors, and auditor's accountability.</p> <p>When non-audit services (NAS) are delivered in the context of an audit, the standard should consider their impact on AQ. The incentive structure of partners should be considered as well.</p> <p>The PIOB welcomes the inclusion in the standard of a commitment to audit quality by audit firms. However, this reference needs to further address the risk to quality originated by the business model.</p>

ISQM1 “QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF FINANCIAL STATEMENTS, OR OTHER ASSURANCE OR RELATED SERVICES ENGAGEMENTS”

PIOB RECOMMENDATION	DESCRIPTION
<p>Networks need to be better addressed in ISQM1</p>	<p>Investors and those who use audit services from a global “branded firm” should receive uniform quality from that brand.</p> <p>ISQM1 should contemplate the coordination at network level of all those aspects that affect AQ of that brand. The standard has made some progress, but QMS should also be set at network level with a focus on internal inspections and quality control monitoring.</p>
<p>Transparency Reports (TR) should be required in ISQM1</p>	<p>ISQM1 should require audit firms to publish TR.</p> <p>Communicating externally insights into the firm’s quality management systems is in the public interest. TR should include a firm’s corporate governance structures, audit and non-audit professional services and related fees, remuneration schemes and incentives for partners, a description of the firms’ quality management system, the outcome of the QMS in terms of deficiencies, and the measures taken to correct them.</p> <p>The PIOB acknowledges that TR are listed in the ED as an example of “other communication to external parties”.</p>
<p>The objective of a QMS should focus on high quality audits</p>	<p>The standard should state clearly that the objective of the quality management system is to produce high quality audits. The PIOB welcomes the redrafting of the objective but continues to encourage the IAASB to be clearer that the objective of QMS is AQ rather than compliance with standards.</p>
<p>The IAASB should continue coordinating with the IESBA aspects related to ethical requirements</p>	<p>The PIOB welcomes the coordination between the IAASB and the IESBA on topics overlapping with the Code of Ethics (e.g. ethical requirements, auditor independence and engagement quality control reviews).</p> <p>ISQM1 could highlight that NOCLAR, conflicts of interest, and the provision of non-assurance services constitute risks to AQ.</p>

ISQM2 “ENGAGEMENT QUALITY REVIEWS”

PIOB RECOMMENDATION	DESCRIPTION
Engagement Quality Reviews (EQRs) should be required for all PIE	<p>EQRs should be required for all PIEs.</p> <p>The PIOB acknowledges the IAASB proposal to require EQRs for “significant public interest” entities, such as banks, insurance companies and pension funds.</p>
Coordination with the IESBA on aspects related to ethical requirements	<p>The PIOB welcomes and supports the ongoing coordination between the IAASB and the IESBA on topics overlapping with the Code of Ethics (e.g. auditor independence, objectivity, engagement quality control reviews, cooling off period of EQCR).</p>
The requirements for EQR performance should be strengthened	<p>According to IFIAR's inspections Report in 2018, one of the most important quality findings relates to the “insufficient depth/extent of engagement quality reviews.”</p> <p>EQRs should be performed as the audit is being performed (“continuous quality control through the audit”), not at the end of the audit or after the auditor's report is issued.</p> <p>The PIOB acknowledges the current IAASB proposals to review the audit documentation at appropriate points in time, throughout all the stages of the engagement and on or before the date of the engagement report.</p>

ISA 220 “QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS”

PIOB RECOMMENDATION	DESCRIPTION
Respect of Public Interest and of Ethical Standards	<p>Respect of public interest and of ethical standards are an important objective of a Quality Management System. Quality is not just compliance with professional standards and regulatory requirements.</p> <p>The PIOB acknowledges that the ED explicitly addresses the Engagement Partner's responsibility to act in the public interest when performing audit engagements.</p>
Engagement Partner's Responsibilities	<p>It is not enough for the Engagement Partner to be satisfied that the firm's policies and procedures have been complied with, but also applicable rules and regulations. If necessary, the engagement may need to be discontinued.</p> <p>The PIOB acknowledges that the ED makes a reference to the applicable legal and relevant ethical requirements, as well as the possibility to withdraw from the engagement.</p>

ISA 600 GROUP AUDITS

PIOB RECOMMENDATION	DESCRIPTION
Importance of Group Audits	Group audits affect the most systematically important entities, so the project could better document what are the public interest issues it intends to address.

EXTENDED EXTERNAL REPORTING (EER)

PIOB RECOMMENDATION	DESCRIPTION
Societal impact of EER	<p>It is important for the public to understand the IAASB's work on EER, as it has a very strong impact on groups which work for environmental, social and governance improvements.</p> <p>The TF should try to make the ED understandable for these non-technical stakeholders to ensure their important input is achieved.</p>

LESS COMPLEX ENTITIES (LCEs)

PIOB RECOMMENDATION	DESCRIPTION
Scalability of standards for LCEs	The PIOB welcomes the IAASB initiative to explore the needs and concerns of SMPs and others. The LCEs project needs to deal with calls from SMPs on scalability and, at the same time, ensure that assurance is not weakened.

AUDIT EVIDENCE AND TECHNOLOGY

PIOB RECOMMENDATION	DESCRIPTION
Importance of Technology	Technology is an issue which deserves deeper consideration. Standards should be revisited to reflect the impact of technology on the audit profession. Given the pace of change, a lengthy project is not in the public interest. Non-authoritative guidance could be considered as a solution for a timely response.



Public Interest Oversight Board

PUBLIC INTEREST OVERSIGHT BOARD

C/ Oquendo, 12 28006 Madrid, Spain

Telephone: +34 91 782 05 28

www.ipiob.org