

4 October 2022

Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, 10017  
USA

Dear Willie,

***IAASB ED Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) to operationalise the IESBA transparency requirement in the Code***

Thank you for the opportunity to comment on IAASB ED *Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) due to recent revisions to the IESBA Code*.

We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) on the questions raised in the exposure draft (the ED).

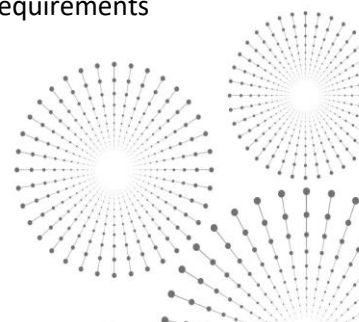
The External Reporting Board (XRB) is a crown entity responsible for developing and issuing accounting and auditing and assurance standards, including professional and ethical standards, in New Zealand. The XRB's goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards.

We acknowledge that the auditor's report is the most appropriate mechanism for the IAASB to operationalise the IESBA Code requirement to publicly disclose when the auditor has applied the specific independence requirements for certain entities. However, while we are supportive of transparency, we have some concerns with the proposals.

We are concerned that with this narrow scope project and other projects where the IAASB is exploring adding more to the auditor's report (for example, the projects on Going Concern and Fraud), there is the potential to overload the audit report with boilerplate information. Overloading the audit report in this way has the potential to obscure other useful information in the report. This appears to be a move away from the objectives of the recent project to revise the auditor's report to enhance relevance and communicative value for users.

We consider that the proposed audit report amendments in the ED are of limited value to users. The amendments assume that audit report users are fully informed about the independence requirements to be applied by firms to the audit of a public interest entity (PIE). We encourage the IAASB to consider whether users might find it more useful and relevant if information about what it means when the auditor has treated an entity as a PIE is provided rather than simply reporting when the PIE independence requirements have been applied.

We also consider that there is a risk that users may misinterpret this transparency as meaning some auditors are 'more independent' than others. This could then have a detrimental effect in the confidence in audits that are conducted for non-PIE entities. Therefore, it is important that the disclosure in the audit report enhances user's understanding of the PIE independence requirements rather than simply stating that they have been applied.



Instead of considering each of the current proposals for additional audit report disclosures on a stand-alone project by project basis, the NZAuASB strongly encourages the IAASB to holistically review all potential changes to the content of the auditor's report currently under consideration (IESBA Code transparency disclosure, Going Concern, Fraud). The purpose of this would be to assess how useful a longer and more detailed audit report will be to users should all the proposed changes across these projects come into effect.

On the specific matters for comment relating to review engagements, we think consistency across audit and review reports is desirable. However, given the nature of public interest entities it is more likely that their financial statements will be subject to audit. If they are subject to a review engagement, it will likely be in accordance with ISRE 2410 rather than ISRE 2400 (Revised).

In New Zealand, we have adopted ISRE (NZ) 2400 (Revised). We have not adopted ISRE 2410, however we have NZ SRE 2410 (Revised) which is based on the Australian standard ASRE 2410.

If the IAASB is to update the review engagement standards to address transparency about the relevant independence requirements for certain entities in an approach consistent with ISA 700 (Revised), we think the appropriate and more relevant standard to update is ISRE 2410. As this standard has not been updated since 2006, we encourage the IAASB to add a project to its work plan to update ISRE 2410 and at the same time include amendments to address transparency about requirements for independence in an approach consistent with the revisions in ISA 700 (Revised).

Should you have any queries concerning our submission please contact either myself at the email address provided below or Misha Pieters ([misha.pieters@xrb.govt.nz](mailto:misha.pieters@xrb.govt.nz)).

Yours sincerely,



**Marje Russ**  
**Chair, NZAuASB**  
Email: [MRuss@tonkintaylor.co.nz](mailto:MRuss@tonkintaylor.co.nz)

**Submission of the New Zealand Auditing and Assurance Standards Board  
IAASB ED Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260  
(Revised) to operationalise the IESBA transparency requirement in the Code**

**Request for Specific Comments**

**Q1. Do you agree that the auditor's report is the appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as independence requirements for PIEs in the IESBA Code?**

**Response**

1. We recognise that to operationalise the IESBA's transparency requirement for differential independence requirements, the most appropriate mechanism currently available to the IAASB is to amend ISA 700 (Revised) and require disclosure in the auditor's report.
2. However, we encourage the IESBA to consider alternative mechanisms, other than the auditor's report, that would meet the IESBA Code's transparency requirement for publicly disclosing when the auditor has applied the relevant ethical requirements for independence for certain entities (such as a public interest entity (PIE)). This would ensure sufficient consideration has been given to other (perhaps even new) mechanisms for disclosure.
3. We are concerned that the impact of this and several other current IAASB projects (e.g., Fraud and Going Concern) will be to load the audit report with too much information.

*Cumulative audit report content compromises understandability and utility for users*

4. The potential cumulative effect of these combined projects will be to increase the length and complexity of the auditor's report. This may contribute to a reduction in understandability and/or utility for users of the report.
5. Instead of considering each of the current proposals for additional audit report disclosures on a stand-alone project by project basis, the NZAuASB strongly encourages the IAASB to holistically review all potential changes to the content of the auditor's report currently under consideration (e.g., IESBA Code transparency disclosure, Going Concern, Fraud). The purpose of this would be to assess how useful a longer and more detailed audit report will be to users should all the proposed changes across these projects come into effect.

*Proposed audit report PIE disclosures of limited value to users*

6. We consider that the proposed audit report PIE disclosures are of limited value to users. The amendments assume users are fully informed about the independence requirements to be applied for the audit of a PIE.
7. We encourage the IAASB to consider whether users might find it more relevant and useful if information about what it means when the auditor has treated an entity as a PIE is provided. If such disclosure is to be added to the auditor's report, we consider it might be of more value to users if the disclosure in the audit report enhances user's understanding of the PIE independence requirements rather than simply stating that they have been applied.

8. We also note that the proposed disclosure may lead to a perception that there are two levels of independence (i.e., a higher level for public interest entity audits and a lower level for the audit of other entities). This could have a detrimental effect in the confidence in audits that are conducted for non-PIEs.
9. Unless users clearly understand the distinction being made about the differential independence requirements, the proposed additional disclosure in the auditor's report is unlikely to increase the level of confidence in the audit or assist users in assessing the independence of the audit firm.

**Q2. Please answer question 2A or 2B based on your answer to question 1:**

**2A. If you agree:**

- (a) **Do you support the IAASB's proposed revisions in the ED to ISA 700 (Revised), in particular the conditional requirements as explained in paragraphs 18-24 of the Explanatory Memorandum?**
- (b) **Do you support the IAASB's proposed revisions in the ED to ISA 260 (Revised)?**

**2B. If you do not agree, what other mechanism(s) should be used for publicly disclosing when a firm has applied the independence requirements for PIEs as required by paragraph 400.20 of the IESBA Code?**

#### **Response**

10. As outlined above, given our concerns about loading the audit report with too much information, we encourage the IESBA to consider alternative mechanisms for the disclosure of differential independence requirements, other than the auditor's report.
11. However, if the IAASB proceeds with the proposed amendments, we are supportive of the IAASB's conditional requirement approach to disclosure in the audit report as part of its proposed revisions to ISA 700 (Revised) and the proposed revisions to ISA 260 (Revised).

**Q3. 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?**

**Q4. 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**

12. We think that consistency across audit and review reports is desirable, however given the nature of public interest entities it is more likely that their financial statements will be subject to audit. If they are subject to review, it will likely be in accordance with ISRE 2410 rather than ISRE 2400 (Revised).
13. Therefore, if the IAASB is to update the review engagement standards to address transparency about the relevant ethical independence requirements for certain entities in an approach consistent with ISA 700 (Revised), we think the appropriate and more relevant standard to update is ISRE 2410.

14. As ISRE 2410 has not been updated since 2006, we encourage the IAASB to add a project to its work plan to update ISRE 2410 and to propose amendments to the revised standard consistent with ISA 700 (Revised) to address transparency about the ethical requirements for independence.

**Matter for IESBA Consideration**

***Q5. 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**

15. In New Zealand, we have adopted ISRE (NZ) 2400 (Revised). We have not adopted ISRE 2410, however we have NZ SRE 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* which is based on the Australian standard ASRE 2410.
16. NZ SRE 2410 (Revised), paragraph 36(c) requires the Basis for Conclusion section of the auditor's review report include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.
17. As outlined above as ISRE 2410 is the most relevant to review engagements for PIEs, but has not been updated for some time, the NZAuASB encourages the IAASB to add the update of ISRE 2410 to its workplan to update the standard and propose amendments to it consistent with ISA 700 (Revised).

**Request for General Comments**

18. We do not have any comments on question 6 relating to translations.

***Q7. Effective date – Given the need to align the effective date with IESBA, do you support the proposal that 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?***

19. We understand the importance of aligning the effective date for the amendments to ISA 700 (Revised) and ISA 260 (Revised) with the IESBA Code and amendments and agree with the proposed effective date as explained in paragraph 26 of the Explanatory Memorandum.