

Joint submission by Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants

8 April 2024

To: Mr Thomas R. Seidenstein
The Chairman
International Auditing and Assurance Standards Board
529 5th Avenue 6th Floor
New York 10017
United States of America

Submission via <https://www.iaasb.org/publications/proposed-narrow-scope-amendments-isqms-isas-and-international-standard-review-engagements-2400>

Submission on IAASB's Exposure Draft Proposed Narrow Scope Amendments to the ISQMs, ISAs and ISRE 2400 (Revised) as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code

This submission is made jointly by Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA) under our strategic alliance.

ACCA and CA ANZ created a strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 870,000 current and next generation accounting professionals across 179 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of members and students, sharing a commitment to uphold the highest ethical, professional and technical standards. More information about ACCA and CA ANZ is contained in **Appendix B**.

General comments

We welcome the opportunity to comment on the ED. While we understand the rationale for differential requirements in the IAASB Standards, and we support aligning key terms and definitions used in the IAASB Standards and the IESBA Code, we question the appropriateness of extending all the differential requirements in the IAASB Standards (except one), that currently only apply to listed entities, to all public interest entities (PIEs).

Furthermore, the PIE definition in the IESBA Code was developed for the purpose of addressing independence considerations. While we agree that users of PIE financial

statements may have heightened expectations for auditor independence, it does not necessary follow that these heightened expectations apply equally to all PIEs in the context of the specific differential requirements in the IAASB Standards.

We encourage the IAASB to better communicate why it is in the public interest for each of the differential requirements to apply to this broader set of entities. In doing so, we also recommend the IAASB undertakes a cost benefit analysis to rationalise extending the differential requirements to all PIEs. It is important that a balanced approach is taken to avoid creating complexity and confusion through introducing too many differential requirements in the IAASB Standards.

Our responses to the specific questions for comment raised in the ED follow in **Appendix A**. Should you have any queries about the matters in this submission, or wish to discuss them in further detail, please contact the signatories.

Yours sincerely

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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)	ACCA; and Chartered Accountants Australia & New Zealand
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Antonis Diolas; and Amir Ghandar
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	Antonis.Diolas@accaglobal.com Amir.ghandar@charteredaccountantsanz.com
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.	Global
	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).	See Appendix B

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 support, in principle, establishing an overarching objective and purpose to support the IAASB's judgments regarding specific matters for which differential requirements for PIEs are appropriate. However, given that the IAASB is introducing an exception by proposing that the differential requirements in ISA 720 (Revised) apply to publicly traded entities, there are essentially two possible groups of entities for differential requirements. Therefore, we recommend these are distinguished to support the IAASB's judgments regarding specific matters for which differential requirements are appropriate for PIEs and publicly traded entities respectively.

Proposed paragraphs A29A–A29B of ISQM 1 and A81A–A81B of ISA 200 refer to “stakeholders”. This is inconsistent with terminology used in the IAASB Standards which refers to “intended users of the financial statements”. We are concerned that there may be intended consequences if an auditor is required to meet the “heightened expectations” of this potentially much broader group.

Proposed paragraphs A29G of ISQM 1 and A81G of ISA 200 state; “When making this determination, the [firm/auditor] may consider whether it treated an entity as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence”. This implies that some entities could be treated as PIEs under the IAASB Standards, but not under the IESBA Code, or vice versa. We do not believe this outcome would be in the public interest.

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 agree with:

- Adopting the term “public interest entity” (PIE), as defined in the IESBA Code, in all the IAASB Standards.

- Replacing the extant defined term “listed entity” in all the IAASB Standards with a newly defined term in the IESBA Code; “publicly traded entity”.

Consistency and alignment of these important terms and definitions used in the IAASB standards and the IESBA Code would assist with common and consistent interpretation, and reduce the complexity related to the types of entities to which the differential requirements in the respective standards and code apply.

However, while we appreciate the desire to align the word choice and approach with IESBA we question the need for paragraphs 18A of ISQM 1 and 23A of ISA 200 as they seem to require the defined term to be applied. We are not aware of any other similar requirements. If the IAASB decides to keep these, the use of “as well as” seems to suggest that the definition does not cover the “more explicit definitions”. So maybe a more appropriate and less confusing connector is “including”.

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):

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.

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):

If the requirement for an EQR is extended from a "listed entity" to a "PIE", then we would also support the same extension to the requirements for communication with those charged with governance (TCWG) about the firm's system of quality management. As there are only these two differential requirements in ISQM 1, and we are of the view they should apply to the same group of entities to avoid creating unnecessary complexity.

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):

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

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: [Disagree, with comments below](#)

Detailed comments (if any):

While we recognise that research shows important benefits of key audit matters (KAMs), such as ACCA's thought leadership report [Key audit matters: unlocking the secrets of an audit](#), we note that the IAASB's [Auditor Reporting Post-Implementation Review](#) found there was a strong preference that any extension of KAM to entities beyond listed entities should remain a jurisdictional decision.

On this basis we recommend the IAASB retains the focus in ISA 701 on listed entities/publicly traded entities and leaves it to each jurisdiction to determine whether to extend this to other entities, which many have already done. NSS are better placed to identify the existence of user needs for KAMs to be reported by entities other than listed entities/publicly traded entities, and conduct an appropriate cost/benefit analysis, before extending the requirement to a broader group of 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):

We would support changing the engagements for which KAMs are required to be communicated in the auditor's report from a "listed entity" to a "publicly traded entity" to align terminology with the IESBA Code.

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(l))?

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

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 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: [Agree, with comments below](#)

Detailed comments (if any):

We support amending the applicability of the differential requirements in ISA 720 (Revised) from a "listed entity" to a "publicly traded entity". We agree that if the differential requirements in ISA 720 (Revised) were extended from a "listed entity" to a "PIE" it may exacerbate the challenges and practical difficulties identified by the IAASB's Auditor Reporting Post-Implementation Review.

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: [Neither agree/disagree, but see comments below](#)

Detailed comments (if any):

While we agree it would be appropriate for ISRE 2400 to be updated for the revisions to the IESBA Code, ISRE 2400 is not frequently used (especially for PIEs) so, in our view, there is no compelling reason for partially revising ISRE 2400 at this time, any revision should be as part of a broader revision of the standard. However ISRE 2410, which is much more frequently used, is not proposed to be revised by this ED. On this basis, we recommend the IAASB carry out the ISRE 2410 revision project sooner.

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: [No \(with no further comments\)](#)

Detailed comments (if any):

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):

We support aligning the effective dates with ISA 240 (Revised) – fraud, and ISA 570 (Revised) – going concern, on the basis that differential requirements are being considered for listed entities.

However, if the IAASB proceeds with amendments to ISQM 1 and ISA 701 in this ED as currently proposed, then there may need to be more transition time given to implement these changes to extend the extant differential requirements, that currently apply to listed entities, to PIEs.

Appendix B

About CA ANZ

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 136,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live.

Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Find out more at <https://www.charteredaccountantsanz.com>

About ACCA

ACCA is the Association of Chartered Certified Accountants. We're a thriving global community of 247,000 members and 526,000 future members based in 181 countries that upholds the highest professional and ethical values.

We believe that accountancy is a cornerstone profession of society that support both public and private sectors. That's why we're committed to the development of a strong global accountancy profession and the many benefits that this brings to society and individuals.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions preparing us for tomorrow.

Find out more at www.accaglobal.com