



# IAASB Update

*Presentation at the July ASB 2022 Meeting*

# Agenda

General Update

Audits of Less Complex Entities

Sustainability

Fraud

Going Concern

Listed Entities and Public Interest Entities

Audit Evidence



Agenda Item 7

# General IAASB Update

Wendy Stevens, Mazars and IAASB Board Member

## Key Items



June 2022 IAASB Meeting Highlights



Tom Seidenstein Reappointed as IAASB Chair



PIE exposure draft published July 2022; Going Concern NAG approved



IFAC/IAASB Focus on Technology



Other Activities



# IAASB Update: Audits of Less Complex Entities

Horace Emery, ASB Task Force Chair

# Executive Summary

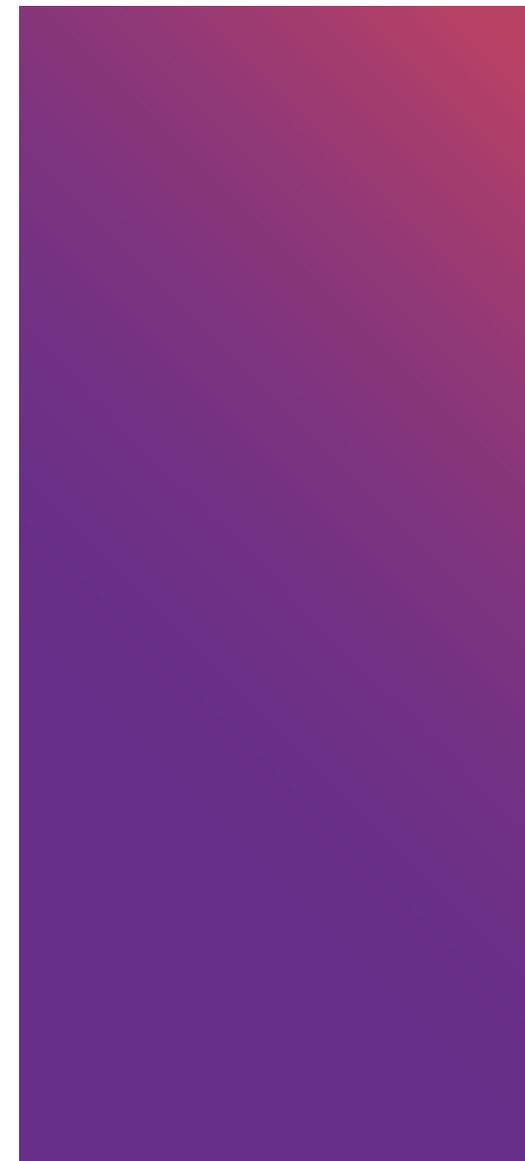
The following are the key takeaways\* from the June IAASB Meeting:

1	The IAASB agreed that the project to develop a separate standard for audits of LCEs should continue, while acknowledging concerns from respondents that did not support the project (often due to perceived or anticipated market confusion)
2	The IAASB's discussion focused on narrowing the scope of the draft standard and refining the definition/description of a "typical LCE"
3	The IAASB provided direction on how revisions could be made to address respondents' concerns around further differentiating the proposed standard from the ISAs (while still obtaining reasonable assurance) and the sufficiency of Essential Explanatory Material in the proposed standard
4	The IAASB also supported the inclusion of procedures for group audits in the scope of the draft standard and provided direction on the type of group audits that should be in scope and how such requirements may be presented
5	In September 2022, the LCE Task Force plans to bring to the Board for discussion the revised Authority of the draft standard, proposed content and requirements addressing group audits, along with other targeted topics. The IAASB is targeting the 2 <sup>nd</sup> half of 2023 for issuance of a final standard



# Key Matters

Matter	Discussion Highlights
<b>Proposed Description of a “Typical LCE”</b>	<ul style="list-style-type: none"><li>• The IAASB Task Force presented a table outlining the Task Force’s initial thinking on characteristics of a “typical LCE” (<a href="#">see paragraph 63</a>)</li><li>• The IAASB directed that the Task Force narrow the definition/description of a “typical LCE” as contained in the <a href="#">proposed Authority Document</a></li><li>• The IAASB stated that it should be clearer that the standard is intended only for those who are considered “small” (and not medium)</li><li>• IAASB members leaned toward qualitative over quantitative criteria; others indicate that such criteria could be jurisdictionally developed</li><li>• Some IAASB members indicated that significant accounting estimates more complex than, for example allowance for doubtful accounts, seemingly should exclude an entity from the propose LCE standard</li></ul>
<b>Standalone Standard for Audits of LCEs</b>	<ul style="list-style-type: none"><li>• Some feedback received that the proposed standard is “too similar” to the ISAs (length, detail)</li><li>• Important that the standard result in the auditor obtaining reasonable assurance and performing a high-quality audit</li><li>• Easing of inability to refer to the ISAs as the IAASB made clear that a practitioner could look to the ISAs for additional guidance.</li></ul>
<b>Group Audits</b>	<ul style="list-style-type: none"><li>• The IAASB leaned toward including group audits in the proposed standard</li><li>• Task Force directed to explore whether component audits could be performed in accordance with the proposed standard</li></ul>



# Considerations for the ASB – Recap the ASB’s survey and potential actions

Challenges with Applying U.S. GAAS to LCE Audits	Other Survey Key Takeaways	Current AICPA/ASB Response Actions	Other Potential Actions
<p>61% did not believe that US GAAS is scalable to LCEs</p> <ul style="list-style-type: none"><li>•73% reported that they are reluctant to scale or modify requirements because of peer review</li><li>•From most to least challenging, respondents identified the following as challenges:<ul style="list-style-type: none"><li>•Requirements to perform RA procedures and gain an understanding of IC</li><li>•Overly complex requirements that are not applicable to LCEs</li><li>•Overly detailed requirements</li><li>•Onerous documentation requirements</li><li>•Difficulty scaling substantive audit procedures performed in response to assessed RMM</li></ul></li></ul>	<ul style="list-style-type: none"><li>•75% believe that the cost of an audit exceeds the benefits for LCEs</li><li>•There was little consensus on the need for a separate standard for audits of LCEs in that 42% stated that a separate standalone standard should be developed, while 37% did not support the development of a separate standalone standard</li><li>•93% believe additional application material within the auditing standards should be provided regarding scalability of certain requirements to audits of LCEs;</li><li>•86% believe audit guides or practice aids (outside of the auditing standards) should be provided related to scaling auditing standards to audits of LCEs</li></ul>	<ul style="list-style-type: none"><li>•ASB:<ul style="list-style-type: none"><li>•Risk Assessment Guide for LCEs (2<sup>nd</sup> half 2022)</li><li>•Technology Enabled Risk Assessment resource (2<sup>nd</sup> half 2022)</li></ul></li><li>•AICPA<ul style="list-style-type: none"><li>•Dynamic Audit Solution</li></ul></li><li>•ARSC<ul style="list-style-type: none"><li>•Enhanced standards for reviews clarifying that a review is an assurance engagement (more closely related to an audit than a compilation)</li></ul></li></ul>	<ul style="list-style-type: none"><li>•In addition to ISA for LCEs, consider what’s been developed by other NSS/Regulators (e.g., German ED, French statutory framework, initial Nordic Federation draft) for potential guidance for US auditors</li><li>•Seek additional opportunities to provide input to the IAASB</li><li>•Address issues raised in our survey</li><li>•Other?</li></ul>

The ASB’s Audits of LCE TF request the ASB’s views and guidance on what activities, if any, it should perform now to support the IAASB’s ongoing LCE work AND/OR address issues in practice for U.S. auditors



# IAASB Update: Reporting on Sustainability and ESG Information

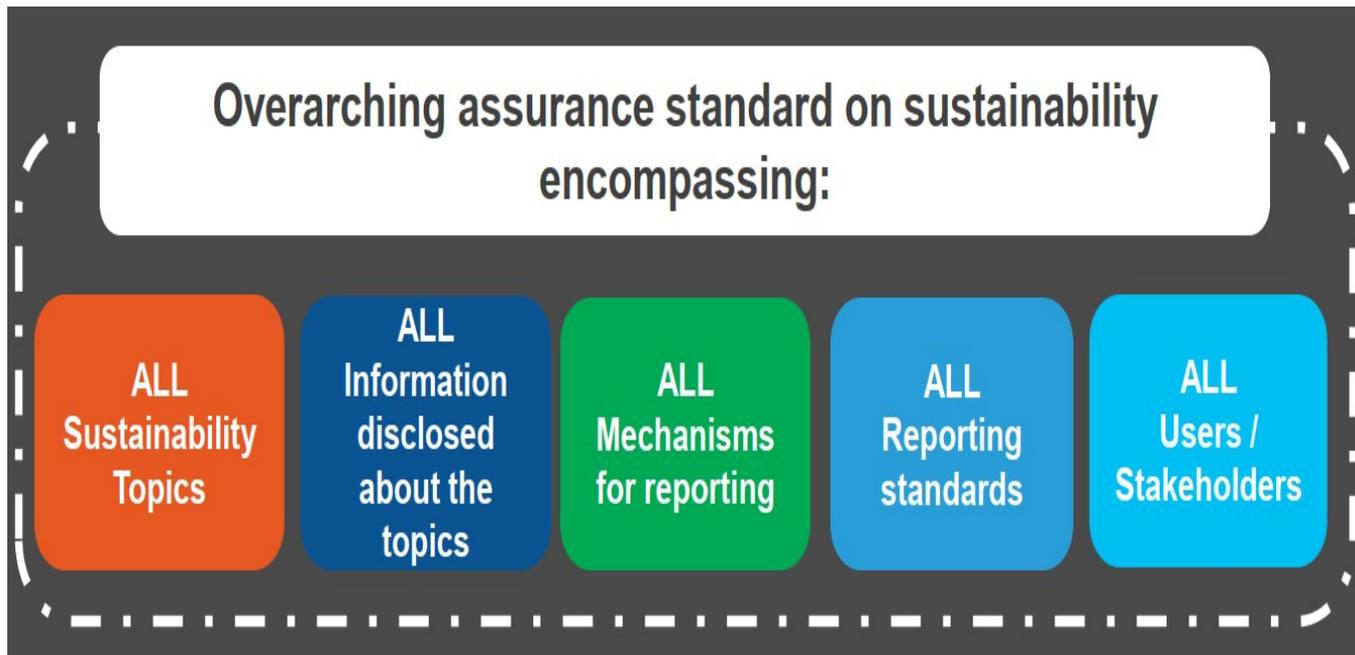
Diane Hardesty, ASB Task Force Chair

## Consensus as of the June 2022 IAASB Meeting

- Support the creation of an overarching stand-alone sustainability standard *that is consistent with* ISAE 3000
- Emphasize timely and responsive standard-setting, initiate action immediately
- Develop a “suite of sustainability standards” over time to respond to emerging issues

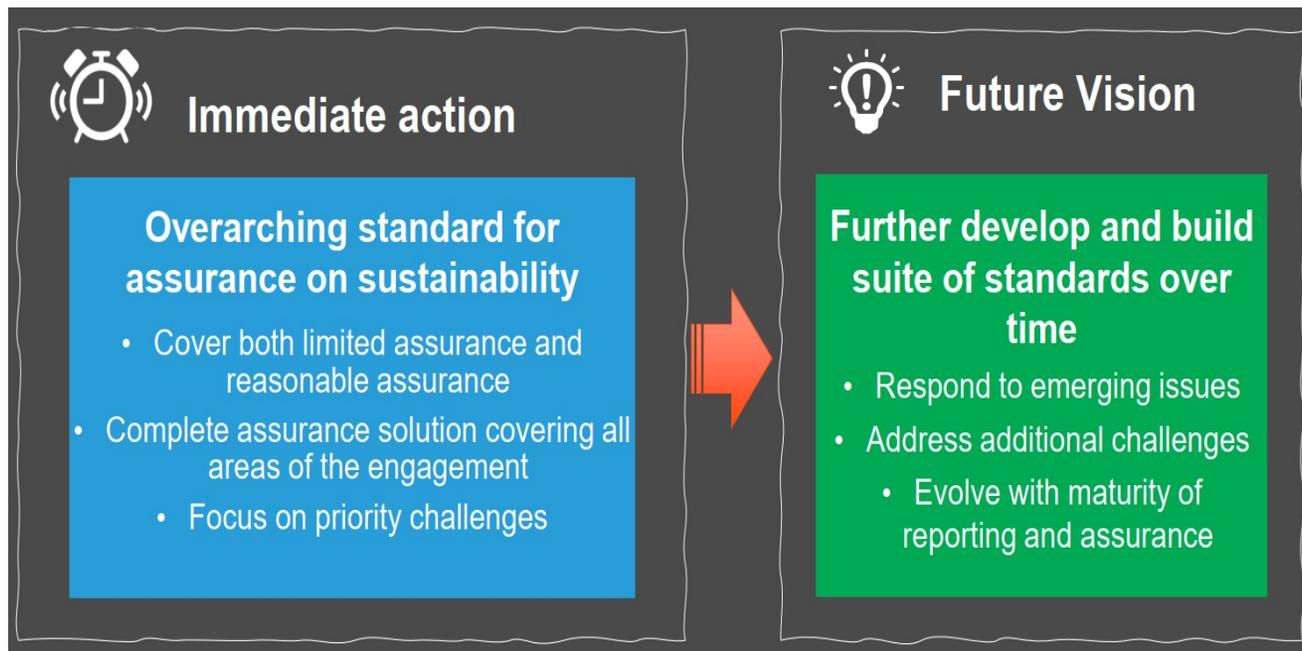
There were several board members that continued to support a “top-up” approach, but the majority supported a stand-alone standard.

# Content of the new sustainability standard



- **Topics** include climate, economic impacts, labor practices, human rights and community relations, and biodiversity
- **Information** includes governance, strategy and business model, risks and opportunities, metrics and key performance indicators, targets, internal control over monitoring and managing risk, and impact analysis
- **Mechanisms** for reporting include integrated reports, annual reports, management commentary and sustainability reports
- **Reporting standards** include ISSB, GRI, EU CSRD, SEC, EFRAG
- **Users / Stakeholders** include those focused on enterprise value creation, such as providers of capital and broader stakeholders focused on impacts on economy, environment or society

# IAASB Strategy for Developing Assurance Standards on Sustainability



The IAASB envisages that future standard-setting action could be undertaken to further develop a suite of standards to meet emerging priorities as reporting and assurance mature, and address other challenges not included as part of the initial standard-setting effort.

# Focus of the Sustainability Assurance Working Group (SAWG)

 Start with ISAE 3000 (Revised), ISAE 3410 and IAASB Guidance on Sustainability / EER

**+** Add specificity and enhancements for assurance on sustainability

 More specifically address the following priority challenges:

 Limited versus reasonable assurance	 Suitable reporting criteria	 Scope of engagement	 Evidence	 Internal Controls	 Practitioners' Materiality	 Reporting
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## Next Steps for IAASB:

- **September 2022:**
- Draft project plan/proposal
- Provide structure of overarching standard and outline of draft requirements
- **December 2022:**
- Approve project plan/proposal
- Draft requirements and application material
- Discussion of key challenges

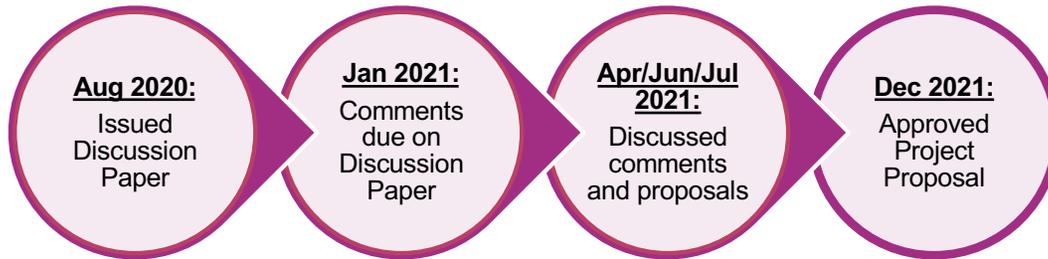
Exposure draft 2<sup>nd</sup> half of 2023



# IAASB Update: Fraud

Tania Sergott, ASB Task Force Chair

## IAASB Fraud Project Timeline



ASB will need to consider how best to move forward with an ASB project on fraud – to be considered after the December 2022 IAASB meeting materials become available

### Issues discussed - March 2022 IAASB Mtg:

- Risk identification and assessment
- Communication with those charged with governance
- Transparency in the auditor's report
- Non-authoritative guidance

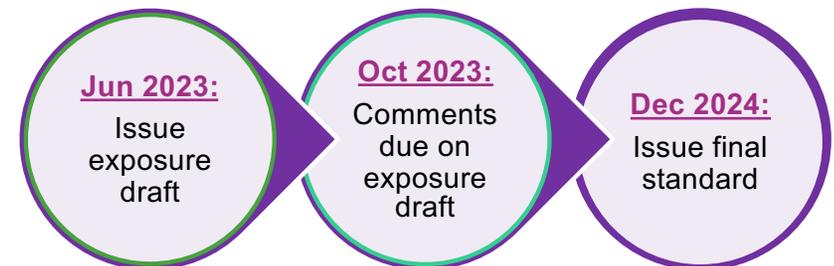
### Issues discussed - June 2022 IAASB Mtg:

- Introductory section
- Specialized skills
- Risk assessment
- Understanding the entity & its environment
- Presumed fraud risk – revenue recognition
- Journal entries
- Communication with those charged with governance

*Details of June 2022 meeting on next slides*

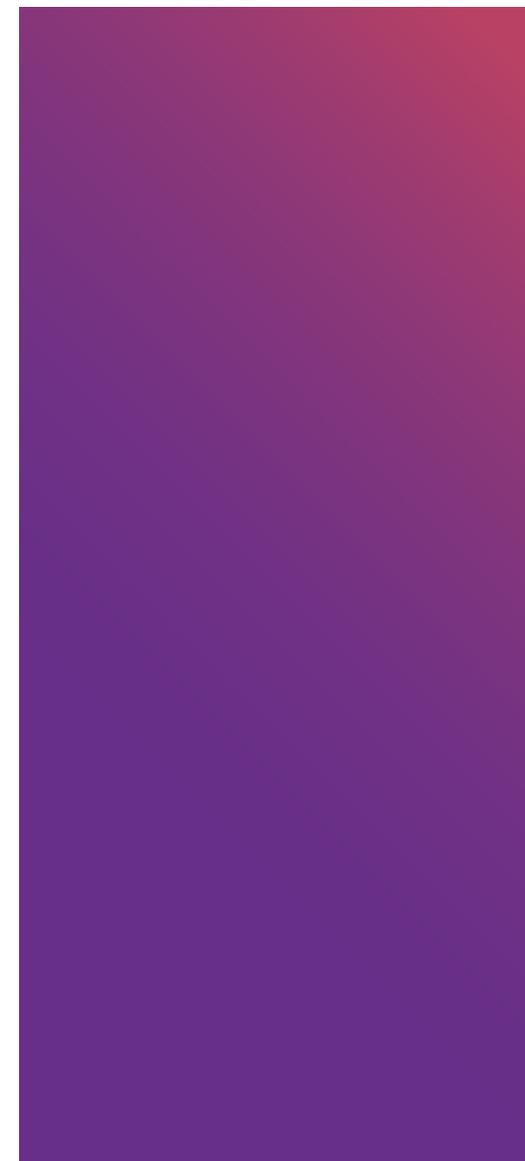
### Issues to be discussed - December 2022:

- Definition of fraud
- Written representations
- Technology
- Analytical procedures
- Audit procedures for identified or suspected fraud
- Unpredictability of audit procedures
- Third-party fraud
- Audit documentation
- External confirmation



# Fraud - June IAASB Meeting Key Takeaways

Topic	Overview of Key Changes	Key Takeaways from June IAASB Meeting
<p><b><u>Sections I &amp; II:</u></b>  <b>Structure and Reorder Introduction – Emphasis on Auditor’s Responsibility Regarding Fraud</b></p>	<ul style="list-style-type: none"> <li>The IAASB is proposing to align the layout and headings of ISA 240 with that of ISA 315 (Revised 2019)</li> <li>The IAASB is proposing to reorganize the introduction section of ISA 240               <ul style="list-style-type: none"> <li>Place auditor’s responsibilities up front followed by management’s responsibilities</li> <li>Create a “Key Concepts” section which includes “characteristics of fraud”</li> </ul> </li> <li>Make explicit in the introduction that the auditor is concerned with both fraud or “suspected fraud”</li> <li>Expand on professional skepticism and interplay between ISA 240, ISA 250, and other ISAs</li> </ul> <p>Paragraphs 1-9A, A1A-A7 of IAASB agenda item 7A</p>	<p>The IAASB broadly supported the reorganization of the introductory paragraphs to emphasize auditor’s responsibilities relating to fraud and reduce the ambiguity between inherent limitations and auditor’s responsibilities.</p> <p>Different members expressed varying comments regarding including “suspected fraud” in introductory materials and/or definition of fraud. TF was asked to review extant paragraphs to identifying where distinguishing between fraud and suspected fraud would encourage enhanced behavior.</p> <p>The IASTF had concerns about unintended consequences of including “suspected” fraud into every instance of fraud in the standard.</p>
<p><b><u>Section III:</u></b>  <b>Specialized Skill</b></p>	<ul style="list-style-type: none"> <li><b><u>New Requirement:</u></b> The IAASB is proposing to add to a requirement that links to ISA 220 to determine use of specialized skills or knowledge to perform procedures to identify and assess risks of material misstatement due to fraud.               <ul style="list-style-type: none"> <li>Includes application material about forensic skills</li> </ul> </li> </ul> <p>Paragraph 16A and paragraphs A12A-A12D of IAASB agenda item 7A</p>	<p>The IAASB provided broad directional support for the proposed changes to the section relating to specialized skills. Some members asked for clarification on specialized skill vs. requirement in ISA 220 for “team with appropriate capabilities” vs. use of an expert.</p> <p>The IASTF had concerns (a) that the use of forensic skills needed better context in the application material (align with project proposal), (b) about triggering a documentation burden for when the auditor did not consider specialized skills were needed.</p>



## Fraud - June IAASB Meeting Key Takeaways (2)

Topic	Overview of Key Changes	Key Takeaways from June IAASB Meeting
<p><b><u>Sections IV and VII:</u></b>  <b>Risk Assessment Procedures and Related Activities</b></p> <p><b>Obtaining an Understanding of the Entity</b></p> <p><b>Identifying and assessing the ROMM</b></p>	<ul style="list-style-type: none"> <li>The IAASB worked on better aligning ISA 240 with ISA 315 by including similar structure/sections as ISA 315. This resulted in the IAASB task force findings ways to provide a link to ISA 315 to which the auditor could then apply a fraud lens.</li> <li>IAASB used the phrase “In applying ISA 315 (Revised 2019)” when the auditor is required to do something in addition to the requirements in ISA 315</li> </ul> <p><b>Paragraph 17-24, 24B, and paragraphs A21E-A23A, A23D-A23L of IAASB agenda item 7A</b></p>	<p>The IAASB supported revisions to include recent changes in ISA 315 (Revised 2019), however there were mixed views on how to accomplish this. The IAASB emphasized that the risk assessment procedures relating to fraud are intended to expand upon, and should not duplicate, what is already in ISA 315 (Revised 2019) and cautioned against implying that there were two separate risk assessments.</p> <p>The IASTF had similar concerns about the construct and supported expanding upon ISA 315 (Revised 2019) without unnecessary duplication.</p>
<p><b><u>Section V:</u></b>  <b>Presumption of Fraud Risk in Revenue Recognition</b></p>	<ul style="list-style-type: none"> <li>The IAASB attempted to shift the focus from developing a rebuttal to performing robust risk identification an assessment</li> </ul> <p><b>Paragraph 27 and paragraphs A28A-A28B, A30A-A31A of IAASB agenda item 7A</b></p>	<p>The IAASB provided broad directional support for proposed changes relating to presumed fraud risk in revenue recognition.</p> <p>The IASTF did not have concerns with the proposed changes.</p>

## Fraud - June IAASB Meeting Key Takeaways (3)

Topic	Overview of Key Changes	Key Takeaways from June IAASB Meeting
<b><u>Section VI: Journal Entries</u></b>	<ul style="list-style-type: none"> <li>The IAASB considered enhancing the requirements to clarify that the auditor’s risk assessment procedures in ISA 315 for controls over journal entries are also relevant to the auditor’s decisions on journal entry testing</li> </ul> <p><b>Paragraph 33(a), and paragraphs A42-A45A of IAASB agenda item 7A</b></p>	<p>The IAASB provided broad directional support for proposed changes relating to journal entries. Some members questioned whether the materials provided sufficient guidance on “how to select which journal entries to test.”</p> <p>The IASTF questioned the usefulness of the proposed changes.</p>
<b><u>Section VII: Communications with those charged with governance</u></b>	<p><b>New Requirement:</b> IAASB added new requirement for specific discussion with those charged with governance about fraud-related matters in the audit to encourage more 2-way communication</p> <ul style="list-style-type: none"> <li>IAASB developed application material to explain the importance of effective 2-way communication</li> </ul> <p><b>Paragraph 40A and paragraphs A60A-A60C of IAASB agenda item 7A</b></p>	<p>The IAASB supported the proposed changes for enhancing two-way communication with TCWG, including emphasizing the ongoing nature of these communications throughout the audit.</p> <p>The IASTF was also supportive of these changes .</p>
<b>NEXT STEPS</b>	<ul style="list-style-type: none"> <li><b>September 2022 IAASB Meeting</b> – Update about specific outreach activities with users of the financial statements regarding transparency in reporting (outreach = interviews with ~ 20 users, conducted by TF members in June &amp; July)</li> <li><b>December 2022 IAASB Meeting</b> – Bring a substantially full draft of the standard</li> <li><b>Expected June 2023</b> approval of Exposure Draft by IAASB</li> </ul>	



# IAASB Update: Going Concern

Clay Huffman and Laura Schuetze,  
ASB Task Force Chairs

# Executive Summary

•The following are the key takeaways\* from the June IAASB Meeting:

1	The IAASB generally supported the proposed change in the commencement date of the period of the auditor's evaluation of management's assessment of going concern to at least twelve months from the date of approval of the financial statements
2	The IAASB directed the IAASB's Going Concern Task Force to continue exploring proposals and illustrative drafting with respect to providing explicit statements about going concern in the auditor's report
3	The IAASB agreed to move forward with the issuance of the non-authoritative guidance that addresses frequently asked questions about reporting going concern matters in the auditor's report
4	In September 2022, the IAASB's Going Concern Task Force intends to discuss certain other proposed actions in the project proposal such as risk identification and assessment, terminology, management's assessment of going concern, and professional skepticism



## Other Matters

- ASB-led work to conduct going concern survey and interviews in-progress:
  - Goal: 100-150 responses per stakeholder group on going concern reporting in the auditor's report
  - Summarized results expected in late August 2022 with feedback to be shared with the IAASB Going Concern Task Force for the IAASB's September 2022 meeting
- Other items:
  - Monitoring other standard setting actions (e.g., PCAOB's Going Concern Project, GASB)
  - Monitoring Peer Review findings on recent AU-C 570 changes

## Questions for the ASB

1. Does the ASB generally support the IAASB's tentative decisions?
2. For purposes of convergence planning, should the ASB's Going Concern Task Force start to evaluate now the impact of the IAASB's tentative decisions on AU-C 570, e.g.,
  - a. Whether to change the commencement date of the period of the auditor's evaluation of management's assessment of going concern?
  - b. Whether the auditor should explicitly state that use of the going concern basis of accounting is appropriate when no material uncertainty exists?



# IAASB Update: Listed Entities and Public Interest Entities

Andrew Prather, ASB Task Force Chair

# Executive Summary

On June 17, the IAASB approved a narrow scope ED that would amend ISA 700 (revised) and ISA 260 (revised)

- The ED was released on July 6, 2022, with a 90-day comment period (ending October 4, 2022)
- The core focus of the ED is the conditional requirement and accompanying illustrations to publicly disclosed that differential independence requirements for audits of financial statements of certain entities (including public interest entities) were applied
- While IESBA's transparency requirement would apply to review engagements, the IAASB decided to not propose ISRE 2410 amendments as part of the current LE/PIE project

The ED proposes application material focused on:

- Relevant ethical requirements (RER) that may also require or encourage the auditor to determine whether it is appropriate to apply the differential independence requirements for the audits of certain entities not specified in the RER
- Confidentiality provision in the RER that may prohibit the auditor from such disclosure
- Increased transparency with TCWG that differential independence requirements for certain entities have been applied

In December 2022, the IAASB is expected to discuss "track 2" matters including

- Whether the IAASB should adopt the IESBA definitions of "publicly traded entity" and PIE
- What should be the objective and guidelines for establishing differential requirements for certain entities in the ISQMs and ISAs; and
- Which entities the extant differential requirements for listed entities in the ISQMs and ISAs should apply to, using a case-by-case approach, and consequential considerations for the application and introductory material in these standards

## Key Decisions Needed by PEEC and ASB

<b>Key:</b>	Blue box = PEEC Action
	Maroon box = ASB Action
	Red box = Urgent
	Yellow box = Caution

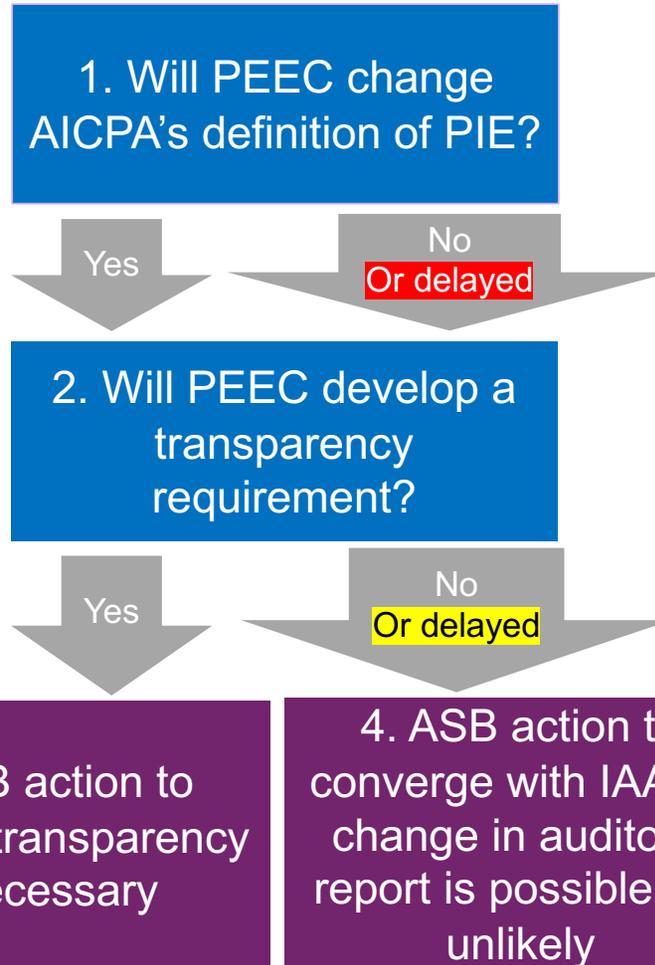
**IESBA's PIE Definition:** A firm shall treat an entity as a public interest entity when it falls within any of the following categories:

- a) A publicly traded entity;
- b) An entity one of whose main functions is to take deposits from the public;
- c) An entity one of whose main functions is to provide insurance to the public; or
- d) An entity specified as such by law, regulation or professional standards to meet the purpose described in 400.10.

**IESBA Transparency Requirements:**

Audit firms must explicitly disclose whether the firm has applied the applicable independence requirement under the relevant ethical framework

**IAASB Requirements: TBD**



**AICPA PIE Definition:** All of the following:  
 a) All listed entities, including entities that are outside the United States whose shares, stock, or debt are quoted or listed on a recognized stock exchange or marketed under the regulations of a recognized stock exchange or other equivalent body.  
 b) Any entity for which an audit is required by regulation or legislation to be conducted in compliance with the same *independence* requirements that apply to an audit of listed entities (for example, requirements of the SEC, the PCAOB, or other similar regulators or standard setters).

**AICPA Transparency Requirements:**

Ethics Code: TBD

AU-C Section 700 para .28c and A39 state:

- The report is required to include a statement that the auditor is required to be independent of the entity and to meet the auditor's other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audit.
- When independence and other relevant requirements are contained in a limited number of sources, the auditor may choose to name the relevant sources.

# Other Matters



## ASB-PEEC Coordination Update

- PEEC TF Convergence Status
- August 3, 2022 PEEC Meeting w/ recommendations



## Expected Direction of ASB Comment Letter

- Overall supportive
- Concern that financial statement users may interpret that non-PIEs have lesser quality of assurance
- Encourage creation of education materials to prevent expectation gap
- ASB to receive CL draft by early September



## Questions for the ASB

1. Do you have any feedback regarding the direction of the comment letter?
2. Do you have any suggestions for our on-going interaction with PEEC?



# IAASB Update: Audit Evidence

Kathy Healy, ASB Task Force Chair

## Key Takeaways

- IAASB broadly supportive of revised draft, which includes a separate requirement to obtain audit evidence about accuracy and completeness of information intended to be used as audit evidence when those attributes are applicable
- Although IAASB Staff and TF believe they have taken SAS 142 into account, ASB TF remains concerned that the revised ISA may not be substantially the same
  - Further analysis needed to enable the ASB to conclude on the nature and extent of differences and impact on convergence
- ASB has the benefit of having a separate Data Analytics guide to provide additional details about how ADAs are used in performing procedures / obtaining evidence
  - Opportunities for the IAASB to embed current practices into the standard to promote greater use of technology in light of the objectives of the project

# How ASB recommendations have been addressed to date

## Recommendations taken:

- Inclusion of the phrase “used by the auditor” in the definition of *audit evidence*.

## Recommendation addressed by other revisions:

- Additional application material to supplement the definition of *audit evidence*, based on paragraphs A5 - A6 of AU-C Section 500. IAASB added other AM that we believe is sufficient.
- The proposed ISA 500 (Revised) link to paragraph 8 of ISA 230, *Audit Documentation*. IAASB revised par. A56 of proposed ISA with better language.

## Recommendations not taken:

- Inclusion of the concepts of relevance and reliability in the definition of *appropriateness (of audit evidence)*.
- Proposed revisions to paragraph 10 addressing management’s experts. We repeated this comment in June.
- Addition of examples of under-reliance on technology were provided. IAASB Task Force did not address.

## Continuing concerns:

- Difference in wording of objective and certain requirements
- Documentation requirements
- Plans to develop non-authoritative guidance

# Framework to Evaluate Substantive Differences

The ASB's task force proposes applying an "Appendix B" approach to more fully understand meaningful differences between the proposed ISA 500 revisions and issued but not yet effective SAS 142 standard to inform the ASB's approach to convergence



- Are there other criteria that the ASB believes that the ASB's TF should consider in evaluating the IAASB's proposals?

## Next Steps

- Discussions with IAASB TF staff by August
  - Focusing on incremental guidance proposed by ASB TF, including greater emphasis on using technology
- Influence the IAASB's planned ED vote in September
- Document and prepare an initial Appendix B analysis for the ASB meeting in October 2022
- Respond to the ED in an ASB comment letter (likely due January 2023)

