



**October 4, 2022**

Mr. Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York, NY 10017

**Re:** Exposure Draft — *Narrow Scope Amendments to ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements, and ISA 260 (Revised), Communication with Those Charged With Governance, as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)*

Dear Mr. Botha:

The American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) is pleased to respond to the International Auditing and Assurance Standards Board's (IAASB) above-referenced Exposure Draft. The responses provided below are from the perspective of an audit of financial statements of a non-issuer in the United States of America consistent with the mission of the ASB.

We appreciate the IAASB developing a timely Exposure Draft that followed the objectives and areas of focus for Track 1 of the IAASB's Listed Entity and Public Interest Entity (PIE) project proposal<sup>1</sup>. We also believe the Exposure Draft reflects the drafting principles and guidelines the IAASB has recently developed for itself to address complexity, understandability, scalability, and proportionality (CUSP) in developing International Standards on Auditing (ISAs). In Appendix A to this letter, we provide our responses to the IAASB's Request for Specific Comments in the Exposure Draft. The key feedback we have for the IAASB is noted immediately below.

We do not object to the exposed approach of audit firm<sup>2</sup> transparency over others that the IAASB considered during the deliberations leading up to the issuance of the Track 1 Exposure Draft due to the requirements promulgated by the International Ethics Standards Board for Accountants (IESBA). However, we do not believe the IAASB's Project Proposal objectives to meet "the heightened expectations of stakeholders" or "to enhance transparency about the relevant ethical

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<sup>1</sup> Refer to [IAASB Narrow Scope Maintenance of Standards Project on Listed Entity and Public Interest Entity \(PIE\)](#) (IAASB PIE Project Proposal).

<sup>2</sup> For purposes of this comment letter, "audit firm" or "firm" consists of a sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent.

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requirements for independence”<sup>3</sup> are being met, or that the public interest is being served<sup>4</sup>, when the auditor’s report conveying the audit firm’s relevant ethical requirements for independence from PIEs is not made available to the public (or if distribution of the auditor’s report is limited or not readily available to stakeholders the IESBA transparency requirement aims to serve). Therefore, we do not support a requirement to publicly disclose when an entity has been treated as a PIE unless the financial statements (and auditor’s report) are being made publicly available to stakeholders.

We note the IESBA considered a suggestion to link the transparency requirement with accessibility and the IESBA rejected it<sup>5</sup>; however, we believe this is a serious shortcoming. We believe the IAASB should work with the IESBA to evaluate *transparency without accessibility circumstances* (our emphasis) in the public interest and that the IESBA needs to provide suitable examples of other disclosure mechanisms available for audit firms in the *International Code of Ethics for Professional Accountants* (Code). Examples of which could be derived from those cited by IESBA exposure draft respondents in paragraphs 136 and 137 in the June 2021 IESBA Preliminary Analysis – Key Issues and Comments<sup>6</sup>. In the absence of changes being made to the Code to address the shortcoming, it beckons the need for the IAASB to provide an exemption mechanism regarding the audit firm’s compliance. Finally, we believe this unresolved shortcoming may, in part, be a function of inconsistent application and understanding of who each standard-setter is aiming to serve when referring to “stakeholders” and “users” in the public interest. We observe that both the IESBA and IAASB each uses these terms to represent those who each standard-setter is intending to serve, but it is unclear to us if the IESBA and IAASB view those parties to be the same given the tolerance for the shortcoming we’ve highlighted. We believe this should be addressed in Track 2 of the IAASB’s PIE Project Proposal, which in part seeks to achieve, to the greatest extent possible, convergence between the key concepts underlying revisions to the Code and standards issued by the IAASB.

Additionally, in Appendix B to this letter, we have identified several application issues with the proposed revisions to ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* that we believe must be addressed in the proposed revised standard rather than through nonauthoritative IAASB staff issued guidance.

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<sup>3</sup> Refer to IAASB PIE Project Proposal paragraphs 17(c) and 17(d), respectively.

<sup>4</sup> We believe our view is consistent with the one shared by the Public Interest Oversight Board (PIOB) in the [PIOB Public Interest Issues Report of February 2022](#). There the PIOB urged the IAASB and the IESBA to achieve transparency needed on the entities treated as PIEs in a manner that is “readily accessible” for users. Addressing the accessibility gap would also seemingly support the interoperability of the IESBA and IAASB PIE related proposals and the PIOB’s view in the February 2022 report that stated that such information should be available to users given the threats to stability and systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

<sup>5</sup> Refer to paragraph 146 of the IESBA Basis of Conclusions. We believe this is an inadequate explanation considering the importance of timing and accessibility of the information to stakeholder expressed by the IESBA in paragraph R400.20 in the final pronouncement of the IESBA *Revisions to the Definition of Listed Entity and Public Interest Entity in the Code*.

<sup>6</sup> Refer to: [June 2021 IESBA Preliminary Analysis – Key Issues and Comments](#). Mechanisms suggested by respondents included, but were not limited to transparency reports, corporate governance reports, and websites for firms.

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Although not considered in the IAASB's PIE Project Proposal, we encourage the IAASB to issue stakeholder educational resources concurrent with the IAASB's approval of the proposed revisions to ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, and ISA 260 (Revised), *Communication with Those Charged With Governance* that explains the changes. The value of such resources would be to enhance the clarity and understandability of the amendments by the public and serve to mitigate misperceptions among users and other interested stakeholders. We believe such guidance must also be developed and issued in order to align the proposed revisions to the IESBA's effective date timeline.

We also believe the IAASB should issue audit firm implementation guidance to support firms in their change management and to facilitate consistent application across different jurisdictions. While acknowledging the IESBA's plans<sup>7</sup> to assist local bodies in their adoption and implementation efforts, we have identified several challenges that necessitate the importance for the IAASB to issue guidance to aid audit firms in their implementation and how firms can educate and address questions that may arise from those charged with governance or management.

In Appendix C to this letter, we offer observations and recommendations on both the nature and scope of stakeholder education and anticipated implementation issues that should be addressed.

Finally, with the recent history of changes to auditor reporting standards<sup>8</sup> and the significant changes expected to another suite of ISAs arising from this project and the fraud<sup>9</sup> and going concern<sup>10</sup> projects, we urge the IAASB to take steps now to explain how such changes, taken together, enhance the communicative value and relevance of the auditor's report. We believe these steps are necessary in addition to providing such explanations on a standalone basis within each project. One step we believe would be very useful, for auditors and non-auditors alike, is to develop a comprehensive *pro forma* illustration of the auditor's report reflecting the continuing revisions to the auditor's report from all active projects likely to amend the auditor's report; and to continue to update this illustration throughout the standard-setting process for those active projects. The value of "standing back" to see the collective impact of all proposed changes — even before the various active projects are finalized — is that stakeholders can comprehend the full scope of the changes in requirements by seeing in one place the continuous evolution of auditor reporting and an integrated view of what the auditor's report of the future will comprise.

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<sup>7</sup> Refer to the [Final Minutes](#) of the 75<sup>th</sup> IESBA Virtual Meeting of December 2021, page 4 "Way Forward".

<sup>8</sup> Various auditor reporting standards were revised with an effective date from December 15, 2016 and in connection with those changes, the IAASB published an array of implementation tools and guidance to explain such changes. Refer to the focus area: [Auditor Reporting](#).

<sup>9</sup> Refer to the [IAASB Fraud project proposal](#).

<sup>10</sup> Refer to the [IAASB Going Concern project proposal](#).

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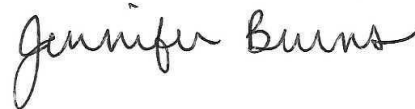
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We thank you for the opportunity to present our views on the Exposure Draft. If you have any questions regarding the comments in this letter, please contact the Chair of the ASB, Sara Lord at [sara.lord@rsmus.com](mailto:sara.lord@rsmus.com) or the AICPA's Chief Auditor, Jennifer Burns, at [jennifer.burns@aicpa-cima.com](mailto:jennifer.burns@aicpa-cima.com).

Respectfully submitted on behalf of the ASB,



Sara Lord  
Chair, Auditing Standards Board



Jennifer Burns, CPA  
Chief Auditor  
Professional Standards and Services

## Appendix A - Responses to Questions in the Exposure Draft

**IAASB Question 1:** Do you agree that 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, such as the independence requirements for PIEs in the IESBA Code?

**Response 1:** Due to the requirements promulgated by the IESBA, we concur that the auditor’s report is a logical mechanism to communicate that the auditor has applied the independence requirements for a public interest entity. However, as noted earlier, we do not support a requirement to publicly disclose when an entity has been treated as a PIE unless the financial statements (and auditor’s report) are also being made public. We offered recommendations above to address this shortcoming.

In addition, if the entity has chosen not to make information about its association with an audit firm public information outside of users of the financial statements, we believe it would not be aligned with the concepts of confidentiality in the Code for the auditor to disclose such information publicly. If the Code will still require public disclosure to those who do not have access to the auditor’s report or the entity’s financial statements because they are not publicly available, we believe the IAASB should consider possible effects on other standards<sup>11</sup> in order to address the concept of confidentiality in this situation and ensure the entity is aware of and consents to the disclosure, including its association with an auditor. The IAASB should also consider possible issues that would arise if the entity does not agree to the disclosure.

Regarding audit firm compliance, in the Explanatory Memorandum to the Exposure Draft, the IAASB cited paragraphs 144-146 in the IESBA Basis for Conclusions, *Revisions to the Definition of Listed Entity and Public Interest Entity in the Code*, as to how the IESBA’s transparency requirement can be complied with by a firm if the auditor’s report is not made available to the public. However, those paragraphs are neither authoritative nor do they explain, in our view, how to comply with the IESBA’s transparency requirement if the auditor’s report is not made available to the public. Further, because paragraph 16 of the Explanatory Memorandum to the Exposure Draft states the IAASB’s belief that there are no other mechanisms in the IAASB standards that deal with communication to “users of audited financial statements” other than the auditor’s report, there is a need for the IESBA and the IAASB to address (as it contemplated in the IESBA Basis of Conclusions paragraph 143) how audit firms can comply with the IESBA requirement when financial statements and the auditor’s report are not publicly available. This could be accomplished by formal acknowledgement in the Code that the disclosure of information related to auditor independence should be made to the same population of users to which the financial statements are made available. If the Code is not updated for such a change, then the IAASB will need to provide an exemption mechanism regarding the audit firm’s compliance.

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<sup>11</sup> We believe ISA 210, *Agreeing to the Terms of Audit Engagements*, and/or ISA 580, *Written Representation*, may be affected.

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**IAASB Question 2A:** 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?

**Response 2A:** We are strongly in favor of a *conditional requirement* that applies only when the relevant ethical requirements require public disclosure of the differential independence requirements for audits of financial statements of certain entities that were applied. We agree with the rationale for such a position expressed by the IAASB in paragraph 20 of the Exposure Draft. Furthermore, we believe the public interest is served best with respect to this kind of disclosure when those bodies responsible for setting ethics standards for professional accountants in the applicable jurisdiction of the entity and audit firm have required transparency of the relevant ethical requirements. Those bodies are best positioned to understand the applicable regulatory and compliance frameworks of the jurisdiction and the public interest needs for potentially interested stakeholders. We are also in agreement with the related application paragraph rationale expressed in paragraph 22 in the Exposure Draft.

We do not support other alternatives previously considered by the IAASB, specifically the imposition of a requirement for the auditor to disclose if specific independence requirements for audits of financial statements of certain entities, as set out in the relevant ethical requirements, were applied<sup>12</sup>.

**IAASB Question 3:** Should the IAASB consider a revision to ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code?

**Response 3:** No, we do not support the IAASB considering 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. Paragraph 31 of the Exposure Draft references an existing ISRE 2400 (Revised) requirement for the practitioner to include a reference to the practitioner’s obligation under ISRE 2400 (Revised) to comply with relevant ethical requirements. That requirement is sufficient. Further, we believe it is in the public interest that the review report be different from the auditor’s report so that a user would not potentially misinterpret the review report, especially if the user does not understand the lower level of assurance obtained in a review engagement. Notwithstanding these views, it is unclear to us when the relevant ethical requirements for independence for a PIE would be applied in a review (i.e., we believe it is more likely that a financial statement audit would be performed).

**IAASB Question 4:** If the IAASB were to amend ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, do you support using an approach that is consistent with ISA 700 (Revised) as explained in Section 2-C?

**Response 4:** As stated in our Response 3, we do not support the IAASB considering an amendment to ISRE 2400 (Revised) to address transparency about the relevant ethical

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<sup>12</sup> Refer to “Option 1” as discussed in paragraphs 37 through 40 in the March 2022 IAASB PIE [Issues Paper](#).

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requirements for independence applied for PIEs. However, if the IAASB decides to amend ISRE 2400 (Revised), an approach that is consistent with ISA 700 (Revised) as explained in Section 2-C would be appropriate.

**IAASB Question 5:** To assist the IESBA in its consideration of the need for any further action, please advise whether there is any requirement in your jurisdiction for a practitioner to state in the practitioner's report that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.

**Response 5:** Audit firm practitioners of nonissuers in the United States are required to comply with AICPA Statements on Standards for Accounting and Review Services, which includes standards for reviews of financial statements. Those standards include a requirement that the practitioner's review report include a statement that the practitioner is required to be independent of the entity and to meet the practitioner's other ethical responsibilities, in accordance with the relevant ethical requirements related to the review. The applicable wording is as follows<sup>13</sup>:

*We are required to be independent of XYZ Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review(s).*

**IAASB Question 6:** Translations—Recognizing that many respondents may intend to translate the final pronouncement for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing this Exposure Draft.

**Response 6:** We have not identified any potential translation issues for nonissuers in the United States.

**IAASB Question 7:** Effective Date—Given the need to align the effective date with IESBA, do you support the proposal that the amendments to ISA 700 (Revised) and ISA 260 (Revised) become effective for audits of financial statements for periods beginning on or after December 15, 2024 as explained in paragraph 26?

**Response 7:** We agree the effective dates should be aligned only to the extent that the IAASB has addressed and is ready to concurrently issue the adoption, transition, and implementation guidance to address the needs we have highlighted throughout this letter and in particular, Appendices B and C to this letter.

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<sup>13</sup> Refer to the AICPA's Statements on Standards for Accounting and Review Services, [Section 90, Review on Financial Statements](#), paragraph 76 and Illustrations # 1 through # 7.

## Appendix B – Reporting Issues to be Addressed in the Revisions to ISA 700

We believe it is imperative that the IAASB provide application material to the final revisions to ISA 700 (Revised) for various reporting issues, including situations when the audit firm applies professional judgment and decides to treat the entity as a PIE<sup>14</sup>. We have identified the following issues:

- Issue # 1 – Component auditors. Under ISA 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* (ISA 600 (Revised)), paragraph 25 notes that the group engagement partner shall take responsibility for component auditors having been made aware of the relevant ethical requirements that are applicable to the *group audit engagement* and shall 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*. However, it is unclear to us what the independence requirements of the component auditor would be or what the reporting obligation of the group auditor is when the group entity is treated as a PIE - but one or more components would not be treated as a PIE and the one or more component auditors who may be engaged by the component on a standalone basis are not subject to requirements in the Exposure Draft.
- Issue # 2 - Comparative audited financial statements: retrospective application. In a situation where the audit firm treats the entity as a PIE for the first time, is it the audit firm's responsibility 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? We believe the IAASB needs to address what reporting obligation or audit documentation requirement, if any, the audit firm may have regarding the basis for why the audit firm did not treat the entity as a PIE in the prior period.
- Issue # 3 - Comparative audited financial statements: forward-looking application. In a situation where the audit firm decides to treat the entity as a PIE in the current audit period - only because the audit firm anticipates that the entity would almost certainly be subject to a mandatory PIE determination under the relevant ethical requirements for independence in the next audit period – it is unclear to us whether in such a situation the audit firm would be permitted to disclose in the current period auditor's report that fact if the audit firm believes that such disclosure is necessary to the information needs of the intended users or other interested stakeholders<sup>15</sup>.

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<sup>14</sup> As permitted in paragraph 400.19 A1 in the IESBA's Revisions to the Definitions of Listed Entity and Public Interest Entity audit firms are encouraged to determine whether to treat other entities as public interest entities.

<sup>15</sup> The IAASB might be able to clarify and permit audit firm transparency in this situation and those similar to it with application material that analogizes to AU-C 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, which provides for additional disclosures, beyond those specifically required by the framework, related to matters that are not specifically identified on the face of the financial statements, or other disclosures, might be necessary for the financial statements to achieve fair presentation.



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A similar issue may also exist in a situation where the entity — after the date of the financial statements but before the financial statements are issued and the auditor's report is finalized — is determined by the audit firm that the entity should be treated as a PIE.

## Appendix C – Observations and Recommendations for Non-Authoritative Guidance

We offer the IAASB certain observations and recommendations pertaining to the issuance of nonauthoritative guidance that we believe would help audit firms adopt and implement the proposed revisions to ISA 700 (Revised) and ISA 260 (Revised) and educate stakeholders on the meaning of the changes to the auditor’s report.

### *Audit Firm Adoption and Implementation Materials*

We understand that the IESBA has formed a PIE Rollout Working Group and its primary purpose is to promote the adoption and implementation of the final provisions relating to the revised definitions of listed entity and PIEs. We understand that such work will be accomplished by undertaking rollout activities that more specifically address the issues that are contextual to different regions, jurisdictions, and stakeholder groups. Some of those activities may be carried-out by meeting with stakeholders, conducting webinars, and developing an IESBA Staff Question and Answers publication that is aimed broadly at all stakeholders.<sup>16</sup> We are pleased to see that such work will be coordinated with the IAASB and that an IESBA PIE Rollout Working Group member has joined the IAASB’s PIE Task Force as a correspondent member.

Despite these important actions and efforts, we do not believe that implementation guidance unique to the issues arising from a financial statement audit should be addressed through only the IESBA rollout activities. We have anticipated several adoption and transition issues and offer certain recommendations that we believe the IAASB will need to consider and act upon.

- We recommend that the IAASB include in future implementation materials the *Appendix to the Explanatory Memorandum*. This table illustrates the application and impact of the proposed revisions to ISA 700 (Revised) to certain circumstances. We believe that the table is a very effective visual that can aid audit firms in the adoption and implementation of the proposed requirements. We also believe that the table should be updated for a scenario where the entity receiving a financial statement audit is a non-PIE as this comparison would also highlight the differences in report wording<sup>17</sup>.
- Given that paragraph 400.19 A1 in the IESBA’s Revisions to the Definitions of Listed Entity and Public Interest Entity encourages audit firms to determine whether to treat other entities as public interest entities, it is unclear to us whether it is up to those bodies responsible for setting ethics standards for professional accountants, national auditing standard setters, or a combination thereof, to address the impacts or consequences in a situation where the audit firm applies professional judgment and determines an entity should be treated as a PIE in that audit situation, but there may not be any relevant ethical requirements for independence transparency for the audit firm to follow.

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<sup>16</sup> Refer to the June 2022 IESBA [Highlights](#).

<sup>17</sup> We believe this piece of guidance would be especially needed if the IAASB receives feedback and decides to instead require an alternative approach, such as the one we noted in Question 2A above. However, as explained earlier, we strongly encourage the IAASB to continue with the exposed approach rather than this alternative.

- While the IESBA indicated one of the mandatory PIE categories under paragraph R400.14 in the Code includes an entity whose main function is to take deposits from the public, the IESBA also noted that such a change will be subject to refinement by the relevant local bodies responsible for standard setting as part of the adoption and implementation process. As such, the potential lack of global consistency in treatment will have carrying effects impacting the financial statement audit of a PIE and create adoption and implementation issues to be resolved. For example:
  - In the United States (U.S.), the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), as amended, only requires financial institutions with over \$500 million in assets to obtain an independent public accountant's report on audited financial statements that will be filed with the U.S. Federal Deposit Insurance Corporation (FDIC) (i.e., they would be publicly available). However, auditors of financial institutions with assets under the \$500 million threshold could nevertheless have applied the relevant ethical requirements for a PIE in conducting the audit, but the related auditor's report disclosing such information may not be readily or publicly available.
- We have also anticipated the following challenges that the IAASB will need to address through implementation guidance:
  1. What are the consequences to the audit if the audit firm voluntarily treats an entity as a PIE but those charged with governance (TCWG) disagree?
  2. What are the consequences if the entity or TCWG wants the entity to be treated as a PIE, but the audit firm does not treat the entity as a PIE?
  3. What are the risks and responses of firms or entities incorrectly using the PIE designation for purposes of the audit?
    - For example, an entity may want to be treated as a PIE because of the ability to qualify for certain forms of governmental financial assistance or because they might qualify for certain legal liability protections. In turn, the audit firm does not apply sufficient professional judgment and skepticism and permits the designation of the entity as a PIE in the auditor's report.

Some of these questions may be sufficient to address in the form of an IAASB Staff Q&A; however, other questions may be more appropriately addressed by the IAASB by amending certain ISAs such as ISA 210, *Agreeing the Terms of Audit Engagements*, and ISA 580, *Management Representations*.

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*Stakeholder Educational Materials*

We recommend the IAASB issue non-authoritative guidance that enables firms to have discussions with interested stakeholders about the proposed revisions to ISA 700 (Revised). The objective of the suggested resources would take into consideration the following:

- Be easily accessible to the public and follow CUSP principles.
- Link, as applicable, the ISA implementation guidance to the IESBA PIE roll-out.
- Educate audit firms on how to talk to stakeholders about changes to their independence requirements.
- Address National Standard-Setter “authority” considerations that may apply contextually to different regions, jurisdictions, and stakeholder groups.