



## PIOB’S PUBLIC INTEREST ISSUES: IAASB PROJECTS

The PIOB’s recommendations are based on the proposals discussed by the IAASB as of June 2023.

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

Update of this document: August 28, 2023

### ONGOING PROJECTS/INITIATIVES

Assurance on Sustainability Reporting (ISSA 5000)
<p>IAASB’s leadership role in developing assurance standards on sustainability reporting and timeliness</p> <p>Reporting on sustainability is a global demand, actively included in the agenda of international standard setters. Assurance on sustainability reporting is critical for stakeholders’ confidence and the integrity of such reports. The complex and multi-disciplinary nature of sustainability reporting bring very significant challenges to providing assurance, regardless of whether it is provided by the audit profession or other professionals.</p> <p>Along with diverse initiatives in the sustainability 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 proposed 2024-2027 Strategy, which has ensured a resource allocation, consistent with the focus on this high priority project. The current</p>

### Assurance on Sustainability Reporting (ISSA 5000)

expected completion date is before the end of 2024, in line with the market expectations.

The PIOB supports the IAASB's collaboration with key stakeholders, including the IESBA, other standard setters, and the regulatory community, to ensure consistency and alignment in the process. The PIOB also supports the establishment of the two Reference Groups (experts in sustainability, including professional accountants and professionals other than accountants) and has recommended ensuring broad geographic diversity in both.

The PIOB commends the IAASB for the progress made with respect to the drafting of an overarching sustainability assurance standard (ISSA 5000), and looks forward to the upcoming consultation on the relevant Exposure Draft (ED).

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

The PIOB supports the approach undertaken by the IAASB to develop a stand-alone standard for sustainability assurance (i.e. ISSA 5000) which is "neutral" with respect to both the reporting framework and the type of assurance provider (professional accountants or professionals other than accountants), and which addresses both limited and reasonable assurance.

### Content and terminology in ISSA 5000

Language in the standard is a key factor to ensure applicability and understandability to a broad range of stakeholders. To meet the public interest and the objectives of the project, ISSA 5000 should use clear, neutral and simplified language, to allow not only accountants but also professionals other than accountants to understand and apply the standard.

The PIOB acknowledges the IAASB's efforts to ensure that the standard is responsive to the public interest by avoiding terminology that might represent a "barrier to entry" for assurance providers other than professional accountants and that may not meet market expectations in other respects, especially taking into consideration the past criticism of ISAE 3000 (Revised) by some stakeholders. The Public Interest Framework includes "clarity" as

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one of the qualitative characteristics which is a fundamental aspect to consider in the development of the standard.

The PIOB notes the review of key definitions and concepts such as “sustainability information”, “disclosures”, “performance materiality” and “double materiality”, to include enhanced references to sustainability matters, allow accessibility to professionals other than accountants, and facilitate the use of the standard in relation to different reporting frameworks. The PIOB welcomes further work done by the IAASB on the development of the concept of “double materiality” in the requirements, not only in the application material, which should help supporting applicability of the standard, regardless of the sustainability reporting framework used.

The IAASB is encouraged to further consider how it could strengthen requirements on the use of “Other information”. This information may be relevant in corroborating or contradicting the evidence provided by management, particularly given the likelihood that qualitative sustainability information will be less “mature” than financial information.

The IAASB is furthermore encouraged to consider whether it would be in the public interest to allow the assurance provider to include key audit matters (KAMs) in the assurance report where the entity is a public interest entity (PIE). Making provision for KAM reporting would enable assurance providers to provide further insight about significant risks assessed, and difficult areas encountered, in the course of the engagement.

The PIOB welcomes the IAASB’s consideration on how to cover group sustainability assurance in the future.

**Ethical and quality matters**

The IAASB has recognized the need for the standard to require a level of ethical and quality requirements that will enable the standard to be robust as well as capable of being used alike by accountants and professionals other than accountants. This is an important public interest consideration. Considering the need to have assurance that can be relied upon, a balance needs to be found on an appropriate level of ethical requirements and on

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requirements in the quality management system at firm level, included in the ISQM standards.

**Coordination with the IESBA**

It is crucial that the IAASB coordinates its Sustainability project with the IESBA. Both Boards have identified coordination as a critical matter. The approach, terminology, definitions (e.g. sustainability information, sustainability matters), and the activities undertaken by the two Boards need to be consistent and aligned, to support public interest responsiveness of the respective standards and avoid confusion.

**Related public interest matters beyond the remit of the IAASB**

The PIOB appreciates the IAASB's progress to develop a sustainability assurance standard as it is in the public interest to have a global standard, set with a robust level of public interest oversight, to avoid fragmentation and potential market confusion, in respect of the work effort and the level of assurance provided by all professionals on sustainability reports. Regulators and those charged with governance have a role in ensuring that those preparing the sustainability information and also assurance providers have the appropriate skills, experience and comply with robust ethical requirements.

**Going Concern Project**

Considering recent corporate and audit failures 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 a high priority project in the IAASB's Strategy and Work Plan. The PIOB notes the update in the completion of this project to ensure the best prioritization of its resources and alignment with the completion of the Fraud project, encourages the IAASB to communicate

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the reasons for the change with interested stakeholders (especially in the regulatory community), and gather feedback for the finalization of the 2024-2027 Strategy and Work Plan.

The PIOB welcomes and supports the approval of an exposure draft to strengthen the risk assessment and response procedures in relation to going concern, including the auditor's evaluation of management's assessment of going concern, and transparency requirements for auditor reporting, in line with the project objectives noted below.

#### 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 commends the IAASB's proposals acting within its own remit to strengthen procedures and increase transparency. Nevertheless, the PIOB continues to encourage further dialogue with the International Accounting Standards Board about the need for enhanced reporting requirements on going concern, most notably given developments in the banking sector earlier in the year.

#### 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

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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).

In summary, the PIOB supports the IAASB's proposals in the exposure draft, including additional procedures required when the auditor identifies "events or conditions" not considered by management, which address the PIOB concerns that the auditor should consider the risks to going concern beyond those identified by management.

The PIOB also encourages the IAASB to consider whether the proposed revisions would strengthen extant ISA 570 sufficiently to better enable the auditor to identify and deal with risks to going concern such as those highlighted by recent issues in the banking sector.

### 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 PIOB encouraged the IAASB to 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 proposals in the exposure draft to include an explicit conclusion in the auditor report about management's use of the going concern assumption.

### Going Concern Project

The PIOB encourages the IAASB to consider further the transparency requirements and to assess, in case of close calls or when a material uncertainty exists, whether “original information” might be included in the audit report to appropriately communicate to users of financial statements the situation of the entity and ensure that the auditor meets expectations of stakeholders. The PIOB looks forward to feedback from users on these aspects resulting from the public consultation.

Furthermore, the PIOB supports the proposals in the exposure draft 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. The PIOB looks forward to the discussion, under the PIE project, on whether additional disclosures related to going concern proposed for listed entities should also apply to PIEs.

### Fraud Project

Considering recent 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 Fraud a high priority project in the IAASB’s Strategy and Work Plan.

Objectives of the Fraud Project

**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 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



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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.

The PIOB welcomes the current proposals in ISA 240, which deal with the risk assessment process; “suspected” and identified fraud; professional skepticism and professional judgment required throughout the audit; additional procedures which the auditor may be required to perform; and new requirements on the communication with those charged with governance and on documentation. All these proposals should strengthen the auditor’s responsibility and help address the expectation gap.

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 and through the exercise of professional skepticism and professional judgment.

### Transparency through Communication with those charged with governance 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, 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 those charged with governance, through additional requirements in ISA 240.

The PIOB acknowledges the outreach conducted by the IAASB to specific groups of stakeholders (preparers, those charged with governance, users, etc.), which gathered input on the options for enhancing transparency in the auditor’s report. The PIOB believes that the option to include a separate

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section in the auditor's report describing the identified and assessed fraud risks, the auditor's response and the relevant findings/observations, would strengthen transparency and is in the public interest. The alternative to include such information under the Key Audit Matters (KAMs) section may reduce emphasis given to fraud. The PIOB looks forward to the future consultation and encourages the IAASB to ascertain whether the KAM approach meets stakeholders' needs. 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 those charged with governance'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 PIOB notes the IAASB's

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

intended advance of the approval date of the final standard to September 2023, which shows its commitment to ensure timely completion of its Work Plan. In finalizing the standard, the PIOB looks forward to the IAASB’s consideration of the detailed comments and 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, as well as those raised to the exposure draft relating to Group Audits (Part 10).

#### Scope of a separate ISA for LCEs

The scope of the standard should be sufficiently restrictive to limit application to the correct entities (i.e. those that are truly less complex). The PIOB appreciates the difficulty 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 decision 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. Guidance provided by the IAASB on quantitative thresholds that may be established by local jurisdictions could be helpful.

The PIOB encouraged the IAASB to consider how to address circumstances where an LCE is not auditable (e.g. due to the internal control environment), or where an unmodified audit opinion cannot be expressed. In this regard, the PIOB acknowledges revisions proposed to the risk identification and assessment section, including the requirements and guidance related to the entity’s system of internal control, to support the auditor obtaining reasonable assurance.

The PIOB notes the IAASB’s proposals on how to deal with complex accounting estimates, in alignment with ISA 540 (Revised), as well as the further guidance on audit sampling, all of which are responsive to comments raised in the consultation.

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

The PIOB stresses that an important aspect of the standard’s public interest responsiveness is the balance it should achieve between the scalability and proportionality of the standard and ensuring that the standard enables the same level of assurance and audit quality as when applying the full suite of ISAs.

**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 that, as it moves to finalize the standard, the IAASB continue 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 drafts, 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 in particular the importance of the IAASB continuing to reach out to the regulatory community to explain the purposes and the intended benefits of the standard, including the potential it has to avoid jurisdictional fragmentation of standards.

The PIOB encourages the IAASB to provide information, as part of communication with stakeholders, that explains how the standard addresses the qualitative criteria of the Public Interest Framework and the regulatory concerns.

**Audit Evidence – ISA 500**

**Relevance and urgency of the project**

## Audit Evidence – ISA 500

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.

The PIOB suggests that the IAASB continue its efforts to get broad perspectives on the impact of technology which could benefit audit quality or about what in current standards may represent a barrier to the adoption of technology. Assessing the most significant inspection findings reported by regulators (e.g. IFIAR's survey) would be a useful source of information, especially in terms of main causes/factors which affect or prevent audit quality.

A further discussion with regulators about the risks entailed in overreliance on technology tools in audit (e.g. to what extent technology tools provide audit evidence) and about overreliance by auditors on IT General Controls (ITGCs) at their clients, would be useful, to obtain further input and address regulators' concerns.

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 and supports the IAASB's proposals to include in the ISQMs and ISAs the relevant provisions related to the definition of PIEs from the Code and to include the definition of "publicly traded entity" in the Glossary, replacing "listed entity". This is a good example of leveraging the work of the IESBA and moving in the direction of harmonization with the IESBA Code.

In order to continue to ensure the alignment of the ISAs with the Code, differential requirements in the ISAs and Quality Management Standards, extant or proposed, should generally apply to all categories of PIEs. For those cases where the IAASB concludes it would not be appropriate to apply the same differential requirements to all categories of PIEs, they should provide an explanation for the exception.

The PIOB acknowledges the case-by-case assessment done by the IAASB to ensure that replacing "listed entities" with "PIEs" in the current ISAs and Quality Management Standards do not create unintended consequences and supports the preliminary conclusion to extend the application of extant differential requirements to all categories of PIEs. The PIOB notes the only proposed exception, relating to ISA 720 (Revised), for which the IAASB have proposed to limit the differential requirement to publicly traded entities and to request specific feedback in the consultation.

Transparency needed on the entities treated as PIEs

### Definition of 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 approval of the first phase of this project (Track 1) that addresses transparency requirements in the auditor's report and with those charged with governance. The PIOB welcomes the narrow scope amendments to ISA 700 (Revised) which require audit firms to disclose when differential independence requirements were applied, in the auditor's report.

The PIOB notes that such disclosure will be conditional on the differential requirements including a disclosure mandate (i.e. such as that included in the Code); and that the consultation showed different views and level of support for the conditional requirement depending on the stakeholder group. The PIOB believes that an unconditional requirement would have achieved greater consistency based on full transparency for users, but also acknowledges that practical implementation challenges need to be taken into consideration. The PIOB welcomes the outreach carried out by the IAASB with regulators to address their concerns and ensure public interest responsiveness of the final requirements.

The PIOB also welcomes the amendments to ISA 260 (Revised), which are responsive to feedback received on the exposure draft, which will require that auditors communicate to those charged with governance the application of relevant ethical requirements for independence.

The PIOB acknowledges the IAASB's consideration of the Public Interest Framework and its qualitative characteristics in finalizing and approving the narrow scope amendments.



**Definition of PIEs**

The PIOB will consider the IAASB approved amendments at the October 2023 meeting for public certification.

**Timing and coordination**

The PIOB notes the proposed delay in the completion of the second phase of this project (Track 2) to ensure the best prioritization of its resources. However, the PIOB encourages the IAASB to communicate the reasons for the change with interested stakeholders (especially in the regulatory community) and gather feedback for their finalization of the 2024-2027 Strategy and Work Plan.