

# Agenda Item 3-E.5 (Supplemental)

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

**3E. Do you agree with the IAASB's proposals for extending the extant differential requirements for the name of the engagement partner to apply to PIEs (ISA 700 (Revised), paragraphs 46 and 50(I))?**

### Q03E Agree

#### 2. Regulators and Audit Oversight Authorities

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

Overall response:

Agree (with no further comments)

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

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

Overall response:

Agree (with no further comments)

##### Canadian Auditing and Assurance Standards Board

Overall response:

Agree (with no further comments)

##### 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)

Not applicable

Overall response:

Agree (with no further comments)

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

Overall response:

Agree (with no further comments)

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

Overall response:

Agree (with no further comments)

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

Overall response:

Agree (with no further comments)

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

Overall response:

Agree (with no further comments)

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

Overall response:

Agree (with no further comments)

### **4. Accounting Firms**

#### **BDO International Limited**

Overall response:

Agree (with no further comments)

#### **Mazars**

Overall response:

Agree (with no further comments)

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

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

Overall response:

Agree (with no further comments)

#### **Chartered Accountants Ireland**

Overall response:

Agree (with no further comments)

#### **CPA Australia**

Overall response:

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**

Overall response:

Agree (with no further comments)

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

Overall response:

Agree (with no further comments)

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

Overall response:

Agree (with no further comments)

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

Overall response:

Agree (with no further comments)

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

Overall response:

Agree (with no further comments)

#### **Virginia Society of CPAs**

Overall response:

Agree (with no further comments)

### **Q03E 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)**

Overall response:

Agree, with comments below

This will provide transparency and promote consistency across the auditor's reports globally.

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

Overall response:

Agree, with comments below

The IAASB proposes to extend the extant differential requirements for the name of the engagement partner be disclosed in the auditor's report to apply to all PIEs (reference ISA 700 (Revised) paragraph 46). The CEOB agrees with this extension to PIEs as a minimum but furthermore believes the name of the

engagement partner(s) should be required in all instances regardless of the type of entity subject to the audit at stake.

Name of the engagement partner in the Independent Auditor's Report

The IAASB proposes to extend the extant differential requirements for the name of the engagement partner be disclosed in the auditor's report to apply to all PIEs (reference ISA 700 (Revised) paragraph 46). The CEAOB agrees with this extension to PIEs as a minimum but furthermore believes the name of the engagement partner(s) should be required in all instances regardless of the type of entity subject to the audit at stake.

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

We support the inclusion of the engagement partner's name in the auditor's report on the audit of financial statements of PIEs. In South Africa, registered auditors are required (by paragraph R115.6 SA of the IRBA Code) to reflect the following when signing an audit, review or other assurance report:

- (a) The individual registered auditor's full name;
- (b) If not a sole proprietor, the capacity in which they are signing;
- (c) The designation "Registered Auditor" underneath their name; and
- (d) If not set out on the firm's letterhead, the name of the registered auditor's firm.

This provision has been in effect in South Africa for many years, without any significant operational challenges. We recommend that this disclosure be further extended to be applied for all auditor's reports and not just PIEs. This will help with clarity and identification, and also inform the stakeholders who signed the auditor's report.

Overall response:

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)**

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

Overall response:

Agree, with comments below

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

Overall response:

Agree, with comments below

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 the name of the engagement partner to apply to PIEs.

### **Wirtschaftsprüferkammer (WPK)**

Overall response:

Agree, with comments below

We expressly Agree with the proposal that the name of the engagement partner shall be included in the auditor's report. This has always been in line with German practice for all reports on audits of financial statements.

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

#### **Accountancy Europe**

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

Overall response:

Agree, with comments below

#### **Asociación Interamericana de Contabilidad**

3E. ISA 700 (Revised), paragraph 46, 50(I) – name of the engagement partner.

Yes, we agree.

It would be important to mention that, in the event of not disclosing the name of the partner for the reasons established in the aforementioned paragraphs, the same should be disclosed internally between the Audit Team and the Government of the audited institution, it would be important to evidence the information on a working paper and include a confidentiality agreement in which this particular is stated.

The adjustments to paragraphs 46 and 50 (I) of ISA 700 are consistent with the proposed new definition of PIE.

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.

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

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)?

Overall response:

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

We support extending the requirement for the name of the engagement partner to be included in the auditor's report from a "listed entity" to a "PIE" to provide additional transparency to intended users.

However, we note that empirical evidence suggests that users derive value from the brand name of the firm, rather than the name of the engagement partner, and use firm reputation as a proxy for determining audit quality. How increased transparency concerning the engagement partner would translate to improved audit quality is not clear.

If you do not agree, what alternatives do

#### **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).

Overall response:

Agree, with comments below

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

The Companies Act 2016 S265(5) in Malaysia requires inclusion of the name of the engagement partner for entities that are not listed entities. Therefore, the impact of this change may be limited, and would only apply to PIEs that are not governed by the Companies Act 2016, for example, the Labuan Companies Act 1990.

Overall response:

Agree, with comments below

#### **Q03E Disagree**

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

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

For the reasons listed above, we believe such a requirement should be a jurisdictional decision at the discretion of regulators or national standard setters. Give that there are jurisdictions that already require naming the engagement partner for either listed entities or PIEs, the IAASB may want to further inform its views on this proposed requirement by performing a research synthesis of academic literature to determine how such a requirement has affected quality in those jurisdictions.

We do not Agree with the proposal to extend the LE differential requirement to include the name of the engagement partner for PIEs.

Historically, we observed that the IAASB settled on naming the engagement partner for only listed entities because some jurisdictions already required it under law/regulation and the demand for such transparency had come primarily from institutional investors, regulators, and audit oversight authorities. Additionally, for many non-listed entities, the engagement partner's name would already be available or known to the users of the financial statements through other means, even if informal, in many circumstances.

As has been discussed before, when this type of proposal has been debated by national jurisdictions and regulators, we believe critical information about the contributions of other key personnel involved in the audit process is omitted when focusing on only naming the engagement partner. This includes the identities of auxiliary partners, key engagement team members, the engagement quality review partner, technical consultation partners and staff, and specialists, and the engagement partner's experience. Naming the only engagement partner, therefore, would be misleading and confusing. We do not believe that naming of the engagement partner in audit reports for non-listed entities considered to be PIEs enhances transparency (as it already exists) and or improves audit quality.

Overall response:

Disagree, with comments below

#### 4. Accounting Firms

##### Deloitte Touche Tohmatsu Limited

We do not Agree with extending this differential requirement. 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.

Furthermore, the question of applicability of this requirement was debated extensively during the auditor reporting project, with multiple and diverse perspectives from stakeholders. During that time, it was acknowledged the demand for such transparency had come primarily from institutional investors, regulators, and audit oversight authorities (paragraph 126 of Basis for Conclusions - Reporting on Audited Financial Statements -New and Revised Auditor Reporting Standards and Related Conforming Amendments). Given the conflicting views expressed at the time related to naming the engagement partner in the auditor's report for listed entities (including disagreement between stakeholders as to the necessity of this requirement, as well as safety and privacy concerns), we do not believe there is compelling reason to extend this requirement to all PIEs. If the IAASB continues its standard setting project, we suggest that before proposing to extend this topic, the IAASB perform specific stakeholder outreach.

Overall response:

Disagree, with comments below

##### Ernst & Young Global Limited

Overall response:

Disagree, with comments below

Detailed comments (if any):

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.

##### Grand Thornton International Limited

We do not Agree with the proposal to extend the extant differential requirements for the name of the engagement partner to apply to PIEs (ISA 700 (Revised), paragraphs 46 and 50(l)).

We believe the question of requiring disclosure of the name of the engagement partner in the auditor's report is best decided by local jurisdictions based on applicable laws and regulations. Establishing this requirement within ISA 700 does not take into consideration local privacy laws or the potential harm and increased personal liability to the partner based on local litigation laws and practices that may result from providing the engagement partner name in the public domain. For example, in the US, similar requirements proposed in the local jurisdiction were ultimately revised to not include naming the engagement partner in the auditor's report for these reasons. In other jurisdictions where engagement partner names are disclosed, partners have been targeted by emails from activists who have specific agendas.

The overarching project objective of the Listed Entity and PIE Track 2 project is to meet the heightened expectations of stakeholders regarding the audit engagements of PIEs. We do not believe sufficient evidence has been provided to demonstrate a causal relationship between disclosing the name of the engagement partner and enhancing stakeholders' confidence regarding the financial statement audit of the PIE.

We believe the differential requirement related to naming the engagement partner should only apply to listed entities. Accordingly, we believe there should be no changes to extant requirements related to naming the engagement partner.

Overall response:

Disagree, with comments below

#### **KPMG International Limited**

Please refer to our response to Question 1.

Overall response:

Disagree, with comments below

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

#### **PricewaterhouseCoopers International Limited**

See response to question 3B.

See response to question 3B. We also believe the IAASB needs to undertake a further impact assessment on potential legal considerations across jurisdictions related to extending disclosure of the name of the engagement partner to entities other than listed entities. While a case can be made for publicly traded entities whose shares are traded on a market, the case for disclosure for other classes of entities may be less clear.

Overall response:

Disagree, with comments below

#### **RSM International Limited**

Preferred Alternative: Rescinding Disclosure Requirement

We suggest that the requirement to disclose the name of the engagement partner for audits of financial statements for all entities be left to jurisdictions or national standard setters and should not be a requirement of ISA 700 (Revised).

Second Alternative: Disclosure Required for Publicly Traded Entities Only

If the IAASB decides to retain the requirement to disclose the name of the engagement partner in the auditor's report, we believe the requirement should continue to be limited to listed entities (or publicly traded entities, since 'publicly traded entities' is replacing 'listed entities' in the IAASB standards). We would support replacing 'listed entity(ies)' with 'publicly traded entity(ies)' in paragraphs 46, 50(l) and A61-A62 of extant ISA 700 (Revised). In addition, these revisions may have an incidental impact resulting in similar revisions where 'listed entities' are referred to, such as certain illustrative reports in appendices of various standards. Since publicly traded entities are a subset of public interest entities, differential reporting requirements proposed for public interest entities would also apply to public traded entities in the illustrations and appendices.



### Alternative if the Disclosure is Required for Public Interest Entities

If the IAASB does not adopt our other recommendations and moves forward with the proposed revision in the exposure draft, we have the following recommendations:

Currently, there is an exception to disclosing the engagement partner's name in the case of a significant personal security threat (paragraph 46 of ISA 700 (Revised)). Paragraph A63 of ISA 700 (Revised) clarifies that such a threat does not include, for example, threats of legal liability or legal, regulatory or professional sanctions. Given the different legal landscape of jurisdictions, the public availability of entities' financial statements and the potential nature and size of entities that would be newly scoped in by expanding this requirement to all PIEs, we suggest the IAASB consider moving the last sentence in paragraph A63 of ISA 700 (Revised) that states, 'law, regulation or national auditing standards may establish further requirements that are relevant to determining whether the disclosure of the name of the engagement partner may be omitted' to the end of paragraph 46 or as a separate application paragraph after A63 (e.g., A63A) of ISA 700 (Revised).

We also recommend adding the following sentence to paragraph A18 of ISA 800 (Revised), Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks, to clarify consideration of law, regulation or national auditing standards in omitting naming the engagement partner in the auditor's report on financial statements prepared in accordance with special purpose frameworks:

'Law, regulation or national auditing standards may establish further requirements that are relevant to determining whether the disclosure of the name of the engagement partner may be omitted.'

Alternatively, if the IAASB moves this sentence to paragraph 46 of ISA 700 (Revised) as suggested above, we believe it would not need to be added to paragraph A18 of ISA 800 (Revised), as paragraph 46 of ISA 700 (Revised) is incorporated by reference in paragraph 11 of ISA 800 (Revised).

### Transparency

We support increased transparency related to the audit where such transparency improves audit or better enables financial statement users to make well-informed decisions about their investments or their voting decisions. We believe that a balance must be achieved when weighing the potential benefits of transparency about the identity of the engagement partner with the impact of the consequences for audit firms, audit partners, issuers, investors and other stakeholders and the capital markets at large. As communicated in our consultation response to the exposure draft on Reporting on Audited Financial Statements: Proposed new and revised International Standards on Auditing dated 22 November 2013, we continue to believe the requirement to disclose the name of the engagement partner for audits of financial statements for all entities should be left to national standard setters and should not be a requirement of ISA 700 (Revised). This includes extending the extant differential requirements for the name of the engagement partner to apply to all PIEs.

We understand the intent of the objective of providing greater transparency to intended users about the engagement partner who is responsible for the audit to enhance the intended users' confidence in the audit that has been performed. We also understand that investors and other stakeholders could gather and analyse certain data about the engagement partner, and the engagement partner may develop a reputation based on the industry specialization, audit history and track records. However, we do not believe disclosing the engagement partner in auditor's report would necessarily achieve that objective.

### Context of Engagement Partner Qualifications

Including the engagement partner's name in the auditor's report does not provide the appropriate context around, or insight into, the partner's work experiences or skill level. Because this is not included in the disclosure, investors may draw inappropriate conclusions about an engagement partner's qualifications to serve as the engagement partner for a PIE (including a PTE). For example, if an engagement's partner name is disclosed in only one auditor's report of a PIE within a certain industry, the financial statement user could infer that the engagement partner has very limited experience in auditing a PIE within that industry. What may be unknown to the investor is that the engagement partner has robust experience in auditing entities in that industry, such as when that engagement partner also (a) is the engagement quality reviewer for other audits of entities in that industry, (b) is the engagement partner for audits of non-public interest entities in that industry and/or (c) has extensive experience in the firm's national office as a consultant for matters related to audits in that industry. Thus, the users may reach erroneous, inappropriate or uninformed conclusions about the engagement partner or quality of the audit.

This type of information is provided to the audit committee, or equivalent, when engaging and evaluating the external auditor. As a part of these communications, the audit committee, or equivalent, generally asks probing questions of the external auditor, which allows the opportunity to continually assess the competency of the engagement partner.

#### Accountability

Engagement partners already have reasons to feel accountable for their work. Under the ISAs, the engagement partner is responsible for the engagement and its performance. Engagement partners are accountable to audit committees, to investors, to their firm, to other partners within their firm and to regulators. As such, a lack of professional accountability can have direct consequences. Engagement partners may be held liable in enforcement actions taken by the regulators without regard to whether their name is disclosed in the audit report.

#### Public Availability of Financial Statements

There may be some jurisdictions that may have entities that are considered PIEs due to the nature and size of the entities; however, the entities' financial statements may not be publicly available (e.g., owner-managed entities), and therefore, we question the need to expand the differential requirements to all PIEs.

#### Costs and Benefits

As discussed above, engagement partners are already held accountable for their audits by various parties, which generally result in high-quality audits and achieve the objective of an audit in accordance with ISA 200. By naming the engagement partner, we believe audit fees may increase disproportionately as there could be a tendency to move away from a risk-based audit to performing additional procedures to gather more evidence to protect themselves even if there was not an associated risk. As such, the costs associated with this proposal may outweigh any benefits.

In addition, we believe there may be some negative unintended consequences, particularly in jurisdictions where there may be concern regarding potential legal liability associated with disclosing the name of the engagement partner in the auditor's report. This additional potential legal liability and assumed risk are likely to also contribute to increased audit fees.

Overall response:

Disagree, with comments below

## 5. Member Bodies and Other Professional Organizations

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

The KICPA doesn't Agree with the ED proposals for extending the requirement for including the name of the engagement partner in the auditor's report on general purpose financial statements, to PIEs.

IAASB's PIR(Auditor Reporting Post-Implementation Review) survey also indicated that stakeholders found the name of the engagement partner relatively less useful, compared to other information included in the auditor's report. In addition, a study conducted by the KICPA on relevant topics (case study on the impact of the auditor's report revision and key audit matters) showed that local stakeholders thought that inclusion of the name of the engagement partner had a moderate level of impact on the improvement of audit quality. In conclusion, it is hard to believe that there is a solid stakeholder support for the information usefulness of the name of the engagement partner.

Furthermore, inclusion of the name of the engagement partner has direct implications on the legal liability of an individual with regard to any future regulations or lawsuits. In this regard, a careful approach is required to extend this requirement to all PIEs, considering that laws/regulations and social systems vary by jurisdiction.

Therefore, we propose that the name of the engagement partner should be included in the auditor's report on financial statements of Publicly Traded Entities, instead of PIEs.

Overall response:

Disagree, with comments below

## 6. Individuals and Others

### Wayne Morgan and Phil Peters

Overall response:

Disagree, with comments below

Detailed comments (if any): See our response to 3A.

## Q03E 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