

~~ISQM1 "Quality Management for Firms that perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements"~~

~~Networks need to be better addressed in ISQM1~~

~~Investors and those who use audit services from a global "branded firm" should receive uniform quality from that brand.~~

~~ISQM1 should contemplate coordinating at network level all those aspects that affect the AQ of that brand.~~

~~The PIOB notes that provisions in the standard have been improved by introducing considerations of networks at different levels, as well as a requirement to obtain information about how network requirements have been appropriately implemented across the network firms.~~

~~Transparency Reports (TR) or other form of external communication should be required in ISQM1~~

~~Communicating externally the firm's quality management systems is in the public interest. The minimum content of TR (or alternative reporting) should be indicated in the standard, and include a description of the firms' quality management system, deficiencies found, and measures taken to remediate them.~~

~~The PIOB welcomes the requirements introduced for audit firms: 1) to communicate to Those Charged with Governance when performing an audit of financial statements of listed entities about the system of quality management (e.g. business model, strategy, results of the monitoring activities and remediation actions); 2) to establish policies and procedures that address when it is otherwise appropriate to communicate with external parties about the firm's system of quality management.~~

~~The PIOB notes that Transparency Reports are provided as an example of external communication in ISQM1 in the Application Material.~~

~~Complexity and scalability of the standard should be addressed~~

~~The length and complexity of the standard are major concerns, as they may impede the ability of smaller firms to implement the standard.~~

~~The PIOB notes that scalability examples have been provided throughout the standard.~~

ISQM2 "Engagement Quality Reviews"

Engagement Quality Reviews (EQRs) should be required for all PIEs

EQRs should be required for all PIEs. The standard requires EQRs in the following cases: audits of financial statements of listed entities; audits or other engagements for which EQRs are required by law or regulation; audits or other engagements for which the firm determines that an EQR is an appropriate response to address quality risks.

The PIOB acknowledges that the ISAs use the concept of "listed entities", rather than the concept of PIEs and looks forward to the outcome of the project on the definition of PIEs and listed entities, currently developed by the IESBA and coordinated with the IAASB, to ensure consistency and alignment between the ISAs and the Code of Ethics.

Coordination with the IESBA on aspects related to ethical requirements

The PIOB welcomes and supports the ongoing coordination between the IAASB and the IESBA on topics overlapping with the Code of Ethics (e.g. auditor independence, objectivity, engagement quality reviews, cooling off period for Engagement Quality Reviewers, definition of PIEs).

The requirements for the Engagement Quality Reviewers' performance should be strengthened

According to IFIAR's inspections Report in 2019, one of the most important findings on engagement performance and quality continues being related to the "insufficient depth/extent of engagement quality reviews."

EQRs should be performed as the audit is being performed ("continuous quality control through the audit"), not at the end of the audit or after the auditor's report has been issued.

The PIOB acknowledges that ISQM2 requires reviewing the audit documentation at appropriate points in time, throughout all the stages of the engagement and on or before the date of the engagement report.

ISA 220 "Quality Management for an Audit of Financial Statements"

~~The objective of a Quality Management System should focus on Audit Quality~~

~~The standard should state clearly that the objective of the quality management system is to produce high quality audits, not just compliance with standards and legal requirements.~~

~~The PIOB notes that the final text includes an objective which continues to be compliance oriented, however the standard explicitly states that the engagement partner shall take overall responsibility for managing and achieving quality on the audit engagement.~~

~~Engagement Partner's Responsibilities~~

~~The Engagement Partner needs to be satisfied not only that the firm's policies and procedures have been complied with, but also applicable rules and regulations. If necessary, the engagement may need to be discontinued.~~

~~The PIOB acknowledges that the standard makes a reference to the applicable legal and relevant ethical requirements, as well as the possibility to withdraw from the engagement.~~

ONGOING PROJECTS/INITIATIVES

Going Concern Initiative

An explicit statement on Going Concern should be included in the Auditor Report

~~The PIOB reiterates its recommendation to include In light of corporate and audit failures in the past and the additional going concern risk placed on entities due to Covid-19, auditors have an important role to play in this regard to serve the public interest.~~

~~The IAASB should explore how to implement an explicit statement on the Going Concern of the audited entity in the auditor in the audit report. On, which might include a conclusion, as to whether the going concern assumption applied in the preparation of the financial statements under the relevant financial reporting framework was appropriate.~~

Going Concern Initiative

The PIOB acknowledges this initiative is at an early stage and looks forward to further progress, on the basis of the information gathering activities and stakeholders outreach undertaken by the IAASB, ISA 570 may need to be revised.

ISA 600 Group Audits

Importance Identify the importance of Group Audits and public interest issues addressed by the project

Group audits are important because they affect all major economic operators, including the most systematically important entities, ~~so the project could better document the public interest issues that it intends to address.~~

~~The~~ Consistent with the PIOB recommendation raised at the outset of the project, the IAASB has clarified which key public interest issues are addressed ~~in~~ by the ~~project~~ revision of ISA 600 (e.g. encouraging quality management at the engagement level; fostering an independent and skeptical mindset of the auditor; reinforcing the communication during the audit between the group engagement team and the component auditors).

Cooperation Clarify requirements about cooperation between the group auditor and component auditors

The standards should make clear that close cooperation between the group auditor and the component auditors is required throughout the audit.

Documentation should address the interaction between the group auditor and the component auditors.

The PIOB acknowledges that the ED now includes a requirement that emphasizes the importance of communication between the group auditor and the component auditors on a timely basis and clarifies the relevant required documentation.

Audits of Less Complex Entities (LCEs)

Expectations and scope of a separate standard for LCEs

Audits of Less Complex Entities (LCEs)

The PIOB welcomes the IAASB project to explore the needs and concerns of LCEs. The separate LCEs standard needs to deal with calls to scale down the audit requirements for Small and Medium Entities and, at the same time, ensure that assurance is not weakened.

The scope of the standard should be sufficiently restrictive and limited to the correct entities (i.e. those that are truly less complex) and ensure that an LCE audit produces a quality audit.

Resources and timing of the projects on LCEs

The PIOB acknowledges the projects to revise ISAs (“CUSP” project - Complexity, Understandability, Scalability and Proportionality) and to develop a separate standard for LCEs.

The PIOB notes the establishment of a Reference Group (of experts) for the development of a separate standard on LCEs. The Group would benefit from the inclusion of key stakeholder categories, including regulators, which are currently not represented.

The timing for completion of the separate standard for LCEs has been reduced, however the finalization is planned after 1.5 years from the issuance of the ED, which appears still quite long, considering the urgency of the project and compared to the average finalization time of other projects after the issuance of the relevant ED.

~~Extended External Reporting (EER)~~

~~Societal impact of EER~~

~~It is important for the public to understand the IAASB’s work on EER, as EER has a very strong impact on groups that work for environmental, social and governance improvements.~~

~~The non-authoritative guidance on EER should be understandable for these stakeholders to ensure that their important input is achieved.~~

Less Complex Entities (LCEs)

Scalability of standards for LCEs

The PIOB welcomes the IAASB initiative to explore the needs and concerns of LCEs and others. The LCEs project needs to deal with calls from Small and Medium Entities on scalability and, at the same time, ensure that assurance is not weakened.

Focus and prioritization of the workstreams on LCEs

The current proposals to revising ISAs and developing a separate standard for LCEs need to be carefully assessed. The IAASB may need to focus on one workstream (separate standard for LCEs) and prioritize it during the execution of its strategy. Resources need to be allocated efficiently to respond, on a timely basis, to the urgent needs expressed by LCEs and SMEs. The timing of the project may need to be reviewed accordingly.

Audit Evidence and Technology

Importance of Technology

Technology deserves deeper consideration. Standards should be revisited to reflect the impact of technology on the audit profession. ~~Given the pace of change, a lengthy project is not in the public interest.~~ Non-authoritative guidance could be considered as a solution for a timely response.

[New] Audit Evidence

The project on Audit Evidence has become even more important as the Covid pandemic has introduced a high level of uncertainty that impacts accounting estimates, requiring more work from auditors and exercise of professional skepticism, especially on evidence and evaluation of risk of material misstatement. This reinforces the need of a timely project.

Audit Evidence is deeply interrelated with Technology and requires close coordination among the Working Groups and Task Forces for both the IAASB and the IESBA, to avoid duplication of efforts and to ensure appropriate sharing of information.

Professional Skepticism (PS)

Strengthening Professional Skepticism in the ISAs

At the time of the “Invitation to Comment”, the PIOB recommended that the IAASB pay attention to PS, because it relates to going concern, auditor independence, and management bias.

The PIOB welcomes placing greater focus on PS across the projects currently or recently developed by the IAASB, such as ISA 540, ISA 315, the three Quality Management Standards ~~and Extended External Reporting~~. The PIOB highlights the need to consider how auditors should document PS and encourages the IAASB to further strengthen the notion of PS throughout the standards.

The PIOB also welcomes the emphasis given to PS in the non-authoritative material of the Extended External Reporting (EER) project. PS is key in EER and impediments to its exercise may arise in this type of engagements.

Extended External Reporting (EER)

Societal impact of EER

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The non-authoritative guidance on EER should be understandable for these stakeholders to ensure that their important input is achieved.