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International Auditing and Assurance Standards Board  
New York, New York

Dear IAASB,

Our response to the exposure draft *Proposed Narrow Scope Amendments to ISA 700 and ISA 260 as a result of revisions to the IESBA code that require a firm to publicly disclose when it has applied the independence requirements for public interest entities* is below.

*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?*

We disagree. In our view, an audit is an audit is an audit. Independence is a fundamental feature of audits and IESBA should not have created differential rules, and the IAASB should not be condoning this by creating differential auditor's reports. The existing auditor's report already has become too complicated, with variants caused by whether the audit is a group audit or a listed entity, and variants in "other information" reporting.

We are concerned about the consequences of signaling in auditor's reports that some entities are "public interest" while others are not. There are many entities other than listed entities, banks and insurance companies for which assurance is provided in the public interest. The addition of the specific term "public interest" into the auditor's report may imply that the auditor of these entities is somehow acting "more" in the public interest than in other engagements, widening expectation gaps. Furthermore, the term "public interest" can be mistaken for "public sector" as the "public sector" is frequently expected to act in the "public interest."

Therefore, if the IAASB is going ahead with the proposals, we suggest the following be added to the first sentence of the opinion, for all audits (not just PIEs), as follows:

We conducted our audit in the public interest in accordance with International Standards on Auditing (ISAs).

We suggest that ISA 200 be updated to include a general requirement that all audits are conducted in the public interest.

In addition, we suggest that IAASB analyze which of the following occur due to the enhanced PIE requirements:

- 1) PIE audits having improved audit quality relative to audits of non-PIEs,
- 2) PIE audits having the same audit quality as audits of non-PIEs, or
- 3) PIE audits having a reduced audit quality relative to audits of non-PIEs.

Circumstance 3) above is unlikely, because strengthening auditor independence is why IESBA made the changes. However, it is important that the IAASB avoid creating a quality expectation gap between PIE and non-PIE audits solely because the independence requirements are different.

If the entity is a PIE, the disclosure as proposed is:

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), 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].

If the entity is not a PIE, we suggest the following if 1) above is determined to be correct by IAASB:

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). The entity is not a public interest entity in accordance with the IESBA code. We caution users that the quality of our audit may not be the same as if the entity were a public interest entity because we did not apply the IESBA requirements for public interest entities.

If the entity is not a PIE, we suggest the following if 2) above is determined to be correct by IAASB:

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). The entity is not a public interest entity in accordance with the IESBA code. However, the quality of our audit is the same as if the entity were a public interest entity.

We suggest the above because it is in the public interest for the IAASB to be transparent about the impacts of the IESBA differential rules on audit quality.

We are also concerned with adopting the term “public interest entity” into the ISAs. The term “public interest” must continue to be reserved for a more important concept in the ISAs – that of the “public interest” itself. Introducing the term “public interest entity” in multiple contexts risks commingling these concepts. The term “public interest entity” risks the possibility of communicating that these entities automatically act in the public interest, or what is in the public interest is only what is good for these entities, either of which may further the expectation gap if such entities act in their own interest and not the public interest. It will no longer be clear when the IAASB is communicating something as “in the public interest” what it actually means. Is the

action in the public interest if it is not done for a PIE? What if an action of the IAASB makes something more onerous for a PIE? Would that still be in the public interest? This commingling may create confusion when the IAASB states in any future project something like “public interest issues addressed” (as often is done in project plans or exposure drafts, including in this exposure draft on page 8).

We suggest IAASB analyze the implications for the auditor’s report for auditors that voluntarily apply the enhanced PIE ethical requirements for entities that are not PIEs. Should this be disclosed in the auditor’s report? And should it be disclosed that these auditors are exceeding what they are required to do, indicating a higher quality audit?

We also disagree with the change to ISA 260. The auditor should be required to communicate to those charged with governance the relevant ethical requirements that were applied in all audits, not just public interest entity audits.

*Question 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?*

Since we do not agree that disclosure is necessary, no other mechanisms should be used.

In general, this is a problem created by IESBA and it is unfortunate that the IAASB is being expected to solve this problem. We believe it should be left to marketplace innovation to solve this problem, if IESBA does not remove this requirement. Potential solutions IESBA could evaluate include the firms publicly disclosing which audits are PIEs in their own annual reports, a public announcement such as a notice on the firm’s website, or a tweet (or equivalent), any of which perhaps could be considered adequate public disclosure, or IAASB could modify ISQM for these.

We have no comment on questions 3, 4, 5, 6 or 7.

Thank you for the opportunity to comment.

Sincerely,

Wayne Morgan  
Colin Semotiuk