

Listed Entity and Public Interest Entity (PIE) – Question 2B**Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Audits of Financial Statements**

2B. If you do not agree, what other mechanism(s) should be used for publicly disclosing when a firm has applied the independence requirements for PIEs as required by paragraph R400.20 of the IESBA Code?

2B.1. The mechanism should be determined by each jurisdiction and relevant local bodies**3. National Auditing Standard Setters****09. Australian Auditing and Assurance Standards Board (AUASB)**

Alternative Mechanisms for the IESBA Code Transparency Disclosure

The AUASB believes that the appropriate place for the IESBA Code transparency disclosure should be determined by relevant local bodies (for example, a national standard setter or regulator) to suit the requirements and expectations within the relevant jurisdiction.

The AUASB's preference is for the IESBA Code disclosure to be made in conjunction with other relevant disclosures concerning the auditor's independence. In Australia, for example, there is a requirement set out in law (Corporations Act 2001, s 307C) for an auditor to make a declaration in relation to their independence and compliance with the applicable Ethical Code. This auditor independence declaration is required to be included in the annual report of companies, registered schemes and disclosing entities regulated by the Corporations Act 2001. It seems sensible to allow the auditor to make this additional disclosure in this independence declaration.

While other jurisdictions may not have the same requirement to make disclosures about an auditor's independence, other mechanisms such as firm's transparency report or the website of the firm could be reasonable alternatives. In Australia, there already is a public disclosure mechanism in place, as the Corporations Act 2001 requires audit firms to publish an annual transparency report that discloses the names of prescribed PIEs for which the firm conducts an audit. These reports are accessible at all times, to anyone, on the firms' websites. Firms could also disclose any other PIEs in these reports and firms who aren't required to prepare a transparency report could publish this information on their websites.

We consider these alternates will go some way in addressing our concerns raised in response to Question 1, through reducing the direct proximity of the differential requirements, that is, out of the auditor's report itself.

As explained in our response to Question 1, the AUASB does not support the IAASB's proposal to mandate disclosure in the auditor's report that the auditor has applied differential independence requirements for certain entities (for example PIEs). The AUASB considers there is a need for jurisdictional flexibility which would provide auditors with alternative options.

6. Member Bodies and Other Professional Organizations

27. CPA Australia

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.

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.

33. Korean Institute of Certified Public Accountants (KICPA)

(KICPA comment) The more appropriate way is to have the regulator or standard setter to establish and issue a set of objective standards prescribing how to make disclosure, as indicated in our answer to question 1.

2B.2. Basis for Opinion

3. National Auditing Standard Setters

09. Australian Auditing and Assurance Standards Board (AUASB)

However, the AUASB does not support the IAASB's proposed approach requiring this additional disclosure to 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, being so close to the opinion, then there is a significant risk that users will misinterpret the disclosure as indicating that the nature of the audit is different.

Therefore, the AUASB urges the IAASB consider an alternative location for this additional disclosure within the auditor's report. If it has to be disclosed in the auditor's report, then a separate section, perhaps under a separate Independence heading is something that should be considered.

6. Member Bodies and Other Professional Organizations

27. CPA Australia

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.

2B.3. Support for conditional requirement should the IAASB determine that the auditor's report is an appropriate mechanism

3. National Auditing Standard Setters

09. Australian Auditing and Assurance Standards Board (AUASB)

Should the IAASB conclude that the auditor's report is the appropriate mechanism for the IESBA Code transparency disclosure, the AUASB is supportive of:

the IAASB's conditional requirement for disclosure in the audit report rather than an unconditional requirement; and

the proposed revisions in the ED to ISA 260.

2B.4. Guidance by IESBA on alternative mechanisms

3. National Auditing Standard Setters

09. Australian Auditing and Assurance Standards Board (AUASB)

Further guidance by IESBA (based on research and further evidence gathering) will be helpful to clarify the possible mechanisms, other than the auditor's report, that would meet the IESBA Code's transparency requirement for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities (such as PIEs). The question that arises is whether sufficient consideration have been given to other (perhaps even new) vehicles?

2B.5. No alternative mechanism as it should be left to marketplace innovation

5. Public Sector Organizations

24. Office of the Auditor General of Alberta

Since we do not agree that disclosure is necessary, no other mechanisms should be used.

In general, this is a problem created by IESBA and it is unfortunate that the IAASB is being expected to solve this problem. We believe it should be left to marketplace innovation to solve this problem, if IESBA does not remove this requirement. Potential solutions IESBA could evaluate include the firms publicly disclosing which audits are PIEs in their own annual reports, a public announcement such as a notice on the firm's website, or a tweet (or equivalent), any of which perhaps could be considered adequate public disclosure, or IAASB could modify ISQM for these.

2B.6. Website, transparency report, written declaration of independence

3. National Auditing Standard Setters

09. Australian Auditing and Assurance Standards Board (AUASB)

While other jurisdictions may not have the same requirement to make disclosures about an auditor's independence, other mechanisms such as firm's transparency report or the website of the firm could be reasonable alternatives.

5. Public Sector Organizations

24. Office of the Auditor General of Alberta

Potential solutions IESBA could evaluate include the firms publicly disclosing which audits are PIEs in their own annual reports, a public announcement such as a notice on the firm's website, or a tweet (or equivalent), any of which perhaps could be considered adequate public disclosure, or IAASB could modify ISQM for these.

6. Member Bodies and Other Professional Organizations

27. CPA Australia

As noted in our cover letter and in response to Question 1 above, there are mixed views on whether the auditor's report is the appropriate mechanism for making the proposed disclosure.

Some members have indicated consideration of other disclosure mechanisms such as the audit firm's transparency report and the websites of the audit firm. In Australia, s307C of the Corporation Act 2001 requires the auditor to make a written declaration of independence to the directors of the audited entity. For the Australian market, we believe the Auditor's Independence Declaration Statement is the most sensible mechanism for the proposed disclosure.

2B.7. Other comments

6. Member Bodies and Other Professional Organizations

27. CPA Australia

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.