

IAASB Update

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**World Bank Senior Officials' Workshop
29 November 2022**



Quality Management Standards



The Quality Management Standards



ISQM 1:
Quality
management
at the firm
level



ISQM 2:
Engagement
quality
reviews
*(part of quality
management at
the firm level)*

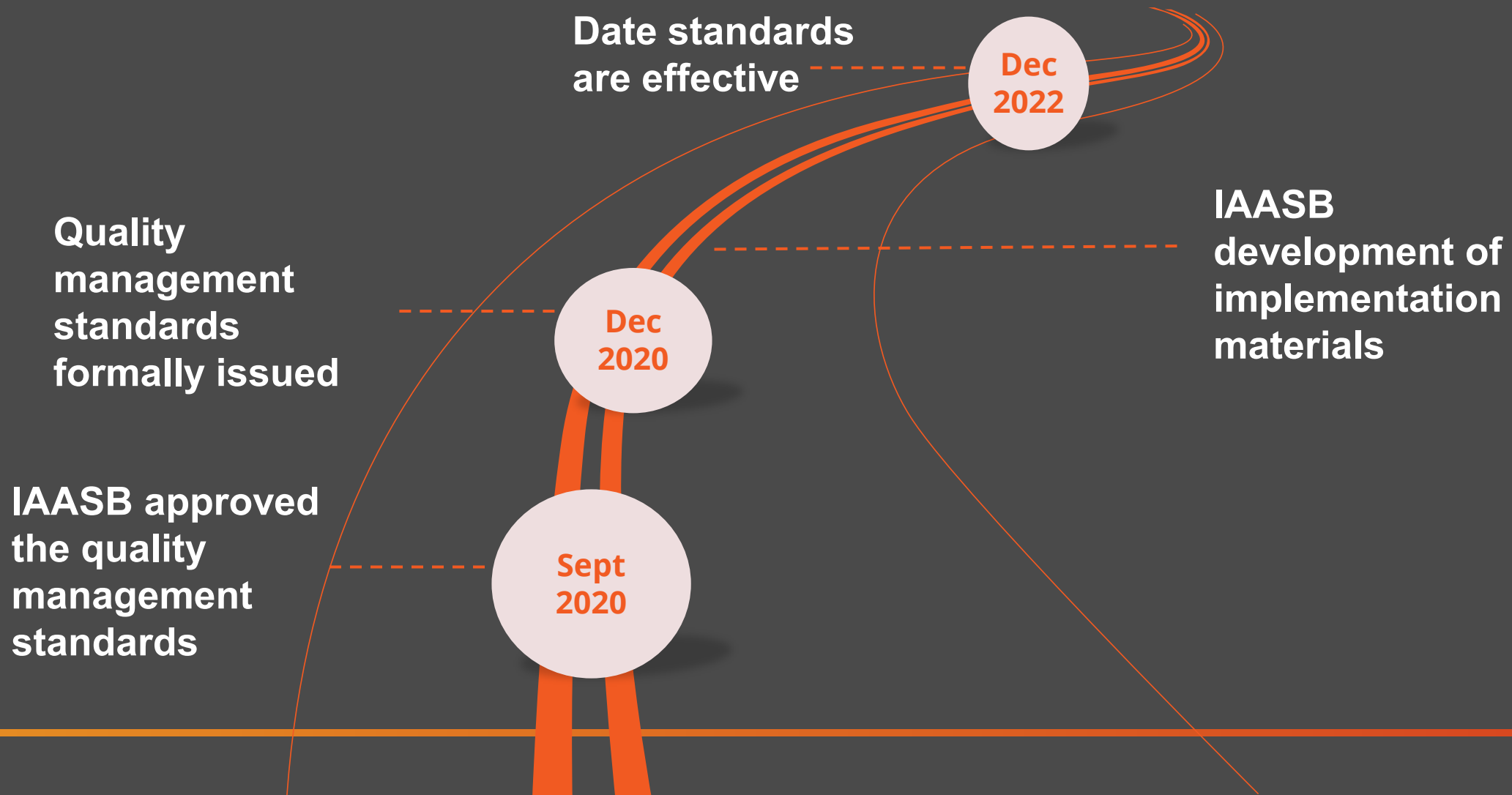


**ISA 220
(Revised):**
Quality
management
at the
engagement
level

Driving greater confidence and trust in the economy and functioning of the markets by:

- Responding to a changing environment
- Improving the robustness and effectiveness of the quality management standards
- Addressing growing market participant needs

Quality Management Standards Timeline



ISQM 1: The System and Its Components



- New focus on quality management, through a risk-based approach
- Evolved from a linear and siloed system, to a system that operates in an iterative and integrated manner
- Proactive approach, with a continual flow of remediation and improvement
- Tailored system, scalable to the nature and circumstances of the firm and the engagements it performs

ISQM 1: The Firm's Risk Assessment Process





Sustainability assurance

Climate Change: Climate-Related Risks in an Audit of Financial Statements

What is the Auditor's Objective?

The auditor's objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement to enable the auditor to report on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

IAASB

Staff Audit Practice Alert
October 2020

The Consideration of Climate-Related Risks in an Audit of Financial Statement

This publication has been prepared by staff of the International Auditing and Assurance Standards Board (IAASB) to highlight areas of focus related to the consideration of climate-related risks when conducting an audit of financial statements in accordance with the International Standards on Auditing™ (ISA™). This publication does not amend or override the ISAs, the texts of which alone are authoritative. Reading this publication is not a substitute for reading the ISAs.

What is the Purpose of This Publication?


This Staff Audit Practice Alert is intended to help auditors understand what already exists in the ISAs today and how that material relates to the auditor's consideration of climate-related risks in an audit of financial statements.

Focus on Climate Change

Climate change is a topic which is increasingly front of mind for investors and other stakeholders as the effects of climate change are increasingly visible and because climate change has the potential to impact an increasing number of entities of all nature and sizes. Today climate change affects businesses in various industries as global and local policy actions around climate change continue to evolve and given the growing demand by investors for climate-related information for their economic decision making. For example, climate-related events or conditions may impact an entity in terms of its business model, its operations and processes, and its ability to raise finance or attract investment and customers.

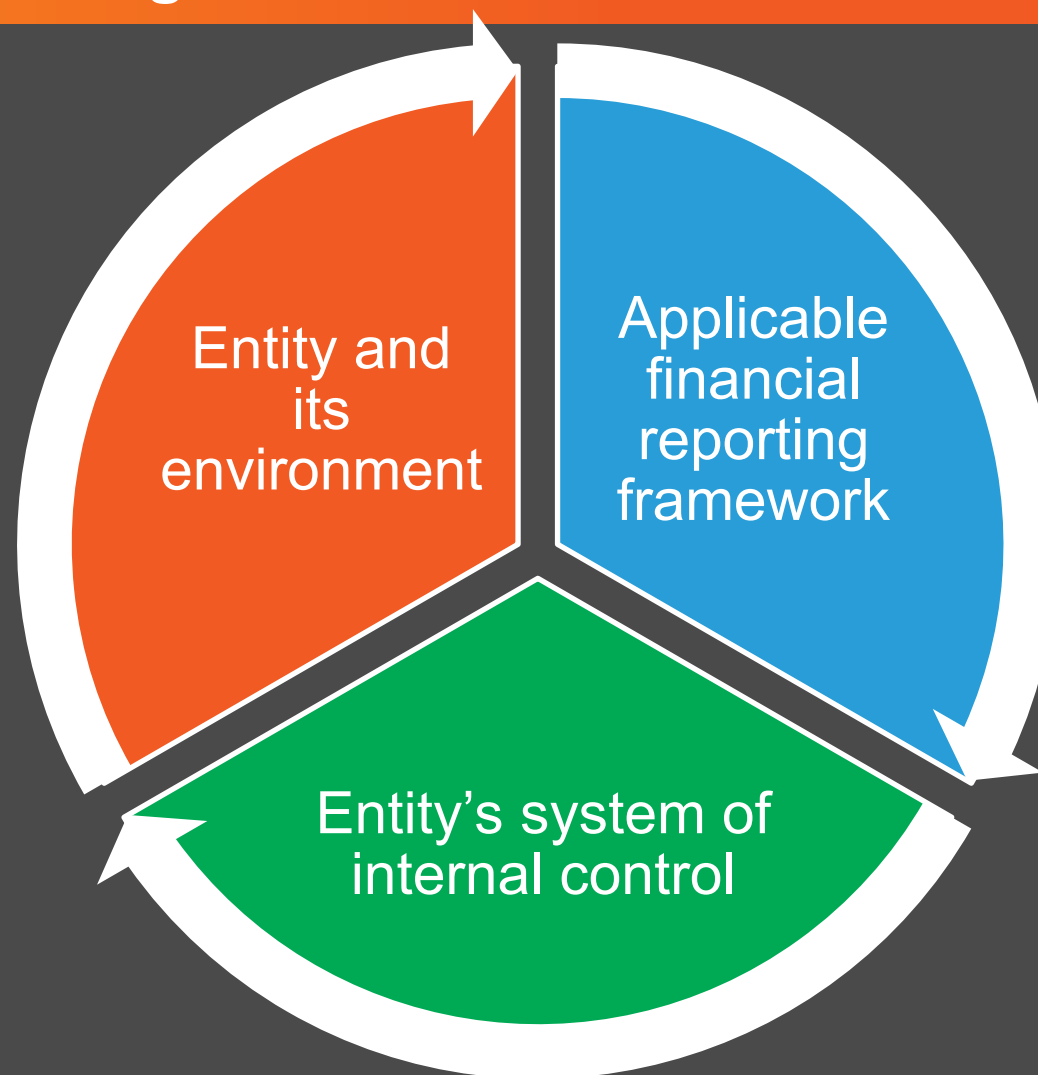
Climate change is an area of increasing concern and priority for investors which may affect how investors perceive climate-related risks in the entity's financial statements

While the phrase 'climate change' does not feature in the ISAs, the ISAs require that the auditor identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. Depending on the facts and circumstances of an entity, climate-related events or conditions may contribute to the susceptibility to misstatement of certain amounts and disclosures in an entity's financial statements. The term "climate-related risks" is used in this Staff Audit Practice Alert for ease of reference.



Climate Change: Identifying and Assessing the Risks of Material Misstatement

Obtain an understanding of the



Sustainability Assurance: Focused Timely Standard-Setting Action

Current project: Overarching standard for assurance on sustainability reporting

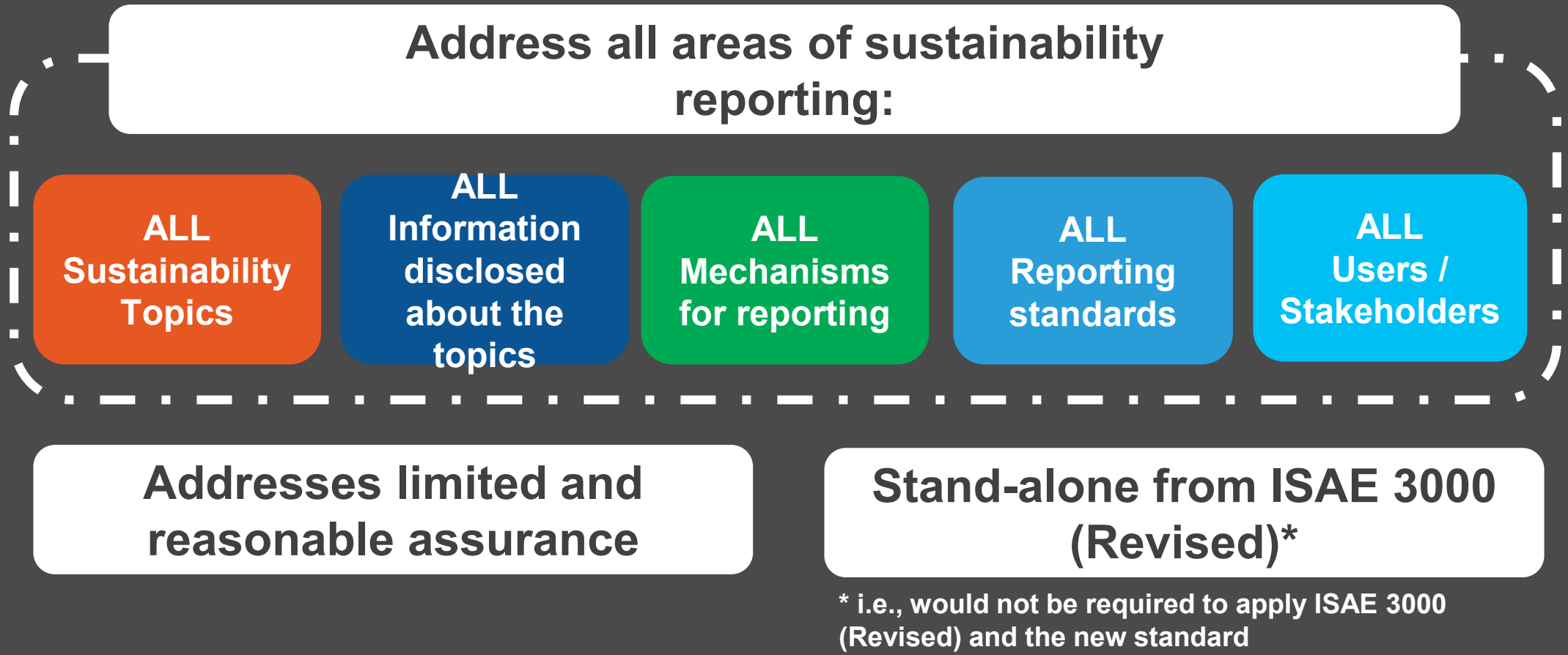
- Conduct of an assurance engagement in its entirety - will address all elements of the engagement
- More specificity than ISAE 3000 (Revised) and ISAE 3410 for certain priority areas

Possible future projects: Provide more specificity than overarching standard

- Respond to emerging issues
- Evolve with maturity of reporting and assurance



Sustainability Assurance: Scope of Proposed Standard



Sustainability Assurance: Expected Timeline

H2 2022 to H2 2023

- Develop exposure draft
- Outreach with key stakeholders
- September 2023: Approved of Exposure Draft (ED) by IAASB

H2 2023 to H1 2024

- Publish ED
- Outreach with stakeholders
- February 2024: Comment period for ED closes

H1 2024 to H2 2024/ H1 2025

- Consider and address responses to ED
- December 2024 / March 2025: approve final pronouncement (next PIOB meeting approve due process)
- Publish final pronouncement and basis for conclusions
- Outreach to promote standard and educate key stakeholders





Less Complex Entities (LCEs)



ISA for LCE: Proposed Changes to Authority (Post-ED)

Prohibitions

- Removed blanket prohibition for group audits
- New prohibition when involving component auditors

Qualitative Characteristics

- Describes “less-complex”
- Various edits to individual characteristics including accounting estimates

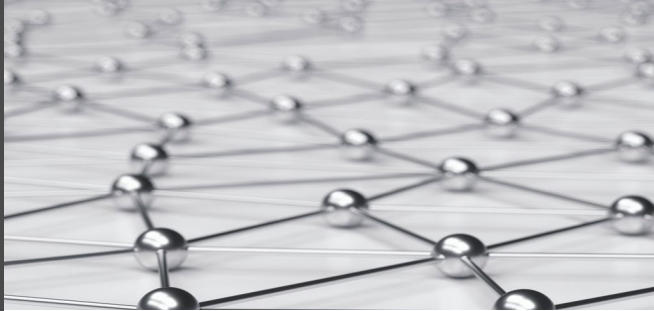
Quantitative Thresholds

- Expectation for jurisdictions to determine own quantitative thresholds

Other

- Describes key topics not included (e.g., use of internal audit)

ISA for LCE: Other Topics Discussed (Post-ED)



Incorporation of Group Audits



Developing Proportionate Requirements

Authority
Qualitative characteristics in addition to those of an LCE

- Requirements**
- Development of separate part (Part 10)
 - Review of ISA 600 (Revised) for relevance to a less complex group

- Targeted revisions to respond to comments from exposure draft
- Evaluation if requirements are relevant & proportional to a typical LCE

ISA for LCE: Way Forward

- ✓ Continue to analyze responses to exposure draft
- ✓ Continue drafting in priority areas
- ✓ Exposure of Part containing requirements for group audits
- ✓ Next Board discussion: December 2022 IAASB meeting





Listed Entity and Public Interest Entity (PIE)

Listed Entity and PIE

Ongoing coordination and collaboration with IESBA

Track 1

Determine whether the auditor's report is an appropriate mechanism to enhance transparency about the relevant ethical requirements for independence applied for certain entities when performing an audit of financial statements

- **July 2022:** Publish ED
- **June 2023:** Expected Approval of Final Pronouncement

Track 2

- **Converge concepts in the IESBA Code and the ISQMs / ISAs**
- **Develop objective and guidelines to support judgments regarding differential requirements**
- **Consider existing differential requirements for listed entities in the ISQMs and ISAs**

- **Q3 2022 – Q2 2023:** ED Development
- **September 2023:** Expected Approval of ED
- **September 2024:** Expected Approval of Final Pronouncement

Listed Entity and Public Interest Entity (PIE): Track 1 ED

- June 2022: IAASB approved Exposure Draft (ED) for narrow-scope amendments to:
 - ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*
 - ISA 260 (Revised), *Communication with Those Charged with Governance*
- The proposed amendments in the ED respond to the revision to the IESBA Code that require a firm to publicly disclose when a firm has applied the independence requirements for PIEs

Exposure Draft

July 2022

Comments due: October [...], 2022

International Standards on Auditing

Proposed Narrow Scope Amendments to:

- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*;
and
- ISA 260 (Revised), *Communication with Those Charged With Governance*,

as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)



Fraud



Fraud: Topics Discussed to Date and Release of Non-Authoritative Guidance



Introduction



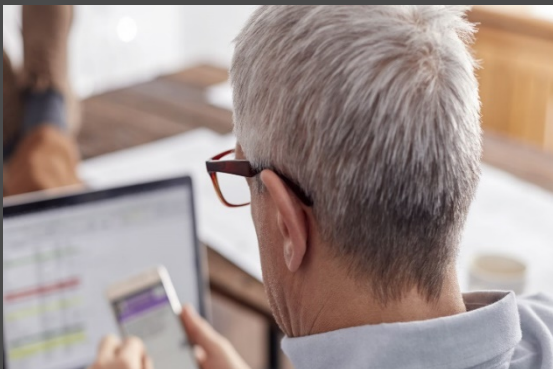
Specialized Skills



Identifying and Assessing the Risks of Material Misstatement Due to Fraud



Presumption of Fraud Risks in Revenue Recognition



Journal Entries



Transparency in the Auditor's Report and in Communications with TCWG

Non-Authoritative Guidance Released in May 2022

IAASB Non-Authoritative Guidance on Fraud in an Audit of Financial Statements
May 2022


THE FRAUD LENS – INTERACTIONS BETWEEN ISA 240 AND OTHER ISAs

This publication about the fraud lens¹ has been developed by the Fraud Task Force of the International Auditing and Assurance Standards Board (IAASB) to explain the relationship between, and linkage of, International Standards on Auditing (ISA) 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, and other ISAs when conducting an audit.

This publication does not amend or override the ISAs, the texts of which alone are authoritative. The non-authoritative guidance is not meant to be exhaustive² and reading this publication is not a substitute for reading the ISAs.

International Standard on Auditing (ISA) 200³ is the foundational standard that sets out the independent auditor's overall objectives when conducting an audit of financial statements in accordance with the ISAs and establishes the obligation of the auditor to comply with all the ISAs. The objectives in ISA 200 reflect (in part) that the auditor addresses material misstatement whether due to **fraud or error** when conducting an audit to form and express an opinion, and report, on the financial statements.

ISA 240 Is Read in Conjunction with ISA 200



ISA 240 paragraph 11: The objectives of the auditor are:

- To identify and assess the risks of material misstatement of the financial statements due to fraud;
- To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- To respond appropriately to fraud or suspected fraud identified during the audit.

ISA 240 deals with the auditor's responsibilities for fraud in an audit of financial statements and in doing so reinforces the continued use of the **fraud lens** throughout the audit engagement. ISA 240 also clarifies that the distinction between fraud and error is based on intent.⁴ There is an additional emphasis on the importance of maintaining an attitude of professional skepticism which is especially relevant when identifying and assessing risks of material misstatement due to fraud and responding appropriately to the assessed risks due to fraud. These assessed fraud risks relate to those intentional misstatements that could arise either from fraudulent financial reporting, or the misappropriation of assets.

Relationship Between ISA 240 and Other ISAs

ISA 240 both expands on certain ISAs as well as provides fraud-specific audit procedures that complement the other ISAs. In doing so, ISA 240

Fraud: Transparency in the Auditor's Report

Proposal for Way Forward

More transparency is needed in the auditor's report



Include in a separate section in the auditor's report



Only applies to listed (or public interest) entities



- Enhanced description of the auditor's responsibilities with respect to fraud
- Description of the identified and assessed fraud risks and the auditor's response
 - Using a mechanism similar to key audit matters
 - Including a filter to only communicate the most significant fraud risks
- Explore how to communicate identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud

Fraud: Way Forward





Going Concern



Going Concern: Overview of Proposals and Release of Non-Authoritative Guidance

Topics Discussed in June 2022

Timeline Over Which the Going Concern Assessment Is Made

Transparency About Going Concern in the Auditor's Report

Communication with Appropriate External Parties

Communication with Those Charged with Governance (TCWG)

Topics Discussed in September 2022

Terminology

Risk Assessment and Identification

Management's Assessment of Going Concern

Professional Skepticism

Non-Authoritative Guidance – FAQs issued in August 2022

IAASB [DRAFT] Frequently Asked Questions [Month] 2022

Reporting Going Concern Matters in the Auditor's Report

This publication has been developed by the Going Concern Task Force of the International Auditing and Assurance Standards Board (IAASB) to address some of the common questions in relation to the use of and the interrelationship of "Material Uncertainty Related to Going Concern" (MURGC) and Key Audit Matters (KAM) sections, and Emphasis of Matter (EOM) paragraphs, in the auditor's report prepared in accordance with International Standards on Auditing (ISAs).

This publication does not amend or override the International Standards on Auditing (ISAs), the texts of which alone are authoritative. The frequently asked questions are not meant to be exhaustive¹ and reading this publication is not a substitute for reading the ISAs.

Question 1 What is the purpose of MURGC and KAM sections and EOM paragraphs in the auditor's report?

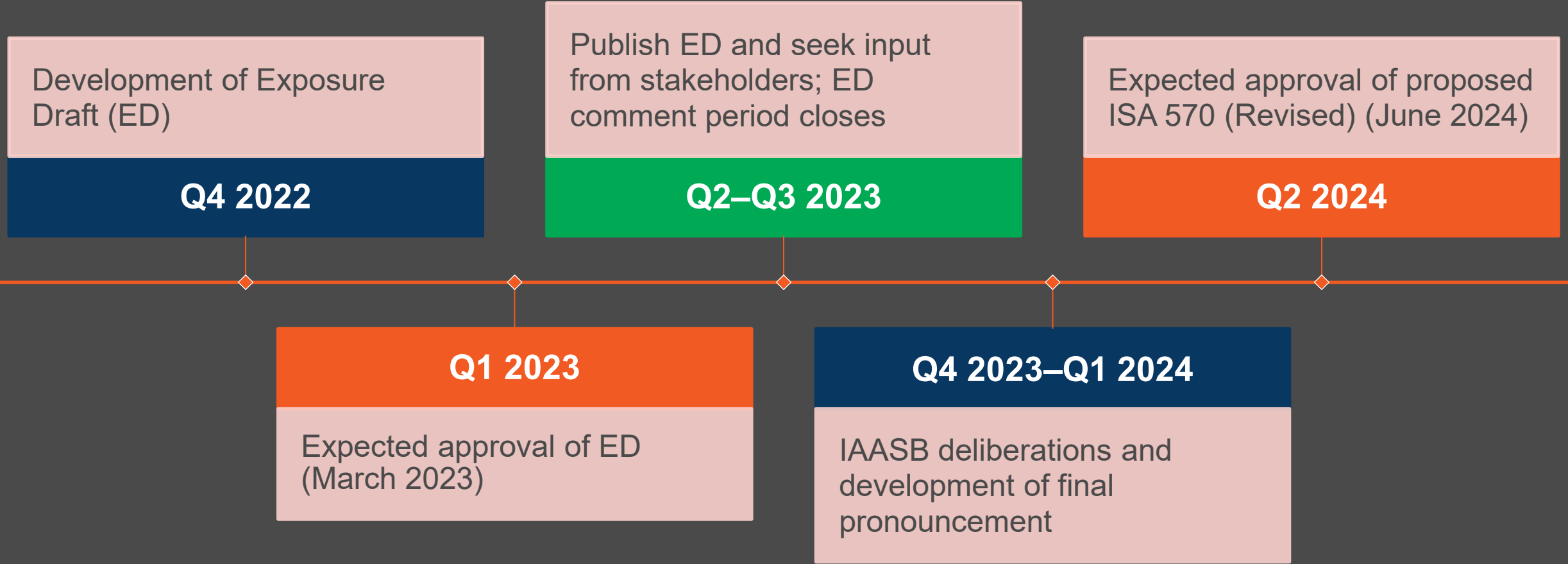
The table below provides an overview of the purpose of MURGC and KAM sections and EOM paragraphs:

Heading	Purpose
Material Uncertainty Related to Going Concern²	► Applies if the auditor has concluded that a material uncertainty related to going concern exists, and for which adequate disclosure has been made in the financial statements. The use of a separate section that includes reference to the fact that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern is intended to give additional prominence to this information and alert users to this circumstance.
Key Audit Matters³	► Provides information to intended users to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period, including how such matters were addressed in the audit.
Emphasis of Matter⁴	► Establishes a mechanism for auditors to provide additional communication in the auditor's report, to draw users' attention to a matter(s) presented or disclosed in the financial statements that, in the auditor's judgment, is of

Going Concern: Transparency in the Auditor's Report

<i>Basis of Accounting is Appropriate</i>		
<i>Applicability</i>	Going Concern Section (No Material Uncertainty Exists)	MURGC Section (Material Uncertainty Exists)
All entities	<p>Explicit statements:</p> <ul style="list-style-type: none"> ▶ That management's use of the going concern basis of accounting is appropriate ▶ No material uncertainties related to events or conditions have been identified 	<p>In addition to the extant requirements, an explicit statement:</p> <ul style="list-style-type: none"> ▶ That management's use of the going concern basis of accounting is appropriate
Listed entities	<ul style="list-style-type: none"> ▶ Description of how the auditor addressed the events or conditions 	<ul style="list-style-type: none"> ▶ Description of how the auditor addressed the events or conditions

Going Concern: Way Forward





Audit Evidence



Audit Evidence: Public Interest Issues

Changes in the information being used by auditors, including nature and source of information

- Increasing use of digitized information
- Evolution in how entities obtain, process, manage, use, communicate and report information

Modernize the standard and address technology

- Automated tools and techniques (ATT)




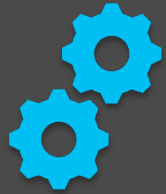


Foster professional skepticism



Audit Evidence: Exposure Draft of Proposed ISA 500 (Revised) Approved

Key proposals to address project objectives

	Purpose and scope	<ul style="list-style-type: none">• A principles-based reference framework when making judgments about audit evidence• Deals with the auditor's responsibilities relating to audit evidence when designing and performing audit procedures
	Relevance and reliability of information	<ul style="list-style-type: none">• Evaluate relevance and reliability of information intended to be used as audit evidence for all sources of information used in performing audit procedures• Separate conditional requirement to obtain audit evidence about accuracy and completeness
	Professional skepticism	<ul style="list-style-type: none">• Design audit procedures in a manner that is not biased• Stand back – evaluate whether audit evidence obtained meets the intended purpose of audit procedures
	Technology	<ul style="list-style-type: none">• Principles-based requirements and guidance for use of technology by the entity or the auditor

Audit Evidence: Way Forward





Technology, strategy and workplan

Technology: IAASB Focus



Current and Future Workplan Activities

Explore how the IAASB most effectively can respond to technology via new or revised International Standards or non-authoritative guidance



Investigate Disruptive Technology Trends

Explore technology's effect on audit and assurance – both in the current environment and in the future – in order to be prepared for technology disruption and be able to respond appropriately to support audit and assurance quality

Build



Maintain



Share



Strategy and Work Plan for 2024-2027: Goal and Strategic Drivers

Our Proposed Goal

Develop the globally-accepted and leading audit, assurance, and related services standards that enhance trust in markets and evolve in a timely manner to meet rapidly changing public interest demands

Strategic Drivers Themes

**Increased and More
Diverse Demand**

**Confronting
'Headwinds' to
Global Adoption**

**Changing Demands
to Our Ways of
Working**

Strategy and Work Plan for 2024-2027: Strategic Objectives and Work Plan

Our Proposed Strategic Objectives

- Enhance the Performance of Audit Engagements by Strengthening Our Auditing Standards in Areas Where There Is the Greatest Public Interest Demand
- Establish Globally Accepted Standard(s) for Assurance on Sustainability Reporting
- Strengthen Coordination with Leading Standards Setters and Regulators to Leverage Better Collective Actions in the Public Interest
- Create more Agile, Innovative Ways of Working in Line with the Monitoring Group's Reform

Work Plan

- Our Work Plan is focused on the ongoing, timely identification of new or emerging issues that may affect our global standards, and timely analysis and resolution of these identified issues
 - Balance between audits and reviews, and sustainability and other assurance engagements
 - Progression and completion of projects underway at the start of 2024
 - Selecting our next projects

Strategy and Work Plan for 2024-2027: Way Forward

**Joint IAASB-IESBA
Planning Committees
meeting**

October 2022

December 2022

**Expected
publication of
Consultation Paper**

January 2023

December 2023

**Expected
approval of
Consultation
Paper**

**Expected approval
of the Strategy and
Work Plan 2023-
2027**



Questions

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