

# Agenda Item 3-E.3 (Supplemental)

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

**3C. Do you agree with the IAASB's proposals for extending the extant differential requirements for communicating about auditor independence to apply to PIEs (ISA 260 (Revised), paragraphs 17 and 17A, and ISA 700 (Revised), paragraph 40(b) in the ED)?**

### Q03C Agree

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

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

Agree (with no further comments)

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

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Not applicable

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)

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

Agree (with no further comments)

#### 4. Accounting Firms

##### Mazars

Agree (with no further comments)

##### RSM International Limited

Agree (with no further comments)

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

##### Botswana Institute of Chartered Accountants

Agree (with no further comments)

##### 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)

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

Agree (with no further comments)

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

Agree (with no further comments)

### **Virginia Society of CPAs**

Agree (with no further comments)

## **Q03C 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 enables global consistency among PIE auditor's reports as some jurisdictions have already extended the requirements or are considering the requirement to apply to PIEs. This streamlining improves efficiency, ensures relevance in evolving regulatory environments, and facilitates global harmonization.

Agree, with comments below

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

Agree, with comments below

#### **Contents of Independent Auditor's Report**

In the example of the Independent Auditor's Report to ISA 700 (Revised), the amendments include the statement that the auditor provided those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence. This statement should be included in all examples of the Independent Auditor's Reports.

#### **Communication with those charged with governance (ISA 260 Revised)**

The ED proposes to move part of the requirement in paragraph 17A(a) to application material paragraph A29A, explaining that updating ISA 260 (Revised) to better align with the IESBA Code is duplicative and creates complexities and confusion if the requirements in the IAASB standards do not fully address all requirements in the IESBA Code dealing with communication with those charged with governance.

However, we draw the IAASB's attention to the fact that some jurisdictions have not endorsed the IESBA

Code and as a consequence, deleting the explicit requirements and only referring to the IESBA's Code in the application material would reduce the differential requirements applicable in those jurisdictions.

The CEAOB believes that the required communication with those charged with governance should be in writing. As such, the CEAOB proposes to modify paragraph 19 of ISA 260 (Revised) as follows “The auditor shall communicate in writing with those charged with governance.” and to remove paragraph 20 of ISA 260 (Revised).

It should be clarified whether all the requirements of the ISQM1 and ISAs relating to PIEs must be applied if the auditor decides to treat an entity as a PIE as set out in paragraph A29G of ISQM1 and A81G of ISA 200. Indeed, confusion could arise while reading paragraph A32 of ISA 260 (Revised) that explains “the communication requirements relating to auditor independence that apply in the case of public interest entities may also be appropriate in the case of some entities other than public interest entities. On the other hand, there may be situations where communications regarding independence may not be relevant [...]”

The ED proposes to move part of the requirement in paragraph 17A(a) to application material paragraph A29A, explaining that updating ISA 260 (Revised) to better align with the IESBA Code is duplicative and creates complexities and confusion if the requirements in the IAASB standards do not fully address all requirements in the IESBA Code dealing with communication with those charged with governance. However, we draw the IAASB's attention to the fact that some jurisdictions have not endorsed the IESBA Code and as a consequence, deleting the explicit requirements and only referring to the IESBA's Code in the application material would reduce the differential requirements applicable in those jurisdictions.

The CEAOB believes that the required communication with those charged with governance should be in writing. As such, the CEAOB proposes to modify paragraph 19 of ISA 260 (Revised) as follows “The auditor shall communicate in writing with those charged with governance.” and to remove paragraph 20 of ISA 260 (Revised).

It should be clarified whether all the requirements of the ISQM1 and ISAs relating to PIEs must be applied if the auditor decides to treat an entity as a PIE as set out in paragraph A29G of ISQM1 and A81G of ISA 200. Indeed, confusion could arise while reading paragraph A32 of ISA 260 (Revised) that explains “the communication requirements relating to auditor independence that apply in the case of public interest entities may also be appropriate in the case of some entities other than public interest entities. On the other hand, there may be situations where communications regarding independence may not be relevant [...]”

#### Contents of Independent Auditor's Report

In the example of the Independent Auditor's Report to ISA 700 (Revised), the amendments include the statement that the auditor provided those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence. This statement should be included in all examples of the Independent Auditor's Reports.

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

We support the proposal, as it will enhance auditors' transparency in relation to confirming to those charged with governance that the firm and the team have complied with independence requirements. Additionally, audit committees will be able to rely on this communication in their consideration of combined assurance models, commonly used by those charged with governance.

Agree, with comments below

### 3. Jurisdictional and National Auditing Standard Setters

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

We have the same comment as for question 3B.

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 communicating about auditor independence to apply to PIEs.

Agree, with comments below

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

Agree, with comments below

Since SOCPA has fully adopted the IESBA Code (including recent amendments pertinent to the definition of PIE), SOCPA believes that these amendments are critical to develop needed consistency between professional requirements (technical and ethical requirements).

### 4. Accounting Firms

#### BDO International Limited

We agree with the IAASB's proposal for extending the extant differential requirements for communicating about auditor independence to apply to PIEs. We also agree with the IAASB's proposal to bifurcate the extant requirement in paragraph 17 of ISA 260 (Revised) and to align the requirement in paragraph 40(b) of ISA 700 (Revised) as well as the additional changes in the illustrative auditor's reports.

The extension of this requirement and alignment changes does however need to be specifically highlighted in future communication or publications, as it is not only a change affecting PIEs and listed entities, but this proposed amendment will apply to audits of financial statements of all entities.

ISA 700 (Revised), paragraph A43 Considerations specific to public sector entities

A43. Listed entities are not common in the public sector. However, public sector entities may be significant due to size, complexity, or public interest aspects. In such cases, an auditor of a public sector entity may be required by law or regulation or may otherwise decide to communicate key audit matters in the auditor's report.

We agree with the amendment to remove the first sentence in paragraph A43 of ISA 700 (Revised). However, the remaining wording in the paragraph might be interpreted to suggest that such public sector entities, when the auditor decides to communicate key audit matters, are then classified as public interest entities (PIEs) (even if the public sector entity does not meet the public interest entity definition).

We ask the IAASB to clarify that communication of key audit matters may be appropriate even if the entity is not classified as a public interest entity, however, this does not mean that all other requirements for a public interest entity must then apply.

We suggest changing the wording of paragraph 43 of ISA 700 (Revised) to remove any uncertainty, or to remove the paragraph entirely or to reword as follows:

A43. An auditor of a public sector entity may be required by law or regulation or may otherwise decide to communicate key audit matters in the auditor's report. In these circumstances, this does not mean that all other requirements to public interest entities are presumed to apply.

Agree, with comments below

## 5. Member Bodies and Other Professional Organizations

### Accountancy Europe

The proposed amendment to ISA 260 paragraph 17 includes a requirement in all audits to communicate to TCWG that the engagement team has complied with relevant ethical requirements regarding independence. According to ISA 260 paragraph 20 this communication shall be in writing. For PIEs, which typically have supervisory/administrative boards and audit committees, this is appropriate and practicable.

For smaller entities, however, this communication requirement may not be proportionate as these entities usually lack such formal structures and the compliance with ethical requirements regarding independence is already communicated in the auditor's report. This is to some extent covered in ISA 260 A32. In our view application guidance should not add conditions to when a requirement should be applied or not.

Agree, with comments below

### Asociación Interamericana de Contabilidad

3C.

ISA 260 (Revised), paragraphs 17, 17A, and ISA 700 (Revised), paragraph 40(b) – communicating about auditor independence.

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.

The amendment raised in paragraph 17 of ISA 260 is relevant to the new definition of PIE. Likewise, we consider the elimination of the reference to fees as an independence requirement in paragraph 17A to be relevant.

Similarly, we agree with the IAASB's proposal in the short modification, of adequacy, raised in the proposal in paragraph 40 (b) of ISA 700.

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

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

We support extending the requirement for communication with TCWG about auditor independence from a “listed entity” to a “PIE”. It is logical for any differential requirements related to the relevant ethical requirements, including those related to independence, to apply to PIEs as this ensures the IAASB standards are consistent with the IESBA Code.

### CPA Australia

Agree, with comments below

CPA Australia supports the IAASB's proposal to extend current differential requirements for communicating auditor independence to Public Interest Entities (PIEs).

However, we found question 3C to be confusing. This question refers to extending the differential requirements for communicating about auditor independence to apply to PIEs only, whilst paragraph 42 of the EM proposed that the revision should extend these requirements to all entities. We recommend the IAASB to clarify its position on this matter.

We believe there are two components to the differential requirements for communicating about auditor independence, that is:

For all audits - A statement from the auditor to those charged with governance (TCWG) that the auditor has complied with relevant ethical (and legal, where applicable) requirements regarding independence; and

For PIEs only - Additional communications with TCWG on relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence.

If our interpretation above is in line with the IAASB's intention, then we suggest the IAASB enhance drafting alignment between the intention to the relevant paragraphs as well as consistency in drafting these paragraphs.

For example, paragraph 40(b)(i) of ISA 700 (Revised) Forming an Opinion and Reporting on Financial Statements (ISA 700) in this ED proposed that, for all audits ‘a statement that the auditor has complied with relevant ethical requirements regarding independence’. On the contrary, paragraph 17 of ISA 260 (Revised) Communication with Those Charged with Governance (ISA 260) in this ED proposed that ‘a statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms, complied with relevant ethical requirements regarding independence’. We are of the view that the reference made to network firms is more appropriate in the context of additional communications with TCWG on relationships and other matters which should only be applied to PIEs, not all entities. Therefore, we believe the drafting of paragraph 17 of ISA 260 should be aligned with paragraph 40(b)(i) of ISA 700 (Revised) and urge the IAASB to clarify its intent and consider the unintended administrative burden this scope expansion may impose on auditors across all audits.

For the record, in Australia auditors are mandated to provide directors with a statement confirming compliance with ethical independence requirements for all statutory financial statements' audits. We understand this may not be the case in other jurisdictions.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

#### **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)

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

The proposed revisions to ISA 260 include removal of the wording 'In the case of listed entities' in paragraph 17. This subsequently extends the requirement outlined in ISA 260.20 (which requires the auditor to communicate in writing to TCWG regarding auditor independence) to all entities, so is not just a change from listed entity to PIE. A similar revision appears for ISA 700 (Revised) in the ED in Paragraph 40(b)(i) where the requirements have also been extended from listed entities to all audits through removal of wording. We understand from the Explanatory Memorandum paragraphs 41-45 that this is a deliberate extension to requirements beyond the change in definition and note that this will give rise to additional administrative task for auditors to complete on all audits.

Reading further into the proposed changes, ISA 260.17 will require communication with TCWG "...a statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence".

We acknowledge the value of written confirmation of independence on all audits, as this may better protect the auditor and the client. We note that currently, such confirmation may already occur at the initiation stage of an audit as part of the content of an engagement letter. While this would suffice in clarifying no independence issues at the acceptance or continuation stage, it would not confirm that the ethical requirements relating to independence have been 'complied with' through the engagement. The proposed wording of ISA 260.17 therefore implies that a statement should be made at the end of the audit. Confirmation at different stages of the audit does have merit as relationships could change or activity could occur during the course of the engagement that may impact the initial assessment. However, the revisions should make the timing of the written confirmation of independence explicitly clear so that there is no ambiguity in requirements.

We note there is some inconsistency in the language used in the proposed revisions for ISA 260.17 when compared to those for ISA 700 (Revised) 40(b)(i). It is not clear whether the reference to network firms independence in ISA 260.17 should be applicable to all engagements, this may be more relevant only for PIE audits, so we would recommend amendments to the wording to bring in line with the proposal for ISA 700 (Revised) 40(b)(i).

Agree, with comments below

The extension of the requirement to provide written confirmation of auditor independence to those charged with governance (TCWG) could also set clearer timings for when this should take place.

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

This is important for alignment and convergence.



Agree, with comments below

### **Q03C Neither Agree Nor Disagree**

#### **4. Accounting Firms**

##### **Grand Thornton International Limited**

We do not believe it is appropriate to extend the extant requirement in ISA 260 (Revised), paragraph 17 to all entities. Under extant ISAs, the auditor typically addresses or provides the auditor's report, which clearly addresses the auditor's independence, to those charged with governance. The auditor is also required to communicate circumstances that affect the form and content of the auditor's report, if any. Requiring another standalone communication about auditor independence to those charged with governance does not provide incremental information and does not support the Listed Entity and PIE Track 2 project objectives.

We agree with extending the requirements in ISA 260 (Revised), paragraph 17A and ISA 700 (Revised), paragraph 40(b) 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.

Neither agree/disagree, but see comments below

### **Q03C Disagree**

#### **1. Monitoring Group**

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

We agree with the substitution of 'listed entity' by 'public interest entity' in the instances identified above. We also agree with the bifurcation of the extant differential requirement in paragraph 17 of ISA 260, and the extension of the requirement to confirm that the engagement team have complied with relevant ethical requirements to apply to all audits of financial statements.

However, we do not agree with the proposed removal of the requirement to communicate fee-related matters which currently sits in paragraph 17(a) of ISA 260 (Revised). Fee-related matters are, in our view, an important element to communications with TCWG as part of the performance of an audit of financial statements. Retaining all relevant requirements within the standards will ensure greater consistency for auditors across various jurisdictions where the IESBA code is not adopted, or where it has not been updated to reflect these new requirements in a timely manner.

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

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

We recommend that the requirement to communicate fee-related matters which currently sit in paragraph 17(a) is retained.

We support many specific aspects of the proposed changes to ISA 260 (Revised), including the substitution of 'listed entity' with 'public interest entity', and the bifurcation of the extant differential requirements in paragraph 17.

However, we do not agree with the proposed removal of the requirement to communicate fee-related matters which currently sits in paragraph 17(a) of ISA 260 (Revised). The communication of these matters to TCWG are, in our view, an important part of the performance of an audit of financial statements. There are



practical benefits to ensuring that the performance standards retain specific ethical requirements. In addition, the removal of this requirement could have the impact of weakening a framework-neutral approach to ethical requirements, since the ISAs will require the application of the IESBA Code or an equivalent set of ethical standards for high standards to be maintained.

Disagree, with comments below

### 3. Jurisdictional and National Auditing Standard Setters

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

As noted earlier, we have concerns about the risk of perception of two tiers of audit quality between PIEs and non-PIEs. This proposed requirement may cause stakeholders to believe that there are different levels of independence and that auditors of non-PIE entities are somehow less independent than auditors of PIE entities. As a result, this could have an adverse effect on the confidence in non-PIE audits, which would not be in the public interest and could exacerbate the audit expectation gap.

Moreover, for the communication to be meaningful, more information may be necessary, such as why an entity is a PIE and what the implications are of being audited as one. Disclosure, limited to the treatment of the entity as a PIE, in the auditor's report, without proper context and explanation, would be of limited value to the users of the financial statements and 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.

Other potential issues include situations where entities might seek out auditors who are perceived as "more independent" or might auditor-shop based on firms' differing interpretations of whether to treat the entity as a PIE. It may also not be appropriate for the auditor to communicate or report regarding independence with the entity when management does not also have a reciprocal obligation given, they too, can undermine confidence in the audit of financial statements if they are not acting to maintain independence.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

We recommend two options: (1) the IAASB should retain the extant requirement for publicly traded entities only, or (2) the IAASB should defer action on this proposed change until more analysis can be performed.

Disagree, with comments below

#### Canadian Auditing and Assurance Standards Board

Suggestion to address Concern 1: We suggest limiting the application of paragraph 17 of ISA 260 (Revised) to PIEs, rather than to all entities. In doing so, a conforming change would need to be made to proposed paragraph 40(b) of ISA 700 to require that the statement in the auditor's report regarding the auditor's communication with TCWG about compliance with relevant ethical requirements applies to PIEs, rather than to all entities.

Suggestion to address Concern 2: We suggest amending paragraph A32 of ISA 260 (Revised) to follow the same construct as paragraph A41 of ISA 700 (Revised) as follows:

Paragraph A81G of ISA 200 explains that the auditor may treat other entities as public interest entities and provides considerations for the auditor in doing so. The auditor may also decide to apply the communication requirements relating to auditor independence applicable to that apply in the case of PIEs to may also be appropriate in the case of some entities other than PIEs.

We have concerns about the following:

Extending the communication required by paragraph 17 of ISA 260 (Revised).

The construct of paragraph A32 of ISA 260 (Revised)

Concern 1: Extending the communication required by paragraph 17 of ISA 260 (Revised) to all entities has minimal benefits

We agree with the proposal to extend the differential requirements in paragraph 17A of ISA 260 (Revised) to apply to PIEs. However, we believe that the requirement in paragraph 17 of ISA 260 (Revised) should only be extended to apply to PIEs, rather than all entities.

In our view, the cost of extending the requirement in paragraph 17 of ISA 260 (Revised) to all entities does not justify the benefit.

For non-PIEs, this requirement would result in the firm providing an independence letter to Those Charged with Governance (TCWG) solely to state compliance with independence requirements (in contrast with PIEs, which would cover the additional matters under paragraph 17A). Providing an independence letter to TCWG for non-PIEs seems redundant, considering the statement of compliance with independence requirements is already included in the auditor's report.

We acknowledge the reasons provided in paragraph 42 of the EM for extending the requirement in paragraph 17 to apply to all entities, including the interplay with paragraph 16A of ISA 260 (Revised) that requires the auditor to communicate with TCWG about the relevant ethical requirements applied. However, we believe that auditors might implement the communication with TCWG under paragraph 16A differently from the communication under paragraph 17. While communication under paragraph 16A could be integrated into existing forms of communication such as the engagement letter (as suggested in the first bullet of paragraph A24 of ISA 210), communication under paragraph 17 requires the issuance of a separate independence letter.

Concern 2: Construct of paragraph A32 of ISA 260 (Revised)

Paragraph A32 of ISA 260 (Revised) includes guidance that “the communication requirements relating to auditor independence that apply in the case of PIEs may also be appropriate in the case of some entities other than PIEs.” However, as there is no guidance provided on what constitutes “appropriateness,” and therefore may leave auditors with questions.

We suggest the reference to ‘appropriate’ can be removed, while still achieving the paragraph’s purpose of reminding auditors that they may decide to communicate independence matters applicable to PIEs to entities other than PIEs.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Disagree, with comments below

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

Disagree, with comments below

We believe paragraph 17 should only apply to PIEs and the introduction to that paragraph should therefore rather be “In case of public interest entities...”.

If the IAASB still believes paragraph 17 should apply on all audit engagements, we believe the conditionality expressed in A32 should rather be included in the requirement.

The suggested changes in paragraph 17 in ISA 260 (Revised) would extend the requirement to be applied not only to PIE audits but to all audit engagements. In our view, extending the requirement to be applied on all audit engagements goes beyond the scope of this narrow amendment project.

Given that the statement must be in writing (paragraph 20) and that it seems as if this statement is different from the confirmation of compliance with independence requirements at the acceptance or continuation stage and intended to be made at the end of the audit, the cost-benefits of extending this requirement to apply on all audit engagements can be questioned.

This requirement may be appropriate and practicable for PIEs that typically have supervisory/administrative boards and audit committees. However, since smaller entities usually lack such formal structures and compliance with ethical requirements regarding independence is already communicated in the auditor's report, we do not think proportionality considerations have sufficiently been taken into account in the requirement. This is to some extent covered in ISA 260 A32 but, in our view, application material should not add conditions to when a requirement should be applied or not.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

#### **Wirtschaftsprüferkammer (WPK)**

Apart from extending the extant differential requirements for communicating KAM to apply to PIEs, paragraph 17 of ISA 260 and paragraph 40 (b) of ISA 700 (Revised) include another proposed change by deleting the words "For audits of financial statements of listed entities". This would extend the extant requirements for the auditor to provide those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence from audits of financial statements of listed entities to all audits of financial statements.

We disagree to include a new and additional requirement for non-PIEs in the proposed narrow scope amendments since such a new requirement is not related to the harmonization of the IAASB standards with the revisions to the definitions of listed entities and PIE in the IESBA Code. Although there may be an interrelationship with the new requirement in paragraph 16A of ISA 260 (Revised) that was approved in Track 1 of the project, the requirement in paragraph 17 is not identical with it. Therefore, even if the requirement in paragraph 16A applies to all audit engagements this does not necessarily need to be the case for requirement 17 that has been restricted to listed entities until now.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Disagree, with comments below

#### **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.

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.

With respect to required communication with those charged with governance about auditor independence, if an entity is a PIE only for audit purposes, the statements in paragraph 44 of the EM related to achieving convergence with the IESBA Code and accommodating a “future-proof approach” to alignment in independence communications are not achieved. The ISA 260 requirement to communicate “all relationships and other matters” that “may reasonably be thought to bear on independence” may not include the matters required to be communicated by the IESBA Code for PIEs. Because the auditor’s responsibility to communicate “all matters” that affect independence would be stated in the auditor’s report due to the proposed conforming amendments to ISA 700 (Revised), this may be viewed as misleading when only the independence communications required under the IAASB standards are made (and not the communications that only apply to PIEs under the IESBA Code).

In addition, we have concerns about the proposed expansion of paragraph 17 in ISA 260 (Revised) in the ED-PIE for audits of entities other than PIEs.

We question the necessity of expanding the applicability of the existing requirement in paragraph 17 of ISA 260 (Revised) regarding communicating a statement about the auditor’s independence from audits of listed entities to audits of all entities because:

This requirement was previously not a standalone communication; it provided context to the other required communications about independence for audits of listed entities (i.e., those communications now in paragraphs 17A(a) and (b) of ISA 260 (Revised) and applicable only to audits of public interest entities).

When considering the requirement in paragraph 17 as redrafted together with the requirement in paragraph 20 of ISA 260 (Revised) for the auditor to communicate in writing “when required by” paragraph 17, the result is requiring a written statement for audits of entities other than PIEs.

A statement about the auditor’s independence is a required element of the auditor’s report and therefore is already communicated in writing for all audits.

This communication requirement change is also proposed to result in a change to the auditor’s report for all audits (i.e., revisions to paragraph 40(b) of ISA 700 (Revised) that address the description of the auditor’s responsibility). The change in the auditor’s report provides little incremental informational value to users of the report in light of the existing required affirmative statement about independence in the Basis for Opinion section.

Overall, we do not understand the rationale for the change to paragraph 17 of ISA 260 (Revised) for audits of entities other than public interest entities, including whether additional communications to those charged with governance are expected beyond providing them the statement in the auditor’s report. If this requirement is maintained, we recommend the IAASB provide application material about the intention of the requirement and, for audits of entities other than public interest entities, guidance on the nature and extent of information to be communicated.

In addition, we do not believe it is appropriate for a ‘narrow scope’ project specific to audits of public interest entities to impose significant new requirements for audits of entities other than public interest entities. The IAASB should be mindful of the implementation effort that will be involved by firms for such a minor change. See also our response to Q8 on the effective date.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

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

Additional editorial comment for the IAASB's consideration

We suggest the following revision to ISA 260 paragraph A29A of the ED-PIE to clarify that both examples given are only applicable to PIEs:

A29A. Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance for matters that may reasonably be thought to bear on independence. For example, for audit clients that are public interest entities, the IESBA Code requires the auditor to communicate with those charged with governance information regarding fees and the provision of non-audit services for audit clients that are public interest entities.

As explained in our response to Q3C, we question the necessity of expanding the applicability of the existing requirement regarding communicating to those charged with governance a statement about the auditor's independence in paragraph 17 of ISA 260 (Revised) from audits of listed entities to audits of all entities. We do not believe this change is necessary as a statement of the auditor's independence is clearly made in the auditor's report. We also do not think it is appropriate for a 'narrow scope' project specific to audits of public interest entities to impose new requirements for audits of entities other than public interest entities.

Disagree, with comments below

**KPMG International Limited**

Disagree, with comments below

Please refer to our response to Question 1.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Detailed comments (if any): Please refer to our response to Question 1.

**PricewaterhouseCoopers International Limited**

Extending the requirement in paragraph 17 to audits of all entities is a logical and necessary consequence of the introduction of paragraph 16A as part of Track 1 of the IAASB's project. When informing TCWG of which independence requirements the auditor has applied (paragraph 16A), they should also be informed as to whether the auditor has in fact complied with those requirements (paragraph 17).

With respect to the remaining differential elements of extant paragraph 17 (now paragraph 17A), please see our response to question 3B, which is also applicable in relation to this requirement.

As a separate matter, while we understand the IAASB's logic for deleting the requirement to communicate total fees charged, due to the new requirements in the Code to communicate to TCWG fee information, we are concerned that in circumstances when a jurisdiction does not adopt the Code, fee-related threats to independence may not necessarily be communicated to TCWG. We suggest an approach similar to language adopted for the ISA 700 (Revised) requirement under Track 1 of the project could have been adopted to retain a requirement to discuss fee information while still complying with the IAASB's goal of not duplicating or conflicting with the Code requirement:

“For audits of financial statements of listed entities, the statement required by paragraph 17 shall include:

(a) All relationships and other matters between the firm, network firms, and the entity that, in the auditor’s professional judgment, may reasonably be thought to bear on independence. When required by relevant ethical requirements, this shall include fee-related information.”

With respect to paragraph A32 of ISA 260 (Revised) we note there is a disconnect with paragraph A81G of ISA 200 referenced therein. Paragraph A81G sets out considerations for a firm in making a determination as to whether to treat other entities as PIE. Paragraph A32 implies there are considerations for the auditor having made that determination. Consistent with our previous responses, we believe the IAASB should defer these changes to the application material until there is clarity on the expectations being set by the requirements and consistent application of the mandatory categories of PIEs by both the IAASB and the IESBA.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

See response to question 3B.

Disagree, with comments below

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

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

The current paragraph 17 of ISA 260 (Revised) requires auditors to communicate when audit engagement involves listed entities, a statement of independence to those charged with governance for:

the engagement team and others in the firm as appropriate,

the firm and,

when applicable, network firms, for all audit engagements including those which are for audit of entities not falling within the revised PIE definition.

The proposed revision to paragraph 17 of ISA 260 (Revised) would extend the communication of “statement of independence to those charged with governance” to all audit engagements including those audit clients not within the revised definition of a PIE.

We do not agree to have a separate statement of independence in writing to those charged with governance to be extended to all entities. The communication should be required for publicly traded entities as:

the existing paragraph 28(c) of ISA 700 (Revised) already has a requirement for all entities to disclose a statement of independence in the auditors’ report. We felt that the requirement of such disclosure in the auditor’s report would have addressed the auditors’ independence for all entities.

It is more meaningful for the requirements to be applicable to publicly traded companies as there is typically a separate governance body, i.e., an Audit Committee whose functions include evaluating auditor’s independence and other audit-related matters. For non-publicly traded entities, there is usually no such oversight body. As a result, there may not be substantive communicative value between the auditor and its auditee to require separate independence statements.

Disagree, with comments below

## **6. Individuals and Others**

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

See our response to 3A.

Disagree, with comments below

### **Q03C No Specific Comment**

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

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

## **4. Accounting Firms**

### **Crowe LLP**