

## NZAuASB Board Meeting Agenda

Thursday, 5 December 2024

9:00 am to 3:30 pm, Virtual. [Click here to join the meeting](#)

Apologies: None

Est.Time	Item	Topic	Objective		Page	Supplementary	
<b>B: PUBLIC SESSION</b>							
9:15am	<b>1</b>	<b><u>Board Management</u></b>					
	1.1	Action list	Approve	Paper	2		
	1.2	Chair's report	Note	Verbal			
	1.3	AUASB Update	Note	Verbal			
	1.4	CE update	Note	Verbal			
10am	<b>2</b>	<b><u>NZAuASB workplan</u></b>					
	2.1	NZAuASB work plan update	Consider	Paper	3		
	2.2	2024/25 Prioritisation schedule	Note	Paper		2	
	2.3	PIOB Public Interest Issues – IESBA	Note	Paper		5	
	2.4	PIOB Public Interest Issues – IAASB	Note	Paper		13	
10:45am	<i>Morning Tea</i>						
11:00am	<b>3</b>	<b><u>Review Standard on Service Performance Information</u></b>				LT	
	3.1	Summary paper	Note	Paper	7		
	3.2	NZ SRE 1	Approve	Paper	11		
	3.3	Explanation for Decisions Made	Approve	Paper	54		
	3.4	Signing Memorandum	Approve	Paper	62		
12pm	<b>4</b>	<b><u>Support for Service Performance Information reporting and assurance</u></b>				LT	
	4.1	Project plan summary paper	Consider	Paper	67		
12:45pm	<i>Lunch</i>						
1:30pm	<b>5</b>	<b><u>Going Concern</u></b>				SW	
	5.1	Update on IAASB project and interaction with the accounting standards	Note	Paper	74		
2:15pm	<b>6</b>	<b><u>GHG assurance</u></b>				AH	
	6.1	Summary paper	Note	Paper	91		
	6.2	Snapshot	Note	Paper	93		
	6.3	Navigating the GHG assurance report	Consider	Paper	Late		
	6.4	Scope 3 GHG emission disclosure and assurance	Consider	Paper	Late		

Next Meeting: In person  
12 February, 154 Featherston Street

Domestic Project	2024/25 planned action	Resource	Priority/effort	Key deliverable	Due
Review standard for service performance information	Analyse submissions and issue standard. <a href="#">Target approval at December meeting.</a>	Available	Medium	Issue standard	Jan 25
ISA (NZ) for LCE	Issue exposure draft and finalise standard. <a href="#">Exposure draft and consultation document issued. Submissions close 27 February</a>	Available	High	<a href="#">ED issued</a> Issue standard	Oct By June
Monitor adoption of audit and review of service performance	Monitor developments, hold workshops, work with accounting team and issue guidance as needed <a href="#">Update on project plans.</a>	Available	High	Issue guidance	<a href="#">March</a>
Value of audit	Monitor audit reform in UK/Aus.	Available	TBD	TBD	TBD
	Monitor inspection findings expected late Nov/Early Dec	Available	Medium	Report	Feb
Monitor and comms over mandatory GHG assurance	Monitor developments, hold workshops and issue guidance. <a href="#">Final changes to climate reporting and assurance on scope 3</a>	Available	High	<a href="#">Snapshots</a> Insights and <a href="#">FAQs</a> Standard	Dec Ongoing
	Explore user needs and value of adding to assurance reports	TBD	TBD	TBD	TBD
Limited versus reasonable assurance	Assist the market understand the spectrum of assurance, what limited assurance means and the value of assurance.	Available	High	Animation/video	Dec
XRB strategy for climate assurance – adoption of ISSA 5000/ISO or something else	Continue to monitor international developments and government policy decisions. <a href="#">Holding statement to be issued.</a>	Available	TBD	TBD	<a href="#">TBD</a>
Competency requirements for sustainability assurance	At the August meeting the Board agreed that no further action is needed at this time.	Available	Low	Agreed no action at this time	N/a
Update standard setting policy based on developments in assurance over climate disclosures	Revise EG Au2 and update harmonisation/convergence policy	Available	Medium	Updated policy as appropriate	April
Māori engagement	Engage proactively to seek Māori views on relevant issues	To manage	TBD	TBD	
Digitisation	Standards navigator is live. <a href="#">Compiled standards to be included</a>	To manage	TBD	TBD	
Explore assurance related issues related to He Taura	Monitor developments and if appropriate, consider assurance	To manage	Low	TBD	TBD
Technology	To monitor and respond if appropriate	To manage	TBD	TBD	TBD

## IAASB

IAASB	2024/25 planned action	Resource	Priority /effort	Key deliverable	Due
Going concern revised standard	IAASB expect to approve in Dec 2024, and issue in March. Issue final updated standard in New Zealand by June 2025. <a href="#">Consider developments</a>	Available	Medium	Standard	June 2025
Public Interest Entity track 2	IAASB expect to approve in Dec 2024, and issue in March. Issue NZ final standard by June 2025.	Available	Low	Standard	June 2025
Vision and roadmap for technology	IAASB approved technology position statement. Monitor developments	Available	Medium	TBD	Dec
Reference framework model in relation to audit evidence	Monitor developments of ISA 500 when determined by IAASB	Available	Low	Standard	TBD
Performance aspects in relation to responding to assessed risk and analytical procedures	Monitor developments	Available	Low	Standards	TBD
Narrow scope amendments from IESBA's use of experts	<a href="#">Issues to be discussed at December IAASB meeting</a> . Consult on proposals (comment period to close July 2025)	Available	Low	Exposure draft	April
Explore issues on materiality in practice to inform international project to revise materiality standard	IAASB project to commence Jan 2025	Available	Medium		
Fraud standard (ISA (NZ) 240)	Monitor developments. IAASB expect to approve in March 2025 and issue in June. Adopt in New Zealand once issued (expected Sep 2025)	Available	High	Standard	TBD
ISSA 5000 Sustainability	IAASB has approved ISSA 5000. The XRB is still to determine next steps.	Available	Medium	TBD	TBD
ISRE 2410 Interim Review Engagements	IAASB project has commenced supported by XRB and AUASB staff	Available	High	Project proposal	June 2025
Participate in NSS meetings/regional groups/advisory groups/task forces/host international guests	IAASB membership maintained Participate and lead a discussion at NSS meeting.	Available	High		

## IESBA

IESBA	2024/25 planned action	Resource	Priority/effort	Key deliverable	Due date
Sustainability ethics and independence revisions	IESBA expected to approve standard in Dec 2024 and issue in Jan 2025. Monitor developments and determine implications for XRB. <a href="#">To discuss at Feb meeting</a>	Available	High	Update PES 1	June 2025
Use of experts	IESBA expected to approve standard in Dec 2024 and issue in Jan 2025. Monitor developments and determine implications for XRB. <a href="#">To discuss at Feb meeting</a>	Available	High	Update PES 1	June 2025
Collective investment vehicles	Monitor IESBAs project on CIVs, pension funds and investment company complexes – ED expected in 2025	Available	Low	TBD	TBD
Profession agnostic independence standards for sustainability assurance not in scope of Part 5	TBD		TBD		
Post implementation review of non-compliance with laws and regulations (NOCLAR)	Participate in IESBA PIR	To manage	Medium	TBD	TBD
Participate in NSS meetings/regional groups/advisory groups/task forces/host international guests	Host IESBA members/staff Participate and lead a discussion at NSS meeting.	Available	High	TBD	TBD



# PIOB’s Public Interest Issues - IESBA projects

(document updated as of July 2024)

The PIOB’s Public Interest Issues presented in this document are based on the status of IESBA’s projects after the IESBA June 2024 and PIOB July 2024 board meetings. 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 IESBA to consider these questions and concerns during the due process of developing the relevant standards.

For further information and details about the IESBA projects, please refer to the website: <https://www.ethicsboard.org/consultations-projects>.

## CONTENTS

1. Sustainability Reporting and Assurance .....	2
1.1. Clarity of the standard and consistency within the Code and with the IAASB	3
1.2. Scope of new Part 5 and applicability of Part 4B of the Code .....	3
1.3. Proportionate independence requirements for value chains .....	4
1.4. Independence and categorization of sustainability assurance .....	4
2. Use of Experts .....	5
2.1. Clarity of the standard and its consistency within the Code and with the IAASB	5
3. Firm Culture and Governance.....	6
3.1. Scope and goals of the project.....	6
3.2. Achievement of behavioral changes.....	7
4. Collective Investment Vehicles and Pension Funds .....	7
4.1. Potential Incorporation of Collective Investment Vehicles and Pension Funds into the Code.....	8
5. Potential expansion of the scope of the Code of Ethics .....	8

## Use of main acronyms

PIOB Public Interest Oversight Board  
IAASB International Auditing and Assurance Standards Board  
IESBA International Ethics Standards Board for Accountants  
Code The IESBA's Code of Ethics  
ED Exposure Draft

# 1. SUSTAINABILITY REPORTING AND ASSURANCE

## Background

With growing global demand for sustainability reporting users need to be confident with respect to the reliance they can place on such reports. Therefore, the topic of sustainability reporting and assurance has been included in the agenda of international standard-setters<sup>1</sup>. The IESBA has taken a leadership role to identify key ethical and independence challenges that arise from activities and services related to the preparation and assurance of sustainability reports and to develop appropriate new standards accordingly. Two workstreams (WS) within the Sustainability project were initiated by the IESBA:

- WS-1 which deals with independence requirements for sustainability assurance engagements applicable to both professional accountants and to practitioners other than professional accountants,
- WS-2 which deals with ethics requirements for:
  - professional accountants preparing the sustainability information,
  - professional accountants and other practitioners providing assurance services on the sustainability information.

## Status

In December 2022 the IESBA approved a relevant project proposal referred to as "Revisions to the Code Relating to Sustainability Assurance and Reporting". At the end of January 2024, the IESBA published an ED on the basis of the two workstreams with a 10 May 2024 deadline for comments. The Public Interest Issues described below

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<sup>1</sup> *The PIOB notes the following public interest matters beyond the remit of the IESBA. 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 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 ethical and assurance standards.*

have been updated during the period of continuing deliberations of comments on the EDs and further changes to the proposed standards can therefore be anticipated. The Sustainability project is expected to be completed by the end of 2024, in line with market expectations.

### **1.1. Clarity of the standard and consistency within the Code and with the IAASB**

In the context of IESBA’s development of a robust, “profession-agnostic” and “framework-neutral” ethical standard for all sustainability assurance providers, the revisions to the Code of Ethics must be made in language which is clear and accessible to all. We welcome the IESBA’s commitment to this objective and look forward to the outcome of the consultation exercise, specifically regarding the views of stakeholders who are not professional accountants.

Clarity of definitions and terminology in the new standard is critical with respect to areas such as the different types of sustainability engagements which can be performed and the different profiles of practitioners (professional accountants and non-accountants) which may be involved. In this way, the relevant independence, objectivity and other ethical requirements can be appropriately applied, with interoperability as needed and avoiding complexity. This will serve the intended purpose of the standard and provide the transparency which users expect. Practical guidance and material to give examples will further support the objective. We note the link to the Use of Experts project (see 2.1 below) with which there is a need to ensure consistency.

The PIOB has welcomed that, in pursuing their sustainability projects, both the IESBA and the IAASB have identified the need for coordination as a critical matter, especially as they have different timetables for the development and exposure of their respective work. Alignment between the two boards is needed for clarity and consistency in approach, terminology, definitions, and concepts. A coherent set of global ethical and assurance 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.

### **1.2. Scope of new Part 5 and applicability of Part 4B of the Code**

Addressing previous concerns the IESBA’s approach is now adequately explained with respect to the development and intended application of a separate Part 5 of the Code versus application of the extant Part 4B of the Code. Part 5 relates to specific types of assurance on sustainability reporting performed by both professional accountants or other practitioners who are not professional accountants with respect

to sustainability information that is reported according to a general-purpose framework; required according to law or regulation; or publicly disclosed to support investors' and other stakeholders' decision making. Part 4B relates to other sustainability assurance services which are not covered under the scope of Part 5 and applies only to professional accountants, although other practitioners will be encouraged to apply its requirements.

To achieve public interest in consistency and a level playing field, all sustainability assurance providers (i.e. both professional accountants and other practitioners) should be subject to the same requirements. The PIOB acknowledges the commitment of IESBA to address this issue within the current Strategy and Work Plan 2024-2027. However, careful consideration is needed about whether and how to expand the scope of the Code in this respect, as further described in section 5 of this document.

### **1.3. Proportionate independence requirements for value chains**

The IESBA has recognised the importance of avoiding the risk that independence requirements on assurance providers of sustainability information are unimplementable on a practical basis throughout an entity's value chains. The risk of disproportionality arises because assurance providers may have little control over their independence from other entities in the assured entity's value chain, which may in many cases involve a high proportion of the assured entity's sustainability information. For example, the value chain of a bank is partly represented by entities to which it provides loans. The PIOB notes that the ED included this as a key issue for the IESBA to address, while not diminishing the level of independence required by the public interest.

### **1.4. Independence and categorization of sustainability assurance**

The PIOB welcomes the fact that the IESBA is undertaking further consultation to consider the categorization of sustainability assurance engagements as this relates to independence requirements. Specifically, the IESBA is considering whether sustainability assurance fees should be treated in the same way as statutory audit fees, noting that sustainability assurance may not be a statutory requirement in some jurisdictions, or, alternatively, as fees for non-audit services. Categorizing sustainability assurance fees as non-audit services in a case where the sustainability assurance and financial audit are performed by the same assurance provider would require implementation of provisions on threats to his independence. As sustainability assurance and financial audit, both of which are assurance services, are compatible in principle, classifying sustainability assurance as a non-audit service would result in unnecessarily strict independence requirements without public interest justification.



## **2. USE OF EXPERTS**

### **Background**

In light of the growing involvement of experts outside of the audit engagement team in areas such as estimates, technology and, in particular, sustainability reporting and assurance, the PIOB supported the IESBA's decision to assess the appropriate levels of independence requirements considering the nature of their work and contribution. Currently, external experts are explicitly excluded from the definition of engagement team in the Code, and therefore these individuals are not subject to any independence requirements of the Code. It is important to address how a professional accountant should assess whether it is appropriate or not to use the work of an expert for the engagement and how to evaluate competence, capabilities, and objectivity of such experts.

The PIOB has welcomed the IESBA's responsiveness on this topic and the broad scope of the project, encompassing both the preparation of, and assurance on sustainability information. The PIOB also emphasised the importance of the global outreach roundtables seeking views from a diverse range of stakeholders, especially from outside the accountancy profession.

### **Status**

At the end of January 2024, the IESBA published an ED with a 30 April 2024 deadline for comment letters. The Public Interest Issues described below have been updated during the period when the IESBA is in the process of analyzing comment letters in respect of the issued ED. Further changes to the standard can be expected depending on the feedback from comment letters. The project is expected to be completed by the end of 2024.

### **2.1. Clarity of the standard and its consistency within the Code and with the IAASB**

The PIOB has emphasized the importance of clear definitions to ensure that ethical and independence requirements are appropriately applied to all relevant individuals. This requires consideration of categories such as "internal experts", "external experts", and "individuals providing consultation" to understand in which category an individual falls in given circumstances. As the direct application of independence requirements on external experts who are non-professional accountants would not be operable and enforceable, a new concept of requirements concerning objectivity has been introduced. Clarity in the definitions is critical to determining whether the new concept concerning objectivity meets the expectations of users of external audit and assurance



reports. Equally, it is integral to ensuring the accessibility and inter-operability of the Code as a whole.

The PIOB encourages the IESBA to continue its close coordination between the Use of Experts and the Sustainability projects, as well as with the IAASB's Sustainability assurance project. This coordination is vital for alignment, especially of definitions and terminology and the avoidance of confusion and inconsistent application. The PIOB is of the strong view that only in exceptional instances should inconsistencies be allowed to remain between the two boards' respective standards.

### **3. FIRM CULTURE AND GOVERNANCE**

#### **Background**

This is a new project included in the Strategy and Work Plan 2024-27 due to a clear need to respond to persistent cases of unethical behavior within firms and to consider the broader issue of firm culture and governance and how these might impact the ethical behavior and compliance with the Code. The PIOB has expressed strong support for this project.

#### **Status**

Work on this topic commenced recently and was discussed during the March and June 2024 IESBA meetings, with approval of work objectives and Terms of Reference, followed by a number of presentations and discussions. The Public Interest Issues outlined below reflect the fact that the project is currently in its fact-finding phase.

#### **3.1. Scope and goals of the project**

While recognizing the importance of fact-finding, the PIOB encourages the IESBA to clearly articulate the risks impacting the public interest which the project intends to address and specifically the behaviors which give rise to such risks. This articulation will focus the fact-finding and support the scoping of any proposed sections of the Code to be developed or revised. In turn, this will help ensure that the Code can be enhanced in a timely way within the timeframe of the Strategy and Work Plan 2024-2027.

It will be important for the IESBA to clarify whether it aims to pursue changes to both the behavior of individuals of whatever background within firms and the governance structures that they work in, seeing the first as the driver to structural changes in governance, or ethical behavior within existing governance structures. The latter would appear to be more manageable in the timeframe of the current Strategy and Work Plan and directly within the IESBA's remit.

The PIOB welcomes the IESBA's decision to consider all service lines of the firms, including audit, rather than a narrow approach focused only on the audit service lines of the firms. In this way, the project will more completely address the “firms” as the market-facing multi-service providers they are in reality. It could thereby take into consideration the interplay between traditional service lines such as audit with others that are not necessarily undertaken by professional accountants. Equally, it is important to cover arrangements within and across jurisdictions often housed under “network” arrangements.

The PIOB supports a wide fact-finding but cautions against potential distraction into matters outside the remit of the IESBA. It is important from the public interest perspective to consider the diversity of market experiences across jurisdictions. Case studies relating to a limited number of national frameworks are useful but must not unduly influence the standard-setting process by constraining consideration of potential amendments of the Code for global benefit.

### **3.2. Achievement of behavioral changes**

Clearly defined objectives of the project should be aimed at instilling behavioral changes in specific areas through focused amendments of the Code. In scoping those objectives, the PIOB encourages the IESBA to focus on factors which contribute to unethical behavior, and the pursuit of targeted amendments of the Code to achieve behavioral change, rather than “compliance” steps. It appears to be in the longer-term public interest to build on the fundamental ethical principles of the Code.

## **4. COLLECTIVE INVESTMENT VEHICLES AND PENSION FUNDS**

### **Background**

The revised definition of “Public Interest Entity” (completed in 2022) does not explicitly include Collective Investment Vehicles (CIVs) and Pension Funds (PFs), but the Code contains a strong encouragement for local bodies to explicitly consider adding CIVs and PFs as categories of PIEs in their own jurisdictions. The PIOB supported this approach as the PIE definition was revised in 2022, regarding this as appropriate at that point in time. Equally, the PIOB strongly encouraged the IESBA, at the time, to undertake further research activities in respect of CIVs and PFs, specifically with respect to their interaction with related entities, and relationships with and between trustees, managers and advisors.

### **Status**

In line with the approved Strategy and Work Plan for 2024-2027, the IESBA had first discussions of the CIVs and PFs project at the March and June 2024 Board meetings, presenting initial findings of its research on this topic to gain a deeper understanding.

It is noted that this project will be the first to be pursued via the staff-driven model which is part of the transition of the Standard-Setting Boards under the Monitoring Group recommendations. Therefore, the Public Interest Issue considerations below reflect the fact that the project is in its initial fact-finding phase.

#### **4.1. Potential Incorporation of Collective Investment Vehicles and Pension Funds into the Code**

The PIOB supports the IESBA's activities to identify whether, and if yes, to what extent, there is currently a public interest "gap" in coverage of the Code – i.e. risks arising from the absence of the specific independence provisions addressing audits of CIVs and PFs. The PIOB acknowledges that it is now the intention of IESBA to consider potential enhancements to independence provisions in the Code rather than reconsidering inclusion of CIVs and PFs explicitly in the PIE definition. It will be important to ensure that risks to the public interest are clearly articulated so that any eventual proposed revisions to the Code are tailored appropriately, also with scalability in mind, in order that they meet the public interest without unintended consequences.

### **5. POTENTIAL EXPANSION OF THE SCOPE OF THE CODE OF ETHICS**

Consideration of the potential expansion of the impact of the Code, including possibly expanding the scope and application of the Code, is part of the IESBA's 2024-2027 Strategy and Work Plan, which the PIOB concluded in April 2024 has been developed in a manner consistent with agreed due process and is responsive to the public interest. It is important to reflect carefully on possible approaches to extending the impact of the Code to professionals other than accountants, who might not be required to comply with the expanded Code if it is not adopted by specific jurisdictions. This will necessarily take time and resources. It is also important to consider the potential impact on the Code where professional accountants are concerned, as any expansion of the scope would necessarily require more universal language to allow other professionals to understand and apply the Code.

In summary, careful consideration of whether and how to expand the scope of the Code is needed. Any decisions will have to be based on clear conclusions from robust engagement with investors, users, regulators and other stakeholders both within and outside the accountancy profession about their acceptance of the expanded Code through its adoption in various jurisdictions.



# PIOB’s Public Interest Issues - IAASB projects

(document updated as of July 2024)

The PIOB’s Public Interest Issues presented in this document are based on the status of IAASB’s projects after the IAASB June 2024 and PIOB July 2024 board meetings. 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>.

## CONTENTS

1.	ASSURANCE ON SUSTAINABILITY REPORTING (ISSA 5000).....	2
1.1.	Prioritization and timeline of ISSA 5000.....	3
1.2.	Engagement with stakeholders .....	3
1.3.	Scope of ISSA 5000 as an overarching standard .....	3
1.4.	Clarity of the standard and consistency with the IESBA.....	4
1.5.	Independence, ethical and quality management matters.....	4
1.6.	Using work of others, ‘group’ sustainability assurance and value chains .....	5
1.7.	Communication between different assurance providers.....	5
1.8.	Key audit matters in sustainability assurance reports.....	6
2.	GOING CONCERN (ISA 570) .....	6
2.1.	Period of going concern assessment and the extent of relating disclosures	7
2.2.	Transparency: Separate section on going concern in the auditor’s report..	8
2.3.	Minimum scope of audit procedures and scalability of the new standard...	8
2.4.	Need for specific guidance for auditors of the banking sector.....	8
2.5.	Dealing with ‘close call’ situations .....	9
2.6.	Communication with authorities .....	9
2.7.	Extension of requirements from listed entities to PIEs .....	9
3.	FRAUD (ISA 240).....	10

3.1.	Strengthening the requirements in respect of fraud.....	10
3.2.	Transparency requirements and impact of fraud on auditor’s report.....	11
3.3.	Auditor’s role with respect to the authenticity of documentation .....	11
3.4.	Impact of ISA 240 on other standards.....	12
3.5.	Coordination with the IESBA in respect of the Fraud.....	12
4.	INTEGRATED APPROACH TO AUDIT EVIDENCE AND RISK RESPONSE, INCLUDING FOCUS ON TECHNOLOGY AND INTERNAL CONTROLS .....	12
4.1.	Scoping and objectives of the integrated project.....	13
4.2.	Audit evidence aspects of the integrated project .....	13
4.3.	Internal control aspects of the integrated project .....	13
4.4.	Importance of Technology as a theme throughout the suite of ISAs .....	13

### **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 information<sup>1</sup>.

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<sup>1</sup> *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 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.*

## **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 and June 2024 meetings. The final pronouncement is expected to be approved at the IAASB meeting in 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 the assurance provider (professional accountants or professionals other than accountants), and which addresses both limited and reasonable assurance.

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 have 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 welcomes the IAASB’s intention to remove an option in the ED-5000 allowing firms to self-determine their requirements to be “at least as demanding” as ISQM1 and the IESBA’s Code of Ethics. This amendment to the ED-5000 has the potential to address the concern which the PIOB previously expressed over the need to ensure a level-playing field for practitioners and adequate transparency for users.



### **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 of diverse professionals. The PIOB welcomes the initiative of the IAASB to address our earlier concerns and to include within ISSA 5000 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 has previously stated that 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 or another practitioner. The PIOB welcomes the latest enhancements of the ED-5000 with added requirements to strengthen the group assurance principles of overall responsibility for managing and achieving quality in group assurance engagements. In some jurisdictions it is important that these clauses remain as requirements and not only as application material, in order to ensure their enforceability.

The PIOB also welcomes the IAASB's intention to state a presumption that, in the case of a group assurance engagement, when work is performed in relation to sustainability information of a group component, the group practitioner would be able to be sufficiently and appropriately involved in that work (i.e., that a firm other than the practitioner's firm that performs such work is a "component practitioner" and not "another practitioner"). The PIOB will welcome further clarification on requirements applicable for this presumption as well as for appropriate boundaries where it may be rebutted.

### **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 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 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.

The PIOB has noted that, due to time constraints and recognizing the overall benefits of finalizing the new standard before the end of 2024, the ISSA 5000 will contain only 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.

The PIOB also acknowledges 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 welcomes the IAASB's commitment to issue guidance on timely communication from the start of the sustainability assurance engagement to identify any corroborative or incomplete information, or contradicting evidence. Such a communication, together with reporting any inconsistencies in the "Other information" section of an assurance report would be particularly important for users, given the likelihood that qualitative sustainability information will be less "mature" than financial information.

## **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. However, the PIOB encourages the IAASB to consider a provision in ISSA 5000 allowing the voluntary inclusion of the KAM section in sustainability assurance reports from the outset.

## **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 has been discussed by the IAASB at its June 2024 meeting, the deliberations will continue at the September 2024 meeting, 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 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 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 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 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 favour 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, and for those auditors' reports which contain a KAM section, a cross reference to the going concern section could be considered.

## **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 of 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 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. The PIOB encourages 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, such information would be included under the "Key Audit Matters" (KAM) section, which risks reduced emphasis given to fraud. Moreover, such requirement would be applicable only when the auditor's report contains the KAM section.

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 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.