IAASB

ED: RESPONSE TEMPLATE

January 2024

RESPONSE TEMPLATE FOR THE ED OF PROPOSED NARROW SCOPE AMENDMENTS TO ISQMs, ISAs AND ISRE 2400 (REVISED)

Guide for Respondents

Comments are requested by **April 8, 2024**.

This template is for providing comments on the Exposure Draft (ED) of proposed Narrow Scope Amendments to the International Standards on Quality Management (ISQMs), the International Standards on Auditing (ISAs) and the International Standard on Review Engagement (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements* as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code, in response to the questions set out in the Explanatory Memorandum (EM) to the ED. It also allows for respondent details, demographics and other comments to be provided. Use of the template will facilitate the IAASB's automated collation of the responses.

You may respond to all questions or only selected questions.

To assist our consideration of your comments, please:

- For each question, start by indicating your overall response using the drop-down menu under each question. Then below that include any detailed comments, as indicated.
- When providing comments:
  - Respond directly to the questions.
  - Provide the rationale for your answers. If you disagree with the proposals in the ED, please provide specific reasons for your disagreement and specific suggestions for changes that may be needed to the requirements, application material or appendices. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view.
  - Identify the specific aspects of the ED that your response relates to, for example, by reference to sections, headings or specific paragraphs in the ED.
  - Avoid inserting tables or text boxes in the template when providing your responses to the questions because this will complicate the automated collation of the responses.
- Submit your comments, using the response template only, without a covering letter or any summary of your key issues, instead identify any key issues, as far as possible, in your responses to the questions.

The response template provides the opportunity to provide details about your organization and, should you choose to do so, any other matters not raised in specific questions that you wish to place on the public record. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

Use the "**Submit Comment"** button on the ED web page to upload the completed template.

Responses to IAASB's Request for Comments in the EM for the ED, Proposed Narrow Scope Amendments to ISQMs, ISAs and ISRE 2400 (Revised) as a Result of the Revisions to the Definitions of Listed Entity and PIE in the IESBA Code

PART A: Respondent Details and Demographic information

Your organization's name (or your name if you are making a submission in your personal capacity)	Independent Regulatory Board for Auditors (IRBA)
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Imran Vanker Kumu Matambo
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Imran Vanker
E-mail address(es) of contact(s)	ivanker@irba.co.za
Geographical profile that best represents your situation (i.e., from which geographical perspective are you providing feedback on the ED). Select the most appropriate option.	Africa and Middle East
	If "Other", please clarify
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on the ED). Select the most appropriate option.	Jurisdictional/ National standard setter
	If "Other", please specify
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	The IRBA is both the audit regulator and national audit and ethics standard setter in South Africa. Its statutory objectives include the protection of the public by regulating audits performed by registered auditors; and the promotion of investment and employment in the Republic. The statutory Committee for Auditing Standards (CFAS) is responsible for assisting the IRBA to adopt, develop, maintain, issue and prescribe auditing pronouncements.

Should you choose to do so, you may provide overall views or additional background to your submission. **Please note that this is optional**. The IAASB's preference is that you incorporate all your views in your comments to the questions (also, the last question in Part B allows for raising any other matters in relation to the ED).

Information, if any, not already included in responding to the questions in Parts B and C:

PART B: Responses to Specific Questions in the EM for the ED

For each question, please start with your overall response by selecting one of the items in the drop-down list under the question. Provide your detailed comments, if any, below as indicated.

> *Objective for Establishing Differential Requirements for PIEs*
>
> 1. Do you agree with establishing the overarching objective and purpose for establishing differential requirements for PIEs proposed in paragraphs A29A–A29B of ISQM 1 and paragraphs A81A–A81B of ISA 200 in the ED? If not, what do you propose and why?
>
>   (*See EM Section 1-B, paragraphs 13-18)*

Overall response: **Agree, with comments below**

Detailed comments (if any):

We agree with the use of a common objective as an overarching principle for establishing differential requirements for PIEs across the IAASB Standards and the IESBA Code. This approach will reduce confusion, enhance ease of implementation, and will contribute to the overall professionalism of the auditing and accounting profession.

The IRBA adopted the IESBA Code, published in 2018, together with South African enhancements. Since then, the IRBA Code of Professional Conduct for Registered Auditors (Revised April 2023) (IRBA Code) tracks changes in the IESBA Code and is updated for those developments, following a local due process and adoption by the IRBA Board. Local adaptations of the IESBA Code are reflected in the IRBA Code as underlined and in italics. Additionally, in accordance with the provisions of section 10(1)(a) of the Auditing Profession Act, 2005 (Act No. 26 of 2005), as amended, the IRBA Code includes local amendments to the definition of public interest entity. The are indicated in the snippets below.

Public interest entity	For the purposes of Part 4A, an entity is a public interest entity when it falls within any of the following categories: (a) A publicly traded entity; (b) An entity one of whose main functions is to take deposits from the public; (c) An entity one of whose main functions is to provide insurance to the public; or (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.15. *Paragraph R400.23 SA more explicitly defines the categories of public interest entities in (b) and (c) above, and specifies those additional entities that are deemed to be public interest entities to meet the purpose described in paragraph 400.15, as contemplated in paragraph (d) above.*
Publicly traded entity	An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. *A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.*

R400.23 SA *Given the factors set out in paragraph 400.14, the purpose described in paragraph 400.15, the broadly defined categories of public interest entities in R400.22, and the guidance from the IESBA in 400.23 A1 and 400.23 A2, a firm shall treat the following entities as public interest entities:*

(a) *Publicly traded entities.*

(b) *Public entities listed in Schedule 2 of the Public Finance Management Act No. 1 of 1999, excluding any subsidiary or entity under the ownership control[9] of these public entities.*

(c) *Other public entities or institutions, as referred to in Section 4(3) of the Public Audit Act No. 25 of 2004, including any subsidiary or entity under the ownership control of these public entities and public entities listed in (b) above, authorised in terms of legislation to receive money for a public purpose:*

(i) *with annual expenditure in excess of R5 billion; or*

(ii) *that are responsible for the administration of funds for the benefit of the public in excess of R10 billion as at financial year-end.*

(d) *Universities, as defined in the Higher Education Act No. 101 of 1997, excluding private universities registered in terms of that Act.*

(e) *Banks, as defined in the Banks Act No. 94 of 1990, and Mutual Banks, as defined in the Mutual Banks Act No. 124 of 1993.*

(f) *Market infrastructures, as defined in the Financial Markets Act No. 19 of 2012.*

(g) *Insurers, as defined in the Insurance Act No. 18 of 2017.*

(h) *Collective Investment Schemes, including hedge funds, as defined in the Collective Investment Schemes Control Act No. 45 of 2002, that hold assets in excess of R30 billion.*

(i) *Funds, as defined in the Pension Funds Act No. 24 of 1956, that hold or are otherwise responsible for safeguarding client assets in excess of R30 billion.*

(j) *Pension Fund Administrators, in terms of Section 13B of the Pension Funds Act No. 24 of 1956, with total assets under administration in excess of R30 billion.*

(k) *Financial Services Providers, as defined in the Financial Advisory and Intermediary Services Act No. 37 of 2002, holding financial products and funds on behalf of clients in excess of R30 billion.*

(l) *Medical Schemes, as defined in the Medical Schemes Act No. 131 of 1998, with a membership in excess of 89 000 beneficiaries as at financial year-end.*

(m) *Authorised users of an exchange, as defined in the Financial Markets Act No. 19 of 2012, that hold or are otherwise responsible for safeguarding client assets in excess of R30 billion.*

(n) *Other issuers of debt and equity instruments to the public[10].*

Definitions of PIE and "Publicly Traded Entity"

2. Do you agree with adopting the definitions of PIE and "publicly traded entity" into ISQM 1 and ISA 200 (see proposed paragraphs 16(p)A–16(p)B of ISQM 1 and paragraphs 13(l)A–13(l)B of ISA 200 in the ED)? If not, what do you propose and why?

   (*See EM Section 1-C, paragraphs 19-26)*

Overall response: **Agree, with comments below**

Detailed comments (if any):

We support the adoption of the PIE and publicly traded entity definitions.

In South Africa, the IRBA has prescribed rules that extend some of the differential requirements in ISQM 1 to PIEs. The IRBA's Four Rules Arising from the International Standards on Quality Management can be viewed by clicking on this link.

In relation to the ISAs, our IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements of Public Interest Entities (EAR Rule) (among other requirements) extends the communication of Key Audit Matters to audits of PIEs. This rule can be viewed by clicking on this link.

With the IAASB's proposed approach, we do not envisage operational challenges with our rules as the proposals are inline with our published rules. In the future, once the IAASB's proposals are published as final amendments, and are effective, the IRBA will consider alignment of the revisions with the IRBA Rules and assess the need to either withdraw or maintain the rules.

Differential Requirements in the ISQMs and ISAs

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)?

   (*See EM Section 1-D, paragraphs 27-40 and Appendix 1)*

Overall response: *Agree, with comments below*

Detailed comments (if any):

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.

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.

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):

N/A

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

(*See EM Section 1-D, paragraphs 27-38 and Appendix 1)*

Overall response: **Agree, with comments below**

Detailed comments (if any):

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

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

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): *N/A*

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)? (*See EM Section 1-D, paragraphs 27-38 and 41-45 and Appendix 1)*
Overall response: **Agree, with comments below** **Detailed comments (if any):** *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.*
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): *N/A*

3D. Do you agree with the IAASB's proposals for extending the extant differential requirements for communicating KAM to apply to PIEs (ISA 700 (Revised), paragraphs 30-31, 40(c) and ISA 701, paragraph 5 in the ED)? (*See EM Section 1-D, paragraphs 27-38 and 46 and Appendix 1)*
Overall response: **Agree, with comments below** **Detailed comments (if any):** *We agree with extending KAMs to apply to PIEs.* *In South Africa, the IRBA has published the Enhanced Auditor Reporting Rule, which extends the communication of Key Audit Matters to the audit of PIEs, and this is effective for financial periods ending on or after 15 December 2024. The project was informed by comprehensive research and consultation among various stakeholders that largely supported this type of enhancement in additional disclosures in the auditor's report.*

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):

N/A

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

(*See EM Section 1-D, paragraphs 27-38 and Appendix 1)*

Overall response: **<u>Agree, with comments below</u>**

Detailed comments (if any):

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.

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):

N/A

4. Do you agree with the IAASB's proposal to amend the applicability of the differential requirements for listed entities in ISA 720 (Revised) to apply to "publicly traded entity"? If not, what do you propose and why?

(See EM Section 1-D, paragraphs 47-51)

Overall response: **<u>Agree, with comments below</u>**

Detailed comments (if any):

We note that stakeholders consulted by the IAASB were of the view that the practical difficulties encountered with identifying and considering the other information received after the date of the auditor's report outweighed the public interest benefits of doing so. Identifying other information after the report signing date can be complicated, as also experienced in our jurisdiction. As such, we support the IAASB's proposal to not extend the differential requirements on Other Information to PIEs, but to defer a discussion on extending these requirements to apply to PIEs until a comprehensive revision of the standard is undertaken, based on future IAASB work plan decisions.

Proposed Revisions to ISRE 2400 (Revised)

5. Do you agree with the new requirement and application material in ISRE 2400 (Revised) to provide transparency in the practitioner's review report about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code? If not, what do you propose and why?

   (See EM Section 1-E, paragraphs 52-57)

Overall response: **Agree (with no further comments)**

Detailed comments (if any):

N/A

Other Matters

6. Are there any other matters you would like to raise in relation to the ED? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

Overall response: **Yes, with comments below**

Detailed comments (if any):

In reading the exposure draft, we noted a possible error in the proposed changes to paragraph A166. The change is being made to replace "listed entity" by "publicly traded entity". The related proposals in the requirements replace listed with "public interest entity",.

Should the highlighted wording be changed to "public interest entity", instead of "publicly traded entity"?

Examples of how the nature of identified deficiencies and their possible severity and the nature and circumstances of the firm may affect the nature, timing and extent of the procedures to understand the root cause(s) of the identified deficiencies

- The nature of the identified deficiency: The firm's procedures to understand the root cause(s) of an identified deficiency may be more rigorous in circumstances when an engagement report related to an audit of financial statements of a ~~listed~~ publicly traded entity was issued that was inappropriate or the identified deficiency relates to leadership's actions and behaviors regarding quality.

The same comment also applies to proposed changes to paragraph A30 of ISA 240, as indicated in the ED on page 52. The ED proposes to replace "listed entities" with "certain public interest entities". We propose the deletion of the word "certain" because this should be all public interest entities.

A30. The risks of fraud in revenue recognition may be greater in some entities than others. For example, there may be pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition in the case of ~~listed~~ certain public interest entities when, for example, performance is measured in terms of year over year revenue growth or profit. Similarly, for example, there may be greater risks of fraud in revenue recognition in the case of entities that generate a substantial portion of revenues through cash sales.

Part C: Request for General Comments

The IAASB is also seeking comments on the matters set out below:

7. Translations—Recognizing that many respondents may intend to translate the final narrow scope amendments for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED.

Overall response: **See comments on translation below**

Detailed comments (if any):

We do not translate the IAASB Standards in our jurisdiction.

8. Effective Date—Given it is preferred to coordinate effective dates with the fraud and going concern projects, the IAASB believes that an appropriate effective date for the narrow scope amendments would be for financial reporting periods beginning approximately 18-24 months after approval of the final narrow scope amendments for Track 2. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the narrow scope amendments for Track 2 of the listed entity and PIE project.

Overall response: **See comments on effective date below**

Detailed comments (if any):

We support the proposed effective date of 18-24 months after the approval of the final narrow scope amendments. This will provide sufficient time for registered auditors/practitioners to develop training material and new templates for their practices, and where relevant, to develop the firm resources.