



3 October 2022

Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 5th Avenue, 6<sup>th</sup> Floor, New York  
New York 10017 USA

Dear Willie,

**IAASB Exposure Draft Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) in response to recent revisions to the IESBA Code**

The Australian Auditing and Assurance Standards Board (AUASB) welcomes the opportunity to comment on the IAASB's Exposure Draft *Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)* (IAASB ED).

***The AUASB does not support the amendments to ISA 700 proposed in the IAASB ED***

Overall, the AUASB **does not support** the amendments to ISA 700 proposed in the IAASB ED. Whilst we appreciate the IESBA's intention to improve transparency, the AUASB does not consider that the proposed changes to the auditor's report are the most appropriate mechanism for this purpose, and the proposed amendments may, rather than improving transparency, actually increase the risk of confusion by users. Our concerns on this matter are outlined in greater detail in our response to Question 1 in the Appendix to this submission.

***Jurisdictions should have greater flexibility to disclose when a Firm has applied the Independence requirements for PIEs where alternatives exist***

The AUASB considers that the new IESBA Code transparency provision in R400.20, which refers to disclosing the independence requirements applied "in a manner deemed appropriate", provides optionality for the mechanism of public disclosure. In some jurisdictions (such as Australia) there are alternatives that may meet the transparency disclosure requirements without the need to amend wording in the auditor's opinion. Therefore, we request that the IAASB amend ISA 700 to permit auditors to apply alternative options that may be more appropriate in their jurisdiction. Please refer to our response to Question 2 for further discussion and examples of reasonable alternatives that could be used for this purpose.

***The amendments to the auditor's report should not be in the 'Basis for Opinion' paragraph of the auditor's report***

Regardless of our views above, should the IAASB still conclude that the auditor's report is the appropriate mechanism for the IESBA Code transparency disclosure, the AUASB **does not support** the IAASB's proposed approach requiring this additional disclosure be included as part of the 'Basis for Opinion' paragraph of the auditor's report.

The title of the section speaks to how the auditor came to their opinion. The auditor has formed their opinion on the basis of being independent, not on the basis of applying differential independence

requirements to the audit. The AUASB is concerned that when differential requirements are referred to in the Basis for Opinion, there is a risk users may misinterpret the disclosure as indicating that the nature of the audit is different. Therefore, the AUASB encourages the IAASB to identify an alternative location for the proposed additional disclosure within the auditor's report should it be enacted, for example either in the Auditor's responsibilities section of the auditor's report or perhaps under a separate Independence heading.

***Concerns about multiple IAASB projects advocating for additional information to be included in the auditor's report***

As a final point, the AUASB expresses reservations about the current trend of multiple IAASB projects advocating for additional information to be included in the auditor's report (e.g. Going Concern, Fraud). We are concerned that the compound effect of these changes may increase the complexity and length of the auditor's report and, rather than improve transparency, actually reduce the report's understandability and utility.

Instead of considering each of the current project proposals for additional audit report disclosures on an incremental basis only, the AUASB strongly encourages the IAASB to holistically review all potential changes to the content of the auditor's report currently under consideration (IESBA Code transparency disclosure, Going Concern, Fraud), and assess how useful a longer and more detailed audit report will be to users should all the proposed changes across these projects come into effect. The AUASB considers further research and evidence gathering may be necessary to determine the benefits to users of such additional content in the auditor's report.

The AUASB's responses to the specific questions raised in the IAASB ED is attached as **Appendix A** to this letter.

Should you have any queries concerning our submission, please contact the AUASB Technical Director, Matthew Zappulla, via email at [mzappulla@auasb.gov.au](mailto:mzappulla@auasb.gov.au).

Yours sincerely,



W R Edge  
Chair

## Request for Specific Comments

### Transparency About the Relevant Ethical Requirements for Independence for Certain Entities applied in Performing Audits of Financial Statements

**Q1. Do you agree that the auditor's report is the appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as independence requirements for PIEs in the IESBA Code?**

#### Response

1. The AUASB **does not support** the IAASB's proposal for ISA 700 to be amended to mandate disclosure in the auditor's report that the auditor has applied differential independence requirements for certain entities (for example PIEs) in performing an audit. While we understand the intention of the IESBA in introducing the disclosure requirement is to improve transparency, we question whether the auditor's report is the most appropriate mechanism for such disclosure. In our opinion, the inclusion of such a statement in the audit report increases the risk of confusion by users, which will likely outweigh the benefits of its intent.

2. Our main concerns with using the auditor's report as mechanism for this disclosure include:

- **Transparency/Understandability** – Although the term 'PIE' is used in the IESBA Code, it is not a term currently used in the requirements of the ISAs. This term, if inserted in the auditor's report, could therefore cause confusion where it is not clear what a PIE is (may require an element of judgement), why the entity is classified as a PIE and what the differential ethical requirements for PIEs are.

Furthermore, the AUASB considers that, unless users understand the distinction being made about the application of differential independence requirements, the proposed additional disclosure in the auditor's report is unlikely to increase the level of confidence in the audit or assist users in assessing the independence of the audit firm.

Any attempts to address potential confusion by adding further information (in particular, more boilerplate type content) to the disclosure statement may disproportionately lengthen the auditor's report and could potentially obscure more relevant communications in the report.

Finally, the additional disclosure might result in an unintended consequence of creating a perception that there are different levels of independence or audit quality which could have an adverse effect on public confidence in non-PIE audits. This would not be in the public interest and may exacerbate the audit expectation gap.

- **Holistic approach** - The AUASB expresses reservations about the current trend of multiple IAASB projects advocating for additional information to be included in the auditor's report (e.g. Going Concern, Fraud). In particular, we are concerned that the compound effect of these changes may increase the complexity and length of the auditor's report and, rather than improve transparency, actually reduce the report's understandability and utility.

Instead of considering each of the current project proposals for additional audit report disclosures on an incremental basis only, the AUASB strongly encourages the IAASB to holistically review all potential changes to the content of the auditor's report currently under consideration (IESBA Code transparency disclosure, Going Concern, Fraud), and assess how useful a longer and more detailed audit report will be to users should all the proposed changes across these projects come into effect.

The AUASB considers further research and evidence gathering may be necessary to determine the benefits to users of such additional content in the auditor's report.

- **Introduction of new information in the auditor’s report** – By stating that the auditor has applied the independence requirements applicable to PIEs, the auditor is providing additional information about the entity, namely that it is a PIE. However, Those Charged With Governance are not required to disclose that the entity is a PIE, as this concept is not used in the accounting standards (though there may be jurisdictions where regulation may require this disclosure). Generally, the auditor’s report does not provide new information about the entity. Therefore, we are concerned that this additional disclosure may set a precedent that it is appropriate for auditors to provide new information about an entity in the auditor’s report.
3. The AUASB considers the new IESBA Code transparency provision in R400.20, which refers to disclosing the independence requirements applied “in a manner deemed appropriate” provides optionality for the mechanism of public disclosure. In some jurisdictions (such as Australia) there are alternatives that may meet the transparency disclosure requirements without the potential negative effects on the interpretation for the auditor’s opinion.

Therefore, we request the IAASB to consider the **need for jurisdictional flexibility** which would provide auditors with alternative options that may be more appropriate in their jurisdiction. Please refer to our response to Question 2 for examples of reasonable alternatives that could be used for this purpose.

**Q2. Please answer question 2A or 2B based on your answer to question 1:**

**2A. If you agree:**

- (a) *Do you support the IAASB’s proposed revisions in the ED to ISA 700 (Revised), in particular the conditional requirements as explained in paragraphs 18-24 of the Explanatory Memorandum?*
- (b) *Do you support the IAASB’s proposed revisions in the ED to ISA 260 (Revised)?*

**2B. If you do not agree, what other mechanism(s) should be used for publicly disclosing when a firm has applied the independence requirements for PIEs as required by paragraph 400.20 of the IESBA Code?**

#### Response

4. As explained in our response to Question 1, the AUASB does not support the IAASB’s proposal to mandate disclosure in the auditor’s report that the auditor has applied differential independence requirements for certain entities (for example PIEs). The AUASB considers there is a need for jurisdictional flexibility which would provide auditors with alternative options.
5. Should the IAASB conclude that the auditor’s report is the appropriate mechanism for the IESBA Code transparency disclosure, the AUASB is supportive of:
- (a) the IAASB’s conditional requirement for disclosure in the audit report rather than an unconditional requirement; and
  - (b) the proposed revisions in the ED to ISA 260.
6. However, the AUASB **does not support the IAASB’s proposed approach requiring this additional disclosure to be included as part of the ‘Basis for Opinion’ paragraph of the auditor’s report.** The title of the section speaks to how the auditor came to their opinion. The auditor has formed their opinion on the basis of being independent, not on the basis of applying differential independence requirements to the audit. The AUASB is concerned that when differential requirements are referred to in the Basis for Opinion, being so close to the opinion, then there is a significant risk that users will misinterpret the disclosure as indicating that the nature of the audit is different.
- Therefore, the AUASB urges the IAASB consider an alternative location for this additional disclosure within the auditor’s report. If it has to be disclosed in the auditor’s report, then a

separate section, perhaps under a separate Independence heading is something that should be considered.

#### **Alternative Mechanisms for the IESBA Code Transparency Disclosure**

7. The AUASB believes that the appropriate place for the IESBA Code transparency disclosure should be determined by relevant local bodies (for example, a national standard setter or regulator) to suit the requirements and expectations within the relevant jurisdiction.
8. The AUASB's preference is for the IESBA Code disclosure to be made in conjunction with other relevant disclosures concerning the auditor's independence. In Australia, for example, there is a requirement set out in law (*Corporations Act 2001*, s 307C) for an auditor to make a declaration in relation to their independence and compliance with the applicable Ethical Code. This auditor independence declaration is required to be included in the annual report of companies, registered schemes and disclosing entities regulated by the *Corporations Act 2001*. It seems sensible to allow the auditor to make this additional disclosure in this independence declaration.
9. While other jurisdictions may not have the same requirement to make disclosures about an auditor's independence, other mechanisms such as firm's transparency report or the website of the firm could be reasonable alternatives. In Australia, there already is a public disclosure mechanism in place, as the *Corporations Act 2001* requires audit firms to publish an annual transparency report that discloses the names of prescribed PIEs for which the firm conducts an audit. These reports are accessible at all times, to anyone, on the firms' websites. Firms could also disclose any other PIEs in these reports and firms who aren't required to prepare a transparency report could publish this information on their websites.
10. We consider these alternates will go some way in addressing our concerns raised in response to Question 1, through reducing the direct proximity of the differential requirements, that is, out of the auditor's report itself.
11. Further guidance by IESBA (based on research and further evidence gathering) will be helpful to clarify the possible mechanisms, other than the auditor's report, that would meet the IESBA Code's transparency requirement for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities (such as PIEs). The question that arises is whether sufficient consideration have been given to other (perhaps even new) vehicles?

#### **Transparency About the Relevant Ethical Requirements for Independence for Certain Entities applied in Performing Reviews of Financial Statements**

***Q3. Should the IAASB consider a revision to ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code?***

***Q4. If the IAASB were to amend ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, do you support using an approach that is consistent with ISA 700 (Revised) as explained in Section 2-C?***

#### **Response**

12. The AUASB believes that consistency across audit and review reports is desirable. As Part 4A of the IESBA Code applies to both audit and review engagements, the revisions to the IESBA Code regarding listed entity and PIE, including the transparency requirement, also apply to review engagements conducted in accordance with the ISREs.
13. Therefore, the AUASB believes it would be appropriate for the IAASB to consider updates to both ISRE 2400 and ISRE 2410 as part of Track 2 of this project, to address transparency about the

relevant ethical requirements for independence applied for certain entities, using an approach consistent with the proposed narrow scope amendments to ISA 700.

14. The AUASB does not agree with the IAASB's rationale set out in Section 2-C of the Explanatory Memorandum for considering updating ISRE 2400 but not ISRE 2410. In the limited circumstances where a review of a PIE's financial statements is required, we consider such a review will likely be undertaken in accordance with ISRE 2410 rather than ISRE 2400. Therefore, should the IAASB decide to update the review engagement standards in a manner consistent with the approach proposed for ISA 700, we consider it is more relevant and appropriate to update ISRE 2410 in the first instance. However, our preference is for both review standards to be amended.
15. As both ISRE 2400 and ISRE 2410 are out of date, we believe it would be appropriate for the IAASB to add a project to its workplan to undertake a comprehensive revision of the suite of review standards in order to modernise the standards and ensure the standards reflect all current IAASB standards, as appropriate.

**Matter for IESBA Consideration**

***Q5. To assist the IESBA in its consideration of the need for any further action, please advise whether there is any requirement in your jurisdiction for a practitioner to state in the practitioner's report that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.***

**Response**

16. Australian Standard [ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity](#) conforms with its international equivalent ISRE 2410. In 2009, extant ASRE 2410 was reissued by the AUASB in clarity format. Additionally in 2019, following consultation with stakeholders in Australia, further amendments to ASRE 2410 were made to align the reporting requirements with the revised auditor reporting requirements contained in ISA 700/ASA 700. These amendments include additional reporting requirements which are not contained in ISRE 2410. The main differences between ASRE 2410 and ISRE 2410 are outlined in the *Conformity with International Standards on Review Engagements* section on page 7-9 of the Australian Standard.
17. Specifically, [ASRE 2410, paragraph 35\(c\)](#) requires the *Basis for Conclusion* section of the auditor's review report to include "a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit of the annual financial report, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements". (NB: Notwithstanding ASRE 2410 applies to the Review of a Financial Report, as this standard is applicable to the auditor of the entity the relevant ethical requirements that apply to such an engagement are the same as the requirements for an audit).