



PIOB's Public Interest Issues - IAASB projects

(document updated as of January 2025)

The PIOB's Public Interest Issues presented in this document are based on the status of IAASB's projects after the IAASB December 2024 meeting and the PIOB meeting in January 2025. For each selected project, brief background information and project status are 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 and abbreviations

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

1. ASSURANCE ON SUSTAINABILITY REPORTING (ISSA 5000)

Background

Following the PIOB certification of the IESBA and IAASB sustainability standards, market participants and policymakers around the world now have a robust global baseline to instill confidence in sustainability reporting. Sustainability reporting has wide relevance for users both within and outside of capital markets and it requires additional information sources and the exercise of key judgments beyond financial reporting. There are also heightened risks, such as greenwashing, where organizations might seek to misrepresent their performance. Avoiding such risks, which could undermine public trust and capital flows into sustainable development, is clearly in the public interest.

The IAASB sustainability assurance standard, ISSA 5000, has been developed in an accelerated timeline, to meet, to the greatest extent possible, the expectations of users placing reliance on reported information. The next step is a successful implementation of ISSA 5000, which will not only require further work of the IAASB, but also significant input from assurance practitioners, regulators, preparers and those charged with governance¹.

As sustainability reporting and assurance are at the start of a long journey and the new IAASB standard is central to this journey, it will necessarily need to evolve in line with public interest needs. The PIOB is encouraging all stakeholders to share feedback from implementation, draw key lessons from experience, to enable timely refinements to the standard.

Status

The IAASB approved ISSA 5000 in September 2024, and the PIOB certified in November 2024 that it followed due process and is responsive to the public interest. The Public Interest Issues below reflect the key background noted above and highlight those areas that require further refinement in the context of necessary evolution of the standard.

1.1. Supporting implementation through monitoring and rapid response

As sustainability assurance is a relatively new field and ISSA 5000 is to be set as an overarching standard, it should be foreseen that questions will arise, and necessary clarifications will be needed across jurisdictions as sustainability assurance practitioners start implementing the standard.

The PIOB encourages the IAASB to create a fit-for-purpose formal monitoring and rapid response mechanism(s) to monitor and identify implementation issues and to respond to them accordingly. Engaging all relevant stakeholders in this exercise will help ensure the success in the adoption of ISSA 5000 through wide collaboration within the sustainability ecosystem. In this context, the PIOB emphasizes the need for on-going cooperation between the IESBA and the IAASB in view of the interoperability of their respective sustainability standards.

The formal monitoring mechanism(s) should lead to timely and regular reporting of matters that enable an understanding of the issues being encountered and allow the

¹ The PIOB notes that, in the context of implementation of the global standards on sustainability assurance, there are public interest matters beyond the remit of the IAASB. The implementation will require a robust level of public interest oversight, where regulators and those charged with governance have a role to ensure that preparers of the sustainability information as well as assurance providers have the appropriate skills and experience and comply with ethical reporting and assurance standards.

IAASB to consider the need for any timely refinements and improvements to the standard.

1.2. ISSA on Group sustainability assurance

We assume that ISSA 5000 will be most likely at first applied on assurance engagements of sustainability reporting by large corporations, which mostly have group structures and require input of diverse professionals. The PIOB welcomed the initiative of the IAASB to address our earlier concerns in respect of group structures, by including overriding principles as an interim measure within ISSA 5000 to group sustainability assurance. The PIOB recommends the IAASB, as part of its future work on sustainability, address in further detail matters specifically related to group assurance engagements, potentially in a dedicated ISSA similar to ISA 600 (Revised), or in a future development of ISSA 5000. This could include matters such as materiality, supervision of the work of component practitioners, value chain components and communication among members of the engagement team, among others.

1.3. Communication between different assurance providers

Based on the inter-connectivity between sustainability and financial reporting, the PIOB underlines the importance of broader two-way communication between various assurance providers, to ensure adequate and timely follow-up of identified issues in both the financial statements audit and the sustainability assurance engagements. 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 assurance provider, the communication is necessary in all cases, including where different individuals and firms are involved.

The PIOB noted that, due to time constraints and recognizing the overall benefits of finalizing the new standard before the end of 2024, ISSA 5000 only contains requirements for one-way communication, without consequential amendments to relevant ISAs. The PIOB encourages the IAASB to address the need for two-way communication in future sustainability-related work on the ISAs, including the issues of confidentiality and timing of sustainability and financial reporting.

1.4. Key audit matters in sustainability assurance reports

One of public interest considerations during the development of ISSA 5000 was whether to include a requirement for Key Audit Matters (KAMs) in the sustainability assurance report. The PIOB notes that the IAASB concluded not to include such a requirement, even in the instance of public interest entities (PIEs), with reasoning in

this regard explained in terms of the balance between costs and benefits. We acknowledge and support the IAASB's commitment to consider addressing the use of KAMs in the future development of the sustainability assurance standards.

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. The IAASB has deliberated on comments received and proposed revisions to ED-570 during its June, September and December 2024 meetings. The IAASB unanimously approved the final pronouncement of ISA 570 (Revised) in December 2024. In March of 2025, the PIOB will assess whether the approved pronouncement followed due process and is responsive to the public interest, as part of the certification process.

The following Public Interest Issues express the PIOB's views and comments that were put forward for the IAASB's consideration prior to the final approval of the standard.

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

The revised standard 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 have noted 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. These requirements have been retained in the approved ISA 570 (Revised) as supported by the PIOB,

In case material uncertainties are identified in respect of the going concern assumption, 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 (IASB) 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 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. The PIOB acknowledges that this approach has been retained in the approved ISA 570 (Revised).

2.3. Minimum scope of audit procedures and scalability

It is in the public interest to clearly define the minimum 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 revised ISA 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 of 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. 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 PIOB has recommended including the relevant requirements and guidelines in the application material as part of the final standard. In this context, the PIOB also continues to encourage further dialogue with the 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 the public interest, the PIOB has 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 the expectations of stakeholders and provides them with decision useful information.

The PIOB noted that application material which 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 similarly 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 favor of requirements for auditors to communicate in their reports significant going concern matters in a more transparent way.

In respect of information on “close call” situations in the auditor’s report the PIOB emphasizes its longstanding view that this should be in a separate going concern section rather than in the “Key Audit Matters” (KAM) section. In this way, there will be consistency across all auditors’ reports. The PIOB welcomes the inclusion of a cross



reference to the going concern section for those auditors' reports which contain a KAM section.

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 enhancements of the ISA 570 (Revised) 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 extension of the additional disclosures related to going concern for listed entities 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. The PIOB acknowledges that the consideration to extend differential requirements beyond listed entities is part of the PIE and Listed Entities project. See further comments in relation to PIEs in section 5 below.

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. The IAASB is currently deliberating proposed revisions to ED-240 based on feedback received, with a targeted date of approval of the final pronouncement in March 2025.

3.1. Strengthening 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 in 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

Auditors have an important role to play in providing 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 of 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.

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 inclusion of 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. In this respect, the PIOB encouraged the IAASB to explore this approach to achieve consistent presentation of fraud related matters in all auditor's reports, i.e. both those which do, and which do not, contain the KAM sections. According to the current ED-240, the PIOB acknowledges the IAASB intention to retain the approach in the ED, where fraud related information would be included under the "Key Audit Matters" (KAM) section, as a filtering mechanism for auditors to determine what and when to communicate about fraud in a manner that is entity specific. The PIOB is of the view that such approach risks reducing the emphasis given to fraud and notes that it would be required only when the auditor's report

contains the KAM section, i.e. for listed entities or publicly traded entities (once the PIE Track 2 project is approved and becomes effective).

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.

The PIOB acknowledges the IAASB decision to consider any changes to paragraph A24 of ISA 200 as part of the Audit Evidence and Risk Response project (Section 4), as the removal of this sentence would require broader analysis that cannot be addressed through a consequential amendment.

3.4. Impact of ISA 240 on other standards

The PIOB has called 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. In this respect, the PIOB notes the proposals to add a fraud lens in proposed ISA 240 in applying certain requirements of ISA 220 (Revised), ISA 315 (Revised) and ISA 330.

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 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. AUDIT EVIDENCE AND RISK RESPONSE (ISA 330, ISA 500 AND ISA 520)

Background

The IAASB undertook a public consultation in 2022 on ED-500 "Audit Evidence" but subsequently decided to pause the project with a re-scoping in mind, including a focus on Technology and Internal Controls. As a result, the IAASB undertook work to identify, understand and scope the risk response elements of a new project: *"Standards that address Audit Evidence and the Auditor's Responses to Assessed Risks of Material Misstatement"* (the "Audit Evidence and Risk Response" project).

Status

The IAASB approved the project proposal for Audit Evidence and Risk Response in December 2024. The current Strategy and Work Plan 2024-2027 includes several milestones for the 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 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. The PIOB notes that the project proposal sets 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 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 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 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.). The PIOB welcomes the work carried out in relation to the IAASB's Technology Position, including a gap analysis to identify specific opportunities to enhance the ISAs and ISQMs for technology related matters. 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 impair 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.

5. LISTED ENTITY AND PUBLIC INTEREST ENTITY

Background

The IAASB aim is to address the impact of revisions of Listed Entity and Public Interest Entity (PIE) which have been updated in the Code of Ethics. In the first phase of this project (Track 1, certified by the PIOB in 2023), transparency requirements regarding independence in the audit report (ISA 700) and in communication with those charged with governance (ISA 260) were addressed. The current phase (Track 2) is envisaged as a broader project addressing convergence of concepts between the Code, ISQMs and other ISAs, and whether differential requirements should be extended to PIEs.

Status

The Exposure Draft with narrow scope amendments to the ISQMs, ISAs and ISRE 2400 (Revised) was approved at the December 2023 IAASB meeting and subsequently issued, with a deadline for comment by 8 April 2024. The IAASB has discussed proposed revisions to the Exposure Draft based on feedback received, as well as the impact of the IESBA's updated Staff Questions and Answers (Staff Q&A) publication², which addresses the scenario where a jurisdiction either lacks a PIE definition, or has excluded one or more of the mandatory categories in the IESBA PIE definition.

In February 2025, the IAASB issued the final provisions for public consultation with a deadline for comments by 27 March 2025 and expected approval in June 2025.

5.1. Coordination with the IESBA to ensure alignment between the ISAs, ISQMs, and the Code

The definition of PIE is crucial to determine the categories of entities that are subject to stricter requirements in the ISAs, ISQMs and the Code of Ethics.

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 consistent application of the two sets of standards. The PIOB supported the IAASB's proposals in its exposure draft to include, in the ISQMs and ISAs, the relevant provisions in the Code of Ethics relating to PIEs, including the definition of three mandatory categories of PIEs and replacing "listed entity" with the definition of "publicly traded entity" in the Glossary. This is a good example of leveraging the work of the IESBA and moving in the direction of harmonization with the Code of Ethics.

The PIOB notes the IAASB's subsequent decision, following feedback received and the impact of the IESBA's updated Staff Q&A publication, to revise its proposals to only adopt the definition of "Publicly Traded Entity", replacing current references to

² IESBA Staff Q&A - Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code, updated September 3, 2024 (<https://www.ethicsboard.org/publications/iesba-staff-qa-revisions-definitions-listed-entity-and-public-interest-entity-code>)

“Listed Entity”, and without adopting the PIE definition. The PIOB recommended and supported that as part of the public consultation the IAASB clearly articulates why it is not viable to adopt a conditional requirement with the four categories of PIEs in the ISAs and ISQMs, that fully aligns with the definition in the Code. It would be meaningful to understand the impact of this more limiting amendment versus the fully aligned PIE definition in the Code in so far as the various public interest criteria are concerned, and the potential tradeoffs between them, which resulted in the IAASB reaching its conclusion.

The PIOB further recommends that the IAASB considers potential unintended consequences of adopting this proposed narrower definition, and hence not extend differential requirements to the full suite of entities envisaged in the Code, especially in jurisdictions where such broader categories of entities are included.

5.2. Engagement with stakeholders

Given the information arising for IESBA’s updated Staff Q&A publication after the close of the comment period for IAASB’s exposure draft and the significant revisions to its proposals, that reduce the scope of adoption of the PIE definitions and alignment with the Code, the PIOB recommended that the IAASB further consult with stakeholders, especially those that supported an adoption that aligned with IESBA’s definition, as it is crucial from the public interest perspectives of relevance, completeness, and global interoperability of the future standard. In this context, the PIOB welcomes the IAASB’s decision to issue a public consultation with the final revised standard, which include explanations of the options considered and will gather input from stakeholders, also on potential unintended consequences and the path forward to achieve alignment with the IESBA Code as soon as possible.