

PIOB’s Public Interest Issues - IAASB projects

(document updated as of May 2024)

The PIOB’s Public Interest Issues presented in this document are based on the status of IAASB’s projects after the IAASB March 2024 and PIOB April 2024 board meetings. For each selected project, brief background information and project status is provided, followed by the identified Public Interest Issues. The Public Interest Issues may contain questions or concerns relating to the responsiveness of specific initiatives and projects to the public interest. We encourage the IAASB to consider these questions and concerns during the due process of developing the relevant standards.

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

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Use of main acronyms

PIOB	Public Interest Oversight Board
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
ED	Exposure Draft
ISA	International Auditing Standards
ISAE	International Standard on Assurance Engagements
ISSA	International Standard on Sustainability Assurance
ISQM 1	International Standard on Quality Management
Code	The IESBA's Code of Ethics

1. ASSURANCE ON SUSTAINABILITY REPORTING (ISSA 5000)

Background

Responding to the global demand expressed by different groups of stakeholders to increase public trust in sustainability reporting, the IAASB started a project to develop a new standard on sustainability assurance, ISSA 5000, in September 2022. The PIOB has recognized the importance of this project from the outset given the need to ensure confidence among users that they can rely on sustainability information¹.

¹ The PIOB notes the following public interest matters beyond the remit of the IAASB. It is in the public interest to have a global standard, set with a robust level of public interest oversight, and to avoid fragmentation and potential market confusion in respect of the work effort and the level of assurance

Status

The Exposure Draft ED-5000 was issued in August 2023 with a deadline for comment letters on 1 December 2023. The IAASB is currently in the process of amending the issued ED-5000 following the board's deliberations of received comment letters at the March 2024 meeting. The ED is expected to be further discussed at the IAASB meeting in June 2024 and the Sustainability project is expected to be completed by September 2024.

1.1. Prioritization and timeline of ISSA 5000

Timeliness has been a crucial consideration for the IAASB, leading it to prioritize a global standard on the assurance of sustainability reporting as part of its Strategy and Work Plan, considering diverse initiatives in sustainability worldwide. The PIOB has acknowledged the IAASB's dedication of resources to assurance on sustainability reporting, which has been consistent with the prioritization of the project. The current expected completion date in September 2024 is in line with the market expectations.

1.2. Engagement with stakeholders

From the public interest perspectives of relevance and completeness of the future standard, the PIOB has supported the IAASB's engagement with a broad range of stakeholders, including other standard setters and the regulatory community, to ensure consistency and alignment in the process. The PIOB has also supported 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 outreach to stakeholders is crucial also during the current process of analyzing the feedback received through comment letters and transforming the ED-5000 into the final standard.

1.3. Scope of ISSA 5000 as an overarching standard

From the perspective of effective implementation, the PIOB has supported the scoping approach of the IAASB to develop, as a starting point, a stand-alone standard for sustainability assurance which is "neutral" with respect to both the reporting framework and of assurance provider (professional accountants or professionals other than accountants), and which addresses both limited and reasonable assurance.

provided by different professionals on sustainability reports. Regulators and those charged with governance have a role in ensuring that preparers of the sustainability information as well as assurance providers have the appropriate skills and experience and comply with assurance and ethical standards.

The PIOB supports further clarification of the scope of ISSA 5000 in relation to the existing standard on assurance on greenhouse gas statements ISAE 3410, including incorporation of its requirements into ISSA 5000 and future withdrawal of ISAE 3410.

1.4. Clarity of the standard and consistency with the IESBA

The IAASB has set as its objective the use of clear, neutral and accessible language for the proposed ISSA 5000, to allow both accountants and professionals other than accountants to understand and apply the standard. This would avoid any “barriers to entry”, although not at the expense of assurance quality. We support the IAASB’s continuing pursuit of an appropriate balance between quality and accessibility during the process of finalizing this profession-agnostic standard to address key definitions and concepts. Specifically, we refer to matters such as “sustainability information”, “disclosures”, “performance materiality” and “double materiality”, and to ensure there is a clear distinction between an entity’s materiality process and a practitioner’s approach to materiality. Clarity in all these areas is needed to facilitate the use of the standard in relation to different reporting frameworks.

The PIOB has welcomed that, in pursuing their sustainability projects, both the IAASB and IESBA identified mutual coordination as a critical matter, especially as they are using different timetables for the development and exposure of their respective work. Alignment between the boards is vital during the finalization of ISSA 5000 and the IESBA projects on Sustainability and Use of Experts for clarity and consistency in approach, terminology, definitions, and concepts. A coherent set of global assurance and ethical sustainability standards will avoid practical implementation challenges and better serve the public interest. The PIOB is of the strong view that only in exceptional instances should there remain inconsistencies between the two boards’ respective standards.

1.5. Independence, ethical and quality management matters

From the perspective of ensuring consistent transparency for users of sustainability reporting assured by different assurance providers, the PIOB supports final clarification over the quality management and independence and ethical provisions in ISSA 5000. We support the mandatory requirement of ISQM1 and the IESBA Code of Ethics or the option for mandatory national quality management and ethical standards which are “at least as demanding” as ISQM1 and the Code.

The PIOB encourages the IAASB to further explain its intention to allow an option where practitioners self-determine requirements to be “at least as demanding” as ISQM1 and the IESBA’s Code of Ethics and to document the basis of such determination. Specifically, the explanation would be welcome with respect to potential public interest risks relating to a level-playing field for practitioners and

transparency for users, in the context of the expected degree of market use of this option.

1.6. Using work of others, 'group' sustainability assurance and value chains

We note that the new ISSA 5000 would most likely be first applied for assurance engagements of sustainability reporting by large corporations, which mostly have group structures and involve input from diverse professionals. The PIOB has welcomed the initiative of the IAASB to address our earlier concerns and to include and expand ISSA 5000 with overriding principles which apply to group audits, based on ISA 600 (Revised), for the interim period while there is no separate ISSA on group assurance engagements. The PIOB supports the option of adding separate "Considerations for Group Assurance Engagements" to ensure the enforceability of these clauses. In some jurisdictions it is important that they remain as requirements and not only as application material.

To enhance the confidence of users, group component audit principles as for financial reporting should be used for sustainability reporting, including in relation to the overall responsibility of the group assurance provider which is not reduced in the case where a practitioner uses the work of an external expert. Recognizing that value chains are a key aspect of sustainability and that reporting frameworks differ, the PIOB would welcome further explanation from the IAASB of its perspective that the proposed deviation of the definition of engagement team in ISSA 5000 from ISA 600 (Revised) group component principles will not generate public interest risks.

1.7. Communication between different assurance providers

Based on the evident inter-connectivity between sustainability and financial reporting, the PIOB underlines the importance of broader two-way communication between different assurance providers to ensure adequate and timely follow-up of identified issues in both the financial statement audit and the sustainability assurance engagement. While communication may be more straightforward where the financial statements auditor is from the same firm or a member of the same network as the sustainability assurer, the communication is necessary in all cases including where different individuals and firms are concerned. There needs to be a level-playing field for providers and a clear understanding on the part of users in relation to both the financial statements and sustainability assurance reports. It is acknowledged that consequential amendments to relevant ISAs would be needed in the case of two-way communication and that issues of confidentiality and timing of sustainability and financial reporting are challenges to be addressed.

The PIOB notes the IAASB's intention to make communication (where permitted by jurisdictional laws and regulations) conditional on the identification of material inconsistencies between the sustainability and financial information. In this context, the

PIOB calls on the IAASB to ensure that there is a clear requirement for timely communication from the start of the sustainability assurance engagement to identify any corroborative or incomplete information, or contradicting evidence. This is particularly important given the likelihood that qualitative sustainability information will be less “mature” than financial information. Furthermore, communication of any inconsistencies in the “Other information” section of an assurance report would be important for users.

1.8. Key audit matters in sustainability assurance reports

One of public interest considerations during the initial development of the ED-5000 was whether to include a requirement for key audit matters (KAMs) in the assurance report on the sustainability information. The PIOB notes that the IAASB has concluded not to include such a requirement, even in the case of a public interest entity (PIE), and has set out its reasoning in detail including in relation to the balance between costs and benefits.

We acknowledge and support the IAASB’s commitment to consider addressing the possible use of KAMs in the future suite of ISSAs.

2. GOING CONCERN (ISA 570)

Background

Considering the impact of various corporate and audit failures and the additional going concern risk placed on entities due to global economic and geopolitical risks, auditors have an important public interest role to play in this regard. The PIOB continues to consider “Going Concern” a high priority project with the key objectives as formulated in the project proposal:

- Promote consistent practice and behavior and facilitate effective responses to identified risks of material misstatement related to going concern;
- Strengthen the auditor’s evaluation of management’s assessment of going concern, including reinforcing the importance, throughout the audit, of the appropriate exercise of professional skepticism; and
- Enhance transparency with respect to the auditor’s responsibilities and work related to going concern where appropriate, including strengthening communications and reporting requirements.

Status

The Exposure Draft ED-570 was approved at the March 2023 Board meeting and subsequently issued with a deadline for comment letters by 24 August 2023. At the time of identification of the Public Interest Issues below the IAASB has covered only an initial analysis of feedback received through comment letters, due to the agreed

prioritisation of the Sustainability project. The proposed standard will be discussed by the IAASB at its June and September 2024 meetings with a target date of approval of the final pronouncement in December 2024.

2.1. Period of going concern assessment and the extent of relating disclosures

The ED aims to strengthen audit procedures in relation to identification of events and conditions that may contradict management's assessment of going concern, the evaluation of cash-flow forecasts, underlying assumptions and scenarios and the impact on the going concern assessment of subsequent events. We note that some respondents raised concerns in their comment letters that some of the requirements of ED-570 (the 12-month period for going concern review, extension of this period, and the extent of going concern disclosures in the financial statements) may go beyond the relevant financial reporting standards.

In case there are material uncertainties in respect of the going concern assumption identified, it is normal practice for the auditor to seek sufficient appropriate audit evidence to support a longer period of management's going concern assessment. The purpose of additional audit procedures is to form a more robust view on the going concern assumption as well as on the adequacy of the relevant disclosures. Therefore, the PIOB maintains its view that it is in the public interest that auditors are required to request and obtain management's going concern assessment for such an extended period.

In this context, the PIOB also continues to encourage further dialogue with the International Accounting Standards Board about the need for enhanced reporting requirements on going concern.

2.2. Transparency: Separate section on going concern in the auditor's report

The requirement for explicit conclusion in the auditor's report on the use of the going concern assumption is of such importance that it was defined as one of the goals for this project. During the development of the ED-570, the PIOB encouraged the IAASB to explore how this might be implemented, for example through 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.

Subsequently, the PIOB has welcomed the IAASB's proposals in ED-570 to include such an explicit conclusion despite some strong reservations against it by certain respondents. The reservations were that the auditor's explicit reference and conclusion on going concern could be interpreted as an opinion on a specific matter rather than the opinion on the financial statements as a whole. The PIOB is of the view that there

needs to be a specific mandatory conclusion in the auditor's report about whether the going concern assumption used in preparing the financial statements is appropriate.

2.3. Minimum scope of audit procedures and scalability of the new standard

It is in the public interest to clearly define the minimal scope of audit procedures in the going concern area of audit while maintaining their scalability based on the complexity of each situation being assessed. The ED-570 requires performance of audit procedures even in cases where there is no risk of material misstatement, with risk-based considerations in the application material guidance. The minimal scope of such procedures should allow the auditor to reach a conclusion about the risk of material misstatement and without performing them the auditor would not be able to assess the going concern related risks properly. The PIOB therefore supports the clear definition the minimal mandatory scope of audit procedures in the going concern area with a note that the scalability aspect is also covered by the ISA for LCE.

2.4. Need for specific guidance for auditors of the banking sector

It is in the public interest for the revised standard to enable auditors to identify and deal with risks to going concern issues which appear in the banking sector. The relevant requirements and guidelines in the application material should be part of the final standard. In this context, the PIOB also continues to encourage further dialogue with the International Accounting Standards Board (IASB) about the need for enhanced reporting requirements on going concern, which are specific to the banking sector.

2.5. Dealing with 'close call' situations

In line with the public interest, the PIOB has previously encouraged the IAASB to consider higher transparency requirements to appropriately communicate to users of financial statements any going concern matters of the entity. Such a communication would ensure that the auditor meets expectations of stakeholders and provides them with decision-useful information to reduce the expectation gap. The PIOB noted that application material that cautions against disclosing "original information" (i.e. information not specifically disclosed in the financial statements) in the auditor report may limit the usefulness of disclosures made by the auditor, especially in "close call" situations. The PIOB has also noted concerns about disclosing "original information" in auditors' reports which were expressed in the comment letters from certain respondents. However, in instances where a "close call" situation results in a modified opinion, the communication by the auditor of information in support of such modification (including so called "original information") is nothing new or extraordinary. Therefore, the PIOB maintains its view in favour of requirements for

auditors to communicate in their reports significant going concern matters in a more transparent way.

2.6. Communication with authorities

It is in the public interest that the auditors are required to communicate directly with external authorities, such as regulators or prudential supervisors, under specific circumstances of doubts about the entity's ability to continue as a going concern. The PIOB therefore supports the suggested enhancements of the ED-570 of stronger requirements for auditors to communicate with appropriate authorities even without a direct legal responsibility, with an emphasis on early reporting.

2.7. Extension of requirements from listed entities to PIEs

The PIOB supports the requirement that additional disclosures related to going concern proposed for listed entities should also apply to public interest entities (PIE) because the obvious scope of public interest is in all PIEs. It has been noted by the PIOB that the support for such a requirement was expressed by many respondents in their comment letters.

3. FRAUD (ISA 240)

Background

Holistic enhancement of the role that auditors play in the identification and reporting of fraud in financial statements audits and narrowing the related expectation gap is needed and overdue. Therefore, the PIOB has supported the project to enhance ISA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" as a high priority.

Status

The Exposure Draft ED-240 was approved at the December 2023 Board meeting and subsequently issued with a deadline for comment letters by 5 June 2024. Further discussion is expected at the next IAASB 2024 meetings with a targeted date of approval of the final pronouncements in March 2025. The Public Interest Issues below have been defined during the comment period where the feedback on the ED has not been complete and therefore not yet analyzed. The consultation exercise will be important to understand stakeholders' needs to reduce the expectation gap.

3.1. Strengthening the requirements in respect of fraud

The PIOB has welcomed the IAASB's intention to strengthen, and not just clarify, the auditor's responsibilities within ISA 240. Inherent audit limitations should not be perceived as diminishing an auditor's responsibilities to identify material misstatements due to fraud. The standard should clearly enhance and 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 has encouraged the IAASB, in pursuing the project objective, to explore how the auditor should consider aspects such as external sources of information, culture, tone at the top, the role of the group auditor in respect of the risk of material misstatement at a component level, and the use of IT tools, and consider how these could impact the detection of fraud.

The PIOB has also welcomed the requirements, which deal with the risk assessment process: "suspected" and identified fraud; consideration of significant deficiencies in internal controls, which may help preventing or detecting 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 in the fraud area and help address the expectation gap.

3.2. Transparency requirements and impact of fraud on auditor's report

We acknowledge the outreach conducted by the IAASB to specific groups of stakeholders which gathered input in respect of various options for enhancing transparency in the auditor's report. The PIOB believes that:

- The option to include a separate section in the auditor's report describing the identified and assessed fraud risks, the auditor's response and the relevant findings/observations, would strengthen transparency and is in the public interest.
- The alternative to include such information under the KAMs section may reduce emphasis given to fraud.

It is important that auditors report on identified fraud and provide early warning relating to fraud through two-way and ongoing communication with those charged with governance and with external authorities and, where appropriate, in the auditor's report. The set requirements about 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 further address the expectation gap.

3.3. Auditor's role with respect to the authenticity of documentation

During the process of drafting ED-240, the PIOB noted different views about the auditor's role with respect to the authenticity of documentation. On the grounds that it would compromise the professional skepticism of auditors, the IAASB decided to delete the following sentence from the ED-240: "*Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine*" - but to retain the sentence in another standard: ISA 200 (application paragraph A.24). The retention of this sentence raises concerns about the degree of professional skepticism required of auditors across all ISAs, including requirements on robustness of audit evidence. It is recalled that some major scandals over the last years involved auditor failures with respect to falsified documents and therefore there are valid public interest expectations regarding auditors' responsibilities in this area.

3.4. Impact of ISA 240 on other standards

We continue to call for the Fraud project to focus not only on ISA 240, but also on identifying revisions to strengthen requirements in other standards. Specifically, it is important to consider revisions which 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.

While transparency on fraud is an important consideration for the auditor's report, the PIOB has noted that other projects, including Going Concern, also have implications for the auditor's report. The PIOB has therefore welcomed the coordination among the different IAASB task forces considering issues involving enhanced transparency.

3.5. Coordination with the IESBA in respect of the Fraud

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.

4. INTEGRATED APPROACH TO AUDIT EVIDENCE AND RISK RESPONSE, INCLUDING FOCUS ON TECHNOLOGY AND INTERNAL CONTROLS

Background

The IAASB undertook a public consultation in 2022 on an ISA 500 “Audit Evidence” project but subsequently decided to pause the project with a re-scoping in mind. As a result, the IAASB is now undertaking work to identify, understand and scope the risk response elements of the new project: “*Integrated Approach to Audit Evidence and Risk Response, Including Focus on Technology and Internal Control*” (the “Integrated project”).

Status

The integrated project is in its initial phase and the results of information gathering are expected to be shared at the IAASB September 2024 meeting. The current Strategy and Work Plan 2024-2027 includes several milestones for the integrated project and the PIOB looks forward to overseeing the most significant topics to strengthen ISA requirements around audit evidence and risk response.

4.1. Scoping and objectives of the integrated project

The PIOB continues to regard the overarching topics of auditing standards of audit evidence, risk response, technology and internal controls as highly relevant to the public interest and for achievement of higher quality work from auditors. There is a need to set out the specific objectives for this project as they relate to the Public Interest Framework. This will help to ensure that the entire project stays focused, and that its public interest objectives are achieved in a timely way.

4.2. Audit evidence aspects of the integrated project

The PIOB reiterates its calls for the IAASB to consider the following topics to strengthen the ISA requirements around audit evidence:

- 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;
- encouraging auditors, where appropriate, to seek external sources of specific information, which could contradict or corroborate audit evidence obtained from the client;
- 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; and

- considering 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).

4.3. Internal control aspects of the integrated project

The PIOB encourages the IAASB to address instances of inconsistent requirements of ISAs in respect of internal controls to enhance audit quality. For example, there is the opportunity to make clear in which circumstances an auditor is required to test internal controls, thereby overcoming the limitations of substantive testing. It is also appropriate to clarify how to address situations where there is a lack of internal controls, including pervasive internal controls, such as IT general controls or segregation of duties, within an entity.

4.4. Importance of Technology as a theme throughout the suite of ISAs

The PIOB supports the IAASB in its efforts to integrate and consider the pervasive impact of technology in the consideration of its standards, in a way which ensures timely responsiveness to public interest needs by enhancing audit quality. To this end, the revisions of relevant standards ought to go beyond embedding concepts already used in the audit practice (such as automated tools and techniques, blockchain, etc.). Co-ordination with the IESBA, which has a similar technology-related on-going initiative, is important.

The PIOB emphasizes that assessing the most significant inspection findings reported by regulators would be a useful source of information, especially in identifying main causes/factors which affect or prevent audit quality. A further discussion with regulators on the risks of improper overreliance on technology tools in audit or overreliance by auditors on IT General Controls of audited entities would be useful to obtain further input and address their concerns.