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28 September 2022

Mr. Willie Botha
Program and Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue,
New York, New York 10017 USA

Via online submission: www.iaasb.org

Dear Willie,

IAASB Consultation Paper on Exposure Draft (ED) 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)

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 thank you for the opportunity to comment on the above Consultation Paper (CP) and make this submission on behalf of our members and in the broader public interest.

Whilst we are supportive of the transparency objective that underpins these proposals arising from the revisions to the IESBA Code, there are mixed views on whether the auditor's report is the appropriate mechanism to operationalise the IESBA transparency requirement to publicly disclose the differential independence requirements for public interest entities (PIE). As reflected in our [submission](#) in response to the previous IESBA consultation related to this CP, feedback from some members is that the auditor's report is not the place for such a disclosure, whilst other members believe the auditor's report would be the appropriate place for such a disclosure. To address this divergence in views, we suggest the location of the proposed disclosure should be determined by each jurisdiction, based on their own disclosure frameworks, including legislative requirements. However, regardless of the location of the disclosure, for the disclosure to be of value, considerable additional details, and explanations beyond just declaring that an entity is being treated as a PIE, will be necessary. Further details on our comments here are provided in the **Attachment**.

If you require further information on the view expressed in this submission, please contact Tiffany Tan, Audit and Assurance Policy Lead at tiffany.tan@cpaaustralia.com.au.

Yours sincerely,

Dr Gary Pflugrath FCPA
Executive General Manager,
Policy and Advocacy



Attachment

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

Question 1

Do you agree that the auditor's report is an 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 the independence requirements for PIEs in the IESBA Code?

As noted in our cover letter, whilst we are supportive of the transparency objective of the proposal, feedback we have received from members indicates mixed views on whether the auditor's report is the appropriate location for the disclosure. A solution could be to leave the location of the proposed disclosure to be determined by each jurisdiction, based on their own disclosure frameworks, including legislative requirements.

However, regardless of the location of the proposed disclosure, we raise some concerns below that could detract from the objective of the proposed disclosure. Consideration may need to be given to developing requirements around the provision of further details and explanations to ensure the disclosure is properly understood or interpreted by users of financial statements:

- Although a small addition, the proposed disclosure increases the length of an already-long auditor's report. We also note further pipeline projects including those on Going Concern and Fraud could further add to the length of the auditor's report
- The proposed disclosure presupposes an understanding from users of the term "PIE", particularly as this will be the only location in the financial statements where it will be referenced. The disclosure also presumes users will have an understanding of the independence requirements associated with PIEs versus those associated with non-PIEs
- There is a risk of the proposed disclosure becoming boilerplate information as the wording will remain the same every year

Taking all of this into account means that what might, on the face of it, seem to be a very simple disclosure becomes a very detailed and complex issue. It brings into question, from a cost-benefit perspective, the value of doing so.

If the IAASB proceeds with the proposal to include the disclosure in the auditor's report, we suggest that the differential independence requirements be disclosed as a new and separate paragraph to the Basis of Opinion paragraph.

Question 2A

If the auditor's report is to be used as a mechanism for publicly disclosing the independence requirements complied with:

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

Please refer to our response to question 1 above. If the IAASB proceeds with the proposed amendments, we are supportive of the conditional requirement approach.

- b) **Do you support the IAASB's proposed revisions in the ED to ISA 260 (Revised)?**

We are generally supportive of the IAASB's proposed revisions to ISA 260 (Revised). However, consistent with our views expressed in Question 1 above, we suggest that the IAASB be less prescriptive on the location of this communication. This approach will also be more aligned with the current approach taken for other matters to be communicated to Those Charged With Governance (TCWG).

Question 2B

If you do not agree, what other mechanism(s) could be used for publicly disclosing when a firm has applied the independence requirements for PIEs as required by paragraph R400.20 of the IESBA Code?

As noted in our cover letter and in response to Question 1 above, there are mixed views on whether the auditor's report is the appropriate mechanism for making the proposed disclosure.

Some members have indicated consideration of other disclosure mechanisms such as the audit firm's transparency report and the websites of the audit firm. In Australia, s307C of the Corporation Act 2001 requires the auditor to make a written declaration of independence to the directors of the audited entity. For the Australian market, we believe the Auditor's Independence Declaration Statement is the most sensible mechanism for the proposed disclosure.

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

Question 3

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?

Please refer to our response to Question 1 above. If the IAASB proceeds with the proposed amendments to ISA 700, we would suggest consistent amendments to be made to ISRE 2400 (Revised). Given the proposed amendments impact engagement with PIE entities, ISRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, which is widely used by listed companies, should also be updated to be aligned to the changes made to ISA 700.

Question 4

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?

Please refer to our response to Question 3 above.

Matter for IESBA Consideration

Question 5

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.

Please refer to our response to Question 2B above.

Request for General Comments

Question 6

Translations—Recognizing that many respondents may intend to translate the final pronouncement for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing this ED.

No comment.

Question 7

Effective Date - Given the need to align the effective date with IESBA, do you support the IAASB proposal that the amendments to ISA 700 (Revised) and ISA 260 (Revised) become effective for audits of financial statements for periods beginning on or after 15 December 2024 as explained in paragraph 26 of the IAASB's Explanatory Memorandum?

No comment.