



Update: Listed Entities and Public Interest Entities

Andrew Prather, ASB Task Force Chair

Presentation at the October 2022 ASB Meeting

ASB PIE Task Force

- Andrew Prather (ASB member and *Chair*)
- Jennifer Clayton (AICPA PEEC Staff)
- Renee Rampulla (ASB member)
- Tania Sergott (ASB member)
- Heather Funsch (TIC liaison)
- Staffed by Brian Wilson, assisted by Jordyn Joseph

Discussion Focus

IAASB Track 1 Comment Letter

PEEC PIE Update

IAASB Track 2

- Current IAASB Differential Requirements for PIEs
- Directional input to IAASB

ASB Matters

- Questions for ASB

Key Takeaways: Track 1 Comment Letter

Transparency in the Auditor's Report	<ul style="list-style-type: none">• Our support for the proposed auditor reporting approach is conditional on accessibility of the auditor's report (and financial statements) for the stakeholders the IAASB and IESBA intend to serve
Review Engagements	<ul style="list-style-type: none">• We did not support extending the proposed reporting approach for PIEs in a review engagement
Matters to be address with the final revisions to ISA 700 (Revised) and ISA 260 (Revised)	<ul style="list-style-type: none">• We identified several application issues that we believe must be addressed in the proposed revised standards• We also offered observations and recommendations in the development of IAASB implementation material
Stakeholder Education	<ul style="list-style-type: none">• We asked the IAASB to issue stakeholder educational resources that explains the changes to ISA 700 (Revised) and ISA 260 (Revised). We provided several observations and recommendations to support that effort
Pro Forma Auditor's Report	<ul style="list-style-type: none">• We urged the IAASB to develop a comprehensive <i>pro forma</i> 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

Upon further analysis by the TF, the ASB's comment letter evolved from the direction expected in July 2022. Notably:

- Auditor reporting transparency conditioned on accessibility
- Excluding review engagement reports
- The need for more robust AM and implementation guidance concurrent with the final revisions to ISA 700 (Revised)

PEEC PIE Update

PEEC is considering whether:

- How to refine and add mandatory PIE categories
- How to approach evaluation of whether an entity is a PIE
- To require practitioner transparency

Looking ahead:

- PEEC will provide input on a draft revised PIE definition during its November 10, 2022 meeting
- Targeted exposure timeline should be clearer after the November 2022 PEEC meeting

IAASB Track 2 Objectives

1

Converge revised definitions and key concepts in the IESBA Code to the ISQMs and ISAs regarding listed entities and PIEs

2

Establish guidelines to support the IAASB's differential requirements for PIEs (see next slide)

3

Amend current differential requirements for listed entities in the ISQMs and ISAs as needed to enhance audit performance and improve stakeholder confidence for certain entities

IAASB Track 2 Objectives: Establishing Guidelines



Develop need for a differential requirement (DR)



Adopt IESBA's overarching objective on establishing DRs



Develop a tailored objective to explain purpose



Determine how the objective should be addressed in ISAs & ISQMs



Determine appropriate form and location of objective guidelines

Through July 2022 the ASB has raised some concern financial statement users may interpret that non-PIEs have lesser quality of assurance

Current IAASB Differential Requirements for Listed Entities

Communicating	Communicating with TCWG about the system of quality management and establishing policies or procedures that address the selection of engagements for engagement quality review in accordance with ISQM 1
Communicating	Communicating with TCWG about auditor independence in accordance with ISA 260 (Revised), Communication with Those Charged with Governance
Reporting	Reporting on specific matters for audits of financial statements of listed entities in accordance with ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements
Communicating	Communicating key audit matters in the auditor's report in accordance with ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report
Reporting	Reporting specific matters regarding other information for audits of financial statements of listed entities in accordance with ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information

Current ASB Task Force Views on Extending Extant IAASB DRs to PIEs

Communicate with TCWG about QM systems

- Undecided – will this requirement add value for PIEs?

Communicate with TCWG about independence

- Appropriate to extend to PIEs as it aligns with Track 1

Report other information in accordance with ISA 700

- Do not extend KAMs and audit partner name requirements to PIEs

Report KAMs in accordance with ISA 701

- Do not extend KAMs requirement to PIEs

Report other information in accordance with ISA 720

- Undecided – what is nature and extend of other information of PIEs?

The ASB's PIE TF has begun initial discussions about whether extant IAASB DRs could be applied to non-issuer PIEs in the U.S.

Questions for ASB

- What's our driver moving forward?
 - Refer to the Appendix illustrating the PEEC/ASB Decision Tree from July 2022
 - Do we wait to react to PEEC's actions, or should we be proactive?

Next Steps

Upcoming ASB Task Force Activities

- Monitor the IAASB's response to suggestions from the Track 1 comment letters
- Continue to provide feedback to the IAASB on Track 2 through IASTF/ASB meetings
- Continue to monitor the PEEC PIE project and react
- ASB PIE TF meetings scheduled for the remainder of 2022:
 - November 29 (discuss December IAASB materials)
 - Other TF meetings:
 - Pacing IAASB PIE timeline and plenary meetings
 - ASB focused meetings – pending ASB input

What to Expect in 2023

- The IAASB plans to vote Track 1 final in Q2 2023
- The ASB will write a comment letter to the IAASB after issuance of the Track 2 exposure draft expected circa September 2023
- ASB focus – pending discussion of what the core driver is moving forward

Appendix

Key Decisions Needed by PEEC and ASB

Key:

Blue box = PEEC Action

Maroon box = ASB Action

Red box = Urgent

Yellow box = Caution

IESBA's PIE Definition: A firm shall treat an entity as a public interest entity when it falls within any of the following categories:

- a) A publicly traded entity;
- b) An entity one of whose main functions is to take deposits from the public;
- c) An entity one of whose main functions is to provide insurance to the public; or
- d) An entity specified as such by law, regulation or professional standards to meet the purpose described in 400.10.

IESBA Transparency Requirements:

Audit firms must explicitly disclose whether the firm has applied the applicable independence requirement under the relevant ethical framework

IAASB Requirements: TBD

1. Will PEEC change AICPA's definition of PIE?

Yes

No

Or delayed

2. Will PEEC develop a transparency requirement?

Yes

No

Or delayed

3. ASB action to address transparency is necessary

4. ASB action to converge with IAASB change in auditor's report is possible but unlikely

AICPA PIE Definition: All of the following:

- a) All listed entities, including entities that are outside the United States whose shares, stock, or debt are quoted or listed on a recognized stock exchange or marketed under the regulations of a recognized stock exchange or other equivalent body.
- b) Any entity for which an audit is required by regulation or legislation to be conducted in compliance with the same *independence* requirements that apply to an audit of listed entities (for example, requirements of the SEC, the PCAOB, or other similar regulators or standard setters).

AICPA Transparency Requirements:

Ethics Code: TBD

AU-C Section 700 para .28c and A39 state:

- The report is required to include a statement that the auditor is required to be independent of the entity and to meet the auditor's other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audit.
- When independence and other relevant requirements are contained in a limited number of sources, the auditor may choose to name the relevant sources.