

Listed Entity and Public Interest Entity (PIE) – Question 2A(b)

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

Please answer question 2A or 2B based on your answer to question 1:

Question 2A.

If you agree:

- a) ...
- b) Do you support the IAASB's proposed revisions in the ED to ISA 260 (Revised)?

2A(b).1. Agree

2. Regulators and Audit Oversight Authorities

05. Financial Reporting Council – UK (FRC)

The FRC supports the proposed revisions to ISA 260 (Revised). The proposed amendment of paragraph A29 provides appropriate guidance to the auditor on communicating with Those Charged With Governance that heightened ethical requirements have been applied to the financial statement audit.

3. National Auditing Standard Setters

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

b) Yes, we agree with the proposed addition

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

We support the proposed revisions in this ED to ISA 700 (Revised) and ISA 260 (Revised).

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

We support the proposed revisions in the ED to ISA 260 (Revised) because those charged with governance, should be made aware of the differential ethical requirements applied.

15. Japanese Institute of Certified Public Accountants (JICPA)

We support the proposed revisions in the ED to ISA 260 (Revised).

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

Yes, the conditional requirement as suggested by the IAASB and as explained in paragraphs 18-24 of the Explanatory Memorandum is a reasonably straightforward approach.

4. Accounting Firms

19. Ernst & Young Global Limited

We support the IAASB's proposed revisions in the ED to ISA 260 (Revised).

22. PriceWaterhouseCoopers

ISA 260 (Revised)

We support the proposed amendment to ISA 260 (Revised).

Yes.

23. RSM International Limited

Yes, we support the conditional requirement in the ED to ISA 700 and the proposed revisions to ISA 260.

We support the proposed revisions to both ISA 700 and ISA 260.

6. Member Bodies and Other Professional Organizations

25. Botswana Institute of Chartered Accountants

Yes, we support the proposed revisions in the ED to ISA 260 (Revised).

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

Yes, on the basis that it is appropriate for those charged with governance to understand the independence requirements which the auditor has applied, and the format of the disclosure is not prescribed.

28. Federation of Accounting Professions of Thailand

Yes.

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

Yes, we support the proposed revisions to ISA 260 (Revised) to bring them in line with revisions to ISA 700 (Revised).

30. Institute of Chartered Accountants of Nigeria

Yes, we support the IAASB's proposed revisions to ISA 260 (Revised)

31. Institute of Chartered Accountants of Scotland (ICAS)

We are supportive of the IAASB's proposed revisions to ISA 260 (Revised).

34. Malaysian Institute of Certified Public Accountants (MICPA)

We agree on the proposed revisions in the Exposure Draft to ISA 260 (Revised).

35. Pan African Federation of Accountants (PAFA)

Yes, we agree with the proposed revision to require that the auditor's statement to those charged with governance to reflect the independence requirements applied on the basis that those charged with governance are the ultimate decision makers and thus should have a full understanding of the auditors independence.

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

Yes, we support the proposed revisions in the ED to ISA 260 (Revised).

38. South African Institute of Professional Accountants

Yes, we agree with the proposed revision to require that the auditor's statement to those charged with governance to reflect the independence requirements applied on the basis that those charged with governance are the ultimate decision makers and thus should have a full understanding of the auditor's independence.

Q2A(b) – Agree with comments

2. Regulators and Audit Oversight Authorities

03. Botswana Accountancy Oversight Authority (BAOA)

We also support the proposed revisions in the ED to ISA 260 (Revised) because this will now correspond with the revisions to ISA 700 (Revised).

However, it should be noted that paragraph 17 of extant ISA 260 prescribes requirements for auditor independence in relation to listed entities. We acknowledge that the proposed application material to this paragraph in the proposed paragraph A29 gives the example of relevant ethical requirements, such as the independence requirements that apply to audits of financial statements of PIEs in the IESBA Code.

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

We support the IAASB's proposed amendments to ISA 700 (Revised) and ISA 260 (Revised).

We support the proposed revisions in the Exposure Draft to ISA 260 (Revised). However, it should be noted that paragraph 17 of extant ISA 260 prescribes requirements for auditor independence in relation to listed entities. We acknowledge that the proposed application material to this paragraph in the proposed paragraph A29 gives the example of relevant ethical requirements, such as the independence requirements that apply to audits of financial statements of PIEs in the IESBA Code. As it stands, this is not in the requirements, and those charged with governance at a public interest entity would not necessarily get the intended benefit of ISA 260 (Revised), paragraph 17.

We, however, appreciate that Track 2 of this project deals with all other project objectives, with a later effective date. This should therefore be taken into account in Track 2, if not addressed in Track 1. The application material for the Track 1 revisions may then need to bring this to the attention of practitioners, otherwise Track 2 revisions will need to make this clear.

4. Accounting Firms

20. Grand Thornton International Limited

Overall, we support the proposed revisions in the ED to ISA 260 (Revised), with the exception of the use of the term 'certain entities' as explained in our response to question 2(a) above. We have the following more detailed drafting suggestions to clarify the application material.

'A29. ... Relevant ethical requirements may include differential different independence requirements that apply to audits of financial statements that are based on the type or classification of the certain entities specified in the relevant ethical requirements, such as the independence requirements that apply to audits

of financial statements of public interest entities in the IESBA Code. The auditor's statement to those charged with governance in accordance with paragraph 17 may include which independence requirements were applied, including whether differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements were applied. The auditor may also be required to provide information in the auditor's report about the such differential independence requirements that were applied in the auditor's report in accordance with paragraph 28(c) of ISA 700 (Revised).

21. KPMG IFRG Limited

We also consider that the proposed amendments to ISA 260 (Revised) would enhance the required communications between auditors and those charged with governance (TCWG) in this area, with the additional information being useful to TCWG in discharging their duties in terms of appointing an auditor to perform a high-quality audit.

We are supportive of the proposed revisions to ISA 260 (Revised) to encourage greater transparency, when communicating with TCWG of listed entities in accordance with paragraph 17 of that standard, that differential independence requirements have been applied in respect of certain entities. We believe the inclusion of the description, within the application material, highlighting that the auditor's statement to TCWG may describe which independence requirements were applied and whether differential independence requirements were applied, as well as informing TCWG that information about such differential independence requirements applied by the auditor may be required to be included in the auditor's report, is appropriate.

We note that paragraph 17 of ISA 260 (Revised) applies only to listed entities at the current time, however, we believe that the revisions to the application material are appropriate to encourage auditors of PIEs that are not listed entities to consider whether to communicate with TCWG regarding any differential independence requirements. We note that considerations regarding broadening the applicability of differentiated requirements for listed entities in the ISAs and ISQMs to a wider set of entities are to be made during Track 2 of the overall project, and therefore we concur with the IAASB's approach not to amend the requirement at paragraph 17 itself at this time.

6. Member Bodies and Other Professional Organizations

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

The SMPAG also generally supports the proposed revisions in the ED to ISA 260 (Revised) because it is appropriate for those charged with governance to be made aware that differential independence requirements for certain entities have been applied. However, we did receive a concern on the use of the word 'differential' so the Board could consider if this could be deleted while still retaining the same intended message.

We also agree with the revisions to ISA 260 (Revised) to increase transparency to those charged with governance that differential independence requirements for certain entities have been applied.

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

As such, SOCPA supports the initiative to include a conditional disclosure requirement within ISA 700 (revised) and ISA 260 (revised). However, SOCPA suggests, at the same time, certain enhancements to the proposed revisions, which are further explained in its responses to the questions in the appendix.

We support the IAASB's proposed revisions to ISA 260 (revised) since the amendments in its essence help to improve the alignment among the ISAs, and between the ISA's and the IESBA's ethical requirements. However, it is worth noting that the way the public disclosure requirement of the independence differential requirements for PIEs is communicated in the revisions can be enhanced. We believe the revision narratives should be more focused on using the term "PIEs", rather than "listed entities", since the definition of PIEs in IESBA's code of ethics is broader and cover a wide range of entities. Additionally, we acknowledge that the governance components are highly expected in listed entities, but the idea behind communication with "those charged with governance" is not limited to the definition of governance components as identified in certain corporate governance codes, but to all those who have the authority to govern the entity.

Q2A(b) – Disagree

1. Monitoring Group

01. International Forum of Independent Audit Regulators (IFIAR)

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.

We recommend aligning the proposed ISA 260 (Revised) application material on disclosing which independence requirements were applied to the requirement in ISA 700 (Revised). Specifically, we believe the proposed amendments to the application material of ISA 260 (Revised) may not, in all circumstances, achieve the desired increase in transparency. This is because proposed paragraph A29 of ISA 260 (revised) states that the disclosure may include which independence requirements were applied, including whether differential independence requirements were applied; however, it does not require such a disclosure. In contrast, the proposed amendments to ISA 700 (Revised) would require the auditor to include in the auditor's report where differential independence requirements were applied where such a disclosure is required by the relevant ethical requirements. The information reported to those charged with governance should be at least equivalent to information required to be disclosed in the auditor's report.

02. International Organization of Securities Commission (IOSCO)

ISA 260 (Revised), Communication with Those Charged with Governance

Proposed paragraph A29 notes that: "... The auditor's statement to those charged with governance in accordance with paragraph 17 may include which independence requirements were applied, including whether differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant requirements were applied. The auditor may also be required to provide information about such differential independence requirements that were applied in the auditor's report in accordance with paragraph 28(c) of ISA 700 (Revised). "

We recommend that the standard be strengthened by making it a requirement that the auditor disclose to TCWG the independence requirements applied. Making it a requirement would provide transparency to TCWG and would be consistent with the information disclosed in the audit report.

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.

2. Regulators and Audit Oversight Authorities

04. Committee of European Auditing Oversight Bodies (CEAOB)

Proposed Revisions to ISA 260 (Revised)

The IAASB proposes to include new application material (in paragraph A29 of ISA 260) stating that the auditor's statement to those charged with governance in accordance with paragraph 17 of ISA 260 may include which independence requirements were applied, including whether "differential" requirements were applied. The CEAOB believes that provisions for communication with those charged with governance on independence requirements that were applied should be at least equivalent to those proposed for the auditor's report. Rather than adding guidance in the application material, the CEAOB considers that the standard itself shall require the auditor to communicate to those charged with governance the independence requirements that were applied, including whether "differential" independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements were applied. This will be beneficial to the transparency and quality of communication of matters related to independence with those charged with governance.

3. National Auditing Standard Setters

10. Canadian Auditing and Assurance Standards Board

(b) Do you support the IAASB's proposed revisions in the ED to ISA 260 (Revised)?

No.

We believe that the proposed application material in paragraph A29 of ISA 260 (Revised) about communicating to those charged with governance which independence requirements were applied should be elevated to a requirement.

In our view, firms should be required to communicate to those charged with governance:

that they have complied with relevant ethical requirements regarding independence (as set out in paragraph 17 of ISA 260 (Revised)); and

which independence requirements were applied.

We believe that paragraph 17 of ISA 260 (Revised) and the proposed amendments to paragraph A29 of ISA 260 (Revised) may not, in all circumstances, achieve the desired transparency in the communication with those charged with governance about which independence requirements were applied.

Accordingly, we suggest the following revision to paragraph 17:

17. In the case of listed entities, the auditor shall communicate with those charged with governance:

(a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and

...

(b) The independence requirements that were applied, including whether differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements were applied. (Ref: Para. A29-A32)

The proposed new second sentence in paragraph A29 could then be removed:

A29. The auditor is required to comply with relevant ethical requirements, including those related to independence, relating to financial statement audit engagements. Relevant ethical requirements may include differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements, such as the independence requirements that apply to audits of financial statements of public interest entities in the IESBA Code. The auditor's statement to those charged with governance in accordance with paragraph 17 may include which independence requirements were applied, including whether differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements were applied. The auditor may also be required to provide information about such differential independence requirements that were applied in the auditor's report in accordance with paragraph 28(c) of ISA 700 (Revised).

However, we believe paragraph 17 of ISA 260 (Revised) should be amended to include an explicit requirement for the auditor to communicate with those charged with governance which independence requirements were applied. We believe those charged with governance should be fully informed regarding the firm's independence, including which independence requirements were applied. We are concerned that proposed paragraph A29 of ISA 260 (Revised) may not, in all circumstances, achieve this desired transparency.

Q2A(b) – Neither agree nor disagree

3. National Auditing Standard Setters

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

As outlined above, given our concerns about loading the audit report with too much information, we encourage the IESBA to consider alternative mechanisms for the disclosure of differential independence requirements, other than the auditor's report.

However, if the IAASB proceeds with the proposed amendments, we are supportive of the IAASB's conditional requirement approach to disclosure in the audit report as part of its proposed revisions to ISA 700 (Revised) and the proposed revisions to ISA 260 (Revised).

6. Member Bodies and Other Professional Organizations

27. CPA Australia

We are generally supportive of the IAASB's proposed revisions to ISA 260 (Revised). However, consistent with our views expressed in Question 1 above, we suggest that the IAASB be less prescriptive on the location of this communication. This approach will also be more aligned with the current approach taken for other matters to be communicated to Those Charged With Governance (TCWG).

QA2(b) – No specific comments

3. National Auditing Standard Setters

08. American Institute of Certified Public Accountants (AICPA)

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

4. Accounting Firms

18. Deloitte LLP