

BRIEFING MEMO IAASB
December 11-14, 2023
In-Person Meeting

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/CAG meeting observation and to help maintaining consistency and continuity of oversight.

The agenda includes the following items:

- 2 – FRAUD
- 3 – PIE TRACK 2
- 4 – 2024-2027 STRATEGY AND WORK PLAN
- 5 – IASB UPDATE
- 6 – SUSTAINABILITY OUTREACH
- 7 – ISSB UPDATE
- 8 – AUDIT EVIDENCE
- 9 – GRI UPDATE

2 – 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 revised ISA 240 (item 2-A) will be discussed at the meeting, with the aim to approve the relevant ED and consequential conforming amendments (item 2-C).

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

The most significant aspects in ISA 240 (2-A) since the last meeting, explained in the issues paper (item 2) include:

- Professional Skepticism – Authenticity of Records and Documents: Par. 20 in ISA 240 reads: *“If conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further”*¹. The TF confirms the decision to delete the lead-in sentence in par. 20 of ISA 240 but is proposing to introduce it again in par. A24 of ISA 200 (conforming amendments – item 2-C). The lead-in sentence reads: *“The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary”*. The issues paper explains that the TF’s proposals are in response to *“concerns that deleting the sentence could be misinterpreted as an expansion of the scope of the audit. Concerns were also raised that the deletion could cause other unintended consequences, including potentially increasing legal exposure for audit firms. ... the Fraud TF concluded that retaining that sentence in ISA 200, paragraph A24 remains aligned with the expectation that auditors will exercise professional skepticism because, ... the rest of that paragraph clearly describes the auditor’s responsibilities to consider the reliability of information to be used as audit evidence (which the Fraud TF notes also includes documents and records) in accordance with extant ISA 500 and to apply the requirements in ISA 240 where there are indications of possible fraud...”*.
 - Authenticity has been coordinated with the Audit Evidence TF, as it is an attribute of reliability information in ISA 500.
- Fraud or Suspected Fraud: paragraphs (54-58) have been reordered and redrafted to follow a more logic flow. From par. 54, the bullet b) and c), which dealt with communication with TCWG and with reporting to an appropriate authority, have been deleted, as the bullets retained in par. 54 deal with the engagement partner obtaining an understanding of the matter to determine the effect on the audit, not with what he/she is required to do. (There is still a requirement to communicate with TCWG and to report to an appropriate authority – par. 66 and 69, respectively).

Appendix 2 of the Issues Paper (item 2) contains a helpful table which maps changes made to ISA 240, in response to the objectives established in the project proposal. The table includes the PIF qualitative characteristics considered for the drafting of the relevant provisions.

¹ Changes have been made in the AM, where a sentence has been added in par. A27, which reads: *“... The auditor is not required to perform procedures that are specifically designed to identify conditions that indicate that a record or document may not be authentic or that terms in a document have been modified. However, paragraph 20 applies if the auditor identifies such conditions during the course of the audit”*.

Conforming amendments (item 2-C) to various standards have been limited in scope, to align terminology and avoid inconsistencies. They include the ones which make reference to fraud and the ones proposed to ISA 700 and ISA 701 which derive from the transparency provisions drafted in ISA 240 (i.e. fraud as sub-heading of KAM in the auditor report).

The TF has liaised with the IESBA, as well as with the Audit Evidence TF.

If approved at the December meeting, the ED will be published by the end of January-beginning of February 2024, with an exposure period of 120 days. Comments are expected to be discussed at the September 2024 meeting and the final pronouncement is targeted to be approved by the IAASB in March 2025. The effective date will be aligned with the Going Concern (ISA 570) pronouncement.

Public Interest Issues

Please refer to the PIOB's public interest issues as of September, published in the PIOB website.

[PIOB's PI Issues on IAASB projects 07.11.2023_clean.docx \(ipiob.org\)](#)

PIOB Staff comments on PI

The changes made to ISA 240 since the inception of the project, overall, have strengthened areas such as Professional Skepticism, responsibilities of auditors, the risk assessment process, communication with TCWG and documentation requirements. Those enhancements are responsive to the PIOB's PI issues raised.

However, the latest proposals, as described above, may impair the robustness of requirements and auditor's responsibilities in other standards, as the presumption that documents and records are "genuine" is introduced again in ISA 200 (par. A24) and the arguments provided by the TF (i.e. expansion of the work effort, auditor's liability) do not seem to be in the public interest and they are not even applied consistently (i.e. the presumption is deleted from ISA 240).

As indicated in the PIOB's PI issues, we look forward to the upcoming consultation, which will provide a feed-back also on the transparency option undertaken by the IAASB (fraud under KAM vs. fraud as a separate heading in the auditor's report).

3 – PIE TRACK 2

Objective: narrow scope project to align the Quality Management Standards (QMS) and the ISAs to the new definitions of Listed Entity and PIE (which were approved by the IESBA in December 2021).

Background and Status: The first part of the project addressed transparency of independence requirement (Track 1: narrow scope amendments to ISA 260 and ISA 700, certified by the PIOB in October 2023). Track 2 envisages a convergence between concepts in the Code and in the ISAs as well as in QMS.

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

The proposed ED (item 3-B) is expected to be approved at this meeting.

Few points to be stressed, from the issues paper (item 3) are as follows:

- The definition of PIE has been included in ISQM1 and ISA 200 (which are the standards prescribing the authority for the other QMS and ISAs, respectively).
- ISA 260 (Revised): changes approved with Track 1 have been taken into account. Additionally, the explicit requirement to communicate fee-related matter has been removed, but a reference to the Code of Ethics has been included in the AM, as the Code contains requirements about communication with TCWG².
- ISA 720: changes in the Illustrative Reports. The IAASB has previously agreed to defer the extension to PIEs of differential requirements which now apply to listed entities.
- ISRE 2400³: amendments to address transparency about independence requirements for certain entities, aligned with changes in ISA 700 (approved in Track 1).

The TF has been monitoring jurisdictional developments to gather information about whether they have extended requirements of listed entities in ISAs and QMS to PIEs. A number of jurisdictions has done that, while several jurisdictions are currently assessing such extension.

² The issues paper reads: “In response to Board comments made in December 2022 that the removal of the explicit requirement to communicate fee-related matters may be problematic for those jurisdictions that do not adopt the IESBA Code, the PIE TF believes that the removal would not weaken the ISAs. This is because the auditor is already required to comply with relevant ethical requirements in accordance with paragraph 14 of ISA 200 and because the ISAs are premised on the auditor being subject to relevant ethical requirements, including those pertaining to independence, which ordinarily comprise the provisions of the IESBA Code related to audits of financial statements, together with national requirements that are more restrictive”.

³ “... in view of the IESBA’s decision to maintain the scope of the transparency requirement in paragraph R400.20 of the IESBA PIE Revisions for both audit and *review engagements*, the Board agreed to revise ISRE 2400 (Revised) as part of Track 2”. ISRE 2400 is the International Standard on *Review Engagements – Engagements to Review Historical Financial Statements*.

The TF has leveraged the feed-back gathered by the IESBA for the exposure of the Definition of Listed Entity and PIE project.

Once approved, the ED will be published for 90 days (vs. the ordinary 120 days), which are considered enough, given the limited changes proposed. The final pronouncement is expected to be approved in December 2024 to allow the alignment of the effective dates of Going Concern and Fraud, which are also considering possible revisions in the Auditor's Report.

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PIOB Staff comments on PI

The ED embeds the concept of PIE, as approved by the IESBA in the Definition of Listed Entity and PIE project. The concept of "listed entity", currently used in the IAASB's standards, is going to be replaced with the PIE concept in the Code of Ethics.

The Application Material in the various standards affected, reflects that local jurisdictions may include under the PIE category, entities such as: Collective Investment Vehicles (CIVs), Pension Funds (PFs), not-for-profit organizations, public utilities, etc.

The project is the result of the ongoing coordination between the IAASB and the IESBA and it aims to achieve interoperability between the two sets of standards, establishing differential requirements for PIEs, therefore meeting higher stakeholders' expectations in the audits of PIEs, which is a broader concept than "listed entities".

The explicit requirement to communicate fee-related matter in ISA 260, now placed in the AM, may weaken the standard, despite the arguments provided in the issues paper, as AM would not be enforceable.

4 - 2024-2027 STRATEGY AND WORKPLAN

Objective: Finalize the 2024-2027 Strategy and Work Plan (SWP).

Background and Status: The draft SWP has been revised since the September meeting and will be tabled for approval by the IAASB.

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

The revised 2024-2027 SWP (item 4-A) include the following main changes since September:

- Additional text on the targeted final approval of ISA 500 (Revised), which was originally planned for the first half of 2024. The document explains the “integrated approach” to Audit Evidence and risk response which the IAASB is intentioned to undertake (as the “integrated approach” was supported by the majority of IAASB members in September⁴). It highlights that a strategic emphasis on technology and on internal controls will be included in ISA 500 and ISA 330, respectively. The integrated project is expected to start in the first half of 2024.
- ISSA 5000: non-authoritative guidance will be available at the same time as the standard.
- ISA 500-series: the targeted commencement date has been revised and is now expected in the first half of 2026. Modernization of the standards and focus on technology is still the scope of the project.
- “Reserve” topics have been identified, because of priorities and resources to be allocated at different projects in parallel (5-7 standard setting projects). Reserve topics include: ISA 620 (Using the work of an auditor’s expert), ISA 720 (The auditor’s responsibilities related to other information), XBRL (Assurance Engagements on Digital Reporting Tagging).

Public Interest Issues

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PIOB Staff comments on PI

The main changes in the SWP regarding ISA 500 and the integrated approach are in line with the discussions held in September and the intention of the IAASB to proceed with that solution. This is also in response of PIOB’s recent recommendations.

⁴ The issues paper reads: “PC concluded that it is appropriate for the Board to pursue an integrated and more strategic approach for addressing issues relating to audit evidence and risk response, including focus on technology and internal control. While work on proposed ISA 500 (Revised) will continue, it would be important to do the preparatory work in relation to the risk response workstream (ISA 330 and potentially ISA 520) before being able to finalize ISA 500 (Revised)”.

In the last quarter, the PIOB recommended “the IAASB to address the auditor’s work relating to an entity’s internal controls, including internal control testing, in light of responses to the consultation (among which, regulators). The IAASB could be considering Internal Controls in a holistic way, as an overarching theme affecting the full suite of ISAs. It is crucial to address this topic as internal controls are foundational to the application of many standards, helping to ensure high quality engagements which meet public expectations”. The proposal in the new SWP envisage “a focus on internal controls as part of revising ISA 330”. The Planning Committee’s analysis and response considers the feed-back from regulators (including MG members), which requested a *review of ISA 330 with a focus on internal control testing* or raised the point that *a project on internal controls is needed to support high-quality audits*.

The proposals in the SWP now include reserve topics (i.e. ISA 620, ISA 720 and XRBL) which, despite the support from the stakeholders to the consultation paper, need to be put aside, given the other priorities and number of projects which the IAASB needs to undertake.

While the “conforming amendments” arising from the IESBA’s project “Use of experts” are still within the projects to commence in the second half of 2024, the exclusion of ISA 620 (Using the Work of an Auditor’s Expert) from that list, does not seem to be consistent as the IESBA’s consultation on the use of experts (whose project is broad and covers both audit and assurance engagements) may require an overall review on the use of experts also in audits of financial statements (in the scope of ISA 620). New requirements in the Code of Ethics may require changes in ISA 620, not just conforming amendments in ISAs and in ISSA 5000. Coordination among boards and consistency among the two sets of standards are fundamental principles to ensure high quality audits and assurance engagements.

5 – IASB UPDATE

In line with the regular coordination among the IAASB and the IASB, the IASB will provide an update on its standard setting activity and future plans.

6 – SUSTAINABILITY OUTREACH

An update on the outreach conducted for the ISSA 5000 ED, as well as on the IESBA’s sustainability project, will be provided. Some of the themes emerged from the outreach are listed in the paper (e.g. materiality, estimates and forward-looking information, work effort in a limited assurance engagement, use of experts and other practitioners, etc.).

7 – IASB UPDATE & 9 – GRI UPDATE

The ISSB and the GRI will provide an update on their standards. This is important in view of the reporting framework-neutral approach in ISSA 5000 and also to understand the interoperability among the different reporting standards (including ESRS). Presentations will be available in advance of the meeting.

8 – AUDIT EVIDENCE

Objective of the project: to clarify auditor's responsibility regarding information used as audit evidence (AE). The project aims to adapt and modernize ISA 500, clarifying its relationship with other standards, as well as the concept of sufficient appropriate audit evidence and fostering professional skepticism.

Background and status: in September the IAASB analyzed the comments to the ISA 500 ED and to the consultation paper of the 2024-2027 SWP and, in response to stakeholders' feed-back, supported an "integrated approach" to ISA 500 (Revised).

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

A revised text of ISA 500 is presented (item 8-A), which includes the following key changes:

- A description of Automated Tools and Techniques (ATT), with new requirements and guidance (including on inputs to ATT and outputs – parr. A65C and A65H).
- "Significance" of the attributes of relevance and reliability of information and judgments required by the auditor (added par. A53A).
- Strengthened linkage to ISA 240 (Fraud) and expansion on the attributes of authenticity of information and management bias (parr. A56G to A56J).
- Professional Skepticism emphasized and expanded (and linkages to other ISAs, such as ISA 315 and ISA 230).
- The TF recognizes that more work needs to be done on the balance between requirements and AM and it intends to further consider where to place AM (e.g. in a separate Appendix).

The "integrated" approach supported by the IAASB to audit evidence and risk response has considered the interdependencies between the "reference" framework aspects (ISA 500) and the "performance" framework aspects in other ISAs (ISA 330 and ISA 500-series). ISA 500 is the overarching and principle-based standard defining auditor's responsibility in respect of audit evidence. The issues paper reads: "*The proposed Strategy and Work Plan for 2024-2027... includes the project "Integrated Approach to Audit Evidence and Risk Response, Including Focus on Technology and*

Internal Control". This integrated project comprises two parallel workstreams, the audit evidence workstream and the risk response workstream. Under the audit evidence workstream, work on proposed ISA 500 (Revised) will continue... including engaging with stakeholders on the appropriateness of proposed changes and providing input to the information-gathering activities of the risk response workstream". The integrated approach does not preclude that the revision of ISA 500 be finalized before the completion of the "risk response" workstream.

The TF has gathered additional information through a deeper review of the comments received in the consultation and a *literature review, guidance, non-authoritative material published by regulators and oversight bodies, jurisdictional/national auditing standard setters, audit firms, and professional accountancy organizations addressing a broad range of topics relevant to the use of ATT in the audit* (item 8-C). That review included inspection reports and one academy study. In the Issues Paper (item 8) the TF has identified some challenges from the additional information gathering, which are: *quality issues with the inputs to ATT, challenges with access to information, insufficient data extraction and preparation, importance of general IT controls when information is in digital form, insufficient reliability testing of the inputs to ATT, insufficient evaluation of the outputs generated by ATT, documentation considerations when using ATT.*

The TF has selected the key qualitative characteristics in the PIF which would be relevant in the revision of ISA 500 (item 8). "Timeliness" will need further consideration because of the integrated approach.

The TF has coordinated its activity with the IESBA, with the Fraud TF, as well as with the Technology Consultation Group (TCG).

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PIOB Staff comments on PI

The changes made to ISA 500 since September are intended to address the feed-back to the ED and to the SWP. Enhancements have been made, especially in terms of ATT, Professional Skepticism and attributes of Audit Evidence. There are outstanding items, such as the balance of AM vs. requirements, which need to be addressed.

Other than that, we reiterate the PI issues already raised. Specifically, we acknowledge the IAASB's support for the integrated approach, which will require further discussion at this meeting. It is very important that the IAASB explains and communicates the implications of the option(s) considered. There should be clarity and transparency about which public interest issues will be addressed and how stakeholders' expectations will be met by the new projects, in line with the PIF requirements.