

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

#### Question 15(a)—Use of the Overarching Objective for Both IESBA and IAASB in Establishing Differential Requirements for Certain Entities

#### 15(a) - 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

Yes.

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

We support the overarching objective set out in proposed paragraphs 400.8 and 400.9 for use by both the IESBA and IAASB in establishing differential requirements for certain entities (i.e., to introduce requirements that apply only to audits of financial statements of these entities).

#### 15(a) - Agree with further comments

##### Regulators and Oversight Authorities

##### IRBA - Independent Regulatory Board for Auditors

Paragraph A32 of ISA 260 refers to entities of significant public interest and gives examples thereof, such as entities that have a large number and a wide range of stakeholders, and with consideration to the nature and size of the business. It further gives examples of such entities, which include financial institutions (such as banks, insurance companies and pension funds), and other entities such as charities. Paragraph A15 of ISA 265 makes use of PIE. Paragraph A133 of ISQM 1 makes reference to law or regulation requiring an engagement quality review to be performed, for example, for audit engagements for entities that are public interest entities, as defined in a particular jurisdiction. Paragraph A134 of ISQM 1 also makes reference to entities other than listed entities that may have public interest or public accountability characteristics, for example:

Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders, including financial institutions such as certain banks, insurance companies and pension funds, for which an engagement quality review is not otherwise required by law or regulation.

Entities with a high public profile, or whose management or owners have a high public profile.

Entities with a large number and a wide range of stakeholders.

The references and examples discussed in paragraph 36 above are similar to the wording used in the proposed definition of PIE and could therefore be indicative of the need to align the terms, as used by the IESBA and the IAASB. We therefore support the use of the overarching objective set out in proposed paragraphs 400.8 and 400.9 by both the IESBA and IAASB in establishing differential requirements for

certain entities. This can be done by ensuring that the use of “Public Interest Entity” is applied consistently in the ISAs and there is clarity on which entities are of Significant Public Interest.

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

With the caveat of our previously noted concerns, we support the overarching objective set out in paragraphs 400.8 and 400.9 for use by both the IESBA and the IAASB in establishing differential requirements for certain entities.

#### **UKFRC - United Kingdom Financial Reporting Council**

The FRC supports the overarching objective set out in paragraphs 400.8 and 400.9 for establishing differential requirements for different entities. We would also encourage that IESBA and IAASB align their definitions to ensure consistency between the auditing and ethical standards. We would note that there is an important conceptual difference between the ethical standards – which place requirements on the auditor to both protect against threats to independence and maintain public confidence in that independence – and the auditing standards which place requirements on the planning, performance, communication and reporting on the audit of financial statements. In the same way that ethical safeguards over auditor independence should be driven by context, the requirements for the appropriate performance of a financial statement audit should be also have regard to the underlying circumstances of the entity being audited. The nature and extent of public interest in that entity’s financial statements will be one element that helps determine the shape of that audit response.

#### **Public Sector Organizations**

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

As stated in our earlier responses, we believe that the IAASB should promulgate any requirements that affect financial statement audit performance and reporting. We recommend that the IAASB minimize the use of differential requirements that only apply to certain entities as much as possible. The IAASB could also explore creating a new section of standards that contains differential requirements for entities of significant public interest. Alternatively, the board can address differential requirements in both the ISAs and ISQMs by inserting additional subsections, using conditional requirement language (e.g., “If ..., then ...”), or both.

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

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

As noted in our response to Question 1, we are generally supportive of the overarching objective set out in paragraphs 400.8 and 400.9 and the emphasis placed on the public interest in the financial wellbeing of PIEs. We believe a common overarching objective adopted by the IESBA and the IAASB is critical to the successful implementation and adoption of the additional independence requirements for the audit of these entities and to enhance the confidence in those audits. It is therefore, encouraging to read about the close coordination and commitment to achieve alignment in the approach of the two boards, noted in the Explanatory Memorandum.

#### **AE - Accountancy Europe**

The differential requirements for listed entities in ISAs focus on enhancing transparency about aspects of the audit to those charged with governance and/or to intended users of the auditor’s report. These requirements (and the requirement related to engagement quality reviews) do not directly affect the auditor’s work effort in obtaining sufficient appropriate audit evidence to draw reasonable conclusions on which to base the auditor’s opinion.

We believe that the IESBA and the IAASB should align their terminologies to the extent possible. While doing this the main objective should be to provide clarity and to avoid confusion.

The status of PIE is usually defined by law or regulation in many countries, and it usually creates additional requirements for the entities themselves, such as the obligation to have an audit committee the auditor, such as the obligation to issue a written report to the audit committee for the supervisory authorities, such as the prohibition to delegate the inspection of PIE audit firms to professional organisations

Those differential requirements for auditors are relevant as long as they mirror differential requirements for the entity itself. We therefore believe that expanding the PIE definition only for the purposes of the Code should not systematically lead to creating additional requirements in the ISAs.

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

With regard to items (a) and (b) above, Assirevi notes that in the current version of the auditing standards adopted in Italy following the implementation of the ISAs ("ISA Italia") there are already specific requirements being set out for certain categories of entities in addition to listed entities. Namely, these requirements relate to (i) the assignment of the EQCR (ISA Italia 220), (ii) communications on independence to those charge with governance (ISA Italia 260) and key matters of the audit (the so-called Key Audit Matters or "KAM" – ISA Italia 701), all of which are applicable to all PIEs, as defined by local regulations following the implementation of the European legislation.

Therefore, the overarching objective of having different rules for certain categories of entities is not considered in itself a critical matter. As a result, Assirevi does not have particular comments with respect to combining IESBA and IAASB sources in order to introduce separate requirements for certain entities.

This, however, can only apply on the fundamental assumption that the auditor is not required to determine the entities subject to such differential requirements. In line with the current framework, this task should belong to national or supranational legislators and/or regulators.

In this regard, it should also be noted that the voluntary application of certain requirements under the ISA Italia standards to entities other than listed entities or PIEs is not allowed in Italy. This aims to safeguarding the uniformity and comparability of the financial reporting of entities belonging to the same category, as well as to avoid confusion among users on the level of assurance being provided.

The qualification of an entity as a PIE by the auditor would therefore in any event require a previous assessment by the local regulator as to the possibility to extend on a voluntary basis to entities not covered by a regulatory requirement a set of audit rules concerning, for example, the audit opinion.

In the event that PIEs are in the future subject to the rules currently provided for listed entities only, two different scenarios could arise at the Italian level:

if proposed paragraphs R400.16, 400.16 A1 and R400.17 are not included in the Code, there would be no impact on the ISA Italia standards, as the definition of PIEs under the Code would already be in line with the corresponding definition currently established at the regulatory level (and already considered in the ISA Italia standards);

if, on the contrary, paragraphs R400.16, 400.16 A1 and R400.17 are to be included in the Code, the structure of certain ISA Italia standards and some choices of localization made in the past should be re-evaluated, as the ISAs would then reflect a definition of PIEs potentially wider than that currently included in the ISA Italia standards.

In light of the various scenarios described above, Assirevi believes that keeping the reference in the ISAs to specific rules only for listed entities – and leaving the choice to provide for the extension of such rules to other PIEs at the national level – would be the desired solution, as this would allow for greater flexibility.

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

Ensuring consistency between the IESBA and IAASB's pronouncements is particularly important to maintain and further enhance public trust in high quality audits and reporting. We refer to our response to question 1 about our feedback on clarifying the proposed overarching objectives. Our recommendation is that the IESBA consider whether proposed paragraph 400.9 should also clearly articulate the additional independence requirements that apply to the audits of PIEs.

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

Yes, we do agree with the general concept being set by the overarching objective, however we believe a careful and balanced approach is required when setting differential requirements.

Enhanced focus could lead to the creation of a two-tier approach to quality management and independence, which is not the intention.

In terms of an approach for this concept in relation to the ISAs and ISQMs, in setting any differential requirements, the IAASB need to consider how such requirements would enhance user confidence in the quality of the audits for these entities as opposed to a focus on achieving a different level/tier of quality in conducting these audits

#### **CPAA - CPA Australia**

Consistency between standards issued by the IAASB and standards issued by the IESBA is critical. Ideally, where the same concepts and matters are addressed, there should be no differences between the standards.

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

We support the overarching objective for use in establishing differential reporting requirements by both the IESBA and IAASB because different sets of criteria would create complexity and possible confusion for stakeholders.

We recommend the IAASB gather feedback from stakeholders regarding any proposed changes to ISAs and ISQMs to align them with the revisions to the Code, specifically the proposed paragraphs 400.8 and 400.9, and how this might be approached in relation to the ISAs and ISQMs.

We also recommend the definition of "listed entity" in the ISAs should be aligned with the proposed new definition of "publicly traded entity" in the Code, in order to maintain consistency and avoid confusion.

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

We support the overarching objective.

Consistency between IAASB and IESBA standards is critical. We urge, in particular, close coordination on the IAASB's project on the audits of less complex entities.

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

We support the overall objective set out in proposed paragraphs 400.8 and 400.9 for both the IESBA and the IAASB to establish differentiated requirements for certain entities (that is, to introduce requirements that apply only to audits of the financial statements of these entities)

Once the Project is defined, the impact on ISA and ISQM must be analyzed.

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

We support the overarching objective and achieving consistency and matching of terminology among the definition in the IESBA and IAASB Standards. As mentioned in Question 4, stakeholders are looking forward to a converged definition among different standards.

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

On this basis the differential requirements within the IAASB standards should be extended to other categories of PIE to achieve consistent application of technical and ethical standards.

We support the intention for both the IESBA and IAASB to establish additional requirements for the audits of Public Interest Entities. We would strongly encourage the IESBA and IAASB to take a consistent approach to the definition of a PIE to provide clarity for auditors and users of accounts.

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

Yes. We support the overarching objective. We think the approach should be the same in relation to ISAs and ISQMs. We support the overarching objective set out in proposed paragraphs 400.8 and 400.9. The overarching objective covers at a minimum the types of entities for which there is a significant public interest, confidence of the public in the financial statements of those entities and the independence requirements. Confidence in such audits will be enhanced by additional independence requirements which should be emphasized by the audit and not just as a form filing exercise. We believe the overarching objective is to provide guidance in determining what can be considered a PIE for the application of differential requirements when it comes to the actual audit. This guidance would be part of both ISA's and ISQMs and there is now a guideline to provide to auditors and also assess whether they are evaluating and applying the right measures to enhance transparency and improve quality control in audits of certain entities. These differential requirements deal with enhancing transparency about aspects of the audit to those charged with governance or to intended users of the auditor's report through communication with those charged with governance or including specific statements or information in the auditor's report, respectively.

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

Comments: We are in agreement with the use of the overarching objective for both IESBA and IAASB for establishing differential requirement for certain entities only, in context of practicality in its application.

This would require more prescriptive definitions within the standard to support international consistency, as the local body and firm criteria will be subject to greater levels of variability in practice.

On the matter of the practical implications, it will be necessary to provide guidance on the use of lower materiality and other effects on the execution of the audits for PIEs, which are beyond the independence requirements. These matters have significant cost implications in the performance of audits and therefore need to be thoughtfully considered in the standard setting and afterwards in the application by firms and engagement teams.

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

Yes, we are supportive of a consistent approach being adopted by IESBA and the IAASB.

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

Subject to our comments above, we are in support of the principle as set out in the proposed paragraphs of 400.8 and 400.9 which we believe seem to be suitable for use, across both the Code and the IAASB's standards.

#### **IDW - Institut der Wirtschaftsprüfer**

As noted in our response to Question 1, we support the overarching objective in paragraph 400.9, but believe that the objective in paragraph 400.8 is too broad. If the changes were to be made to 400.9 as we propose in our response to Question 1, then we believe that the IAASB could consider whether that objective can be used as a basis by the IAASB for setting differential requirements for audits of financial statements. However, we believe that the IAASB needs to consider the use of the definitions for the ISAs and ISQMs on a case-by-case basis.

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

We believe that establishing a unique definition of PIE for these two boards is key to both implementing the Code in a fully consistent manner and conducting audits consistently.

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

We support the overarching objective set out in proposed paragraphs 400.8 and 400.9 for use by both the IESBA and IAASB in establishing differential requirements for certain entities.

The term "PIE" is not used in the auditing standards. The requirements in ISAs and ISQMs currently apply to audits of financial statements of listed entities and the IESBA is seeking views from respondents to this ED whether differential requirements should continue to apply only to listed entities or might be extended to other categories of PIE.

It is also important for IESBA to accelerate its strategic commitment to review the PIE definition in close coordination with the IAASB. We believe the definition within the Code should be a baseline, principles-based definition, to which local jurisdictions can supplement if and as required.

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

We support the use of the overarching objective by both the IESBA and the IAASB for establishing differential requirements for certain entities. However, with regard to the specific issue of whether the scope of requirements should be expanded or not, we believe that full consideration should be given to the case-by-case approach described in (b) below, so as to avoid any unexpected side-effects as a result of such an expansion.

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

The KICPA supports having differential requirements established as one of the ways to meet the stakeholders' requirement for higher level of confidence in the audits of financial statements of PIEs. In this regard, we support the proposed paragraphs 400.8 and 400.9 as they describe such objective.

However, the ISA and ISQM set out differential requirements for listed entities only without using the concept of PIE, unlike the Code. We are against extending such differential requirements to PIEs. The Code's objective to impose the strengthened independence requirement for PIEs is not entirely same as the ISA's objective to prescribe additional audit requirement for listed entities based on risk-based approach. We believe that it is necessary for the ISA and ISQM to refer to the Code's definition of PIEs as long as they deal with ethics requirements relevant to audit and quality management. But we are opposed to expanding the application scope of all other differential requirements to PIEs.



Whether or not to change the term, listed entity, or to extend differential requirements to PIEs with regard to the ISA must be only decided after sufficient review of its necessity and practical impact. We hope that the IAASB reviews the feasibility and necessity of extension based on sufficient research and opinion gathering.

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

We continue to believe that achieving consistency between IAASB and IESBA standards is critical. The extent of any impact on requirements within standards developed by the IAASB will also need to be clear and exposed for appropriate comments, if the change in terminology proposed is intended to allow the two Boards to achieve convergence, in as far as possible.

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

We are supportive of the proposal to establish the differential requirements for certain entities by both the IESBA and IAASB due to increasing public scrutiny on PIEs. Broadly, ISAs and ISQMs will need to have additional requirements relating to PIEs.

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

No additional comments to AE.

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

We do support the overarching objective, in relation to ISAs they should include a requirement for auditors and audit firms to put in place a tailored system and procedure of determining PIEs and non-PIEs for audit purpose, whereas there should be a requirement in the ISQMs of monitoring these systems and procedures.

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

In order to provide clarity and consistency, we believe that the IESBA and the IAASB should align their terminology to the extent possible.

However, as already mentioned in our response to question 1, we support the concept of providing an overarching objective but we have strong concerns about the clarity of the actual proposal in 400.8 and 400.9 in relation to R 400.14 – R 400.16.

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

SAICA and members of the working group are in support of the overarching objective set out in proposed paragraphs 400.8 and 400.9 to be used by both the IESBA and the IAASB in establishing differential requirements for certain entities. It is however important that the overarching principles are consistently defined and applied by both the IESBA and the IAASB. To this end, SAICA has identified the following references to a PIE (or entities of significant public interest) in the International Standards on Auditing (ISAs) that the IESBA and the IAASB should collaborate on in achieving consistency:

Paragraph A32 of ISA 260 (Revised): Communication with Those Charged With Governance

Paragraph A15 of ISA 265: Communicating Deficiencies in Internal Control to Those Charged With Governance and Management

Paragraph A40, A41 and A43 of ISA 700 (Revised): Forming an opinion and reporting on financial instruments

Paragraph A133 of International Standard on Quality Management (ISQM) 1: Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

Paragraph A134 of ISQM1: Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

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

TFAC Response: We support the overarching objective in proposed paragraphs 400.8 and 400.9. However, the differentiated requirements in the ISAs/ISQMs, if broadened to PIEs, would not represent audit quality but enhance transparency level.

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

Yes.

We believe that the IESBA and the IAASB should align their terminologies to the extent possible. While doing this the main objective should be to provide clarity and to avoid confusion.

This should be considered in conjunction with LCE project and any further effort to clarify and provide guidance on interpretation and implementation support.

#### **Firms**

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

There is a certain logic in using the factors set out in 400.8 and the objective in 400.9 as the basis for establishing differential requirements for certain entities. However, it is difficult to provide more detailed commentary without knowing what those differential requirements are, without the risk of unintended consequences.

##### **CohnReznick - CohnReznick LLP**

We support the overarching objective set out in proposed paragraphs 400.8 and 400.9 for use by both the IESBA and IAASB in establishing differential requirements for certain entities. We do recommend that if the ISAs and ISQMs establish differential requirements for certain entities that such differential requirements be separate paragraphs in the appropriate section with an appropriate header calling attention to the fact that this is a differential paragraph. We believe the differential requirements in the ISAs and ISQMs may best be applied by auditors if it is visibly clear in the standards themselves what is in fact different and that the remainder of the ISAs and ISQMs, that is, the “base package,” are kept identical for PIEs and non-PIEs.

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

In the interests of consistency, we support the use by both the IESBA and the IAASB of the overarching objective.

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

Deloitte Global supports the usage of the same terms and definitions by IESBA and IAASB. This would mean the IAASB would need to review the terms currently used in the ISAs and ISQMs and deliberate what changes may be necessary.



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

GTIL agrees that it is important for the IAASB and IESBA to achieve consistency and agree with the objectives set out in proposed paragraphs 400.8. The ISAs currently have requirements that apply to audits of financial statements of listed entities only. Some jurisdictions have already gone further and have requirements that are aimed at public interest entities, for example the UK has specific requirements for public interest entities (as defined by the EU and now incorporated into UK legislation) as ISA 'add-ins'.

The issue lies in the proposed definition of the PIE itself and its proposed application. For example, in previous Board discussions, we had highlighted that it was unclear how the term 'main function' should be interpreted and applied in practice (R400.14 (b) & (c)). We further expressed concern over the requirement that allows the firm to make the determination of whether an entity should be treated as a public interest entity (R400.16). We expressed the view that allowing firms to make such a determination was not in the public interest as it would likely result in an inconsistent treatment of entities from one firm to another and opinion shopping by entities wishing to be classified in a specific manner. We believe that if any additional determination is to be allowed, that it should be done at the level of the national regulator or national member body rather than at the individual firm level.

In relation to the ISAs and ISQMs (the International Standards), the determination of which requirements would pertain to a newly defined public interest entity only would need to be a separate project, which is subject to IAASBs due process and include an analysis of requirements that form the body of the International Standards on a case-by-case basis as to whether the requirement, or some part thereof, should be directed to a public interest entity. The requirements for consideration should be those that are currently directed at listed entities, although consideration could also be given to additional requirements, if any, directed at public interest entities in national adaptations of the International Standards.

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

We are supportive of the exploration of which entities are of significant public interest with clear alignment of this to matters such as their business activity; whether they are of systemic importance; whether they are regulated; whether they are "too big to fail," etc., while retaining the concept that, from the auditor's perspective, it is the public's interest in the financial information of these entities that is primarily relevant, rather than broader factors such as the quality of their services, issues such as reputational matters or economic/ social credentials.

We also agree that if the approach proposed by IESBA is to set broad categories, in a principles-based manner, which local bodies and firms are to refine as necessary and appropriate, an overarching objective as set out in question 1 with our suggested revisions is critical to enable local bodies and firms to properly consider which entities should be classed as PIEs within their jurisdiction.

We consider that the differentiated requirements in the ISAs/ ISQMs, if broadened to PIEs more generally, relate principally to transparency matters and not to performance aspects of the audit itself.

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

See our response to Q1 in relation to proposed paragraphs 400.8 and 400.9.

We do not consider that expanding the PIE definition in the IESBA code should automatically create additional requirements in the ISAs for all PIEs.

The status of PIE is defined by law or regulation in many countries which imposes additional requirements for the entities and their auditors.

In principle, we support the overarching objective set out in proposed paragraphs 400.8 and 400.9. However, there are some terms included in these paragraphs which may not be clearly understood and therefore interpreted differently by users of the code.

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

While we appreciate the opportunity to consult on this matter and, in theory, agree with the IAASB reviewing whether differential requirements for PIEs should exist, we find it challenging to provide valuable comments without a complete understanding of the proposed changes and the context in which these differential requirements would apply. We look forward to the opportunity to consult as part of the IAASB's general consultation process on this matter.

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

Yes. We agree with the underlying principle that some categories of entities requirement more stringent independence procedures, require more work effort such as EQR or require more stringent rotation activities given public interest.

Any proposed provisions must mirror the requirements in the ISAs and ISQM, for example rotation periods required.

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

We support seeking consistency and alignment of important principles and terms across both the Code and IAASB standards.

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.

Subject to our comments on 400.8 and 400.9, the principle and factors seem suitable for use, across both the Code and the IAASB's standards, for the intended purpose of explaining factors that drive the extent of public interest and objective of local bodies designating an entity as PIE.

We support the IAASB's approach of evaluating the potential impact of a change in the context of the requirements and standards in which the term "listed" is currently used.

While there are relatively few references to "listed" across the IAASB standards, this will enable the IAASB to reach appropriately informed decisions, ensure there are no unintended consequences, and fulfil its due process.

For example, the additional disclosure requirements relating to Other Information in ISA 720 (Revised) may be one instance where retaining a differential requirement for listed (publicly traded) entities may be appropriate, in light of the relevant public listing obligations associated with such entities and taking into account the broader challenges reported in feedback to the IAASB's Auditor Reporting Post Implementation Review that may be exacerbated by extending the requirement more broadly.

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

Yes, we believe it would enhance public confidence if there was a consistent approach for the IESBA and IAASB in classifying the type of entity in the public interest that should be subject to additional requirements. It does not seem to make sense that there would be a difference. However, we believe that it is necessary

to assess the impact of expanding the differential requirements of the IESBA Independence Standards and the IAASB requirements to the different categories of PIEs. We believe that further joint work should be carried out by the IESBA and IAASB to strive to agree on a consistent approach before releasing an ED.

## **Others**

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

Yes, I agree. I think some coordination with IAASB is necessary regarding the LCE audits Project, because I think that standards is supposed to not be applicable to any entity which is a PIE (even when some “Not PIE” might not be able to apply the LCE standard either).

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

We believe that achieving consistency between IAASB and IESBA standards is critical. The extent of any impact on requirements within standards developed by the IAASB will also need to be clear and exposed for comment if the change in terminology proposed is intended to allow the two Boards to match their terminology where appropriate. Ideally, where the same concepts and matters are addressed, there should be no differences between the standards, but this does need to be considered on a case-by-case basis.

We also suggest coordination between the IESBA and IAASB project on the audits of less complex entities.

## **15(a) - Disagree**

### **Public Sector Organizations**

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

We do not support the proposals. The proposals risk furthering the expectation gap among audits. Because they apply to the “too big to fail” entities (by application of the characteristics in 400.8) they could imply that financial statement audits are somehow substituting for appropriate regulatory supervision and other regulatory mechanisms. We do not support any differential requirements for public interest entities (or listed entities or publicly traded entities) in the ISAs or ISAEs.

We believe it is difficult for IAASB to include differential audit requirements because there is nothing higher than “reasonable” assurance, and this level of assurance should apply to all audits equally (an audit is an audit). The existing differential requirements (e.g. EQR, communicating independence to those charged with governance, reporting Key Audit Matters, naming the engagement leader) may or may not differentially improve audit quality. It may be that the concept of PIE requires substantially different audit requirements, effectively creating a new “level” of assurance above reasonable assurance. This would be responsive to the social audit risk associated with PIEs (i.e. the risk to society that the audit fails) implied by the proposals. But it is not clear what additional changes to the IAASB standards, either for financial statement audits or ISAEs, would be warranted, or if the social cost of these requirements for all PIEs (i.e. increased fees) would be less than the benefits (less audit failures of PIE audits?). For example, IAASB could require in ISA 220 that all team members of a PIE audit have served as engagement leaders on other audits, or in ISA 315 that for a PIE every assertion for every account balance, class of transaction or disclosure should be considered a significant risk, or in ISA 330 substantive procedures and tests of controls and substantive analytical procedures be required for all assertions for all components, regardless of materiality of the component, or in ISA 570 change “material uncertainty regarding going concern” to “more than remote possibility the entity may not be a going concern.” These may raise “reasonable assurance” from perhaps 90% to a higher 95% or 98% level of assurance, but still as many PIEs may fail.

As noted in question 4, if increasing confidence in specific audit firms or auditors is the goal, then other mechanisms are available for that, such as making internal and external inspection reports or the firm's evaluation of its system of quality control public (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.

Because we do not see a feasible path forward for raising reasonable assurance to some higher level of assurance as a PIE classification would appear to warrant, we do not support any differential requirements. Differential requirements risk providing a false signal to users, widening the expectation gap.

We note that if the IESBA Code applied to accountants that work in regulatory agencies, perhaps the Code could specify additional requirements for their work i.e. heightened skepticism, increased due diligence, stronger independence requirements, etc. so that their regulatory roles would be done more effectively.

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

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

We support the IAASB using the factors in proposed paragraph 400.8 in establishing differential requirements for certain entities. However, in our view the phrase "reflecting significant public interest in the financial condition of these entities" is not an appropriate overarching objective that should be used by the IAASB. The IAASB sets differential requirements that apply to the audit of financial statements. As stated in paragraph 21 of the Explanatory Memorandum, "financial condition" is a term that considers more than an entity's financial statements.

We also have concerns with the IAASB using the overarching objective set out in proposed paragraph 400.9. For the IESBA, the requirements and application material relate to additional independence requirements for "who" performs the audit. In contrast, for the IAASB, the differential requirements impact the performance, communication and reporting of the audit of financial statements of certain entities. Our concerns are:

It is not clear if the objective in 400.9 relates to enhancing confidence in the audit of the financial statements due to the differential audit requirements or all audit requirements.

Confidence in the audit of financial statements is a very broad concept that includes many elements. Suggesting that differential requirements enhance confidence in the audit may lead stakeholders to conclude that a different, more extensive audit is performed for certain entities. This may widen the expectation gap, which is not a desired outcome.

It is not clear how the IAASB would use or apply the objective in paragraph 400.9 in establishing differential requirements.

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

As APESB is not supportive of the proposed objective in paragraphs 400.8 and 400.9 in its current form in the PIE Exposure Draft, we are not supportive of the IAASB using these objectives to establish differential requirements for certain entities. Refer to APESB's response to Question 1 for the details of the specific issues identified.

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

The AUASB considers that the changes proposed to the factors which should be considered when determining whether an entity is a PIE in 400.8 and 400.9 are not clear and potentially confusing. The

AUASB's recent experience (for example in relation to the IAASB's deliberations about the applicability of the proposed LCE Standard) notes that there should be clear, objective criteria in place when determining the characteristics of a PIE. It is our view that the proposed revisions to the Code in these paragraphs are overly subjective considerations that would be difficult to apply consistently, both across different jurisdictions and different types of entities.

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

As noted in response to question 2, the NZAuASB agrees that it is important to clearly articulate the objective for defining entities as PIEs and/or establishing differential requirements for certain entities.

The NZAuASB does not however support the objectives as set out in proposed paragraphs 400.8 and 400.9, as we consider the proposed objective lacks the necessary clarity to make this clear and that rather the proposed objective may be confusing and misunderstood to imply that there are two levels of independence or two levels of "audits". We consider that proposed paragraph 400.9 is too generic and when read on its own is applicable to all audit engagements. The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. It is therefore important that all intended users have confidence in the audit engagement that they are relying on.

Why and how to establish differential requirements for certain entities is a key theme in a number of IAASB and IESBA projects, including the less complex entities project, the non-assurance services project, the quality management project and also in determining who has to report key audit matters, etc. This is an important issue where we consider that it is in the public interest for the two boards to collaborate closely to ensure that the why and how to establish any differential requirements is clear and does not undermine the level of confidence and trust in audited financial statements.

It may be that there are similar but varying underlying reasons for various differential requirements and therefore it may be appropriate for the reasons and objectives to differ. For example, in the quality management standards, the reasons for requiring an engagement quality review may not be the same as the reasons for identifying that users would find reporting of key audit matters useful. We support a collaborative and flexible approach, where the public interest and trust and confidence in all audit engagements is not undermined, but that enables a proportionate, risk and cost/benefit analysis to guide the approach.

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

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

For example, in the United States, we consider listed entities to be the equivalent of issuers, which are regulated by the Securities and Exchange Commission and outside the jurisdiction of the AICPA. The proposed change to publicly traded entities would encompass both listed entities and publicly traded entities that are not issuers. However, our national legislature and regulator have determined that the rules applied to listed entities are different than the rules applied to entities that are not listed. It would not be appropriate for the AICPA to second-guess that determination by imposing additional requirements on the audits of publicly traded entities that are not listed in our jurisdiction.

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

The nature and extent of audit procedure as established in ISAs are general to an audit and should not be linked to the type of audit client. Any variations to an audit's independence requirements should therefore be dealt with in the ISQMs as that is an area which deals with quality environments.

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

We do not agree that defining an entity as a PIE by the IESBA Code for the purpose of imposing additional independence requirements to the auditor should systematically entail differential requirements for the audit in the ISAs and ISQMs. The status of PIE is usually defined by law or regulation in many countries and it usually creates additional requirements for the entities themselves, in terms of Governance, such as the obligation to have an audit committee for example, as well as it creates additional obligations to the auditor, such as the obligation to issue a written report to the audit committee, for example. It also entails additional obligations for the supervisory authorities.

Those differential requirements for the auditors are relevant as long as they also mirror differential requirements for the entity itself such as for example specific commitments from the financial market authority and governance commitments (e.g., Audit committee). We therefore believe that expanding the PIE definition for the purpose of the IESBA code should not systematically lead to creating additional requirements in the ISAs for all PIEs.

## **Firms**

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

In setting forth its objective in proposed paragraph 400.9, the Board states that the purpose for enhanced requirements related to PIEs is to enhance the confidence in the PIE's financial statements through enhancing confidence in the audit of those financial statements. We do not agree that the purpose of the PIE distinction within the context of the Code is to enhance confidence in the audit of the financial statements. A user's confidence in the audit of the financial statements is supported based on the appropriate application of the relevant Generally Accepted Auditing Standards (GAAS) and the relevant quality management standards, for example International Standard on Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagement, and International Standard on Quality Management 2, Engagement Quality Reviews.

We recognize it is not possible to create one, global definition of PIE, particularly because there is no universally accepted position on what the concept of "public interest" entails, for example who makes up the "public", or how its "interest" is to be assessed. Indeed, "public interest" is a broad concept that is highly dependent upon the facts and circumstances of a particular situation. We believe that it is important for the overarching objective to clearly define the concept of public interest within the context of the Code as applied to entities, and then to link this concept to the purpose of the Code. Indeed, as set out in the Purpose of the Code, the Code provides a conceptual framework to be applied in order to identify, evaluate and address threats to compliance with the fundamental principles. Therefore, we believe the primary purpose behind distinguishing entities as PIEs in the context of the Code is to enhance the confidence users of a PIE's financial statements can place in the independence of the audit firm and the engagement team through compliance with the fundamental principles, and by requiring the auditor to exercise a heightened awareness of the threats to compliance with the fundamental principles when auditing an entity that has an elevated degree of public interest – i.e., the primary focus in the Code should be on the independence of the audit firm and engagement team, not on the quality of the audit.

We believe that focusing the objective for defining entities as PIEs on the quality of the audit has the potential risk of creating a perception that the audit of a non-PIE is somehow of lower quality than the audit of a PIE. This risk is significantly increased in light of the Board's proposals with regard to transparency, as further discussed in our response to questions 11 and 12. We therefore suggest that the Board focuses its



objective for defining a PIE on the need to elevate awareness of the threats to compliance with the fundamental principles and the additional safeguards to address such threats, rather than focusing the objective on audit quality, which is addressed by the applicable GAAS.

Further, in the context of the International Standards on Auditing (ISAs), the IAASB is best placed to determine the purpose of implementing differential requirements or guidance for PIEs. As noted in our response to question 15, we support the proposed case-by-case approach to addressing differential requirements for PIEs, which should include determining the rationale for any such changes. This rationale will likely include audit quality but could also have a purpose of transparency or increased communications depending on the nature of the differential requirements.

With regard to matter a., as noted in our response to question one, we believe that within the context of the Code, the objectives should focus on enhancing stakeholders' confidence in the independence of the auditor, while enhancing stakeholders' confidence in the quality of the audit is a function of the GAAS applied in the audit procedures. In the context of the ISAs, the IAASB is best placed to determine the purpose of implementing differential requirements or guidance for PIEs. In this regard, we believe it is important for the IAASB and IESBA to have a coordinated approach on the definition of PIE and listed entity, as it would not be in the public interest for the IAASB standards to apply definitions that conflict with, or establish unnecessary differences from, the definitions in the Code. Our views expressed in our response to the ED with regard to the definitions of listed entity and PIE equally apply for the purposes of any proposed implementation in the IAASB standards.

## **15(a) - None**

### **Monitoring Group**

### **International Organizations of Securities Commissions**

### **Regulators and Oversight Authorities**

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

We observe that question 15 of the ED is aimed at seeking initial feedback from stakeholders to assist the IAASB on its future deliberations on whether and, if so, how to incorporate the term "PIE" in its standards. We encourage the IAASB to further examine this topic.

### **CPAB - Canadian Public Accountability Board**

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

We observe that question 15 of the Request for Specific Comments is aimed at seeking initial feedback from stakeholders to assist the IAASB in its future deliberations on whether and, if so, how to incorporate the term "PIE" in its standards. We encourage the IAASB to further examine this topic.

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

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

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

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

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

### **WPK - Wirtschaftsprüferkammer**

No comment.

**Firms**

**BDO - BDO International Limited**

**NEXIA - Nexia International**

**Torrillo - Torrillo & Associates**

**Others**

**AFV - Álvaro Fonseca Vivas**