

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)	Accountancy Europe
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Harun Saki
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	harun@accountancyeurope.eu
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.	Europe
	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.	Member body and other professional organization
	If “Other”, please specify
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	Accountancy Europe unites 50 professional organisations from 35 countries that represent close to 1 million professional accountants, auditors and advisors.

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):

Yes, we broadly agree with the overarching objective. However, these paragraphs would fit better in the introduction sections of the standards, as they explain what the standard aims at, rather than how an auditor applies the requirements.

In addition, the term “stakeholders” is overly broad, and we suggest replacing it with “intended users of the financial statements” in line with paragraph 3 of ISA 200 (Revised).

The presumption that stakeholders’ expectations will be met (by adherence to the requirements in ISQMs and ISAs, respectively) is also problematic, and it would be more appropriate to state that these expectations will be “addressed”.

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 believe that the IESBA and the IAASB should align their terminologies to the extent possible. While doing this, the main objective should be to provide clarity and to avoid confusion.

The status of PIE is usually defined by law or regulation in many countries, and it usually creates additional requirements for

- the entities themselves, such as the obligation to have an audit committee
- the auditor, such as the obligation to issue a written report to the audit committee
- for the supervisory authorities, such as the prohibition to delegate the inspection of PIE audit firms to professional organisations

Those differential requirements for auditors are relevant as long as they mirror differential requirements for the entity itself.

We also note that IESBA’s PIE definition is not fully in line with the definition in the European Union (EU) legislation is as follows:

- entities whose transferable securities are admitted to trading on a regulated market of any Member State
- credit institutions
- insurance undertakings
- entities designated by Member States as public-interest entities, for instance undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees

The first and second sentences of proposed paragraphs A29D of ISQM 1 and A81D of ISA 200 (Revised) appear to include a hidden requirement for firms and auditors to search for entities not named as PIEs but termed as something akin to PIEs, then stipulate that they would be subject to PIE-related requirements. Such an approach is onerous and therefore the fourth category in paragraphs 16(p)A of ISQM 1 and 13)l)A of ISA 200 should be removed. This would be in line with recent IESBA March Board issues paper, which clarifies the IESBA’s position that firms should not be required to determine if other entities should be treated as PIEs and should first and foremost comply with compliance with local laws and regulations.

The third sentence in paragraph A29D of ISQM 1 implies the firm or auditor may determine that entities falling within a PIE definition in law, regulation or a professional requirement are not PIEs for the purposes of ISQM 1 or ISAs, respectively. Clarification is needed since application material should not be used to modify the scope of requirements. For example, what “to consider” means as used in the second clause in paragraphs 18A of ISQM 1 and 23A of ISA 200 in practical terms is not clear.

Therefore, in order to avoid the confusion for the markets we believe that there should be an overall principle in ISA 200 so that an auditor can use the legal definition of PIE and Publicly Traded Entity applicable in its jurisdiction.

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):

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

detering 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.

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):

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):

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

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):

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):

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

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

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):

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):

In the European Union, we have been applying this requirement since 2016 as the Audit Regulation (537/2014/EU) introduced the mandatory disclosure of Key Audit Matters (KAMs) for Public Interest Entities.

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):

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

Overall response: [Agree, with comments below](#)

Detailed comments (if any):

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

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):

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: [Disagree, with comments below](#)

Detailed comments (if any):

We prefer a consistent scope of application for the differential requirements in ISAs.

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 comments below](#)

Detailed comments (if any):

As stated in paragraph 57 of the Explanatory Memorandum, reviews of historical financial statements under ISRE 2400 (Revised) are rare in practice for PIEs. The IAASB standards should address issues and practices observed at a global level. With regards to ISRE 2400 and ISRE 2410,

this may be better achieved by a broader project to revise these standards based on emerging needs and demands.

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):

We are concerned that this consultation does not address the implications of extending differential requirements to PIEs for its ongoing projects. ISA 240 Fraud and ISA 570 Going concern are being revised and they include differential requirements related to listed entities, especially regarding transparency in the auditor's report.

Transparency is only useful if it provides useful information for stakeholders. In most jurisdictions, being a PIE creates obligations not only for the auditors but also, and foremost, for the entities. In general, not all PIEs have the same reporting requirements. As an example, a non-listed company may not have publicly communicated a temporary going concern issue that does not exist anymore at year end. We believe it is not public interest for the auditor to disclose in the auditor's report an issue that does not exist anymore and for which there is no mandatory reporting requirement applicable to the entity.

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: [No response](#)

Detailed comments (if any):

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):

Whilst aligning the effective dates of this project with the IAASB's projects on going concern and fraud makes sense from the perspective of limiting changes to the auditor's report to a single point in time, this means that all parties involved (in translation, implementation development and updating firms' methodologies) will need to address multiple changes in parallel. Therefore, arguably more time will be needed than would be the case for a single standard.

In addition, the approach to be taken by the IAASB on its ongoing projects (i.e. whether to extent the differential requirements in ISA 240 and ISA 570 to PIEs) could also have an impact on the planned effective date for the narrow scope amendments.