SOCPA
الهيئة السعودية
للمراجعين والمحاسبين

VISION رؤية 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

03-04-2024

International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, 10017 USA

Dear Colleagues

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the effort of the IAASB and welcomes this opportunity to comment on the IAASB's Exposure Draft (ED), 01/ 2024, ***"Proposed Narrow Scope Amendments to: International Standards on Quality Management, International Standards on Auditing, and International Standard on Review Engagements 2400 (Revised): Engagements to Review Historical Financial Statements; as a Result of the Revisions to the Definitions of listed Entities and Public Interest Entity in the IESBA Code".***

SOCPA's interest in this project comes from its continuous efforts to provide sufficient technical support to accounting professional individuals, institutions, and users of their professional services, specifically that SOCPA has fully adopted IESBA's code of ethics. Thus, SOCPA is supportive of the IAASB's initiative to improve the auditing standards to reflect the IESBA's amendments to define Public Interest Entities (PIEs) and publicly traded entities, and to differentiate its requirements accordingly. As such, SOCPA supports the IAASB's initiative in its Track 2 project to enhance the consistency of its standard requirements with the IESBA's Code in order to meet the heightened expectations of the stakeholders of these entities (PIEs). However, SOCPA highlights, at the same time, certain concerns in relation to the proposed revisions, which are further explained in its responses to the questions in the appendix.

SOCPA believes that increasing the consistency between the two sets of standards (auditing and ethical standards) serves the purpose of enhancing the quality of professional services and meeting the expectations of the stakeholders.

The full details of our responses to the questions included in the ED are attached in the Appendix to this letter.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

Dr. Ahmad Almeghames
SOCPA Chief Executive Officer

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Appendix

SOCPA's Comments on Exposure Draft (ED), 01/ 2024, "Proposed Narrow Scope Amendments to: International Standards on Quality Management, International Standards on Auditing, and International Standard on Review Engagements 2400 (Revised): Engagements to Review Historical Financial Statements; as a Result of the Revisions to the Definitions of listed Entities and Public Interest Entity in the IESBA Code".

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: **Neither agree/disagree, but see comments below**

Detailed comments (if any):

In principle, SOCPA supports the proposed amendments since they increase the alignment between the IESBA's Code and the IAASB's standards, given that SOCPA has fully adopted the IESBA's Code, including its recent project on the PIEs definition. Additionally, SOCPA believes that requiring differential requirements for the audit of PIEs can correlate with the heightened expectations of PIE's stakeholders. Differentiating certain requirements based on the definition of PIEs and publicly traded entities can help serving the public interest at large since such extension should result in meeting the expectations of more audit stakeholder groups. Therefore, extending certain requirements to entities other than listed entities may serve narrowing the audit expectation gap (in specific knowledge gap) since the expectations of more groups of the public is being served, including the perception that auditors' of PIEs should be subject to more stringent requirements. It is expected that stakeholder of audit services would start realizing that more stringent audit requirements are for the audit of PIEs which may eventually result in unintended understanding; "higher audit quality". It is important to highlight here that satisfying the purpose of such proposed amendments is substantially dependent on the jurisdictional definition of PIEs where this may ultimately result in different expectations of audit from stakeholders of the same entities in different jurisdictions.

Although current proposed amendments focus on certain requirements related to very limited areas (e.g. audit independence, communication with Those Charged with Governance (TCWG)…etc.) and extend these requirements to groups of entities beyond listed entities, this principle, after some time, may lead the public to an unintended understanding that "higher audit quality" should be expected only when the audit client is a PIE. After a while, this misunderstanding may be unconsciously embraced by auditors too as they may feel more pressured to satisfy higher requirements when auditing a PIE. Therefore, there is always this risk of perceiving the audit practice in auditing non-PIEs as being of low audit quality since the standards' different requirements are signaling that. This risk is heightened with the presence of the auditing standard for Less Complex Entities (LCE). These proposed amendments and the approval of the recent auditing standard for LCE have heightened the risk of increased complexity and expanded expectation gap (in specific performance expectation gap). For instance, in Saudi

Arabia, listed entities can be audited only by certain auditors who meet the requirements of the regulatory body oversighting the stock market because stakeholders of listed entities possess heightened expectations of audit and these entities are expected to have major effects on the market, economy and society. Therefore, adding more types of entities may lead to having other regulatory bodies applying additional requirements from auditors to audit certain entities falling under the PIE definition. This could create unintended complexity, increasing the burdensome on auditors (accounting firms) in order to make sure that they comply with such different legal and professional requirements. Regulatory bodies are expected to reason their initiatives to request additional requirements from auditors by the principle suggested by this project that audit requirements extend to more types of entities in order to meet heightened expectations of the stakeholders of PIEs. Accordingly, SOCPA believes that certain considerations should be taken into account while further emphasizing on differentiating audit requirements based on types of entities because, after some time, the audit profession may become stratified into different categories where there are auditors who can only audit non-PIEs and the concept of audit quality is murkier.

Although this increased complexity may respond to the objective of making the standards proportionate, it does not seem to go hand in hand with the IAASB's project to simplify and make the standards more understandable. Therefore, we think since professional standards are commonly comprehended as dictating the minimum requirement for best practice, lowering the bar for the audit of certain entities (namely; non-PIE (including LCE)) may unintentionally create a new minimum limit for expectation of audit quality. This is really concerning taking into consideration the increased criticism about audit quality. It is understandable that these proposed amendments have only expanded already differentiated requirements to entities beyond listed entities, however, SOCPA believes that the concerns highlighted above may advise the board to become more skeptical about any further complications associated with more differentiated requirements proposed based on types of entities.

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

Detailed comments (if any):

As highlighted in the comment to the first question, SOCPA supports the efforts of both international standards boards (IAASB and IEASBA) to align professional and ethical requirements since SOCPA has fully adopted the IAASB's standards and IESBA's Code. SOCPA believes that such alignment is critical to satisfy the objectives of both sets of standards (technical and ethical requirements). Since SOCPA has approved IESBA's recent project on the development of PIE and publicly traded entities definitions in the Code, it believes that proposed amendments in this project can help in enhancing the consistent application of both sets of standards.

Differential Requirements in the ISQMs and ISAs

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3A. Do you agree with the IAASB's proposals for extending the extant differential requirements for <u>engagement quality reviews</u> 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: <u>Agree, with comments below</u> **Detailed comments (if any):** SOCPA agrees that these amendments can serve the purpose of responding to the PIEs stakeholders' heightened expectations and the public's higher level of interest in the financial condition of these entities. Taking into consideration the comment provided on the previous questions, since this proposed amendment has scoped in more entities rather than limiting the quality engagement review requirement to listed entities, this could increase costs to auditing firms specifically when a jurisdiction decides to include various types of entities within the scope of PIEs definition. Accordingly, there is always a concern about the audit market and how these increased costs may enhance fairness and healthy competition within the market to provide high quality auditing services with a reasonable level of audit fees that the markets could appreciate.
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 <u>communication with TCWG about the firm's system of quality management</u> 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: <u>Agree (with no further comments)</u> **Detailed comments (if any):** SOCPA agrees with such proposed amendment since it actually scopes in more entities where the requirement to communicate to TCWG about the system of audit quality applies. This also can satisfy the expectations of PIEs' stakeholders and help TCWG to fulfill their duties according to relevant laws and regulations (e.g. governance code) where they commonly are required to oversee the development of financial reports and the relationship with external auditors. This amendment is necessary to maintain the consistency of the requirements within the standards (specifically the proposed amendment made in para 34 (f)). A note here to consider that the definition of TCWG may need revision to emphasize on the variation of governance frameworks that PIEs entities (which are not only listed entities) may possess.
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):

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3C. Do you agree with the IAASB's proposals for extending the extant differential requirements for <u>communicating about auditor independence</u> 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: **<u>Agree, with comments below</u>**   **Detailed comments (if any):**   Since SOCPA has fully adopted the IESBA Code (including recent amendments pertinent to the definition of PIE), SCOPA believes that these amendments are critical to develop needed consistency between professional requirements (technical and ethical requirements).
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 <u>communicating KAM</u> 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: **<u>Agree, with comments below</u>**   **Detailed comments (if any):**   Extending the requirement of communicating KAM in the audit report to the users of the financial statements of other than listed entities should further help in narrowing the audit expectation gap. This is important although the definition of PIE in certain jurisdiction may include entities that may not be expected to have sophisticated stakeholders who might be interested to read lengthy audit reports (e.g. stakeholders of entities which become PIE because of the nature of their services). For instance, in listed entities, the stakeholders (in specific the primary users of financial reports; investors) are expected to have a level of sophistication that could allow them to appreciate the complexity added to the audit reports. Therefore, there is always a concern that auditor reports are becoming complex with additional details, while their costs might not be justifiable considering the nature and needs of the audit report stakeholders.
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 <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 no further comments)</u>**   **Detailed comments (if any):**

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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 no further comments)**
Detailed comments (if any):

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):
Since SOCPA has fully adopted the IESBA Code (including recent amendments pertinent to the definition of PIE), SCOPA believes that these amendments are critical to develop needed consistency between professional requirements (technical and ethical requirements).

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: **See comments on translation below**
Detailed comments (if any):

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Since the proposed amendments are consistent with the amendments that the IESBA had made to the Code, certain translation challenges have been minimized as SOCPA, for instance, has already translated the IESBA's new amendments related to the PIE and publicly traded entities definitions.

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: **No response**

Detailed comments (if any):

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