

### Implications for IAASB Standards of IESBA Project, Definitions of Listed Entity and Public Interest Entity (PIE)

#### Question 15(c)—Disclosure within the Auditor’s Report that the Firm has Treated an Entity as a PIE

#### 15(c) - Agree

##### Preparers and Those Charged with Governance

##### CFO - CFO Forum

Yes

##### Professional Accountancy Organizations (PAOs), Including National Standard Setters

##### CIIPA - Cayman Islands Institute of Professional Accountants

We believe that, if disclosure regarding whether an entity has been treated as a PIE entity is to be made, the best place for such disclosure to be made would be in the audit report.

Yes, but only if such disclosure is intended to be made through the auditor’s report on the financial statements (subject to the IAASB approval or equivalent audit standard setter [where national regulations apply]).

##### EFAA - European Federation of Accountants and Auditors for SMEs

Please see our responses to questions 11 and 12 above.

We believe the auditor’s report to be the most appropriate place for such a disclosure.

We feel that as the decision to treat the entity is made solely by the auditor then such disclosure ought to be provided in communication originating from the auditor rather than the entity being audited.

We support the proposal for firms to disclose if they treated an audit client as a PIE.

##### ICAJ - Institute of Chartered Accountants of Jamaica

Comments: Yes, we agree that it would be helpful to disclose in the audit report that an entity has been treated as PIE. Certain entities designated by nature for example pension funds, though regulated may not draw the same level of public interest as a deposit taking or publicly traded entity.

Where required, this can be communicated through the auditor’s report as other transparency requirements are already communicated through this medium.

We believe it is appropriate to indicate in the audit report that the entity has been treated as a PIE, as this gives an indication of the way the audit is managed as compared to other audits.

##### ICAS - Institute of Chartered Accountants of Scotland

Yes, we do believe that it would be appropriate to disclose within the auditor’s report that an audit firm has treated an entity as a PIE. This in our view would be the most transparent mechanism for doing so.

We believe that the most appropriate mechanism would be via the audit report as this would aid transparency.

Transparency requirement for firms

Given the objective of the additional requirements and application material for PIEs is to enhance stakeholder confidence in an entity's financial statements through enhancing confidence in the audit of those financial statements, we support the proposal for firms to disclose if they have treated an audit client as a PIE.

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#### **SAIPA - South African Institute of Professional Accountants**

We agree that it is important that users of the accounts realise whether the organisation has been treated as a PIE for the purposes of the Independence rules. We support the requirement for the firms to make such disclosure where it is easily accessible by the users of the accounts. We believe that the auditor's report is an appropriate mechanism to achieve such disclosure as all other relevant disclosures relating to Ethics and laws and regulations are contained in this report.

We agree that it is important that users of the accounts realise whether the organisation has been treated as a PIE for the purposes of the Independence rules. We support the requirement for the firms to make such disclosure where it is easily accessible by the users of the accounts.

We believe that the auditors report is an appropriate mechanism to achieve such disclosure as all other relevant disclosures relating to Ethics and laws and regulations are contained in this report.

We support the proposal for firms to disclose if they treated an audit client as a PIE. This will ensure public accountability and transparency and is in the public's best interest.

#### **TURMOB - Union of Chambers of Certified Public Accountants of Turkey**

Yes. We believe it would be appropriate to disclose within the auditor's report that the firm has treated an entity as a PIE.

### **15(c) - Agree with further comments**

#### **Monitoring Group**

#### **IOSCO - International Organizations of Securities Commissions**

In addition, we agree with the Paper which states that a firm should publicly disclose if an audit client has been treated as a PIE. Furthermore, should the IAASB also consider if it would be beneficial to investors if firms were also required to provide disclosures to allow users of financial statements to understand why an entity was defined as a PIE by the firm, along with the resulting independence and audit requirements? It is important that there is sufficient transparency by auditors, which we have concerns may not be adequately achieved if the disclosure requirement is limited only to stating whether an entity was defined as a PIE or not.

Second, on the proposed effective date, we believe that although the proposed effective date provides for approximately two years to implement, this will still be challenging for those jurisdictions that need to consider the new PIE definition and amend or adjust their local regulation, which oftentimes involves public consultation. Additionally, as firms may be required to disclose when an entity was treated as a PIE in their auditor's report, this also may result in additional challenges due to coordination with the IAASB and implementation of new requirements by audit firms.

## Regulators and Oversight Authorities

### IRBA - Independent Regulatory Board for Auditors

We support the proposal for firms to disclose if they treated an audit client as a PIE. This will enhance transparency by the auditors, for example, in instances where non-assurance services are prohibited for PIEs in the Code.

The auditor's report is an appropriate mechanism to disclose if a firm has treated an audit client as a PIE. That way, an investor or a member of the public would identify that fact in the audit report, whether the report is publicly available or not. However, these financial reports are not always publicly available and there needs to be another mechanism to ensure that the reports are publicly available. One of the possibilities could be to have these reports published on the audit firm's website.

However, this brings the need for clarity and consistency in situations where an entity has been identified as a PIE, but its financial statements are not publicly available. Application material to this effect would be useful. Consistency in this regard will be key to ensure the ease of access to this information for the users of financial statements. We suggest that the IESBA indicates that each jurisdiction should seek to achieve consistency.

Proposed paragraph R400.17 requires a firm to publicly disclose if an audit client has been treated as a public interest entity. The question then is: What does "publicly disclose" mean? We are of the view that this means that the information should be easy to find. We have noted that there is no application material to this effect, and we suggest that application material should be included to add clarity to the proposed paragraph R400.17.

It would be appropriate to disclose within the auditor's report that the firm has treated an entity as a PIE. This might require local bodies to establish regulations that require such disclosure in the audit report, through the enactment of local laws and regulations. This would then pave the way for auditors to apply the requirements of ISA 700.43, which require that if the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the ISAs, these other reporting responsibilities shall be addressed in a separate section in the auditor's report, with a heading titled "Report on Other Legal and Regulatory Requirements".

### UKFRC - United Kingdom Financial Reporting Council

As stated in our response to Question 12, we agree that it may be appropriate to disclose within the auditor's report that the firm has treated an entity as a public interest entity (subject to meeting the objectives of ISA 700). If the objective is to enhance public confidence in the audit of certain entities, then that objective will be met by disclosing this to users in the context of the auditor's report. The FRC also considers that disclosure should distinguish between those cases where:

the entity is determined to be a public interest entity through law and regulation, or

the firm has adopted additional safeguards to maintain public confidence because public interest considerations have led them to treat the entity as a public interest entity even though it is not so defined by law and regulation.

The FRC considers that the appropriate location for this disclosure within the auditor's report to be within the Basis of Opinion paragraph, which sets out the ethical framework which provides the basis for the auditor's independence. This should ensure sufficient balance between transparency and keeping the disclosure to a reasonable length.

We support additional disclosures within the auditor's report, whilst noting that that the form and content of the auditor's report should be a matter for the auditing standards. Disclosure of the impact on the auditor is an aid to both transparency and confidence and supports the overarching objective of the proposed amendments. An important consideration in determining the form of such a disclosure is whether the inclusion of additional material in the auditor's report meets the auditor's objectives in ISA 700 to form an opinion on the financial statements, and to express clearly that opinion. In particular, the inclusion of additional material in the auditor's report must enhance the clarity of the opinion, and any disclosure should support that aim

We support the proposal for firms to disclose if an audit client has been treated as a public interest entity. If the objective is to enhance public confidence in the financial condition of certain entities, public disclosure that a firm has treated an entity as a public interest entity and adopted additional safeguards will support that objective. We note that the Exposure Draft places responsibilities on both local bodies and firms to identify entities which should be treated as public interest entities. If this requirement is maintained, we consider it appropriate for firms to disclose whether the entity has been designated as a public interest entity either due to law and regulation, or through by the firm's own assessment.

Should the Exposure draft be amended to reflect our suggestions in respect of firms – i.e., that they are required to consider the need for enhanced independence safeguards for entities or types of engagement which fall outside the strict regulatory definition of a public interest entity – then we support additional reporting setting out what those enhanced safeguards were.

### **Professional Accountancy Organizations (PAOs), Including National Standard Setters**

#### **BICA - Botswana Institute of Chartered Accountants**

For part (c) refer to answer to question 12 above.

The disclosure is critical for informed stakeholders for appreciation of the additional independence requirements afforded the client. It is therefore beneficial for firms disclose. In Botswana auditors of Public Interest Entities include their Certified Auditors of PIE status in their signature in the report. By inference therefore the disclosure is made.

The rationale behind identifying entities as PIEs is to enhance the audit independence of their financial statements. We believe therefore that the disclosure is best placed in the audit report. AS indicated above, Certified Auditors of PIEs make this disclosure in their signatures, however this status can still be place in non-PIE audit clients. It is important therefore for IAASB to be engaged to ensure that the disclosure is explicitly made in the audit report.

#### **CAI - Chartered Accountants Ireland**

We believe that the audit report is the appropriate mechanism for disclosure as this would be consistent with existing requirements in the EU.

Yes, we agree with this inclusion in the auditor's report. This is currently a requirement under EU Audit legislation, and a similar approach could be taken.

Please see also our comments in response to question 11 regarding confidentiality.

The proposed disclosure of a firm's treatment of an entity as a PIE in the audit report, as mentioned in Question 15, will align with the general move toward greater transparency of auditor reporting. However, it will risk breaching the confidentiality of a planned IPO where the company has not made that known to the market (albeit the reader would have to speculate this as the reason) and could ultimately result in

inconsistency as firms will adopt differing policies in this area – this could be unhelpful from a reader's perspective as they see audit opinions from peer groups annual financial reports.

#### **CPAC - Chartered Professional Accountants Canada Public Trust Committee**

To ensure transparency, we agree that this disclosure must be made in the auditor's report, with disclosure elsewhere optional. However, we recommend deferring these proposals until the IAASB makes corresponding amendments to ISAs requiring this disclosure.

We believe that it is appropriate to disclose that the firm has treated an entity as a PIE within the auditor's report and suggest several approaches. Firms could disclose that the entity has been treated as a PIE:

- With first mention of the entity's name;
- In conjunction with the statement related to the firm's independence; or
- In the section on ethical requirements.

We also suggest that IESBA and IAASB consider, with input from stakeholders, whether there is any additional public interest benefit to disclosing that an entity has not been treated as a PIE. In some circumstances, there may be an additional benefit for financial statement users of large private companies to know that the entity was not treated as a PIE and therefore was not subject to the additional independence requirements that apply to PIEs.

We support the proposed requirement for firms to disclose if they treated an audit client as a PIE. However, we are of the view that this disclosure should only be required in the auditor's report, with disclosure elsewhere optional, for reasons including professional secrecy and the duty of confidentiality, specifically in jurisdictions where this is required.

#### **FACPCE - Argentina Federation of Professional Accountants and Economics**

15. c) We have already given our opinion on the conditions that should apply to express the status of PIE in the Report. In relation to where, we suggest that it be in the Auditor's Responsibility Paragraph

11. Transparency as an objective seems to us a reason that should be supported, however we consider it desirable that the decision to treat an entity as PIE arises from the disposition of a professional body supported by a regulation of the competent body to issue it, then the disclosure to through the report on the treatment granted by the firm (See answer to questions 12 and 15 c).

12. If there is regulation that provides for the treatment of an entity as PIE, the Auditor's Report may be an adequate means for disclosing the condition, with this statement the auditor confirms compliance with the regulation.

#### **ICAEW- Institute of Chartered Accountants in England and Wales**

To increase trust in the audits of financial statements of PIEs it is important that there is transparency for the users of those accounts on whether the entity has been treated as a PIE for the purposes of auditing standards and ethical standards. The auditors report would seem the appropriate place to make that disclosure. See comments above.

Yes, given the objective of increasing confidence in the audit work that has been performed on the financial statements, it is important that stakeholders are aware whether an entity has been treated as a PIE or not. There should be a disclosure of whether the entity has been treated as a PIE, regardless of whether that is under local standards or because the firm has concluded that the entity should be treated as such.

The auditor's report would seem to be a logical place to disclose the auditor independence provisions that have been applied and what the implications are in terms of restricted non-audit services and other independence provisions. To avoid an unnecessarily long auditors report, detail of the provisions could be included in the disclosure of non-audit services provided by the auditor.

#### **ICAG - Institute of Chartered Accountants Ghana**

Yes. It is appropriate to disclose within the auditor's report.

It can be approached in the auditor's report by stating the following:

Whether the entity is properly registered with the appropriate regulatory body as a PIE;

Whether the entity is compliant with laws and regulations as a PIE;

Whether the entity required to be registered, is compliant and should be treated as a PIE by the auditors;

A disclosure by the firm, the category of PIE the entity best fits in, in accordance with the local regulators' and POA's rules and guidelines; and

Whether all additional independence and other requirements have been fulfilled or satisfied by the firm in the conduct of the audit of the entity and or its related parties, where there is a threat, a disclosure note on the kind of threat and appropriate safeguard instituted by the firm in consultation with TCWG of the PIE client.

We do believe that disclosure is needed and the auditor's report is the obvious choice for disclosing significant auditor decisions. The current audit report has a section for "Significant audit matters". This section could be expanded to include key audit decisions relating to the characterization as a PIE or not. We do not however believe it would be appropriate to disclose this in the auditor's report.

#### **INCP - Instituto Nacional de Contadores Públicos de Colombia**

We believe that, whenever a company is considered a PIE, this must be disclosed by the entity's management in the notes to the financial statements and by the auditor in the auditor's report.

We believe that the report's section titled "Basis for Opinion" may be the most appropriate option to include this disclosure since this paragraph sets out compliance with the rules of the Code of Ethics, promoting discussions on independence of auditors and entities. Doing so in the auditor's report results in advantages such as consistent implementation by auditors and easier implementation of and compliance with the requirement.

Yes, we do. This is an important disclosure for users of financial information.

Yes. The best way to approach this would be by updating the ISA 700 – Option 3, as we said it in our response to question 12. This also applies to ISA 580 on management's representations, where an audited entity's management's representation should be included.

#### **JICPA - Japanese Institute of Certified Public Accountants**

(c) Given the objective of this project, which is to raise confidence in financial statements by raising confidence in the audit of the financial statements, we believe it is appropriate to disclose PIE-related information in the auditor's report.

We are concerned that this disclosure in the auditor's report could lead to the misunderstanding that there is a disparity in the level of quality between an audit for clients that is a PIE and an audit of clients that is not a PIE. When, therefore, such disclosure is made, the disclosure must be formed in such a way as to clearly

convey that there is no disparity in audit quality. In that regard, as described in our comment to question 12, in the case of a PIE audit, in the statement of compliance with the Code in the auditor's report, there could be a statement that it complies with the additional independence requirements. Furthermore, we anticipate that IESBA discusses in depth with IAASB about the effect of the disclosure to stakeholder's perception of audit quality.

PIE-related information could be disclosed in the auditor's report, or in the transparency report issued by the firm in relation to audit quality, or disclosed in a combination of the two. As described in our comments to question 1, the disclosure that the entity is a PIE might give a perception to stakeholders that an audit quality is high, (an audit quality is low in case of no disclosure). To avoid such situation, the disclosure should be stated as "additional independence requirements have been applied for an audit of a client that is a PIE," rather than "the client has been categorized as a PIE."

The anticipated content of disclosure in the auditor's report and/or transparency report, and the advantages and disadvantage of this disclosure, are as follows.

<Auditor's report>

Anticipated content of disclosure

The entity being audited is categorized as a PIE and additional independence requirements have been applied

Reason for determining that it is categorized as a PIE (which category it falls under the categories prescribed by relevant local bodies, or the reason for the firm adding it as a PIE)

Advantages

Users of financial statements will be able to learn in a timely manner that the entity being audited is a PIE

Reasons for categorizing the entity as a PIE can be confirmed

Disadvantages

It could give the impression that confidence in the financial statements of an entity not categorized as a PIE is lower than those of an entity categorized as a PIE.

<Transparency Report>

Anticipated content of disclosure

The firm's policy for determining a PIE (criteria for the firm adding an entity and the category for the entity as a PIE)

The proportion of PIEs among audit clients of the firm

Advantages

Enables stakeholders (users of financial statements, audit clients, regulatory authorities, etc.) to understand the firm's policy as it relates to determining PIEs, and raises transparency in relation to PIEs

Enables an understanding of the overall proportion of entities that are treated as PIEs

Disadvantages

Some small and medium practices do not issue a transparency report like those issued by larger firms, so it is possible that not all firms will take the same unified approach to the issue.

This could lead to the misunderstanding that differences in policies used to determine PIEs and differences in the proportion of PIEs are indications of differences in audit quality

We support the proposal.

We believe that increasing the transparency of PIE-related information is likely to contribute to enhanced confidence in financial statement audits. In addition, from the perspective of increasing transparency, it should be made clear in the provision that relevant local bodies have a role to refine PIE definition that enable stakeholders to determine whether an entity falls into a PIE category or not, even without disclosure from firms.

Furthermore, in relation to paragraph R400.17, it should be clarified whether firms should be required to disclose only additional entities that have been treated as PIEs, or whether to require that all entities treated as PIEs be disclosed, and whether to also disclose entities that were not treated as PIEs. Also, in terms of the background to the addition of this disclosure requirement, we believe that the points listed in Paragraph 66 of the Exposure Draft should be clarified through the issuance of additional guidance or FAQs.

#### **MIA - Malaysian Institute of Accountants**

Please see our responses to Questions 11 and 12 above.

Yes, we do support such disclosure.

However, the IESBA will have to take cognizant that there is a risk that it may add to the expectation gap in auditing. Further misunderstanding and confusion could occur, especially if the disclosure is that the entity is treated as a PIE, despite that entity being excluded from legal/regulator PIE definitions in a particular jurisdiction. Disclosing such information may also require disclosing what it means i.e., the firm would need to also explain why they chose a particular entity to be considered a PIE from their perspective and describe what ways the audit undertaken differed from an audit of a non-PIE.

We will expect the IESBA and even the IAASB to start working on further guidance materials (perhaps by the staff) and other information brochures not just for PAs but the general public as well to educate everyone in the reporting eco-system. Otherwise, the risk of such disclosure not being properly understood or mis-interpreted by users can be real.

In our view, the auditor's report does seem to be the most appropriate place for such a disclosure as further details and explanations beyond just declaring that an entity is being treated as a PIE, would be required. In addition, as the decision about treating an entity as a PIE is, in such cases, being made solely by the auditor, then the auditor's report is the only communication that is owned by the auditor.

#### **MICPA - Malaysian Institute of Certified Public Accountants**

Please see our response in Question 15(c).

We agree with the proposal to disclose an entity which has been regarded as a PIE in the auditor's report.

However, we believe that many users or readers of the financial statements may not comprehend the rationale of such disclosures in the auditors' report. We suggest the Board to provide guidance which includes explaining the rationale of such a disclosure, so that users and readers of the financial statements appreciate the implications (including adherence to higher standards and scrutiny) of an entity being classified as a PIE and instill greater confidence in those financial statements.

We are supportive of the proposal for firms to disclose if they have treated an audit client as a PIE.

### **NBAAT - National Board of Accountants & Auditors – Tanzania**

Our view is that the auditor report is an appropriate mechanism to achieve the disclosure as this is expected to enhance transparency.

We do agree that it would be appropriate to disclose within the auditor's report that the firm has treated an entity as a PIE, and that disclosure should appear right before Key Audit Matters.

We do support the proposal.

### **SAICA - South African Institute of Chartered Accountants**

Since the auditor's report is the mechanism used by the auditor to communicate with the users of the financial statements, SAICA and the majority of the members of the working group are of the opinion that this is the most appropriate mechanism to disclose the auditor's treatment of the entity as a PIE. The advantage of this is that the information is immediately evident to the users of the financial statements as it would be if the disclosure was included in the auditor's report that accompanies the financial statements.

Proposed paragraph R400.17 requires a firm to publicly disclose if an audit client has been treated as a PIE. The Code is, however not clear in terms of what is meant by "publicly disclose". If SAICA's recommendation to make such disclosure in the auditor's report is accepted, we caution against assuming that the financial statements including, the auditor's report an entity that has been classified as a PIE are automatically publicly available. SAICA therefore recommends that the Code clarify the meaning of "publicly disclose". To this end, the IESBA may consider including application material to provide clarity on the proposed paragraph R400.17.

Other possible disclosure mechanisms include:

The firm's Transparency report. The disadvantage here is that not all firms are required to compile a Transparency report.

The firm's website.

Local bodies or other governing body's website. This may also place an undesirable administrative burden on these bodies.

An advantage common to all the above options is that the information is contained in one place. However, this is not immediately evident to the users of the financial statements as it would be if the disclosure was included in the auditor's report that accompanies the financial statements.

With the proposed revisions that extend the definition of a PIE and require additional public disclosure, it is important for the auditor to openly communicate with those charged with governance, the rationale behind defining the entity as a PIE and the additional requirements that exist. SAICA recommends that the Code clarifies this.

As indicated in our response to question 12 above, since the auditor's report is the mechanism used by the auditor to communicate with the users of the financial statements, SAICA and the majority of the members of the working group are of the opinion that this is the most appropriate mechanism to disclose the auditor's treatment of the entity as a PIE.

SAICA and members of the working group are in support of the proposal for firms to disclose if they treat an audit client as a PIE as this will enhance public confidence in the audits where auditees are treated as PIEs.

SAICA would like to alert the IESBA to the potential risk of all users of financial statements not understanding the implications of the entity being designated as a PIE and that it may not be sufficient to merely disclose the treatment but include additional information to explain the impact of this. To this end, SAICA recommends that the IESBA collaborate with the International Auditing and Assurance Standards Board (IAASB) in developing illustrative wording relating to this disclosure.

## Firms

### CohnReznick - CohnReznick LLP

We believe it is appropriate to disclose in the audit report and believe such would be in the public interest and help the market determine when and when not to require an entity to be treated as a PIE. We have drafted proposed updates to requirements and illustrative reports below:

Requirements:

Basis for Opinion

28. The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that: (Ref: Para. A27)

(c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code); and if the auditor was engaged to treat the Company as a Public Interest Entity, the auditor should make an explicit statement as to such (Ref: Para. A29–A34).

Illustrative report wording:

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. In our consideration of the IESBA Code, we were engaged to treat the Company as a Public Interest Entity (PIE). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We also considered whether listing the determination of whether the entity was treated as a PIE as an explicit management responsibility to make the determination with a corresponding auditor responsibility to conduct the audit accordingly. However, we believe the discussion of PIE should be adjacent to the discussion of independence in the Basis for Opinion. We also believe that having two additional mentions related to independence, in management's and auditor's responsibilities, were potentially excessive and contributed to an already-long audit report.

We already have significant concerns about the discussion of going concern in the management's and auditor's responsibilities where there is not a material uncertainty (substantial doubt).

Please see our response to 15(c) below. We encourage the disclosure of whether an entity is treated as a PIE to be in the auditor's report. While such disclosure does add to the length of the audit report, such additional length is minor and may be decision-useful to a number of users.

#### **MOORE - Moore Global**

The audit report is appropriate for this disclosure to the public as this is frequently the most read document by users of the financial statements.

The engagement letter can serve as disclosure to the board / audit committee of the entity at the start of the engagement to avoid misunderstanding at the reporting stage.

Yes, as this is in the best interest of the public users. Disclosure could however have potential unintended consequences where users do not understand the difference between a private company, a public company, and a PIE.

The above is however based on the approach that the local jurisdiction is the final determination of the PIE definition, and that the individual auditor does not have the ability to further determine if the entity is a PIE. In that event, disclosure of the treatment of the entity as a PIE could lead to further complications.

Yes. Consider the disclosure forming part of the Key Audit Matters paragraph.

#### **Others**

##### **CEM - Cristian E. Munarriz**

Refer to my answer to question 11. Regarding IAASB proposed options, I support option 2 because it will be preferable to incorporate the requirement in the context of a broader review of the audit report. I am also comfortable with option 3, but I strongly reject option 1 because I strongly believe the most appropriate mechanism for disclosure is the audit report.

Yes, I strongly support it because it will give additional transparency about how the independence requirements were applied (especially in a global environment, where investors in foreign countries will not be aware of the PIE definition in other jurisdiction). However, I think the proper place to disclose it will be the audit report, so it would be better to coordinate with IAASB for including this requirement in audit reporting standards. Public disclosure in a place other than audit (or review) report will not be appropriate, unless required by law or regulation. Therefore, I recommend changing the text as follows (adding the last sentence):

"A firm shall publicly disclose if an audit client has been treated as a public interest entity. The disclosure shall be made in the manner required by IAASB standards and law or regulation".

In spite of my support to this requirement, I think if the approach in question 9 (which I strongly reject) is applied, public disclosure will create additional confusion, as mentioned in my answer to question 9.

Yes, refer to my answer to questions 11 and 12. The most appropriate paragraph is where the auditor comments about the Independence requirements applied (i.e. the "basis for opinion" paragraph).

#### **15(c) - Disagree**

##### **Regulators and Oversight Authorities**

##### **NASBA - National Association of State Boards of Accountancy**

If the IESBA adopts R400.16 and the disclosure requirement in R400.17, we believe the only appropriate vehicle for disclosure of PIE status would be the auditor's report as this report is the auditor's only mechanism for disclosing information to the public.

In the U.S., auditors apply different auditing standards based on the type of entity being audited, that is, the audits of a private closely held entity, publicly traded entity, and government funded entity are subject to different auditing standards. For each of these audits, the firm would apply independence standards that have been developed for each type of engagement. Incorporation of a consideration for PIEs would add complexity and inconsistency from one engagement to another and will likely cause great confusion in the U.S. regulatory community, especially the State Boards charged with enforcing the rules and the users accustomed to the way these audits are generally conducted.

NASBA does not support the proposal to require firms to disclose PIE treatment but recommends that the IESBA instead consider a client requirement to disclose its status as a PIE in its description of who they are as required by generally accepted accounting principles, e.g., "XYZ Corporation is a public interest entity as determined by applicable professional standards."

### **Public Sector Organizations**

#### **GAO - US Government Accountability Office**

As noted in our response to question 11 above, we believe that the auditor's report would be the most obvious location for disclosing that an entity was treated as a PIE. We do not at this point offer an opinion of the advantages or disadvantages of such a disclosure, given that we do not believe that the IESBA should be issuing standards that affect the form and content of financial statement audit reports.

If the purpose of the requirements and application material for PIEs is to enhance confidence in the financial statements by enhancing confidence in the audit of those financial statements (para. 400.9), then the audit report could be a means of disclosing that the auditor treated the entity as a PIE. An Other Matter paragraph could be one way to communicate this information.

We do not support the proposal that firms be required by the IESBA Code to disclose whether they treated audit clients as PIEs. With such a requirement, the most appropriate or natural place to disclose such information would be in the audit report. We believe that the IESBA Code should not create reporting requirements for financial statement audits. Requirements that affect the form and content of financial statement audit reports should be promulgated by the IAASB.

#### **OAGA - Office of the Auditor General of Alberta**

In our view it should not be disclosed. Disclosure that the entity is considered a PIE does not communicate which differential requirements were followed in the engagement and how this may or may not have impacted audit quality. It may imply an audit carried out to a higher standard of quality when this may not be the case. See our responses to question 4 and 11.

We do not agree. It is not clear what the purpose of this disclosure is. As noted in question 4, in our view confidence in specific audits would be best enhanced through transparency, such as making public internal and external inspection reports or the firm's evaluation of its system of quality control (but the IAASB recently decided against requiring this as part of ISQM), or perhaps including in the auditor's report recent practice inspection results for that firm or engagement leader.

### **Independent National Standard Setters (INSS)**

#### **APESB - Accounting Professional & Ethical Standards Board**

As per the response to question 12 above, APESB is not supportive of disclosing within the audit report whether an entity has been treated as a PIE. If this disclosure is considered necessary, APESB believes it should be made with other relevant disclosures concerning the auditor's independence or within transparency reports issued by the firms. APESB believes the appropriate place for this type of disclosure should be determined by the relevant local body (e.g., national standard setter, regulator or professional body) to suit the requirements and expectations within the relevant jurisdiction.

#### **AUASB - Auditing and Assurance Standards Board (Australia)**

The AUASB does not consider there is a strong rationale to support additional disclosure being required by an audit firm about whether an entity is a PIE or the details justifying why an entity is considered to be a PIE. While the AUASB is broadly supportive of increased transparency, we do not see how disclosing whether the firm has treated the entity as a PIE or not contributes to transparency and confidence in the audit. If anything, this additional disclosure may have unintended consequences and raise additional concerns for financial statement users who do not have sufficient awareness or understanding of how an entity is identified as a PIE and what the consequences are for the audit engagement. In particular, the AUASB does not support any disclosure of this nature being included in the Auditor's Report. Any lack of awareness or understanding of what being considered a PIE means for the performance of an audit gives rise to a risk of inappropriate differential interpretation of the auditor's opinion, and this risk is most pronounced when the disclosure is in close proximity to that opinion.

#### **XRB - New Zealand Auditing and Assurance Standards Board**

The NZAuASB considers that the IAASB will need to determine whether the auditor's report is an appropriate mechanism for achieving any disclosure regarding whether or not the auditor has applied the PIE requirements for that engagement and the impact of this classification. This might be addressed as part of the post implementation review of the revised auditors report.

However, we recommend that more thought should first be given as to what underlying problem is to be resolved. As noted in response to question 11, the NZAuASB similarly encourages the IAASB to further explore how transparency will increase confidence in the audit and the financial statements. We recommend that the IAASB explore transparency around the impact of being a PIE, i.e., what it means when a client is treated as a PIE. This could for example include disclosure as to the number of years that the engagement partner has served and how many more years are permitted in line with the independence requirements, and information about any NAS that has been performed for the client, which may somewhat be disclosed by the client through the financial statements in the audit fee disclosures.

Similarly, we encourage the IAASB to consider any unintended consequences of such disclosure and how those may be overcome in determining whether the auditor's report is an appropriate mechanism.

As noted in response to question 10, we also recommend that an interim but important first step should be communicating which independence requirements have been applied by the auditor to those charged with governance of the client. This may be especially important for entities where the PIE requirements have not been applied.

We consider that the definition and scope of the PIE definition is a complex matter, with the potential for misinterpretation. It is important that confidence in the independence of all audits, for all auditors, is in the public interest, regardless of whether the audit is performed for a public interest audit. The Code requires all auditors to be independent of their audit clients.

As noted in response to question 11, 78% of participants at our virtual roundtable did not support the proposal for firms to disclose if they treated an audit client as a PIE.

While some NZAuASB members are supportive of increased transparency, we recommend that more thought is needed as to what underlying problem is to be resolved. The changes proposed by the IESBA, reflect that the decision as to whether an entity is a PIE or not is a complex matter, and involves judgement by both the local standard setter and regulators as well as the firms.

The Board considers that users may not always understand what it means for the client to be treated as a PIE and might better engage with information about what it means where the auditor has treated an entity as a PIE rather than simply reporting when the PIE independence requirements have been applied.

We consider that transparency around the impact of being a PIE, is where trust and confidence may be best enhanced. This could for example include disclosure as to the number of years that the engagement partner has served and how many more years are permitted in line with the independence requirements, and information about any NAS that has been performed for the client, which may somewhat be disclosed by the client through the financial statements in the audit fee disclosures.

We urge both the IESBA and IAASB to consider the unintended consequences of promoting transparency as to whether or not a client has been treated as a PIE. Without a clear rationale as to what the objective is for the additional PIE requirements, and further information about the context in which the determination has been made, and the impact of such classification, we consider that there is a risk that users may misinterpret such transparency as meaning that some auditors are “more independent” than others. We consider that this could then have a detrimental effect in the confidence in audits that are conducted for non-PIE entities.

78% of participants at our virtual roundtable did not support the proposal for firms to disclose if they treated an audit client as a PIE.

As noted in response to question 1, we have concerns with the way in which the objective of the PIE requirements has been expressed. We consider that the rationale for, the definition of a PIE and the implications thereof is a complex matter, with the potential for misinterpretation. The Code requires all auditors to be independent. Confidence in the independence of all auditors for all audits, is in the public interest, regardless of whether the audit is performed for a public interest entity. Any confusion may run the risk of further widening the audit expectation gap.

While some NZAuASB members are supportive of increased transparency, others were unclear as to what underlying problem is to be resolved by a disclosure requirement. The changes to the PIE definition proposed by the IESBA reflect that the decision as to whether an entity is a PIE or not is a complex matter, and is one that involves factors to be considered by both the local standard setter and regulators, as well as judgements by the firms. Is the problem that IESBA is seeking to resolve, simply that there is a wider range of possible entities that could be treated as a PIE and so consider it necessary to be transparent as to whether or not it is a PIE. This seems an oversimplification of the issue, if the ultimate objective is to enhance confidence in the audit. It would appear that more context is needed, i.e., why is an entity considered to be a PIE and what are the implications if an entity is a PIE.

The Board encourages the IESBA to explore further whether users might better engage with information about what it means when the auditor has treated an entity as a PIE rather than simply reporting when the PIE independence requirements have been applied. While some NZAuASB members note the benefits of and support enhanced transparency, others suggest a need for more clarity as to what problem disclosure

would solve. When compared to non-PIE clients, in summary, the application of the PIE requirements, potentially impact on:

The types of Non-assurance services (NAS) that can be performed for the audit client.

The rotation requirements for the engagement partner and other key partners.

Employment with an audit client.

Fees.

We encourage the IESBA to further explore how transparency will increase confidence in the audit and the financial statements, and encourage the exploration of alternative options, for example disclosure as to the number of years that the engagement partner has served together with how many more years are permitted in line with the independence requirements, and information about any NAS that has been performed for the client. Such information may already be disclosed by the client through the financial statements in the audit fee disclosures.

We urge the IESBA to consider any unintended consequences for confidence in non-PIE audits, when promoting transparency as to whether or not a client has been treated as a PIE and whether such reporting could potentially widen the number entities that seek to be treated as PIEs and the implications thereof on the audit market, as entities might seek out auditors who are perceived as “more independent” or might cherry pick between firms based on interpretation of whether to treat the entity as a PIE. There is likely to be ongoing variation between jurisdictions as to which entities meet the definition of a PIE, based on local circumstances, including size and whether a firm determines it is necessary to treat an entity as a PIE.

Without a clear rationale as to what the objective is for the additional PIE requirements, and further information about the context in which the determination has been made, and the impact for treating an entity as a PIE, we consider that there is a risk that users may misinterpret such transparency as meaning that some auditors are “more independent” than others. We consider that this could then have a detrimental effect in the confidence in audits that are conducted for non-PIE entities and potentially exacerbate the audit expectation gap.

### **Professional Accountancy Organizations (PAOs), Including National Standard Setters**

#### **ACCA - Association of Chartered Certified Accountants**

We have concerns regarding the proposal for firms to disclose if they treated an audited entity as a PIE. We encourage the IESBA to carefully consider the implications of introducing a requirement for such disclosure. The value of the disclosure will have to be evaluated from the perspective of the users as recipients of the disclosure. We have heard concerns being expressed about the users’ ability to understand the implications of PIE vs. non-PIE classification. And warned about the risk of the perception of different ‘quality level’ of audit being provided to PIEs, undermining non-PIE audits. This could widen the audit expectation gap as the rationale and meaning behind such disclosure is unlikely to be immediately clear to users. Therefore, IESBA will have to proceed with caution and coordinate closely with IAASB on whether a disclosure is indeed useful and if so, decide which is the best way to approach this in order to avoid misinterpretation and any unintended consequences.

Please refer to our responses to Questions 11 and 15(c).

As noted in our response to Q11, we have concerns regarding the proposal for firms to disclose if they treated an audited entity as a PIE. We encourage the IESBA to proceed with caution and coordinate closely

with IAASB on whether a disclosure is indeed useful and if so, decide which is the best way to approach this in order to avoid misinterpretation and any unintended consequences.

Some of our stakeholders raised concerns regarding the length and readability of the auditor's report, particularly in light of the recent developments in auditor reporting i.e. with the introduction of ISA 701, Key Audit Matters. If firms will be required to disclose that an entity has been treated as PIE, further disclosures will be necessary including their rationale, however the value added is not clear for the reasons noted above.

### **AE - Accountancy Europe**

As noted in our response to question 11, the auditor's report would seem to be a logical place to disclose the auditor independence provisions that have been applied and what the implications are. Obviously, this will necessitate a process for revising ISA 700 series and there may be a gap between the effective dates of the revised Code and relevant ISAs.

No, we do not support a requirement for firms to determine and disclose if any additional entities are treated as PIE in terms of independence rules for auditors.

Transparency is only useful if it provides useful information for stakeholders. In most jurisdictions, being a PIE creates obligations not only for the auditors but also, and foremost, for the entities. Applying and disclosing independence principles relevant to PIEs to a non-PIE audit will lead to confusion and raise many questions. Stakeholders will have difficulty in understanding what triggered this determination and how an entity can be treated as a PIE just for auditor's independence purposes.

There may be a merit in considering whether the fact that the audited entity is a PIE (in accordance with applicable rules and regulations) should be disclosed in auditor's report. The IAASB, in coordination with the IESBA, could explore the pros and cons of a such disclosure in auditor's report. this.

Transparency towards stakeholders is unquestionably inherent to the auditor's role and responsibilities, however transparency should not lead to confusion. The auditor's report already includes a dedicated part on the compliance with ethical and independence rules. Requiring additional disclosures would create or increase the expectation gap for stakeholders without providing them with more insight on the financial statements or the audit. They could expect that the entity has met all the obligations relevant for a PIEs.

Practical difficulties also would arise when there is a change of auditor and if the "so-called PIE" mentioned as such in the previous auditor's report is no longer treated as a PIE by the new auditor.

In addition, such disclosure could downplay the quality of non-PIE audits as if they were performed in accordance with a lower level of professional standards.

### **AICPA PEEC - AICPA Professional Ethics Executive Committee**

Disclosure requirement

PEEC does not support the requirement for a firm to publicly disclose whether an audit client has been treated as a PIE and recommends the requirement be removed from the standard. PEEC has the following concerns with this requirement:

Disclosure by itself, without educating stakeholders, will not achieve the desired goal of enhancing confidence in the entity's financial statements or in independence. Stakeholders are unlikely to understand what treating an entity as a PIE entails or means, and therefore, this requirement does not further the objective of the proposal.

A standard is effective only if it can be operationalized. Because there is no mechanism in place to include the disclosure somewhere specific, stakeholders will not know where to look for this information, assuming they are informed enough to know that they should be looking for such disclosure.

Requiring the firm to disclose the name of an audit client, anywhere aside from its report, raises confidentiality concerns. If the local body's audit standards do not permit disclosure that an entity was treated as a PIE in the audit report and the audit client chooses not to disclose that it was treated as a PIE, the firm would be forced to disclose this information somewhere else.

In addition to the concern noted above related to stakeholders being informed enough to know where to look, disclosing the name of an audit client and that it was treated as a PIE on a platform that would be publicly available, could breach confidentiality when it is not public knowledge that the professional accountant is the auditor of the entity.

Given the variety of methods that firms and audit clients could use to disclose PIE status, the goal of improving consistent application would not be achieved.

### **CAANZ - Chartered Accountants Australia and New Zealand**

As indicated above, we believe more outreach, including particularly with investors and users of audited financial statements, is important to be able to clarify the objectives of these disclosures and hence what appropriate mechanisms may be.

With regards to the IESBA's proposals relating to transparency, please refer to our responses to questions 11 and 12 where we mentioned that based on our outreach, the rationale of the IESBA's proposals to create a new general requirement for firms to disclose whether an entity has been treated as a PIE needs to be clarified. Without providing further context, we believe there is a risk of confusion and misunderstanding amongst investors and users which has the potential to widen the expectation gap.

As discussed below, our members and key stakeholders expressed concerns on the proposed requirements for firms to disclose when an entity has been treated as a PIE.

The proposed disclosure may cause confusion and could be open to misinterpretation by investors and other users. The definition and scope of what constitutes a PIE is not simple and the experience to date suggests that this concept can be easily misunderstood. Our members and other stakeholders' questioned what value this disclosure will add without providing further context and the rationale behind what this disclosure is intending to achieve. This is exacerbated by the fact that there are likely to be some jurisdictional differences.

While the disclosure may appear conceptually simple to apply, it poses a risk of increasing the expectation gap where users, without the full disclosure of all the additional independence requirements that apply to PIEs and factors considered by the firm to classify an entity as a PIE, may misinterpret the purpose of the disclosure, for instance as different 'classes' or 'levels' of audit and independence.

There is another risk that investors and other users may misinterpret that some auditors are more independent than others. Even if firms decide to disclose other information to provide clarity on this transparency requirement, such as what factors have been applied by the firm that led to the PIE determination, what additional audit procedures were undertaken and how these different from an audit of a non-PIE, it could raise more questions and without appropriate education of investors and other users may increase the audit expectation gap.

We recommend the IESBA in collaboration with the IAASB conducts further outreach to assess the benefits and rationale behind this disclosure and what, if any, additional information may be necessary to achieve the intended benefits and the value of the disclosure from a cost-benefit perspective.

#### **CFC - Conselho Federal de Contabilidade – Brazil**

Additionally, we do believe that an audit report should not be a place to inform if a certain entity was or not classified as a public interest entity. Such disclosure could be, if defined by law or regulation, on the management commentaries, annual reports or any report on standability that could be issued by other standard boards.

#### **CNCC - Compagnie Nationale des Commissaires aux Comptes**

Finally, we believe that it would be a source of great confusion for the Public if an audit firm would disclose in the auditor's report that it has considered an entity as a PIE. We favour transparency of course but when it is a source of clarity not a source of confusion. Disclosing certain audits as PIE audits would instil in the Public's mind the idea that there are two different audits: the audits of PIEs and the others. It would also mislead the Public as to whether the client entity itself has complied with the additional requirements imposed to a PIE by law or regulation, such as the requirement to have an audit committee for example.

When the auditor rotates, and the incoming auditor does not consider the entity as a PIE, based on its own criteria, what will the Public understand? What will happen in a joint audit if one firm considers this client as a PIE and the other firm not? And so on.

For all these reasons, we believe that all requirements at the level of the firms should be removed from the ED.

No, we do not. As explained in our general comments above, we consider that it is not an element of transparency to the Public but rather a source of confusion for the Public. Disclosing certain audits as PIE audits would instil in the Public's mind the idea that there are two different audits: the audits of PIEs and the others. It would also mislead the Public as to whether the client entity itself has complied with the additional requirements imposed to a PIE, such as the requirement to have an audit committee for example, when in fact the auditor would have had no means to impose it to the entity. It would be further inappropriate to impose upon the auditor to oblige an entity to comply with provisions which have not been clearly mandated. Furthermore, this could also unnecessarily expose the auditor to liability claims.

See our comments above, we do not support the proposal for firms to disclose if they treated an audit client as a PIE.

See our response to question 11 above and our general comments, we do not support the requirement for the auditor to disclose in the auditor's report that it has treated the entity as a PIE.

#### **HKICPA - Hong Kong Institute of Certified Public Accountants**

We have concerns about the proposal for firms to disclose if they treat an audit client as a PIE as required by proposed paragraph R400.17. We are of the view that the benefits of having this disclosure is less than its potential cost and may lead to unintended consequences.

However, the proposal appears to create different levels of independence when performing an audit (i.e. PIE vs non-PIE), which is contradicting to the objective of the project. We acknowledge that there is no direct linkage between the additional independence requirements for PIE and quality of audit work (including the response to audit risk). However, having such a statement without providing additional context to users may create confusion and add to the expectation gap between stakeholders and auditors.

If the proposal is finalised, we envisage the IEBSA and local bodies would need significant time and effort to educate stakeholders on the meaning of the statement.

In addition, as currently drafted, it is not clear if the disclosure requirement is only for entities classified as PIEs under R400.16 or for PIEs under R400.14 and R400.15 as well.

As mentioned in Question 11, we have some reservation about the proposed disclosure requirement. The determination to treat an entity as a PIE should be documented in firms' audit working paper or correspondence to regulators so that regulators can note such during their inspection or other regulatory activities.

Please refer to our responses in questions 11 and 12.

#### **IDW - Institut der Wirtschaftspruefer**

It is unclear to us what such disclosure is supposed to achieve. If, as we suggest, IESBA has a clear objective as to which entities ought to be PIEs (see our response to Question 1) and clearly defines PIEs as we suggest based on our response to Questions 1, 4 and 5, then what a PIE is under the Code is set forth in the Code and what the additional requirements are for PIEs would also be set forth in the Code. We are not convinced that stakeholders other than audit regulators will understand what the significance of a PIE is. Furthermore, since what a PIE is may differ between legislation or regulation and the IESBA Code, this would mean that such disclosure may also be confusing to stakeholders.

Disclosing that an entity that is not a PIE is being treated as a PIE would only add to such confusion. Further confusion would result because the definition of PIE under the Code may be different from local law or regulation, because the question arises whether the entity is being treated as a legal PIE, an IESBA PIE, or both.

What matters to stakeholders other than audit regulators is whether the auditor was independent as required by relevant ethical requirements – whatever these may be. This is already being asserted in the auditor's report, and that is really all that stakeholders require because they do not generally read law, regulation and Codes in relation to PIEs.

We refer to our responses to Questions 11 and 12.

As we do not support such disclosure, we are not in favor of including such disclosure in the auditor's report. We also believe that, for the reasons given in our response to Question 11, such disclosure in the auditor's report will be confusing. Furthermore, as the complexities increase (PIE under law or regulation is not the same as PIE under the Code, the requirements for PIEs under law or regulation are different from those under the Code, the treatment of group audits that are multijurisdictional, etc.) the disclosure in auditors' reports will become increasingly complex and too dense for readers of the auditor's report to understand.

#### **ISCA - Institute of Singapore Chartered Accountants**

As mentioned in our response to Question 10, we propose for IEBSA to consider requiring firms to obtain concurrence of management and TCWG on whether an entity should be treated as PIE. As such, we are of the view that it would be more appropriate for the disclosure of the treatment of an entity as a PIE to be included in the corporate governance report.

Further to our response above, we should consider the transparency requirement or disclosure as part of the IAASB's Auditor Reporting PIR because it will allow us to properly consider any potential impact or unintended consequences for auditor reporting.

Please also refer to our response in Question 11 and Question 12.

We agree that IESBA's proposal on the role of firms to determine if any additional entities should be treated as PIEs may result in increased uncertainty by the public, given the local variations that might arise. Accordingly, we have highlighted practical challenges in our response to question 9. Should IESBA determine that firms have a role to play, we are of the view that requiring a firm to disclose if they have treated an audit client as a PIE would increase that uncertainty and confusion as it might lead to a misconception that audit procedures were carried out to a higher level of assurance for a PIE audit client. In any case, disclosure of fee related information will be required for PIE audit clients under the recently released Fees pronouncement, and that disclosure will already distinguish a PIE from a non-PIE.

In addition, as mentioned in our response to Question 15, we believe that the transparency requirement or disclosure should be considered as part of the IAASB's Auditor Reporting PIR if the intention is to disclose in auditor's report.

#### **KICPA - Korean Institute of Certified Public Accountants-PIE**

If stakeholders properly understand the implications of an audit client being determined as PIE by a firm, there may be no issue in disclosing it in the auditor's report. However, there is a risk of increased expectation gap about the auditor's report if the user of the auditor's report does not have a clear understanding of such implications (for example, they might mistakenly believe that the auditor provides a higher level of assurance). And this risk may make firms reluctant to identify additional PIEs due to litigation risk, etc., undermining effectiveness of the disclosure requirement.

Please refer to our responses to Questions 9, 11 and 12. We are against the proposed requirement to disclose in the auditor's report when a firm determines an audit client as PIE. If the objective is to improve transparency, it is recommended that the objective should be achieved by making oversight bodies or standard setters establish consistent and objective criteria applicable to firms.

We have concerns about potential increase in expectation gap about the auditor's report and in confusion among users if a firm discloses such information in the auditor's report without stakeholders' proper understanding of the implications of an audit client being determined as PIE by a firm.

The KICPA agrees with the principle that transparency must be improved in case a firm identifies an additional PIE. However, as described in our response to Question 9, it is less practicable for firms to determine additional entities as PIEs in addition to the ones proposed by the Code and national standard setters. In the same light, we believe that the additional disclosure requirement for firms is unlikely to work as intended as is the case with the proposed role of firms. If firms rarely determine additional entities as PIEs and only follow the standards set by standard setters, the disclosure requirement is unlikely to work effectively.

#### **NBA - Royal Netherlands Institute of Chartered Accountants**

Like AE, we do not support a requirement for firms to determine and disclose if any additional entities are treated as PIE in terms of independence rules for auditors. However, if IESBA would decide to keep this proposed requirement:

- 1) clarification is needed whether this relates only to entities the audit firm has determined should be treated as a PIE (R400.16); and
- 2) clarification is needed where firms shall disclose that the entity is treated as a PIE. The requirement itself is not clear. The audit report would seem to be a logical place to disclose (if IESBA decides to keep this

requirement). Otherwise the PIE classification suggests that this is only done for internal reasons or on behalf of an oversight body.

No additional comments to AE (we do not support a transparency requirement).

#### **NRF - Nordic Federation of Public Accountants**

Please, see our response to questions 11 and 12.

We refer to our response to question 11 with regard to the value of such a disclosure. Having said that, we cannot see that such a statement could be placed anywhere else than in the auditor's report.

Even though we do support transparency when it provides useful information for stakeholders, we are concerned whether the benefits with disclosing this kind of information outweighs any negative consequences.

In our view, there is a high risk that such a disclosure foremost will cause confusion, for example in a situation where the firm has determined to treat the entity as a PIE, even though the entity is excluded from the legal or regulatory PIE-definition in that particular jurisdiction. Another example of confusion is when the same audit client is treated as a PIE by one auditor but not by another.

Trying to eliminate any confusion by adding further information to the disclosure statement would disproportionately prolong the auditor report. On balance and from a cost-benefit perspective, we therefore question the value of such a disclosure.

#### **TFAC - Federation of Accounting Professions**

TFAC Response: In reference to item 11 and 12, we are unable to support this proposal.

TFAC Response: In reference to item 11, we would like to reserve our opinion on this matter.

TFAC Response: We are unable to support the proposal as we normally define in the auditor's report the type of financial reporting standards (for PIE/Non-PIE) our audit clients adopt. This practice has already implied their status, and no further disclosure is needed. Also, such disclosure could give rise to confusion that there is a fundamental difference in audit performance requirements for PIEs versus non-PIEs.

#### **WPK - Wirtschaftsprüferkammer**

Please see our answer to questions 11 and 12.

A disclosure (in the auditor's report) does only make sense, if the differences in treating an audit client as a PIE as opposed to the treatment as Non-PIE are made understandable for the recipient of the auditor's report. We believe this might require further explanations to an already comprehensive auditor's report.

Additionally, the definition of PIE in the Code and in the IAASB standards must be aligned. Otherwise – in case of different definitions - ,public disclosure' of treating an audit client as a PIE might be misleading as it may be not clear whether this treatment refers to the ethical treatment (,Code') or to the conduct of and reporting about the audit as well (,ISA').

Furthermore, ISA 701 currently already stipulates for specific reporting requirements (,key audit matters') regarding listed entites. The EU Audit Regulation (537/2014/EU) in Article 10 also imposes additional reporting requirements on audits of PIEs.

Overall, we think that a disclosure to explain that the audit client was treated as a PIE in the auditor's report would create confusion as well as an expectation gap for stakeholders as to that the entity would have met all the requirements of a PIE.

In addition, we are not in favour of the disclosure requirement in R400.17. We think that a disclosure to explain that the audit client was treated as a PIE in the auditor's report would create confusion as well as create an expectation gap for stakeholders as to that the entity would have met all the requirements of a PIE.

## **Firms**

### **BDO - BDO International Limited**

We believe that any disclosure required could be included in a transparency report or elsewhere on a website, irrespective of the party making the disclosure. As noted in question 11, it may make more sense to have this disclosure made by the entity rather than by the auditor.

We believe that this question would be best addressed as part of the refinement process by the local bodies.

Currently, certain jurisdictions already require disclosure by local law or regulation, for example by audit firm's transparency reports.

We are not supportive of the idea that disclosure of (treatment as) a PIE must be done in the audit report. Depending on the jurisdiction, it may make more sense to have this disclosure made by the audited entity rather than by the auditor.

We believe that there may be confusion in disclosing that the engagement involved a PIE without the appropriate context. There is a risk of creating an expectation gap that there is a difference in the quality of an audit of a PIE versus non-PIE. The objective of the proposed standard is enhancing confidence in the independence of auditors, therefore, information on the additional independence requirements that were performed should be made clear to the reader, irrespective of where the disclosure is made.

As noted above, we believe that this is best disclosed by the audited entity so do not support inclusion in the audit report.

If it is included in the audit report, as noted above, we believe that there may be confusion in disclosing that the engagement was a PIE without the appropriate context. Information on the additional independence requirements that were performed should be made clear to the reader.

### **BKTI - Baker Tilly International**

We support the principle of transparency and the objective of building confidence in the audit of financial statements. However, we are not sure it would be helpful in this case. We have a number of concerns regarding the proposals to disclose if an audit client has been treated as a PIE:

We anticipate that some stakeholders will not appreciate the implications of being treated as a PIE, and hence that such disclosure may confuse more than it clarifies. The scope and extent of such disclosure will therefore be critical in ensuring that users of the financial statements fully understand the implications of PIE designation.

We are concerned that disclosure of an entity as a PIE may be considered to be a quasi-permanent decision, and difficult to rescind in future, even where there is justification for doing so. It should therefore be clearly set out as to how/why such designation may change in future.

Further consultation is required to consider the scope of such disclosures, e.g., whether:

the IESBA Code (or a jurisdictional equivalent) be referenced in the disclosure.

the reason(s) for treating the entity as a PIE should be disclosed.

in the case where the entity or its stakeholders have requested the entity be treated as a PIE:

this fact should be disclosed; and

any refusal of the request by the firm should be disclosed.

the implications of treating the entity as a PIE need to be explained.

At present we do not believe that the IESBA has made the case for requiring disclosure of PIE treatment.

Regarding Qu. 15(c), please refer to our comments given in response to Qu. 12.

We can understand why that the auditor's report is considered a logical location for such disclosure, but, depending on the scope and extent of the disclosure, this may add significantly to the length of the audit report, which is already considerable for listed entities and many other entities designated as PIEs due to the inclusion of key audit matters. There may therefore be a case for separate disclosure in the financial statements.

A possible alternative location for the disclosure, if it is the auditor who is required to make it, is in the audit firm's transparency report (for those firms required to publish one) or on their website (for those firms not required to publish a transparency report).

We are particularly concerned that IESBA should avoid any perception that being designated as a PIE gives rise to a better quality audit. PIE designation should not impact the quality of an audit, and we do not support any measure that could potentially undermine this premise.

As the Exposure Draft does not address this aspect of the proposals, as noted in our comments in response to Qu. 11 above, we would welcome the opportunity to comment on more detailed proposals in the future in respect of both the content and location of the disclosure.

#### **CROWE - Crowe Global**

Response

As stated in our response to 11 above, we consider that this is a matter for transparency reporting.

Response

This is a matter that ought to be left to the IAASB to consider in light of its work in reviewing and developing the audit report.

This proposal is a matter that should be reserved to relevant local bodies for potential inclusion in transparency reporting requirements.

We recommend that R400.17 is rewritten to say this (without "R" status).

#### **DTTL - Deloitte Touche Tohmatsu Limited**

Deloitte Global believes transparency is often an important means of informing the investor community and improving trust. However, unless stakeholders understand that the distinction is being made only because it results in the application of additional independence requirements (and most would likely not be aware of this) the proposed disclosure of simply stating a client is treated as a PIE is unlikely to increase the level of confidence in the audit of the financial statements or help in the assessment of the independence of the audit firm. Furthermore, such a disclosure might result in an unintended consequence of creating a perception about the level of risk that is inherent in the entity or the quality of the audit performed.

Therefore, we do not support the Board's proposal for firms to disclose whether a firm treated an audit client as a PIE.

If the Board continues to believe disclosure will be meaningful to stakeholders, it would seem more appropriate for such disclosure to be consistent with ISA 700 (Revised), Forming An Opinion And Reporting On Financial Statements, which already requires the auditor to identify the relevant ethical requirements relating to the particular audit engagement. In other words, it may be more useful to the reader for the audit report to state that the auditor is independent of the entity in accordance with the auditor independence requirements of the Code that apply to PIE audit engagements.

Finally, Deloitte Global notes that is unclear whether the proposed disclosure in paragraph R400.17 solely includes those entities the firm has determined to be "treated as a public interest entity" as a result of the application of paragraph R400.16. We assume the intent is broader and also includes entities that are PIEs under paragraph R400.14, but if the requirement for disclosure remains in the final pronouncement, the wording should make this clear.

As noted above, Deloitte Global encourages IESBA to reconsider the objective of such disclosure. It would not be in the public interest for the reader to misinterpret the disclosure to mean that a different "type" or "level" of audit was performed, especially for cases in which an entity becomes a public interest entity in a subsequent audit and the report language differs from the previous year. We recommend that the IAASB consider this proposal in conjunction with the current post-implementation review of the Auditor Reporting standards and potential changes to the ISAs as a result of that review.

See Deloitte Global's comments above.

#### **EY - Ernst & Young Global Limited**

We believe it is very important that the Board does not unintentionally create the perception that the auditor's independence is a proxy for audit quality, which is a possible consequence of adding a requirement for the auditor's report to disclose whether an entity was treated as a PIE. As we have noted in our response to question one, we believe that in the context of the Code, the objective of classifying an entity as a PIE should be to enhance the confidence in the independence of the audit firm and engagement team rather than the quality of the audit, because the quality of the audit is a function of complying with the applicable GAAS and having an effective system of quality management.

We believe there are more appropriate ways to provide the disclosure, for example by providing this type of disclosure upon a request by a stakeholder. Other examples might be to provide the disclosure on the firm's website, in the firm's transparency report, or through targeted communication to stakeholders.

With regard to matter c., as noted in our response to question 11, we do not believe it would be appropriate to disclose within the auditor's report that the firm has treated an entity as a PIE, and have provided other example options for such disclosure. We strongly encourage coordination between the IESBA and IAASB should any revisions to the auditor's report be pursued, particularly in light of the IAASB's post implementation review of the auditor reporting standards currently underway.

Although we are generally supportive of transparency, we do not support the proposal for firms to disclose if they treated an audit client as a PIE. We agree with the Board's statement in paragraph 66 of the EM that the Boards proposals have the result of creating the need for additional transparency due to the potential increase in inconsistent treatment between different jurisdictions the proposals can create. We believe that creating this increased uncertainty is not in the public interest, and without such uncertainty there should also not be a need for additional disclosure.

### **GTIL - Grant Thornton International Limited**

GTIL does not support the proposal for firms to disclose if they treated an audit client as a PIE. Please see our response to 12 below for further commentary.

GTIL does not support the proposal to include that the entity was treated as a public interest entity in the auditor's report. We are not aware of any investor need for this additional disclosure and it is a boilerplate disclosure that adds nothing to the auditor's report and has the potential to cause confusion to users of the report. In some jurisdictions, the form and content of the auditor's report varies based on the type of entity, which would render additional disclosure irrelevant. We are of the view that any changes to the auditor's report that are not required by local law and regulation, should be driven by an analysis of, and response to, the response to the recent IAASB Auditor's Report Implementation Review.

If an entity's management or those charged with governance have decided to treat the entity as a PIE, the entity's management should disclose this in the footnotes to the financial statements (i.e., footnote 1. Basis of Presentation).

### **KPMG - KPMG IFRG Limited**

Acknowledging our lack of support for this disclosure, if the IESBA were to move forward with the requirement for disclosure of PIE treatment, we do not believe such a requirement should be adopted without an enforceable mechanism to comply with the requirement.

Mechanisms for possible disclosure include the following:

Client financial statements, client website or other client reporting – This mechanism could provide timely insight into the PIE treatment. However, as the IESBA's remit does not extend to the audit client or those charged with governance, we suggest that such a disclosure be promulgated by the appropriate regulators or financial reporting standard setters.

Firm annual transparency report – Certain firms already disclose PIE audit clients in their transparency reports, however, not all individual firms have a requirement for a firm-specific transparency report. These firms may instead refer to their network's global report. This mechanism is subject to annual updates which would not provide timely insight into the treatment of the entity to stakeholders. Additionally, in some jurisdictions, the firm would require the audit client's consent to disclose such information, which may not be given.

Auditor's report -This option faces a disadvantage related to entities which may be treated as PIEs but do not have a legal or regulatory requirement to publish financial statements, thus limiting effectiveness of such a mechanism (note our comment under question 5 in this regard).

Auditor's website – This mechanism will face similar disadvantages related to timeliness of updates and required consent from clients to avoid violating confidentiality standards.

If the requirements are extended to all PIEs, we do not consider this disclosure to be necessary. In general, the differentiated requirements relate to transparency of communication, either with those charged with governance directly, in part to enable them to appropriately discharge their financial statement oversight responsibilities, or to intended users by the inclusion of statements or additional information within the auditor's report, as opposed to being differences in the performance of the audit itself. The exception is the requirement set out at ISQM 1.34(f), which addresses engagements for which engagement quality reviews are required to be performed. Although we note that this requirement does not relate to transparency, we consider that as the requirement relates to a firm's audit quality policies and procedures, it has only an

indirect effect on engagement performance since the engagement quality (EQ) reviewer is independent of the engagement team, and the fact that an EQ review takes place does not diminish the responsibilities of the engagement partner as set out in the ISAs. Since these enhanced requirements are described as part of the auditor's responsibilities and it is therefore clear to users that these have been applied, or required statements/ information are included directly in the auditor's report itself, we do not think it necessary or helpful to disclose the fact that an entity has been treated as a PIE, as this statement provides no incremental information or transparency to a user.

Furthermore, as we note in our response to question 11, such a statement may give rise to confusion as to what this actually means (unless the auditor's report also provides clear information as to the incremental differentiated requirements for a PIE) and may serve to widen the expectation gap, by giving rise to a perception amongst users that there is a fundamental difference in audit performance requirements for PIEs versus non-PIEs. For the same reason, we would not recommend including a statement in the auditor's report currently that an entity has been treated as a listed entity.

If the differentiated requirements set out in the ISAs are not extended to all PIEs, we also do not consider that such information be included, as it would likely be even more difficult to articulate clearly in the report what the incremental requirements are and why they are extended to certain PIE categories and not others.

We do not support such a proposal. We believe a disclosure limited to the treatment of the audit client as a PIE, such as in the auditor's report, without proper context and explanation, would be of limited value to the users of the financial statements. Such a disclosure could give rise to confusion and perpetuate the misunderstanding that there is a fundamental difference in audit performance requirements for PIEs versus non-PIEs, or that auditors are more independent of a PIE than of an entity which is not treated as a PIE.

We believe the need for the auditor to be independent and the auditor's compliance with the independence requirements is of the most benefit to users of the financial statements; thus we do not support including a statement, such as in the auditor's report, that an entity has been treated as a PIE.

#### **MAZARS - Mazars Group**

N/A based on our response to Q11.

See our response to Q11 & 12 above.

We do not support the proposal. It could lead to confusion for readers of the Annual Report. The implications of being a PIE extend beyond the audit relationship and if an entity was treated as a PIE purely for audit purposes but did not comply with other requirements of a PIE such as corporate governance or provision of non-audit services, there is scope for confusion and misunderstanding for stakeholders.

#### **MNP - Meyers Norris Penny**

We do not support the proposal for firms to publicly disclose if they treated an audit client as a PIE. We are concerned that by widely disclosing whether an audit client is treated as PIE, the public may not understand the implications of an entity being treated as PIE, leading to the users of those financial statements placing increased reliance on the audit opinion of entities that are treated as a PIE compared to entities that are not. Given that the audit requirements are generally consistent regardless of whether the entity is a PIE, this increased reliance by the users is unwarranted. Furthermore, there may be additional misunderstanding by the users given that firms may have differing views on the types of entities they treat as a PIE.

Another factor to consider is the impact this may have on the insurance held by public accounting firms, from both the perspective of amount and cost. While the audit opinion is addressed to the shareholders of

the entity, by referring to an entity as a PIE, this may infer that the auditor's responsibilities extend to beyond the shareholder's group which increases the potential risk to the firm of undue reliance. Therefore, we believe insurers may perceive such disclosure as an increase in the firm's risk given the expected increased reliance by the public on the auditor's report.

We are also mindful of the potentially negative connotations this disclosure may have on an entity that is not treated as a PIE – these entities may face adversity in accessing capital or other business ventures, because of the public perception that the standard of audit performed is less than that of an entity that was treated as a PIE. Furthermore, in situations where an entity changes from a PIE to a non-PIE, this could create confusion for the financial statement users and influence their views of the audit opinion and the entity's financial condition, causing undue financial hardship for the entity.

It is our understanding that the purpose of identifying an entity as a PIE is to determine whether the audit firm should be subject to increased independence requirements with respect to the provision of non-assurance services for that entity. As noted in Canadian Auditing Standard 260 Communication with Those Charged with Governance, it is those charged with governance with which the audit firm is responsible for communicating and discussing their independence. Furthermore, in Canada, it is those charged with governance that have the responsibility to approve the provision of non-assurance services for entities currently considered to be PIEs (i.e., reporting issuer public company audit clients). As the fact that the firm is independent is communicated within the auditor's report, we believe that this is sufficient disclosure for purposes of the financial statement users. Therefore, we recommend that the determination and identification of an entity as a PIE should be discussed with those charged with governance for the entity, through disclosure in the Audit Service Plan or Independence Letter, rather than disclosed within the auditor's report.

Please refer to our response in Questions 11 and 12 above in which we raise our concerns with respect to the public disclosure of an audit client as a PIE.

#### **PwC - Pricewaterhousecoopers International Limited**

In particular, we consider greater transparency in auditor reporting to be an important aspect of enhancing confidence in the financial statements of PIEs, however, this should be read in conjunction with our other comments above, including management leading in the declaration that the entity is treated as a PIE, and below regarding providing further content in the auditor's report that is meaningful and avoids undue length and boilerplate text.

See response to questions 11 and 15(c).

Transparency Requirement for Firms (see also questions 11 and 12 above)

Where management has disclosed the fact that an entity has been treated as a PIE, we do not have an objection to Firms also disclosing this fact (see our comments above). However, as with any public disclosure, transparency needs to be evaluated in light of whether the matter being disclosed is meaningful to the intended user. Acknowledging that this is already practice in some jurisdictions, we would emphasise that such disclosure only has value if the reader has an understanding of what that means. The accompanying context for such disclosure, explaining the implications of such a designation, is therefore equally, if not more, important.

For this reason, inclusion of a detailed description of the context describing the implications of a PIE designation within the auditor's report would not be an optimal solution, adding further boilerplate text and

length to a report that some feedback to the IAASB's Auditor Reporting Post Implementation Review has already noted contains too much boilerplate content and is too long.

We therefore support the IAASB's decision to consider this matter as part of its Post Implementation Review.

That being said, the auditor's report is likely the most accessible mechanism to share such information for users of the financial statements (and auditor's report thereon).

Firms that currently produce transparency reports could also use this as a mechanism for providing the relevant disclosure, which may already be the practice in some jurisdictions, however, such disclosure should be limited to information that is already otherwise public.

We do not support this proposal as we do not consider it appropriate for the auditor to make a statement on this matter when management does not also have obligations to determine and disclose whether an entity is a PIE. To do so risks the regulation of the behaviour of entities through regulation of the auditor, and the auditor should not be used as an agent of change in this way.

We note that the auditing standards, for reasons explained in the IAASB's Basis for Conclusions when revising its auditor reporting standards, do not include a requirement for the application of ISA 701 for entities that are PIE but not listed. It seems inconsistent to mandate the auditor making a specific statement regarding the level of public interest in an entity, but not requiring that same auditor to give additional insights into their audit judgments to stakeholders. In addition, a requirement to publicly disclose whether an entity has been treated as a PIE does not make sense where the financial statements (and audit report) themselves are not publicly disclosed.

#### **RSM - RSM International**

As above, we do not support the requirement for firms to determine if an entity is a PIE. As indicated above, any requirement to disclose that an entity is a PIE should rest with the entity issuing its financial statements, not the auditor

As above, we do not support the requirement for firms to determine if an entity is a PIE. However, if disclosure of an entity's status as a PIE is deemed necessary, we believe the entity and not the auditor would be the appropriate party to make such disclosure.

No, given that we do not believe that the audit firm should amend the definition of PIE as determined by its relevant local body, there would be no need for the auditor to disclose that they have treated an audit client as a PIE.

#### **Others**

##### **SMPAG - IFAC Small and Medium Practices Advisory Group**

We do not support the proposal for firms to disclose if they treated an audit client as a PIE and are concerned about the implications and potential unintended consequences. As outlined above, we do not agree with the proposed requirement for firms to determine whether to treat additional entities, or certain categories of entities, as public interest entities.

As outlined in our responses to questions 11 and 12 above, we are concerned about the risk of adding to the expectation gap in auditing and whether such disclosure will cause further misunderstanding and confusion in the marketplace. The lack of consistency by different jurisdictions because of the broad approach may also lead to unintended consequences.

## **15(c) - Neither agree or disagree and with further comments**

### **Independent National Standard Setters (INSS)**

#### **AASB - Canadian Auditing and Assurance Standards Board**

It is difficult to respond to this question as the objective of such disclosure in the auditor's report is not clear. The objective of the disclosure needs to be determined. Once determined, alternatives to achieving the objective should be considered.

In our view, when developing the possible disclosure in the auditor's report, the IAASB will need to recognize that many stakeholders may not understand what it means when an auditor treats an entity as a PIE. Extensive explanation in the auditor's report or in other communications may be required to ensure the proposed disclosure is consistently and correctly understood by stakeholders, and the expectation gap is not widened. Further, stakeholders may have different interpretations of disclosure in the auditor's report. Stakeholders may assume that an audit of a PIE provides a higher level of assurance compared to an audit of an entity that is not a PIE, and that there are different types of audits or different levels of assurance provided.

### **Professional Accountancy Organizations (PAOs), Including National Standard Setters**

#### **ASSIREVI - Association of Italian Audit Firms**

Finally, with regard to point 15(c) please refer to the considerations set out in our response to questions 9 and 10 above in relation to proposed paragraph R. 400.17.

In light of the strong interconnection between the two questions above, we believe it is appropriate to address them jointly.

As mentioned above, Assirevi does not agree with the proposal to include in the Code a "requirement for firms to determine if any additional entities should be treated as PIEs".

The reasons underpinning the view of Assirevi, which is contrary to leaving to auditors the choice to determine whether specific entities should be defined as PIEs or not, have already been explained above. In addition, a number of additional issues that appear to be critical in this respect is described below.

In light of our specific experience at the national level, the current perimeter of entities for which "reinforced" independence requirements apply is already very broad. Nor does it seem easy to identify concrete examples of additional entities which should be added to the categories of PIEs already identified under the local regulatory framework and proposed by paragraph R400.14 of the Code. Italy, in fact, applies the PIE perimeter as defined by the European legislator, further supplemented by the ESRI entities – expressly introduced by the Italian law and substantially similar to PIEs with regard to the application of auditor independence rules.

Also in light of the above, it is the view of Assirevi that the introduction of proposed paragraph R400.16 would not be necessary. In fact, the "overarching objective for additional independence requirements for the auditors of PIEs" could be achieved, even in those jurisdictions where the local legislation does not provide sufficient coverage on this subject, by simply requiring the auditor to apply his professional judgment in determining whether, in certain circumstances, it is appropriate to strengthen the independence safeguards by voluntarily applying to an entity the provisions of the Code regarding PIEs. On the other hand, and for the reasons outlined above, it does not seem appropriate to require an auditor to qualify an audited entity as a PIE, given that such qualification would trigger all the consequences mentioned above – which are not

limited to the application by the auditor of the reinforced independence requirements provided by the Code for PIEs.

Assirevi therefore does not agree with the introduction of proposed paragraph R400.16. However, if the intent of IESBA with the introduction of this “third level” of classification is to strengthen the protection of auditor independence in those territories whose national legal or regulatory framework in this area appears to be particularly weak, it should then be clarified that an intervention by the auditor to qualify an entity as a PIE would only be required in those very specific circumstances.

Among the factors justifying the negative view of Assirevi on the so-called “third level” of definition of a PIE, the issues related to inconsistencies in the execution of the audit resulting from different choices made by the auditor in qualifying an entity as a PIE also play a role. For example, the case of two auditors of the same group who come to a different conclusion as to whether the parent company should be regarded as a PIE or not would inevitably lead to an inconsistent application of two different sets of independence rules to the same group.

In addition, it is our view that even if the Code allowed for an extension of the rules on independence for PIEs to entities other than those listed by the Code or local authorities, this extension should in the first instance be decided by the audited entity rather than the auditor. The former – rather than the latter – has indeed the complete set of information required to determine whether the conditions to consider the entity as a PIE are met. Therefore, the criterion set out in bullet 5 of proposed paragraph 400.16 A1 of the Code could at most be the only addition to the categories of PIEs defined by the Code and local authorities.

Also when it comes to the appointment of the auditor, critical issues could arise due to the discretion given to the auditor to treat as a PIE an entity that is not considered as such by the Code or by the Local Bodies. For example, in case two auditors participating to an audit tender were to reach a different conclusion as to whether the company should be treated as a PIE or not, such an entity might be inclined to appoint the auditor that does not regard it as a PIE. This would in fact imply the application of a less stringent independence regime to the audit engagement, which in turn would result into less onerous consequences for the audited entity. In such a scenario, the very same purpose of the proposed amendment to the Code would be undermined.

Finally, the Exposure Draft does not clearly explain the scope of the independence rules applicable to PIEs falling into this category as a result of a choice made by the auditor.

In the view of Assirevi, in the undesired event that the IESBA wishes to proceed with the introduction of the so-called “third level” for the definition of PIEs, it would then be necessary to clarify that only the independence requirements set forth in the Code for PIEs are to be considered applicable to the entities regarded as such by the auditor – with the exclusion of the other provisions that local regulations, such as the European rules, impose on the auditors of PIEs as locally defined. Otherwise, the auditor (as well as the entity being audited) would end up being subject to significantly onerous rules in the absence of the required legal prerequisites. In fact, as discussed above, the set of independence rules applicable to the audit of a PIE in the European legal system is very complex and onerous not only for the auditor, but also for the audited entity, given the restrictions on (i) the assignment and the duration of the audit, (ii) the rules established for Audit Committees, (iii) the prohibition to provide certain non-audit services and (iv) the fee cap on permitted non-audit services. In addition, as already mentioned, local laws in Italy also identify the category of ESRI, governed by rules on auditor independence similar to those applicable to PIEs. In this context, it is likely that implementation issues would arise in presence of an inconsistent application of the set of rules on EIPs under the Code and those provided by European and national regulations.

Finally, in the undesired event that the IESBA wishes to proceed with the introduction of proposed paragraphs R400.16 and 400.16 A1, Assirevi would appreciate some clarifications on the disclosure obligations provided for in proposed paragraph 400.17. It would in fact be appropriate to clarify that such public disclosure shall be made either:

in the audit opinion; or, alternatively,

in the Transparency Report pursuant to Article 13 of EU Regulation 537/2014 which, in the European legal system, is already identified as the document in which, among other aspects, the PIE clients of each audit firm should be listed.

The inclusion of such a public disclosure in the terms discussed above could in fact help to clarify, also for the benefit of the users of the financial statements, the background of the independence rules that have been applied as a result of paragraph R400.16.

### **CPAA - CPA Australia**

Refer to responses to questions 11 and 12.

The proposal, in paragraph R400.17, for firms to disclose if they treated an audit client as a PIE is generally supported; noting however, that we do not support that it be a requirement for firms to determine whether to treat additional entities, or certain categories of entities, as public interest entities.

Also, it is important to note that such a disclosure to financial statement users may not be properly understood or interpreted by those users. Indeed, many financial statement users may have a very different view from the IESBA definition, about what constitutes a PIE. The potential misunderstanding and confusion – along the same lines as arguments about the expectations gap in auditing – should be recognised by the IESBA.

Disclosing such information will also require disclosing what it means – i.e., that it doesn't mean that the audit was undertaken differently from an audit of a non-PIE, but merely that the independence requirements were different. It also means that an audit firm would need to explain why they chose a particular entity to be considered a PIE from their perspective. Greater confusion in the market will ensue where firms offer different explanations and descriptions of why they have treated client entities as PIEs.

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.

There are mixed views on whether the auditor's report is the appropriate mechanism for making a disclosure about an audit firm's determination of a client as a PIE.

Feedback from some of our members is that the auditor's report is definitely not the place in which such a disclosure would be made, lest it creates an impression that there are different types and levels of audit, and auditor's report.

Other members believe that the auditor's report would really seem to be the only appropriate place for such a disclosure, as it is the only communication that is owned by the auditor. It could not be in the entity's own communications. Clearly, however, considerable additional details and explanations, beyond just declaring that an entity is being treated as a PIE, would be required (see response to the previous question).

## **15(c) - None**

### **Regulators and Oversight Authorities**

**CEOAB - Committee of European Auditing Oversight Bodies**

**CPAB - Canadian Public Accountability Board**

**IAASA - Irish Auditing and Accounting Supervisory Authority**

### **Preparers and Those Charged with Governance**

**HKICS - The Hong Kong Institute of Chartered Secretaries**

**Professional Accountancy Organizations (PAOs), Including National Standard Setters**

**EXPERTsuisse - Swiss Expert Association for Audit, Tax and Fiduciary**

**ICPAU - Institute of Certified Public Accountants of Uganda**

### **Firms**

**NEXIA - Nexia International**

**Torrillo - Torrillo & Associates**

### **Others**

**AFV - Álvaro Fonseca Vivas**