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

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Via IAASB website at www.iaasb.org

Dear Board Members and Staff:

Grant Thornton International Ltd appreciates the opportunity to provide input on the International Auditing and Assurance Standard Board's (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), (ED).

We noted in our response to the International Ethics Standards Board for Accountants (IESBA) consultation: *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*, that we did not support the proposal to include that the entity was treated as a public interest entity in the auditor's report. Whilst we do not, in principle, support the requirement to disclose when a firm has applied the requirements for public interest entities, we appreciate that the IAASB has a responsibility to determine the most appropriate way to address this recently approved amendment to the IESBA International Code of Ethics for Professional Accountants (IESBA Code). As discussed in our response to question 1 below, overall, we agree that the auditor's report seems to be the only viable mechanism by which firms are able to make such disclosures.

Further, accepting that such disclosures will be made in the auditor's report, we have concerns with the drafting proposed for ISA 700 (Revised). Our first concern is the application of this disclosure requirement to group audit engagements. A group may be comprised of both entities that have been determined to be public interest entities and of entities that are not public interest entities, all of which may require their own auditor's reports on their individual financial statements. The proposed amendments to ISA 700 (Revised) do not provide guidance on the expected disclosure in each of the respective auditor's report in such situations.

Consider a hypothetical example where a group is comprised of a parent entity, which is a public interest entity, and several subsidiaries for which statutory audits are performed. None of the subsidiaries are public interest entities. The independence rules that apply to the entire group are those pertaining to public interest entities and disclosure is accordingly made in the auditor's report on the group financial statements. However, it is not clear whether the disclosure that the independence rules for public interest entities were applied is required in the statutory auditor's report on the subsidiary entities.

We are of the view that, given the requirements of the IESBA Code relate to the entity, the corresponding disclosure in the auditor's report should be based on the actual classification of the entity itself and not that of the wider group. Further, we are of the view that it would be misleading to the user of the auditor's report if such a disclosure was required to be made in a non-public interest entity.

We also have concerns with the use of the term 'certain entities' within the requirement. Whilst we appreciate why this term has been proposed by the IAASB, we believe that it can be inappropriately interpreted to apply to other categories of entities than those intended (i.e., public interest entities) and, accordingly, can be inconsistently applied across jurisdictions.

We also note that this consultation continues to highlight the need for coordination of activities between IESBA and IAASB to ensure that the proposals made by IESBA can be appropriately addressed by the IAASB and vice versa. We also highlight a further recent example of coordination issues with the IAASB's approval of the change to the definition of engagement team to include component auditors, as part of its approval of the suite of quality management standards. The new definition of engagement team becomes effective for audit of financial statements beginning on or after 15 December 2022, yet the IESBAs project to align the definition of engagement team in the IESBA Code with this revised definition is still ongoing. The expected effective date of the final IESBA provisions will be for audits of financial statements beginning on or after 15 December 2023. This clearly leaves a period of time where the application of independence rules to group audit engagements remains unclear and may inadvertently be breached. We note that the IAASB's and IESBA's Strategy and Work Plan periods will shortly be aligned and strongly encourage both Boards to continue coordination efforts and take this opportunity to similarly align the activities therein.

We attach our detailed response to the ED, which elaborates on the points highlighted above. We would be pleased to discuss our comments with you. If you have any questions, please contact me or Sara Ashton at sara.ashton@us.gt.com or at +1 646 825 8468.

Sincerely,

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Enc: Appendix A: 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)

The IAASB's 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)

The following provides our detailed response to the IAASB's request for comments to 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).

Request for Specific Comments

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?

In forming our views, we considered other mechanisms that might be available to facilitate the timely public disclosure of the independence requirements applied by a firm in its audit of an entity. We considered if such disclosures could appropriately be made through a firm's own website or through the website of a jurisdictional regulator; however, we concluded that this would not promote either consistency of disclosure or ease of access for users. We, therefore, agree that, to comply with the IESBA code, the auditor's report seems to be the most appropriate mechanism for the auditor's public disclosure of the independence requirements.

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?

If additional disclosures about independence are to be made in the auditor's report, we agree with the addition of a conditional requirement in ISA 700 (Revised) paragraph 28(c) for the reasons stated in the Explanatory Memorandum.

Further, we support the IAASB in not proposing amendments to paragraph 50 of ISA 700 (Revised), which outlines the minimum required elements of an auditor's report conducted under the ISAs. This accordingly permits jurisdictional relevant ethical requirements to be applied, which may not require disclosure of differential independence requirements, and still allows the auditor's report to refer to the ISAs.

We do, however, have concerns with the use of the term 'certain entities.' Whilst we understand that the intent of this term is directed towards public interest entities as defined in the IESBA Code, the term certain entities can be interpreted in a much broader sense than just a requirement to disclose that independence requirements for public interest entities have been followed. This could result in inconsistent interpretation of the term across different jurisdictions.

We also draw attention to proposed paragraph A35A, which states

'Relevant ethical requirements may also require or encourage the auditor to determine whether it is appropriate to apply those differential independence requirements to audits of financial statements of other entities not specified in the relevant ethical requirements.'

Whilst we agree that this is a factual statement, we are of the view that its incorporation in the application material may lead to auditors disclosing in the auditor's report that the independence requirements for public interest entities have been followed in situations where the more restrictive independence rules have been applied but where the entity is not actually a public interest entity. In these circumstances, it may be misleading to users of the financial statements by conveying the impression that an entity is a public interest entity when in fact, it is not.

Further, as stated in our overall comments, it is not clear how the requirement to disclose the independence requirements followed would apply in the audit of a group that comprises both public interest entities and non-public interest entities. We recommend that additional application material be included in ISA 700 (Revised) to limit the application of the requirement in such groups to entities that are public interest entities.

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

Overall, we support the proposed revisions in the ED to ISA 260 (Revised), with the exception of the use of the term 'certain entities' as explained in our response to question 2(a) above. We have the following more detailed drafting suggestions to clarify the application material.

'A29. … Relevant ethical requirements may include ~~differential~~ different independence requirements that apply to audits of financial statements that are based on the type or classification of the ~~certain~~ entity~~ies specified in the relevant ethical requirements~~, such as the independence requirements that apply to audits of financial statements of public interest entities in the IESBA Code. The auditor's statement to those charged with governance in accordance with paragraph 17 may include which independence requirements were applied~~, including whether differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements were applied~~. The auditor may also be required to provide information in the auditor's report about the ~~such~~ different~~ial~~ independence requirements that were applied ~~in the auditor's report~~ in accordance with paragraph 28(c) of ISA 700 (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 R400.20 of the IESBA Code?

See our response to question 1.

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 the transparency about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code?

We agree that it is appropriate for the IAASB to consider a revision to ISRE 2400 (Revised)[1] to address the transparency about the relevant ethical requirements applied, such as independence requirements for public interest entities in the IESBA Code, given that the IESBA Code applies to both audits and to review engagements. However, we do not believe that this should be a priority project for the IAASB. We note that there are currently inconsistencies between the extent of disclosure of relevant ethical requirements in an auditor's report and in a review report, and we do not believe that this has presented issues in practice.

Further, we do not envisage situations where review reports on historical financial statements for public interest entities would be common, given the requirements for financial statement audits of public interest entities. As such, our preference is that resources be directed towards the more holistic revision of is ISRE 2410[2]. Reports under this standard are more commonly issued for public interest entities. In our view, maintaining the consistency of ISRE 2410 with relevant amendments to the ISAs will avoid confusion and is in the public interest.

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

We support consistency of disclosures, where possible, between auditor's reports and practitioner's review reports.

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?

We note that in the U.S., American Institute of Certified Public Accountants (AICPA) AR-C Section 90[3] requires the following disclosure in the accountant's responsibilities section of the review report:

'We are required to be independent of XYZ Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.'

We did not identify other jurisdictions where there is a requirement 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.

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[1] International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

[2] ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor*

[3] AR-C Section 90, *Review of Financial Statements*

Request for General Comments

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.**

We did not identify potential translation issues when reviewing this ED. However, we note that the term ‘differential’ is not commonly used throughout the ISAs and recommend, per our response to question 2A part (b), that it is replaced with ‘different’.

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 support the proposal for the effective date of the proposed amendments.