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Mr. Willie Botha
IAASB Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th floor

Exposure Draft: Proposed Narrow Scope Amendments to ISA 700 and ISA 260 as a Result of the Revisions to the IESBA Code

Dear Mr. Botha

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization welcomes the opportunity to offer its views on the 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)* (ED-Proposed Narrow Scope Amendments), issued by the International Auditing and Assurance Standard Board (IAASB).

We support the IAASB's efforts to operationalize the recently approved changes to the IESBA Code related to listed and public interest entities and appreciate the extensive coordination between the IAASB and the IESBA. It is important that the IAASB standards operate in harmony with the IESBA Code. We also agree the auditor's report is an appropriate mechanism to enhance transparency about the relevant ethical requirements for independence applied for certain entities when performing an audit of financial statements. However, we have provided suggested revisions to the wording proposed in the illustrative auditor's report in the Appendix to ISA 700 for the IAASB's consideration.

Our responses to the specific questions on which the IAASB is seeking feedback follow and include further clarifying details in respect of our overall comments above, when applicable.

Q1. 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?

Yes, we believe the auditor's report is an appropriate mechanism and satisfies the requirement in the IESBA Code for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements for the reasons cited by the IAASB in paragraph 16 of the ED-Proposed Narrow Scope Amendments. However, we believe that if a jurisdiction determines that there is a more appropriate location for publicly disclosing that the auditor has applied independence requirements for certain entities, ISA 700 should allow for flexibility (i.e., although we agree that the auditor's report is an appropriate mechanism for disclosure, jurisdictions may have other appropriate public reporting options at their disposal to use, which should not be prohibited by the ISA).

If it is agreed as a result of this consultation that the auditor's report is an appropriate mechanism for disclosure, we strongly encourage the IAASB to discuss with the IESBA the possibility of explicitly stating either directly in the IESBA Code or in its supplemental materials that the auditor's report is an appropriate mechanism. Such an explicit acknowledgement by the IESBA would bring clarity for firms and other stakeholders that the requirement for public disclosure set forth in the IESBA Code is sufficiently addressed through disclosure in the auditor's report.

Q2A. (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? (b) Do you support the IAASB's proposed revisions in the ED to ISA 260 (Revised)?

(a) We agree with the proposed revisions in the ED to ISA 700 (Revised), including the conditional requirement as explained in paragraphs 18-24 of the Explanatory Memorandum, with the exception that flexibility should be permitted to omit the disclosure of differential requirements when a jurisdiction has requirements that such disclosure be made through another appropriate form of public reporting.

We, however, do not believe the proposed wording in the illustrative auditor's reports (Illustration 1 and Illustration 2) in the Appendix to ISA 700 clearly reflects the proposed requirement. We believe that the proposed requirement in ISA 700.28(c) is clear that the focus is on publicly disclosing the differential independence requirements applicable to audits of financial statements of certain entities as this requirement states:

"... the statement shall indicate that the auditor is independent of the entity in accordance with the independence requirements applicable to the audits of those entities; and (Ref: Para. A34-A39) ..."

We, however, do not believe the proposed wording in the illustrative reports is clear that differential requirements specific to independence have been applied. We also believe the proposed wording in the illustrative reports implies that there is a separate body of relevant ethical requirements for public interest entities in the jurisdiction versus that there are specific requirements for public interest entities included within a larger body of relevant ethical requirements.

As such, we suggest the following revisions (for purposes of this comment, we have accepted the proposed revisions marked in the ED-Proposed Narrow Scope Amendments and marked our suggested revisions with underline and strikethrough):

Appendix to ISA 700, Illustration 1

Basis for Opinion

... We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, including the independence requirements as applicable to public interest entities, together with the ethical requirements for public interest entities that are relevant to our audit of the financial statements in [jurisdiction], including the [jurisdiction] independence requirements applicable to public interest entities. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Appendix to ISA 700, Illustration 2

Basis for Opinion

...We are independent of the Group in accordance with the ethical requirements ~~for public interest entities~~ that are relevant to our audit of the consolidated financial statements in [jurisdiction], including the independence requirements applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In addition to our suggested revisions to the illustrative reports included in the ED-Proposed Narrow Scope Amendments, we also suggest the IAASB consider adding an illustrative report to ISA 700 (Revised) for an audit for which the IESBA Code comprises all of the relevant ethical requirements that apply to the audit.

(b) We support the IAASB's proposed revisions in the ED to ISA 260 (Revised).

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?

We don't believe it is necessary to extend the requirement to address transparency to reviews performed under ISRE 2400 (Revised) as we don't believe this is information that is as important to users of reviews. We, however, support the IAASB's efforts to understand the views of users of these reports through the responses to this consultation.

Not amending ISRE 2400 (Revised) is consistent with the decision by the IAASB not to amend the practitioner's review report under ISRE 2400 (Revised) as part of the auditor reporting project.

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?

As explained in our response to Q3, we do not believe amending ISRE 2400 (Revised) is necessary. Should the IAASB determine that amendments to the practitioner's review report are necessary, we believe further consultation is needed on any proposed enhancements because there is not currently a requirement for an affirmative statement about the practitioner's compliance with relevant ethical requirements in the reporting requirements of ISRE 2400 (Revised). Specifically, there is no Basis for Opinion section in a review report and compliance with relevant ethical requirements is currently positioned within the description of the practitioner's responsibilities. Assuming the objective would be for an affirmative statement of compliance by the practitioner, the positioning and wording of such a statement in the review report would need further consideration with input from stakeholders.

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.

Ernst & Young Global Limited is a global entity and cannot comment on the requirements of any particular jurisdiction.

Q6. 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 potential translation issues have been noted.

Q7. 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?

Yes, we agree with aligning the effective date of the ISA amendments with the effective date of the IESBA revisions.

We would be pleased to discuss our comments with members of the International Auditing and Assurance Standards Board or its staff. If you wish to do so, please contact Kurt Hohl, Global Deputy Vice Chair, Professional Practice (kurt.hohl@eyg.ey.com).

Yours sincerely,

Ernst & Young Global Limited