

PIOB’s Public Interest issues: IAASB projects

The PIOB’s recommendations are based on the proposals discussed by the IAASB as of December 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. This could help to assess the specific challenges and potential shortcomings in the ISAs that need to be addressed in this regard.

The PIOB considers Going Concern, as well as Fraud and Assurance on non-financial information (including Sustainability/ESG Reporting) as high priority projects in the 2022-2023 IAASB Work Plan, and expects that resources will be focused on these projects.

Fraud Project

In light of corporate scandals and audit failures in the past and the additional fraud 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 considers Fraud, as well as Going Concern and Assurance on non-financial information (including Sustainability/ESG Reporting) as high priority projects in the 2022-2023 IAASB Work Plan, and expects that resources will be focused on these projects.

Objectives of the Fraud Project

The PIOB supports the Fraud project and believes that it would be in the public interest to strengthen, and not just to clarify, the auditor's responsibilities within ISA 240 and other related standards in relation to the identification and reporting of fraud in audits of financial statements.

As the IAASB's work progresses, the PIOB encourages the IAASB to evaluate any necessary holistic considerations, such as elements of the audit risk model (including inherent risk, internal controls and detection risk), and the way they interrelate, and whether they assist to further address the expectation gap.

The PIOB notes the IAASB should coordinate with the IESBA (for potential changes needed in the Code of Ethics) and with the other stakeholders involved in the financial reporting ecosystem. However, the role of auditors in relation to Fraud should not be diminished.

Auditor's obligation to obtain reasonable assurance that financial statements are free from material misstatements due to fraud

ISA 240 should emphasize that the existence of fraud can result in financial statements being misstated. The standard should clearly articulate the auditor's work effort in respect of fraud, to sufficiently address the risk of misstatements and to bring that risk to an acceptably low level. The auditor should obtain reasonable assurance that financial statements are free from material misstatements due to fraud. In this regard, the tone of ISA 240 should be strengthened so that auditors place the same level of importance on identifying misstatements due to fraud as they do on identifying misstatements due to error. In particular, inherent audit limitations should not be perceived as diminishing an auditor's responsibilities to identify material misstatements due to fraud.

The Fraud project should not only focus on ISA 240 but on strengthening requirements that drive significant changes in the attitude and behavior of auditors throughout the audit process, including through the exercise of professional skepticism and professional judgment. The PIOB supports the IAASB's project proposal to strengthen ISA 240, and other related standards, through more robust requirements, and through

enhanced exercise of professional skepticism. This should promote an integrated risk-based approach.

Reporting of instances of suspected or potential fraud

Auditors should not only report fraud that they identify, but also provide early warning of suspected fraud or the risk of potential fraud. Requirements for communication with those charged with governance, external authorities and in the auditor's report should ensure appropriate communication of fraud risks, procedures performed and deficiencies identified by the auditor, and whether management has taken appropriate action to address the risks and deficiencies. The PIOB supports the inclusion of enhanced transparency, through communication with TCWG and reporting requirements in ISA 240 and other ISAs, among the objectives of the Fraud project proposal.

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 600¹, as well as the enhancements introduced in the standard approved by the IAASB², including those addressing the following public interest issues previously raised by the PIOB:

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. In this respect, the PIOB notes that the scope of the standard has been clarified in the introduction, as well as in the related application material.

Ultimate responsibility for the group audit

The PIOB emphasized the need for the standard to retain that ultimate responsibility for the group audit is placed on the group auditor. The PIOB welcomes paragraph 11

¹ 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.

² The IAASB approved ISA 600 (Revised) in December 2021. The standard will be submitted to the PIOB for approval in April 2022.

that states that “The group engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISA”.

Effective coordination between the group auditor and the component auditors

The standard should clearly communicate that the group auditor is required to: a) carry out effective coordination with the component auditors; and b) to oversee the work performed by them. To ensure effective coordination and oversight, and to allow adequate supervision and review of the work performed by component auditors, the standard should establish the requirements on how to do this. The PIOB acknowledges that, overall, the standard has been revised to further emphasize the involvement of component auditors in all phases of the audit and to strengthen the communication between the group auditor and component auditors, as well as the responsibilities of the group auditor in respect of the work performed by component auditors.

Relevant documentation in the group audit file

The standard should clearly establish the required content of the group auditor’s file, which must be sufficient to facilitate regulatory assessment. The PIOB highlighted that 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. The PIOB welcomes the explicit reference to ISA 230 in the standard stating that documentation needs to “be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed, the evidence obtained and the conclusions reached with respect to significant matters arising during the group audit”, as well as the expanded documentation requirements and further guidance for practitioners.

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

Expectations of a separate ISA for LCEs

The PIOB welcomes the IAASB project to address needs and concerns related to the audits of LCEs. The PIOB acknowledges the IAASB’s efforts to scale down the audit requirements for LCEs, while ensuring that assurance is not weakened in either fact or perception. The PIOB supports the IAASB’s efforts to develop a robust international standard for the audits of LCEs, which would contribute to high quality audits and promote consistency across jurisdictions.

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). The PIOB appreciates the

difficulty of establishing the categories of entities that should be excluded from the scope, with group audits among them, listed in the “Authority” of the ISA for LCEs.

Importance of outreach

The PIOB welcomes the upcoming consultation and encourages the IAASB to seek responses from a broad and diverse range of relevant stakeholders, including those that do not customarily respond to exposure drafts of the ISAs (e.g. users of the financial statements of LCEs). It is important to convey the message that an LCE audit is of equal quality and level of assurance, not to dilute the value of the ISAs and audits in general.

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 – ISA 500

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 affects how information is obtained and that impacts accounting estimates and the risk of material misstatements. This requires more work from auditors, as well as exercise of professional skepticism, and reinforces the need for a timely project. The PIOB notes the current timeline of the project and the targeted discussion of a full revised draft of ISA 500 in March 2022, due to the IAASB’s revision of its work plan for 2021.

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 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 the 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.

Definition of PIEs

Coordination with the IESBA to ensure alignment between the ISAs and QMS, and the Code

The definition of PIE is crucial to determine the categories of entities that are subject to stricter requirements in the ISAs, Quality Management standards, and the Code.

The PIOB notes the coordination between the IESBA and the IAASB, which is of critical importance to ensure alignment of the ISAs with the Code of Ethics and the application of the two sets of standards consistently.

The PIOB acknowledges that a case-by-case assessment would need to be made by the IAASB to ensure that replacing “listed entities” with “PIEs” in the current ISAs and Quality Management Standards does not create unintended consequences.

In order to ensure the alignment of the ISAs with the Code, the IAASB should provide an explanation for those cases where it would not be appropriate to apply the differential requirements to all PIEs, and limit them to listed entities (or “publicly traded entity”).

Transparency needed on the entities treated as PIEs

Transparency is key to ensure there is certainty for the users of the audit report and financial statements on the rules applied to an entity and to achieve enhanced confidence in the audit of PIEs. The PIOB welcomes the proposed provision in the Code that requires firms to disclose when a firm has applied the independence requirements of PIEs and urges both the IAASB and IESBA to ensure this transparency is achieved in a manner that is readily accessible for users. The PIOB notes that the options for achieving this include disclosure in the auditor report.

OTHER PUBLIC INTEREST ISSUES (NO PROJECT ONGOING)

Assurance of non-financial information

Take leadership role in developing assurance standards for non-financial reporting

Reporting on non-financial information, including sustainability and ESG reporting, is a global demand, and assurance on this information will be critical to give confidence to its users about whether the reported information is free from material misstatement.

Along with diverse initiatives in the sustainability and ESG reporting space, many stakeholders have called for the IAASB to prioritize the assurance of such reporting as part of its 2022-2023 work plan. The IAASB should work closely with IESBA to identify key ethical and independence challenges that will arise in this area.

The PIOB acknowledges that the IAASB agreed to dedicate resources to the assurance of non-financial information, including sustainability/ESG reporting, in its 2022-2023 Work Plan, and expects that resource allocation will focus on this high priority project, as well as on Fraud and Going Concern. Scope and timing of the work, which will be

determined once the project starts, should consider investors' and other stakeholders' needs on assurance of sustainability and ESG reporting. The PIOB supports the willingness of the IAASB to collaborate with key stakeholders, including standard setting and regulatory communities.