

**RESPONSE TEMPLATE FOR THE ED OF PROPOSED NARROW SCOPE AMENDMENTS TO ISQMs, ISAs AND ISRE 2400 (REVISED)****Guide for Respondents**

Comments are requested by **April 8, 2024**.

This template is for providing comments on the Exposure Draft (ED) of proposed Narrow Scope Amendments to the International Standards on Quality Management (ISQMs), the International Standards on Auditing (ISAs) and the International Standard on Review Engagement (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code*, in response to the questions set out in the Explanatory Memorandum (EM) to the ED. It also allows for respondent details, demographics and other comments to be provided. Use of the template will facilitate the IAASB's automated collation of the responses.

You may respond to all questions or only selected questions.

To assist our consideration of your comments, please:

- For each question, start by indicating your overall response using the drop-down menu under each question. Then below that include any detailed comments, as indicated.
- When providing comments:
  - Respond directly to the questions.
  - Provide the rationale for your answers. If you disagree with the proposals in the ED, please provide specific reasons for your disagreement and specific suggestions for changes that may be needed to the requirements, application material or appendices. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view.
  - Identify the specific aspects of the ED that your response relates to, for example, by reference to sections, headings or specific paragraphs in the ED.
  - Avoid inserting tables or text boxes in the template when providing your responses to the questions because this will complicate the automated collation of the responses.
- Submit your comments, using the response template only, without a covering letter or any summary of your key issues, instead identify any key issues, as far as possible, in your responses to the questions.

The response template provides the opportunity to provide details about your organization and, should you choose to do so, any other matters not raised in specific questions that you wish to place on the public record. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

Use the “**Submit Comment**” button on the ED [web page](#) to upload the completed template.

*Responses to IAASB’s Request for Comments in the EM for the ED, Proposed Narrow Scope Amendments to ISQMs, ISAs and ISRE 2400 (Revised) as a Result of the Revisions to the Definitions of Listed Entity and PIE in the IESBA Code*

**PART A: Respondent Details and Demographic information**

Your organization’s name (or your name if you are making a submission in your personal capacity)	BDO International Limited
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Daphna Smuckler
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Global Head of Audit and Assurance
E-mail address(es) of contact(s)	Daphna.Smuckler@bdointernational.com
Geographical profile that best represents your situation (i.e., from which geographical perspective are you providing feedback on the ED). Select the most appropriate option.	<a href="#">Global</a>
	If “Other”, please clarify
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on the ED). Select the most appropriate option.	<a href="#">Accounting Firm</a>
	If “Other”, please specify
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	www.bdo.global

Should you choose to do so, you may provide overall views or additional background to your submission. **Please note that this is optional.** The IAASB’s preference is that you incorporate all your views in your comments to the questions (also, the last question in Part B allows for raising any other matters in relation to the ED).

**Information, if any, not already included in responding to the questions in Parts B and C:**

## PART B: Responses to Specific Questions in the EM for the ED

*For each question, please start with your overall response by selecting one of the items in the drop-down list under the question. Provide your detailed comments, if any, below as indicated.*

### *Objective for Establishing Differential Requirements for PIEs*

1. Do you agree with establishing the overarching objective and purpose for establishing differential requirements for PIEs proposed in paragraphs A29A-A29B of ISQM 1 and paragraphs A81A-A81B of ISA 200 in the ED? If not, what do you propose and why?

*(See EM Section 1-B, paragraphs 13-18)*

**Overall response:** [Agree, with comments below](#)

### **Detailed comments (if any):**

We agree with the overarching objective and the purpose of establishing differential requirements as proposed, we do however have the following comments regarding aligning the wording of the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code) with the wording of the applicable International Standards on Auditing (ISA) paragraphs.

#### *ISQM 1, ISA 200 and the IESBA Code*

It seems that the intention for proposed paragraph 18A of ISQM 1 and 23A of ISA 200 is to mirror paragraph R400.18 of the IESBA Code yet the word ‘consider’ contained in extant ISQM 1 implies a lower level of direction than the IESBA Code. We suggest that the language of these two paragraphs be aligned as follows:

ISQM 1.18A. The firm shall treat an entity as a public interest entity in accordance with the definition in paragraph 16(p)A, as well as ~~consider~~ **take into account** more explicit definitions established by law, regulation or professional requirements for the categories set out in paragraph 16(p)A(i)-(iii). (Ref: Para. A29A-A29G)

ISA 200.23A. The auditor shall treat an entity as a public interest entity in accordance with the definition in paragraph 13(l)A, as well as ~~consider~~ **take into account** more explicit definitions established by law, regulation or professional requirements for the categories set out in paragraph 13(l)A(i)-(iii). In doing so, the auditor shall follow the firm’s related policies or procedures. (Ref: Para. A81A-A81G)

Similarly, it seems that the intention is for proposed paragraph A29G of ISQM 1 and A81G of ISA 200 to mirror paragraph 400.19 A1 of the IESBA Code and therefore we suggest that the language of these two paragraphs be aligned as follows:

ISQM 1.A29G. The firm ~~may be encouraged to~~ **may be encouraged to** determine ~~that it is appropriate whether~~ to treat other entities as public interest entities for the purposes of the ISQMs. When making this determination, the firm may consider whether it treated an entity as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence. In addition, the firm may consider the matters set out in paragraph A29C as well as the following factors:...

ISA 200.A81G. The auditor ~~may be encouraged to~~ **may be encouraged to** determine ~~that it is appropriate whether~~ to treat other entities as public interest entities for the purposes of the ISAs. When making this

determination, the auditor may consider whether it treated an entity as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence. In addition, the auditor may consider the matters set out in paragraph A81C as well as the following factors:...

*Definitions of PIE and “Publicly Traded Entity”*

2. Do you agree with adopting the definitions of PIE and “publicly traded entity” into ISQM 1 and ISA 200 (see proposed paragraphs 16(p)A-16(p)B of ISQM 1 and paragraphs 13(l)A-13(l)B of ISA 200 in the ED)? If not, what do you propose and why?  
(See EM Section 1-C, paragraphs 19-26)

**Overall response:** [Agree \(with no further comments\)](#)

**Detailed comments (if any):**

*Differential Requirements in the ISQMs and ISAs*

- 3A. Do you agree with the IAASB’s proposals for extending the extant differential requirements for engagement quality reviews to apply to PIEs (ISQM 1, paragraph 34(f) in the ED)?  
(See EM Section 1-D, paragraphs 27-40 and Appendix 1)

**Overall response:** [Agree, with comments below](#)

**Detailed comments (if any):**

We are broadly supportive of the IAASB’s proposals to extend the extant differential requirements engagement quality reviews to apply to PIEs. As noted in our previous submissions, there is a strong public interest case for providing more clarity to stakeholders about those entities and engagements that should be subject to engagement quality reviews by virtue of their potential impact on wider society. The extension of these differential requirements also reflects ongoing legislative changes in several jurisdictions that have provided de facto extension outside of professional standards. We note that the accompanying application guidance in ISQM 1 of the ED (A29A-A29G), will also be helpful to firms as they maintain and develop their Systems of Quality Management.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

**Detailed comments (if any):** Not applicable.

- 3B. Do you agree with the IAASB’s proposals for extending the extant differential requirements for communication with TCWG about the firm’s system of quality management to apply to PIEs (ISQM 1, paragraph 34(e) in the ED)?

(See EM Section 1-D, paragraphs 27-38 and Appendix 1)

Overall response: Agree (with no further comments)

Detailed comments (if any): Not applicable.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Detailed comments (if any): Not applicable.

3C. Do you agree with the IAASB's proposals for extending the extant differential requirements for communicating about auditor independence to apply to PIEs (ISA 260 (Revised), paragraphs 17 and 17A, and ISA 700 (Revised), paragraph 40(b) in the ED)?

(See EM Section 1-D, paragraphs 27-38 and 41-45 and Appendix 1)

Overall response: Agree, with comments below

Detailed comments (if any):

We agree with the IAASB's proposal for extending the extant differential requirements for communicating about auditor independence to apply to PIEs. We also agree with the IAASB's proposal to bifurcate the extant requirement in paragraph 17 of ISA 260 (Revised) and to align the requirement in paragraph 40(b) of ISA 700 (Revised) as well as the additional changes in the illustrative auditor's reports.

The extension of this requirement and alignment changes does however need to be specifically highlighted in future communication or publications, as it is not only a change affecting PIEs and listed entities, but this proposed amendment will apply to audits of financial statements of all entities.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Detailed comments (if any): Not applicable.

3D. Do you agree with the IAASB’s proposals for extending the extant differential requirements for communicating KAM to apply to PIEs (ISA 700 (Revised), paragraphs 30-31, 40(c) and ISA 701, paragraph 5 in the ED)?

*(See EM Section 1-D, paragraphs 27-38 and 46 and Appendix 1)*

**Overall response:** [Agree \(with no further comments\)](#)

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

**Detailed comments (if any):** Not applicable.

3E. Do you agree with the IAASB’s proposals for extending the extant differential requirements for the name of the engagement partner to apply to PIEs (ISA 700 (Revised), paragraphs 46 and 50(l))?

*(See EM Section 1-D, paragraphs 27-38 and Appendix 1)*

**Overall response:** [Agree \(with no further comments\)](#)

**Detailed comments (if any):** Not applicable.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

**Detailed comments (if any):** Not applicable.

4. Do you agree with the IAASB’s proposal to amend the applicability of the differential requirements for listed entities in ISA 720 (Revised) to apply to “publicly traded entity”? If not, what do you propose and why?

*(See EM Section 1-D, paragraphs 47-51)*

**Overall response:** [Agree \(with no further comments\)](#)

Detailed comments (if any): Not applicable.

*Proposed Revisions to ISRE 2400 (Revised)*

5. Do you agree with the new requirement and application material in ISRE 2400 (Revised) to provide transparency in the practitioner’s review report about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code? If not, what do you propose and why?

(See EM Section 1-E, paragraphs 52-57)

Overall response: [Agree \(with no further comments\)](#)

Detailed comments (if any): Not applicable.

*Other Matters*

6. Are there any other matters you would like to raise in relation to the ED? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

Overall response: [Yes, with comments below](#)

Detailed comments (if any):

We would like to bring the following matters to your attention in relation to the ED:

**1. Examples of entities other than public interest entities**

In expanding the scope of the requirements from listed entities to public interest entities, examples of entities that may have a public interest or public accountability perspective have been correctly deleted. New examples of entities other than public interest entities have however not been provided, yet the application material still directs that the requirements applicable to public interest entities may be appropriate for entities other than public interest entities. To enable consistent application of the ISAs, we suggest that the IAASB consider providing examples of such entities. This applies to the amendments in the following application material paragraphs:

ISA paragraph reference	Suggested change
ISQM 1. A128	Examples of entities other than public interest entities to be provided.
ISQM 1. A133	Third bullet <ul style="list-style-type: none"><li>Examples of entities that operate in certain industries to be provided.</li></ul>
ISQM 1. A134	(Examples of conditions, events, circumstances, actions, or inactions giving rise to one or more quality risk(s) for which an engagement quality review may be an appropriate response) <ul style="list-style-type: none"><li>Examples of financial institutions to be provided.</li></ul>

	<ul style="list-style-type: none"> <li>Examples of entities with a high public profile, or whose management or owners have a high public profile to be provided.</li> </ul>
ISA 260 (Revised). A32	Examples of entities other than public interest entities to be provided.
ISA 700 (Revised). A40	Examples of entities other than public interest entities to be provided.
ISA 700 (Revised). A41	Examples of entities other than public interest entities to be provided.

2. *ISA 240, paragraph A30 Risks of Fraud in Revenue Recognition*

*A30. The risks of fraud in revenue recognition may be greater in some entities than others. For example, there may be pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition in the case of ~~listed~~ **certain public interest** entities when, for example, performance is measured in terms of year over year revenue growth or profit. Similarly, for example, there may be greater risks of fraud in revenue recognition in the case of entities that generate a substantial portion of revenues through cash sales.*

The word ‘listed’ entities is replaced with the words ‘certain public interest entities’ in paragraph A30 of ISA 240. We support replacing the word ‘listed’ with ‘public interest entities’, but we do ask the IAASB reconsider what is intended by inclusion of the word ‘certain’ in this context. The phrase ‘certain public interest entities’ has not been used in any of the other narrow scope amendments and from a public interest perspective it has the potential to imply, albeit inadvertently, that risks of fraud in revenue do not need to be considered on all public interest entities.

3. *The International Standard on Auditing for Audits of Financial Statements of Less Complex Entities*

We ask the IAASB to consider applying conforming amendments to the recently published ISA for LCEs for example in paragraph A1(b) - ‘listed entity’ to be replaced with ‘publicly traded entity’ to align to the definition of public interest entity contained in the ISAs, as well as the IESBA Code.

4. *ISA 700 (Revised), paragraph A43 Considerations specific to public sector entities*

*A43. ~~Listed entities are not common in the public sector. However,~~ **Public sector entities may be significant due to size, complexity, or public interest aspects. In such cases, an auditor of a public sector entity may be required by law or regulation or may otherwise decide to communicate key audit matters in the auditor’s report.***

We agree with the amendment to remove the first sentence in paragraph A43 of ISA 700 (Revised). However, the remaining wording in the paragraph might be interpreted to suggest that such public sector entities, when the auditor decides to communicate key audit matters, are then classified as public interest entities (PIEs) (even if the public sector entity does not meet the public interest entity definition).

We ask the IAASB to clarify that communication of key audit matters may be appropriate even if the entity is not classified as a public interest entity, however, this does not mean that all other requirements for a public interest entity must then apply.

We suggest changing the wording of paragraph 43 of ISA 700 (Revised) to remove any uncertainty, or to remove the paragraph entirely or to reword as follows:

*A43. An auditor of a public sector entity may be required by law or regulation or may otherwise decide to communicate key audit matters in the auditor's report. In these circumstances, this does not mean that all other requirements to public interest entities are presumed to apply.*

## Part C: Request for General Comments

The IAASB is also seeking comments on the matters set out below:

7. Translations—Recognizing that many respondents may intend to translate the final narrow scope amendments for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED.

**Overall response:** [See comments on translation below](#)

### Detailed comments (if any):

Although we do not foresee any immediate issues with respect to translation, as noted in previous submissions and as a global organization, we continue to support the IAASB's efforts with respect to translation, recognizing the impact that this can have on implementation in different jurisdictions.

8. Effective Date—Given it is preferred to coordinate effective dates with the fraud and going concern projects, the IAASB believes that an appropriate effective date for the narrow scope amendments would be for financial reporting periods beginning approximately 18-24 months after approval of the final narrow scope amendments for Track 2. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the narrow scope amendments for Track 2 of the listed entity and PIE project.

**Overall response:** [See comments on effective date below](#)

### Detailed comments (if any):

We support an effective date of 24 months after the approval of the final narrow scope amendments for Track 2, as a more appropriate effective date. We are aware that certain jurisdictions have deferred the adoption of this ED until the completion of their local jurisdiction PIE projects and thus providing a longer period for when this ED will become effective, will provide sufficient time for the effective implementation and consistent international application of the narrow scope amendments for Track 2 of the listed entity and PIE project. In addition, there are significant projects (for example, fraud and going concern) as well as new standards (for example, ISA for LCEs) within the same timeframe, which will challenge resources as well as impact effective and successful implementation.