

PIOB's Public Interest issues: IAASB projects

The PIOB's recommendations are based on the proposals discussed by the IAASB as of June 2022.

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 Project

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

The PIOB considers Going Concern, as well as Fraud and Assurance on Sustainability 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 Going Concern Project

The PIOB welcomes and supports the project on Going Concern approved by the IAASB and agrees with the key public interest objectives to be addressed: i) driving consistency in auditors' behavior and ii) strengthening audit procedures in ISA 570 (revised), as a basis for iii) transparency through the auditor's report with the aim of informing users of financial information and narrowing the expectation gap.

The PIOB encourages the IAASB to act within its own remit to strengthen procedures and increase transparency.

Strengthening the auditor's evaluation of management's assessment of going concern

Extant ISA 570 (revised) requires the auditor to assess the reasonableness of management's assessment of an entity's ability to continue as a going concern, considering management's process and scope of the assessment performed by management. It is important that, in order to achieve the objectives above, the revisions to extant ISA 570 (revised) consider how to enhance an auditor's evaluation of management's assessment (for example, by developing their own expectation of the analysis and assessment provided by management) and the basis of such evaluation (for example, being based on the auditor's risk assessment procedures and other

Going Concern Project

information gathered, and through the exercise of professional skepticism and professional judgment).

In addition, audit procedures should be strengthened in ISA 570 (revised) in relation to the identification of events and conditions that may contradict management's assessment of the entity's ability to continue as a going concern, the evaluation of cash-flow forecasts, underlying assumptions and scenarios, and the impact on the going concern assessment of subsequent events (e.g. pandemic, war).

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

The PIOB believes that it would be in the public interest for auditors' 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. The auditor may consider reporting on what work has been done in respect of assessing and concluding about going concern. The PIOB welcomes the IAASB's consideration of whether and, if so, how auditors' reports might provide transparency about "close call" situations.

Additionally, in line with ISA 540, the auditor may be permitted or required to communicate directly with regulators or prudential supervisors in case of doubts about the entity's ability to continue as a going concern.

The PIOB welcomes the coordination among different IAASB task forces, such as the Fraud and PIE task forces, that are also addressing transparency enhancements in the auditor's report, to ensure alignment and overall coherence of the different proposals.

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 Sustainability 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

Fraud Project

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 control risk and detection risk), and the way they interrelate, and how they assist to further address the expectation gap.

The PIOB notes the importance of the IAASB coordinating with the IESBA (for potential changes needed in the Code of Ethics) and with the other stakeholders involved in the financial reporting ecosystem. However, changes elsewhere in the ecosystem don't diminish the need to strengthen the auditor's responsibilities in relation to Fraud.

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

The PIOB sees a number of key elements which need to be strengthened in ISA 240. First, it is important that the standard emphasize that the existence of fraud can result in financial statements being misstated, and reinforce the importance of the auditor obtaining reasonable assurance that the financial statements are free from material misstatements due to fraud. In this regard, the tone of ISA 240 could be strengthened to ensure that auditors understand the need to 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 standard should then 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 PIOB also encourages the IAASB, in pursuing the project objective, to explore how the auditor should take into account aspects such as external sources of information, culture and tone at the top, the role of the group auditor regarding the risk of material misstatement at component level, and the use of IT tools, and consider how they could impact the detection of fraud.

It is also important that the Fraud project focuses not only on ISA 240 but also on identifying future revisions to strengthen requirements in other standards that have the potential to drive significant changes in the attitude and behavior of auditors throughout the audit process, including testing internal controls, through the exercise of professional skepticism and professional judgment.

Transparency through Communication with TCWG and in the Auditor's Report

It is in the public interest that auditors report fraud that they identify and provide early warning on suspected fraud, including through communication with those charged with governance, external authorities and in the auditor's report. This can ensure

Fraud Project

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 IAASB proposals to enhance the two-way and ongoing communication with TCWG, through additional requirements in ISA 240. While transparency on fraud is an important consideration for the auditor's report, the PIOB notes that other projects, including Going Concern, also have implications for the report and the PIOB therefore welcomes the coordination among the different Task Forces on transparency.

The PIOB looks forward to the outreach planned by the IAASB to specific groups of stakeholders (preparers, TCWG, users), which will gather input on the transparency options and level of detail in the auditor's report, about the fraud risks identified, the auditor's response and the relevant findings. What auditors will need to disclose may drive improved auditor behaviors, may potentially contribute to enhanced transparency in the company management's and TCWG's reporting on fraud, and may help addressing the expectation gap.

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 develop requirements that are scalable and proportionate to the typical nature and circumstances of an LCE 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. The IAASB will need to take into account concerns raised by the respondents to the ED, which relate to a stand-alone ISA for LCEs and the perceived lower level of audit quality which may be achieved by applying the standard.

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. The PIOB is supportive of the direction being taken by the Board to clarify and narrow the scope of the standard and consider how group audits fit with the notion of LCE, in light of comments received to the ED. In addition, the PIOB encourages the IAASB to consider how to address circumstances of an LCE where the entity is not auditable

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

(e.g. in respect of the internal control environment) or a clean opinion cannot be given. The PIOB looks forward to the upcoming proposals and discussions at the IAASB.

Importance of outreach

The PIOB welcomed the consultation and encouraged 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 a LCE audit is of equal quality and level of assurance, not to dilute the value of the ISAs and audits in general. The PIOB is aware of the concerns raised in the consultation of the ED, especially on the perception that two levels of audits may be created with the introduction of a separate ISA for LCEs and the IAASB should take into account these concerns.

Resources and timing of the projects on LCEs

As a result of the consultations and outreach undertaken on audits of LCEs, the PIOB supports 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, which was finalized by the IAASB in April 2022 and will be updated as necessary).

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. The PIOB notes the concerns raised to the ED on the ISA for LCEs project and the prioritization assigned in the work plan.

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.

Objective of the project

The PIOB urges the IAASB to ensure that the revision of ISA 500 goes beyond embedding concepts already used in the audit practice (such as: automated tools and techniques, blockchain, etc.).

Audit Evidence – ISA 500

The IAASB could consider the following topics in order to strengthen ISA 500: a) Auditors’ role regarding the relevance and reliability of information which is used as audit evidence, in view of possible fraudulent information or unreliable sources of information; b) Encouraging auditors, as appropriate, to seek external sources of specific information, which could contradict or corroborate audit evidence obtained from the client; c) Addressing new technologies (digital information); d) Strengthening professional skepticism in evaluating whether there is sufficient appropriate audit evidence obtained to support the opinion and regarding the reliability of information which will be used as audit evidence; e) Clarifying the minimum level of audit evidence resulting from internal control testing and its impact on audit evidence needed from substantive testing; f) Consideration of the balance between Application Material and Requirements in the revised standard, in view of driving improved behaviors, clarity and enforceability (e.g. persuasiveness of audit evidence). The IAASB could further describe and explain its thought process and request feedback about whether the exposure draft achieves the right balance.

Coordination among TFs and SSBs

Audit Evidence is deeply interrelated with Technology, Fraud and other projects 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.

The PIOB welcomes the IAASB’s work under its Disruptive Technology initiative to anticipate and prepare for the impact of emerging technology on audit and assurance.

Definition of PIEs

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

Definition of PIEs

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 welcomes the IAASB's approval of a project to address these matters.

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 welcomed the provision in the Code that requires firms to disclose when a firm has applied the independence requirements of PIEs and urged both the IAASB and IESBA to ensure this transparency is achieved in a manner that is readily accessible for users. The PIOB notes the IAASB's exposure draft proposing that firms be required to disclose when differential independence requirements were applied, in the auditor's report.

The PIOB encourages the IAASB to obtain sufficient input through the exposure draft consultation as well as through targeted stakeholder outreach to investors and other users on how enhanced transparency on independence requirements could best be achieved.

OTHER PUBLIC INTEREST ISSUES (NO PROJECT PROPOSAL APPROVED YET)

Assurance on Sustainability Reporting

Take a leadership role in developing assurance standards on sustainability 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 the reported information. The complex and multidisciplinary nature of sustainability reporting bring very significant challenges to providing assurance, including by the audit profession.

Assurance on Sustainability Reporting

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 the IESBA to identify key ethical and independence challenges that will arise in this area.

The PIOB appreciates the timely IAASB's response to dedicate resources to the assurance on sustainability 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. The PIOB supports the willingness of the IAASB to collaborate with key stakeholders, including standard setting and regulatory communities.

Possible Scope of an Assurance Standard(s) on Sustainability Reporting

The PIOB agrees with the Working Group's proposal that an assurance standard(s) on sustainability reporting should be neutral from different perspectives (reporting framework, users, assurance provider). A set of dedicated assurance standards would help drive clarity, comparability, transparency and consistency, and could build on the current content of ISAE 3000 (Revised), ISAE 3410 and EER guidance.

Some important topics which the sustainability standard could include are: nature and extent of audit evidence, materiality and double-materiality concept, consideration of risks of material misstatements, reliance on work of others and use of experts.

The PIOB supports the current approach undertaken by the IAASB to develop a stand-alone standard for sustainability assurance, which is neutral with respect to both the reporting framework and the type of assurance provider.