

BRIEFING MEMO  
IAASB  
December 5-9, 2022  
In-Person Meeting (New York, USA)

*Disclaimer: This memo is prepared by PIOB staff, in advance of the SSB meeting, applying their best knowledge and their own judgement in identifying and communicating matters of public interest and due process. PIOB Staff views are discussed with the PIOB observer and the PIOB Board and do not pre-empt further PIOB's views or discussions. The main objectives of this memo are to support the PIOB member in his/her SSB meeting observation and to help maintaining consistency and continuity of oversight.*

The agenda includes the following items:

- 2 – STRATEGY & WORK PLAN 2024-2027
- 3 – ISA FOR LCEs
- 4 – GOING CONCERN
- 5 – FRAUD
- 6 – LISTED ENTITY AND PUBLIC INTEREST ENTITY (PIE)
- 7 – SUSTAINABILITY ASSURANCE

Please refer to the PIOB's Public Interest Issues on the individual IAASB projects, as of September 2022, published in the PIOB website:

<https://ipiob.org/wp-content/uploads/2022/11/PIOB-PI-Issues-on-IAASB-projects-October-2022.pdf>

## 2 - STRATEGY AND WORKPLAN 2024-2027

Objective: The IAASB's current Strategy and Work Plan (SWP) runs from 2020-2023. The new SWP for 2024-2027 should be approved by December 2023.

Background and Status: The IAASB has revised the draft Consultation Paper (CP) on the IAASB's SWP for 2024-2027 with feedback received in September and plans to approve it in the current meeting.

### Notes/key points from the review of the documentation for this meeting

The draft CP (item 2-A, marked up, and 2-B, clean) includes three sections: request for comments, proposed strategy for 2024-2027 and proposed WP for 2024-2027.

The Planning Committee has made several changes to the draft CP presented in September, including more open-ended questions, increased focus on the coordination with IESBA and potential areas of interdependency, enhancements to the strategic goals and drivers (such as emphasizing the notion of audit and assurance quality), and adding further information about what each of the potential new projects entails.

Enhanced reference to the need of timeliness in meeting expectations of stakeholders has also been added, with an explicit recognition to the need to look for ways of advancing targeted timelines: *"we will seek opportunities to advance targeted timelines, for example, through efficiencies in processes or procedures within the project cycle or innovating with respect to the project cycle"*.

As noted in September, most of the Work Plan for 2024-2025 will be focused on progressing and completing projects that are carried over from the current SWP, such as Audit Evidence, Going Concern, PIEs, Fraud, as well as the Sustainability standard (Table A of the CP).

The new projects expected to start in the Work plan period continue to be mentioned only in number (i.e., 1 project in 2024, 2-3 in 2025, etc.). The identification and prioritization of the projects will be based on the criteria set in the Framework for Activities.

Possible PIR projects would be ISA 540 (revised), ISA 315 (revised) and QMS. Possible new projects are listed in Table B and include (same as in September): Materiality (Revision of ISA 320); Responding to Assessed Risks of Material Misstatement (Revision of ISA 330); Standards in the 500 series (such as ISA 501, 505, 520, 530 and technology omnibus project); Using the Work of an Auditor's Expert (Revision of ISA 620); Updating ISA 720 (Revised) for challenges arising from the implementation; Review of Interim Financial Information (Revision of ISRE 2410); Joint audits; Further Standards for Assurance on Sustainability Reporting; and Assurance on XBRL. The order of the projects has been changed to align with the sequencing of the ISAs and avoid implying that there was a prioritization in the order of appearance in the list.

The exposure period will be 90 days (due by April 2023) to allow sufficient discussion time of responses and approval by December 2023.

### Public Interest Issues

Please refer to PIOB's Public Interest Issues on Assurance on Sustainability reporting (IAASB project), as of September 2022, published in November 2022:

<https://ipiob.org/wp-content/uploads/2022/11/PIOB-PI-Issues-on-IAASB-projects-October-2022.pdf>

*PIOB Staff comments on PI*

The draft CP is fairly consistent with the version presented in September, with some refinements. As noted in September, the SWP for the next 4 years is very much aligned and a continuation of the current one, as most of the first two years (even 3) are already taken up with the completion of projects currently underway and that are key priorities of the IAASB, such as GC and Fraud, as well as the more recent prioritization of sustainability assurance, which will need a significant allocation of time and resources in the upcoming years to meet stakeholders' demands.

The emphasis added on the need for coordination with IESBA is a welcome addition and shows that the two SSBs are working together and considering how to coordinate more effectively. This is something that was also highlighted in a meeting with one of our stakeholders, as they have identified specific areas of overlap, such as fraud, skills and mindset of PAs, or internal culture of firms, that are addressed in IAASB standards, but also touch upon ethical considerations.

The reference to the timeliness and potential opportunities to advance targeted timelines is also an important addition, and responsive to the comments raised by the PIOB observer. However, the CP still falls short of providing somewhat more clear indication about which of the potential new projects could be prioritized or started in the first batch of projects. This is based on current practice of considering the Work Plan a live document, that should have enough flexibility to be updated depending on the development of current ongoing projects, as well as emerging needs. Having flexibility to adapt and adjust the Work Plan in response to upcoming needs and availability of resources is reasonable and sensible, giving the multiple drivers of uncertainty, specially in the area of sustainability, as well as the implementation of MG reforms. Nevertheless, some further guidance on potential projects to be targeted first, beyond the criteria under the Framework for Activities, might still be helpful to obtain meaningful input from stakeholders.

3 – ISA FOR LCES

Objective of the project: to develop a stand-alone ISA for audits of financial statements of LCEs.

Background and Status: in response to the comments to the ED and feed-back gathered at the international conference in May 2022, the IAASB had previously discussed specific themes of the ISA for LCEs. At this meeting, the TF will propose few

parts revised/redrafted (Authority, Part 6, Part 10), and will seek the approval of the ED for Part 10 (Group Audits) and conforming amendments.

Notes/key points from the review of the documentation for this meeting

The documentation includes the issues paper (item 3), the proposed Part 10 (Group Audits) (item 3-B, marked-up from September), conforming amendments (item 3-D), the revised Part 6 (Risk Identification and Assessment – item 3-F), the explanation of significant changes occurred to those two parts (item 3-A) and some supplemental documentation.

**Group Audits (Part 10) and Authority**

Based on discussions and decisions at the September meeting, the TF has excluded Group Audits (GA) which involve Component Auditors (CAs) from the scope of the ISA for LCEs. The definition of CA in ISA 600 has been used and added as Essential Explanatory Material (EEM) under the Authority section<sup>1</sup>. The current drafting reads: “A1. The ISA for LCEs shall not be used if: ... d) The audit is an audit of group financial statements and: (i) Any of the group’s individual entities or business units meet the criteria as described in paragraph A.1.(b) or A.1.(c)<sup>2</sup>; or (ii) Component auditors are involved”. Requirements and material in the standards which related to the involvement of CA, included in the September draft, have been removed.

Communication to TCWG, including related to fraud (or suspected fraud), is embedded in the text.

Additional qualitative characteristics which need to be considered for the purpose of GA, and applied to the single entity or business unit, include: group structure and activities, access to information or people, consolidation process.

The ED for Part 10 (GA) is planned to be approved at this meeting and will possibly be published in January 2023, with a 90-day comment period, shorter than the ordinary 120-day period, considered appropriate by the TF, given the length and concise nature of Part 10.

The TF envisages discussing the feed-back from the consultation in September 2023, with a view to approve the final Part 10, along with the remaining parts of ISA of LCEs, in December 2023.

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<sup>1</sup> The EEM explains that a single legal entity may be organized with more than one business units. The definition of group financial statement is met when there is a consolidation process of the financial information of more than one entity or business unit. The component auditor is defined, according to ISA 600 (“... an auditor who performs audit work related to a component for purposes of the group audit”).

<sup>2</sup>

### Risk Identification and Assessment (Part 6)

The issues paper (item 3) reminds the main comments from respondents to the ED about this part, including the need to make it more scalable, without compromising audit quality. Comments related to the risk assessment and internal controls, identification and assessment of risks of material misstatements (ROMMs), analytical procedures, presumption of risk of fraud in revenue recognition, etc.

Revisions proposed by the TF to Part 6 are presented in agenda item 3-F. There has been simplification of some language, as well as expansion of some Essential Explanatory Material (e.g. analytical procedures to identify and assess the risk of material misstatements; further explanation of fraud, taking into account LCE's specificities, such as owner-managed entities and segregation of duties; related parties transactions (e.g. with family members of owner-manager); inquiries of management and others, also in relation to the risk of fraud; the different elements to understand the control environment, the system of internal controls, the preparation of financial reporting information, the control activities, deficiencies of control system, etc.).

In response to comments, the TF has proposed: to combine in one step the risk identification and assessment process; to remove the requirement to explicitly understand effect of inherent risk factors, which is now included in the EEM (par. 6.4.1); to remove the presumption of fraud in revenue recognition, replaced by the text: "*The auditor shall determine whether there are types of revenue, revenue transactions or assertions that give rise to risks of material misstatement due to fraud. When identifying risks of material misstatement due to fraud, the auditor may consider whether unusual or unexpected relationships have been identified in performing analytical procedures, including those related to revenue accounts*" (par. 6.4.2).

### Quantitative Thresholds

The Authority section has been revised, to include stronger wording on the expectation that local authorities determine quantitative thresholds. The EEM has been expanded and it now provides some examples, with a reference to EU definitions, which may be adjusted.

The TF will continue with the drafting of the remaining parts in the ISA for LCEs, among which: engagement and firm quality management, accounting estimates, documentation. The revised parts are planned to be discussed at the March 2023 meeting. A full draft of the standards (excluding Part 10) is expected in June 2023.

The TF has liaised with the Definition of Listed Entities and PIEs TF, with the Going Concern TF, and is considering liaising with the Fraud TF and Technology Consultation Group as well.

### Public Interest Issues

Please refer to the PIOB's Public Interest Issues on ISA for LCEs, as of September 2022, published in the PIOB website.

<https://ipiob.org/wp-content/uploads/2022/11/PIOB-PI-Issues-on-IAASB-projects-October-2022.pdf>

### PIOB Staff comments on PI

The proposed exposure period of 90 days (vs. the ordinary 120-day period) for Part 10 is reasonable, given that this part is short and has been simplified, as component auditors have been excluded from the scope. The timeline is acceptable also with the plan that the full ISA for LCEs should be finalized by the end of 2023.

The proposed redrafting of the authority in the standard should help addressing concerns raised by stakeholders.

The TF proposes not to re-expose the Authority section, as the changes to the ED have been occurring in response to the input received. As they say in the paper, it will be explained in the Explanatory Memo, and we will need to follow up on whether appropriate information is provided in that context.

We keep supporting this project and its finalization by the end of 2023. No additional issues, on top of the ones already published in the PI list, are raised at this stage.

## 4 - GOING CONCERN

Objective of the project: The Going Concern (GC) project objectives are to:

- (a) Promote consistent practice and behavior and facilitate effective responses to identified risks of material misstatement related to going concern;*
- (b) Establish a more robust evaluation of management's assessment of going concern, including reinforcing the importance, throughout the audit, of the appropriate exercise of professional skepticism; and*
- (c) Strengthen the communication and reporting requirements with respect to the auditor's responsibilities and work related to going concern.*

Background & status: Information gathering activities for GC started in 2020, including issuing a Discussion Paper (DP) and holding 3 roundtables. The GC project proposal was approved in March 2022 and revisions to ISA 570 have been discussed in June and September 2022.

At the December meeting the TF will present the final set of proposals to address the remaining actions under the project proposal (item 4-C provides a mapping exercise between key proposals and the project proposal). The TF proposals include a full revised draft of ISA 570 (items 4-B, marked-up, and item 4-D, clean) and conforming amendments (item 4-B). The IAASB expects to approve the ED in March 2023 and finalize the project in June 2024.

Notes/key points from the review of the documentation for this meeting

The issues paper (item 4) presents an update on activities carried out by the GC TF and explains the key additional proposals since September.

The TF proposes recommendations for the remaining issues in the project proposal such as (i) how to use information from sources external to the entity, including a requirement to evaluate the intent and the ability of the third parties or related entities to provide the financial support (para. 16CA), but fall short of requiring written confirmation (only application material) and (ii) introduces several references to the use of technology in the application material.

Based on comments received since September, the TF has also revised some previously discussed sections as follows:

- Auditor's evaluation of management's assessment - In response to the PIOB's recommendation in the PI Issues list, the TF has reconsidered its recommendations, and, while it still believes it cannot go to the extent of explicitly requiring that the auditor develops its own GC assessment, it has made some changes to enhance and strengthen the auditor's evaluation of management's assessment, including a new requirement (para 16BB and related application material) to request management to revise its assessment and the auditor to perform additional procedures on the revised assessment in case he/she identifies events or conditions that may cast a significant doubt about GC that management has not previously identified. In addition, some other amendments were made in this section to simplify and clarify the requirements.
- Transparency requirements about going concern – The TF has proposed modifications to the required disclosures in the auditor report:
  - When events and conditions are identified but no material uncertainty exists (para. 21B and 22 and provided application material) the

disclosures have been revised to avoid the concern raised by a board member about the risk of providing original information.

- o When the auditor expresses a qualified or adverse opinion because a material uncertainty exists and no adequate disclosure has been provided in the FS, the auditor is required to also include a section called “Material Uncertainty Related to GC” stating his/her conclusion that the use of GC is adequate and drawing the attention to the lack of adequate disclosures.
- o When the auditor disclaims an opinion, a new requirement (para. 23AA) was added that clarifies that the auditor should not provide further information in a separate section of the audit report, in line with requirements in ISA 705 for KAMs.
- o Finally, in order to cover all possible situations that the auditor may find, a requirement was added with the disclosures that the auditor would need to make (para. 23A) when he/she concludes that the use of the GC assumption is not adequate.
- Other topics: aligned and clarified terminology, clarified drafting related to risk identification and assessment (mostly in application material), enhanced references to the exercise of professional skepticism, clarified actions when management is unwilling to expand the period of its assessment, enhanced communication with TCWG, and introduced considerations for public sector entities.

In addition, the TF will also present proposed conforming amendments (item 4-B), that focus primarily on aligning terminology, references to the revised ISA 570, updating the illustrative examples and adding examples related to GC in some relevant ISAs. Some more substantial amendments were made to the 700 series, to clarify which standards are applicable when reporting matters of GC. The revisions to ISRE 2400 (or lack thereof) needed further debate and are described in somewhat more detail to elaborate on the reasons for limiting them.

After December the TF intends to discuss with the IAASB PIE TF to address any alignments necessary to differential requirements resulting from that project.

### *Public Interest Issues*

Please refer to the PIOB’s Public Interest Issues on the Going Concern project, published in November 2022:

<https://ipiob.org/wp-content/uploads/2022/11/PIOB-PI-Issues-on-IAASB-projects-October-2022.pdf>

*PIOB Staff comments on PI*

As stated in previous BMs, the proposals of the TF should be welcomed and strongly encouraged as they i) strengthen the requirements in ISA 570 making more robust the procedures performed by the auditor in evaluating management's GC assessment and ii) include an explicit conclusion in the auditor report about the use of the GC assumption, meeting clearly the public interest. The analysis and recommendations take into account stakeholder's feedback, including comments from the MG, as well as the PIOB's public interest issues.

The strengthening of risk assessment procedures and the evaluation of management's assessment of GC, including the latest revisions made in response to the PIOB's recommendation, while not fully adopting our recommendation, go a long way in addressing the concerns raised that the auditor should be able to challenge management's assessment and have a robust basis to conclude on the adequate use of the GC assumption.

We also noted previously that requiring an explicit statement in the audit report about management's use of the GC basis of accounting and the additional disclosures are very much in the public interest. It is worth discussing one of the revised disclosures: for listed entities, in case of "close calls" or if a material uncertainty exists the standard calls for a description of "*how the auditor evaluated management's assessment of the entity's ability to continue as a going concern*". This disclosure has been revised to address concerns that the auditor should not disclose original information not previously disclosed by the entity, and to support it, the TF has provided helpful application material on how to avoid this situation, what type of information could be provided, suggestions to encourage management or TCWG to disclose the necessary information, and guidance to not use "boilerplate" language.

We acknowledge that there could be limitations of what information can be provided due to confidentiality obligations and that certain information is the responsibility of the entity (management and TCWG), however, it should also be acknowledged that one of the concerns raised by investors and other stakeholders is that auditor's "warning" about GC issues come usually too late. These new disclosures in the auditor report are the opportunity to provide an early warning of potential concerns about the GC of an entity and how they have been addressed in the audit. This may require providing information (non-confidential) that auditors have not generally provided and too many limitations and cautions in the standard about not "providing original information" might discourage auditors to include the most relevant information for users of FS. In this regard, the TF and IAASB could be encouraged to take a step back to reconsider whether the cautionary language may have unintended consequences

and if this concern about “providing original information” is still valid when stakeholders are demanding more relevant information from the auditors.

We will also need to follow up on further developments in relation to the PIE project and whether any differential requirements should be applied to additional entities beyond listed entities (i.e. to all PIEs), which would be in the public interest.

## 5 – FRAUD

Objective of the project: enhance and clarify the role and responsibilities of the auditor in relation to fraud in an audit of financial statements. Enhancement of ISA 240 and conforming and consequential amendments to other ISAs.

Background and Status: The IAASB approved the Fraud Project Proposal in December 2021. Based on previous discussions, the TF’s proposals for this meeting will focus on transparency options in the auditor’s report and on “fraud and suspected fraud”, with updated redrafting of ISA 240.

### Notes/key points from the review of the documentation for this meeting:

The documentation includes the Issues Paper (item 5), an explanation of significant changes occurred (item 5-A), and a proposed ISA 240 redrafted<sup>3</sup> (item 5-B, mark-up).

#### Fraud and suspected fraud

Taking into account that fraud (or suspected fraud) may be identified during the risk assessment process (according to ISA 315 and ISA 240) or when performing other procedures (item 5-B – par. 4CA and 8AB, A33A, A33B), the TF has drafted a flow chart (item 5 – page 4) in the different scenarios.

As a response to fraud identified, additional procedures need to be performed by the auditor. The TF is including the different steps in a specific and separate section in ISA 240 (item 5-B – par. 34E-34H and relevant AM), which include: evaluate whether the Risk of Material Misstatements (ROMMs) due to fraud is still appropriate; design and perform additional procedures to obtain additional audit evidence; determine whether control deficiencies exist; determine which additional responsibilities the auditor may have, due to law, regulations and ethical requirements (including NOCLAR in ISA 250); communicate with TCWG about fraud or suspected fraud; consider other implications for the audit (e.g. management’s integrity, reliability, etc.). Considering those implications may result in withdrawing from the audit, if the auditor is unable to continue the engagement (par. 39 b) and c)).

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<sup>3</sup> The mark-up changes include sections which were discussed at previous meetings.

The TF will seek IAASB's input before including new requirements, relocating existing ones or elevating Application Material (AM) to requirements.

#### Transparency in the Auditor's Report

Transparency options in the auditor's report, related to auditor's responsibilities in terms of fraud, were discussed in September. The IAASB agreed to enhance the auditor's report, but concerns were expressed as well.

Among these, the fact that the objective of an audit of financial statements is not to provide an opinion on internal controls, and that a separate section in the auditor's report would "give undue emphasis" to ROMMs due to fraud (vs. due to errors).

The TF suggests following a mechanism similar to Key Audit Matters (KAMs), so that disclosures are encouraged, avoiding boilerplate. That is "*filtering matters that required significant auditor attention in performing the audit by determining which were of most significance and therefore are to be communicated in the auditor's report*".

Appendix 2 of agenda item 5 includes two illustrative examples of the auditor's report, where the TF has envisaged two alternatives<sup>4</sup>:

- *Illustration 1: Separate section "Identified Fraud Risks and the Auditor's Response", following the Going Concern or the Material Uncertainty Related to Going Concern sections.*
- *Illustration 2: Identified fraud risks (and the auditor's response) clearly signposted under the heading "Key Audit Matters, including Fraud Risks".*

The TF prefers option 2 and is somehow reviewing the proposal tabled at the September meeting, which envisaged a separate section for fraud in the auditor's report. The argument is that a separate section for fraud, because of its length and placement, "may overshadow" the KAM paragraph.

To address feed-back from users outreached in the summer, which asked for a separate section, the TF argues that Option 2 would include in the header of KAM, "including fraud risks" and in the subheading of KAM would clearly indicate that it relates to ROMMs due to fraud. See the PI section of this BM on this.

The TF has drafted a section in ISA 240 (parr. 39A-39F in item 5-B), which deals with communication of KAMs related to fraud, and envisages both circumstances where ROMMs due to fraud are disclosed in the auditor's report and where not. The drafting is just indicative and aims to support the discussion, as the TF seeks input from the

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<sup>4</sup> The text proposed includes also drafted paragraphs on Going Concern and on PIEs (i.e. differential independence requirements applicable to PIEs), according to the transparency discussions which are currently occurring for those other two projects.

IAASB, also to develop the relevant AM. Par. 39F currently reads: “If the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no fraud

related key audit matters to communicate, the auditor shall include a statement to this effect in a separate section of the auditor’s report under the heading “Key Audit Matters, including Fraud Risks”.

On deficiencies in internal controls, the TF has not deliberated yet and will continue the discussion at IAASB level.

The TF aims at obtaining input from the IAASB on the approach proposed, and the placement of the “fraud paragraph”, rather than on the actual drafting.

#### Redrafting of ISA 240

ISA 240 has been redrafted (item 5-B), according to the discussions held at the last two IAASB meetings.

Among the most important redrafting: expansion of professional skepticism (PS) in the AM (par. A5B), with a reference to ISQM1, commitment to quality and tone at the top, allocation of appropriate resources, pressures on the engagement team which may impede the exercise of PS; forensic and IT skills are explained in the AM (par. A12A-A12E); ongoing nature of communication with TCWG (requirement in par. 16B and further explanation in AM); the presumption of fraud risk in revenue recognition has been further explained (parr. 27, A29A, A30B).

The changes related to ISA 315, in the Risk Assessment Procedures and Related Activities, as well as in the Obtaining an Understanding of the Entity sections were already discussed in previous meetings.

The TF will continue addressing all the topics identified in the project proposal and coordinating with other TFs and the IESBA. An almost full draft of ISA 240 is expected at the March 2023 meeting.

#### Public Interest Issues

Please refer to the PIOB’s Public Interest Issues on the Fraud project, as of September 2022, published in the PIOB website.

<https://ipiob.org/wp-content/uploads/2022/11/PIOB-PI-Issues-on-IAASB-projects-October-2022.pdf>

#### PIOB Staff comments on PI

The redrafting of the different parts in ISA 240 is consistent with the objective to clarify and strengthen the standard, especially where it expands on key concepts such as professional skepticism and commitment to quality.

On the transparency options in the auditor's report, the proposals of the TF are not fully in line with the outcome of the targeted outreach conducted during the summer, where users/investors clearly preferred a separate section, different from KAM. The TF, besides the arguments brought (undue emphasis, etc.), should explain why they intend to deviate from that outcome. Fraud needs to have its prominence in the auditor's report (not included as a subsection of KAM) as most audit failures are related to fraud. Moreover, requiring to specifically report on fraud, may drive a different auditor's behavior.

As we pointed out in our previous BM, it is important that the IAASB maintains the approach of having a separate section, dedicated to fraud, in the auditor's report, to give it the right emphasis. It is also important that deficiencies in internal controls are described, as internal controls are often the key to prevent or detect fraud.

## 6 – LISTED ENTITY AND PUBLIC INTEREST ENTITY (PIE)

Objective of the project: This narrow scope project originated from the IESBA project to review the definitions of Listed Entity and Public Interest Entities (PIE) in the Code of Ethics, with a key objective to achieve convergence between concepts in the Code and ISAs.

Background & status: The IESBA approved final pronouncements in the Code in December 2021 (approved by the PIOB in April 2022). The IAASB approved a project proposal to address PIE matters in its March 2022 meeting which is being developed in two phases or tracks:

- Track 1 (fast moving) addressing transparency of independence requirements applicable to PIEs (with an effective date aligned with IESBA's PIE pronouncement of December 15, 2024) – The IAASB approved an ED in June 2022 and will discuss feedback in March 2023, with a view to approve the final pronouncement in June 2023.
- Track 2 addressing convergence of concepts between the Code and ISAs and other matters, to be finalized by September 2024 (with a later effective date) – The IAASB will start discussing main issues related to this track in the current meeting and target drafting and discussing the ED in June 2023.

Notes/key points from the review of the documentation for this meeting

Agenda item 6 includes the issues paper with discussion of the several analyses performed by the TF to address the objectives of this track 2. Item 6-A includes all proposed revisions to ISQMs and ISAs resulting from the following key conclusions:

- Objective and guidelines for establishing “differential requirements” – The TF proposes (i) to include in ISQM 1 and ISA 200 the “overarching objective” established by IESBA in para. 400.8 of the Code, with some tailoring to adapt it to the IAASB context; (ii) to develop a more tailored objective for IAASB, based on para. 400.10 of the IESBA Code, that refers to “independence requirements”; and (iii) to develop guidelines on how the IAASB can determine when to identify differential requirements for certain entities in future projects, such as providing transparency, assisting TCWG, reporting certain matters to external parties, and ensuring more rigorous quality management of certain high-risk engagements.
- Expanding applicability of existing differential requirements to all PIEs (case-by-case analysis) – the TF has identified and analyzed all instances where the ISAs or ISQMs provide differential requirements for listed entities and concluded that there would be sufficient basis to expand the differential requirements to all categories of PIEs, as it would be responsive to previous feedback received (provided in item 6-B) and would promote convergence with the Code and consistency with trends in jurisdictions that have already extended its application. They also believe that the reasons considered by IAASB for not extending those requirements to other entities beyond listed entities at the time they were discussed (namely lack of a consistent global PIE definition and risk of including too many less complex entities) are overcome now by the current definition of PIE developed by IESBA. The TF considered two potential deviations from this conclusion:
  - ISA 720 (revised) – considered (and discarded) whether it should be an exception to extending the requirement to all PIEs, given the limited support from respondents at the time. They will include a specific question in the ED for this requirement.
  - ISA 260 (para. 17) - Proposes to split the requirement in two, one applicable to all entities and another only applicable to PIEs. They have also deleted a duplicative requirement with the Code and included a reference to the IESBA Code instead. These changes required a consequential amendment in ISA 700.
- Factors and examples used in evaluating the extent of public interest of an entity. The TF concluded the following: (i) to include the list of factors in para. 400.9 of the Code in the IAASB standards; (ii) there will be a central list in ISQM 1 and ISA 200; (iii) application material explains how these factors apply to other entities; (iv) assessed the commonality and consistency of the list of factors in the Code and

those in the exiting application material in the ISAs and ISQMs (item 6-C) and determined that overall they are consistent, that the list is not exhaustive and that two additional factors that were not in the list of IESBA but were in ISQM 1 are not necessarily aligned with the overarching objective, and therefore should not be part of the central list of factors, but can be retained in other relevant application material.

- Convergence of definitions used by IAASB standards and the IESBA Code – The TF concludes that it would be appropriate to incorporate the full approach to the definition of PIEs developed by IESBA in ISQM 1 and ISA 200: i.e., incorporate the requirements with the definitions and supporting application material, as well as the recommendations for national authorities and firms in adopting this definition. The requirements and application material from the Code have been adjusted to conform with drafting conventions used in the IAASB standards. They also propose to replace the definition of Listed entity in the glossary with the definition of Publicly traded entity in the Code. As the majority of instances where the term listed entity is used has been replaced with PIE (as noted above), there was no need to replace it with Publicly traded entity, except for two minor cases (para/ A65b of ISA 200 and para. A12 of ISA 720 (Revised)).

The TF has also carried out a deep dive session with the FoF, which overall supported the conclusions, and plans additional engagement on this topic with NSS.

### *Public Interest Issues*

Please refer to the PIOB's Public Interest Issues on the PIE project, published in November 2022:

<https://ipiob.org/wp-content/uploads/2022/11/PIOB-PI-Issues-on-IAASB-projects-October-2022.pdf>

### *PIOB Staff comments on PI*

The TF has performed a thorough analysis of the elements considered in the project proposal for track 2 and has provided helpful supporting documentation for that analysis, which also takes into account the PIF. The conclusions of the TF are aligned with and address the proposals in the PIOB public interest issues, such as achieving convergence with IESBA's Code of Ethics, by adopting the definitions of PIE and publicly traded entity, as well as the factors to determine public interest in the financial condition of an entity. This should ensure that the IAASB's standards and the Code can

be applied in a coherent manner, which is also consistent with the qualitative characteristics of the PIF.

The extension of the existing differential requirements in the ISAs and ISQMs to all PIEs (and not limiting it only to listed or publicly traded entities) is also in the public interest as it meets the heightened expectations on the audits of these type of entities, that require, among other, greater communication with TCWG and transparency with users of the audit report.

The conclusions are very encouraging and show the public interest mindset of the TF, however we should be mindful about an element of the overarching objective that might be challenged by some IAASB members. The overarching objective, as amended by the TF, states the following (para. A29A of ISQM 1 and A76A of ISA 200): *"Some of the requirements set out in the ISQMs/ISAs are applicable only to audits of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders."* When the IESBA discussed the objective and consulted with the IAASB, several members of the IAASB showed discomfort with the use of the term "financial condition". The IESBA, and the consultation carried out, supported the use of this broader term, as they wanted to get away from the narrow definition that may be attached to a term like "financial statements". It is expected that a debate will be generated again at the IAASB and it would not be in the public interest to deviate from the terminology used in the Code, not only because it would add complexity in the application of both sets of standards, but also, because the term "financial condition" provides a broader perspective of what stakeholders expect and care about in these type of entities, not just what is reported in the financial statements, but possibly other elements more connected with the evolving topic of sustainability.

## 7 – SUSTAINABILITY ASSURANCE

Background and Status: the IAASB approved the project proposal for the Sustainability Assurance overarching standard in September 2022. The TF will be presenting its proposals related to parts of the standard which have been drafted.

Notes/key points from the review of the documentation for this meeting:

Following the discussion at the September meeting, the TF reformulated its approach and the criteria to apply, with the aim to determine whether and which requirements, especially from ISAs, are appropriate to be included in ISSA 5000 (item 7 – page 3-4). The assessment of specific ISAs is also provided in the paper (e.g. ISA 315<sup>5</sup> and ISA 500). The Principles and Concepts suggested in ISSA 5000 are explained in item 7.

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<sup>5</sup> Some requirements from ISA 315 have been included in the AM of ISSA 5000 (item 7-E), while others have not been retained as deemed not to be appropriate in sustainability assurance (e.g. risks of controls over journal entries).

Having an understanding, and clear criteria, on how to aggregate and disaggregate sustainability information, is key to perform consistent assurance engagements, regardless of the variety of subject matter information/disclosures. This would ensure consistency, comparability, and ultimately, reliability of engagements.

For this reason, the TF proposes some criteria/guidance on “aggregation” and “disaggregation” of sustainability information for the purposes of assurance engagements, which would help determining the work effort required.

The TF proposes placing the responsibility on the assurance provider to determine the appropriateness of aggregation and disaggregation of information, subject to his/her professional judgment. A useful scheme is provided (item 7 – page 9), with the factors to be considered.

Examples of disaggregation of information are provided, such as: by topic (e.g. climate, labor practices, water, energy), by aspects (e.g. governance, strategy, risks and opportunities, metrics, targets), by characteristics (e.g. qualitative, quantitative, judgmental, factual, historical, forward-looking), etc. Aggregation of information may depend on legal/regulatory requirements, as well as on the agreed terms of the engagement.

The TF, taking into account also the input from the Reference Groups, has drafted some parts of ISSA 5000, which include: Definitions (item 7-A); Part 3 – Acceptance and Continuance (item 7-B); Part 8.2 – Criteria (item 7-B.1); Part 4 – Evidence and Documentation (item 7-C); Part 5 – Planning (item 7-D); Part 8.1 – Misstatements (item 7-D.1); Part 6 – Overview of Risk of Material Misstatements (item 7-E); Part 6 – Risks of Material Misstatements (item 7-E.1). For reference only, the draft structure of ISSA 5000 is included (item 7-F).

The issues addressed in the different parts of ISSA 5000 cover areas such as suitability of reporting criteria, scope of the assurance engagement, materiality<sup>6</sup>, evidence (including reliability and sufficiency of information – material partially taken from current proposals in ISA 500 - Audit Evidence), risk assessment and the entity’s system of internal controls as well as its impact on evidence.

The TF has used requirements from ISAE 3000, 3410 and other ISAs, as well as material from the Extended External Reporting guidance, adapted for the overarching sustainability assurance standard. The rationale for including, excluding or adapting the requirements is explained in the papers. The TF has drafted common requirements which apply to both limited and reasonable assurance and has differentiated, whenever needed, the requirements which apply to each type of assurance (e.g.

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<sup>6</sup> Views from the Reference Group have been provided on these proposals. Among these, the importance of considering materiality where “individual misstatements, although immaterial individually, are misleading when aggregated together in the context of the sustainability information as a whole”.

additional procedures and work effort for the reasonable assurance<sup>7</sup>). The draft text includes also Application Material and scalability considerations.

The composition of the Reference Groups members is included in agenda item 7-G (for reference only). One group includes 13 sustainability experts representing the profession, the other includes 9 sustainability experts representing other assurance providers. Please see the PI section for the geographic composition of the groups.

At the meeting there will be a verbal update from the IESBA on Sustainability (item 8).

### Public Interest Issues

Please refer to the PIOB's Public Interest Issues on "Assurance on non-financial information", as of September 2022, published in the PIOB website:

<https://ipiob.org/wp-content/uploads/2022/11/PIOB-PI-Issues-on-IAASB-projects-October-2022.pdf>

### PIOB Staff comments on PI

The drafting of ISSA 5000 has advanced and, along with the discussion of the different parts, needs to be evaluated from a holistic perspective. As this is a first draft of the standard, it may be helpful, at a later stage, when all the parts are drafted (and before they are exposed), that an "inventory" of requirements taken/adapted/excluded from ISAEs and ISAs is provided, to better understand the rationale undertaken and have an overall view (the same exercise was done for the ISA for LCEs and was really helpful).

The approach followed for the drafting seems to be appropriate, as it envisages requirements which apply to both limited and reasonable assurance, while other requirements are tailored and more specific to the type of assurance.

According to the project proposal, priority areas identified by the IAASB are progressing (e.g. work effort; suitable reporting criteria; scope of the assurance engagement; evidence; entity's system of internal controls, and impact on the evidence; materiality, also in the context of qualitative information; fraud risk, etc.).

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<sup>7</sup> Just as an example, in a limited assurance, the practitioner is required to understand the "results" of the risk assessment, where in a reasonable assurance, the practitioner is required to understand the "entity's risk assessment process". When understanding the entity's internal controls, in a reasonable assurance, the practitioner needs also to understand the control activities and the entity's process to monitor the internal control system.

When designing procedures to assess the Risks of Material Misstatements (ROMMs) (item 7-E.1), the practitioner needs to understand the underlying subject matter, the entity and its environment, and the applicable criteria (these elements are required in limited assurance). In addition to that, when performing a reasonable assurance, the practitioner needs to identify and assess the ROMMs due to error or fraud and design further procedures.

The language used in ISSA 5000 is still very profession driven. If ISSA 5000 aspire to be used by any assurance provider (not just Professional Accountants), as indicated in the project proposal approved, the IAASB may still need to refine the terms and definitions used in the standard (which have been revised for this meeting), to achieve more clarity/simplicity and adoption from assurance providers who are out of the accounting profession.

There is lack of geographic diversity in the composition of the two reference groups. Both have a prevalence of representatives from Asia-Oceania, North America, Europe and UK. The group including experts representing the profession comprises one member from Central and South America and one from Africa-Middle East, while the group including other experts lacks that geographical representation.

It is important that the IAASB advances this project, as there is urgency in having an assurance standard on a timely basis. Stakeholders, including regulators, have expressed the need to get a timely response from the IAASB. In our outreach, one stakeholder expressed its concerns on the timeline of the project (currently expected to be finalized in December 2024-March 2025), given that the European sustainability reporting framework will be effective already in 2024.