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Joint submission by Chartered Accountants Australia and New Zealand and The Association of Chartered Certified Accountants

03 October 2022

To: Mr Thomas R. Seidenstein
The Chairman
International Auditing and Assurance Standards Board
529 5th Avenue 6th Floor
New York 10017
United States of America

Submission via IAASB website

Submission on IAASB's Exposure Draft Proposed Narrow Scope Amendments to ISA 700 and ISA 260 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)

This submission is made jointly by Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA) under our strategic alliance.

ACCA and CA ANZ created a strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 900,000 current and next generation accounting professionals across 181 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of members and students, sharing a commitment to uphold the highest ethical, professional and technical standards. More information about ACCA and CA ANZ is contained in Appendix B.

Overall comments

Overall, we support the IAASB's proposals to make narrow scope amendments to ISA 700 and ISA 260 to respond to the changes made to the IESBA International Code of Ethics for Professional Accountants (the IESBA Code) in relation to the requirement to publicly disclose when the auditor has applied the relevant ethical requirements for independence for certain entities in an audit. We agree, subject to our comments below, that the auditor's report is the most appropriate place for the disclosure to be made.

We do have some concerns which the board should consider before finalising the proposed amendments:

Holistic approach

We encourage the board to consider any proposed changes to the content of the auditor's report with a holistic lens. Other current IAASB projects such as fraud and going concern will likely result in further changes to the auditor's report and the overall impact of the combined changes needs to be considered. Changes to the auditor's report are generally made in the interest of transparency but if the net result is always a longer, more complex auditor's report, this is not necessarily being achieved.

Need for jurisdictional flexibility

We believe that the IAASB should include an option for auditors to use other relevant mechanisms available in their local jurisdiction to make the required independence disclosures where appropriate.

Introduction of new information in the auditor's report

We note that by stating that they have applied the ethical requirements applicable to public interest entities, the auditor is effectively providing additional information about the entity i.e., that it is a PIE. Those charged with governance are not required to disclose that the entity is a PIE as this concept is not used in accounting standards, though there may be jurisdictions where regulation requires this disclosure. Generally, the auditor's report does not provide new information about the entity. We would caution the IAASB to make sure that this is not taken as a precedent that it is appropriate for auditors to provide new information about an entity in the auditor's report.

Transparency/understandability

While we understand the intention of the IESBA in introducing the disclosure requirement is to improve transparency, we have heard mixed views as to whether the disclosure is achieving this aim. The main concerns expressed are:

- Users may not understand what the applicable ethical requirements for public interest entities are.
- They may not understand why the entity is a public interest entity.
- The inclusion of explicit language around the requirements in relation to PIEs being applied in PIE audits may negatively impact users' perceptions of the audit quality of audits of non-PIEs. They may perceive the ethical standards used in non-PIE engagements to be a lower bar, which in turn impacts their perception of the audit. This could widen the audit expectation gap as the rationale and meaning behind such disclosure is unlikely to be immediately clear to users.

Review standards

We believe the IAASB should consider undertaking a broader revision of ISRE 2400, rather than just making narrow scope amendments to reflect the narrow scope amendments made to ISA 700 and ISA 260. It is a decade since this standard was last comprehensively revised and consideration needs to be given to the broader changes to the ISAs, including reporting format, that have occurred in this time that should be reflected in ISRE 2400. Similarly, ISRE 2410 should also be revised as it is more likely that a review engagement performed for a PIE entity would be performed under this standard, and this should also align with the revisions to the IESBA Code.

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Our responses to the specific questions for comment raised in the ED follow in Appendix A. Should you have any queries about the matters in this submission, or wish to discuss them in further detail, please contact Melanie Scott, Senior Policy Advocate at CA ANZ via email; melanie.scott@charteredaccountantsanz.com and Antonis Diolas, Head of Audit and Assurance at ACCA via email: antonis.diolas@accaglobal.com.

Yours sincerely

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Appendix A

IAASB Questions

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?

We agree that the auditor's report is an appropriate mechanism for making the disclosure. However, it is not the only possible mechanism, and we believe ISA 700 should allow for jurisdictions to require the disclosure be made via other documents where this is appropriate.

For example, in Australia, auditors of listed entities have to provide an independence declaration under s307C of the Corporations Act 2001. This declaration is published in the annual report and would the simplest place for auditors of these entities to make a declaration about compliance with the independence for PIEs.

As noted in our overall comments, we have additional concerns on the impact of the disclosure as follows.

Holistic approach

We encourage the board to consider any proposed changes to the content of the auditor's report with a holistic lens. Other current IAASB projects such as fraud and going concern will likely result in further changes to the auditor's report and the overall impact of the combined changes needs to be considered. Changes to the auditor's report are generally made in the interests of transparency but if the net result is always a longer, more complex auditor's report, this is not necessarily being achieved.

Transparency/understandability

While we understand the intention of the IESBA in introducing the disclosure requirement is to improve transparency, we have heard mixed views as to whether the disclosure is achieving this aim. The main concerns expressed are:

- Users may not understand what the applicable ethical requirements for public interest entities are.
- They may not understand why the entity is a public interest entity.
- The inclusion of explicit language around the requirements in relation to PIEs being applied in PIE audits may negatively impact users' perceptions of the audit quality of audits of non-PIEs. They may perceive the ethical standards used in non-PIE engagements to be a lower bar, which in turn impacts their perception of the audit. This could widen the audit expectation gap as the rationale and meaning behind such disclosure is unlikely to be immediately clear to users.

Introduction of new information in the auditor's report

We note that by stating that they have applied the ethical requirements applicable to public interest entities, the auditor is effectively providing additional information about the entity i.e., that it is a PIE. Those charged with governance are not required to disclose that the entity is a PIE as this concept is not used in accounting standards, though there may be jurisdictions where regulation requires this disclosure. Generally, the auditor's report does not provide new information about the entity. We would caution the IAASB to make sure that this is not taken as a precedent that it is appropriate for auditors to provide new information about an entity in the auditor's report.

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?

Yes. However, we believe ISA 700 should allow for jurisdictions to require the disclosure be made via other documents where this is appropriate.

For example, in Australia, auditors of listed entities have to provide an independence declaration under s307C of the Corporations Act 2001. This declaration is published in the annual report and would be the simplest place for auditors of these entities to make a declaration about compliance with the independence for PIEs.

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

Yes, on the basis that it is appropriate for those charged with governance to understand the independence requirements which the auditor has applied, and the format of the disclosure is not prescribed.

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?

Please see above 2A.

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?

Yes. Subject to our comments in response to questions 1 and 2, we believe that reporting for review engagements should be consistent, so it would be appropriate for ISRE 2400 to address transparency about the ethical requirements and also align with the revisions to the IESBA Code. However, we believe that this revision should be as part of a broader revision of the standard. ISRE 2400 has not had a comprehensive revision in more than a decade and there have been significant changes to the ISAs in that period which need to be considered in revising ISRE 2400. At a minimum, the reporting format should be consistent with ISA 700. Furthermore, as it is more likely that, for PIE entities, the assurance practitioner performing a review engagement is also the auditor of the entity, ISRE 2410 should also be revised.

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**?

Yes, subject to similar concerns as we raised in response to questions 1 and 2. While consistency in approach is important, it is also necessary to consider the need for jurisdictional flexibility in where the independence disclosures may be made, to take a holistic approach and to consider whether additional information added to the review report is actually addressing the stated need for transparency.

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.

In both Australia and New Zealand, the review standards which apply to the review of a financial report by the independent auditor of the entity (ASRE 2410 and ISRE (NZ) 2410 Revised) require the auditor's report to include a statement that "that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit of the annual financial report, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements".

The review standards which apply to the review of a financial report by an assurance practitioner who is not the independent auditor of the entity (ASRE 2400 and ISRE (NZ) 2400) include a requirement that the review report include a title that states that it is an independent review report. The example reports provided in the standards include wording that indicates that the standard requires the assurance practitioner to comply with relevant ethical requirements.

Request for General Comments

The IAASB is also seeking comments on the following matters:

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.

No issues noted.

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 proposed effective date of December 15, 2024, as this would align the effective date of the changes in the IESBA Code. As mentioned in previous responses both to the IESBA and the IAASB, the longer timeframe will allow relevant local bodies to refine the revised PIE definition and ensure firms develop experience in applying the new Fees and NAS provisions for PIEs before they become applicable to entities who may be newly captured by the revised PIE definition and, therefore, apply the amendments to ISA 700 (Revised) and ISA 260 (Revised).

Submission on IAASB's ED – Proposed Narrow Scope Amendments to: ISA 700 (Revised) & ISA 260 (Revised)

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents 131,673 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live. Chartered Accountants are known as Difference Makers. The depth and breadth of their expertise helps them to see the big picture and chart the best course of action.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with mentored practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate boldly in the public good. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 15 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 900,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

We employ more than 500 talented people across Australia, New Zealand, Singapore, Malaysia, Hong Kong and the United Kingdom.

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About ACCA

ACCA is the Association of Chartered Certified Accountants. We're a thriving global community of 241,000 members and 542,000 future members based in 178 countries that upholds the highest professional and ethical values.

We believe that accountancy is a cornerstone profession of society that support both public and private sectors. That's why we're committed to the development of a strong global accountancy profession and the many benefits that this brings to society and individuals.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions preparing us for tomorrow.

Find out more at www.accaglobal.com