



BRIEFING MEMO | IAASB

June 20-23 & 28, 2023 | In-Person Meeting

Disclaimer: This memo is prepared by PIOB staff, in advance of the SSB/CAG 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/CAG meeting observation and to help maintaining consistency and continuity of oversight.

The agenda includes the following items:

- 2 – SUSTAINABILITY ASSURANCE (ISSA 5000)
- 3 - FRAUD
- 4 – ISA FOR LCEs
- 5 & 6 – LISTED ENTITY AND PUBLIC INTEREST ENTITY (PIE) – TRACK 1

2 – SUSTAINABILITY ASSURANCE (ISSA 5000)

Objective of the project: the IAASB is developing an overarching standard for assurance on sustainability reporting with the aim to support the consistent performance of quality sustainability assurance engagements. The standard should be suitable for all sustainability topics and disclosures, neutral from a framework and assurance providers perspective.

Background and Status: the IAASB approved the project proposal for the Sustainability Assurance standard in September 2022 and presented a full draft of ISSA 5000 in March 2023, as well as the Introduction section and illustrative reports in the mid-quarter call in April 2023. At this meeting, the IAASB is expected to approve the ED for ISSA 5000.

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

The documentation includes, among the others, the issues paper (item 2), the ISSA 5000 requirements and AM marked-up from the previous version (items 2-B and 2-C, respectively), conforming amendments (item 2-G), and appendices (item 2-F).

Since the discussions in March and April, the TF has proposed the main following changes in ISSA 5000:

- Revision of the definition of “sustainability information”: the “sustainability information” definition makes reference to “information about sustainability matters”. “Sustainability matters” are defined as follows: *“Environmental, social, economic and cultural matters, including: (i) The impacts of an entity's activities, products and services on such matters, or the impacts of such matters on the entity, and (ii) The entity's policies, performance, plans, goals and governance relating to such matters. Sustainability matters being measured or evaluated in accordance with the applicable criteria are the equivalent of “underlying subject matter” in other IAASB assurance standards”*. While drafting it, the TF has considered the current definition of sustainability information formulated by the IESBA, but concluded on a different one, which makes reference to “sustainability matters”. In ISSA 5000 “sustainability information” means the information that is subject to assurance.
- The TF's proposals distinguish between “sustainability information”, which is the information in scope of the assurance engagement, and “other information” which is information not subject to the assurance.
- Materiality: the “impact materiality” has been expanded and explained in addition to “financial materiality” (see parr. A 268, A268A, A480 in item 2-C).
- Consideration of group and consolidated sustainability information and group assurance engagements: the TF has concluded that, being ISSA 5000 an overarching standard, it should not include detailed requirements from ISA 600, which is a “special consideration” standard. The TF proposes maintaining general requirements in ISSA 5000 and possibly develop a separate ISSA on groups. This will be explained in the Explanatory Memorandum and input from stakeholders will be sought. On the other hand, IESBA in its June proposals,

has already considered some drafting related to independence requirements affecting group assurance engagements.

- Further redrafting in the different requirements for Limited and Reasonable Assurance.
- The relationship among topics, aspect of topics and disclosures has been explained and further examples have been provided. The relationship among the different concepts is explained in the appendices (item 2-F – Appendix 1).
- Revision of the Illustrative Reports and addition of an illustrative example for a modified limited assurance conclusion. The illustrative reports contain the Emphasis of Matter paragraph but not Key Audit Matters, as previously agreed by the IAASB. See Appendices (item 2-F – Appendix 2).

The reference to the ethics requirements in the Code has been further explained and expanded in the AM, including specific independence provisions (e.g fees, NAS, Long Association).

Practitioners' external experts have been expanded (please see AM: A87-A91), including guidance to distinguish the cases where the practitioner can direct and supervise the external expert and when not, and to what extent the work of the external expert can be used (A109 and following). The practitioner is required to evaluate, among other things, the independence of another practitioner who is not part of the engagement team (par. 50).

Conforming amendments (item 2-G) are minor and impact, among others, ISQM1, ISQM2, ISAE 3000 and ISAE 3410. They include, for example, the reference to ISSA 5000 in the body of standards issued by the IAASB and the reference to "auditor or practitioner", replacing the term "professional accountant", whenever needed.

Coordination with the IESBA is taking place, as well as input from the Sustainability Reference Groups has been taken into account. The IAASB has continued its outreach, including with the ISSB and GRI.

The proposed draft ISSA 5000 has been subject to CUSP review.

The PIF qualitative characteristics which the development of ISSA 5000 intends to address are: scalability, timeliness, relevance, comprehensiveness, implementability, enforceability. The TF selected the most relevant ones.

The EM will include explanations on topics such as: ethical requirements at least as demanding as the IESBAs; use of experts; concept of double materiality.

The ED is targeted for approval on June 28th. Publication of the ED and opening of the comment period should occur by the beginning of August, with a minimum 120-day comment period. As the consultation would close by the beginning of December, the TF would have a chance to present the first analysis of comments in March 2024. Approval of the standard is targeted for September 2024. The implementation period suggested is of 18 months from the approval, to allow proper time to adopt and translate the standard. Early application would be permitted.

In terms of due process, the TF believes that all significant issues have been brought to the IAASB's attention and that no consultation paper or field testing is needed. The IAASB will embark on further targeted outreach, with different groups of stakeholders and global roundtables.

Public Interest Issues

Please refer to the PIOB's Public Interest Issues as of March, published in the PIOB website:

https://ipiob.org/wp-content/uploads/2023/05/PIOB-PI-Issues-IAASB-projects_April-2023.pdf

PIOB Staff comments on PI

The work advanced by the IAASB since the last meeting has aimed to complete the draft ISSA 5000, covering the outstanding items and should allow the Board to approve the ED at this meeting.

Among the proposals, there has been a revision of definitions. One of the most important ones is "sustainability information". The AM (A32A) reads "sustainability information relates to information about sustainability matters and may cover a number of topics and aspects of those topics". The AM includes a table where a list of topics (e.g. climate, energy, water, biodiversity, human rights) and aspects of the

topics (e.g. governance, strategy, risks and opportunities, risk management or mitigation, metrics, targets, internal controls) are provided. This definition has been enhanced since the previous draft. We need to note that, as highlighted in the BM we prepared for the IESBA meeting in June, the two SSBs have been coordinating their work on the sustainability projects. The IESBA TF has mentioned in the issues paper its “concerns” for a different definition from the IAASB, which has opted to refer to “sustainability matters”. However, there is awareness that the TFs/SSBs need to continue their efforts to achieve an alignment of definitions. The IAASB will benefit from an earlier consultation than the IESBA’s, which could provide a helpful input to both Boards.

The concept of double materiality has been embedded and developed. Reference to financial materiality and impact materiality, as well as examples, are provided in different parts of the standard (see above and in A179, A265, A268A).

Examples of factors to consider for materiality of qualitative disclosures (A272) and quantitative disclosures are provided as well (A273).

Par. A27, in the definition of “intended users” mentions investors, creditors, others interested in the impact of the organization, including consumers, taxpayers, etc. That can also be considered a de facto double materiality concept embedded in the standard.

The “underlying subject matter” expression has been replaced in ISSA 5000 with “sustainability matters”, which achieves a simplified and clearer language.

A291 and A352 provide examples of misstatements due to fraud in sustainability information (within the examples there is also greenwashing).

Relationships, resources, and up and down value chain information are included in the definition of “reporting boundary”.

Forward-looking information is explained in A222 and following. Estimates and forward-looking information in A385A.

For “other information”, par. 154 requires the practitioner to read other information obtained and consider whether there is a material inconsistency with the sustainability information (subject to assurance). Other information, if obtained, needs to be included in a separate section of the report (par. 178). In the AM, A427 and following

paragraphs explain that, as other information is not part of the assurance engagement, the practitioner has no responsibilities of assurance over that.

On the use of experts, which has been expanded as explained above, it is important that requirements and terms are consistent with the IESBA project on Use of experts.

We reiterate the importance of coordination between the two SSBs, which is not limited to definitions, but extends to concepts used in the standards and relevant requirements applicable. It is about “transposing” concepts which are usually familiar to professional accountants, to make them accessible also to other professionals, given that one of the objectives of the projects is developing profession-agnostic standards.

3 – 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. The project has not been discussed since December 2022. At this meeting, the TF will present its latest proposals on ISA 240.

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

The documentation includes, among others, the Issues Paper (item 3), the redrafted ISA 240 (mark-up from previous version – item 3-A), conforming amendments (item 3-C).

The most significant changes proposed by the TF include:

- Auditor’s responsibilities: responsibilities are placed before the inherent limitations of an audit; they include communicating and reporting about fraud.

- Professional Skepticism: emphasis on PS and its relationship with professional judgement, further explained in the requirements; a requirement to remaining alert throughout the audit and while performing procedures.
- Communication with management and TCWG: in addition to ongoing communication and extant requirements, a new requirement to communicate matters related to fraud at appropriate times throughout the engagement; making inquiries to TCWG, to the internal audit function; new requirement to discuss with management when FS are materially misstated due to fraud.
- Risk identification and assessment: enhancements from ISA 315 were already embedded in previous versions, following an approach which attempts avoiding the duplication of requirements. A new requirement (par. 34) has been added about the information system and communication (which is a component of the internal control system). More focus has been placed on the fraud triangle (incentives, opportunities, rationalization) when identifying and assessing risk.
- Fraud or suspected fraud: a scalable approach, once fraud or suspected fraud is identified, depending on its significance, which will determine different actions and possibly additional procedures to be performed.
- Transparency in the auditor's report: the TF concluded that ISA 701 (KAM) should be leveraged when reporting fraud-related KAMs and the same filter as in ISA 701 should be applied, considering the same factors (e.g. significant risk of material misstatement, identification of fraud or suspected fraud, deficiencies of internal controls – requirement in par. 66). The TF encourages entity-specific language (i.e. no boilerplate), and an alignment with requirements in ISA 701. Application material has been expanded. Example of KAMs related to fraud are provided (agenda item 3-D).
- Documentation: a requirement has been added, which relates to work performed by the auditor on fraud (see par. 75 – procedures performed, professional judgments made and conclusions reached).

Conforming amendments proposed to ISA 700 and ISA 701 (item 3-C) derive from the proposals on transparency in the auditor report in ISA 240.

The TF has liaised with the IESBA, for the linkage between ISA 240 and themes in the Code of Ethics such as fraud, bribery, corruption, etc. Additional guidance has been added in ISA 240. The TF has also coordinated its work with other IAASB TFs and groups (e.g. Going Concern, Auditor Reporting Consultation Group, Technology).



Input from two partners of two Big 4 has been sought on forensic specialists and use of technology when performing fraud related procedures.

Outreach has been conducted since the December meeting, including with AICPA, IAIS, ICAEW, IFIAR and the Forum of Firms.

The TF will present an updated draft of ISA 240 in September 2023, with the aim to approve the ED in December 2023.

Public Interest Issues

Please refer to the PIOB's Public Interest Issues as of March, published in the PIOB website:

https://ipiob.org/wp-content/uploads/2023/05/PIOB-PI-Issues-IAASB-projects_April-2023.pdf

PIOB Staff comments on PI

The further revisions to ISA 240 since the last discussion in December 2022, which affect both requirements and application material, have enhanced the standard.

Provisions which have strengthened areas such as PS, responsibilities of auditors, the risk assessment process (in line with ISA 315), communication with TCGW and documentation requirements reflect an alignment with the objectives of the project and should help driving auditor's behavior.

On transparency, the TF proposes including fraud under KAM in the auditor's report, where the section is titled "KAM including matters related to Fraud". We expressed, in previous instances, a preference for a separate section of fraud in the auditor's report, to give it the right emphasis and given the outcome of targeted outreach with users/investors conducted by the IAASB in 2022. The proposals will be subject to consultation, once the ED is approved.

The auditor's report also includes information about deficiencies in internal controls (for which there is a requirement to communicate with TCWG), as well as identified or suspected fraud.

We encourage the IAASB to continue strengthening the standard and conducting its targeted outreach, with a view to approve the ED in December 2023.

4 – ISA FOR LCES

Objective of the project: to develop a stand-alone ISA for audits of financial statements of Less Complex Entities (LCEs).

Background and Status: in response to the comments to the ED and feedback gathered at the international conference in May 2022, the IAASB had previously discussed revisions to specific parts of the ISA for LCEs. In addition, the ED for Part 10 (Group Audits) was approved in December 2022 and has closed the comment period in May 2023. At the June meeting, the TF will propose revisions to most parts of the standard, except for Part 10 (that will be discussed in the mid-quarter call of July). The IAASB aims to approve the final ISA for LCEs in September 2023 (advanced from December 2023).

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

The Task Force (TF) will be presenting its proposed revisions (item 4) on most parts of the ISA for LCEs (item 4-B, marked-up), except for Part 10 on Group audits. An Explanation of Significant Changes is provided in agenda item 4-A. Supplemental documentation has been provided with detailed responses to the ED for questions that will be reviewed in this meeting.

Among the most significant changes to the ISA for LCEs presented in the issues paper (item 4), there are the following:

- *Preface:* aligned the language with the revised Authority and included a possibility to use the ISA for LCEs for audits of special purposes financial statements or for an audit of a single financial statement or of a specific

element, account or item of a financial statement, if the entity is an LCE (instead of having to use ISA 800 or ISA 805).

- *Authority*: aligned the classes of entities for which the use of the ISA for LCEs is prohibited with the final list of PIEs in the IESBA Code to avoid confusion. Similar to IESBA's approach, the categories removed will be included in the Authority Supplemental Guide, for jurisdictions to determine whether to also add those entities to the list of prohibitions.
- Part 1 - *Fundamental Concepts, General Principles and Overarching Requirements*: added EEM about relevant ethical requirements and the fundamental principles of the IESBA Code; some additional edits to streamline the provisions on communication and changes to ensure the consistency with ISAs have also been made.
- Part 5 – *Planning*: added EEM on materiality to align with ISA 360, but concluded that it was not appropriate to include percentages that differ with the ISAs and suggest to develop guidance outside of the standard.
- Part 6 – *Risk Identification and Assessment*: added back EEM about the rebuttal of fraud risk presumption in revenue recognition, as well as other edits mostly to clarify and align with relevant ISAs.
- Part 7 – *Responding to Assessed Risks of Material Misstatement*: reordered the paragraphs to align with the flow of an audit (starting with test of controls, before substantive analytical procedures and audit sampling), added more guidance on audit sampling (designing, determining sample size, selecting items for testing and evaluating results, as well as an appendix with factors influencing sample sizes), added guidance on how to introduce unpredictability, streamlined and aligned with ISA 570 the going concern section, and provided additional requirements and guidance for situations when legal confirmation cannot be obtained and on accumulation of misstatements.
- Part 8 – *Concluding*: added some key missing requirements from ISA 560 on subsequent events and made edits to remove duplications and clarify guidance.
- Part 9 – *Forming an Opinion and Reporting*: retained fundamental provisions, including the need to reference the ISA for LCEs in the auditor report (as they believe this will ensure greater regulator acceptance), but added certain requirements and guidance from the ISAs, mainly related to modification of opinions, to address feedback from respondents.

In addition, based on comments received from the IAASB in March, the following sections have been revised streamlining language, merging or reordering some paragraphs, deleting duplicative requirements or guidance, and further aligning drafting with relevant ISAs: Part 2 – *Audit Evidence and Documentation*, Part 3 – *Engagement Quality Management*, and Part 4 – *Acceptance and continuance of an Audit Engagement*.

The TF also presents feedback received on other matters and recommendations for discussion:

- Conforming amendments to the IAASB Preface to include references to ISA for LCEs (agenda item 4-D).
- Transitioning to ISAs – the TF considers that the biggest challenges and concerns raised by respondents in this respect have been addressed by including guidance on more complex accounting estimates and clarifying the Authority of the standard, which will make transitioning mid-engagement less likely. They still acknowledge that some guidance and examples outside of the ISA for LCEs would be useful regarding procedures to perform if transitioning to ISAs, reporting when there is a change of standards used from one period to the next, key differences between the ISAs and the ISA for LCEs or engagement letters.
- Challenges to implementation – the TF considers that the key challenges identified from responses, such as clarity of the scope, lower quality perceptions, regulator acceptance, or the need for multiple templates and methodologies for the different standards have been already discussed when reviewing targeted areas of the standard and no further changes to the standard are needed. In addition, the TF acknowledges the need for appropriate implementation and communication activities and outreach with regulators.

At the June meeting the IAASB will finalize its discussion of feedback to all questions to the initial ED, except for those related to effective date and implementation guidance, that will be discussed in September 2023 (Appendix 2 to agenda item 4 provides a helpful summary). Feedback to the Part 10 Group audits ED will be discussed in July 2023.

There is ongoing coordination with the IESBA staff, in particular for relevant ethics provisions and definitions of PIEs. Outreach will continue with the Reference Group and other stakeholders.

Public Interest Issues

Please refer to the [PIOB's Public Interest Issues](#) on ISA for LCEs, as of March 2023, published in the PIOB website.

PIOB Staff comments on PI

The TF has been responsive to the feedback received on the ED and through the outreach. The revisions of the Authority section (including qualitative characteristics and quantitative thresholds to be set at jurisdictional level), inclusion of accounting estimates and guidance on audit sampling, and the drafting of a separate Part 10 on Group Audits, are examples of that responsiveness, and are aimed at addressing the concerns raised since the inception of the project.

Overall, the revisions to the standard provide more clarity, specifically the revisions to the Authority, and the simplification of language and reordering of paragraphs should also help with its application. Scalability and proportionality need to be balanced, especially when aiming at maintaining the same level of assurance and same level of audit quality when applying the ISA for LCEs. Retaining the reference to the ISA for LCEs in the auditor report is consistent with the stand-alone nature of the standard.

The advancement of the final approval of the standard from December to September 2023 is a signal of the efforts that the IAASB is making to advance its agenda and improve on the timely completion of significant projects. Given that during the June meeting the IAASB will finalize the revision of all parts of the ISA for LCEs, except for Part 10 that will be discussed in July, this should allow for a timely completion in September 2023.

We keep supporting this project, for the potential it has in addressing/preventing jurisdictional fragmentation, and continue encouraging the IAASB to maintain the outreach with regulators to address their concerns.

5 & 6 – LISTED ENTITY AND PUBLIC INTEREST ENTITY (PIE) & DUE PROCESS

Objective of the project: This narrow scope project originated from the IESBA's 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 its 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 a proposed effective date aligned with IESBA's PIE pronouncement of December 15, 2024) – The IAASB approved an exposure draft (ED) in June 2022 and will discuss revisions made since the last discussion 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 December 2024. This track will not be discussed in the current meeting.

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

Key matters and changes made since March 20223 are discussed in item 5 (revisions are presented in items 5-A, 5-B and 5-C) and include:

- Disclosures in the auditor report (ISA 700 (Revised)) – The TF proposes to streamline, clarify and simplify language, especially to improve the understandability of the conditional requirement. They also moved some AM to ISA 260.
 - The TF met with MG members (IOSCO and IFIAR) to discuss their responses to the consultation, in particular the conditional requirement. As a result of these discussions, the TF proposes to include further explanations in the Basis for Conclusion explaining their rationale for adopting the conditional approach.
- Communications to those charged with governance (ISA 260 (Revised)) – The TF proposes not to modify para. 17 (that would imply advancing certain proposals from Track 2) but instead add a new requirement (para. 16A and supporting AM) to

communicate with TCWG relevant independence requirements applied, including any differential requirements. This addresses comments from MG members.

The effective date of the revisions will be aligned with those of the IESBA PIE pronouncements, i.e. December 15, 2024.

The TF has assessed whether the revisions made need to be re-exposed and concluded that it was not necessary, given that the changes were the result of comments received to clarify certain proposals and there are no new matters that were no discussed in the ED.

As an Appendix, the TF has provided a mapping of the objectives in the Project proposal to the provisions propose and including an assessment of key PIF qualitative characteristics.

The Technical Director's analysis of due process is provided under agenda item 6.

Public Interest Issues

Please refer to the [PIOB's Public Interest Issues](#) on the PIE project, as of March 2023, published in the PIOB website.

PIOB Staff comments on PI

Overall, the revised provisions, and primarily the requirement to use the auditor's report as the mechanism to achieve the public disclosure required by the Code, are in the public interest. As noted in our PI issues, an unconditional requirement could achieve greater consistency across the globe, but we acknowledged the arguments supporting conditional disclosures. In this respect, we welcome the responsiveness of the TF to the comments from two MG members to include further explanations of challenges that an unconditional requirement would pose, as well as elevating to a requirement the communication to TCWG.