

Agenda Item 3-E.1 (Supplemental)

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

3A. Do you agree with the IAASB's proposals for extending the extant differential requirements for engagement quality reviews to apply to PIEs (ISQM 1, paragraph 34(f) in the ED)?

Q03A Agree

2. Regulators and Audit Oversight Authorities

Financial Reporting Council – UK (FRC)

Agree (with no further comments)

3. Jurisdictional and National Auditing Standard Setters

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

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

Mazars

Agree (with no further comments)

5. Member Bodies and Other Professional Organizations

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)

Q03A 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 enhance the quality of reporting by PIEs and provide greater confidence to the public.

Agree, with comments below

Committee of European Auditing Oversight Bodies (CEAOB)

We have no objection to the extant differential requirements for engagement quality reviews being extending to PIEs, subject to our previous comments raised on question 2 being considered.

In our comment letter for IESBA, the CEOB 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)

In South Africa, the IRBA considered the examples in paragraph A133 of ISQM 1 and the IRBA Code's definition of a public interest entity in developing the IRBA's Four Rules Arising from the International Standards on Quality Management.

During the development of those Rules, one of the proposed rules, which was published by IRBA on exposure for public comment, considered whether limiting engagement quality reviews to listed entities sufficiently serves the public interest, as required by paragraph 34(f)(i) of ISQM 1, or whether it should be increased in scope to include PIEs.

A decision on this proposed rule relating to paragraph 34(f) was deferred and did not make it to the final list of Four Rules, due to the pending finalisation, at that time, of the local revisions to the definitions of listed entity and public interest entity in the IRBA Code. This IRBA Code process has since been completed, but the IAASB's proposal is a welcomed and supported development that will result in the IRBA not needing to revisit the proposed rule that was deferred.

We expect you to hear from your feedback as we heard in South Africa from some respondents about the lack of capacity in some markets to implement this requirement (ISQM 1, paragraph 34(f) in the ED), and also hear strong support from users, regulators and standard setters (in particular) for the requirement. The audit of PIEs comes with a commensurate need for firms to make the necessary quality management resources available and we expect that market forces will address the need for capacity.

Agree, with comments below

We welcome the increase in the scope of entities for which engagement quality reviews will be required. The proposed change will promote and enhance audit quality – thereby, strengthening the reputation of the auditing profession – and assist in restoring confidence.

3. Jurisdictional and National Auditing Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

Agree, with comments below

The AUASB supports extending the extant differential requirements for EQRs from listed entities to PIEs. The AUASB notes that when applying a risk-based approach under ISQM 1, many PIEs should already be identified for an EQR. By requiring EQRs for all PIEs, low-risk PIEs will be included. Proportionately more low-risk PIE audits are performed by smaller audit firms and sole-practitioners, who may face resourcing issues. If these proposals are adopted, the IAASB should consider a longer transition time to implement the changes.

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

In Europe, these requirements already apply to entities defined as PIEs by the European Union.

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.

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

We agree that differential requirements for engagement quality reviews should be extended to all entities that meet the PIE definition because this is consistent to the purpose of the differential requirements.

The approach will also promote consistency of application among firms.

In line with our responses to Questions 1 and 2, we believe that the second sentence of paragraph A133 should be deleted.

In the examples in paragraph A134, in the second bullet under “those relating to the types of entities for which engagements are undertaken”, it would be better to refer to “For entities that are not public interest entities, those relating to the types of entities for which engagements are undertaken” to emphasize that the related examples in the sub-bullets relate to entities not covered by the PIE definition. The same applies to the following heading.

Agree, with comments below

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 requirement for engagement quality reviews to apply to PIEs.

Agree, with comments below

New Zealand Auditing and Assurance Standards Board

Agree (with no further comments)

We support expanding the application of the mandatory engagement quality review to public interest entities. We expect that many of the additional entities that will be captured under the public interest entity definition would already be subject to engagement quality review based on the current risk-based approach,

Nordic Federation of Public Accountants (NRF)

Agree, with comments below

By replacing “listed entities” with “publicly traded entities” more entities will be covered by the PIE definition. In our view, the value of having an EQR in these additional engagements should not be underestimated. At the same time extending the extant differential requirements for engagement quality reviews to apply to all PIEs is probably the proposal that will have the greatest impact on the audit market and could rather reinforce market concentration and costs.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

SOCPA agrees that these amendments can serve the purpose of responding to the PIEs stakeholders’ heightened expectations and the public’s higher level of interest in the financial condition of these entities. Taking into consideration the comment provided on the previous questions, since this proposed amendment has scoped in more entities rather than limiting the quality engagement review requirement to listed entities, this could increase costs to auditing firms specifically when a jurisdiction decides to include various types of entities within the scope of PIEs definition. Accordingly, there is always a concern about the audit market and how these increased costs may enhance fairness and healthy competition within the market to provide high quality auditing services with a reasonable level of audit fees that the markets could appreciate.

Agree, with comments below

4. Accounting Firms

BDO International Limited

We are broadly supportive of the IAASB's proposals to extend the extant differential requirements engagement quality reviews to apply to PIEs. As noted in our previous submissions, there is a strong public interest case for providing more clarity to stakeholders about those entities and engagements that should be subject to engagement quality reviews by virtue of their potential impact on wider society. The extension of these differential requirements also reflects ongoing legislative changes in several jurisdictions that have provided de facto extension outside of professional standards. We note that the accompanying application guidance in ISQM 1 of the ED (A29A-A29G), will also be helpful to firms as they maintain and develop their Systems of Quality Management.

Agree, with comments below

5. Member Bodies and Other Professional Organizations

Accountancy Europe

Whilst this could be seen as a prerequisite for operating in PIE audit market as is the case within Europe, requiring engagement quality reviews for the audits of all PIEs worldwide – including those going beyond the IAASB's "own" part of the definition – might not always be a proportionate approach. This could also have implications for the audit market, as for example, firms without the capacity to have an internal individual to perform an EQR will face a further deterring factor in choosing whether to service the PIE audit market. Therefore, the standard should include a leeway addressing scalability (please see below).

The standards could include a rebuttable presumption that an engagement quality review is required for all PIE audits, whereas a firm or auditor could be required to justify that a departure is appropriate based on the individual engagement circumstances. As firms can also voluntarily elect to have an EQR for a specific engagement, the criteria already established might provide a basis for any decision regarding the appropriateness of an opt-out for smaller PIEs. The IAASB or those setting PIE definitions might consider whether this could be an option to address the cost-benefit and market choice concerns outlined above.

Agree, with comments below

Asociación Interamericana de Contabilidad

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 believe that ISQM 1, paragraph 34(f) (i) is clear and consistent with the relevant differential requirements that IAASB is proposing in its proposed revised standards that independent auditors should consider in their audit of financial statements of public interest entities rather than listed entities.

3A. ISQM 1, paragraph 34(f) – engagement quality reviews.

Botswana Institute of Chartered Accountants

Agree, with comments below

We agree with this proposal because it gives guidance on the reviewer of what to look for when reviewing public interest entities broad as they are.

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

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

Overall, we recognise the importance of considering extending the engagements that are required to be subject to engagement quality review from a “listed entity” to a “PIE”. We understand it is already common practice for many firms’ policies and procedures to specify that all PIE audits must be subject to an engagement quality review under paragraph 34(f)(iii) of ISQM 1. However, ISQM 1 has only recently been introduced, and has not yet been subject to a post-implementation review. This would also move away from the risk-based approach taken by the IAASB at the time of the ISQM 1 deliberations.

One of the main reasons the IAASB decided not to expand the differential requirements for engagement quality reviews beyond listed entities in the ISQMs and ISAs in previous public consultations, deliberations, and discussions, was due to the unintended consequences of the requirements applying to smaller entities that could be scoped into the definition of a PIE (e.g., due to regulations or legislation) and for which it may be impracticable or overly burdensome to apply the requirements in such cases. In other words, the IAASB followed a risk-based approach.

We do not believe that the revised approach to scoping PIEs as per the IESBA Code addresses these concerns. In our view, it would still present practical difficulties for small and medium practices (SMPs) in managing engagement quality reviews. Therefore, it is imperative for national standard setters (NSS) to reconsider their PIE definitions at jurisdictional levels to reflect an appropriate balance, particularly for entities of a smaller scale or otherwise that are on the lower fringe of the definition. There is a role for the IAASB (and the IESBA) to provide clear implementation guidance, with explicit recognition of this practical challenge, in order to draw NSS’s attention to it and to drive a more consistent approach globally.

Chartered Accountants Ireland

In Ireland a number of these requirements already apply under ISAs (Ireland) to PIEs as defined under Irish legislation. We welcome changes to aid consistency internationally.

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 comments below

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

The IAASB’s rationale that a firm’s risk-based approach to engagement quality reviews may already scope in many PIEs is reasonable. Notwithstanding our overall support, we highlight a risk that, in circumstances where a jurisdiction does not refine the categories of entities within the definition considered to be PIE, this may give rise, in some cases, to an increase in the population of entities that would be subject to an

engagement quality review, for which some smaller firms may not have sufficient internal resources to satisfy.

Agree, with comments below

The Malta Institute of Accountants

The proposed changes by the IAASB are understandable and a very detailed assessment of these changes and the need thereof have been presented within this ED.

It is clear that extending the extant differential requirements in the ISQMs and ISAs to apply to PIEs should enhance the overall quality and reliability of financial reporting, which is particularly crucial for entities with significant public interest implications.

However, it may also increase compliance burdens for both auditors and PIEs, especially for small/micro-PIEs or specific PIEs with reduced risks and exposures.

It is also a fact that the current ISQM1 already requires an Engagement Quality Control Review (EQCR) in cases where:

audits or other engagements for which an engagement quality review is required either by law or regulation;
or

the firm determines that an EQCR is an appropriate response to address one or more quality risk(s).

To this effect, the current requirements for undertaking an EQCR are already broader than for listed entities.

The above ties with the risk-based approach introduced by ISQM 1. Hence, following this principle and the concept of scalability, whilst the applicability of an EQCR to PIEs would in most cases be a step forward in achieving better quality, assurance and reliability to the audit process, the IAASB could introduce provisos which could cater for exceptions based on:

1. tailoring the EQCR process to the specific needs and risks of PIEs, considering factors such as size, complexity and public interest significance; and
2. implementing a risk-based approach where the frequency and scope of EQCRs are determined based on the PIE's characteristics and inherent risks, for example by applying EQCRs intermittently.

This will hence introduce an assessment of cost versus benefit, which would typically vary depending on the size, complexity and public interest significance of each entity falling within scope of this extended requirement.

Ultimately, any alternative should aim to strike a balance between enhancing audit quality, minimising undue burden, and promoting consistent application globally. This may involve additional stakeholder consultation and collaboration among standard-setting bodies, regulators and industry representatives.

Agree, with comments below

Q03A Neither Agree Nor Disagree

5. Member Bodies and Other Professional Organizations

CPA Australia

Neither agree/disagree, but see comments below

CPA Australia is unable to definitively conclude on this matter. Nonetheless, we offer our observations and relay feedback from our members.

We've observed that many larger audit firms have already voluntarily extended existing engagement quality review requirements to Public Interest Entities (PIEs) as part of their risk assessment processes, recognising the high public interest in these entities. While the proposed changes may encompass a broader range of entities under these requirements, the incremental costs for these auditors may not be overly burdensome.

Conversely, we've received feedback indicating that extending these requirements to PIEs could significantly impact Small and Medium Practitioners (SMPs), especially in less developed jurisdictions. This is particularly challenging as SMPs are not currently obligated to conduct engagement quality reviews for their PIE clients. SMPs often serve smaller, less complex PIEs with straightforward business models and minimal risk factors, making the imposition of engagement quality reviews disproportionately burdensome for both entities and auditors. This could inflate audit costs for clients with little added value.

We recognise the proposal's alignment with public interest objectives but urge the IAASB to adopt a proportional and scalable approach given the significant impact this may have on the SMPs and their clients. We note that paragraph 4 of ISQM 2 Engagement Quality Reviews (ISQM 2) addresses scalability at a principle level. However, we urge the IAASB to provide additional guidance in the form of examples as illustrated in the application paragraphs in ISQM 1. Consideration of the size and complexity of entities alongside PIE classification would ensure differential requirements add value without unduly burdening SMPs and their clients.

Should the IAASB proceed with extending the extant differential requirements for engagement quality reviews to apply to PIEs, we recommend allowing ample transition time for SMPs to implement changes to get such processes set up and embedded, which would allow them to comply with the new differential requirements.

International Federation of Accountants (IFAC)

The proposals will increase the number of entities that will fall under differential requirements, and in many jurisdictions, this is likely to result in small insurance or finance related entities being scoped in. These additional requirements cause a disproportionately large burden on smaller entities that would be classed as PIEs and on their auditors, who are more likely to be SMPs and who may not currently deal with other PIE clients. The extension of engagement quality reviews (EQRs) to small or less complex PIEs would require their auditor to require an EQR be performed and put processes in place for effective EQRs even where the audited entity is very small, uncomplicated with a simple business model and having no additional risk factors to justify such work. This would increase the costs of audit that are passed through to clients with arguably little additional value in these cases.

In practice, this could also result in smaller firms exiting the market for such audits, which could again impact costs to such clients if they are otherwise unattractive to larger firms. Already in some jurisdictions, many SMPs make a determination to not take on clients that are subject to differential requirements, so increasing the scope of entities that are subject to such requirements will result in changes to the audit market. This will also limit choice for such entities newly falling under differential requirements.

At the same time, we acknowledge there will be views that activities that foster the 'public interest in the financial condition' legitimize the additional work and associated additional costs, the level of public scrutiny being enough to justify these. We also note that it may be a desired outcome to change the market so that

only firms of a particular size or sophistication that are prepared to deal with differential requirements are the ones who are given responsibility for auditing entities where there is a significant public interest, but this may not be considered desirable in all jurisdictions globally. If this is the case, scalability of approach should still be ensured within requirements so that the scale and complexity of an entity can be taken into consideration alongside classification as a PIE to determine appropriate differential requirements to ensure they add value. However, we note this would be difficult to establish in a tidy way.

Where small or less complex PIEs are concerned, the most onerous additional requirements which may not add value would be in relation to EQRs. Potentially, criteria could be included to determine whether less complex PIEs require an EQR. These could mirror the criteria that a firm can use to voluntarily have an EQR. This way the firm would have to justify not requiring a specific PIE audit be subject to EQR.

Neither agree/disagree, but see comments below

Q03A Disagree

3. Jurisdictional and National Auditing Standard Setters

American Institute of Certified Public Accountants (AICPA)

As the IAASB noted in paragraph 39 in the Explanatory Memorandum, entities with a significant public interest in their financial condition would likely already be covered in the scope of entities subject to engagement quality reviews given the risk-based approach in ISQM 1 to determining engagements subject to an engagement quality review. That is, firms design criteria to classify the risk profile of their audit clients and apply more independence and quality rules to those clients which are considered high risk.

Additionally, we note in the ISQM 2 Basis for Conclusions that “The IAASB also further considered requiring engagement quality reviews to be performed on certain engagements based on various criteria relating to the nature and circumstances of the engagement or the entity, which may be for reasons other than addressing one or more quality risk(s). However, the IAASB was generally of the view that requiring an engagement quality review in response to reasons that are not risk-based is inconsistent with, and may be viewed as undermining, the principle of a risk-based approach in ISQM 1.”

Our belief is that the risk-based approach outlined in ISQM 1 for identifying engagements eligible for an engagement quality review is appropriate. Introducing distinct requirements for PIEs would deviate from the risk-based framework described in ISQM 1 paragraph 34(f), as well as the scalability objectives in the Public Interest Framework Scalability and the concept of scalability in CUSP.

We also anticipate this requirement would bring unintended consequences to small and medium size firms that don't currently serve PIEs already subject to differential requirements, such as those related to PTEs. Those firms may lack existing resources and incur greater costs to comply with the requirement as proposed without a clear benefit to stakeholders.

We recommend two options: (1) retain the extant requirement for publicly traded entities only, or (2) allow the firm to judge which additional independence and quality requirements are better suited to respond to the risks for PIEs that are not otherwise publicly traded entities.

Disagree, with comments below

Canadian Auditing and Assurance Standards Board

Key Concern: Extending the differential requirement for engagement quality reviews (EQRs) to apply to PIEs undermines the risk-based approach and scalability upon which ISQM 1 is premised

We disagree with the proposal to extend the differential requirement for engagement quality reviews (EQRs) to apply to PIEs. Doing so undermines the risk-based approach and scalability upon which ISQM 1 is premised by scoping in lower-risk entities not currently captured. Instead, we believe that the differential requirement for EQRs should only apply to publicly traded entities (PTEs).

We share the IAASB's perspective, as stated in paragraph 39 of the Explanatory Memo (EM), that entities with a significant public interest in their financial condition would likely already be covered in the scope of entities subject to EQRs given the risk-based approach in ISQM 1. Based on this perspective, we believe that the existing requirement in paragraph 34(f)(iii) of ISQM 1, which requires firms to establish policies and procedures for EQRs where appropriate to address quality risk, already achieves the IAASB's objectives.

In our view, extending EQRs to apply to PIEs would result in EQRs being performed on lower-risk entities where there is limited or no value to doing so and therefore would not be in the public interest. This may be the case, for example, in an audit of the financial statements of a small, well-capitalized insurance company, whose financial statements are only used by regulators to ensure compliance with capital ratios.

We suggest replacing "public interest entities" with PTEs in paragraph 34(f)(i) of ISQM 1. In doing so, some of the application material that the IAASB intends to delete from paragraph A134 of ISQM1 would require reinstatement.

Extant ISQM 1 is already achieving the objectives of the IAASB's proposed change through its scalable risk-based approach. Accordingly, we believe that our suggested approach, which is largely consistent with the extant approach, is appropriate, practicable, and capable of being consistently applied.

Disagree, with comments below

4. Accounting Firms

Crowe LLP

We agree with the concept in ISQM 1, paragraph A29C that "the extent of public interest in the financial condition of an entity may, for example, be affected by consideration of whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations". In jurisdictions where such regulatory supervision exists, we believe that the requirements mandated by those supervising regulators should be a determining factor in the application of the differential requirements in the ISQMs to PIEs. For example, the specified responses in ISQM 1, paragraph 34(f), that addresses Engagement Quality Reviews (EQR), results in an EQR requirement for SEC supervised entities, consistent with SEC requirements. However, the amendment will result in an EQR for certain US banks and insurance entities, which requirement is not mandated by their supervising regulators, the Federal Deposit Insurance Corporation (FDIC) and the National Association of Insurance Commissioners (NAIC). We believe that such an inconsistency is not in the best interests of the stakeholders. We believe it is more appropriate to default to EQR requirements set forth by local jurisdiction regulators in determining whether an EQR is required. We suggest that ISQM 1 paragraph 34(f)(i) be modified to "Audits of financial statements of public interest entities that are not subject to local jurisdiction regulatory supervision". Alternatively, paragraph 34(f)(i) could be deleted.

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.

If the IAASB continues its PIE standard-setting project, we would not agree with extending this differential requirement. There was significant debate during the project on ISQM 2, Engagement Quality Reviews, about the factors that should drive the need for an engagement quality review. The Basis for Conclusions - ISQM 2 discusses how the IAASB was of the view that requiring an engagement quality review in response to reasons that are not risk-based is inconsistent with, and may be viewed as undermining, the principle of a risk-based approach. We do not believe there are compelling reasons, or outreach support, to overturn previously made decisions related to this matter.

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.

We believe that the extension of the requirements related to engagement quality reviews to PIEs as proposed in the ED-PIE would be beneficial only if the individual jurisdictions consider the facts and circumstances in their jurisdiction and appropriately refine the definition of PIEs with specific consideration to those entities for which the differential requirements in the IAASB standards should apply. If jurisdictions do not refine this definition, there may be unintended consequences due to firms and auditors being required to apply the extended engagement quality review requirement in the IAASB standards to entities for which the increased audit cost outweighs the benefits of the incremental procedures.

In addition, under the IAASB standards, engagement quality reviews would be required for audits of PIEs as defined by the IAASB standards, but under the IESBA Code, the requirements related to rotation of engagement quality reviewers would only apply to audits of PIEs as defined by the IESBA Code. This will cause misalignment between the appointment of engagement quality reviewers under ISQM 2 and the rotation requirements for engagement quality reviewers in the IESBA Code.

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

Disagree, with comments below

Grand Thornton International Limited

We do not agree with extending the extant differential requirements for engagement quality reviews to apply to PIEs (ISQM 1, paragraph 34(f) in the ED). The definition of PIE as proposed in the Listed Entity and PIE Track 2 project ED may not be consistent with the definition of PIE for independence requirements, leading to inconsistencies within the auditor's report regarding whether the entity is treated as a PIE or not (see our response to Question 2). Further, extending this requirement to apply to PIEs would contradict the firm's ability to determine whether an engagement quality review is needed using a risk-based framework also taking into consideration the nature of the entity and other factors. In this regard, the proposal may unnecessarily increase the cost of an audit or other assurance engagement.

We believe the differential requirement in ISQM 1, paragraph 34(f) in the ED should only apply to publicly traded entities, which include listed entities as proposed (see our response to Question 2 regarding adoption of these definitions).

Disagree, with comments below

KPMG International Limited

Disagree, with comments below

Recommendation not to extend the differential requirements to PIEs

As a result of the IESBA view that the definition and concept of a PIE as set out in the IESBA Code is not required to be adopted and further refined at a jurisdictional level, as appropriate, we believe it is more likely that relevant local bodies may no longer fulfil their intended critical role in determining both the size and nature of entities that would be within scope of the baseline definition. As a result, this definition/concept, if adopted into the IAASB Standards, may be applied to an unnecessarily broad population of entities where there is not significant public interest in their financial condition and for which it would therefore be overly burdensome from a cost-benefit perspective to apply the differential requirements set out in the IAASB standards for PIEs. Accordingly, we also do not support extending the differential requirements of the IAASB standards to PIEs, in particular, those requirements in respect of engagement quality reviews and communication of KAMs.

We do not consider it would be appropriate to extend the differential requirements for engagement quality reviews to apply to PIEs, as we describe in our response to Question 1.

We believe that, in the absence of a consistent global baseline definition, not all jurisdictions may adopt/implement the PIE definitions/concepts in line with the IAASB's intentions. In such circumstances, the costs of applying certain of the differential requirements for PIEs, such as the engagement quality review requirement, when performing an audit of such entities may be disproportionate and significantly outweigh the benefits.

PricewaterhouseCoopers International Limited

For the reasons described in our response to question 1, we believe the IAASB should defer making changes to the requirements applicable to listed entities until 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.

We believe the current risk-based approach in ISQM 1 paragraph 34(f)(iii), where the firm is required to determine other engagements for which an engagement quality review is an appropriate response to address one or more quality risk(s), remains appropriate. This allows for a firm to determine whether an entity, which may or may not also be a PIE, warrants an engagement quality review based on assessed risk. Not all PIE entities are necessarily complex engagements. Furthermore, as described in our response to question 1, extending this requirement to all PIEs may have a disproportionate impact, especially where a jurisdiction does not more explicitly define the mandatory categories.

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

RSM International Limited

For the reasons stated above and taking into consideration that 'publicly traded entities' is replacing 'listed entities' in the IAASB standards, we suggest paragraph 34(f)(i) of ISQM 1 be revised as follows (from extant ISQM 1):

Audits of financial statements of listed publicly traded entities.

In addition, we suggest the following revision replace the last main bullet in the examples of types entities with conditions, circumstances, actions or inactions giving rise to quality risks for which an engagement quality review may be an appropriate response in paragraph A134 of extant ISQM 1 (derived from pending paragraph 400.8 in the IESBA Code of Ethics) to reflect IESBA's change in the definition of PIE:

Public interest entities, which reflect the significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders. 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 wide range of stakeholders.

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

ISQM 1 and ISQM 2, Engagement Quality Reviews, were issued in December 2020. ISQM 1 deals with the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.

The explanatory memorandum to the IAASB's exposure draft of ISQM 2 (ED-ISQM 2) stated that one of the IAASB's objectives was to strengthen the requirements for engagements that should be subject to an engagement quality review by extending the requirement for an engagement quality review to engagements other than audits of listed entities. Paragraph 34(f) of extant ISQM 1 addressed this objective. During the process of developing this paragraph, the IAASB debated whether to include PIEs as a category where engagement quality reviews were required, and ultimately it was decided not to do this in the final ISQM 1.

In December 2018, the IAASB confirmed its view that the term 'entities of significant public interest' was a more appropriate term to use in the IAASB standards than PIEs as the term is already used in ISA 260 (Revised), Communication with Those Charged with Governance, and ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements. When analysing the consultation responses to ED-ISQM 2 in September 2019, the IAASB highlighted that 41 of 99 respondents indicated either concerns over inconsistency in the application of 'significant public interest' versus the PIE concept, requested clarification in application material or guidance on 'significant public interest', or seemed to misunderstand the concept of 'significant public interest' to mean PIE or that it would be translated as such.

Upon further deliberations, the IAASB decided to remove the requirement to perform engagement quality reviews on entities with significant public interest and absorb the intended concept and entities that may be included in IESBA's definition of PIE in paragraph A134 of extant ISQM 1. This paragraph includes examples of conditions, circumstances, actions or inactions giving rise to quality risks for which an engagement quality review may be an appropriate response per paragraph 34(f)(iii) of extant ISQM 1. It should be noted that entities included in both the extant and pending definitions of PIE are listed in these examples.

In addition, paragraph A135 of extant ISQM 1 states that the firm's responses to address quality risks (including those related to PIEs) may include other forms of engagement reviews that are not engagement

quality reviews. Accordingly, the IAASB allowed firms to use judgment in deciding which entities that may be considered PIEs under the IESBA Code of Ethics should have an engagement quality review.

ISQM 1 and ISQM 2 were required to be implemented by 15 December 2022 which is very recent. The IAASB has not performed a post-implementation review on ISQM 1 and ISQM 2, and such post-implementation review is not planned until after the current workplan period of 2024-2027. In addition, the 2024-2027 Strategy and Work Plan states that:

Post-implementation reviews (PIRs) of new or revised standards are only considered after a significant period of global adoption and implementation of a standard (i.e., 3–5 years). This allows sufficient time for a new or revised standard to be properly embedded in practice and for internal and external monitoring purposes, in the context of global adoption across jurisdictions.

The proposal to extend the differential requirements for performing engagement quality reviews from listed entities to PIEs would not give sufficient time for the requirements of ISQM 1 and ISQM 2 to be properly embedded in practice and for internal and external monitoring purposes to determine if there is a need to modify the extant requirements.

Accordingly, as the IAASB

has recently considered and discussed whether PIEs should be subjected to engagement quality reviews during the drafting of ISQM 1 and ISQM 2,

made a deliberate decision not to subject all PIEs to engagement quality reviews per extant ISQM 1 and

has not allowed sufficient time to pass to adequately assess and determine if the extant requirements for engagements subject to engagement quality review under ISQM 1 should be revised,

we do not believe it would be appropriate to extend the scope of engagements subject to engagement quality reviews under paragraph 34(f) of ISQM 1 from listed entities to PIEs.

Disagree, with comments below

6. Individuals and Others

Wayne Morgan and Phil Peters

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.

Disagree, with comments below

Q03A 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)