

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)	International Federation of Accountants (IFAC)
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Christopher Arnold Harpal Singh
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	ChristopherArnold@ifac.org HarpalSingh@ifac.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.	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).	IFAC is the global voice for the accountancy profession. IFAC serves the public interest through advocacy, development, and support for our member organizations & the millions of professional accountants around the world who are crucial to our global economy.

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:

This response has been prepared by IFAC and includes input from IFAC’s [Small and Medium Practices Advisory Group](#) (SMPAG). IFAC is the global organization for the accountancy profession. IFAC’s membership comprises more than 180 professional accountancy organizations in over 135 jurisdictions, representing more than 3 million professional accountants in public practice, industry, government and education. The SMPAG is charged with identifying and representing the needs of its constituents and, where applicable, to consider relevant issues pertaining to small- and medium-sized entities (SMEs). The

constituents of the SMPAG are small- and medium-sized practices (SMPs) who provide accounting, auditing, assurance, and business advisory services principally, but not exclusively, to clients who are SMEs. Members and Technical Advisers serving the SMPAG are drawn from IFAC member organizations currently representing 21 countries from all regions of the world.

IFAC appreciates the efforts of the IAASB in working together with the IESBA to harmonize definitions and terminology in this important area and we are broadly supportive of the proposed changes but have commented on this matter in more detail below in suggesting timelines are also coordinated such that changes by one SSB are not presented as a *fait accompli* to the other Board to address later. In this context, we also raise concerns within our response that the terminology used around standards being designed to meet heightened stakeholder expectations for PIEs could be problematic and could worsen existing expectation gaps. Specifically, we suggest the term “stakeholders” be changed to read: “intended users of the financial statements” in line with the terminology used in paragraph 3 of ISA 200 (Revised). There is also some unclarity around the extent of work the auditor is required to do to identify PIEs which are not labelled as such by law, regulation or other requirements. The extension of the requirement to provide written confirmation of auditor independence to those charged with governance (TCWG) could also set clearer timings for when this should take place. Finally, considering the level of activity that will be needed to implement, there are significant challenges whether an 18-24 month period following approval of these amendments will be sufficient.

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: [Disagree, with comments below](#)

Detailed comments (if any):

We agree with establishing the overarching objective and purpose for differential requirements for PIEs, but some elements of the proposed wording are problematic. ISQM 1 A29A- A29D and ISA 200 A81A- A81D refer to public interest in the ‘financial condition’ of entities and ISQM 1 A29A and ISA 200 A81A refers to the potential impact of the ‘financial well-being on stakeholders’ of PIEs. The considerations referred to here are broader than concern with the financial statements and their intended users, which is where emphasis is placed in other IAASB standards (see our comment and suggestion above). We understand that this may be a deliberate choice in wording, recognizing that for PIEs there may be wider concern around financial viability and ability to continue operating independent of what the financial statements show. However, under the ISAs, the purpose of an audit is to enhance the degree of confidence of intended users in the financial statements, not that of a potentially wider range of stakeholders.

Linked to the above, the proposed wording in ISQM 1 A29B and ISA 200 A81B refers to stakeholders having heightened expectations regarding an audit for a PIE entity, and then notes the purpose of the requirements

in the ISQMs/ISA 200 that apply to audits is to meet these expectations. It is not clarified what these expectations are nor how reasonable they are. This fails to recognize that some stakeholder expectations may be unrealistic, and as such the requirements in the ISQMs/ISA 200 would and could not actually be designed to meet these. Ultimately, the wording as drafted has the potential to legitimize unrealistic expectations as to the role of auditors, and as such could contribute to worsening existing expectations gaps. Instead of referring to the requirements of ISQMs/ISA 200 being designed to 'meet' expectations, reference could be made to the requirements aiming to 'address' expectations. This would allow for consideration of the reasonableness of such expectations by the auditor within the bounds of the standards.

We note wording in the final pronouncement of the IESBA code for changes related to the Listed Entity and PIE definitions referred to heightened expectations regarding the independence of firms performing audit and review engagements (see IESBA Code 400.10) and the need for requirements to meet these. However, the proposed wording of the references within these IAASB standards will have a far broader implication. The reference to audits as a whole, rather than a particular element of considerations made (e.g., independence of firms in the IESBA example) makes this problematic.

We also note the overarching objective and purpose is presented within the Application and Other Explanatory Material sections of ISQM 1 (A29A and B) and ISA 200 (A81A and B). The placement of this information within application guidance is confusing. It would be more appropriate to include this material – appropriately modified – within the explanatory opening paragraphs of the relevant 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):

The definitions of PIEs in the ED for ISQM 1 16(p)A(iv) and ISA 200 13(l)A(iv) refer to inclusion of further entities specified as such by law, regulation or professional requirements. Whilst we support alignment with the IESBA definition, we would like to note that this means the IAASB will not have control over which entities fall within scope of a local definition and therefore cannot realistically have determined the appropriateness of the requirements. This could impact SMEs – please see our response to question 3A below accordingly.

Within the ED, proposed ISQM 1 A29D and ISA 200 A81D also note that law, regulation or professional requirements may use terms other than PIE “to describe entities in which there is a significant public interest in the financial condition.” It is not entirely clear how the auditor is required to deal with such an entity when addressed in law, regulation or professional requirements. Law and regulation may use terms such as a ‘large’ or ‘significant’ company, but these would not necessarily be defined as PIEs – does the IAASB intend the auditor to search for any such “additional” PIEs? Definitions in some regions, such as Europe, can be particularly confusing as there can be large differences in requirements based upon whether something is listed on a regulated exchange or not (e.g., in the UK FTSE listed vs AIM listed).

There is also no clarity regarding the process – if any – the auditor would be required to go through to identify such entities. It should be clarified whether the proposals envision positive action be taken to identify PIEs that are not labelled as such, or whether the reference is more related to when something is uncovered to substantively be a PIE through unrelated efforts or other work (i.e., a “become aware” approach). If there is an expectation for the auditor to go through all law, regulation and other similar guidance to identify entities that may fit the definition but are not labelled as PIEs, this would pose a significant practical challenge. Additionally, the potential treatment of this application material as if it was a mandatory requirement by regulators would also raise further difficulties and the threat of this may impact auditor behavior.

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):

The proposals will increase the number of entities that will fall under differential requirements, and in many jurisdictions, this is likely to result in small insurance or finance related entities being scoped in. These additional requirements cause a disproportionately large burden on smaller entities that would be classed as PIEs and on their auditors, who are more likely to be SMPs and who may not currently deal with other PIE clients. The extension of engagement quality reviews (EQRs) to small or less complex PIEs would require their auditor to require an EQR be performed and put processes in place for effective EQRs even where the audited entity is very small, uncomplicated with a simple business model and having no additional risk factors to justify such work. This would increase the costs of audit that are passed through to clients with arguably little additional value in these cases.

In practice, this could also result in smaller firms exiting the market for such audits, which could again impact costs to such clients if they are otherwise unattractive to larger firms. Already in some jurisdictions, many SMPs make a determination to not take on clients that are subject to differential requirements, so increasing the scope of entities that are subject to such requirements will result in changes to the audit market. This will also limit choice for such entities newly falling under differential requirements.

At the same time, we acknowledge there will be views that activities that foster the ‘public interest in the financial condition’ legitimize the additional work and associated additional costs, the level of public scrutiny being enough to justify these. We also note that it may be a desired outcome to change the market so that only firms of a particular size or sophistication that are prepared to deal with differential requirements are the ones who are given responsibility for auditing entities where there is a significant public interest, but this may not be considered desirable in all jurisdictions globally. If this is the case, scalability of approach should still be ensured within requirements so that the scale and complexity of an entity can be taken into consideration alongside classification as a PIE to determine appropriate differential requirements to ensure they add value. However, we note this would be difficult to establish in a tidy way.

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):

Where small or less complex PIEs are concerned, the most onerous additional requirements which may not add value would be in relation to EQRs. Potentially, criteria could be included to determine whether less complex PIEs require an EQR. These could mirror the criteria that a firm can use to voluntarily have an EQR. This way the firm would have to justify not requiring a specific PIE audit be subject to EQR.

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: Agree, with comments below

Detailed comments (if any):

The proposed revisions to ISA 260 include removal of the wording ‘In the case of listed entities’ in paragraph 17. This subsequently extends the requirement outlined in ISA 260.20 (which requires the auditor to communicate in writing to TCWG regarding auditor independence) to all entities, so is not just a change from listed entity to PIE. A similar revision appears for ISA 700 (Revised) in the ED in Paragraph 40(b)(i) where the requirements have also been extended from listed entities to all audits through removal of wording. We understand from the Explanatory Memorandum paragraphs 41-45 that this is a deliberate extension to requirements beyond the change in definition and note that this will give rise to additional administrative task for auditors to complete on all audits.

Reading further into the proposed changes, ISA 260.17 will require communication with TCWG “...a statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence”.

We acknowledge the value of written confirmation of independence on all audits, as this may better protect the auditor and the client. We note that currently, such confirmation may already occur at the initiation stage of an audit as part of the content of an engagement letter. While this would suffice in clarifying no independence issues at the acceptance or continuation stage, it would not confirm that the ethical requirements relating to independence have been ‘complied with’ through the engagement. The proposed wording of ISA 260.17 therefore implies that a statement should be made at the end of the audit. Confirmation at different stages of the audit does have merit as relationships could change or activity could occur during the course of the engagement that may impact the initial assessment. However, the revisions should make the timing of the written confirmation of independence explicitly clear so that there is no ambiguity in requirements.

We note there is some inconsistency in the language used in the proposed revisions for ISA 260.17 when compared to those for ISA 700 (Revised) 40(b)(i). It is not clear whether the reference to network firms independence in ISA 260.17 should be applicable to all engagements, this may be more relevant only for PIE audits, so we would recommend amendments to the wording to bring in line with the proposal for ISA 700 (Revised) 40(b)(i).

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 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 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 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):

We note that a project in relation to ISA 720 (Revised) has been placed into reserve in the IAASBs Strategy and Workplan. This project will offer a more substantive opportunity to comment on the requirements of ISA 720, so at this stage we have no objection to the changes proposed here.

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):

It is noted that in Paragraph 57 of the EM, the IAASB acknowledge reviews of PIE's historical financial statements under ISRE 2400 (Revised) are rare in practice, and footnote 25 clarifies information gathering identified a sole jurisdiction where there is a regulatory reporting requirement for one sector in accordance with ISRE 2400 (Revised). There is a challenge as to whether it is appropriate to amend a global standard in reaction to practice in a single jurisdiction.

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):

Harmonization of terminology with the IESBA is important, and we support consistency of definitions between the Standard Setting Boards. In our [response](#) to the IESBA PIE ED we raised this as a critical matter.

Paragraph 60 of the EM to the ED refers to the definitions of listed entity and PIE having already been exposed for public comment by the IESBA and consequently the definitions having 'undergone a proper due process'. Whilst it is fair to acknowledge that there has been opportunity for stakeholders to comment on the definitions, it is not clear that the same stakeholders would necessarily respond to a consultation from the IESBA, or respond in the same way, as they would to a consultation from the IAASB, as the context may differ. Additionally, the explicit implications the changes in definition would later have on the IAASB standards would not have been clear at that time without the presentation of proposed revisions.

We appreciate the efforts the IESBA and the IAASB have been putting into communication and co-operation. However, in instances such as where important definitions are to be considered in future, we would support a joint approach to public comment and even closer co-ordination to ensure the opportunity for stakeholders to comment on relevant matters in parallel is maximized.

We also have some further comments on the proposals and wording within the ED:

- ISQM 1 A29G and ISA 200 A81G in the ED refer to instances where the firm/auditor may determine that it is appropriate to treat other entities as PIEs. It is not explicitly clear when such a decision is made whether all differential requirements in relation to PIEs would need to be followed. As a result, firms may select the differential requirements they deem to be appropriate if they have voluntarily designated entities as PIEs rather than apply the full differential requirements. It would be useful to provide explicit clarity on requirements where the firm has made this designation, as diversity in practice may otherwise result.
- ISQM 18A and ISA 200 23A refer to treating entities as PIEs in accordance with the relevant definition paragraphs. They also state firms/auditors should "consider more explicit definitions established by law, regulation or professional requirements." The use of the word 'consider' in these paragraphs is not helpful, it is not clear what action should specifically be taken as there is ambiguity associated with this word.

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):

We note that in the past there has been some challenge to the use of the word ‘consider’ within the IAASB standards, in that this can create ambiguity for the action needed to be undertaken. We note that this word has been used in the proposed revisions in several places, ISQM 1 para 18A, A29F, A29G for example. In addition to the problems the use of this word poses for clarity of expected treatment in English, which we refer to in our response to question 6, this is also a particularly challenging word to translate and could create ambiguity.

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 appreciate the IAASBs efforts to attempt to coordinate effective dates with the fraud and going concern projects. As noted in the EM to the ED, the harmonization of effective dates is useful, especially where revisions to standards will have an impact on auditor reports. However, the practical implications of such coordination would need to be considered carefully as these should feed into consideration of what would constitute an appropriate effective date. Specifically, the coordination of effective dates for three projects will mean there will be a significant volume of material to be translated in many jurisdictions and time will also be needed for the changes to be understood and the impact considered. Once this process has taken place, the development of implementation support initiatives and changes to firms’ internal manuals, guidance, processes and training programs would also be needed.

The narrow scope amendments within the ED also have the potential to cause some disruption in the audit market. For example, the changes in definition will result in more entities being subject to differential requirements. We note that some firms, including many SMPs have internal rules that preclude them from auditing PIE clients, and who would not have processes in place to carry out EQRs and some of the other necessary requirements. If there are such firms with clients that will now be subject to added procedures as a result of these amendments, we would envisage there may be decisions made to resign from audits as a consequence. Conversely, if such firms were wanting to implement changes that would allow them to continue to perform audits, they may need more time to get such processes set up and embedded. From the client perspective, organizations that will fall into differential treatment due to the changes may also

require more time to carry out tender processes and find a new auditor, especially if there are a smaller number of firms prepared to carry out an audit engagement for them.

The changes proposed will also require regulators or other relevant local bodies to consider which entities in their jurisdiction will be classified as PIEs. Whilst we note the consistency with the PIE definition within the IESBA Code, which will have an earlier effective date, this will not necessarily trigger action in all jurisdictions in determining a broader list of PIE categories. In some jurisdictions, action may only be taken following a change to the auditing standards (for example in jurisdictions where local ethical guidance is followed, or where IESBA Code adoption is not yet 'up to date'). Consequently, for a period of time after the final IAASB pronouncement there could be a limit to the action that can be taken by auditors and audited entities until clarity on PIE classification is obtained at a jurisdictional level.

There may also be some confusion caused by the IESBA revised PIE definition and related provisions becoming effective for audits of financial statements for periods beginning on or after December 15, 2024. The confusion caused may result in some jurisdictions delaying the adoption of the IESBA Code changes for the definitions. Some additional guidance on the inter-relationship between the IESBA and IAASB definitions may therefore be useful for stakeholders.

Taking all of this into account creates a strong challenge to an 18- 24 month period being sufficient after approval of the amendments. Arguably a longer timeframe would be needed for the required actions or considerations to occur in an effective way, so the IAASB should be mindful of this.