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International Ethics Standards Board for Accountants
New York, New York

Dear IESBA,

Our comments on the Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code are as follows.

1. *Do you support the overarching objective set out in proposed paragraphs 400.8 and 400.9 as the objective for defining entities as PIEs for which the audits are subject to additional requirements under the Code?*

   We do not support the overarching objectives. The proposals are using the term "public interest entity" in place of what is a more accurate description: finance capital interest entities (FCIE). The public interest and what is in the private interest of financial capital are not always synonymous. We note that some of the factors in 400.8, such as "importance of the entity to the sector in which it operates" and "potential systematic impact on other sectors" could apply to many entities, none of which have private shareholders. For example government-controlled schools or government controlled hospitals are not easily replaceable in most societies, and have benefits to economy as a whole.

   We do not support differential independence requirements. In our view, if independence is important to audit quality, then the same independence requirements should apply to all reasonable assurance engagements (and to all engagements for which independence is necessary). If only applied to some engagements, the expectation gap may be widened.

   However, if there are going to be differential ethical requirements, then we believe the term "public interest entity" should be reserved exclusively for entities where the public interest is most broadly present, and should encompass additional kinds of engagements that could be performed, not just financial statement audits.

   We therefore propose that the Code instead include an "entity" perspective and an "engagement" perspective, such that there are types of engagements that may be considered public interest even if the financial statement audit of the entity is not. The category of "public interest engagements" should be based on those factors that are of broadest interests of the broadest number of people, not only entities with private shareholders.

   There are audits conducted under ISAE 3000 that may have as much public interest, if not more interest, than the narrow interest of financial capital in a financial statement audit. It seems difficult to assert that all financial audits of publicly traded entities are public interest engagements, but there are no ISAE 3000 assurance engagements for those same entities that are in the public interest, nor any engagements for other types of entities that would not merit stronger ethical requirements, which is effectively what paragraph 79 asserts.

Environmental social and governance reporting, sustainability reporting, etc. may be in the public interest more than the financial statements. We disagree with the arguments in paragraphs 78 and 79. Engagements most in the "public interest" may be those outside of financial statements, and include matters such as assurance on GRI reports, or GHG reports, or perhaps disclosures under the proposed IFRS Foundation Sustainability Standards Board. We encourage IESBA instead to explore fully the concept of "public interest assurance engagements" and what factors may be used by firms to identify when an engagement would be considered a "public interest assurance engagement".

2. *Do you agree with the proposed list of factors set out in paragraph 400.8 for determining the level of public interest in an entity? Accepting that this is a non-exhaustive list, are there key factors which you believe should be added?*

We agree with the factors in 400.8, but we do not agree that the public interest should be limited to interest in the financial condition of the entity. If IESBA is going to create differential requirements, it should expand its perspective beyond financial interests only, and beyond financial statement audits.

The proposal's main perspective is that of parties that have an interest in the financial condition of the entity. It is not clear why "importance to the sector and how easily replaceable the entity is" and "potential systematic impact on other sectors" is a public interest consideration linked to financial statement audit quality. We note that such a consideration may be an issue of public policy and of importance to regulators. However, we are unsure why this makes the entity's financial statement audit warrant special considerations under the Code. We are concerned this may widen the expectation gap that auditors, including legislative auditors, are performing a quasi-regulatory role as part of their financial statement audit, somehow ensuring the financial health of the entity.

We note fifth bullet in 400.8 should also include other stakeholders such as suppliers and members of the public impacted by the entity.

We note that in the sixth bullet the impact should not be limited to impact on the "economy as a whole" but instead on "society as a whole."

The considerations in 400.8 seem more appropriate for accountants subject to the Code that are regulators of such entities, not the financial statement auditors of such entities, and as such perhaps these accountants should be subject to more stringent ethical requirements.

3. *Do you support the broad approach adopted by the IESBA in developing the proposals for the PIE definition, including:*
   Replacing the extant PIE definition with a list of high-level categories of PIEs?

Refinement of the IESBA definition by the relevant local bodies as part of the adoption and implementation process?

We believe the categories are too much focused on finance entities. We note that this follows from the focus on financial condition. But there are many other entities that are of public interest, as noted in paragraph .43 of the explanatory memo and as 400.8 suggests, yet these are not in the definition in R400.14. We believe that the factors in 400.8 should be included in R400.14 as these capture more completely what is in the public interest. The exposure draft does not explain why R400.14 is suddenly so restricted to finance entities from the broad considerations in 400.8. For example, an entity may have many employees and not be easily replaceable in the event of financial failure (criteria in 400.8), yet not be publicly traded nor a bank or insurance entity (the factors in R400.14). In our view such an entity may be as much or more a public interest entity than a bank or insurance company, because it would not be in the public interest to have many so employees exposed to the threat of unemployment. Similarly, an entity which is important to public safety (for example it manufacturers medicine or vaccines) that is not easily replaceable in the event of failure is likely also a public interest entity.

We note that the definition would not automatically include a government in the definition of a public interest entity. It is counter-intuitive that the financial condition of a government would not be a matter of public interest. We are unsure if this means IESBA recognizes that the financial statements of a government are of an even "higher" public interest (though no additional differential requirements have been proposed for such audits), or that somehow an audit of a bank or insurance company's financial statements is more important than the audit of a government's financial statements.

We suggest the factors in R400.14 be replaced with the factors in 400.8, broadened to reflect non-financial considerations as well.

4. *Do you support the proposals for the new term "publicly traded entity" as set out in subparagraphs R400.14(a) and the Glossary, replacing the term "listed entity"?*

We disagree with creating separate classes of entities in the Code. There are entities that are of public interest because what they do is relevant to the common good (i.e. public interest not specific private interest) and the Code could perhaps describe these entities as public interest. However, we are still unsure whether, in the context of reasonable assurance engagements, any type of entities deserve special treatment: an audit is an audit and (as paragraph .17 of the explanatory memorandum acknowledges) the intent is not to introduce a different level of independence.

We disagree that it is possible to distinguish "increasing confidence" (as the exposure draft argues) from "different audit quality," because the purpose of audits are to increase confidence, and "reasonable assurance" is taken to be providing the same level of confidence wherever the term is used. In our view confidence in *specific* audits would be best enhanced through transparency, such as making public internal and external inspection reports or the firm's evaluation of its system of quality control (but the IAASB recently decided against requiring this as part of ISQM), or perhaps including in the auditor's report recent practice inspection results for that firm or engagement leader.

We disagree with 400.9 being limited to only financial statement audits. It may be that the financial statement audit of an entity is less relevant to the public interest than an ISAE 3000 engagement related to matters of particular public interest (such as environmental impact or sustainability). Therefore, if there are differential requirements in the Code, we suggest they should be driven by both the type of engagement as well as the nature of the entity.

Again, we disagree with having differential requirements for assurance engagements. An audit is an audit. But if IESBA proceeds with differential requirements, the Board should also consider how engagement risk should influence what differential requirements should apply (stronger requirements where engagement risk is higher).

5. *Do you agree with the proposals for the remaining PIE categories set out in paragraphs R400.14 (b) to (f)?*

As proposed, the definition of public interest entity will bring in government banks, and government programs that may provide a form of insurance to the public (such as crop insurance for their agricultural sector), and public sector pension plans. If a government or government controlled entity issues debt which becomes traded on a secondary market, the government (and all entities within it) may be considered publicly traded. R400.20 includes all related entities to a publicly traded entity. Departments, agencies, schools and universities and hospitals and other entities are controlled by governments, so the requirements applicable to publicly traded entities would apply to every entity within or related to a government. This could have significant impact on the ability of public sector entities to obtain assurance services, and public sector auditors.

We are concerned that R400.20 as proposed, which says "As defined, an audit client is a publicly traded entity… includes all of its related entities" may be read as follows "As defined, an audit client that is a public interest entity… includes all of its related parties," if at least one of the related parties is a publicly traded entity, or any of the other entities in R400.14. Alternatively, we are concerned that R400.14, which as proposed states "a firm shall treat an entity as a public interest entity when it falls within any of the following categories…" could be read as "a firm shall treat an entity **<u>and its related entities as a single public interest entity audit client</u>** when it falls within any of the following categories…"

We do not agree with the proposals because it will scope in many entities in the public sector for which differential Code (and audit) requirements may be unnecessary or inappropriate. For example, if a lead partner is required to rotate off the audit of a publicly traded entity, and because R400.20 states that a "publicly traded entity" includes **<u>all of its</u>** related entities, it appears that same leader partner may be unable to lead an audit of any other related entity, including any government-controlled school board, university or hospital in the state/nation. We note that "related entity" in the glossary provides for materiality considerations, but R400.20 uses the term "all" related entities, so it is not clear if the materiality considerations apply.

We again suggest that differential independence requirements should not exist for audits, so we disagree with expanding the definition of "public interest entity" and we disagree with the "listed entity" differential requirements that exist in the Code. If the Code will have differential requirements, then because of the impact on public sector auditors as noted above, we suggest adding paragraph R400.14A2 which would state that public sector entities are not public interest entities for purposes of application of the Code. This might scope out public interest engagements involving the public sector; however the public have means other than financial reporting to hold public sector entities accountable, and so the public interest may still be served.

6. *Please provide your views on whether, being in mind the overarching objective, entities raising funds through less convention forms of capital raising such as an initial coin offering (ICO) should be captures as a further PIE category in the IESBA Code. Please provide your views on how these could be defined for the purposes of the Code recognizing that local bodies would be expected to further refine the definition as appropriate.*

   We have no views on ICOs. We note in the public sector various financing arrangements are possible that may not exist in the public sector. We are unsure if these would be "less conventional" forms of capital raising.

7. *Do you support proposed paragraph R400.15A1 which explains the high-level nature of the list of PIE categories and the role of the relevant local bodies?*

   We agree.

8. *Please provide any feedback to the IESBA's proposed outreach and education support to relevant local bodies. In particular, what content and perspectives do you believe would be helpful from outreach and education perspectives?*

   We have no comment on this issue.

9. *Do you support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs?*

   While we disagree in principle with the concept of PIEs because we disagree with having differential requirements, we agree with this requirement. We note that it should be expanded to include whether any additional engagements should be treated as PIE engagements. We propose instead that a better approach may be to consider whether the engagement itself (i.e. financial statement audit or ISAE 3000 engagement or something else) is a public interest assurance engagement. So in our view what is important is not only the nature of the entity, but also the nature of the engagement. For some publicly traded entities, the financial statement audit may not be a PIE engagement, while perhaps ISAE 3000 engagements may warrant differential Code requirements.

10. *Please provide any comments to the proposed list of factors for consideration by firms in paragraph 400.16 A1.*

When combined with 400.8, under R400.16 and 400.16A1 it may be that most entities in the public sector are public interest entities. As noted, we do not agree with differential Code requirements across reasonable assurance engagements. If the differential requirements are important for audit quality, they should apply to all audits.

11. *Do you support the proposal for firms to disclose if they treated an audit client as a PIE?*

We do not agree. It is not clear what the purpose of this disclosure is. As noted in question 4, in our view confidence in *specific* audits would be best enhanced through transparency, such as making public internal and external inspection reports or the firm's evaluation of its system of quality control (but the IAASB recently decided against requiring this as part of ISQM), or perhaps including in the auditor's report recent practice inspection results for that firm or engagement leader.

12. *Please share any views on possible mechanisms (including whether the auditor's report is an appropriate mechanism) to achieve such disclosure, including the advantages and disadvantages of each.*

In our view it should not be disclosed. Disclosure that the entity is considered a PIE does not communicate which differential requirements were followed in the engagement and how this may or may not have impacted audit quality. It may imply an audit carried out to a higher standard of quality when this may not be the case. See our responses to question 4 and 11.

13. *For the purposes of this project, do you support the IESBA's conclusions not to:*
    - *(a) Review extant paragraph R400.20 with respect to extending the definition of "audit client" for listed entities to all PIEs and to review the issue through a separate future workstream?*
    - *(b) Propose any amendments to Part 4B of the Code?*

We do not support conclusion to not review extant R400.20. In our broadest view, there should not be differential requirements, for either listed or publicly traded or public interest entities. As noted in our response to question 5, we are also concerned with how these terms may be understood, given the intricate dependencies amongst "related party," R400.20 use of language "all of its related entities", and R400.14.

14. *Do you support the proposed effective date of December 15, 2024?*

    We agree.

15. *To assist the IAASB in its deliberations, please provide your views on the following:*
    (a) *Do you support the overarching objective set out in proposed paragraphs 400.8 and 400.9 for use by both the IESBA and IAASB in establishing differential requirements for certain entities (i.e. to introduce requirements that apply only to audits of financial statements of these entities)? Please also provide your views on how this might be approached in relation to the ISAs and ISQMs.*
    (b) *The proposed case-by-case approach for determining whether differential requirements already established within the IAASB Standards should be applied only to listed entities or might be more broadly applied to other categories of PIEs.*
    (c) *Considering IESBA's proposals relating to transparency as addressed by questions 11 and 12 above, and the further work to be undertaken as part of the IAASB's Auditor Reporting PIR, do you believe it would be appropriate to disclose within the auditor's report that the firm has treated an entity as a PIE? If so, how might this be approached in the auditor's report?*

    We do not support the proposals. The proposals risk furthering the expectation gap among audits. Because they apply to the "too big to fail" entities (by application of the characteristics in 400.8) they could imply that financial statement audits are somehow substituting for appropriate regulatory supervision and other regulatory mechanisms. We do not support any differential requirements for public interest entities (or listed entities or publicly traded entities) in the ISAs or ISAEs.

    We believe it is difficult for IAASB to include differential audit requirements because there is nothing higher than "reasonable" assurance, and this level of assurance should apply to all audits equally (an audit is an audit) . The existing differential requirements (e.g. EQR, communicating independence to those charged with governance, reporting Key Audit Matters, naming the engagement leader) may or may not differentially improve audit quality. It may be that the concept of PIE requires substantially different audit requirements, effectively creating an new "level" of assurance above reasonable assurance. This would be responsive to the social audit risk associated with PIEs (i.e. the risk to society that the audit fails) implied by the proposals. But it is not clear what additional changes to the IAASB standards, either for financial statement audits or ISAEs, would be warranted, or if the social cost of these requirements for all PIEs (i.e. increased fees) would be less than the benefits (less audit failures of PIE audits?). For example, IAASB could require in ISA 220 that all team members of a PIE audit have served as engagement leaders on other audits, or in ISA 315 that for a PIE every assertion for every account balance, class of transaction or disclosure should be considered a significant risk, or in ISA 330 substantive procedures and tests of controls and substantive analytical procedures be required for all assertions for all components, regardless of materiality of the component, or in ISA 570 change "material uncertainty regarding going concern" to "more than remote possibility the entity may not be a going concern." These may raise "reasonable assurance" from perhaps 90% to a higher 95% or 98% level of assurance, but still as many PIEs may fail.

As noted in question 4, if increasing confidence in *specific* audit firms or auditors is the goal, then other mechanisms are available for that, such as making internal and external inspection reports or the firm's evaluation of its system of quality control public (but the IAASB recently decided against requiring this as part of ISQM), or perhaps including in the auditor's report recent practice inspection results for that firm or engagement leader.

Because we do not see a feasible path forward for raising reasonable assurance to some higher level of assurance as a PIE classification would appear to warrant, we do not support any differential requirements. Differential requirements risk providing a false signal to users, widening the expectation gap.

We note that if the IESBA Code applied to accountants that work in regulatory agencies, perhaps the Code could specify additional requirements for their work i.e. heightened skepticism, increased due diligence, stronger independence requirements, etc. so that their regulatory roles would be done more effectively.

Thank you for the opportunity to comment.

Sincerely

Wayne Morgan

Ian Sneddon