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)	CPA Australia
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Ram Subramanian
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Tiffany Tan
E-mail address(es) of contact(s)	Tiffany.tan@cpaaustralia.com.au
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.	Asia Pacific
	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).	As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of more than 170,000 members working in over 100 countries and regions around the world. We welcome the opportunity to provide a submission on the Exposure Draft: 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. We make this submission on behalf of our members and in the broader public interest.

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

Detailed comments (if any):

CPA Australia neither wholly agrees nor disagrees with the proposal in paragraphs A29A–A29B of ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* (ISQM 1) and paragraphs A81A–A81B of ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* (ISA 200) in the ED.

While we acknowledge the importance of establishing a common objective as a guiding principle for differentiating requirements across the IAASB standards and the International Ethics Standards Board for Accountants (IESBA) Code, we have identified certain concerns regarding the terms' usage within the context of audit objectives.

In principle, we agree with the necessity of developing a common objective to underpin the establishment of differential requirements for entities across IAASB standards and the IESBA Code. However, we found adopting the objective in paragraph R400.8 of the IESBA PIE Revisions into ISQM 1 and ISA 200 to be problematic.

Our concern stems from the fact that section 400 of the IESBA Code pertains to independence for audit and review engagements, whereas ISQM 1 and ISA 200 (in the context of auditor's general responsibilities applicable to all audits) address audits holistically, which may include the audits of other historical financial information, other assurance or related services engagements. Therefore, aligning the proposed wording with these IAASB standards would have broader implications beyond just the independence for audit and review engagements.

Furthermore, the inclusion of the term 'stakeholder' in paragraphs A29A–A29B of ISQM 1 and paragraphs A81A–A81B of ISA 200 within the audit context appears contradictory to the fundamental purpose of auditing. The primary objective of an audit is to enhance the degree of confidence of intended users in the financial report, not that of a potentially wider range of stakeholders. While stakeholders are vital in the broader context of corporate governance and accountability, the primary focus of an audit should be on providing assurance to the specific users of financial statements, such as shareholders, creditors, and regulators.

Additionally, the proposed language in ISQM 1 A29B and ISA 200 A81B mirroring paragraph 400.10 of the IESBA Code discusses stakeholders' heightened expectations regarding audits for PIE entities. It then states that the purpose of the requirements in ISQM 1 and ISA 200, is to 'meet' these expectations. However, the lack of clarity regarding the nature and reasonableness of these expectations may inadvertently endorse unrealistic perceptions of auditors' roles, exacerbating existing gaps in expectations.

Therefore, we urge the IAASB to reconsider its approach in adopting the objective directly from the IESBA Code and strongly recommend revising the language to replace ‘stakeholders’ with ‘intended users of financial reports’ and ‘meet’ with ‘address’ users’ expectations. This adjustment would better align with and reflect the intended context of the IAASB standards.

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):

CPA Australia agrees with adopting the definitions of PIE and “publicly traded entity” into ISQM 1 and ISA 200.

The use of the term “public traded entity” does not, in itself, seem to create any obvious issues or problems. Our membership is generally supportive of the proposed revised definition of a PIE as set out in proposed paragraph R400.17 of the IESBA Code including the new term ‘Publicly Traded Entity’.

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: Neither agree/disagree, but see comments below

Detailed comments (if any):

CPA Australia is unable to definitively conclude on this matter. Nonetheless, we offer our observations and relay feedback from our members.

We've observed that many larger audit firms have already voluntarily extended existing engagement quality review requirements to Public Interest Entities (PIEs) as part of their risk assessment processes, recognising the high public interest in these entities. While the proposed changes may encompass a broader range of entities under these requirements, the incremental costs for these auditors may not be overly burdensome.

Conversely, we've received feedback indicating that extending these requirements to PIEs could significantly impact Small and Medium Practitioners (SMPs), especially in less developed jurisdictions. This is particularly challenging as SMPs are not currently obligated to conduct engagement quality reviews for their PIE clients. SMPs often serve smaller, less complex PIEs with straightforward business models and minimal risk factors, making the imposition of engagement quality reviews disproportionately burdensome for both entities and auditors. This could inflate audit costs for clients with little added value.

We recognise the proposal's alignment with public interest objectives but urge the IAASB to adopt a proportional and scalable approach given the significant impact this may have on the SMPs and their clients. We note that paragraph 4 of ISQM 2 *Engagement Quality Reviews* (ISQM 2) addresses scalability at a principle level. However, we urge the IAASB to provide additional guidance in the form of examples as illustrated in the application paragraphs in ISQM 1. Consideration of the size and complexity of entities alongside PIE classification would ensure differential requirements add value without unduly burdening SMPs and their clients.

Should the IAASB proceed with extending the extant differential requirements for engagement quality reviews to apply to PIEs, we recommend allowing ample transition time for SMPs to implement changes to get such processes set up and embedded, which would allow them to comply with the new differential 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):

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):

CPA Australia supports the IAASB's proposal to extend existing differential requirements for communication with those charged with governance (TCWG) regarding the firm's quality management system to PIEs, as outlined in paragraph 34(e) of ISQM 1, in this ED.

However, we find the proposed amendments in paragraph A128 of ISQM 1 to be unclear. We suggest that the IAASB clarify whether the proposed amendments to paragraph A128 intend to expand differentiation requirements for communication with TCWG to PIEs only or to all audit clients.

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):

CPA Australia supports the IAASB's proposal to extend current differential requirements for communicating auditor independence to Public Interest Entities (PIEs).

However, we found question 3C to be confusing. This question refers to extending the differential requirements for communicating about auditor independence to apply to PIEs only, whilst paragraph 42 of the EM proposed that the revision should extend these requirements to all entities. We recommend the IAASB to clarify its position on this matter.

We believe there are two components to the differential requirements for communicating about auditor independence, that is:

i. For all audits - A statement from the auditor to those charged with governance (TCWG) that the auditor has complied with relevant ethical (and legal, where applicable) requirements regarding independence; and
ii. For PIEs only - Additional communications with TCWG on relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence.

If our interpretation above is in line with the IAASB's intention, then we suggest the IAASB enhance drafting alignment between the intention to the relevant paragraphs as well as consistency in drafting these paragraphs.

For example, paragraph 40(b)(i) of ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements* (ISA 700) in this ED proposed that, for all audits *'a statement that the auditor has complied with relevant ethical requirements regarding independence'*. On the contrary, paragraph 17 of ISA 260 (Revised) *Communication with Those Charged with Governance* (ISA 260) in this ED proposed that *'a statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms, complied with relevant ethical requirements regarding independence'.* We are of the view that the reference made to network firms is more appropriate in the context of additional communications with TCWG on relationships and other matters which should only be applied to PIEs, not all entities. Therefore, we believe the drafting of paragraph 17 of ISA 260 should be aligned with paragraph 40(b)(i) of ISA 700 (Revised) and urge the IAASB to clarify its intent and consider the unintended administrative burden this scope expansion may impose on auditors across all audits.

For the record, in Australia auditors are mandated to provide directors with a statement confirming compliance with ethical independence requirements for all statutory financial statements' audits. We understand this may not be the case in other jurisdictions.

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):

CPA Australia does not agree with the IAASB's proposal to extend current differential requirements for communicating Key Audit Matters (KAM) to Public Interest Entities (PIEs).

In light of the potential expansion of KAM communication beyond listed entities, the Australian Auditing and Assurance Standards Board (AUASB) issued a Discussion Paper seeking feedback on this matter. Consistent with our joint submission with CA ANZ to the AUASB, we find that extending KAM communication beyond listed entities is not presently necessary or supported in the Australian context.

We acknowledge the IAASB's finding in their Feedback Statement from their Auditor Reporting Post Implementation Review that while there's support for mandatory KAM communication for PIEs, respondents feel strongly that extending KAM to entities beyond listed ones should be left as a jurisdictional issue. We firmly believe that the discretion to extend KAM reporting beyond listed entities or publicly traded entities should remain within the purview of local jurisdictions.

Feedback from our outreach and joint submissions to the AUASB indicates no compelling reasons or immediate need to extend KAM reporting beyond listed entities in Australia. Given resource constraints in audit firms and increasing demand for services in areas like sustainability reporting, we urge careful consideration of whether the benefits of extending KAM reporting outweigh the costs.

Should the IAASB proceed with extending KAM communication to PIEs, we recommend allowing ample transition time for audit firms and entities to develop relevant, entity specific KAMs to avoid generic descriptions.

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

Detailed comments (if any):

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):

CPA Australia supports the IAASB's proposal to modify the applicability of the differential requirements in ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* (ISA 720) to apply only to "publicly traded entities" at present.

We also endorse the rationale provided in the EM for postponing amendments to the differential requirements of ISA 720 for PIEs at present. We agree that this discussion should be deferred until a comprehensive revision of ISA 720 is undertaken.

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):

CPA Australia agrees with the new requirement and application material in ISRE 2400 (Revised) *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* (ISRE 2400) to ensure alignment with the stipulations in paragraph 28(c) of ISA 700 (Revised).

For instance, as highlighted in paragraph 54 of the EM, it is noted that ISRE 2400 (Revised) lacks alignment with the modifications introduced to the auditor's report as part of the IAASB's auditor reporting project (2014), including changes to the report's structure and the incorporation of new elements. Additionally, the IAASB has opted against making any revisions to ISRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ISRE 2410) at this time, considering its current pre-clarity format and the absence of conforming and consequential amendments from recent IAASB projects. This decision aims to avoid implying that ISRE 2410 is up to date.

Therefore, we strongly recommend that the IAASB prioritises the inclusion of revisions to both ISRE 2400 (Revised) and ISRE 2410 in its work plan, as both standards are long overdue for an update. We contend that the revision of ISRE 2410 holds greater urgency compared to ISRE 2400, as interim review engagements conducted by independent auditors for listed entities or PIEs under ISRE 2410 are more prevalent across jurisdictions, whereas reviews of historical financial statements of PIEs under ISRE 2400 (Revised) are relatively uncommon in practice. Clarity and alignment with concepts and principles from other IAASB standards would be welcomed by our members and other stakeholders.

We appreciate the IAASB's attention to these matters and urge swift action to ensure the continued effectiveness and relevance of international standards in the auditing profession.

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):

CPA Australia acknowledges the importance of coordinating effective dates with ongoing projects related to fraud and going concern, particularly in cases where revisions may influence auditor reports. Aligning these efforts wherever feasible would be the most sensible approach.

However, as discussed in the earlier responses, extending the extant differential requirements to PIEs will disproportionately affect SMPs and their clients. Therefore, should the IAASB proceed with the proposals in this ED, we advocate for providing SMPs with ample transition time to implement necessary changes and integrate them into their processes effectively. This transition period is essential to ensure compliance with the extant differential requirements.

There remains a valid concern regarding whether the suggested 18 to 24-month transition period would afford SMPs with sufficient time to carry out these essential actions and considerations effectively. Therefore, we urge the IAASB to be mindful of this potential challenge and consider extending the transition period if deemed necessary to facilitate smoother implementation.