

Agenda Item H.3 For Reference

Please note: This Agenda Item includes the IAASB listed entity and PIE Issues Paper that will be discussed by the Board at the March 2023 IAASB quarterly meeting (Agenda Item 7). This paper is provided to the IAASB CAG Representatives in March 2023 for reference purposes.

Listed Entity and Public Interest Entity (PIE) – Feedback and Issues

Objective:

The objective of the IAASB discussion in March 2023 is to:

- (a) Provide an overview of respondent's comments to the Exposure Draft (ED): [Proposed Narrow Scope Amendments to ISA 700 \(Revised\)¹ and ISA 260 \(Revised\)² as a Result of the Revisions to the IESBA Code³ that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for PIEs.](#)
- (b) Obtain the Board's feedback on the initial views and recommendations of the PIE Task Force (PIE TF) relevant to Track 1 of the narrow scope project on listed entity and PIE.

Approach to the Board Discussion:

The PIE TF Chair will go through the questions in the order they are set out in this Agenda Item and where applicable, will refer to the narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) (mark-up from ED) presented in **Agenda Item 7-A**.

Introduction

1. In June 2022, the Board approved the ED for narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) as part of Track 1 of the project on listed entity and PIE. The ED sought respondents' feedback to address the project objective outlined in paragraph 17(d) of the [project proposal](#) 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.
2. This paper sets out the following:
 - (a) **Part A:** An overview of respondents' comments and the PIE TF initial views and recommendations for transparency about the relevant ethical requirements for independence for certain entities applied in performing audits of financial statements.
 - (b) **Part B:** An overview of respondents' comments, summary of IESBA's deliberations, and the PIE TF initial views and recommendations for transparency about the relevant ethical requirements for independence for certain entities applied in performing reviews of financial statements.

¹ International Standard on Auditing (ISA) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

² ISA 260 (Revised), *Communication with Those Charged with Governance*

³ The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*

- (c) **Part C:** the way forward.

Materials Presented—Appendices and Other Agenda Items Accompanying This Paper

3. This Agenda Item includes the following appendices and other agenda items:

Appendix 1	Overview of the PIE TF members and activities since December 2022
Appendix 2	IAASB's rationale for a conditional requirement in the narrow scope revisions to ISA 700 (Revised)
Appendix 3	Proposed drafting for Track 2 presented to the Board in December 2022 for the requirement in paragraph 17 of ISA 260 (Revised)
Appendix 4	List of respondents to the ED
Agenda Item 7-A	Narrow scope amendments for Track 1 (mark-up from ED)
Agenda Items 7-B.1 to 7-B.6	Word NVivo reports that include comments from respondents to Questions 1-4 of the ED
Agenda Items 7-C.1 to 7-C.6	Excel NVivo reports that analyze the respondents' comments to Questions 1-4 of the ED

Overview of Respondents and Presentation of Comments

4. The ED was exposed for a 90-day public comment period that closed on October 4, 2022. Respondents were asked for feedback on five specific questions and two general questions (translations and effective date). Thirty-eight written responses were received as follows (see **Appendix 4**):

Stakeholder Type	No.	Region	No.
Monitoring Group	2	Global	10
Regulators and Audit Oversight Authorities	5	Asia Pacific	9
National Auditing Standard Setters	10	Europe	6
Accounting Firms	6	Middle East and Africa	8
Public Sector Organizations	1	North America	4
Member Bodies and Other Professional Organizations	14	South America	1
Total	38	Total	38

General Questions

5. Questions 6 and 7 of the ED sought general comments from respondents on potential translation issues and the effective date for the proposed narrow scope amendments. In their responses, stakeholders recognized:
- (a) The limited scope of the proposed amendments in the ED and did not identify any significant challenges in relation to translating the proposed amendments.

- (b) The need to align the effective date with IESBA and supported 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.

Specific Questions

6. NVivo has been used to assist with the analysis of the responses to Questions 1-4 of the ED, which include the responses to the specific matters for the IAASB’s consideration. The table below provides a summary of the NVivo reports relevant for each question analyzed and the related Section in this Agenda Item where the summary is presented:

Question:	Section of this Agenda Paper:	Agenda Paper:	
		Nvivo Word Analysis	Nvivo Excel Analysis
Question 1	Part A, Section I	Agenda Item 7-B.1	Agenda Item 7-C.1
Question 2B		Agenda Item 7-B.2	Agenda Item 7-C.2
Question 2A(a)	Part A, Section II	Agenda Item 7-B.3	Agenda Item 7-C.3
Question 2A(b)	Part A, Section III	Agenda Item 7-B.4	Agenda Item 7-C.4
Question 3	Part B	Agenda Item 7-B.5	Agenda Item 7-C.5
Question 4		Agenda Item 7-B.6	Agenda Item 7-C.6

7. Recognizing the need to achieve convergence between the concepts of PIE and “publicly traded entity” in the IESBA’s and IAASB’s standards, to the greatest extent possible, there has been extensive coordination between the two Boards throughout the IAASB’s and IESBA’s projects on listed entity and PIE. Accordingly, the ED also included a specific question (Question 5) to assist the IESBA with its information gathering and to inform its consideration of whether any further action may be necessary in relation to review engagements⁴ (see paragraphs 76-83).

Part A: Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Audits of Financial Statements

Section I – The Auditor’s Report as a Mechanism for Public Disclosure

Overview of Responses

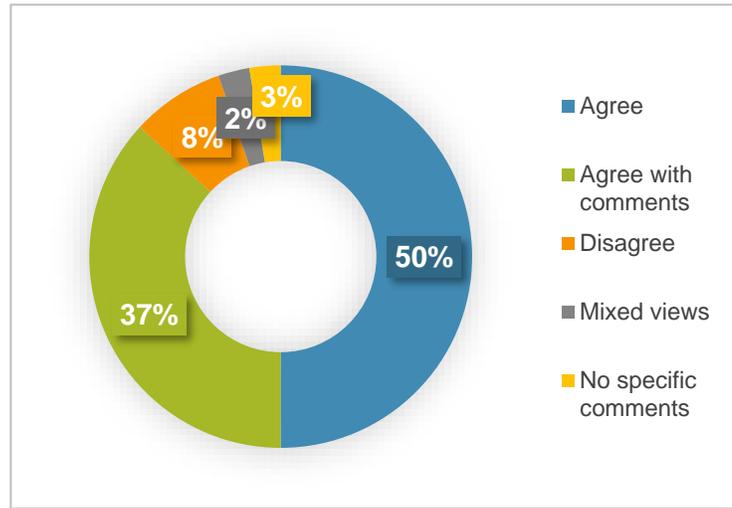
8. Question 1 of the ED asked respondents if they agreed that the auditor’s report is an appropriate mechanism for publicly disclosing when the auditor has applied the relevant ethical requirements for independence for certain entities, such as those for PIEs in the IESBA Code. For those respondents

⁴ Paragraph 400.2 of the IESBA Code explains that Part 4A (which includes the transparency requirements in paragraphs R400.20–R400.21 approved by IESBA in the [Final Pronouncement: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#)) applies to both audit and review engagements unless otherwise stated, and that the terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” apply equally to review, review team, review engagement, review client, and review engagement report.

who disagreed, a follow-on question (Question 2B of the ED) requested views about what other mechanism(s) should be used (see paragraphs 15-16).

9. Responses to Question 1 were as follows (see the separate NVivo report in **Agenda Item 7-B.1** for further details):

- 19 respondents agreed, including the two Monitoring Group (MG) respondents – 50%;
- 14 respondents agreed with further comments – 37%;
- 3 respondents disagreed – 8%;
- 1 respondent had mixed views (i.e., neither agreed nor disagreed) and had comments – 2%; and
- 1 respondent did not have a specific response – 3%.



Respondents' Comments

Monitoring Group Responses

10. The MG respondents expressed their support for the proposed revisions to operationalize IESBA's transparency requirement, recognizing that the proposals being made are a step forward to enhancing confidence and public trust in the audit profession. They noted their support for the close coordination and collaboration between the IAASB and the IESBA on this matter, and encouraged the cooperation to continue for other matters of mutual interest.
11. Notwithstanding their support, the MG respondents provided specific comments to Questions 2A(a) and 2A(b) where the proposals in the ED to revise ISA 700 (Revised) and ISA 260 (Revised) should be strengthened (see **Sections II–III** below).

Other Respondents' Comments

12. Respondents who agreed that the auditor's report is an appropriate mechanism for providing transparency about the relevant ethical requirements for independence applied for certain entities commented that the auditor's report is:
- (a) A clear mechanism to operationalize IESBA's transparency requirement. Respondents commented that the proposed amendments are necessary for ensuring that IAASB standards operate in harmony, and are not inconsistent, with the requirements of the IESBA Code.
 - (b) The optimal mechanism for providing the disclosure in terms of timeliness, accessibility, and consistency for intended users of audited financial statements. Respondents noted that the inclusion of a statement in the auditor's report that the relevant ethical requirements for independence for certain entities specified in the relevant ethical requirements were applied in performing the audit will enhance the level of confidence in the audited financial statements.

- (c) Preferable to other potential mechanisms (e.g., disclosure on websites or via other channels). Respondents commented that such alternatives are not within the IAASB's remit and, expressed views that even if addressed by jurisdictional regulators or national standard setters, are likely to be subject to significant jurisdictional variation that may not be a consistent approach or address user needs in terms of accessibility of such information.
13. Respondents who agreed that the auditor's report is an appropriate mechanism and provided further comments, noted the following key matters in their responses:

Not all auditor's reports are always available to the public

- (a) Given that an auditor's report may have limited distribution, respondents cautioned against creating an impression that by disclosing the relevant ethical requirements applicable to certain entities in the auditor's report that this will result in the auditor always complying with the transparency requirement in paragraph R400.20 of the IESBA Code.
- (b) Respondents provided the following suggestions that include specific matters for IESBA's consideration:
- (i) IESBA to clarify as to whether the intention of the requirement in paragraph R400.20 is to ensure transparency for those users who read the auditor's report, or the transparency requirement is intended to the public at large. Respondents noted that in its deliberations the IESBA considered the option of limiting the disclosure requirement to only those stakeholders who have access to the auditor's report on the basis that it would be of no benefit to those who do not and encouraged the IESBA to consider further actions to address transparency for circumstances without accessibility.⁵
- (ii) IESBA to explicitly state, either directly in the IESBA Code or in its supplemental implementation materials, that the auditor's report is an appropriate mechanism to provide the transparency disclosure required by paragraph R400.20. Respondents expressed views that such an explicit acknowledgement would bring clarity for firms and other stakeholders that IESBA's transparency requirement is sufficiently addressed through disclosing in the auditor's report that the relevant ethical requirements for independence for certain entities were applied.
- (iii) While certain respondents acknowledged that there may be limited other mechanisms available other than the auditor's report to provide the disclosure required by paragraph R400.20 of the IESBA Code in a timely, accessible, and consistent manner, others encouraged the IESBA to consider alternative mechanisms to provide the disclosure (e.g., the audit firm's website and/or a transparency report).
- (c) Absent a clarification from the IESBA, respondents suggested for the IAASB to add new application material in the proposed revisions to ISA 700 (Revised) to provide guidance that when the auditor's report is not publicly available or has limited distribution, the auditor may still need to take appropriate steps to publicly disclose that they have applied the independence requirements for PIEs as required by the IESBA Code.

⁵ See discussion in paragraph 145 of the IESBA's [Basis for Conclusions, Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#).

Need for jurisdictional flexibility

- (d) Whilst supportive of the auditor’s report as a mechanism to provide the transparency disclosure required by paragraph R400.20 of the IESBA Code, respondents commented that the proposed revisions to ISA 700 (Revised) should allow for flexibility when jurisdictions have other appropriate public disclosure options at their disposal to use. In this regard, respondents noted the following existing practices in certain jurisdictions:
- (i) In Australia, auditors of a listed entity provide a written Independence Declaration Statement to the directors of the audited entity under the requirements of the Corporations Act that is published in the annual report.
 - (ii) In the European Union, regulation requires statutory audit firms of PIEs to issue a transparency report which provides a list of all PIEs for which the statutory auditor has carried out audits during the previous financial year and includes a statement concerning the statutory auditor’s independence practices applied.

Length, complexity and new information in the auditor’s report

- (e) Some respondents expressed concern regarding the increased complexity and length for the auditor’s report through differentiation between types of entities as well as from the cumulative changes being considered to the auditor’s report through various IAASB projects.⁶ Respondents encouraged the IAASB to consider a holistic approach to any further revisions to the auditor’s report in order to evaluate the collective impact of all possible changes and their impact on the length, complexity and understandability for intended users of the information provided therein.
- (f) In addition, respondents commented that by stating in the auditor’s report that the auditor applied the relevant ethical requirements for independence for PIEs, the auditor is effectively providing new information about the entity that has not previously been disclosed by management or by those charged with governance (TCWG). Respondents cautioned the IAASB that this should not be taken as a precedent as it would not be appropriate for auditors to provide original information about an entity in the auditor’s report.

Disclosure may cause confusion for stakeholders and more information needed to be disclosed

- (g) Some respondents continued to disagree with IESBA’s transparency requirement noting that users may misinterpret such transparency as meaning that some auditors are “more independent” than others. Respondents added that this could have a detrimental effect on the confidence in audits that are conducted for non-PIE entities and encouraged the IAASB to consider whether users might find it more useful and relevant if information is provided in the auditor’s report about what it means when the auditor has treated an entity as a PIE, rather than to simply disclose when the PIE independence requirements have been applied.

14. Respondents who disagreed that the auditor’s report is an appropriate mechanism commented as follows:

- (a) Because the term “PIE” is not a term currently used in the requirements of the ISAs it may be

⁶ In addition to its narrow scope maintenance of standards project on listed entity and PIE, the IAASB is also considering changes to enhance transparency in the auditor’s report about fraud and going concern in an audit of financial statements.

confusing for users to include this term in the auditor’s report (e.g., it may not be clear for users what a PIE is or what the relevant ethical requirements for independence for PIEs include).

- (b) Providing the disclosure in the auditor’s report exacerbates the expectation gap whereby audits of PIEs may be seen by users to be more “independent” than those of non-PIEs.
- (c) The transparency disclosure should not be provided in the *Basis for Opinion* section of the auditor’s report because users may misinterpret the disclosure as indicating that the nature of the audit for a PIE is different. Suggestions were made, should the IAASB conclude that the auditor’s report is an appropriate mechanism, for an alternative location within the auditor’s report to be sought (e.g., new sub-section with an “Independence” heading).
- (d) Views were expressed that the wording of the transparency requirement in paragraph R400.20 of the IESBA Code in a “manner deemed appropriate” provides optionality for the mechanism of public disclosure that should be taken into account by the IAASB in the proposed revisions to ISA 700 (Revised) and that jurisdictions should have greater flexibility to determine alternative options to the auditor’s report to provide the transparency disclosure.
- (e) The need to consider the compound effect of the cumulative changes to the auditor’s report contemplated by multiple IAASB projects (see paragraph 13(e) above).

Alternative Mechanisms

15. Respondents who provided responses to Question 2B (see the separate NVivo report in **Agenda Item 7-B.2** for further details),⁷ encouraged IESBA to undertake further research and information gathering as a basis for providing guidance to help clarify the possible mechanisms, other than the auditor’s report, that would meet the transparency requirement in the IESBA Code. In doing so, respondents suggested the following alternative mechanisms that could be considered:
 - Firms publicly disclosing which audits are PIEs in their own annual reports.
 - A public announcement such as a notice on the audit firm’s website.
 - Audit firm’s transparency report.
 - Social media announcements.
16. Some respondents commented that the appropriate mechanism should be determined by each jurisdiction, based on their own disclosure frameworks and legislative requirements or that no specific mechanisms should be required (i.e., it should be left to marketplace innovation to address the manner in which the disclosure is provided).

PIE TF Initial Views and Recommendations

17. The PIE TF notes the broad support from respondents that the auditor’s report is an appropriate mechanism for publicly disclosing when the auditor has applied the relevant ethical requirements for independence for certain entities, such as those for PIEs in the IESBA Code. There also was acknowledgement from the feedback that there are limited other viable mechanisms for providing the transparency disclosure in a timely, accessible, and consistent manner.
18. The PIE TF acknowledges that certain jurisdictions may have other available options to provide the

⁷ The analysis includes responses from the 4 respondents who disagreed or had mixed views to Question 1 of the ED.

disclosure, however notes that from the feedback provided such practices are not widespread (i.e., the only cases noted were in Australia and the European Union). In addition, the PIE TF notes that the practices reported in those jurisdictions who have other means at their disposal to provide the disclosure include different mechanisms (e.g., independence declarations or transparency reports) that are likely to impact the consistency and timeliness in which such information is disseminated to users.

19. The PIE TF also notes concerns from respondents about length, complexity, and diminished utility of the auditor's report, however, believes that the amendments proposed to ISA 700 (Revised) in the ED do not significantly exacerbate these issues because of the limited extent of the changes proposed. Track 1 of the project has been progressed on a faster-moving timeline to align with IESBA's effective date, and respondents broadly supported the proposed effective date. Accordingly, it would not be practical to delay the project so as to consider the cumulative impact of the changes to the auditor's report from other IAASB's projects who are also contemplating changes to the auditor's report. In addition, it is envisaged that the close coordination among the IAASB's Task Forces on fraud and going concern will continue as they explore further changes to the auditor's report (mindful of the possible effective dates of the revised standards).
20. The PIE TF previously deliberated about the placement of the transparency disclosure in the auditor's report and formed the view that the *Basis for Opinion* section is the most appropriate location to provide the disclosure, as it would expand upon the required statement in accordance with paragraph 28(c) of ISA 700 (Revised), i.e., that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, as well as identifying the jurisdiction of origin of the relevant ethical requirements or referring to the IESBA Code. The PIE TF believed this location is preferable relative to other sections of the auditor's report (e.g., the *Other Reporting Responsibilities* section), given it enables greater consistency when providing the disclosure in an auditor's report in accordance with ISAs and aligns with practices of those jurisdictions where the disclosure is already required or provided (e.g., the United Kingdom and Netherlands). In addition, the PIE TF did not pursue requiring a new sub-section with a separate heading within the *Basis for Opinion* section to provide the transparency disclosure. This was considered appropriate because it is consistent with the approach to only require the use of specific headings to incorporate the elements set out in paragraphs 21-49 of ISA 700 (Revised) as illustrated in the example auditor's reports of the Appendix.
21. The PIE TF also deliberated whether, by stating in the auditor's report that the auditor applied the relevant ethical requirements for independence for PIEs, this would result in the auditor providing original information about the entity that has not previously been disclosed by management or by TCWG. The PIE TF formed the view that the transparency disclosure requires the auditor to provide the information in the context of the audit (i.e., whether the relevant ethical requirements for independence for PIEs were applied) and as such it does not constitute new or original information about the entity itself.
22. The PIE TF also notes respondents' comments who expressed concern that the auditor's report may have limited distribution and the risk that this will result in the auditor not complying with the transparency requirement in paragraph R400.20 of the IESBA Code. As part of its project, the IESBA did consider the matter of how the transparency requirement can be complied with by a firm if the auditor's report is not made available to the public (refer to paragraphs 144-146 of IESBA's [Basis for Conclusions, Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#)). The IESBA indicated that it will consider what further actions, if any, might be warranted once the IAASB has concluded its deliberations on whether the auditor's report is a suitable location for such disclosure and, if so, how this may be accomplished. As part of its ongoing coordination, the PIE TF has provided

IESBA a summary of respondent’s comments and suggestions in this regard.

23. On balance, the PIE TF is of the view that the auditor’s report provides a clear mechanism to operationalize the transparency requirement in paragraph R400.20 of the IESBA Code. Disclosure in the auditor’s report supports the accessibility, timeliness, and consistency of the communication when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of the financial statements, such as the independence requirements for PIEs in the IESBA Code. The matters raised by respondents around the use of the term “PIE” and the conditionality of the proposed requirement in paragraph 28(c) of ISA 700 (Revised), are further addressed in **Section II**, including the PIE TF initial views and recommendations for those matters.

Matters for IAASB Consideration:

The Board is asked whether they agree:

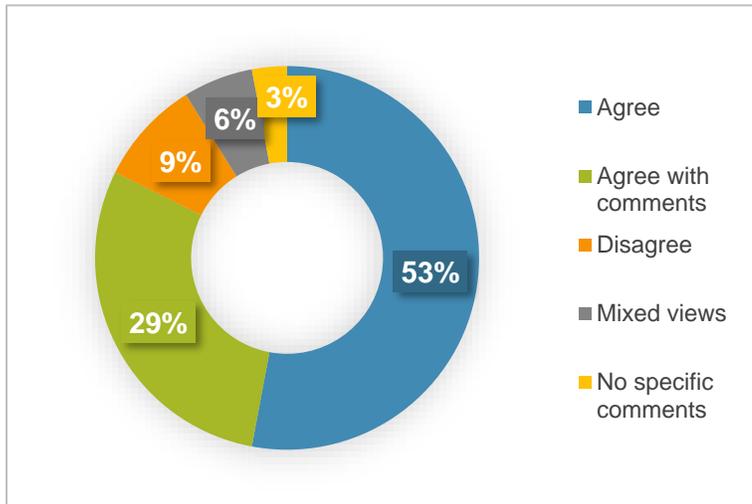
1. With the PIE TF summary of respondents’ feedback in **Section I**, above, and whether there are any other significant issues raised by respondents that also should be discussed?
2. With the PIE TF recommendation that the auditor’s report is an appropriate mechanism for publicly disclosing when the auditor has applied the relevant ethical requirements for independence for certain entities, including to operationalize the requirement in paragraph R400.20 of the IESBA Code?

Section II – Proposed Amendments to ISA 700 (Revised)

Overview of Responses

24. Question 2A(a) of the ED sought views from those respondents who agreed with Question 1, if they support IAASB’s proposed revisions to ISA 700 (Revised). Responses to Question 2A(a) were as follows (see the separate NVivo report in **Agenda Item 7-B.3** for further details):⁸

- 18 respondents agreed – 53%;
- 10 respondents agreed with further comments – 29%;
- 3 respondents, including the two MG respondents disagreed – 9%;
- 2 respondents had mixed views (i.e., neither agreed nor disagreed) and had comments – 6%; and



⁸ The analysis includes responses from the 34 respondents who agreed, agreed with comments, or had mixed views to Question 1 of the ED.

- 1 respondent did not have a specific response – 3%.

Respondents' Comments

Monitoring Group Responses

25. The two MG respondents expressed their support for a unconditional requirement that would mandate the transparency disclosure in the auditor's report in all cases, provided that the relevant ethical requirements do not specifically prohibit such disclosure. The MG respondents highlighted this would:
- (a) Support the public interest as it would enable the greatest level of transparency for intended users to understand which independence standards were applied, without needing to seek such information within the body of the financial statements or elsewhere.
 - (b) Raise stakeholders' confidence in audits of financial statements performed under the ISAs and clearly message the importance of auditor independence to strengthen investor and user confidence.
 - (c) Enhance trust in the IAASB and its efforts to achieve the highest standards possible by requiring unconditional adherence to the transparency requirement.
26. The MG respondents also provided the following key comments:
- (a) There are observed differences in independence requirements across jurisdictions which occur due to additional local requirements or because there may be varying implementation dates of the IESBA Code in national jurisdictions. Also, it is possible for the definition of what constitutes a PIE to vary among jurisdictions and that auditors may be required to comply with multiple independence requirements from different sources when performing an audit of financial statements. Clarity is enhanced by disclosing which specific independence requirements have been applied. Given the detailed and diverse nature of ethics and independence requirements in different jurisdictions, such clarity could serve to "raise the bar" of independence and ethics within the entire financial reporting ecosystem.
 - (b) The disclosure of the transparency requirement in the auditor's report could still be made for all entities without disclosing confidential future plans of the entity. For example, when an entity is planning an initial public offering, the auditor would be required to report compliance externally with the non-PIE independence requirements (i.e., minimum level required), even though in practice the PIE independence requirements would have been applied.
 - (c) The term "differential independence requirements for certain entities", may not be widely understood and if the IAASB uses this term in the requirements, then it should be defined.

Other Respondents' Comments

27. Majority of respondents agreed with the proposed revisions to ISA 700 (Revised) in the ED, i.e., a conditional requirement that applies only when the relevant ethical requirements require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied. In their comments respondents noted that:
- (a) There are potential complications and complexities that may arise should an unconditional approach be applied. Respondents commented that a mandatory disclosure in all circumstances would impose an obligation to the auditor to publicly disclose such differential independence requirements in the auditor's report even for some entities where the underlying ethical

requirements do not require the auditor to do so.

- (b) The conditionality allows appropriate flexibility for jurisdictions that adopt and apply the IESBA Code in varying ways and is appropriate to accommodate situations in jurisdictions where the relevant ethical requirements do require public disclosure, but where alternative options are in place for operationalizing IESBA’s transparency requirement.

28. Respondents who agreed were supportive of:

- (a) The neutral wording used in the requirement (i.e., not to use of the term “PIE” in the requirement). This was seen as a reasonable approach and appropriate response while regulators and local bodies explore the adoption of the IESBA definition of “PIE” in their national jurisdictions, and whilst the IAASB explores whether the PIE definition should be adopted in its standards as part of Track 2 of its narrow scope project.
- (b) The revisions to the illustrative examples of the auditor’s report in the Appendix to ISA 700 (Revised). Comments were made that the examples help to understand the objective of the requirement and how to operationalize compliance with it.

29. Respondents who agreed with the conditional requirement and provided comments, noted the following key matters in their responses:

Term “differential independence requirements for certain entities”

- (a) Respondents expressed concerns with the following terms and phrases used in the requirement (and elsewhere in the proposed revisions):
 - (i) The term “differential.” Several respondents commented that this term is a potential source of misunderstanding and could cause difficulties in translation. Suggestions included defining the term “differential independence requirements” or replacing the term “differential” with “different” as the latter is a more commonly used term which may be more easily understood and translated.
 - (ii) The phrase “certain entities.” One respondent believed that the term can be inappropriately interpreted to apply to other or broader categories of entities than those intended (i.e., PIEs) and, accordingly, can be inconsistently applied across jurisdictions. Suggestions were made to replace the phrase “certain entities specified in the relevant ethical requirements” with “independence requirements that apply to audits of financial statements that are based on the type or classification of the entity.”

Illustrative auditor’s reports

- (b) Respondents provided suggestions to refine the wording proposed in the *Basis for Opinion* paragraph of the illustrative auditor reports in ISA 700 (Revised). This included:
 - (i) Clarifying that the differential ethical requirements relate to the audits of the financial statements of PIEs and not the PIEs themselves.
 - (ii) Removing the word “also” when providing the statement that the other ethical responsibilities in accordance with the jurisdictional ethical requirements and the IESBA Code have been fulfilled. The addition of the word “also” was seen as unnecessary and by its removal respondents believed this would align with the other illustrative reports in ISA 700 (Revised) and elsewhere across the ISAs.

- (iii) Clarifying the wording in the illustrative reports as presently stated it implies that there is a separate body of relevant ethical requirements for PIEs in the jurisdiction versus that there are specific requirements for PIEs included within a larger body of relevant ethical requirements.
- (c) One respondent suggested providing additional illustrations that would be useful to demonstrate the variation of circumstances that may occur and to provide additional clarifications to the assumed circumstances in the illustrative reports (e.g., clarifying in the circumstances preceding the illustrations to all other ISAs that the ethical requirements do not include differential independence requirements that are applicable to audits of financial statements of certain entities).

Risk that users may incorrectly identify an entity as a PIE when it is not

- (d) Respondents expressed views that when providing the transparency disclosure in the auditor's report it is necessary to mitigate against the risk that users may incorrectly identify an entity as a PIE when it is not. It was noted that this may be the case where the differential independence requirements have been applied voluntarily. In such cases, by providing the transparency disclosure in the auditor's report, this may convey the impression that an entity is a PIE when in fact it is not and be misleading to users of financial statements. Suggestions were made to add application material that would draw attention to this circumstance and provide further guidance for the auditor to mitigate against this risk.

Application of the transparency disclosure to group audit engagements

- (e) Two respondents commented that further guidance is needed to address the application of the transparency disclosure in the context of group audit engagements (e.g., for a group that is comprised of both entities that are PIEs and non-PIEs, it is important to emphasize that the disclosure in the auditor's report should be based on the actual classification of the entity itself and not that of the wider group).
- (f) Also, comments were made that it is unclear what the independence requirements of the component auditor would be or what the reporting obligation of the group auditor would be in a group where the parent entity is a PIE (or is determined to be a PIE), and several subsidiaries for which statutory audits are performed and none of the subsidiaries are PIEs.

Other matters

- (g) One respondent suggested providing application guidance for retrospective and forward-looking application of the transparency requirement (e.g., when the audit firm treats the entity as a PIE for the first time and if it is also necessary to report information retroactively about why the audit firm did not apply the relevant ethical requirements for independence for the newly determined PIE in the prior period as well as any related documentation requirements).
- (h) One respondent suggested adding new application material to ISA 210⁹ to draw attention that the content of the engagement letter may also include which independence requirements will be applied. In addition, alignment suggestions were proposed to other ISAs (e.g., for ISA 220

⁹ ISA 210, *Agreeing the Terms of the Audit Engagements*

(Revised)¹⁰).

- (i) One respondent suggested providing additional guidance and implementation support materials, in addition to those being considered by the IESBA PIE Rollout Working Group (e.g., developing Staff Questions and Answers publications that is aimed broadly at all stakeholders). It was also suggested including in future implementation materials or in the Basis for Conclusions the Appendix to the Explanatory Memorandum that illustrates the application and impact of the proposed revisions to ISA 700 (Revised) to certain assumed circumstances.
30. Respondents who disagreed cited similar preferences as the MG respondents, i.e., support for a unconditional requirement that would mandate the transparency disclosure in the auditor’s report in all cases, provided that the relevant ethical requirements do not specifically prohibit such disclosure. Such respondents noted that the term “differential” is a potential source of misunderstanding and could cause difficulties in practice and suggested at least defining the term if retained.
31. Respondents with mixed views (i.e., who neither agreed nor disagreed) commented that should the IAASB proceed with the proposed amendments to ISA 700 (Revised) they support a conditional requirement as proposed in the ED.

PIE TF Initial Views and Recommendations

Conditional versus Unconditional Requirement

32. The PIE TF notes the majority support for a conditional requirement that would apply only when the relevant ethical requirements require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied, as proposed in the revisions included in the ED. Support for the conditional approach was also expressed by those respondents who had mixed views (i.e., neither agreed or disagreed).
33. Only three respondents (see paragraph 24) specifically did not support the proposed conditional approach, instead supporting an unconditional requirement that would mandate the proposed transparency disclosure in the auditor’s report in all cases, provided that the relevant ethical requirements do not specifically prohibit such disclosure. Nevertheless, the PIE TF notes that these three respondents include the two MG respondents and one audit oversight body.
34. In considering this matter, the PIE TF also reflected on the various comments received on question 1 (see **Section I**), across stakeholder groups, that emphasized the need for jurisdictional flexibility and cautioned about unintended consequences in operationalizing the transparency requirement of the IESBA Code through the auditor’s report. Although the PIE TF continues to believe that the auditor’s report is an appropriate mechanism for the public disclosure contemplated in paragraph R400.20 of the IESBA Code, the PIE TF also continues to support a conditional approach for the reasons explained in paragraph 20 of the [Explanatory Memorandum](#) (see also **Appendix 2**). On balance, the PIE TF is of the view that the proposed conditional requirements in ISA 700 (Revised) is an appropriately proportionate response for a global standard.

Use of the Term “Differential” in the Proposed Revisions

35. Given respondents’ comments that the term “differential” is not a commonly understood term that may

¹⁰ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph A38.

cause misunderstanding (also in terms of its translation), the PIE TF deliberated whether the use of this term should be retained in the proposed revisions, or if an alternative term should be sought. In addition, the PIE TF considered whether the term “differential independence requirements” should be defined if retained in the requirement.

36. To inform its approach, the PIE TF considered several other terms that could be used as alternatives to explain the nature of the independence requirements for PIEs in the IESBA Code.¹¹ In doing so, the PIE TF challenged these alternatives against the following criteria:
- (a) Is the term a well understood term that could be interpreted without misunderstanding, including in terms of its translation.
 - (b) Does the dictionary description for the term appropriately reflect the nature of the independence requirements for PIEs in the IESBA Code.
37. The PIE TF considered that the term “additional” could be a viable alternative given its common use across the ISAs (e.g., in various instances of introductory paragraphs, requirements and application material) as well as because its dictionary description aligns with the nature of the independence requirements for PIEs in the IESBA Code (e.g., “stricter or plus requirements” that apply on top or instead of the “core” requirements).
38. However, the PIE TF believes that use of the term “additional” alone would not be sufficient because the requirement in paragraph 28(c) of ISA 700 (Revised) is intended to apply more broadly (e.g., to also address more restrictive (stringent) national relevant ethical requirements that require the auditor to publicly disclose that the independence requirements for certain entities were applied). In addition, there may also be jurisdictions where the independence requirements for certain entities are included in a completely different set of national requirements (as well as within law or regulation) and the use of the term “differential” would then remain appropriate for these circumstances.
39. Given these considerations, the PIE TF believes that the term “differential” remains appropriate as it addresses the broad range of circumstances that may occur. However, the PIE TF acknowledges that the use of this term in the requirement may cause misunderstanding and instead proposes to (see paragraphs 28(c) and A35A of ISA 700 (Revised) in **Agenda Item 7-A**):
- (a) Remove the term “differential” from the requirement in paragraph 28(c); and
 - (b) Enhance the application material in paragraph A35A to explain that relevant ethical requirements may require the auditor to apply “additional” independence requirements (e.g., those for PIEs in the IESBA Code) or “differential” independence requirements for certain entities (as may be the case in law or regulation or within other professional requirements).

Use of the Phrase “Certain Entities” in the Proposed Revisions

40. The PIE TF previously deliberated about whether the term PIE can be used in the proposed revision to explain the type of entities precisely for which the differential independence requirements apply. However, the PIE TF formed the view that it is necessary to remain neutral in terms of using the term in requirements,

¹¹ The following terms were considered: “different,” “additional,” “specific,” “(more) stringent,” and “heightened.”

given that PIE is a term only used in the application material of the ISAs¹² and if used in the requirement, then it would be necessary to define it. The PIE TF previously decided that because the adoption of IESBA’s definition of PIE in the ISQMs,¹³ ISAs and the Glossary of Terms will only be considered as part of Track 2 of the narrow scope project, for the revisions proposed for Track 1 of the project, it would be appropriate to provide supporting application material to explain the phrase “certain entities.” The supporting application material:

- (a) Refers to the IESBA Code as an example of relevant ethical requirements with additional independence requirements for certain entities (i.e., PIEs); and
- (b) Explains what is meant by “certain entities” (i.e., those specified by the relevant ethical requirements, such as PIEs).

- 41. In addition, the PIE TF discussed that because jurisdictional ethical requirements may contain differential independence requirements that apply to categories of entities other than PIEs, and such requirements may require the auditor to publicly disclose when such differential independence requirements have been applied, it is appropriate to refer to “certain entities” in the requirement. Further, the PIE TF deliberated whether the term “certain entities” or “certain types of entities” should be used in the proposed revisions, as both terms are used across the ISAs. On balance, the PIE TF decided to continue to use the term “certain entities” given this term was used in more recently revised ISAs (e.g., in ISA 540 (Revised)¹⁴).
- 42. The PIE TF believes that this approach, i.e., retaining the phrase “certain entities” in the requirement with supporting guidance in the application material, remains appropriate for the narrow scope revisions contemplated under Track 1 of the project.

Auditor’s Report Prescribed by Law or Regulation

- 43. The PIE TF notes that the proposed revisions to ISA 700 (Revised) only addressed paragraph 28(c) that prescribes requirements for the auditor’s report for audits conducted in accordance with ISAs and did not extend to paragraph 50(e) of ISA 700 (Revised) addressing requirements for the auditor’s report prescribed by law or regulation.
- 44. The PIE TF believes that paragraph 50(e) of ISA 700 (Revised) should also be updated to be consistent with the proposed revisions to paragraph 28(c) of ISA 700 (Revised). This is necessary to continue to facilitate that an auditor’s report as contemplated in paragraph 50 of ISA 700 (Revised) can refer to “International Standards on Auditing” and to avoid any discrepancy in terms of the minimum elements of an auditor’s report (see paragraph 50(e) in ISA 700 (Revised) of **Agenda Item 7-A**).

Proposed Revisions to the Illustrative Auditor’s Reports of ISA 700 (Revised)

- 45. The PIE TF agrees with respondents who suggested to more accurately word the statement in the *Basis for Opinion* section to indicate that the relevant ethical requirements for independence relate to the audits of the financial statements of PIEs and not the PIEs themselves (see illustrations 1-2 in the

¹² See paragraph A40 of ISA 700 (Revised) and A15 of ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

¹³ International Standards on Quality Management

¹⁴ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

Appendix of ISA 700 (Revised) in **Agenda Item 7-A**).

46. However, the PIE TF formed the view not to include a reference to “consolidated” financial statements in illustration 2 in the Appendix of ISA 700 (Revised), because this may inadvertently imply that there are relevant ethical requirements that apply to “audits of consolidated financial statements” of PIEs.
47. In addition, the PIE TF believes that it is necessary to retain the word “also” when providing the statement that the auditor fulfilled their other ethical responsibilities in accordance with jurisdictional requirements and the IESBA Code, as it appropriately reflects the obligation stated in the requirement of paragraph 28(c) of ISA 700 (Revised). The PIE TF is also of the view that given that the title of the IESBA Code already indicates that it includes the *International Independence Standards*, it is sufficiently clear that they are not a separate body of relevant ethical requirements for PIEs, but rather implies that these are included (or form part of) the relevant ethical requirements of the IESBA Code.

Mitigating the Risk that The Entity is a PIE When it is Not

48. The PIE TF believes it is useful to add new application material to mitigate against the risk that users may inadvertently believe the entity is a PIE when it is not, as may be for circumstances when the auditor has otherwise determined to apply the differential independence requirements for certain entities to other entities and the relevant ethical requirements require public disclosure (see proposed paragraph A35B of ISA 700 (Revised) in **Agenda Item 7-A**).

Matters Relevant to Group Audits

49. The PIE TF discussed that ISA 600 (Revised),¹⁵ requires that the group engagement partner take responsibility for component auditors having been made aware of the relevant ethical requirements that are applicable to the group audit engagement. In addition, the group engagement partner is required to take responsibility for confirming whether the component auditors understand and will comply with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement.
50. Also, in December 2022, the IESBA approved its proposed revision to the IESBA Code relating to the definition of engagement team and group audits.¹⁶ Among other matters addressed, the IESBA reaffirmed that as a principle, the independence provisions of the IESBA Code that apply at the group level should also apply throughout the group. Therefore, for group audit purposes, if the group audit client is a:
- (a) PIE, then the PIE provisions apply also for component auditors involved in the group audit, even though a component may be a non-PIE.
 - (b) Non-PIE, then the PIE provisions do not apply for component auditors involved in the group audit, notwithstanding that a component audit client might be a PIE.
51. The PIE TF believes it is relevant to discuss the above in the Basis for Conclusions for Track 1, so as to provide additional context to support for the application of the requirement in paragraph 28(c) of ISA 700 (Revised) for a group audit engagement.

¹⁵ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 25.

¹⁶ See [Agenda Item 2](#) of the December 2022 IESBA quarterly meeting.

Other Matters

52. The PIE TF is of the view that further revisions to the application material or illustrations of other ISAs should not be pursued, given they are not necessary to maintain the coherence with the narrow scope revisions proposed to ISA 700 (Revised) and because further alignment changes to the application material are already contemplated as part of Track 2 of the narrow scope project.
53. Also, the PIE TF notes that the project proposal does not contemplate development of non-authoritative guidance (e.g., first-time implementation support materials or Staff Questions and Answers). However, the PIE TF is of the view that further explanations can be considered in the Basis for Conclusion, if needed, to clarify certain aspects of the narrow scope amendments proposed for Track 1 (e.g., to include the table from the Appendix to the Explanatory Memorandum that illustrates the application of the proposed revisions to the *Basis for Opinion* paragraph of the auditor’s report to certain circumstances).

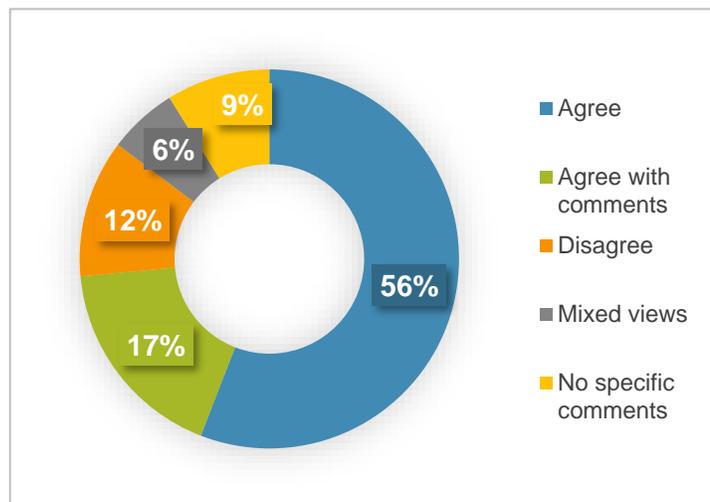
Matters for IAASB Consideration:

1. The Board is asked whether they agree with the PIE TF summary of respondents’ feedback in **Section II**, above, and whether there are any other significant issues raised by respondents that also should be discussed?
2. Does the Board agree with the PIE TF views discussed in paragraphs 32-34 above to continue to include a conditional requirement in paragraph 28(c) of ISA 700 (Revised).
3. The Board is asked for its views on the proposed changes to the narrow scope amendments to ISA 700 (Revised) in **Agenda Item 7-A**, including on the matters discussed in paragraphs 35-53 above.

Section III – Proposed Amendments to ISA 260 (Revised)**Overview of Responses**

54. Question 2A(b) of the ED sought views from respondents who agreed with Question 1, if they support IAASB’s proposed revisions to ISA 260 (Revised). Responses to Question 2A(b) were as follows (see the separate NVivo report in **Agenda Item 7-B.4** for further details):¹⁷

- 19 respondents agreed – 56%;
- 6 respondents agreed with further comments – 17%;
- 4 respondents disagreed, including the two MG respondents – 12%;
- 2 respondents had mixed views (i.e., neither agreed nor disagreed) and had comments – 6%;



¹⁷ The analysis includes responses from 34 respondents who agreed, agreed with comments, or had mixed views to Question 1 of the ED.

and

- 3 respondents did not have a specific response – 9%.

Respondents' Comments

Monitoring Group Responses

55. The MG respondents believe that the proposed revisions to ISA 260 (Revised) should be strengthened by including a requirement (rather than providing application material) for the auditor to communicate with TCWG the independence requirements applied, mirroring the IAASB proposals for paragraph 28(c) of ISA 700 (Revised). In their comments, the MG respondents pointed out that the:
- (a) Proposed amendments to ISA 260 (Revised) may not, in all circumstances, achieve the desired outcome of providing increased transparency to TCWG that the auditor applied differential independence requirements for certain entities, such as those for PIEs in the IESBA Code, given the proposed revisions only form part of the guidance included in the application material.
 - (b) Information communicated to TCWG should be at least equivalent to the information required to be disclosed in the auditor's report.

Other Respondents' Comments

56. Respondents who agreed with the proposed amendments to ISA 260 (Revised) supported that the proposed application material provides an appropriate basis to facilitate increased transparency to TCWG when the relevant ethical requirements for PIEs have been applied.
57. Respondents who supported the proposed amendments to ISA 260 (Revised) and provided further comments, highlighted that:
- (a) There is inconsistency between the applicability of the requirement in paragraph 17 of ISA 260 (Revised) that applies to audits of listed entities, and the proposed revisions in the application material which provide an example of relevant ethical requirements, such as the independence requirements that apply to audits of financial statements of PIEs in the IESBA Code. Because PIEs may include a wider set of entities than listed entities, respondents encouraged the IAASB to further address the noted inconsistency as part of Track 2 of the narrow scope project when addressing the applicability of the differential requirements for listed entities in the ISQMs and ISAs.
 - (b) The terms "differential independence requirements" and "certain entities specified in the relevant ethical requirements" need further clarity (also see **Section II** above).
58. Similar to the MG respondents, other respondents who disagreed with the proposed amendments to ISA 260 (Revised) supported inclusion of an explicit requirement to communicate with TCWG which independence requirements were applied. Respondents commented that this would ensure enhanced transparency and quality of communications with TCWG who should be fully informed regarding the auditor's independence, including which independence requirements were applied.
59. Respondents with mixed views (i.e., who neither agreed nor disagreed) suggested that other mechanisms for disclosure be considered by IESBA or encouraged the IAASB to be less prescriptive on the location of the communication, noting this would align with the approach taken for other communication requirements to TCWG.

PIE TF Initial Views and Recommendations

PIE TF Proposals for Paragraph 17 of ISA 260 (Revised) Under Track 2

60. The PIE TF previously deliberated that there is an existing inconsistency in the applicability of the requirement for listed entities in paragraph 17 of ISA 260 (Revised) and the requirement in paragraph 28(c) of ISA 700 (Revised) that requires communication about compliance with independence requirements in the auditor's report that applies for all audit engagements. The PIE TF formed the view that it is therefore illogical and inconsistent that the auditor would communicate with TCWG about compliance with independence requirements only if the entity is a listed entity (or a PIE).
61. In December 2022,¹⁸ the Board supported the PIE TF proposals for Track 2 which included to bifurcate paragraph 17 of ISA 260 (Revised) into two parts, i.e.:
- (a) A part that applies to all audit engagements and addresses communication with TCWG about compliance with relevant ethical requirements regarding independence, including requiring communication about the differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements.
 - (b) A part that applies to audits of financial statements of PIEs, and addresses further communication with TCWG on matters related to independence, such as relationships that bear on independence.

Also refer to **Appendix 3** that provides the proposed drafting (mark up from extant) presented to the Board in December 2022 under Track 2 of the project for the requirement in paragraph 17 of ISA 260 (Revised).

62. The PIE TF is of the view that the revisions discussed above, proposed under Track 2 of the narrow scope project, address concerns on exposure expressed by MG respondents and others who believe an explicit requirement is necessary to address providing transparency to TCWG about compliance with relevant ethical requirements regarding independence. In addition, the proposed revisions would address the inconsistencies as noted by respondents in the applicability of the requirement in paragraph 17 of ISA 260 (Revised) and the proposed application material, as by bifurcating the requirement the communication with TCWG would apply to audits of all entities, including for PIEs.

Proposals for a Way Forward to the Revision for ISA 260 (Revised) Under Track 1

63. The PIE TF considered the benefit of bifurcating paragraph 17 of ISA 260 (Revised) under Track 1 of the narrow scope project instead of Track 2, as this would have an earlier effective date and be responsive to comments received on exposure (also see paragraph 89 that discussed the possible effective date for Track 2). However, the PIE TF notes that the proposals made in December 2022 can only partially be addressed under Track 1 and will need to be revisited again under Track 2 of the project. This is because the term PIE and the approach to IESBA's definitions of PIE and "publicly traded entity" will only be holistically addressed in Track 2. Accordingly, it may not be effective or practical to undertake the revisions now given the affected requirements will need to be amended twice in short succession.
64. In addition, the PIE TF notes that:
- (a) As a consequence of bifurcating the requirement in paragraph 17 of ISA 260 (Revised), there would

¹⁸ Also see paragraphs 33–34 of [Agenda Item 6](#) presented to the Board in December 2022.

also be a need to align the requirement in paragraph 40(b) of ISA 700 (Revised) and the illustrative auditor's reports that are affected,¹⁹ which would necessitate changes to other ISAs (i.e., the affected ISAs of the 800-series).

- (b) The proposals for Track 2, including bifurcating the requirement in paragraph 17 of ISA 260 (Revised) are yet to be exposed public comment under IAASB's due process.

65. Because of the reasons explained above, the PIE TF proposes not to pursue bifurcating paragraph 17 of ISA 260 (Revised) at this point and to address the matter as part of Track 2 of the narrow scope project.
66. For consistency with the revisions proposed in ISA 700 (Revised) to address respondents' feedback on the use of the term "differential" (see paragraphs 35-39), the PIE TF also proposes certain alignment revisions to paragraph A29 of ISA 260 (Revised) in **Agenda Item 7-A**.

Matters for IAASB Consideration:

4. The Board is asked whether they agree with the PIE TF summary of respondents' feedback in **Section III**, above, and whether there are any other significant issues raised by respondents that also should be discussed?
5. Does the Board agree with the PIE TF proposals for a way forward in relation to paragraph 17 of ISA 260 (Revised), i.e., to address bifurcating the requirement as part of Track 2 of the project and rely on the application material in paragraph A29 in the interim period to increase transparency to TCWG that differential independence requirements for certain entities have been applied?

Part B: Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Reviews of Financial Statements

Revision to ISRE 2400 (Revised)²⁰

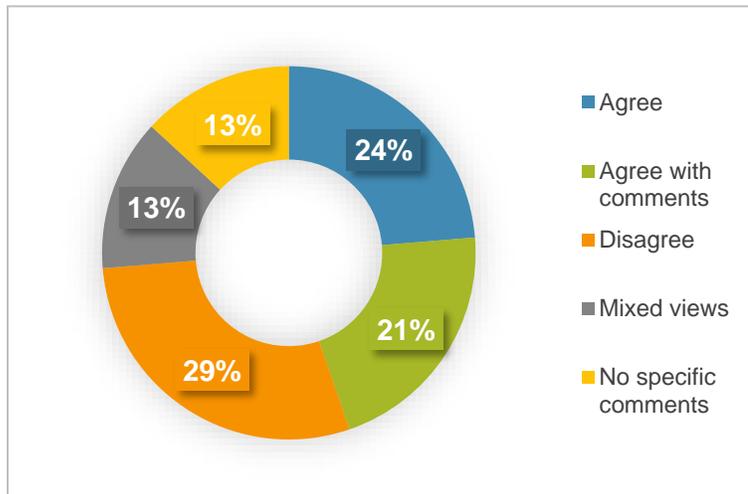
Overview of Responses

67. Question 3 of the ED asked respondents if the IAASB should consider a revision to ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, such as for PIEs in the IESBA Code. The Explanatory Memorandum accompanying the ED explained that based on respondents' feedback, the IAASB would determine whether any further action needs to be taken to revise ISRE 2400 (Revised) as part of Track 2 of its narrow scope project on listed entity and PIE.
68. Responses to Question 3 were as follows (see the separate NVivo report in **Agenda Item 7-B.5** for further details):

¹⁹ This includes adding to the auditor's responsibilities the sentence: "We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence" in illustration 4 of ISA 700 (Revised), illustrations 1-2 of ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* and illustrations 1-2 of ISA 805 (Revised), *Special Considerations—Audits of Single Financial Statements And Specific Elements, Accounts or Items of a Financial Statement*.

²⁰ International Standards on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

- 9 respondents agreed – 24%;
- 8 respondents agreed with further comments – 21%;
- 11 respondents disagreed – 29%;
- 5 respondents had mixed views (i.e., neither agreed nor disagreed) and had comments – 13%; and
- 5 respondents did not have a specific response, including the two MG respondents – 13%.



Respondents' Comments

69. Overall, there were mixed views from respondents on whether the IAASB should consider a revision of ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities.
70. Respondents who supported that a revision of ISRE 2400 (Revised) should be pursued and provided further comments, commented as follows:
- Given that Part 4A of the IESBA Code applies to both audit and review engagements, a revision of ISRE 2400 (Revised) would ensure compliance, when applicable, with the transparency requirement in paragraph R400.20 of the IESBA Code. Certain respondents noted that, absent a clarification from IESBA that they intended the transparency requirement to apply only to audits of financial statements, the IAASB would not be justified not to address the matter as part of its narrow scope project on listed entity and PIE.
 - The IAASB should pursue a revision of ISRE 2410²¹ as a priority. Respondents acknowledged that circumstances for when a review of historical financial statements of entities under ISRE 2400 (Revised) for which differential independence requirements exist are rare, and noted that it is more likely that an interim review engagement would be performed by the independent auditor for listed entities or PIEs under ISRE 2410.
 - It is important to have a consistent approach across the ISAs and the ISREs to address transparency about the relevant ethical requirements for independence applied for certain entities. Respondents expressed views that this would minimize confusion among practitioners and intended users that may occur should audit and review reports differ in this regard.
 - Given the targeted nature of the matter being addressed, respondents did not believe there would be adverse consequences of pursuing revisions to the ISREs as part of Track 2 of IAASB's narrow scope project on listed entity and PIE. However, at the same time, respondents also emphasized the need for a more comprehensive revision of both ISRE 2400 and ISRE 2410 (Revised) to

²¹ ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

modernize the standards and ensure they remain coherent with other IAASB standards, as appropriate. It was suggested that a separate project be considered and undertaken in this regard as part of IAASB’s workplan decisions.

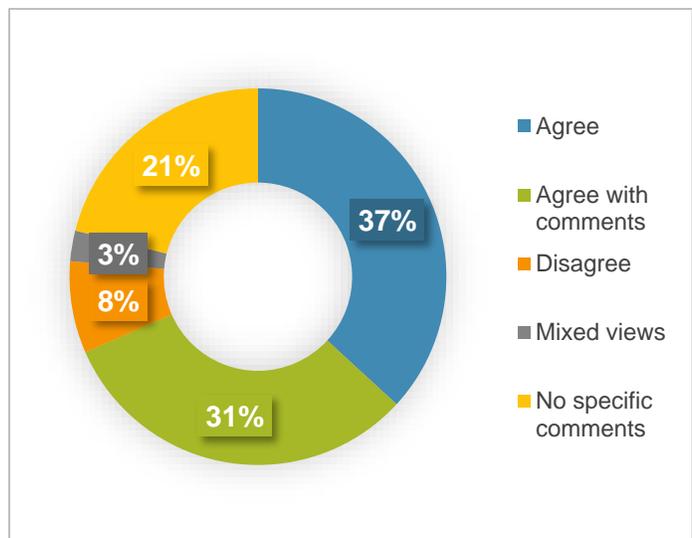
71. Respondents who disagreed that that a revision of ISRE 2400 (Revised) should be pursued noted in their responses that:
- (a) Because engagements to perform reviews of financial statements in accordance with ISRE 2400 (Revised) are rare for PIEs, given that such entities are usually required to have their financial statements audited, a revision to address transparency about the relevant ethical requirements for reviews is not necessary for those limited circumstances that may occur.
 - (b) It may be more appropriate to consider a revision of ISRE 2410 to address transparency, however since the standard is still in pre-clarity format, any further revisions should be part of a comprehensive revision of the standard considered by the IAASB as part of its workplan decisions.
 - (c) The IAASB should not pursue the revision to ISRE 2400 (Revised) because providing such information in the practitioner’s report may be confusing for intended users of review reports and may undermine the decisions taken previously by the IAASB as part of the Auditor Reporting project in terms of not aligning review and auditor’s reports.
 - (d) To avoid the risk of non-compliance, IESBA should consider amendments to Part 4 of the IESBA Code to explicitly state that the transparency requirement in paragraph R400.20 does not apply to review engagements.
72. Respondents who neither agreed nor disagreed and provided comments, noted in their responses that further research is needed to determine whether there would be any unintended consequences of pursuing a narrow scope revision as part of Track 2 of the listed entity and PIE project, as well as that the IAASB should consider revising both ISRE 2400 (Revised) and ISRE 2410 at the same time and in a consistent manner.

Approach to Revising ISRE 2400 (Revised)

Overview of Responses

73. Question 4 of the ED sought views from respondents if they support a consistent approach to the revisions for ISRE 2400 (Revised) with the proposals for ISA 700 (Revised) (i.e., a conditional requirement in the practitioner’s report). Responses to Question 4 were as follows (see the separate NVivo report in **Agenda Item 7-B.6** for further details):

- 14 respondents agreed – 37%;
- 12 respondents agreed with further comments – 31%;
- 3 respondents disagreed – 8%;



- 1 respondent had mixed views (i.e., neither agreed nor disagreed) and had comments – 3%; and
- 8 respondents did not have a specific response, including the two MG respondents – 21%.

Respondents' Comments

74. Respondents broadly supported that if the IAASB were to amend ISRE 2400 (Revised), a consistent approach should be applied as for its proposals to revise ISA 700 (Revised) (i.e., a conditional requirement). Such support was also expressed by certain respondents who disagreed or expressed mixed views as to whether a revision of ISRE 2400 (Revised) should be pursued (see Question 3 above).
75. Respondents who agreed and provided further comments, often referred to their previous responses to Questions 1 and 2 to the ED highlighting their specific comments provided relevant for the revisions proposed to paragraph 28(c) of ISA 700 (Revised), and noted that should different approaches be used, the disclosure of independence requirements for audit and review engagements would be inconsistent which may create confusion for intended users of review reports.

Scope of the Transparency Requirement in the PIE Revisions to the IESBA Code

76. The IESBA's discussions on the transparency requirements in paragraphs R400.20 – R400.21 that require a firm to publicly disclose when a firm has applied the independence requirements for PIEs were primarily focused on audit engagements. As such, the IESBA did not specifically discuss whether the requirement should also apply to reviews of financial statements and the IESBA's exposure draft²² did not include specific questions regarding the application of the transparency requirement to review engagements.
77. To inform the IESBA's further considerations specifically with respect to review engagements, a specific question was included in the ED (Question 5) seeking input from IESBA's respondents as to whether there are any jurisdictions that require the review report to include a statement that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.
78. In February 2023, the IESBA discussed respondents' feedback relevant to transparency for review engagements,²³ and deliberated whether the scope of paragraph R400.20 of the IESBA Code should be restricted to only audit engagements (see [Agenda Item 1-A](#)). This included the IESBA PIE Rollout Working Group presenting the following two options for IESBA's deliberation:
- (a) **Option A:** Maintaining the scope of the transparency requirement to be applicable to both audit and review engagements.
 - (b) **Option B:** Changing the scope to apply the transparency requirement to audit engagements only, subject to public exposure under IESBA's due process. With respect to the timing for public exposure, it was also proposed this to take place after the IAASB has approved its proposals

²² See the IESBA's Exposure Draft: [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#)

²³ This included IAASB Staff's preliminary analysis of the feedback for Questions 3-4 of the ED that included matters for IAASB consideration and the IESBA PIE Rollout Working Group's analysis of Question 5 of the ED that included matters for IESBA consideration.

to operationalize the transparency requirement in the ISAs.

79. There was recognition by the IESBA PIE Rollout Working Group that reviews of PIE’s historical financial statements under ISRE 2400 (Revised) are rare, and it is not common among jurisdictions to require a practitioner to state in their report that they are independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.²⁴
80. The IESBA PIE Rollout Working Group’s view was that the scope of paragraph R400.20 of the IESBA Code should not be changed and that the transparency requirement should continue to apply to both audit and review engagements (i.e., a preference for Option A). The IESBA PIE Rollout Working Group rationale for preferring Option A included:
- (a) Ensuring consistency across requirements applicable to audits and review engagements of PIEs, as a relevant public interest argument. It was also noted that the rationale for the transparency requirement to inform stakeholders which independence requirements have been applied is relevant for both audit and review engagements.
 - (b) Changing the scope of the transparency requirement to limit it to audit engagements would mean limiting a requirement previously approved by IESBA. In addition, exempting review engagements from the transparency requirement may be perceived as IESBA moving backwards from a public interest perspective.
 - (c) It may be more appropriate to consider this issue as part of the post-implementation review in the IESBA’s next strategy period.
81. In addition, consideration was provided as to whether a consistent approach could be applied as in the IESBA’s Fees project, whereby a new provision was introduced in paragraph R410.33,²⁵ that differentiates the fee transparency requirements for audit and review engagements under Section 410 of the IESBA Code. However, the IESBA PIE Rollout Working Group believed that these two situations should not necessarily be treated in the same way given the differences in the objectives of the requirements and because providing transparency for reviews does not impose too much of a burden on firms. Also, in considering the need for consistency, other situations in the IESBA Code were considered (e.g., communication with TCWG in paragraph 600.20 A1) that do not make a distinction between audit and review engagements.
82. Upon deliberation, the IESBA supported the IESBA PIE Rollout Working Group proposal for Option A, i.e., to maintain the scope of the transparency requirement to be applicable to both audit and review engagements.
83. The IESBA PIE Rollout Working Group also proposed to update the staff-prepared Questions and Answers to clarify that if the independent auditor of a PIE has already complied with the transparency requirement at the time of the annual audit, then they do not need to duplicate such disclosure when performing an interim review engagement under ISRE 2410. Because some IESBA Board members

²⁴ Among the 30 respondents that responded to Question 5 of the ED, only three jurisdictions (Australia, New Zealand, and the United States) were identified as having requirements 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.

²⁵ Paragraph R410.33 states that: “*This section sets out requirements for a firm to communicate fee-related information of an audit client that is a public interest entity and to disclose publicly fee-related information to the extent that the client does not disclose such information. As an exception to those requirements, the firm may determine not to communicate or pursue disclosure of such information where a review client is not also an audit client.*”

expressed caution to ensure that any guidance should not amount to interpreting the requirement or introducing an exception, it was agreed that the staff-prepared Questions and Answers will be circulated to the full Board for their concurrence.

PIE TF Initial Views and Recommendations

84. As explained in paragraph 27(a) of the [project proposal](#), the purpose of the information gathering from the ED in relation to whether a revision to ISRE 2400 (Revised) should be pursued, was undertaken to inform the IAASB whether further action should be taken, as part of Track 2 of its narrow scope project, to address transparency about the relevant ethical requirements for certain entities applied for reviews of historical financial statements.
85. The PIE TF notes the mixed views expressed by respondents to Question 3 of the ED and agreed with respondents' views that circumstances would be rare in practice when a review of historical financial statements for a PIE would be undertaken. Nevertheless, given IESBA's decision not to pursue changing the scope of the transparency requirement in paragraph R400.20 of the IESBA Code, the PIE TF discussed the following options in relation to a way forward for undertaking a revision to ISRE 2400 (Revised):
- (a) Option 1 – Pursue a revision of ISRE 2400 (Revised) as part of Track 2 of the listed entity and PIE project. The benefit of this option is that the revisions to operationalize the transparency requirement in paragraph R400.20 of the IESBA Code for reviews of historical financial statements would become effective sooner, mindful of IESBA's decision in February 2023 about the scope of the requirement in paragraph R400.20 (see paragraphs 76-83).
 - (b) Option 2 – Pursue the revision as part of a comprehensive project to revise ISRE 2400 (Revised) subject to future workplan decisions. The benefit of this option is that the revisions can be considered as part of a more holistic revision of the standard that would address among other matters any other changes to the practitioner's report, which go beyond the scope of the narrow scope amendments contemplated by Track 2 of the listed entity and PIE project.
86. Under either option, the PIE TF noted that there would be a gap from the effective date of the IESBA's revisions in paragraph R400.20²⁶ and the possible effective date of the IAASB pronouncement (see paragraph 89). The PIE TF deliberated that in the interim period, until the revisions for Track 2 become effective and noting that practical situations are expected to be rare, guidance may be considered to draw attention that when undertaking a review engagement in accordance with ISRE 2400 (Revised), the practitioner is not precluded from providing the disclosure in the practitioner's review report in a manner consistent with the proposed revisions to paragraph 28(c) of ISA 700 (Revised).
87. The PIE TF formed the view that Option 1 is preferred as there would be a shorter (i.e., possibly two-years) misalignment gap from the time of the effectiveness of the IESBA's revisions in paragraph R400.20 (see paragraph 89). The PIE TF also noted that although the revision of ISRE 2410 has been included as a candidate topic in the [Consultation Paper](#) on the IAASB Strategy and Work Plan 2024–2027, a project to update ISRE 2400 (Revised) may be further into the future.

Matter for IAASB Consideration:

²⁶ The [IESBA pronouncement](#) resulting from its listed entity and PIE project is effective for audits of financial statements for periods beginning on or after December 15, 2024.

6. The Board is asked for its views on the PIE TF proposed way forward in relation to revising ISRE 2400 (Revised) discussed in paragraphs 84-87 above?

Part C: Way Forward

Track 1

88. Following the March 2023 IAASB meeting, and based on the Board's feedback, the PIE TF intends to continue to discuss the issues included in this Agenda Item. In June 2023, the PIE TF will present to the IAASB for approval the final narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) related to Track 1 of the project.

Track 2

89. Due to various circumstances affecting the planning for the IAASB's forward agenda of projects,²⁷ the PIE TF will continue its work on Track 2 in quarter 1 of 2024. Consequently, it is anticipated that the exposure draft for Track 2 will be presented to the Board for approval in June 2024 and the expected approval of the final pronouncement to be in June 2025. Subject to feedback from stakeholders, the PIE TF is of view that an effective date of December 2026 may be possible.

Coordination with IESBA

90. The PIE TF will continue to closely coordinate with the IESBA on its narrow scope project on listed entity and PIE through Staff coordination and the participation of a correspondent member from the IESBA PIE Rollout Working Group in the PIE TF.

²⁷ Including, but not limited to, creating additional capacity necessary to prioritize the completion of IAASB's project on Sustainability Assurance, the sequencing of deliverables across active projects based on available Staff and Board capacity, and when certain deliverables "go to market."

PIE TF Members and Activities

PIE TF Members

1. The PIE TF consists of the following members:

- Sue Almond (Chair)
- Chun Wee Chiew
- Fernando Ruiz
- Susan Jones

IESBA correspondent member:

- Sung-Nam Kim.

2. Information about the project can be found [here](#).

PIE TF Activities

3. The PIE TF held 1 virtual meeting since December 2022.

Coordination with IESBA

4. Sung-Nam Kim joined the PIE TF in March 2022 as a correspondent IESBA member and attends all IAASB PIE TF meetings. He is also an IESBA member and a member of the IESBA PIE Rollout Working Group. Staff of the IAASB and IESBA engage in ongoing coordination activities in relation to this topic.
5. In February 2023, the IESBA received an update regarding the IAASB's project on listed entity and PIE, discussed respondents' feedback relevant to transparency for review engagements and deliberated whether the scope of paragraph R400.20 of the IESBA Code should be restricted to apply only to audit engagements.

IAASB's Rationale for a Conditional Requirement in the Narrow Scope Revisions to ISA 700 (Revised)

Extract from paragraph 20 of the [Explanatory Memorandum](#) accompanying the ED:

20. The IAASB supports a conditional requirement because:
- (a) It does not impose an obligation on the auditor to disclose in the auditor's report that the relevant ethical requirements for independence for those entities were applied if the underlying relevant ethical requirements do not require the auditor to do so. This enables jurisdictions that do not adopt the IESBA Code to determine, in establishing their ethical requirements, whether it is appropriate to have a transparency requirement in their ethical requirements, and whether the transparency requirement should specify circumstances when it is not appropriate to provide such disclosure (e.g., when the disclosure would result in revealing confidential future plans of the entity).
 - (b) Mandating disclosure in all circumstances could expand the disclosure to circumstances when relevant ethical requirements, including jurisdictional law or regulation, impose independence requirements on certain entities that are not PIEs, or are only one category of PIEs. For example, jurisdictional law or regulation may contain specific independence requirements for financial institutions.
 - (c) Describing the independence requirements applied when there are multiple ethical codes, law or regulation applicable in the circumstances, could become complex if the auditor is also required to explain whether specific independence requirements for certain entities contained in the ethical codes, law or regulation were applied.

Proposed Drafting for Track 2 Presented to the Board in December 2022²⁸ for the Requirement in Paragraph 17 of ISA 260 (Revised)

Mark-Up from Extant

Requirements

...

Matters to Be Communicated

...

Auditor Independence

17. ~~In the case of listed entities,~~ The auditor shall communicate with those charged with governance a: A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence. In circumstances when the relevant ethical requirements include differential independence requirements that are applicable to audits of financial statements of certain entities, the statement shall indicate that the auditor is independent of the entity in accordance with the independence requirements applicable to the audits of those entities. (Ref: Para. A29)

17A. For audits of financial statements of public interest entities, the statement required by paragraph 17 shall include:

- (a) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. ~~This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and (Ref: Para. A29A)~~
- (b) In respect of threats to independence that are not at an acceptable level, the actions taken to address the threats, including actions that were taken to eliminate the circumstances that create the threats, or applying safeguards to reduce the threats to an acceptable level. (Ref: Para. ~~A29A~~A30–A32)

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²⁸ See [Agenda Item 6](#) presented to the Board in December 2022.

List of Respondents to the ED

No.	Respondent	Region
Monitoring Group		Total: 2
1.	International Forum of Independent Audit Regulators (IFIAR)	Global
2.	International Organization of Securities Commission (IOSCO)	Global
Regulators and Audit Oversight Authorities		Total: 5
3.	Botswana Accountancy Oversight Authority (BAOA)	Middle East and Africa
4.	Committee of European Auditing Oversight Bodies (CEAOB)	Europe
5.	Financial Reporting Council – UK (FRC)	Europe
6.	Independent Regulatory Board for Auditors – South Africa (IRBA)	Middle East and Africa
7.	National Association of State Boards of Accountancy (NASBA)	North America
National Auditing Standard Setters		Total: 10
8.	American Institute of Certified Public Accountants (AICPA)	North America
9.	Australian Auditing and Assurance Standards Board (AUASB)	Asia Pacific
10.	Canadian Auditing and Assurance Standards Board	North America
11.	Compagnie Nationale des Commissaires aux Comptes (CNCC) and Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)	Europe
12.	Federación Argentina de Consejos Profesionales de Cs. Económicas (FACPCE)	South America
13.	Hong Kong Institute of Certified Public Accountants (HKICPA)	Asia Pacific
14.	Institut der Wirtschaftspruefer in Deutschland e.V.(IDW)	Europe
15.	Japanese Institute of Certified Public Accountants (JICPA)	Asia Pacific
16.	Malaysian Institute of Accountants - Auditing and Assurance Standards Board (MIA)	Asia Pacific
17.	New Zealand Auditing and Assurance Standards Board (XRB)	Asia Pacific
Accounting Firms²⁹		Total: 6
18.	Deloitte LLP*	Global
19.	Ernst & Young Global Limited*	Global
20.	Grand Thornton International Limited*	Global
21.	KPMG IFRG Limited*	Global
22.	PriceWaterhouseCoopers*	Global
23.	RSM International Limited*	Global

²⁹ Forum of Firms members are indicated with a *. The Forum of Firms is an association of international networks of accounting firms that perform transnational audits.

No.	Respondent	Region
Public Sector Organizations		Total: 1
24.	Office of the Auditor General of Alberta	North America
Member Bodies and Other Professional Organizations		Total: 14
25.	Botswana Institute of Chartered Accountants	Middle East and Africa
26.	Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA)	Global
27.	CPA Australia	Asia Pacific
28.	Federation of Accounting Professions of Thailand	Asia Pacific
29.	Institute of Chartered Accountants in England and Wales (ICAEW)	Europe
30.	Institute of Chartered Accountants of Nigeria	Middle East and Africa
31.	Institute of Chartered Accountants of Scotland (ICAS)	Europe
32.	International Federation of Accountants' Small and Medium Practices Advisory Groups (SMPAG)	Global
33.	Korean Institute of Certified Public Accountants (KICPA)	Asia Pacific
34.	Malaysian Institute of Certified Public Accountants (MICPA)	Asia Pacific
35.	Pan-African Federation of Accountants (PAFA)	Middle East and Africa
36.	Saudi Organization for Chartered and Professional Accountants (SOCPA)	Middle East and Africa
37.	South African Institute of Chartered Accountants (SAICA)	Middle East and Africa
38.	South African Institute of Professional Accountants (SAIPA)	Middle East and Africa