INTERNATIONAL FORUM OF INDEPENDENT AUDIT REGULATORS

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International Auditing and Assurance Standards Board

To: Mr. Thomas R. Seidenstein (Chair)

529 Fifth Avenue

New York, NY 10017

USA

Submitted electronically

27 September 2022

Subject: Comments on the IAASB Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised)

Dear Mr. Seidenstein,

1. The International Forum of Independent Audit Regulators (IFIAR) appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB) request for comments on its Exposure Draft *Proposed 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 an international organization of independent audit oversight regulators that share the goal of serving the public interest and enhancing investor protection, IFIAR is committed to improving audit quality globally through the promotion of high-quality auditing and professional standards, as well as other pronouncements and statements.
2. IFIAR's objectives are as follows:
    - Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity, with a focus on inspections of auditors and audit firms.
    - Promoting collaboration and consistency in regulatory activity.
    - Initiating and leading dialogue with other policymakers and organisations that have an interest in audit quality.
    - Forming common and consistent views or positions on matters of importance to its members, while considering the legal mandates and missions of individual members.
3. The comments we provide in this letter reflect the views expressed by many, but not necessarily all, members of IFIAR. However, the comments are not intended to include, or reflect, all the views that might be provided by individual members on behalf of their respective organisations.
4. Where we did not comment on certain specific matters, this should not be interpreted as either approval or disapproval by IFIAR.

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Overall comment

5. We welcome IAASB's initiative aimed at enhancing the requirements in ISA 700 (Revised) and ISA 260 (Revised). We also support the revision of provisions in these ISAs to allow for compatibility or operationalize the changes to the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code of Ethics) that require a firm to publicly disclose when a firm has applied the independence requirements for Public Interest Entities (PIEs). These efforts represent a step forward to enhancing confidence and public trust in the audit profession. Our comments highlight areas where the proposed requirements could be strengthened.

Transparency on independence requirements

6. The IAASB proposed a "conditional" requirement for auditors to publicly disclose when differential independence requirements for audits of financial statements of certain entities were applied. However, IFIAR would support a "non-conditional" requirement as proposed in paragraph 19 (b) of the explanatory memorandum as it would provide a greater level of transparency and be in the public interest, for the following reasons:

    a. A "non-conditional" requirement in ISA 700 (Revised) to disclose the specific independence requirements the auditor complied with, including which version of those independence requirements was applicable, would provide the greatest level of transparency for users of the financial statements to understand the independence standards that were applied.

    b. IFIAR observes differences in independence requirements across its members. These variations may occur due to jurisdictions that have additional local requirements or because there is a delay between when International Ethics Standards Board for Accountants (IESBA) finalizes a standard and when it is fully adopted. Even where the auditor's report is issued in a jurisdiction that has fully adopted the IESBA Code of Ethics, it is possible that the definition of what constitutes a PIE can vary among jurisdictions. Auditors may be required to comply with multiple independence requirements from different sources and with different versions of those requirements when performing an audit of financial statements.

    c. Disclosure of the independence standards applied by the auditor could still be made for all entities without disclosing confidential plans of the entity by only requiring the disclosure of the minimum ethical and independence standards the firm is required to comply with in the performance of the audit. 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 (minimum level required), even though in practice the PIE independence requirements would have been applied where the audit firm planned to continue as the entity's auditor. Such a requirement should also allow the auditor to optionally disclose additional independence standards applied (i.e., independence standards the auditor has voluntarily complied with).

7. We recommend aligning the proposed ISA 260 (Revised) application material on disclosing which independence requirements were applied to the requirement in ISA 700 (Revised). Specifically, we believe the proposed amendments to the application material of ISA 260 (Revised) may not, in all circumstances, achieve the desired increase in transparency. This is because proposed paragraph A29 of ISA 260

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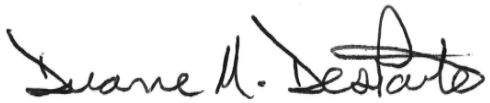
(revised) states that the disclosure may include which independence requirements were applied, including whether differential independence requirements were applied; however, it does not require such a disclosure. In contrast, the proposed amendments to ISA 700 (Revised) would require the auditor to include in the auditor's report where differential independence requirements were applied where such a disclosure is required by the relevant ethical requirements. The information reported to those charged with governance should be at least equivalent to information required to be disclosed in the auditor's report.

Other comments

8. If the IAASB uses the principle of *"differential independence requirements for certain entities"*, IFIAR would recommend defining that term.
9. Furthermore, IFIAR encourages IESBA and IAASB to continue their cooperation and to work on the provisions requiring that the auditor sufficiently and appropriately assesses, evidences and documents the identification of threats to independence.

Please do not hesitate to contact me or Martijn Duffels, Chair of the IFIAR Standards Coordination Working Group (SCWG), to discuss any of our comments.

Yours faithfully,



Duane DesParte, IFIAR Chair

Cc: Takashi Nagaoka, IFIAR Vice Chair
Martijn Duffels, SCWG Chair
Carl Renner, IFIAR Executive Director