



PIOB’s Public Interest issues: IAASB projects

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

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

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ONGOING PROJECTS/INITIATIVES

Assurance on Sustainability Reporting
<p>Take a leadership role in developing assurance standards on sustainability reporting</p> <p>Reporting on non-financial information, including sustainability, is a global demand, actively included in the agenda of international standard setters. Assurance of such reports is critical for investor confidence and the integrity of such reports. The complex and multi-disciplinary nature of sustainability reporting bring very significant challenges to providing assurance, including by the audit profession.</p> <p>Along with diverse initiatives in the sustainability and ESG reporting arena, many stakeholders have called on the IAASB to prioritize a global standard on the assurance of such reporting as part of its 2022-2023 Work Plan and for the upcoming 2024-2027 Strategy and Work Plan.</p> <p>The PIOB appreciates the timely response by the IAASB to dedicate resources to the assurance on sustainability reporting, in its 2022-2023 Work Plan and upcoming Strategy, and encourages the IAASB to ensure that</p>



Assurance on Sustainability Reporting

resource allocation will be consistent with the focus on this high priority project, similar to the Fraud and Going Concern projects.

The PIOB supports the willingness of the IAASB to collaborate with key stakeholders, including the IESBA, other standard setters, and the regulatory community.

The PIOB acknowledges the progress achieved by the IAASB with the approval of the project proposal.

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

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, and which addresses both limited and reasonable assurance. In the longer term, a set of dedicated assurance standards would most likely contribute to enhancing clarity, comparability, transparency and consistency, and would build on the current content of ISAE 3000 (Revised), ISAE 3410 and EER guidance.

The PIOB agrees with the direction of the IAASB regarding the topics which the sustainability standard could include, such as: 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, and fraud.

Going Concern Project

In light of corporate and audit failures in the past and the additional going concern risk placed on entities due to the global economic and geopolitical risks, 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 IAASB's Strategy and

Going Concern Project

Work Plan and is encouraging the IAASB to prioritize resources to focus on these projects.

Objectives of the Going Concern Project

The PIOB welcomes and supports the project on Going Concern and agrees with the key public interest objectives to be addressed, namely: (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 better 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, 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 information gathered, and through the exercise of professional skepticism and professional judgment).

In addition, audit procedures in ISA 570 (revised) should be strengthened 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).

Going Concern Project

In summary, the PIOB supports the IAASB's proposals to strengthen the risk assessment procedures in relation to going concern, as well as the auditor's evaluation of management's assessment of going concern. It encourages the IAASB to further explore how to make explicit in the standard the need for the auditor to make an assessment independent from that of management and design audit procedures in response to the assessed risks.

Explicit reference to Going Concern in the Auditor's Report

The PIOB is of the view 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 in terms of the relevant financial reporting framework was appropriate. The auditor may consider reporting on what audit work has been performed in assessing and concluding on going concern.

The PIOB welcomes the IAASB's consideration of whether and, if so, how audit reports might provide transparency about "close call" situations.

Furthermore, the PIOB supports the proposals whereby the auditor should determine whether it may be required, or appropriate under the circumstances, to communicate directly with external authorities, such as 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 and audit failures in the past and the global economic and geopolitical risks, auditors have an important role to play in this regard, to serve the public interest.

The PIOB considers Going Concern, Fraud and Assurance on Sustainability Reporting as high priority projects in the IAASB's Strategy and Work Plan and is encouraging the IAASB to prioritize resources to focus on these projects.

Objectives of the Fraud Project

The PIOB supports the Fraud project and is of the view 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 financial statements audits.

As the IAASB's work progresses, the PIOB encourages the Board to holistically evaluate the necessary considerations by the auditor, such as elements of the audit risk model (including inherent risk, internal controls and detection risk), their interrelationship 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 corporate reporting ecosystem. However, changes elsewhere in the ecosystem do not 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 is of the view that a number of key elements need to be strengthened in ISA 240. First, it is important that the standard emphasizes 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

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that the auditor understands the need to place the same level of importance on identifying misstatements due to fraud as on identifying misstatements due to error. Inherent audit limitations should not be perceived as diminishing an auditor's responsibilities to identify material misstatements due to fraud. The standard should clearly articulate the auditor's work effort in respect of fraud to sufficiently address the risk of misstatements and to bring this risk to an acceptably low level.

The PIOB encourages the IAASB, in pursuing the project objective, to explore how the auditor should consider aspects such as external sources of information, culture, tone at the top, the role of the group auditor in respect of the risk of material misstatement at a component level, and the use of IT tools, and consider how these could impact the detection of fraud.

It is 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 through communication with those charged with governance (TCWG), external authorities and in the auditor's report. Such disclosure would contribute to appropriate communication of fraud risks, procedures performed, 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 by the auditor with TCWG, through additional requirements in ISA 240.

The PIOB acknowledges the outreach conducted by the IAASB to specific groups of stakeholders (preparers, TCWG, users, etc.), which gathered input on the options for enhancing transparency in the auditor's report. The PIOB

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supports the relevant proposals, which include a separate section in the auditor's report describing the identified and assessed fraud risks, the auditor's response and the relevant findings/observations. Consideration of significant deficiencies in internal controls, which may help preventing or detecting fraud, is also an important aspect. What the auditor needs to disclose can be expected to drive changes in auditor behavior, and in turn contribute to enhanced transparency in management's and TCWG's reporting on fraud, thus helping to address the expectation gap. The PIOB looks forward to the consideration by the IAASB of the views from a broad group of stakeholders about transparency in the auditor's report.

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 auditor's report. The PIOB therefore welcomes the coordination among the different task forces considering issues involving enhanced transparency.

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 audit while ensuring that assurance is not weakened, either in 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 consider the concerns raised by the respondents to the exposure draft, which relate to a stand-alone ISA for LCEs and the perceived lower level of audit quality which may result from applying the standard.

Scope of a separate ISA for LCEs

Audits of Less Complex Entities (LCEs) – 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 in establishing the categories of entities that should be excluded from the scope, listed in the “Authority” of the ISA for LCEs.

The PIOB is supportive of the direction taken by the IAASB to clarify and narrow the scope of the standard, by further explaining qualitative characteristics and envisaging quantitative thresholds to be established by local jurisdictions.

In addition, the PIOB encourages the IAASB to consider how to address circumstances of an LCE which is not auditable (e.g. due to the internal control environment), or an unmodified audit opinion cannot be expressed.

The PIOB looks forward to the upcoming considerations by the IAASB on the inclusion of group audits and how to deal with complex accounting estimates.

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 exposure draft, especially in respect of the perception that two levels of audits may be created with the introduction of a separate ISA for LCEs, which requires careful consideration by the IAASB.

The PIOB reiterates the importance of the IAASB continuing to reach out to the regulatory community to explain the purposes and the intended benefits of the standard.

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.).

The IAASB could consider the following topics in order to strengthen ISA 500: (i) the auditors' role in respect of the relevance and reliability of information which is used as audit evidence, in view of possible fraudulent information or unreliable sources of information, (ii) encouraging auditors, where appropriate, to seek external sources of specific information, which could contradict or corroborate audit evidence obtained from the client, (iii) addressing new technologies (digital information), (iv) strengthening of 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, (v) clarifying the minimum level of audit evidence resulting from internal control testing and its impact on audit evidence needed from substantive testing, (vi) giving consideration to the balance between Application Material and Requirements in the revised standard, in view of driving improved behavior, clarity and enforceability (e.g. persuasiveness of audit evidence).

The PIOB welcomes the IAASB's approval of the exposure draft and the explanatory memorandum which describes and explains its thought process, and looks forward to feedback from stakeholders about whether the exposure draft achieves the right balance.

Coordination among task forces and the Standard Setting Boards

Audit Evidence – ISA 500

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.

The PIOB welcomes the IAASB's work in terms of 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

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 done by the IAASB to ensure that replacing "listed entities" with "PIEs" in

Definition of PIEs

the current ISAs and Quality Management Standards do 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 auditor’s report and financial statements as to the criteria applied to classify an entity as a PIE, or not, and to achieve enhanced confidence in the audit of PIEs.

The PIOB welcomed the provision in the Code that requires disclosure when an audit firm has applied the independence requirements of PIEs. The PIOB 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 proposes that audit firms be required to disclose when differential independence requirements were applied, in the auditor’s report. In this regard we encourage 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.