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)	Nordic Federation of Public Accountants (NRF)
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Helene Agélii
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	helene.agelii@nrfaccount.org
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.	Other (if none of the categories above apply to your situation)
	If "Other", please clarify Nordic region
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).	

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 do agree with the overarching objective to establish differential requirements for PIEs.

We also support the ambition to use a common objective as an overarching principle for establishing differential requirements for certain entities across both the IAASB standards and the IESBA Code.

Similar to para 400.8 in the IESBA Code, the proposed wording in both ISQM 1 and ISA 200 refers to PIEs *"reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders"*.

One of the key issues in the IESBA's project "Revisions of the Definitions of Listed Entity and Public Interest Entity in the Code" was the reference to "financial condition" and whether, and if so how, the term differed from "financial statements".

Paragraphs 28 and 29 in IESBA's Basis for Conclusion related to that project state the following*:*

"The IESBA agreed to add the explanatory phrase "due to the potential impact of their financial well-being on stakeholders" in paragraph 400.8 to clarify the meaning of "financial condition." The IESBA reiterated its view that the public interest focus from the perspective of the IIS is on the general financial health of an entity, i.e., its "financial condition," and should not be limited to the entity's financial statements. When assessing the level of public interest in an entity from the perspective of the IIS, the focus is on how the entity's financial success or failure may impact the public. Such a concept is therefore broader than an entity's financial statements. The IESBA did not consider it necessary to replace or define "financial condition" in the Code.

Nevertheless, to bridge the concepts of financial condition and financial statements, the IESBA agreed to clarify in paragraph 400.10 that the financial statements of an entity can be used when assessing the entity's financial condition. This addresses the concern raised about a potential expectation gap over the role of auditors by indicating that the assurance given by auditors over an entity's financial statements is not assurance over the entity's entire financial health."

Given the different contexts, we are not convinced that referring to "financial condition" instead of to "financial statements" is appropriate. Even though the IAASB would disagree and decide not to change its proposal we at least believe that the reference to the very broad and undefined term "financial well-being on stakeholders" should be replaced by "financial well-being on intended users of the financial statements".

Paragraphs 400.8 and 400.10 are placed in the introductory section in the IESBA Code while the equivalent paragraphs in both ISQM 1 (A29A-A29B) and ISA 200 (A81A-A81B) are placed in the application material.

Since the content in these paragraphs includes objective and purpose we suggest moving them to the introductory sections. By doing so the structure would be better aligned with the IESBA Code.

Also, we notice that both the IESBA Code and the proposed changes to ISQM1 and ISA 200 refer to “meeting” stakeholders’ expectations. Keeping the word “meet” rather than replacing it with, for example, “address” is another reason for why it is more appropriate to include these paragraphs in the introductory sections than having them in the application material.

Moving these paragraphs might also have an impact on the wording of 16 (p)A (iv) in ISQM 1 and paragraph 13 (I)A (iv) in ISA 200.

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 strongly support an ambition to achieve as much consistency and alignment of important concepts and definitions used in the respective Boards’ standards.

Having said that, this particular alignment comes with some practical challenges.

The IESBA’s new PIE definition is broadly defined, and the approach expressed in the Ethics Code anticipates that relevant local bodies play a pivotal role in establishing the local PIE definition. The proposed changes will be effective for audits of financial statements for periods beginning on or after December 15, 2024.

Given the effective date of the new IESBA PIE definition, we are a bit concerned that the IAASB might assume that the IESBA PIE definition has been implemented on a national level by the time this project will enter into effect. That might not be the case, especially since the authority and public oversight of compliance with the Ethics Code versus compliance with the ISAs and the Quality Management Standards might differ both within but also between jurisdictions. In addition, there may already exist legal PIE definitions in certain jurisdictions.

We understand that the IAASB has tried to align as much as possible to the IESBA definition while at the same time describing their approach in a more condensed way. However, by taking that approach we are worried that the intentional key role the relevant local bodies have in this regard is not sufficiently evident here. To some extent the drafting implies that the users are well versed in the IESBA’s underlying approach. This may be particularly problematic in jurisdictions that have not already acted in the way the IESBA anticipated.

Also, some further guidance may be necessary to clarify paragraph 16 (p) A (iv) in ISQM1 and the equivalent in ISA 200.

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):

By replacing "listed entities" with "publicly traded entities" more entities will be covered by the PIE definition. In our view, the value of having an EQR in these additional engagements should not be underestimated. At the same time extending the extant differential requirements for engagement quality reviews to apply to all PIEs is probably the proposal that will have the greatest impact on the audit market and could rather reinforce market concentration and costs.

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 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):

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: **Disagree, with comments below**

Detailed comments (if any):

The suggested changes in paragraph 17 in ISA 260 (Revised) would extend the requirement to be applied not only to PIE audits but to all audit engagements. In our view, extending the requirement to be applied on *all* audit engagements goes beyond the scope of this narrow amendment project.

Given that the statement must be in writing (paragraph 20) and that it seems as if this statement is different from the confirmation of compliance with independence requirements at the acceptance or continuation stage and intended to be made at the end of the audit, the cost-benefits of extending this requirement to apply on all audit engagements can be questioned.

This requirement may be appropriate and practicable for PIEs that typically have supervisory/administrative boards and audit committees. However, since smaller entities usually lack such formal structures and compliance with ethical requirements regarding independence is already communicated in the auditor's report, we do not think proportionality considerations have sufficiently been taken into account in the requirement. This is to some extent covered in ISA 260 A32 but, in our view, application material 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):

We believe paragraph 17 should only apply to PIEs and the introduction to that paragraph should therefore rather be "In case of public interest entities…".

If the IAASB still believes paragraph 17 should apply on all audit engagements, we believe the conditionality expressed in A32 should rather be included in the requirement.

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 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):

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

Detailed comments (if any):

As noted in paragraph 57 in the EM, reviews of historical financial statements under ISRE 2400 (Revised) are rare in practice. The attached foot note states that "from its information gathering with NSS, only one jurisdiction (i.e., South Africa) noted that there is a regulatory reporting requirement in accordance with ISRE 2400 (Revised) for banks which would qualify as PIEs under the revised PIE definition". In addition, paragraph 54 notes that ISRE 2400 (Revised) is not aligned with the changes to the auditor's report introduced as part of the IAASB's auditor reporting project, such as the structure of the report and including new elements introduced to the auditor's report.

Given this, we question whether there is a need to make these changes now or whether any changes to either ISRE 2400 or ISRE 2410 should be dealt with in separate projects. Since the reports made by using ISRE 2410 more directly impact the users of both the interim reports and the assurance reports, we encourage the IAASB to prioritize a project that relates to ISRE 2410.

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):

The ED also includes suggested changes in ISA 240 and ISA 570. The suggested changes are based on the extant versions of those standards although ISA 570 (Revised) was recently out for exposure and ISA 240 (Revised) currently is. Consequently, for example, paragraph A30 in extant ISA 240, where a change is suggested, has a different content in proposed ISA 240 (Revised). At the same time paragraph A108 in the proposed ISA 240 (Revised) ED refers to "listed entities". Therefore, we wonder how suggested conforming and consequential amendments will be addressed in the final versions given that the wording has been changed in the revised paragraphs/illustrations.

This is also one of the reasons why we stress the importance to work closely with both the Fraud and Going Concern project when finalizing this one.

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 do appreciate IAASB's efforts to coordinate effective dates with the fraud and going concern projects. This is especially helpful in relation to the consequences the proposed changes in all three projects will have on the audit report.

At the same time, replacing listed entities with PIEs may also cause some disruption in the audit market and impact the firms' organizational structures. For example, many firms might have internal rules that preclude them from auditing PIE clients. Regardless of whether these firms would need to resign from audit engagements – or if they would rather choose to organize themselves so that they may have EQRs and comply with other specific PIE requirements, it will take some time.

From that perspective we also encourage the IAASB to reach out to regulators and professional bodies who are in charge of determining how PIEs in their jurisdiction should be defined. This is especially important regarding regulators and professional bodies who have not already publicly disclosed their views since a delay in that process will affect the remaining time for auditors and audit firms to adapt to the new requirements.