

## Listed Entity and Public Interest Entity (PIE) – Question 1

### Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Audits of Financial Statements

1. Do you agree that the auditor's report is an appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as the independence requirements for PIEs in the IESBA Code?

### Q1 – Agree

#### 1. Monitoring Group

##### 01. International Forum of Independent Audit Regulators (IFIAR)

Furthermore, IFIAR encourages IESBA and IAASB to continue their cooperation and to work on the provisions requiring that the auditor sufficiently and appropriately assesses, evidences and documents the identification of threats to independence.

We welcome IAASB's initiative aimed at enhancing the requirements in ISA 700 (Revised) and ISA 260 (Revised). We also support the revision of provisions in these ISAs to allow for compatibility or operationalize the changes to the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code of Ethics) that require a firm to publicly disclose when a firm has applied the independence requirements for Public Interest Entities (PIEs). These efforts represent a step forward to enhancing confidence and public trust in the audit profession. Our comments highlight areas where the proposed requirements could be strengthened.

##### 02. International Organization of Securities Commission (IOSCO)

We have, for many years, advocated close coordination and collaboration between the IAASB and the International Ethics Standards Board for Accountants (IESBA) on matters of mutual interest and, therefore, we support the cooperation between the boards on this project that promotes transparency on independence standards applied, following the clarification of the definition of public interest entities (PIEs) between the IESBA Code and the International Standards on Auditing (ISAs). We appreciate the IAASB's initiative to undertake this project which includes the important task of operationalizing, within certain ISAs, IESBA's transparency requirement which requires a firm to publicly disclose when it has applied the independence requirements for PIEs.

We believe that the proposed revisions to the audit opinion in ISA 700 (Revised) to disclose when the independence requirements related to PIEs have been followed, and ISA 260 (Revised) to appropriately inform Those Charged with Governance (TCWG), promotes transparency, high-quality audits and investors' and other users' confidence in audit reports, and, thereby, in financial reporting.

We have included certain matters below for your consideration that we believe would further strengthen the Board's proposal and enhance transparency and understandability of the disclosure requirements.

## 2. Regulators and Audit Oversight Authorities

### 04. Committee of European Auditing Oversight Bodies (CEAOB)

Proposed revisions to ISA 700 (Revised)

Vehicle

The CEAOB agrees with the IAASB's proposal to use the auditor's report as the vehicle to publicly disclose that the auditor complied with the specific independence requirements that are applicable to audits of financial statements of entities, mentioning which requirements were applied, such as, for instance, the independence requirements for PIE audits prescribed by in the IESBA Code.

### 05. Financial Reporting Council – UK (FRC)

The FRC agrees that the auditor's report is the appropriate mechanism to disclose these matters. As the underlying objective within the revisions to the IESBA code is to enhance public confidence through additional independence requirements for PIEs, public disclosure that the auditor has applied these requirements is an essential means for supporting that objective. The auditor's report is the most appropriate mechanism for making the disclosure, and the IAASB's reasoning on this matter is compelling. Auditor reporting provides a clear mechanism to operationalize the IESBA's disclosure requirements, while the auditor's report provides a consistent and accessible means of communicating this information to users of audited financial statements.

## 3. National Auditing Standard Setters

### 12. Federación Argentina de Consejos Profesionales de Cs. Económicas (FACPCE)

1. Yes, we agree the auditor's report is an appropriate mechanism to publicly disclose when the auditor has applied ethical requirements relevant to the independence of certain entities when performing audits of financial statements.

### 13. Hong Kong Institute of Certified Public Accountants (HKICPA)

We agree that the auditor's report is an appropriate mechanism in this regard, given that the auditor's report is accessible to the users of the audited financial statements and is used to communicate to them about the audit that was performed, including the relevant ethical requirements.

### 15. Japanese Institute of Certified Public Accountants (JICPA)

We agree.

### 16. Malaysian Institute of Accountants - Auditing and Assurance Standards Board (MIA)

Yes, we agree that the auditor's report is an appropriate place to publicly disclose the information that the auditor has applied the relevant ethical requirements for independence applicable to PIEs in response to the recent IESBA's PIE pronouncement.

## 4. Accounting Firms

### 21. KPMG IFRG Limited

We agree that the auditor's report is generally the most appropriate mechanism to effect public disclosure regarding when the auditor has applied differentiated requirements for independence for certain entities in

performing the audit of financial statements, and we believe this is the optimal route in terms of timeliness, accessibility and consistency for users.

We also believe disclosing in the auditor's report is preferable to other potential mechanisms described in the IESBA Code such as disclosure within the reporting entity's financial statements, or on their websites/ via other channels, as such alternatives are not within the IAASB's remit and, even if addressed by jurisdictional regulators or standard-setters, are likely to be subject to significant jurisdictional variation, which would not be in the best interests of users.

We are supportive of the IAASB's 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.

## **22. PriceWaterhouseCoopers**

ISA 700 (Revised)

We support the IAASB's proposal to use the auditor's report as an appropriate mechanism to enhance transparency about the relevant ethical requirements for independence applied when performing an audit of financial statements, which fulfils the requirement of the IESBA Code for a firm to publicly disclose when independence requirements for public interest entities have been applied in the audit.

Yes.

## **6. Member Bodies and Other Professional Organizations**

### **28. Federation of Accounting Professions of Thailand**

Yes, we agree.

### **29. Institute of Chartered Accountants in England and Wales (ICAEW)**

We are supportive of the proposed narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) to reflect revisions to the IESBA International Code of Ethics for Professional Accountants (the IESBA Code) which require firms to publicly disclose when they have applied the independence requirements for Public Interest Entities (PIEs). We agree that the revisions are necessary for ensuring that IAASB standards operate in harmony, and are not inconsistent, with the IESBA Code.

Yes, we agree that the auditor's report is an appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence. As the consultation notes, the UK already includes requirements in ISA (UK) 700 (Revised) in relation to this (Paragraph 28(c)).

### **30. Institute of Chartered Accountants of Nigeria**

We agree with the IESBA that the auditor's report is an appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as the independence requirements for PIEs in the IESBA Code.

### **31. Institute of Chartered Accountants of Scotland (ICAS)**

Yes, we agree that the auditor's report is an appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as the independence requirements for PIEs in the IESBA Code.

### **32. International Federation of Accountants' Small and Medium Practices Advisory Groups (SMPAG)**

The SMPAG agrees that the auditor's report is an appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as the independence requirements for PIEs in the IESBA Code.

### **34. Malaysian Institute of Certified Public Accountants (MICPA)**

We agree that the auditor's report is an appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as the independence requirements for PIEs in the IESBA Code.

### **35. Pan African Federation of Accountants (PAFA)**

Yes, we agree. The auditor's report is an appropriate mechanism for declaring the auditor independence. The user of the financial statements relies on the audit report to determine the extent to which they can rely on the information that has been published in them. The inclusion of the auditor's express statement on applying the ethical considerations for independence will enhance the level of assurance placed on the AFS

### **36. Saudi Organization for Chartered and Professional Accountants (SOCPA)**

SOCPA's interest in this project comes from its continuous efforts to provide sufficient technical support to accounting professional individuals, institutions, and users of their professional services, specifically that SOCPA has just recently fully adopted IESBA's code of ethics. Thus, SOCPA is supportive of the IAASB's initiative to improve the auditing standards to reflect the IESBA's amendments in differentiating its ethical requirements that apply to PIEs.

We agree that the auditor's report is the appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements.

### **38. South African Institute of Professional Accountants**

Yes, we agree that the auditor's report is an appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements. The users of the financial statements rely on the audit report to determine the extent to which they can rely on the information that has been published in them. The inclusion of the auditor's express statement on applying the ethical considerations for independence will enhance the level of assurance placed on the Annual Financial Statements.

## **Q1 – Agree with comments**

### **2. Regulators and Audit Oversight Authorities**

#### **03. Botswana Accountancy Oversight Authority (BAOA)**

Yes, we agree that the auditor's report is the most appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as the independence requirements for PIEs in the IESBA Code.

In certain instances, if the auditor's report is in the public domain, for example, where the client publishes the auditor's report or the audited financial statements are published on its website, this would have been publicly disclosed, as other users or the public that would not ordinarily have access to the auditor's report

would be able to read it. This may apply to listed entities and any other public interest entities as defined under different jurisdictions.

We caution against creating an impression that disclosing the relevant ethical requirements as applicable to PIEs in the auditor's report will result in the auditor complying with the requirements of the Revised IESBA Code, which requires public disclosure of that fact. It should also be taken into consideration that not all auditor's reports are available to the public. We would require clarification as to whether the intention is to ensure that the users that actually read the auditor's report are the intended targets of the required disclosure, or it is the general public at large that is targeted.

With there being no clarity on whether disclosure in the audit report alone would meet what the IESBA envisioned in paragraph R400.20 of the Revised IESBA Code, we propose that the IAASB makes it clear in the application material of the revisions to ISA 700 (Revised) that "where the auditor's report is not available in the public domain, the practitioner may still need to take appropriate steps to publicly disclose that they have applied the independence requirements for public interest entities as described in the IESBA Code".

Examples of other ways that can be considered to ensure that the transparency requirement reaches many members of the public include the audit firm's website and/or the transparency report, if it is prepared and becomes publicly available within a reasonable time, taking into account the timing of the issuing of the auditor's report.

#### **06. Independent Regulatory Board for Auditors – South Africa (IRBA)**

We support the IAASB's proposed amendments to ISA 700 (Revised) and ISA 260 (Revised). However, as detailed in our response to Question 1, we caution against creating an impression that disclosing the relevant ethical requirements applicable to PIEs in the auditor's report will always result in the auditor complying with the requirements of R400.20 of the Revised IESBA Code, which requires public disclosure of that fact. This will not always be the case. Not all auditor's reports are available to the public. This may then require clarification with the IESBA whether the intention of R400.20 is that the users that actually read the auditor's report are the intended targets of the required disclosure or is it the general public at large that is targeted. By noting paragraph 145 of the IESBA's Basis for Conclusions on the Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code, we acknowledge that the IESBA considered this matter and will consider further actions, if any to address this issue.

Yes. The auditor's report is appropriate and convenient. However, this is only to the extent that the auditor's report is an appropriate mechanism for disclosing (not publicly disclosing) when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements. In certain instances, if the auditor's report is in the public domain, for example, where the management publishes the auditor's report or the audited financial statements are published on its website, this would have been publicly disclosed, as other users or the public that would not ordinarily have access to the auditor's report would be able to read it. This may apply to listed entities, certain regulated entities and certain state-owned entities, but this might not be the same for other entities that are also considered to be PIEs.

We acknowledge the IAASB's view in paragraph 16 of the Exposure Draft regarding enabling consistency and comparability in auditor reporting globally. We, however, do not fully agree with the view that revising ISA 700 (Revised), as proposed, provides a clear mechanism to operationalize the IESBA transparency requirement, which is to "publicly disclose" in all relevant cases. Although the auditor's report for certain entities is accessible to certain users of the audited financial statements, not all entities will have their

audited financial statements in the public domain. Therefore, more clarity is needed on whether this alone would meet what the IESBA envisioned in paragraph R400.20 of the Revised IESBA Code.

It is also not clear what would constitute a manner that is deemed appropriate to “publicly disclose”. We are concerned that practitioners might take the IAASB’s proposals at face value and conclude that disclosing in the auditor’s report, as proposed, always entails public disclosure, which may not be the case in instances where the audited financial statements are not published in the public domain.

To address this issue, we propose that the IAASB makes it clear in the application material of the revisions to ISA 700 (Revised) that “where the auditor’s report is not available in the public domain, the practitioner may take appropriate steps to publicly disclose that they have applied the independence requirements for public interest entities as described in the IESBA Code”.

### 3. National Auditing Standard Setters

#### 08. American Institute of Certified Public Accountants (AICPA)

We do not object to the exposed approach of audit firm transparency over others that the IAASB considered during the deliberations leading up to the issuance of the Track 1 Exposure Draft due to the requirements promulgated by the International Ethics Standards Board for Accountants (IESBA). However, we do not believe the IAASB’s Project Proposal objectives to meet “the heightened expectations of stakeholders” or “to enhance transparency about the relevant ethical requirements for independence” are being met, or that the public interest is being served, when the auditor’s report conveying the audit firm’s relevant ethical requirements for independence from PIEs is not made available to the public (or if distribution of the auditor’s report is limited or not readily available to stakeholders the IESBA transparency requirement aims to serve). Therefore, we do not support a requirement to publicly disclose when an entity has been treated as a PIE unless the financial statements (and auditor’s report) are being made publicly available to stakeholders.

We note the IESBA considered a suggestion to link the transparency requirement with accessibility and the IESBA rejected it; however, we believe this is a serious shortcoming. We believe the IAASB should work with the IESBA to evaluate transparency without accessibility circumstances (our emphasis) in the public interest and that the IESBA needs to provide suitable examples of other disclosure mechanisms available for audit firms in the International Code of Ethics for Professional Accountants (Code). Examples of which could be derived from those cited by IESBA exposure draft respondents in paragraphs 136 and 137 in the June 2021 IESBA Preliminary Analysis – Key Issues and Comments. In the absence of changes being made to the Code to address the shortcoming, it beckons the need for the IAASB to provide an exemption mechanism regarding the audit firm’s compliance. Finally, we believe this unresolved shortcoming may, in part, be a function of inconsistent application and understanding of who each standard-setter is aiming to serve when referring to “stakeholders” and “users” in the public interest. We observe that both the IESBA and IAASB each uses these terms to represent those who each standard-setter is intending to serve, but it is unclear to us if the IESBA and IAASB view those parties to be the same given the tolerance for the shortcoming we’ve highlighted. We believe this should be addressed in Track 2 of the IAASB’s PIE Project Proposal, which in part seeks to achieve, to the greatest extent possible, convergence between the key concepts underlying revisions to the Code and standards issued by the IAASB.

Additionally, in Appendix B to this letter, we have identified several application issues with the proposed revisions to ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements that we believe

must be addressed in the proposed revised standard rather than through nonauthoritative IAASB staff issued guidance.

Although not considered in the IAASB's PIE Project Proposal, we encourage the IAASB to issue stakeholder educational resources concurrent with the IAASB's approval of the proposed revisions to ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements, and ISA 260 (Revised), Communication with Those Charged With Governance that explains the changes. The value of such resources would be to enhance the clarity and understandability of the amendments by the public and serve to mitigate misperceptions among users and other interested stakeholders. We believe such guidance must also be developed and issued in order to align the proposed revisions to the IESBA's effective date timeline.

We also believe the IAASB should issue audit firm implementation guidance to support firms in their change management and to facilitate consistent application across different jurisdictions. While acknowledging the IESBA's plans to assist local bodies in their adoption and implementation efforts, we have identified several challenges that necessitate the importance for the IAASB to issue guidance to aid audit firms in their implementation and how firms can educate and address questions that may arise from those charged with governance or management.

In Appendix C to this letter, we offer observations and recommendations on both the nature and scope of stakeholder education and anticipated implementation issues that should be addressed.

Response 1: Due to the requirements promulgated by the IESBA, we concur that the auditor's report is a logical mechanism to communicate that the auditor has applied the independence requirements for a public interest entity. However, as noted earlier, we do not support a requirement to publicly disclose when an entity has been treated as a PIE unless the financial statements (and auditor's report) are also being made public. We offered recommendations above to address this shortcoming.

In addition, if the entity has chosen not to make information about its association with an audit firm public information outside of users of the financial statements, we believe it would not be aligned with the concepts of confidentiality in the Code for the auditor to disclose such information publicly. If the Code will still require public disclosure to those who do not have access to the auditor's report or the entity's financial statements because they are not publicly available, we believe the IAASB should consider possible effects on other standards in order to address the concept of confidentiality in this situation and ensure the entity is aware of and consents to the disclosure, including its association with an auditor. The IAASB should also consider possible issues that would arise if the entity does not agree to the disclosure.

Regarding audit firm compliance, in the Explanatory Memorandum to the Exposure Draft, the IAASB cited paragraphs 144-146 in the IESBA Basis for Conclusions, Revisions to the Definition of Listed Entity and Public Interest Entity in the Code, as to how the IESBA's transparency requirement can be complied with by a firm if the auditor's report is not made available to the public. However, those paragraphs are neither authoritative nor do they explain, in our view, how to comply with the IESBA's transparency requirement if the auditor's report is not made available to the public. Further, because paragraph 16 of the Explanatory Memorandum to the Exposure Draft states the IAASB's belief that there are no other mechanisms in the IAASB standards that deal with communication to "users of audited financial statements" other than the auditor's report, there is a need for the IESBA and the IAASB to address (as it contemplated in the IESBA Basis of Conclusions paragraph 143) how audit firms can comply with the IESBA requirement when financial statements and the auditor's report are not publicly available. This could be accomplished by formal acknowledgement in the Code that the disclosure of information related to auditor independence should be made to the same population of users to which the financial statements are made available. If the



Code is not updated for such a change, then the IAASB will need to provide an exemption mechanism regarding the audit firm's compliance.

#### **10. Canadian Auditing and Assurance Standards Board**

We support the proposed amendments to ISA 700 (Revised). We agree that the revisions provide a clear mechanism to operationalize the IESBA's transparency requirement, while recognizing that some jurisdictions, like Canada, adopt the ISAs but apply ethical requirements different from the IESBA Code.

Yes.

We agree that the auditor's report is an appropriate mechanism to operationalize the IESBA's requirement to publicly disclose when the auditor has applied relevant ethical requirements for independence for certain entities. The audited financial statements of many public interest entities are available publicly.

We support the IESBA further considering if guidance or conforming amendments to the IESBA Code are necessary for public interest entities whose audited financial statements are not publicly available.

#### **11. Compagnie Nationale des Commissaires aux Comptes (CNCC) and Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)**

Revisions to the IESBA Code introduced an independence transparency requirement for public interest entities (PIEs). Thus, when a firm has applied the independence requirements for public interest entities in performing an audit of the financial statements of an entity, the firm shall publicly disclose that fact in a manner deemed appropriate, considering the timing and accessibility of the information to stakeholders (paragraph R400.20 of IESBA Code).

In the exposure draft, the IAASB is exploring whether the auditor's report would be a suitable location of such disclosure and, if so, how this could be accomplished. The auditor's report is indeed a key mechanism for communication to users about that was performed.

As far as the French statutory audit profession is concerned, the auditors' report already publicly disclose that the auditor has applied relevant ethical requirements for independence for certain entities, such as PIEs, in performing the audit of financial statements. As a matter of fact, the European regulation on the audit of PIEs requires that the statutory auditors' states in their audit reports that they are independent according to the European regulation on PIEs (more precisely that they have not provided services which are forbidden by art 5.1 of the European regulation on the audit of PIEs).

In addition, it must be noted that, the French commercial code (article R.823-21) requires the PIE audit firms to issue a transparency report. Article R.823-21 of the French commercial code, resulting from the transposition in the French law of article 13 of the European Regulation (EU Regulation N° 537/2014 of the European parliament and of the council of the 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC) requires that a statutory auditor or an audit firm that carries out statutory audits of public-interest entities makes public an annual transparency report at the latest four months after the end of each financial year. That transparency report must be published on the website of the statutory auditor or the audit firm and must remain on the website for at least five years from the day of its publication on the website. The annual transparency report includes in particular

a list of public-interest entities for which the statutory auditor or the audit firm has carried out statutory audits during the previous financial year;



a statement concerning the statutory auditor's or the audit firm independence practices, which also confirms that an internal review of independence compliance has been conducted.

Article R.823-21 of the French commercial code requires that the statutory auditor inform the French regulator (Haut Conseil au Commissariat aux Comptes "H3C") of the publication of the report and, if applicable of the update of the report.

The Public is therefore appropriately informed.

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil National de l'Ordre des Experts-Comptables (CNOEC) support the revisions to Part 4A of the IESBA Code relating to the independence for audit and review engagements.

We consider that the auditor's report can be one of the appropriate places to publicly disclose that the auditor has applied relevant ethical requirements for independence for certain entities, especially for PIEs, in performing the audit of financial statements. This is what is done in France. As a matter of fact, the European regulation on the audit of PIEs requires that the statutory auditors' state in their audit reports that they are independent according to the European regulation on PIEs (more precisely that they have not provided services which are forbidden by art 5.1 of the European regulation on the audit of PIEs). Therefore, we agree with the proposed ED, under the condition that it keeps providing that the application of the local law - as long as it responds to the same objectives as the ED; i.e. conveying to the Public that the auditor has complied with independence rules applicable to PIEs- allows the auditor to comply with the ISA.

In addition, it must be noted the European regulation also requires PIE audit firms to issue a transparency report which includes

a list of public-interest entities for which the statutory auditor or the audit firm has carried out statutory audits during the previous financial year;

a statement concerning the statutory auditor's or the audit firm independence practices, which also confirms that an internal review of independence compliance has been conducted.

The transparency report is also an appropriate mechanism to publicly disclose the independence requirements applied by the firms.

#### **14. Institut der Wirtschaftsprüfer in Deutschland e.V.(IDW)**

As we had noted in our comment letter to the IESBA on this matter, we are not convinced that informing users of the auditor's report (including publicly disclosing when this is applicable due to auditors' reports being made public) of whether the relevant ethical requirements for independence that apply to audits of the financial statements of certain entities, such as PIEs, were used is important to users because the requirements that are differential for such audits relate to "independence of appearance", rather than independence of mind, a distinction that is lost on most users, particularly when PIE definitions vary across jurisdictions. In other words, users may not understand that auditors who do not apply these ethical requirements for independence relevant to audits of the financial statements of certain entities, such as PIEs, are required to have the same independence of mind. Overemphasizing the differential ethical requirements leads users to the erroneous conclusion that there are different "independence levels" within ethical requirements, which is not the case. For these reasons and because reference to differential ethical requirements may cause confusion among users and the auditor's report should not be overused for regulatory purposes, we were also not convinced that the auditor's report is the appropriate mechanism for

such disclosure (whether privately to users of the auditor’s report or publicly, when the auditor’s report is made public).

However, given the new requirement in the IESBA Code (hereinafter referred to as “the Code”) for a firm to publicly disclose whether the ethical requirements relating to independence for audits of financial statements of PIEs have been applied, we have asked ourselves whether there are acceptable means of providing such transparency other than the auditor’s report. We have concluded that given such a requirement in the Code, the auditor’s report is the only workable means of providing such transparency to users of the auditor’s report. We also note that the required changes to the auditor’s report are not particularly invasive.

We therefore agree that in these circumstances, the auditor’s report is the appropriate mechanism for transparency to users of the auditor’s report, even though the disclosures would not be publicly available if the auditor’s report is not publicly available.

As we point out above, we are not convinced that there are other acceptable mechanisms for public disclosure when the auditor’s report is made public. However, when the auditor’s report is not made public, then the disclosure in the auditor’s report is not public and the matter of how public disclosure beyond the non-public auditor’s report should be undertaken is beyond the remit of the IAASB.

While we were not in favor of the IESBA Exposure Draft on the definition of PIEs proposing transparency about differential ethical requirements generally or within the auditor’s report. However, given the new requirements for such transparency within the IESBA Code (hereinafter referred to as “the Code”), we believe that it is appropriate that the IAASB consider how such transparency would be provided in the auditor’s report. For this reason, subject to our detailed comments in Appendices 1 and 2 to this comment letter, we are in favor of the proposals for the amendment of the ISAs to take into account the revisions of the Code.

#### **17. New Zealand Auditing and Assurance Standards Board (XRB)**

We acknowledge that the auditor’s report is the most appropriate mechanism for the IAASB to operationalize the IESBA Code requirement to publicly disclose when the auditor has applied the specific independence requirements for certain entities. However, while we are supportive of transparency, we have some concerns with the proposals.

We are concerned that with this narrow scope project and other projects where the IAASB is exploring adding more to the auditor’s report (for example, the projects on Going Concern and Fraud), there is the potential to overload the audit report with boilerplate information. Overloading the audit report in this way has the potential to obscure other useful information in the report. This appears to be a move away from the objectives of the recent project to revise the auditor’s report to enhance relevance and communicative value for users.

We consider that the proposed audit report amendments in the ED are of limited value to users. The amendments assume that audit report users are fully informed about the independence requirements to be applied by firms to the audit of a public interest entity (PIE). We encourage the IAASB to consider whether users might find it more useful and relevant if information about what it means when the auditor has treated an entity as a PIE is provided rather than simply reporting when the PIE independence requirements have been applied.

We also consider that there is a risk that users may misinterpret this transparency as meaning some auditors are ‘more independent’ than others. This could then have a detrimental effect in the confidence in audits that are conducted for non-PIE entities. Therefore, it is important that the disclosure in the audit report

enhances user's understanding of the PIE independence requirements rather than simply stating that they have been applied.

Instead of considering each of the current proposals for additional audit report disclosures on a stand-alone project by project basis, the NZAuASB strongly encourages the IAASB to holistically review all potential changes to the content of the auditor's report currently under consideration (IESBA Code transparency disclosure, Going Concern, Fraud). The purpose of this would be to assess how useful a longer and more detailed audit report will be to users should all the proposed changes across these projects come into effect.

We recognise that to operationalise the IESBA's transparency requirement for differential independence requirements, the most appropriate mechanism currently available to the IAASB is to amend ISA 700 (Revised) and require disclosure in the auditor's report.

However, we encourage the IESBA to consider alternative mechanisms, other than the auditor's report, that would meet the IESBA Code's transparency requirement for publicly disclosing when the auditor has applied the relevant ethical requirements for independence for certain entities (such as a public interest entity (PIE)). This would ensure sufficient consideration has been given to other (perhaps even new) mechanisms for disclosure.

We are concerned that the impact of this and several other current IAASB projects (e.g., Fraud and Going Concern) will be to load the audit report with too much information.

Cumulative audit report content compromises understandability and utility for users

The potential cumulative effect of these combined projects will be to increase the length and complexity of the auditor's report. This may contribute to a reduction in understandability and/or utility for users of the report.

Instead of considering each of the current proposals for additional audit report disclosures on a stand-alone project by project basis, the NZAuASB strongly encourages the IAASB to holistically review all potential changes to the content of the auditor's report currently under consideration (e.g., IESBA Code transparency disclosure, Going Concern, Fraud). The purpose of this would be to assess how useful a longer and more detailed audit report will be to users should all the proposed changes across these projects come into effect.

Proposed audit report PIE disclosures of limited value to users

We consider that the proposed audit report PIE disclosures are of limited value to users. The amendments assume users are fully informed about the independence requirements to be applied for the audit of a PIE.

We encourage the IAASB to consider whether users might find it more relevant and useful if information about what it means when the auditor has treated an entity as a PIE is provided. If such disclosure is to be added to the auditor's report, we consider it might be of more value to users if the disclosure in the audit report enhances user's understanding of the PIE independence requirements rather than simply stating that they have been applied.

We also note that the proposed disclosure may lead to a perception that there are two levels of independence (i.e., a higher level for public interest entity audits and a lower level for the audit of other entities). This could have a detrimental effect in the confidence in audits that are conducted for non-PIEs.

Unless users clearly understand the distinction being made about the differential independence requirements, the proposed additional disclosure in the auditor's report is unlikely to increase the level of confidence in the audit or assist users in assessing the independence of the audit firm.

## 4. Accounting Firms

### 18. Deloitte LLP

The new IESBA changes require the auditor to “publicly disclose whether the PIE independence requirements have been applied in performing the audit, in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders.” Given the limited options available for public disclosure of this information, we do not object to using the auditor’s report as the mechanism for such disclosure.

### 19. Ernst & Young Global Limited

Yes, we believe the auditor’s report is an appropriate mechanism and satisfies the requirement in the IESBA Code for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements for the reasons cited by the IAASB in paragraph 16 of the ED-Proposed Narrow Scope Amendments. However, we believe that if a jurisdiction determines that there is a more appropriate location for publicly disclosing that the auditor has applied independence requirements for certain entities, ISA 700 should allow for flexibility (i.e., although we agree that the auditor’s report is an appropriate mechanism for disclosure, jurisdictions may have other appropriate public reporting options at their disposal to use, which should not be prohibited by the ISA).

If it is agreed as a result of this consultation that the auditor’s report is an appropriate mechanism for disclosure, we strongly encourage the IAASB to discuss with the IESBA the possibility of explicitly stating either directly in the IESBA Code or in its supplemental materials that the auditor’s report is an appropriate mechanism. Such an explicit acknowledgement by the IESBA would bring clarity for firms and other stakeholders that the requirement for public disclosure set forth in the IESBA Code is sufficiently addressed through disclosure in the auditor’s report.

### 20. Grand Thornton International Limited

We noted in our response to the International Ethics Standards Board for Accountants (IESBA) consultation: Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code, that we did not support the proposal to include that the entity was treated as a public interest entity in the auditor’s report. Whilst we do not, in principle, support the requirement to disclose when a firm has applied the requirements for public interest entities, we appreciate that the IAASB has a responsibility to determine the most appropriate way to address this recently approved amendment to the IESBA International Code of Ethics for Professional Accountants (IESBA Code). As discussed in our response to question 1 below, overall, we agree that the auditor’s report seems to be the only viable mechanism by which firms are able to make such disclosures.

In forming our views, we considered other mechanisms that might be available to facilitate the timely public disclosure of the independence requirements applied by a firm in its audit of an entity. We considered if such disclosures could appropriately be made through a firm’s own website or through the website of a jurisdictional regulator; however, we concluded that this would not promote either consistency of disclosure or ease of access for users. We, therefore, agree that, to comply with the IESBA code, the auditor’s report seems to be the most appropriate mechanism for the auditor’s public disclosure of the independence requirements.

### 23. RSM International Limited

Yes, we agree that the auditor's report is an appropriate mechanism for this disclosure. However, we note that, in some jurisdictions, local statutory requirements may already require separate disclosures concerning independence. For example, in Australia, the Corporations Act 2001 already requires auditors to issue a separate independence declaration when issuing an audit report. The revisions to ISA 700 should take this into account and, to the maximum extent possible, avoid any duplication of information by allowing referencing to any other independence statements made by the auditor.

Additionally, we note that in certain jurisdictions there will be entities that may meet the definition of a PIE because, for example, their main function is to take deposits from the public, e.g. banks or credit unions, or provide insurance to the public. However, they may not be public entities and may not have public reporting requirements. In these instances, there is no requirement for the entity to make their financial statements publicly available.

We believe the intent of the transparency of the independence information is achieved by providing this information in the auditor's report so that users of the financial information will be provided with the information about the auditor's independence as intended. However, based on the exact working of the IESBA Code, this would not be sufficient if the auditor's report is not publicly available. We encourage the IAASB to work with IESBA to either update the Code or provide guidance clarifying that the requirement to report auditor independence does not extend beyond the entity's legal requirements for distribution of its financial information.

## 6. Member Bodies and Other Professional Organizations

### 25. Botswana Institute of Chartered Accountants

We agree that the auditor's report is an appropriate mechanism for disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as the independence requirements for PIEs in the IESBA Code.

We further note that paragraph 12 (b) of the Exposure draft gave reference to paragraph R400.21 of the IESBA Code but the code does not have such a paragraph. This must have been referring to paragraph R400.20 of the Code.

### 26. Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA)

Overall comments

Overall, we support the IAASB's proposals to make narrow scope amendments to ISA 700 and ISA 260 to respond to the changes made to the IESBA International Code of Ethics for Professional Accountants (the IESBA Code) in relation to the requirement to publicly disclose when the auditor has applied the relevant ethical requirements for independence for certain entities in an audit. We agree, subject to our comments below, that the auditor's report is the most appropriate place for the disclosure to be made.

We do have some concerns which the board should consider before finalizing the proposed amendments:

Holistic approach

We encourage the board to consider any proposed changes to the content of the auditor's report with a holistic lens. Other current IAASB projects such as fraud and going concern will likely result in further

changes to the auditor's report and the overall impact of the combined changes needs to be considered. Changes to the auditor's report are generally made in the interest of transparency but if the net result is always a longer, more complex auditor's report, this is not necessarily being achieved.

#### Need for jurisdictional flexibility

We believe that the IAASB should include an option for auditors to use other relevant mechanisms available in their local jurisdiction to make the required independence disclosures where appropriate.

#### Introduction of new information in the auditor's report

We note that by stating that they have applied the ethical requirements applicable to public interest entities, the auditor is effectively providing additional information about the entity i.e., that it is a PIE. Those charged with governance are not required to disclose that the entity is a PIE as this concept is not used in accounting standards, though there may be jurisdictions where regulation requires this disclosure. Generally, the auditor's report does not provide new information about the entity. We would caution the IAASB to make sure that this is not taken as a precedent that it is appropriate for auditors to provide new information about an entity in the auditor's report.

#### Transparency/understandability

While we understand the intention of the IESBA in introducing the disclosure requirement is to improve transparency, we have heard mixed views as to whether the disclosure is achieving this aim. The main concerns expressed are:

Users may not understand what the applicable ethical requirements for public interest entities are.

They may not understand why the entity is a public interest entity.

The inclusion of explicit language around the requirements in relation to PIEs being applied in PIE audits may negatively impact users' perceptions of the audit quality of audits of non-PIEs. They may perceive the ethical standards used in non-PIE engagements to be a lower bar, which in turn impacts their perception of the audit. This could widen the audit expectation gap as the rationale and meaning behind such disclosure is unlikely to be immediately clear to users.

We agree that the auditor's report is an appropriate mechanism for making the disclosure. However, it is not the only possible mechanism, and we believe ISA 700 should allow for jurisdictions to require the disclosure be made via other documents where this is appropriate.

For example, in Australia, auditors of listed entities have to provide an independence declaration under s307C of the Corporations Act 2001. This declaration is published in the annual report and would be the simplest place for auditors of these entities to make a declaration about compliance with the independence requirements for PIEs.

As noted in our overall comments, we have additional concerns on the impact of the disclosure as follows.

#### Holistic approach

We encourage the board to consider any proposed changes to the content of the auditor's report with a holistic lens. Other current IAASB projects such as fraud and going concern will likely result in further changes to the auditor's report and the overall impact of the combined changes needs to be considered. Changes to the auditor's report are generally made in the interests of transparency but if the net result is always a longer, more complex auditor's report, this is not necessarily being achieved.

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The inclusion of explicit language around the requirements in relation to PIEs being applied in PIE audits may negatively impact users' perceptions of the audit quality of audits of non-PIEs. They may perceive the ethical standards used in non-PIE engagements to be a lower bar, which in turn impacts their perception of the audit. This could widen the audit expectation gap as the rationale and meaning behind such disclosure is unlikely to be immediately clear to users.

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### **37. The South African Institute of Chartered Accountants (SAICA)**

We acknowledge that the proposed amendments in the IAASB Exposure Draft utilize the only mechanism available in the IAASB standards to communicate to all users of the audited financial statements, namely the auditor's report.

While we are supportive of the auditor's report being informative to the user thereof, we are concerned that overcomplicating the auditor's report may have an unintended consequence of detracting the auditor's focus from what is most important, namely performing a quality audit. We note with concern that the ISA auditor's report continues on a trajectory of increased complexity and length through differentiation between categories of auditees.

Some local investors have, colloquially, indicated to us that as far as the auditor's report is concerned, they are still primarily reading the auditor's opinion on the financial statements and that they accept that the auditor has complied with all obligations/requirements applicable to the audit, including ethical requirements, without reading the entire report. It is critical that the IAASB engages with the users of the auditor's report to ensure that changes made to the auditor's report for the benefit to the users thereof, meet a need that has been expressed by those users.

We have reservations about whether the auditor's compliance with the proposed amended requirements to ISA 700 (Revised) would in all instances result in a firm's compliance with the requirement of paragraph R400.20 of the revised IESBA Code to "publicly disclose" the information. In our view, where the auditor's report on a PIE is not available publicly, the firm would have to publicly disclose the information, "in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders", in addition to the auditor complying with the IAASB's proposed amended requirements to ISA 700 (Revised).



In our view, it would be sufficient for the auditor to include the required disclosure in the auditor's report, irrespective of the availability thereof (i.e. irrespective of whether or not the auditor's report is available in the public domain).

The overall objectives of the auditor, as described in ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing remain the expression of an opinion on the financial statements, and to report as required by the ISAs in accordance with the auditor's findings. In the context of ISA 200, we do not support the auditor/firm publicly disclosing only certain aspects relating to an audit and in doing so giving elevated prominence to those aspects (for example independence requirements) over others (for example the opinion on the financial statements).

We acknowledge the statements made in paragraphs 144 and 145 of the Basis for Conclusions, Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code, including that the IESBA may need to reconsider its position on public disclosure once the IAASB has completed its own due process in this regard.

Extracts from the Final Pronouncement: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code

R400.20 Subject to paragraph R400.21, when a firm has applied the independence requirements for public interest entities as described in paragraph 400.8 in performing an audit of the financial statements of an entity, the firm shall publicly disclose that fact in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders.

Extract from the Basis for Conclusions, Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code:

144. With regards to determining what might be an "appropriate" form of public disclosure, firms may consider factors such as:

- Whether there is a need to disclose the information to those stakeholders that do not have access to the auditor's report or the entity's financial statements.
- Whether an appropriate disclosure mechanism would be simply to provide a general statement publicly about which entities they have applied the independence requirements for PIEs in relation to the audit.

145. The IESBA also considered how the transparency requirement can be complied with by a firm if the auditor's report is not made available to the public. In this regard, the IESBA considered the option of limiting the disclosure requirement to only those stakeholders who have access to the auditor's report on the basis that it would be of no benefit to those who do not have such access to know if additional independence requirements have been applied. The IESBA appreciated, however, that this may be seen to be concluding on the appropriate means of disclosure before the IAASB has considered the matter. On balance, therefore, the IESBA determined that requiring firms to make the disclosure in "a manner deemed appropriate" is sufficient given that the IAASB is yet to consider this matter. The IESBA expressed its continued support for the IAASB to consider the matter under the IAASB's own due process. As mentioned earlier, the IESBA will consider what further actions, if any, might be warranted once the IAASB has concluded its deliberations on whether the auditor's report is a suitable location for such disclosure and, if so, how this may be accomplished.

As explained in the Explanatory Memorandum, Track 2 of the IAASB's project will focus on convergence of definitions in the IESBA Code and the IAASB Standards. "Public interest entity" is not currently defined in

the IAASB standards, and we have suggested amendments to the proposals in the Exposure Draft to avoid creating the impression that it is a term used in the IAASB standards.

We agree that the auditor's report is an appropriate mechanism for disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as the independence requirements for PIEs in the IESBA Code. Refer, however, to our General Comments regarding "public" disclosure in paragraphs 5 to 8.

## **Q1 – Disagree**

### **3. National Auditing Standard Setters**

#### **09. Australian Auditing and Assurance Standards Board (AUASB)**

The AUASB does not support the amendments to ISA 700 proposed in the IAASB ED

Overall, the AUASB does not support the amendments to ISA 700 proposed in the IAASB ED. Whilst we appreciate the IESBA's intention to improve transparency, the AUASB does not consider that the proposed changes to the auditor's report are the most appropriate mechanism for this purpose, and the proposed amendments may, rather than improving transparency, actually increase the risk of confusion by users. Our concerns on this matter are outlined in greater detail in our response to Question 1 in the Appendix to this submission.

Jurisdictions should have greater flexibility to disclose when a Firm has applied the Independence requirements for PIEs where alternatives exist

The AUASB considers that the new IESBA Code transparency provision in R400.20, which refers to disclosing the independence requirements applied "in a manner deemed appropriate", provides optionality for the mechanism of public disclosure. In some jurisdictions (such as Australia) there are alternatives that may meet the transparency disclosure requirements without the need to amend wording in the auditor's opinion. Therefore, we request that the IAASB amend ISA 700 to permit auditors to apply alternative options that may be more appropriate in their jurisdiction. Please refer to our response to Question 2 for further discussion and examples of reasonable alternatives that could be used for this purpose.

The amendments to the auditor's report should not be in the 'Basis for Opinion' paragraph of the auditor's report

Regardless of our views above, should the IAASB still conclude that the auditor's report is the appropriate mechanism for the IESBA Code transparency disclosure, the AUASB does not support the IAASB's proposed approach requiring this additional disclosure be included as part of the 'Basis for Opinion' paragraph of the auditor's report.

The title of the section speaks to how the auditor came to their opinion. The auditor has formed their opinion on the basis of being independent, not on the basis of applying differential independence requirements to the audit. The AUASB is concerned that when differential requirements are referred to in the Basis for Opinion, there is a risk users may misinterpret the disclosure as indicating that the nature of the audit is different. Therefore, the AUASB encourages the IAASB to identify an alternative location for the proposed additional disclosure within the auditor's report should it be enacted, for example either in the Auditor's responsibilities section of the auditor's report or perhaps under a separate Independence heading.

Concerns about multiple IAASB projects advocating for additional information to be included in the auditor's report

As a final point, the AUASB expresses reservations about the current trend of multiple IAASB projects advocating for additional information to be included in the auditor's report (e.g. Going Concern, Fraud). We are concerned that the compound effect of these changes may increase the complexity and length of the auditor's report and, rather than improve transparency, actually reduce the report's understandability and utility.

Instead of considering each of the current project proposals for additional audit report disclosures on an incremental basis only, the AUASB strongly encourages the IAASB to holistically review all potential changes to the content of the auditor's report currently under consideration (IESBA Code transparency disclosure, Going Concern, Fraud), and assess how useful a longer and more detailed audit report will be to users should all the proposed changes across these projects come into effect. The AUASB considers further research and evidence gathering may be necessary to determine the benefits to users of such additional content in the auditor's report.

The AUASB's responses to the specific questions raised in the IAASB ED is attached as Appendix A to this letter.

The AUASB does not support the IAASB's proposal for ISA 700 to be amended to mandate disclosure in the auditor's report that the auditor has applied differential independence requirements for certain entities (for example PIEs) in performing an audit. While we understand the intention of the IESBA in introducing the disclosure requirement is to improve transparency, we question whether the auditor's report is the most appropriate mechanism for such disclosure. In our opinion, the inclusion of such a statement in the audit report increases the risk of confusion by users, which will likely outweigh the benefits of its intent.

Our main concerns with using the auditor's report as mechanism for this disclosure include:

Transparency/Understandability – Although the term 'PIE' is used in the IESBA Code, it is not a term currently used in the requirements of the ISAs. This term, if inserted in the auditor's report, could therefore cause confusion where it is not clear what a PIE is (may require an element of judgement), why the entity is classified as a PIE and what the differential ethical requirements for PIEs are.

Furthermore, the AUASB considers that, unless users understand the distinction being made about the application of differential independence requirements, the proposed additional disclosure in the auditor's report is unlikely to increase the level of confidence in the audit or assist users in assessing the independence of the audit firm.

Any attempts to address potential confusion by adding further information (in particular, more boilerplate type content) to the disclosure statement may disproportionately lengthen the auditor's report and could potentially obscure more relevant communications in the report.

Finally, the additional disclosure might result in an unintended consequence of creating a perception that there are different levels of independence or audit quality which could have an adverse effect on public confidence in non-PIE audits. This would not be in the public interest and may exacerbate the audit expectation gap.

Holistic approach - The AUASB expresses reservations about the current trend of multiple IAASB projects advocating for additional information to be included in the auditor's report (e.g. Going Concern, Fraud). In particular, we are concerned that the compound effect of these changes may increase the complexity and length of the auditor's report and, rather than improve transparency, actually reduce the report's understandability and utility.

Instead of considering each of the current project proposals for additional audit report disclosures on an incremental basis only, the AUASB strongly encourages the IAASB to holistically review all potential changes to the content of the auditor's report currently under consideration (IESBA Code transparency disclosure, Going Concern, Fraud), and assess how useful a longer and more detailed audit report will be to users should all the proposed changes across these projects come into effect.

The AUASB considers further research and evidence gathering may be necessary to determine the benefits to users of such additional content in the auditor's report.

Introduction of new information in the auditor's report – By stating that the auditor has applied the independence requirements applicable to PIEs, the auditor is providing additional information about the entity, namely that it is a PIE. However, Those Charged With Governance are not required to disclose that the entity is a PIE, as this concept is not used in the accounting standards (though there may be jurisdictions where regulation may require this disclosure). Generally, the auditor's report does not provide new information about the entity. Therefore, we are concerned that this additional disclosure may set a precedent that it is appropriate for auditors to provide new information about an entity in the auditor's report.

The AUASB considers the new IESBA Code transparency provision in R400.20, which refers to disclosing the independence requirements applied "in a manner deemed appropriate" provides optionality for the mechanism of public disclosure. In some jurisdictions (such as Australia) there are alternatives that may meet the transparency disclosure requirements without the potential negative effects on the interpretation for the auditor's opinion.

Therefore, we request the IAASB to consider the need for jurisdictional flexibility which would provide auditors with alternative options that may be more appropriate in their jurisdiction. Please refer to our response to Question 2 for examples of reasonable alternatives that could be used for this purpose.

## 5. Public Sector Organizations

### 24. Office of the Auditor General of Alberta

We disagree. In our view, an audit is an audit is an audit. Independence is a fundamental feature of audits and IESBA should not have created differential rules, and the IAASB should not be condoning this by creating differential auditor's reports. The existing auditor's report already has become too complicated, with variants caused by whether the audit is a group audit or a listed entity, and variants in "other information" reporting.

We are concerned about the consequences of signaling in auditor's reports that some entities are "public interest" while others are not. There are many entities other than listed entities, banks and insurance companies for which assurance is provided in the public interest. The addition of the specific term "public interest" into the auditor's report may imply that the auditor of these entities is somehow acting "more" in the public interest than in other engagements, widening expectation gaps. Furthermore, the term "public interest" can be mistaken for "public sector" as the "public sector" is frequently expected to act in the "public interest."

Therefore, if the IAASB is going ahead with the proposals, we suggest the following be added to the first sentence of the opinion, for all audits (not just PIEs), as follows:

We conducted our audit in the public interest in accordance with International Standards on Auditing (ISAs).

We suggest that ISA 200 be updated to include a general requirement that all audits are conducted in the public interest.

In addition, we suggest that IAASB analyze which of the following occur due to the enhanced PIE requirements:

PIE audits having improved audit quality relative to audits of non-PIEs,

PIE audits having the same audit quality as audits of non-PIEs, or

PIE audits having a reduced audit quality relative to audits of non-PIEs.

Circumstance 3) above is unlikely, because strengthening auditor independence is why IESBA made the changes. However, it is important that the IAASB avoid creating a quality expectation gap between PIE and non-PIE audits solely because the independence requirements are different.

If the entity is a PIE, the disclosure as proposed is:

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), as applicable to public interest entities, together with the ethical requirements for public interest entities that are relevant to our audit of the financial statements in [jurisdiction].

If the entity is not a PIE, we suggest the following if 1) above is determined to be correct by IAASB:

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code). The entity is not a public interest entity in accordance with the IESBA code. We caution users that the quality of our audit may not be the same as if the entity were a public interest entity because we did not apply the IESBA requirements for public interest entities.

If the entity is not a PIE, we suggest the following if 2) above is determined to be correct by IAASB:

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code). The entity is not a public interest entity in accordance with the IESBA code. However, the quality of our audit is the same as if the entity were a public interest entity.

We suggest the above because it is in the public interest for the IAASB to be transparent about the impacts of the IESBA differential rules on audit quality.

We are also concerned with adopting the term “public interest entity” into the ISAs. The term “public interest” must continue to be reserved for a more important concept in the ISAs – that of the “public interest” itself. Introducing the term “public interest entity” in multiple contexts risks commingling these concepts. The term “public interest entity” risks the possibility of communicating that these entities automatically act in the public interest, or what is in the public interest is only what is good for these entities, either of which may further the expectation gap if such entities act in their own interest and not the public interest. It will no longer be clear when the IAASB is communicating something as “in the public interest” what it actually means. Is the action in the public interest if it is not done for a PIE? What if an action of the IAASB makes something more onerous for a PIE? Would that still be in the public interest? This commingling may create confusion when the IAASB states in any future project something like “public interest issues addressed” (as often is done in project plans or exposure drafts, including in this exposure draft on page 8).

We suggest IAASB analyze the implications for the auditor's report for auditors that voluntarily apply the enhanced PIE ethical requirements for entities that are not PIEs. Should this be disclosed in the auditor's

report? And should it be disclosed that these auditors are exceeding what they are required to do, indicating a higher quality audit?

We also disagree with the change to ISA 260. The auditor should be required to communicate to those charged with governance the relevant ethical requirements that were applied in all audits, not just public interest entity audits.

## **6. Member Bodies and Other Professional Organizations**

### **33. Korean Institute of Certified Public Accountants (KICPA)**

(KICPA comment) KICPA doesn't agree with the proposed requirement that the auditor should make disclosure within the auditor's report when the auditor has applied the differential ethical requirements for independence for PIEs.

If the objective is to enhance transparency, the more reasonable way to achieve it is for the regulator or standard setter to establish a set of consistent and objective standards to be applied by the auditor.

Requiring the auditor to make disclosure within the auditor's report when it has applied differential ethical requirements for independence for PIEs may lead to increase in expectation gap for the auditor's report and in confusion among users if they don't have accurate understanding of the implications of applying such requirements.

## **Q1 – Neither agree nor disagree**

## **6. Member Bodies and Other Professional Organizations**

### **27. CPA Australia**

Whilst we are supportive of the transparency objective that underpins these proposals arising from the revisions to the IESBA Code, there are mixed views on whether the auditor's report is the appropriate mechanism to operationalize the IESBA transparency requirement to publicly disclose the differential independence requirements for public interest entities (PIE). As reflected in our submission in response to the previous IESBA consultation related to this CP, feedback from some members is that the auditor's report is not the place for such a disclosure, whilst other members believe the auditor's report would be the appropriate place for such a disclosure. To address this divergence in views, we suggest the location of the proposed disclosure should be determined by each jurisdiction, based on their own disclosure frameworks, including legislative requirements. However, regardless of the location of the disclosure, for the disclosure to be of value, considerable additional details, and explanations beyond just declaring that an entity is being treated as a PIE, will be necessary. Further details on our comments here are provided in the Attachment.

As noted in our cover letter, whilst we are supportive of the transparency objective of the proposal, feedback we have received from members indicates mixed views on whether the auditor's report is the appropriate location for the disclosure. A solution could be to leave the location of the proposed disclosure to be determined by each jurisdiction, based on their own disclosure frameworks, including legislative requirements.

However, regardless of the location of the proposed disclosure, we raise some concerns below that could detract from the objective of the proposed disclosure. Consideration may need to be given to developing requirements around the provision of further details and explanations to ensure the disclosure is properly understood or interpreted by users of financial statements:

Although a small addition, the proposed disclosure increases the length of an already-long auditor's report. We also note further pipeline projects including those on Going Concern and Fraud could further add to the length of the auditor's report

The proposed disclosure presupposes an understanding from users of the term "PIE", particularly as this will be the only location in the financial statements where it will be referenced. The disclosure also presumes users will have an understanding of the independence requirements associated with PIEs versus those associated with non-PIEs

There is a risk of the proposed disclosure becoming boilerplate information as the wording will remain the same every year

Taking all of this into account means that what might, on the face of it, seem to be a very simple disclosure becomes a very detailed and complex issue. It brings into question, from a cost-benefit perspective, the value of doing so.

If the IAASB proceeds with the proposal to include the disclosure in the auditor's report, we suggest that the differential independence requirements be disclosed as a new and separate paragraph to the Basis of Opinion paragraph.

#### **Q1 – No specific comment**

### **2. Regulators and Audit Oversight Authorities**

#### **07. National Association of State Boards of Accountancy (NASBA)**

In furtherance of that objective, NASBA supports the IAASB in this initiative. We have reviewed the Exposure Draft and have no comments to offer.