

## PIOB's Public Interest issues: IAASB projects

The PIOB's recommendations are based on the proposals discussed by the IAASB as of March 2022.

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

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### ONGOING PROJECTS/INITIATIVES

#### **Going Concern Project**

In light of corporate and audit failures in the past and the additional going concern risk placed on entities due to Covid-19 and the war in Ukraine, auditors have an important role to play in this regard to serve the public interest.

The PIOB considers Going Concern, as well as Fraud and Assurance on Sustainability Reporting as high priority projects in the 2022-2023 IAASB Work Plan, and expects that resources will be focused on these projects.

#### **[New] Objectives of the Going Concern Project**

The PIOB welcomes and supports the project on Going Concern approved by the IAASB and agrees with the key public interest objectives to be addressed: 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 informing users of financial information and narrowing the expectation gap.

The PIOB encourages the IAASB to act within its own remit to strengthen procedures and increase transparency.

#### **[New] Strengthening 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,

## Going Concern Project

considering management’s process and scope of the assessment performed by management. It is important that, in order 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 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 should be strengthened in ISA 570 (revised) 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, as well as the impact on the going concern assessment of subsequent events (e.g. pandemic, war).

### **Explicit reference to Going Concern should be included in the Auditor Report**

The PIOB believes that it would be in the public interest for auditors’ reports to make explicit reference to going concern. The IAASB should 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 under the relevant financial reporting framework was appropriate. The auditor may consider reporting on what work has been done in respect of assessing and concluding about going concern. The IAASB may also consider addressing transparency in the auditor report about “close call” situations.

Additionally, in line with ISA 540, the auditor may be permitted or required to communicate directly with 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.

## Fraud Project

In light of corporate scandals and audit failures in the past and the additional fraud risk placed on entities due to Covid-19, auditors have an important role to play in this regard to serve the public interest.

The PIOB considers Fraud, as well as Going Concern and Assurance on Sustainability Reporting as high priority projects in the 2022-2023 IAASB Work Plan, and expects that resources will be focused on these projects.

## Fraud Project

### Objectives of the Fraud Project

The PIOB supports the Fraud project and believes 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 audits of financial statements.

As the IAASB's work progresses, the PIOB encourages the IAASB to evaluate any necessary holistic considerations, such as elements of the audit risk model (including inherent risk, internal control risk and detection risk), and the way they interrelate, and how they assist to further address the expectation gap.

The PIOB notes the IAASB should pursue coordination with the IESBA (for potential changes needed in the Code of Ethics) and with the other stakeholders involved in the financial reporting ecosystem. However, the role of auditors in relation to Fraud should not be diminished.

### Auditor's obligation to obtain reasonable assurance that financial statements are free from material misstatements due to fraud

ISA 240 should emphasize that the existence of fraud can result in financial statements being misstated. The standard should clearly articulate the auditor's work effort in respect of fraud, to sufficiently address the risk of misstatements and to bring that risk to an acceptably low level. The auditor should obtain reasonable assurance that financial statements are free from material misstatements due to fraud. In this regard, the tone of ISA 240 should be strengthened so that auditors place the same level of importance on identifying misstatements due to fraud as they do on identifying misstatements due to error. In particular, inherent audit limitations should not be perceived as diminishing an auditor's responsibilities to identify material misstatements due to fraud.

The Fraud project should not only focus on ISA 240 but on strengthening requirements that drive significant changes in the attitude and behavior of auditors throughout the audit process, including testing internal controls, through the exercise of professional skepticism and professional judgment. The PIOB supports the IAASB's project proposal to strengthen ISA 240, and other related standards, through more robust requirements, and through enhanced exercise of professional skepticism. This should promote an integrated risk-based approach.

### Transparency through Communication with TCWG and in the Auditor's Report

Auditors should report fraud that they identify and provide early warning on suspected fraud. Requirements for communication with those charged with governance, external authorities and in the auditor's report should ensure appropriate communication of fraud risks, procedures performed and deficiencies identified by the auditor, and

## **Fraud Project**

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 with TCWG, through strengthened requirements in ISA 240 and other ISAs. The PIOB also believes that transparency on fraud, as well as on going concern, in the auditor's report needs to be achieved, and welcomes the coordination among the different TFs on transparency.

The PIOB looks forward to the outreach planned by the IAASB to specific groups of stakeholders (preparers, TCWG, users), which will gather input on the transparency options and level of detail in the auditor's report, about the fraud risks identified, the auditor's response and the relevant findings. What auditors will need to disclose may drive improved auditor behaviors, may potentially contribute to enhanced transparency in the company management's and TCWG's reporting on fraud, and may help addressing the expectation gap.

## **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 scale down the audit requirements for LCEs, while ensuring that assurance is not weakened in either 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 IAASB will need to take into account concerns raised by the respondents to the ED, which relate to a stand-alone ISA for LCEs and the perceived lower level of audit quality which may be achieved by applying the standard.

### **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 of establishing the categories of entities that should be excluded from the scope, with group audits among them, listed in the "Authority" of the ISA for LCEs. Considering the comments received to the ED, the IAASB may need to clarify the scope of the standard and further consider the impact of group audits.

### **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

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

customarily respond to exposure drafts of the ISAs (e.g. users of the financial statements of LCEs). It is important 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 ED, especially on the perception that two levels of audits may be created with the introduction of a separate ISA for LCEs and the IAASB should take into account these concerns.

### **Resources and timing of the projects on LCEs**

As a result of the consultations and outreach undertaken on audits of LCEs, the PIOB acknowledges the projects to develop a separate standard for LCEs and to address complexity, understandability, scalability and proportionality in the ISAs going forward (the “CUSP” project, to develop Drafting Principles and Guidelines).

The PIOB acknowledges the important balance to be struck between the urgency expressed for such a separate standard, and achieving the right quality based on consultation and deliberation. Timely progress remains a critical matter of public interest. The PIOB notes the concerns raised to the ED on the ISA for LCEs project and the prioritization assigned in the work plan.

## **Audit Evidence – ISA 500**

### **Relevance and urgency of the project**

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: a) Auditors’ role regarding the relevance and reliability of information which is used as audit evidence, in view of possible fraudulent information or unreliable sources of information; b) Encouraging auditors, as appropriate, to seek external sources of specific information, which could contradict or corroborate audit evidence obtained from the client; c) Addressing new technologies (digital information); d) Strengthening 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; e) Further consideration of what is in the

## **Audit Evidence – ISA 500**

Application Material opposed to what is in a Requirement, in view of driving improved behaviors, clarity and enforceability (e.g. persuasiveness of audit evidence).

### **Coordination among TFs and SSBs**

Audit Evidence is deeply interrelated with Technology 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, where appropriate.

The PIOB welcomes IAASB's work under its Disruptive Technology initiative to anticipate and prepare for the impact of emerging technology on audit and assurance.

## **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 the IAASB's approval of a project to address these matters.

The PIOB acknowledges that a case-by-case assessment would need to be made by the IAASB to ensure that replacing "listed entities" with "PIEs" in the current ISAs and Quality Management Standards does not create unintended consequences.

In order to ensure the alignment of the ISAs with the Code, the IAASB should provide an explanation for those cases where it would not be appropriate to apply the

## Definition of PIEs

differential requirements to all PIEs, and limit them to listed entities (or “publicly traded entity”).

## Transparency needed on the entities treated as PIEs

Transparency is key to ensure there is certainty for the users of the audit report and financial statements on the rules applied to an entity and to achieve enhanced confidence in the audit of PIEs. The PIOB welcomes the provision in the Code that requires firms to disclose when a firm has applied the independence requirements of PIEs and urges both the IAASB and IESBA to ensure this transparency is achieved in a manner that is readily accessible for users. The PIOB notes that the options for achieving this being considered by the IAASB include disclosure in the auditor report.

The PIOB encourages the IAASB to obtain sufficient input through targeted stakeholder outreach to investors and other users on how enhanced transparency on independence requirements could best be achieved.

## OTHER PUBLIC INTEREST ISSUES (NO PROJECT PROPOSAL APPROVED YET)

### Assurance on Sustainability Reporting

#### Take a leadership role in developing assurance standards on sustainability reporting

Reporting on non-financial information, including sustainability and ESG reporting, is a global demand, and assurance on this information will be critical to give confidence to its users about the reported information. The complex and multidisciplinary nature of sustainability reporting bring very significant challenges to providing assurance, including by the audit profession.

Along with diverse initiatives in the sustainability and ESG reporting space, many stakeholders have called for the IAASB to prioritize the assurance of such reporting as part of its 2022-2023 work plan. The IAASB should work closely with IESBA to identify key ethical and independence challenges that will arise in this area.

The PIOB acknowledges that the IAASB agreed to dedicate resources to the assurance on sustainability reporting, in its 2022-2023 Work Plan, and expects that resource allocation will focus on this high priority project, as well as on Fraud and Going Concern. The PIOB supports the willingness of the IAASB to collaborate with key stakeholders, including standard setting and regulatory communities.

#### [New] Possible Scope of an Assurance Standard(s) on Sustainability Reporting

The PIOB believes that an assurance standard(s) on sustainability reporting should be neutral from different perspectives (reporting framework, users, assurance provider). A set of dedicated assurance standards would help drive clarity, comparability,

## **Assurance on Sustainability Reporting**

transparency and consistency, and could build on the current content of ISAE 3000 (Revised), ISAE 3410 and EER guidance.

Some important topics which the sustainability standard could include are: nature and extent of audit evidence, materiality and double-materiality concept, consideration of risks of material misstatements, reliance on work of others and use of experts.