INSTITUT DER WIRTSCHAFTSPRÜFER

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Institut der Wirtschaftsprüfer
in Deutschland e. V.

Wirtschaftsprüferhaus
Tersteegenstraße 14
40474 Düsseldorf
Postfach 32 05 80
40420 Düsseldorf

TELEFONZENTRALE:
+49 (0) 211 / 45 61 - 0

FAX GESCHÄFTSLEITUNG:
+49 (0) 211 / 4 54 10 97

INTERNET:
www.idw.de

E-MAIL:
info@idw.de

BANKVERBINDUNG:
Deutsche Bank AG Düsseldorf
IBAN: DE53 3007 0010 0748 0213 00
BIC: DEUTDEDDXXX
USt-ID Nummer: DE119353203

Willie Botha
Technical Director
International Auditing and Assurance
Standards Board (IAASB)
529 Fifth Avenue, 6th Floor
New York
NY 10017, USA

submitted electronically through the IAASB website

Re.: Exposure Draft: 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)

Dear Willie,

We would like to thank you for the opportunity to provide the IAASB with our comments on the Exposure Draft "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).

Before addressing the individual questions posed in the draft, we provide some general comments.

While we were not in favor of the IESBA Exposure Draft on the definition of PIEs proposing transparency about differential ethical requirements generally or within the auditor's report. However, given the new requirements for such transparency within the IESBA Code (hereinafter referred to as "the Code"), we believe that it is appropriate that the IAASB consider how such transparency would be provided in the auditor's report. For this reason, subject to our detailed comments in **Appendices 1 and 2** to this comment letter, we are in favor of the proposals for the amendment of the ISAs to take into account the revisions of the Code.

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Dr. Daniela Kelm, RA LL.M.;
Melanie Sack, WP StB

However, we are not in favor of the IAASB seeking to amend ISRE 2400 at this time for the reasons given in the Explanatory Memorandum and as explained in our responses given in Appendix 1.

We would be pleased to provide you with further information if you have any additional questions about our response and would be pleased to be able to discuss our views with you.

Yours truly,

Melanie Sack	Wolfgang Böhm
Deputy Chief Executive Officer	Technical Director Assurance Standards, Director International Affairs

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Appendix 1: Questions Posed in Request for Comments

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?

As we had noted in our comment letter to the IESBA on this matter, we are not convinced that informing users of the auditor's report (including publicly disclosing when this is applicable due to auditors' reports being made public) of whether the relevant ethical requirements for independence that apply to audits of the financial statements of certain entities, such as PIEs, were used is important to users because the requirements that are differential for such audits relate to "independence of appearance", rather than independence of mind, a distinction that is lost on most users, particularly when PIE definitions vary across jurisdictions. In other words, users may not understand that auditors who do not apply these ethical requirements for independence relevant to audits of the financial statements of certain entities, such as PIEs, are required to have the same independence of mind. Overemphasizing the differential ethical requirements leads users to the erroneous conclusion that there are different "independence levels" within ethical requirements, which is not the case. For these reasons and because reference to differential ethical requirements may cause confusion among users and the auditor's report should not be overused for regulatory purposes, we were also not convinced that the auditor's report is the appropriate mechanism for such disclosure (whether privately to users of the auditor's report or publicly, when the auditor's report is made public).

However, given the new requirement in the IESBA Code (hereinafter referred to as "the Code") for a firm to publicly disclose whether the ethical requirements relating to independence for audits of financial statements of PIEs have been applied, we have asked ourselves whether there are acceptable means of providing such transparency other than the auditor's report. We have concluded that given such a requirement in the Code, the auditor's report is the only workable means of providing such transparency to users of the auditor's report.

We also note that the required changes to the auditor's report are not particularly invasive.

We therefore agree that in these circumstances, the auditor's report is the appropriate mechanism for transparency to users of the auditor's report, even though the disclosures would not be publicly available if the auditor's report is not publicly available.

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 support the IAASB's proposed conditional requirements and related application material in the ED to ISA 700 (Revised) because they appear to us to be a technically sound implementation in the auditor's report of the transparency requirement in the Code. Going beyond this conditional requirement to an unconditional requirement would go beyond the narrow scope amendments necessary to amend the ISAs for the new transparency requirements in the Code and may introduce other difficulties as set forth in the Explanatory Memorandum. However, we would like to comment on a few matters that we have identified in relation to the requirements and application material.

We note that the proposed requirement in ISA 700 applies only in cases where the relevant ethical requirements require the auditor to *publicly disclose* the application of the differential ethical requirements. This implies that if the auditor's report is not made public, then the disclosure of the application of the differential requirements in the auditor's report does not lead to public disclosure of that application. This is a problem that ostensibly paragraphs 144-146 of the IESBA Basis for Conclusions seek to resolve: it is outside of the IAASB's remit to seek to resolve this issue.

We also note that in the case of voluntary application of the differential ethical requirements (and only in the case of such voluntary application), the transparency requirement in the Code (or any other ethical requirements), and therefore the reporting requirement in ISA 700, would be reflexive, because the requirement within relevant ethical requirements for public disclosure of the voluntary application of the differential ethical requirements is also a differential ethical requirement. Consequently, when the differential ethical requirements other than public disclosure are voluntarily applied, but a firm chooses not to publicly disclose such application (whether in the auditor's report or elsewhere) the firm is no longer applying the differential requirements. Consequently, there is effectively no requirement in the IESBA Code or proposed ISA 700 to disclose voluntary application of differential ethical requirements in the Code in the auditor's report or elsewhere. We believe that this reflexivity should not be remedied in either the Code or ISA 700 because, due to regulators and the public holding a firm to any assertion in the auditor's report on the application of differential ethical requirements, an obligation to disclose the voluntary application of differential ethical requirements is likely to lead to less application of the differential requirements, which is not likely to be in the public interest if we believe these differential requirements to be meaningful.

We also believe that the wording used in the example reports is not technically clean and have provided suggestions to ameliorate these technical issues in **Appendix 2** to this comment letter.

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

We support the proposed revisions in the ED to ISA 260 (Revised) because those charged with governance, should be made aware of the differential ethical requirements applied.

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 point out above, we are not convinced that there are other acceptable mechanisms for public disclosure when the auditor's report is made public. However, when the auditor's report is not made public, then the disclosure in the auditor's report is not public and the matter of how public disclosure beyond the non-public auditor's report should be undertaken is beyond the remit of the IAASB.

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 surmise that engagements to perform reviews of financial statements in accordance with ISRE 2400 are exceedingly rare for public interest entities or other entities, the reviews of which have differential ethical requirements, because such entities are almost universally required to have their financial statements audited. In fact, other than the Code, we are not aware of any other relevant ethical requirements that have differential requirements for reviews other than those performed under ISRE 2410. Furthermore, when reviews of financial statements are performed for such entities, they are usually reviews of interim financial information performed using ISRE 2410, which is in dire need of general revision and for which the IAASB has correctly decided not to revise as part of this project. For this reason, we believe that at this time, the IAASB should **not** consider a revision of 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 Code.

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

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.**

There is no requirement in our 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.

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 have not identified any issues with respect to translation at this time.

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?

Given the need to align the effective date with the related requirements in the Code, we 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.

Appendix 2: Improvements to the Proposed Wording in the Auditor's Report

Illustration 1

To clarify that the differential ethical requirements relate to the audits of the financial statements of public interest entities and not the public interest entities themselves, we suggest that the third sentence of the Basis for Opinion paragraph be worded as follows:

"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 audits of financial statements of public interest entities, together with the ethical requirements applicable to such audits in [*jurisdiction*] and relevant to our audit of the financial statements of the Company."

Illustration 2

To clarify that the differential ethical requirements relate to the audits of the consolidated financial statements of public interest entities and not the public interest entities themselves, we suggest that the third and fourth sentences of the Basis for Opinion paragraph be worded as follows:

"We are independent of the Group in accordance with the ethical requirements applicable to audits of consolidated financial statements of public interest entities in [*jurisdiction*] and are relevant to our audit of the consolidated financial statements of the Group. We have also fulfilled our other ethical responsibilities in accordance with these requirements."