

4 October 2022

Mr W Botha
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue
New York, NY 10017, USA 5 October 2022

Submitted electronically to WillieBotha@iaasb.org

Dear Mr Botha

Comments on 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, 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

The Independent Regulatory Board for Auditors (IRBA) is both the audit regulator and national audit and ethics standard-setter in South Africa. Its statutory objectives include the protection of the public by regulating audits performed by registered auditors; and the promotion of investment and employment in the Republic. Its statutory Committee for Auditing Standards is responsible for assisting the IRBA to adopt, develop, maintain, issue and prescribe auditing pronouncements.

We appreciate this opportunity to comment on the *Proposed Narrow Scope Amendments to International Standard on Auditing (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)*, developed by the International Auditing and Assurance Standards Board (IAASB). Our comments are set out under the following sections:

- A. Overall Comments;
- B. Request for Specific Comments; and
- C. Request for General Comments.

If further clarity is required on any of our comments, kindly e-mail us at kmatambo@irba.co.za.

Yours faithfully,

Signed electronically

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A. OVERALL COMMENTS

1. We commend the IAASB's efforts to swiftly address the project objective to determine whether 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. Given the effective date of the Revisions to the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), which is 15 December 2024, we appreciate the split of the two aspects of the project into Track 1 and Track 2. This will allow for implementation time, as well as for regulators and practitioners to adapt to the proposed changes and, have practical solutions to complying with the requirements of proposed paragraphs R400.20 and R400.21 of the Revised IESBA Code.
2. We acknowledge that this project requires coordination with the IESBA, and also note the efforts of both boards to ensure the project achieves its objectives.
3. We support the IAASB's proposed amendments to ISA 700 (Revised) and ISA 260 (Revised). However, as detailed in our response to Question 1, we caution against creating an impression that disclosing the relevant ethical requirements applicable to PIEs in the auditor's report will always result in the auditor complying with the requirements of R400.20 of the Revised IESBA Code, which requires public disclosure of that fact. This will not always be the case. Not all auditor's reports are available to the public. This may then require clarification with the IESBA whether the intention of R400.20 is that the users that actually read the auditor's report are the intended targets of the required disclosure or is it the general public at large that is targeted. By noting paragraph 145 of the IESBA's *Basis for Conclusions on the Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*, we acknowledge that the IESBA considered this matter and will consider further actions, if any to address this issue.

B. REQUEST FOR SPECIFIC COMMENTS

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?

4. Yes. The auditor's report is appropriate and convenient. However, this is only to the extent that the auditor's report is an appropriate mechanism for disclosing (not publicly disclosing) when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements. In certain instances, if the auditor's report is in the public domain, for example, where the management publishes the auditor's report or the audited financial statements are published on its website, this would have been publicly disclosed, as other users or the public that would not ordinarily have access to the auditor's report would be able to read it. This may apply to listed entities, certain regulated entities and certain state-owned entities, but this might not be the same for other entities that are also considered to be PIEs.
5. We acknowledge the IAASB's view in paragraph 16 of the Exposure Draft regarding enabling consistency and comparability in auditor reporting globally. We, however, do not fully agree with the view that revising ISA 700 (Revised), as proposed, provides a clear mechanism to operationalise the IESBA transparency requirement, which is to "publicly disclose" in all

relevant cases. Although the auditor's report for certain entities is accessible to certain users of the audited financial statements, not all entities will have their audited financial statements in the public domain. Therefore, more clarity is needed on whether this alone would meet what the IESBA envisioned in paragraph R400.20 of the Revised IESBA Code.

6. It is also not clear what would constitute a manner that is deemed appropriate to "publicly disclose". We are concerned that practitioners might take the IAASB's proposals at face value and conclude that disclosing in the auditor's report, as proposed, always entails public disclosure, which may not be the case in instances where the audited financial statements are not published in the public domain.
7. To address this issue, we propose that the IAASB makes it clear in the application material of the revisions to ISA 700 (Revised) that "*where the auditor's report is not available in the public domain, the practitioner may take appropriate steps to publicly disclose that they have applied the independence requirements for public interest entities as described in the IESBA Code*".

Question 2

Please answer question 2A or 2B based on your answer to question 1:

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?

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

8. In relation to 2A, we support the proposed revisions in the Exposure Draft to ISA 700 (Revised). We also support the conditional requirement and agree that there may be complexities if this is not applied conditionally.
9. With regards to the articulation of the Basis for Opinion section in Illustration 1 - *Auditor's Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework*; for clarity that the jurisdictional ethical requirements apply to the audit of financial statements of public interest entities as opposed to the public interest entity itself, we propose the changes below. We also suggest the deletion of the word "also" to make the auditor's statement clear. Our suggested edits are highlighted in grey.

...

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. 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 that are relevant to the audit of financial statements for public interest entities that are relevant to our audit of the financial statements in [jurisdiction], and ~~We~~ 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.

10. We support the proposed revisions in the Exposure Draft to ISA 260 (Revised). However, it should be noted that paragraph 17 of extant ISA 260 prescribes requirements for auditor independence in relation to listed entities. We acknowledge that the proposed application material to this paragraph in the proposed paragraph A29 gives the example of relevant ethical requirements, such as the independence requirements that apply to audits of financial statements of PIEs in the IESBA Code. As it stands, this is not in the requirements, and those charged with governance at a public interest entity would not necessarily get the intended benefit of ISA 260 (Revised), paragraph 17.
11. We, however, appreciate that Track 2 of this project deals with all other project objectives, with a later effective date. This should therefore be taken into account in Track 2, if not addressed in Track 1. The application material for the Track 1 revisions may then need to bring this to the attention of practitioners, otherwise Track 2 revisions will need to make this clear.

Question 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?

12. Yes. This will ensure that ISRE 2400 (Revised) is aligned to the requirements of ISA 700 (Revised).

Question 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?

13. Yes. This will ensure consistency in the IAASB's standards.

Question 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.

14. There is no requirement in our jurisdiction. Practitioners apply the current requirements in ISRE 2400 and the illustrations that are given in the Illustrative Practitioners' Review Reports in ISRE 2400 (Revised).

C. REQUEST FOR GENERAL COMMENTS

Question 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.

15. We do not have a view on potential translation issues, as we do not translate the IAASB pronouncements in South Africa. The changes should not be difficult to apply to some of our illustrative reports in our South African Auditing Practice Statement 3 (Revised May 2019) Illustrative Reports, which are translated in Afrikaans.

Question 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?

16. Yes, we support the proposed effective date. It will allow for sufficient implementation time. We appreciate the IAASB's efforts to provide the necessary guidance, in line with the effective date of the IESBA's Definitions of Listed and PIE.
