

# Agenda Item 3-E.2 (Supplemental)

## Track 2: Listed Entity and Public Interest Entity (PIE) – Question 3B

**3B. Do you agree with the IAASB's proposals for extending the extant differential requirements for communication with TCWG about the firm's system of quality management to apply to PIEs (ISQM 1, paragraph 34(e) in the ED)?**

### Q03B Agree

#### 2. Regulators and Audit Oversight Authorities

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

Agree (with no further comments)

#### 3. Jurisdictional and National Auditing Standard Setters

##### Australian Auditing and Assurance Standards Board (AUASB)

Agree (with no further comments)

##### Canadian Auditing and Assurance Standards Board

Agree (with no further comments)

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

Agree (with no further comments)

##### Instituto Mexicano de Contadores Públicos, A.C. (IMCP)

Agree (with no further comments)

##### New Zealand Auditing and Assurance Standards Board

Agree (with no further comments)

##### Nordic Federation of Public Accountants (NRF)

Agree (with no further comments)

##### Royal Netherlands Institute of Chartered Accountants (NBA)

Agree (with no further comments)

##### Wirtschaftsprüferkammer (WPK)

Agree (with no further comments)

#### 4. Accounting Firms

##### BDO International Limited

Agree (with no further comments)

##### RSM International Limited

Agree (with no further comments)

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

### **Chartered Accountants Ireland**

Agree (with no further comments)

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

Agree (with no further comments)

### **Federation of Accounting Professions of Thailand**

Agree (with no further comments)

### **Institute of Chartered Accountants of Jamaica**

Agree (with no further comments)

### **International Federation of Accountants (IFAC)**

Agree (with no further comments)

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

Agree (with no further comments)

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

Agree (with no further comments)

### **The Malta Institute of Accountants**

Agree (with no further comments)

### **Virginia Society of CPAs**

Agree (with no further comments)

## **Q03B Agree With Comments**

### **1. Monitoring Group**

#### **International Organization of Securities Commission (IOSCO)**

We support the IAASB's proposal to align the differential requirements already established within the IAASB Standards for listed entities today with the definition of a PIE resulting from the IESBA project. We believe it is an important public interest matter that those entities that meet the definition of a PIE are subject to the same requirements within the IAASB Standards.

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

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

This will provide those charged with governance with greater confidence about the firm's system of quality management.

Agree, with comments below

### **Committee of European Auditing Oversight Bodies (CEAOB)**

We have no objection to the extant differential requirements for communication with TCWG about the firm's system of quality management being extending to PIEs, subject to our previous comments raised on question 2 being considered.

In our comment letter for IESBA, the CEAOB drew the IESBA's attention to the need to further align its proposed revised list of PIEs with the one used in the European Union ("EU") as well as to align the definition of PTE with that of the equivalent category set out in article 2.13 (a) of the Directive 2006/43/EC (amended by Directive 2014/56/EU) ("Audit Directive"). Appendix 1 to this comment letter presents more prominently the differences between both definitions. In particular, the EU definition in article 2.13(a) only applies to entities with a listing on a regulated market, while the proposed PTE definition is wider.

This comment is particularly relevant in relation to the proposed amendments to the ISQMs and ISAs, particularly those instances where it is proposed to apply the extant requirements for 'listed entities' to the new PIE definition, such as the requirement for an engagement quality review in paragraph 34(f)(i) of ISQM 1. Indeed, national standard setters in the EU, who decide to use the definition of PIEs provided by the European legislation instead of the IESBA and IAASB's definition of PIEs, will limit the scope of PIEs, especially for the entities referred to in article 2.13 (a) of the Audit Directive, that is only those listed on a regulated market. This will have the consequence of lessening the requirements in the ISQMs and ISAs for entities with a listing on an unregulated market in those jurisdictions.

While national standard setters in the EU may choose to use the IESBA's and IAASB's definition of PTEs alongside the EU PIE definition in their national standards equivalent to ISQM1 and the ISAs, the PTEs that are outside the scope of the EU PIE definition, i.e. those that are not listed on a regulated market, might only be subject to those requirements in the revised ISQM 1 and ISAs that apply to PTEs only (i.e. the differential requirements in ISA 720 (Revised)).

Agree, with comments below

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

Agree, with comments below

We agree with the comments in paragraph 33 of the EM that indicate that the revised approach to scoping PIEs in the Revised IESBA Code addresses previous concerns raised about extending the differential requirements in the ISQMs and PIEs. The revised PIE definition places a significant focus on the entities that should be treated as PIEs in the context of the facts and circumstances in a specific jurisdiction.

In South Africa, we just completed a project to align the IRBA Code to the Revised IESBA Code with regard to the definition of the listed entity and PIE. Consequently, the number of PIEs in some categories has decreased.

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

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

As the definition of PIE is very broad, it covers entities that do not all have the same governance structure, and in particular that do not have an audit committee, and where it may therefore be difficult for the auditor to find a relevant body or person to report to.

Agree, with comments below

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

We also support the IAASB's proposals to extend the existing differential requirements in ISQM 1, ISA 260 (Revised), ISA 700 (Revised) and ISA 720 (Revised) to PIEs. As highlighted in IESBA's Basis for Conclusions, one of the objectives of the PIE definition project was to bring greater clarity to the concepts of PIE with a focus on independence and audit quality that underpin the concepts of PIEs. In our views, extending the differential requirements to PIEs represents a pragmatic and effective approach to enhancing audit quality in entities that hold significant public interest.

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

Considering the overarching objective and purpose for differential requirements for PIEs and the definition of PIE proposed in the ED, we agree with the IAASB's proposal for extending the extant differential requirements for communication with TCWG about the firm's system of quality management to apply to PIEs.

Agree, with comments below

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

SOCPA agrees with such proposed amendment since it actually scopes in more entities where the requirement to communicate to TCWG about the system of audit quality applies. This also can satisfy the expectations of PIEs' stakeholders and help TCWG to fulfill their duties according to relevant laws and regulations (e.g. governance code) where they commonly are required to oversee the development of financial reports and the relationship with external auditors. This amendment is necessary to maintain the consistency of the requirements within the standards (specifically the proposed amendment made in para 34 (f)). A note here to consider that the definition of TCWG may need revision to emphasize on the variation of governance frameworks that PIEs entities (which are not only listed entities) may possess.

Agree (with no further comments)

## **4. Accounting Firms**

### **Grand Thornton International Limited**

Agree, with comments below

We agree with the IAASB's proposal for extending the extant differential requirements for communication with TCWG about the firm's system of quality management to apply to PIEs, provided the definition of PIE is revised to align with relevant ethical requirements, including those related to independence. Refer to our response to Question 2. If such requirements do not include a definition of PIE, we agree with extending the requirements related to independence to publicly traded entities, which include listed entities as proposed.

### **Mazars**

Agree, with comments below

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

### **Accountancy Europe**

As the definition of PIE is very broad, it covers entities that do not all have the same governance structure, particularly an audit committee. It may therefore be difficult for the auditor to find a relevant body for this specific communication requirement.

Agree, with comments below

### **Asociación Interamericana de Contabilidad**

3B.

ISQM 1, paragraph 34(e) – communication with TCWG about the firm's system of quality management.

Yes, we agree.

We understand that the proposals in Section 1-D, paragraphs 27–46 are sufficiently explicit of the IAASB's intent to expand the differential requirements existing in the ISQMs and ISAs for application by independent auditors when auditing financial statements of Public Interest Entities.

Yes, we agree.

We understand that the modification, by adequacy, included in the amendment proposal in paragraph 34 (e) of ISQM 1 is appropriate with the new definition of Public Interest Entities instead of Listed Entities, a proposal with which we agree.

### **Botswana Institute of Chartered Accountants**

We agree because this makes it easy for the reviewer or auditor to include the required items to be reported to those charged with governance

Agree, with comments below

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

Agree, with comments below Detailed comments (if any):

If the requirement for an EQR is extended from a "listed entity" to a "PIE", then we would also support the same extension to the requirements for communication with those charged with governance (TCWG) about the firm's system of quality management. As there are only these two differential requirements in ISQM 1, and we are of the view they should apply to the same group of entities to avoid creating unnecessary complexity.

### **CPA Australia**

CPA Australia supports the IAASB's proposal to extend existing differential requirements for communication with those charged with governance (TCWG) regarding the firm's quality management system to PIEs, as outlined in paragraph 34(e) of ISQM 1, in this ED.

However, we find the proposed amendments in paragraph A128 of ISQM 1 to be unclear. We suggest that the IAASB clarify whether the proposed amendments to paragraph A128 intend to expand differentiation requirements for communication with TCWG to PIEs only or to all audit clients.

Agree, with comments below

### **Institute of Singapore Chartered Accountants (ISCA)**

We agree with the proposal for extending the extant differential requirements to PIEs, except for entities that fall within the definition of PIE under the Ethics Codes of individual jurisdictions for reasons not related to the significance of public interest in the financial condition of the entity (as described under the response to Question 2).

Agree (with no further comments)

### Malaysian Institute of Accountants – Auditing and Assurance Standards Board (MIA)

Firms have this relevant information available, and it is reasonable to communicate such matters to TCWG of a PIE. As with the requirement addressing engagement quality reviews in 3A above, such communication may already be a common practice.

Agree, with comments below

### Q03B Neither Agree Nor Disagree

### 3. Jurisdictional and National Auditing Standard Setters

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

We believe the IAASB should defer action on this proposal until global stakeholders, particularly TCWG, are more informed on the stakes of being evaluated as a PIE. Engaging with such stakeholders to assess their views on the IAASB proposal and its value (or lack thereof) to them seems prudent given TCWG continue to be stretched for time in their agendas.

Should the IAASB move forward with this differential requirement for PIEs, we believe it is also important to amend other communication channels with the entity, management and TCWG to provide an understanding of what it means to be audited as a PIE. For example, related amendments are likely needed for ISA 210, Agreeing the Terms of Audit Engagements, and ISA 580, Management Representations given these are important “two-way” communication instruments in the audit.

Neither agree/disagree, but see comments below

The IAASB noted in the Explanatory Memorandum, paragraph 28, and footnote 17, that global variability exists among jurisdictions that have or are considering the applicability of the differential requirements for listed entities in their national equivalent ISQMs and ISAs to apply to PIEs. We anticipate, therefore, those charged with governance (TCWG) in jurisdictions less developed in their PIE rules and regulations will lack adequate awareness of the IAASB's proposal's relevance.

By extension, in those same jurisdictions, it's unclear to us how greater transparency about how a firm's system of quality management supports quality audit engagements for PIEs will assist TCWG in fulfilling their responsibility to oversee the financial reporting process when those charged with governance may not understand “why” they are considered a PIE.

Also, in certain jurisdictions like the U.S., for certain entities like PTEs now regarded as PIEs, it's unclear what the difference in communication with TCWG will be now that the PTE is also a PIE, particularly if the auditor is expected to describe threats to independence and safeguards to mitigate that risk.

### Q04B Disagree

### 4. Accounting Firms

#### Deloitte Touche Tohmatsu Limited

Based on our understanding of the IESBA's imminent plan to communicate their support for PIEs to be determined by jurisdiction (see response to Question 1), we believe definitions of PIE will continue to vary greatly across jurisdictions around the world. Should the IAASB change the requirement from “listed entity” to PIE, significant inconsistency in practice across jurisdictions will ensue. We believe this will lead to confusion by audit and review report users and other stakeholders.

In addition, these communication requirements were extensively debated when ISQM 1 was finalized (a process which included extensive stakeholder outreach) and, given that it has only recently become effective, if the IAASB continues its PIE standard-setting project, we believe that before extending any requirements related to communicating information about a firm's system of quality management, the IAASB should perform additional outreach to stakeholders (including TCWG) to obtain information about the effectiveness of this requirement, including whether TCWG understand why this communication is being made (e.g., how information on a firm's system of quality management will assist TCWG in fulfilling their responsibility to oversee the financial reporting process). The IAASB can use this information to make future decisions on extending the requirement, as well as whether additional guidance and support for auditors and TCWG are necessary (e.g., guidance to auditors as to how to approach conversations with management related to the firm's system of quality management or guidance to TCWG as to why the auditor is communicating this information to them).

Disagree, with comments below

#### **Ernst & Young Global Limited**

As stated in our response to Q2, on balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE.

Refer to our response to Q2 for suggestions for the potential path forward for the IAASB.

Disagree, with comments below

#### **KPMG International Limited**

Please refer to our response to Question 1.

Disagree, with comments below

Please refer to our response to Question 1.

#### **PricewaterhouseCoopers International Limited**

See comments above. Elements of the existing supporting application material to this requirement can therefore also be reinstated i.e., "in some circumstances, it may be appropriate to communicate with TCWG of entities other than listed entities....., for example entities that may have public interest or public accountability characteristics....".

While we acknowledge that the principle of communicating relevant information about a firm's system of quality management to those charged with governance (TCWG) of a PIE is reasonable, we believe the IAASB should only extend the existing differential requirements for audits of listed entities to a broader class of entities once there is clarity on the expectations being set by the requirements to treat an entity as a PIE, and consistent application of the mandatory categories of PIEs, by both the IAASB and the IESBA. In the meantime, firms are not precluded from making such communication to entities other than listed entities in accordance with a firm's policies and procedures established in accordance with ISQM 1.

Disagree, with comments below

### **6. Individuals and Others**

#### **Wayne Morgan and Phil Peters**

See our response to 3A.

Disagree, with comments below

We do not support any differential requirements in the standards. If IAASB intends to create a new category of “heightened assurance” it should explicitly do so and create a separate set of standards across the ISAs, ISAE 3000 and ISSA 5000.

**Q03B No Specific Comment**

**1. Monitoring Group**

**International Forum of Independent Audit Regulators (IFIAR)**

**2. Regulators and Audit Oversight Authorities**

**National Association of State Boards of Accountancy (NASBA)**

**4. Accounting Firms**

**Crowe LLP**