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Thomas Seidenstein
International Auditing and Assurance
Standards Board
International Federation of Accountants
529 Fifth Avenue
New York, NY 10017
USA

Our ref SRA/288

4 October 2022

Dear Mr Seidenstein

Re: IAASB Exposure Draft, Proposed Narrow Scope Amendments to ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, and ISA 260 (Revised), *Communication with Those Charged with Governance*, 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)

We appreciate the opportunity to comment on the above Exposure Draft issued by the IAASB. We have consulted with, and this letter represents the views of, the KPMG network.

We are supportive of the IAASB's proposed narrow scope amendments to ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* and ISA 260 (Revised), *Communication with Those Charged with Governance*.

We consider that the proposed amendments to ISA 700 (Revised) are necessary to establish an enforceable mechanism in order to operationalise the requirement introduced at paragraph 400.20 of the IESBA Code, for a firm that has applied the independence requirements for public interest entities (PIEs) (as described at paragraph 400.8 of the IESBA Code) in performing an audit of the financial statements of an entity to "publicly disclose that fact in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders, unless doing so will result in disclosing confidential future plans of the entity".

We also consider that the proposed amendments to ISA 260 (Revised) would enhance the required communications between auditors and those charged with governance (TCWG) in this area, with the additional information being useful to TCWG in discharging their duties in terms of appointing an auditor to perform a high-quality audit.



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We agree with the IAASB's proposal not to update ISRE 2410 or ISRE 2400 (Revised) at this time.

We agree with the IAASB's stated objective to achieve the greatest possible convergence between the definitions, and key concepts underlying the definitions, used in the revisions to the IESBA Code and the ISAs, together with the new and revised Quality Management standards, to maintain their inter-operability, with such ability to operate in concert being in the public interest.

Please refer to the Appendix to this letter for our responses to the individual questions posed by the IAASB.

Please contact Sheri Anderson on +1 212 954 1110 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

A handwritten signature in black ink that reads 'Larry Bradley'. The signature is written in a cursive, flowing style.

Larry Bradley
Global Head of Audit
KPMG International Ltd

Appendix 1 – Specific Questions Posed by IAASB

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

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?

We agree that the auditor’s report is generally the most appropriate mechanism to effect public disclosure regarding when the auditor has applied differentiated requirements for independence for certain entities in performing the audit of financial statements, and we believe this is the optimal route in terms of timeliness, accessibility and consistency for users.

We also believe disclosing in the auditor’s report is preferable to other potential mechanisms described in the IESBA Code such as disclosure within the reporting entity’s financial statements, or on their websites/ via other channels, as such alternatives are not within the IAASB’s remit and, even if addressed by jurisdictional regulators or standard-setters, are likely to be subject to significant jurisdictional variation, which would not be in the best interests of users.

2A. If you agree:

(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 Explanatory Memorandum?

We are supportive of the proposed revisions and we welcome the division of the IAASB’s overall project on listed entities and PIEs, with a fast-track solution focused on narrow scope amendments regarding transparency in the auditor’s report in relation to the relevant ethical requirements, including independence requirements, applied by auditors when performing an audit of the financial statements of certain entities, to conform to the related revisions to the IESBA Code, with an effective date that aligns with that of the IESBA Code.

We consider it appropriate that the proposed requirement in ISA 700 (Revised) is established as a conditional requirement, as we believe this provides greater clarity regarding applicability, and does not inadvertently impose requirements for auditors to make such disclosures in the auditor’s report if they are not

otherwise required to do so, e.g., in jurisdictions that do not adopt the IESBA Code. We are also supportive of the neutral wording of the requirement to avoid the use of the term “PIE”, whilst regulators and other bodies explore the application of the IESBA changes to the definition of “PIE” in their jurisdictions, and whilst the IAASB explores the definition of this term for use within the IAASB standards, and whether to apply differentiated standards requirements to such entities.

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

We are supportive of the proposed revisions to ISA 260 (Revised) to encourage greater transparency, when communicating with TCWG of listed entities in accordance with paragraph 17 of that standard, that differential independence requirements have been applied in respect of certain entities. We believe the inclusion of the description, within the application material, highlighting that the auditor’s statement to TCWG may describe which independence requirements were applied and whether differential independence requirements were applied, as well as informing TCWG that information about such differential independence requirements applied by the auditor may be required to be included in the auditor’s report, is appropriate.

We note that paragraph 17 of ISA 260 (Revised) applies only to listed entities at the current time, however, we believe that the revisions to the application material are appropriate to encourage auditors of PIEs that are not listed entities to consider whether to communicate with TCWG regarding any differential independence requirements. We note that considerations regarding broadening the applicability of differentiated requirements for listed entities in the ISAs and ISQMs to a wider set of entities are to be made during Track 2 of the overall project, and therefore we concur with the IAASB’s approach not to amend the requirement at paragraph 17 itself at this time.

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 R400.20 of the IESBA Code?

As we describe in our response to Question 1, we believe the auditor’s report is the most appropriate mechanism to effect such public disclosure, not least because this mechanism is clearly within the IAASB’s remit.

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

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?

We do not consider it necessary to revise ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied by the auditor for the reasons described by the IAASB in the Explanatory Memorandum.

In particular, we believe that making such revisions, whilst not making other conforming amendments to align ISRE 2400 (Revised) with the ISAs and Quality Management standards further to changes made in recent years, may be confusing for users and may undermine the decisions taken previously in terms of not aligning this standard with those standards, e.g. as part of the auditor reporting project, noting that one of the key aims of that project was to provide greater clarity and transparency to stakeholders.

We also agree with the IAASB that it is likely that there would be very limited circumstances in which a practitioner would be requested to perform a review of the financial information of a PIE in accordance with ISRE 2400 (Revised) as it would be more likely that an audit of such information would be necessary to meet stakeholder needs.

We are supportive of the IAASB's view not to revise ISRE 2410 for similar reasons, including that ISRE 2410 is a pre-clarity standard and has not been subject to conforming amendments resulting from IAASB projects to update other standards in recent years (e.g. the auditor reporting standards). We also consider that as a review in accordance with ISRE 2410 is performed by the independent auditor of an entity, any applicable differential independence requirements would be required, as a result of the proposed revisions to ISA 700 (Revised), to be disclosed in the auditor's report issued on the annual financial statements of the entity, and therefore such information would already be in the public domain. We believe this would therefore satisfy the information needs, in respect of any differentiated independence requirements, of users of the review report.

We do note, however, that in taking this approach there is technically a lack of alignment of both review standards to the IESBA Code, as a result of the revisions made to the Code, which currently encompass review engagements as well as audit engagements. We suggest, therefore, as this situation is likely to persist for the foreseeable future, that, similar to the decision taken by IESBA



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to scope out assurance and related services engagements from such a requirement, on the basis that the public interest in such engagements is likely to be driven by the nature of the information and the engagement itself, rather than by the nature of the entity, that the IESBA is encouraged to also scope out review engagements from the requirement at paragraph 400.20 on the same basis.

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?

If the IAASB were to proceed with such amendments to ISRE 2400 (Revised), we agree that these should be made on a consistent basis with those proposed for ISA 700 (Revised), as illustrated at paragraph 33 of the Explanatory Memorandum.

Matter for IESBA Consideration

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.

This response is prepared on behalf of our global network and therefore we are not responding in regard to particular jurisdictions. In respect of the larger jurisdictions within our network, we are not aware of any legal, regulatory or other requirements imposed by these individual jurisdictions on practitioners performing reviews in accordance with ISRE 2400 (Revised) to include a statement in the review report that the practitioner is independent of the entity in accordance with relevant ethical requirements.

We note that there are such requirements in certain jurisdictions, e.g. in Australia, in respect of review engagements performed in accordance with ISRE 2410, and also in certain jurisdictions when performing review engagements in accordance with other review standards, e.g. in the US, AU-C 930.31d(iv) requires practitioners to include a statement in the review report that the auditor is required to be independent of the entity in accordance with relevant ethical requirements.

Request for General Comments



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6. Translations – Recognising 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.

We have no particular comments regarding translations.

7. Effective Date – Given the need to align the effective date with IESBA, do you support the 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 December 15, 2024 as explained in paragraph 26?

We are supportive of the proposed effective date as we consider it important that the effective date of these conforming amendments aligns with the effective date of the revisions to the IESBA Code on which these are based.