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31 May 2024

Submission on Consultation Document - proposal to expand the application of the differential requirements in the International Standards on Auditing (New Zealand) and Professional and Ethical Standards to Public Interest Entities

Dear Sir / Madam

Ernst & Young New Zealand (EY) welcomes the opportunity to provide comments on the XRB's proposal to expand the application of the differential requirements in the International Standards on Auditing (New Zealand) and Professional and Ethical Standards to Public Interest Entities.

As this relates to international standards, our EY Global Assurance Standards and Global Professional Practice (EY Global) has also responded to the International Auditing and Assurance Standards Board (IAASB) directly on the proposals. To avoid duplicating EY Global's comments through this local response, we refer the XRB to our EY Global response, which is appended to this letter. We have not included direct comments on the exposure draft beyond the questions asked by the XRB.

Our responses below to the questions posed by the XRB are limited to the application of these proposals in the New Zealand environment.

1. Do you agree that the same definition of public interest entity should be used for the auditing and assurance standards and the professional and ethical standards? If not, please explain why not?

On the face of it, the proposal by the IAASB to apply the definition of Public Interest Entity (PIE) currently used in the IESBA International Code of Ethics for Professional Accountants to auditing assurance standards appears logical. However, the current PIE definition was established for independence purposes, not for application of auditing requirements. As a result, and given the New Zealand specific PIE definition, we do not consider that the current PIE definition is fit for purpose to be adopted in relation to differential auditing requirements. The reasons for this are explained further below. We therefore believe that if this proposal is adopted internationally and is being considered for implementation in New Zealand, the PIE definition in New Zealand should be revisited.

We have provided comments in section 4 below regarding our practical experience of the PIE definition in New Zealand and suggest a potential solution to how the PIE definition might be amended for New Zealand to alleviate the imposition of additional audit requirements on entities where they may be considered unnecessary.

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2. For each of the following differential requirements, do you agree with the proposal to extend the application to public interest entities? If not, please explain why not and why in your view it is not in the public interest to do so.

- ▶ Mandatory engagement quality review (EQR)

We are strongly of the view that extending the requirement for an EQR to all PIEs would be an unnecessary burden for the audits of most large public benefit entities (PBEs) and large for profit public sector entities. This opinion is based on three main issues: contribution to audit quality, additional cost burden and rotation requirements restricting availability of auditors to the sector.

Contribution to audit quality

The role and principal value of an EQR to an audit is their contribution to improving/ensuring audit quality through their review and challenge of the audit work in areas of complexity, key risks and the judgements made during an audit.

Those public sector PBEs, large for profit public entities and large charities, which are not already subject to EQR appointment (currently generally by OAG criteria), are generally simple entities with comparatively little complexity or subjectivity in their reporting/audit. In these cases, the role of the EQR provides significantly less incremental value and change or challenge to the audit than it does in a complex or subjective audit.

Additional cost burden

Performance of EQR duties in accordance with ethical and auditing standards takes a significant amount time by senior resources and adds significant incremental cost. While the time taken on less complex entity audits is generally less than on complex audits, there is a minimum commitment required to fulfil the extensive requirements of an EQR. As a result, the appointment of an EQR is a significant additional cost for the audit and audit fees would increase for those entities if an EQR is required. Increased audit fees would be particularly problematic in the charities sector where cost pressures are acute. Coupled with the limited (and likely nil) impact on audit quality, we consider the cost impact outweighs the potential benefit.

Rotation

The appointment of EQRs to all PIEs combined with the rotation requirements for PIEs may significantly reduce the availability of auditors to charities. Smaller firms in the New Zealand market may not have sufficient partners to meet the EQR and rotation requirements for all PIEs which would limit the availability of providers in the sector (with any firm with 3 or fewer partners effectively unable to audit these charities for more than one rotation, making them highly unappealing). In addition, the rotation impacts on larger firms would also create challenges. While larger firms have sufficient partners to enable rotation, only a small number of partners work on charities and thereby suitable EQR resources are very limited. The resulting complexity and time burden will make large charity audits less appealing, and firms may reconsider whether to continue servicing and/or taking on new clients in this sector.

- ▶ Required communications with those charged with governance about the firm's system of quality management

These communications would not be difficult or costly to achieve and therefore we are not significantly concerned about their application to all PIEs. We do however query the benefit of these communications to the entities potentially receiving them.

- ▶ Communications about auditor independence

These communications are not difficult or costly to achieve for these types of entities. However, as we note below in section 4, we provide almost no non-assurance or non-audit services to large PBEs, and suspect other firms are similar. These requirements are therefore largely redundant.

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- ▶ Communicating key audit matters in the auditor's report

In our view, Key Audit Matters (KAMs) are of significant benefit to the reader's understanding of the audit process and findings in instances where they are making significant financial decisions based on those financial statements. For listed or regulated entities (such as banks), this extends to analysts and regulators. However, the presentation of a KAM does come at an additional cost to the audit. We believe that careful consideration should be given to any extension of the entities to which the requirement for KAMs is applied.

An additional consideration in relation to entities which report service performance information is that KAMs may be in relation to this element of reporting as well as the financial elements of the reporting. This is not currently a common occurrence and so it is likely that consideration of these and writing them appropriately will take longer (and so be more costly) than more familiar financial statement KAM areas. We consider there is a significant risk that they become "boilerplate" and so have lesser value than they might otherwise do.

We believe that KAMs are of limited benefit to the large PBEs and public sector for profit entities sectors for the following reasons:

- ▶ Audit Committees, management, the OAG and Ministers (where relevant) are in a position to receive detailed information about the conduct of the audit through Audit Committee reporting and directly from the auditors. KAMs would not be a method used by management, or those in a fiduciary capacity, to obtain any additional information as regards the audit process.
- ▶ In relation to large charities, we believe that the use of financial reporting is very limited. Many large charities are funded by organisations (government or funding trusts) which have the ability to obtain any financial information they require. Public donors (where there are any) generally do not consider the financial statements prior to offering donations/funding. Even if they do, additional commentary in the audit report is likely to be valued by an even smaller subset of donors.
- ▶ Many of the entities the requirement for KAMs would be extended to are simple entities with limited audit complexity and judgements. As noted above, KAMs could become "boilerplate" in these situations which would lessen their value.

We also note that larger firms will already have the experience and processes in place for writing KAMs. Smaller firms may not have the same experience and processes and as such these audits may become less attractive to smaller providers.

- ▶ Name of the engagement partner

These communications would not be difficult or costly to achieve and therefore we are not significantly concerned about their application to all PIEs.

3. Do you agree that the benefits of the proposals outweigh the expected costs? If not, why not?

We do not agree that the benefits of the proposals outweigh the expected costs. Please see our detailed responses above. In our view, as the PIE definition is currently written in New Zealand, these requirements will significantly increase the audit costs for the impacted entities with little or no additional benefit. The additional costs will largely be driven by the extended requirement for EQR and KAMs. We also believe that these proposals will limit the availability of auditors for the impacted sectors due to rotation requirements.

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4. Are there any other significant public interest matters that you wish to raise?

When the NZAuASB consulted on the definition of PIE in New Zealand (NZAuASB 2022-2 *Proposed revisions to the definitions of Listed Entity and Public Interest Entity in PES 1*), the current proposals had not been publicised, nor were they expected. The responses provided to the NZAuASB may have been significantly different had these proposals been known at the time. If the proposals above are advanced internationally, we believe it would be appropriate to re-consult on the NZ PIE definition and so to re-consider the nature and scale of entities included in this. It is particularly important that the NZ PIE definition is retested against compelling reasons test in the NZAuASB's *Policy and Process for International Conformance and Harmonisation of Standards*. When the current NZ PIE definition was first established and the extension of the international definition was assessed against this test, the extent of the requirements related to PIEs which are now being proposed were not known. We consider it essential that any extension of the requirements for PIEs is retested, particularly considering requirements 14.c and 14f and 15 of the compelling reasons test.

We provide comment below regarding our practical experience of the New Zealand PIE definition as it relates to PBEs and provide a suggested solution for amendment to the definition.

As detailed in our previous response to NZAuASB 2022-2 *Proposed revisions to the definitions of Listed Entity and Public Interest Entity in PES 1*, we believe the New Zealand PIE definition is overly broad. We do not seek to repeat our previous submission here. In addition to the matters we raised in that submission, we provide the following points:

Funding of large charities

We understand that one of the reasons for the XRB to include large charities within the PIE definition is to address the perception of fiduciary duty created by the accepting of public money as donations. We do not agree that the majority of large charities in New Zealand owe a particular fiduciary duty to the public, given many charities do not receive any public funding or the funding from donations is a very minor part of their income. We currently audit approximately 30 large charities in broadly the following categories:

Category of charity	Main source of funding
Non-governmental organisation which provides services within their community through contracts with government agencies	Government contracts. The government agencies are able to perform their own due diligence and receive required reporting on the use of their funds through the contract terms.
Self funded charities where the operations are funded by a business the charity runs, or a legacy asset base	For profit entities owned and controlled by the charity or previously accumulated/donated funding base. These entities are not taking public money.
Industry bodies	Funded through levies on the industries they represent.
Churches and related organisations	High asset bases with income largely from assets such as investment income or schools. Some income is from donations at the parish level although the stakeholders are interested in the services provided by (and possibly financial position/performance of) the particular parish and not the consolidated "umbrella" entity which would be subject to PIE reporting requirements.
Public Benefit Entities within Maori Trusts	Funded by the investment or business holdings of the trust.



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Non audit services provided to charities

Based on our experience, we believe removing public sector PBEs and large charities from the PIE definition in New Zealand would have little impact on the ethical behaviour of those firms serving them for the following reasons:

- ▶ The OAG regulates the provision of other services to public sector entities by their professional advisors.
- ▶ Very limited non-assurance services are provided to charities as such organisations are relatively simple and they often do not have the resources to engage professional advisors.

Suggested solution

If it is seen as undesirable to remove large PBEs and public sector for profit entities from the ethical standards they are currently subject to, they could be removed from the definition of PIE but the requirements relating to PIEs in the New Zealand ethical standards could be amended to apply to "PIEs and large PBEs and large public sector for profit entities". Under this approach, the current ethical requirements applicable to these large PBEs and large public sector for profit entities would remain and the expanded auditing requirements proposed for PIEs would not apply to these entities.

We welcome the opportunity to contribute to the improvement of Auditing and Assurance Standards that will continue to drive the quality and consistency of such services in New Zealand. We would be pleased to discuss our comments if this is helpful. Should you wish to do so, please contact Simon Brotherton at simon.brotherton@nz.ey.com or on 027 294 3421.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S Brotherton', written in a cursive style.

Simon Brotherton
Partner

Enclosures

1. Ernst & Young Global Limited response to the Exposure Draft (ED), Proposed Narrow Scope Amendments to International Standards on Quality Management (ISQMs), International Standards on Auditing (ISAs) and International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statements, as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code (ED-PIE), issued by the International Auditing and Assurance Standard Board (IAASB).



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8 April 2024

Mr. Willie Botha
IAASB Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th floor
New York, New York 10017

Exposure Draft: Proposed Narrow Scope Amendments to ISQMs, ISAs And ISRE 2400 (Revised) as a Result of the Revisions to the Definitions of Listed Entity and PIE in the IESBA Code

Dear Mr. Botha,

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the Exposure Draft (ED), *Proposed Narrow Scope Amendments to International Standards on Quality Management (ISQMs), International Standards on Auditing (ISAs) and International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statements, as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code (ED-PIE)*, issued by the International Auditing and Assurance Standard Board (IAASB).

Paragraph 19 of the ED-PIE states that respondents to relevant IAASB matters addressed in the International Ethics Standards Board for Accountants (IESBA) PIE Exposure Draft encouraged the IAASB and the IESBA to seek consistency and alignment of important concepts and definitions used in the respective Boards' standards, and in doing so, supported alignment in the types of entities to which differential requirements apply. This intended alignment was the basis for our initial support for this initiative; however, we are now concerned whether this alignment really can, or should be pursued further, due to the IESBA's recent clarifications regarding the intended implementation of the IESBA definition of PIE.

At its 20 March 2024 plenary session, IESBA further discussed and confirmed the implementation of its *Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (IESBA Code Revisions). IESBA confirmed agreement with both the conclusion in the IESBA staff issued *Staff Questions and Answers; March 2023 - Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (IESBA FAQs) and Agenda Item 8-A *PIE Rollout Issues and Working Group Views* prepared for the March 2024 IESBA meeting (IESBA Agenda Item 8-A). This included confirming IESBA's intent to depart from its normal practice of promulgating the precise definitional boundaries in the Code and instead allowing the relevant local bodies to more precisely define which entities should be included as PIEs.

In addition, IESBA Agenda Item 8-A clearly states in paragraph 27, "that, for this specific project, compliance with the IESBA Code by firms (any firm, including those in an association of firms that are



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committed to complying with the Code, such as a member firm of the Forum of Firms) *means first and foremost compliance with local laws and regulations*, whatever they may be at the time of the audit report” (emphasis added). Paragraph 32 of that same paper clearly states that this conclusion applies even when the local body is still undergoing or has not yet initiated the process of adoption and implementation of the IESBA Code Revisions. It is our understating that as a result of the 20 March plenary session, IESBA intends to further communicate this by issuing a new FAQ.

This recent clarification (and impending FAQ) that firms should apply the local definition of PIE, regardless of whether it contains all the categories of PIEs within the IESBA definition, to comply with the IESBA Code appears to be a more significant departure from normal practice than the IAASB understood during its development of the ED-PIE. This departure raises concerns as it may result in differences in the application and implementation of the IESBA Code Revisions and the ED-PIE because the IAASB has not expressed the same intent to significantly depart from its normal practice of establishing a baseline definition.

Instead, the proposed requirement in ISQM 1 paragraph 18A implies that the firm shall treat an entity as a PIE in accordance with the definition in paragraph 16(p)A *as well as* more explicit definitions established by law, regulation and professional requirements.

Based on the way the definition is drafted in the ED-PIE, we do not believe it was the intent of the IAASB for the definition of PIE in the jurisdiction to fully take precedence over the baseline definition in the IAASB standards. We read the IAASB’s ED-PIE as having the intention that the PIE definition as proposed would be the baseline expected to be enforced by auditors, even when local bodies have not adopted the PIE definitions into local law or regulation, which is inconsistent with the implementation of the definition in the IESBA Code Revisions.

Unsupportive of the adoption of the definition of PIE at this time

The recent clarification of the implementation approach adopted by IESBA highlights the challenges that exist in setting a global definition of PIE that is dependent upon jurisdictions to adopt and/or refine a definition. We strongly agree that the jurisdictions are best placed to determine the PIE definition; however, many jurisdictions have not taken action or actions being taken will not be effective by the IESBA revisions effective date of 15 December 2024. We, therefore, question the viability of the IAASB aligning with IESBA’s clarified implementation approach that the auditor apply the definition of PIE that is in effect at the jurisdiction level. This would be a significant departure from the IAASB’s normal practice of setting global baselines and we believe this approach needs to be further evaluated by the IAASB to determine the consequences for its standards (refer to our response to Q2 for our views on likely unintended consequences).

On balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE and instead should further reflect on the IESBA implementation approach, conduct its own outreach to jurisdictions to understand the consequences of applying local PIE definitions in the context of the IAASB standards and determine the appropriate approach for the IAASB standards (refer to our suggestions for potential path forward in our response to Q2).



Unsupportive of the adoption of the definition of “publicly traded entity” at this time

We do support the concept of converging with the IESBA Code's definition of “publicly traded entity”, replacing the existing definition of “listed entity”, as we believe the proposed definition of “publicly traded entity” is capable of consistent implementation by auditors and can result in consistent implementation across jurisdictions (regardless of the actions in the jurisdiction). However, because the definition of publicly traded entities is integral to the definition of PIE, we believe that any decisions to adopt the definition should not be made until the IAASB determines its direction for the PIE definition based on the challenges we outline above and in our response to Q2.

Other significant comments for the IAASB's consideration

As explained in our response to Q3C, we question the necessity of expanding the applicability of the existing requirement regarding communicating to those charged with governance a statement about the auditor's independence in paragraph 17 of ISA 260 (Revised) from audits of listed entities to audits of all entities. We do not believe this change is necessary as a statement of the auditor's independence is clearly made in the auditor's report. We also do not think it is appropriate for a 'narrow scope' project specific to audits of public interest entities to impose new requirements for audits of entities other than public interest entities.

As explained in our response to Q6, we strongly suggest that the IAASB publicly communicate (concurrently with the IESBA's issuance of its new FAQ, if possible) its views on the effects of the confirmed IESBA implementation approach on the ED-PIE and the IAASB's intended next steps. It would be helpful for the IAASB to explain to its stakeholders, and the respondents to the ED-PIE, the differences between the implementation of the IESBA and IAASB standards and the implications for entities and their auditors, as well as for users of the auditor's report.

We also believe it is important for the IAASB to communicate that the listed entity definition currently in the IAASB standards remains in effect until any revisions to the IAASB standards are adopted, regardless of the auditor's treatment of the entity for purposes of independence under the revised IESBA Code.

Our responses to the specific questions on which the IAASB is seeking feedback are set out below.



Objective for Establishing Differential Requirements for PIEs

Q1. Do you agree with establishing the overarching objective and purpose for establishing differential requirements for PIEs proposed in paragraphs A29A–A29B of ISQM 1 and paragraphs A81A–A81B of ISA 200 in the ED? If not, what do you propose and why? (EM Section 1-B, paragraphs 13-18)

Disagree, with comments below

As stated in our response to Q2, on balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE and instead should further reflect on the recent clarification of the IESBA implementation approach, including the challenges it presents to the ED-PIE, to determine the appropriate approach for the IAASB standards.

We do support, however, the guidance in paragraphs A29A–A29C of ISQM 1 and paragraphs A81A–A81C of ISA 200 in the ED-PIE and suggest that the IAASB revisit this guidance, along with obtaining further information about local definitions of PIEs, to determine whether there is a viable way to re-purpose this guidance into a framework for the identification of entities in which there is a significant public interest.

Definitions of PIE and “Publicly Traded Entity”

Q2. Do you agree with adopting the definitions of PIE and “publicly traded entity” into ISQM 1 and ISA 200 (see proposed paragraphs 16(p)A–16(p)B of ISQM 1 and paragraphs 13(l)A–13(l)B of ISA 200 in the ED)? If not, what do you propose and why? (EM Section 1-C, paragraphs 19-26)

Disagree, with comments below

Misalignment between IESBA and IAASB implementation approaches of the PIE definition

Paragraph 19 of the ED-PIE states that respondents to relevant IAASB matters addressed in the IESBA PIE Exposure Draft encouraged the IAASB and the IESBA to seek consistency and alignment of important concepts and definitions used in the respective Boards' standards, and in doing so supported alignment in the types of entities to which differential requirements apply. This intended alignment was the basis for our initial support for this initiative, however, we are now concerned whether this alignment really can, or should be pursued further, due to the IESBA's recent clarifications regarding the intended implementation of the IESBA definition of PIE.

At its 20 March 2024 plenary session, IESBA further discussed and confirmed the implementation of its *Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (IESBA Code Revisions). IESBA confirmed agreement with both the conclusion in the IESBA staff issued *Staff Questions and Answers; March 2023 – Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (IESBA FAQs) and Agenda Item 8-A *PIE Rollout Issues and Working Group Views* prepared for the March 2024 IESBA meeting (IESBA Agenda Item 8-A). This included confirming IESBA's intent to depart from its normal practice of promulgating the precise definitional boundaries



in the Code and instead allowing the relevant local bodies to, more precisely, define which entities should be included as PIEs.¹

In addition, IESBA Agenda Item 8-A clearly states in paragraph 27² “that, for this specific project, compliance with the IESBA Code by firms (any firm, including those in an association of firms that are committed to complying with the Code, such as a member firm of the Forum of Firms) means first and foremost compliance with local laws and regulations, whatever they may be at the time of the audit report” (emphasis added). Paragraph 32 of that same paper clearly states that this conclusion applies even when the local body is still undergoing or has not yet initiated the process of adoption and implementation of the IESBA Code Revisions. It is our understating that as a result of the 20 March plenary session, IESBA intends to further communicate this by issuing a new FAQ.

This recent clarification (and impending FAQ) that firms should apply the local definition of PIE, regardless of whether it contains all the categories of PIEs within the IESBA definition, to comply with the IESBA Code appears to be a more significant departure from normal practice than the IAASB understood during its development of the ED-PIE. This departure raises concerns as it may result in differences in the application and implementation of the IESBA Code Revisions and the ED-PIE because the IAASB has not expressed the same intent to significantly depart from its normal practice of establishing a baseline definition.

Instead, the proposed requirement in ISQM 1 paragraph 18A implies that the firm shall treat an entity as a PIE in accordance with the definition in paragraph 16(p)A as well as more explicit definitions established by law, regulation and professional requirements. The construction of the requirement using “as well as” in the ISQM 1 definition seems to be implying that, first and foremost, the firm is required to treat anything that falls in the categories of the PIE definition as a PIE (which is the opposite of the IESBA conclusion in IESBA Agenda Item 8-A that compliance with the IESBA Code by firms *means first and foremost compliance with local laws and regulations*).

Based on the way the definition is drafted in the ED-PIE, we do not believe it was the intent of the IAASB for the definition of PIE in the jurisdiction to fully take precedence over the baseline definition in the IAASB standards. We read the IAASB’s ED-PIE as having the intention that the PIE definition as proposed would be the baseline expected to be enforced by auditors, even when local bodies have not

¹ Excerpt from IESBA FAQ #11: “In developing the revised PIE definition, the IESBA recognized that it cannot provide refined specifications of the mandatory categories that would be globally applicable. The IESBA considered that the relevant local bodies have the responsibility, and are best placed, to assess more precisely which entities should be scoped in as PIEs in their jurisdictions. Accordingly, the IESBA determined that it would be appropriate under these circumstances to depart from its normal practice of promulgating the precise definitional boundaries in the Code. Instead, the IESBA determined to allow the relevant local bodies to more precisely define which entities should be included as PIEs under each of the three mandatory categories under paragraph R400.17(a)-(c), and to include additional entities as PIEs in their jurisdictions under paragraph R400.17(d).”

² Paragraph 27 of Agenda Item 8-A *PIE Rollout Issues and Working Group Views* prepared for the March 2024 IESBA meeting states in full: “In light of the provisions set out in the IESBA PIE Revisions, in particular paragraphs R400.17 and R400.18 to 400.19 A1, as well as the considerations and rationale of the IESBA highlighted in the IESBA BfC, the WG is of the view that, for this specific project, compliance with the IESBA Code by firms (any firm, including those in an association of firms that are committed to complying with the Code, such as a member firm of the FoF) means first and foremost compliance with local laws and regulations, whatever they may be at the time of the audit report.”



adopted the PIE definitions into local law or regulation, which is inconsistent with the implementation of the definition in the IESBA Code Revisions.

We believe the IAASB did intend that when a jurisdiction has refined the categories in the PIE definition, the auditor would be able to apply the refinements. However, it is not clear what the IAASB's intentions are when a jurisdiction decides to not include one of the categories in its definition. We have the understanding that the IAASB intended for the auditor to also apply the differential requirements in its standards to entities in the missing category, which is also inconsistent with the implementation of the definition in the IESBA Code Revisions.

Unsupportive of the adoption of the definition of PIE at this time

The recent clarification of the implementation approach adopted by IESBA highlights the challenges that exist in setting a global definition of PIE that is dependent upon jurisdictions to adopt and/or refine a definition. We strongly agree that the jurisdictions are best placed to determine the PIE definition; however, many jurisdictions have not taken action or actions being taken will not be effective by the IESBA revisions effective date of 15 December 2024. We, therefore, question the viability of the IAASB aligning with IESBA's clarified implementation approach that the auditor apply the definition of PIE that is in effect at the jurisdiction level. This would be a significant departure from the IAASB's normal practice of setting global baselines and we believe this approach needs to be further evaluated by the IAASB to determine the consequences for its standards.

On balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE and instead should further reflect on the IESBA implementation approach, conduct its own outreach to jurisdictions to understand the consequences of applying local PIE definitions in the context of the IAASB standards and determine the appropriate approach for the IAASB standards (refer to our suggestions for potential path forward below).

We believe that either approach to implementing the PIE definition (i.e., either as a global baseline or by following the definition of the jurisdiction) has potential unintended consequences. The following are specific consequences that we believe the IAASB should specifically include in its further evaluation:

- The consequences of inaction by jurisdictions: It is our understanding that the IAASB is purposely seeking consistency with IESBA. IESBA's approach is premised on jurisdictions adopting and/or refining IESBA's PIE definition. However, IESBA indicated, as shown on Slide 3 presented as part of the 20 March 2024 IESBA plenary session discussing the PIE Rollout, that responses to the IESBA Adoption and Implementation Questionnaire were such that 36% of IFAC member organizations responding (professional accountancy organizations) did not report any adoption progress, 48% reported that adoption was under discussion, while only 16% of respondents reported that revisions to the local definition of PIE will be adopted. The IAASB should evaluate the effects on its approach of actions taken or not taken by the jurisdictions.
- Unintended consequences – scope in too many entities: We believe that the extension of the requirements to PIEs as proposed in the ED-PIE as a global baseline would be beneficial only if the

individual jurisdictions consider the facts and circumstances in their jurisdiction and appropriately refine the definition of PIEs with specific consideration to those entities for which the differential requirements in the IAASB standards should apply. If jurisdictions do not refine this definition in the context of the effects of the increased requirements in the IAASB standards, there may be unintended consequences due to firms and auditors being required to apply the extended requirements (e.g., performing EQRs and reporting KAMs) to entities for which the increased audit cost may outweigh the benefits of the incremental procedures.

Our concerns relate to categories (ii) and (iii) in the PIE definition for banks and insurance companies as the nature of these entities is such that, when not refined by the jurisdiction, could have the effect of being wide-reaching in some jurisdictions, resulting in auditors being put in a position of treating many of these entities as PIEs (when they may not in fact have "significant public interest"). There are also circumstances when the definition of public interest entity in local law or regulation includes other entities below the threshold of those "in which there is significant public interest".

We suggest that the IAASB engage with national standard setters, through evaluating their responses to this ED-PIE and by engaging in follow-up outreach, to understand the extent to which local PIE definitions are appropriate to meet the IAASB's objective of the proposed differential requirements.

- Unintended consequences – current IAASB "listed entity" requirements do not apply to any entities in a jurisdiction: If the IESBA implementation approach is followed, and jurisdictions have no definition of PIE in law or regulation, there is the unintended consequence that any requirements in the IAASB standards that only apply to PIEs would not be applied in the jurisdiction. This means that auditors would no longer be required to apply the current "listed entity" requirements in the IAASB standards to any entities in the jurisdiction, even those that are publicly traded entities, which is definitely not in the public interest. We acknowledge that ISQM 1 paragraph A29G and ISA 200 paragraph A81G of the ED-PIE allow the firm or the auditor to determine whether it is appropriate to treat other entities as public interest entities; however, we don't believe reliance on this application material is enough to compensate for omissions in the jurisdiction's definition of PIE. We believe the current requirements in the IAASB standards for "listed entities" should continue to be applied to audits of publicly traded entities (at a minimum).
- Consequences to the inter-operability of the IESBA Code and the IAASB standards: If the IAASB takes a different approach to implementation of the PIE definition than IESBA, there will be inconsistent treatment of many entities as PIEs for independence versus audit purposes. For firms, it will be very challenging to operationalize what is intended to be the same definition for both IESBA and IAASB standards using different requirements and implementation models. We also believe that the result of two different implementation approaches will create inconsistencies and possible confusion for stakeholders, including those charged with governance and other users of the auditor's report. If the PIE-ED is issued as exposed (i.e., with the PIE definition as a global baseline), issues such as the following will arise from the lack of inter-operability between the IESBA Code and the IAASB standards:

- If an entity is determined to be a PIE for only audit purposes, independence communications to those charged with governance in accordance with ISA 260 would not be converged with communications required by the IESBA Code. As a result, the required statement in the auditor's report that the auditor communicates "all relationships and other matters that may reasonably be thought to bear on the auditor's independence" may be misleading because the auditor may not fulfill the communication requirements in the IESBA Code that apply to PIEs (refer to our response to Q3B).
- Inconsistencies in the auditor's report between the independence statement required for PIEs under the IESBA Code and other disclosures in the auditor's report that are required for PIEs under the ISAs (e.g., Key Audit Matters).
- Under the IAASB standards, engagement quality reviews would be required for audits of PIEs as defined by the IAASB standards, but under the IESBA Code, the requirements related to rotation of engagement quality reviewers would only apply to audits of PIEs as defined by the IESBA Code (refer to our response to Q3A).
- Consequences for future differential requirements in the IAASB standards: Our view is also forward-looking, meaning that we are not just thinking about the requirements that the IAASB is proposing to elevate in the ED-PIE to PIEs, but we expect that the differential requirements in the IAASB standards that apply to PIEs will grow over time. It is important that this ED-PIE sets the appropriate baseline that the IAASB uses in its future standard-setting efforts (e.g., Proposed ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, already proposes expanding the proposed reporting requirements to PIEs).

Unsupportive of the adoption of the definition of "publicly traded entity" at this time

We do support the concept of converging with the IESBA Code's definition of "publicly traded entity", replacing the existing definition of "listed entity", as we believe the proposed definition of "publicly traded entity" is capable of consistent implementation by auditors and can result in consistent implementation across jurisdictions (regardless of the actions in the jurisdiction). We believe it continues to be in the public interest to have differential requirements in the IAASB standards for audits of listed (or publicly traded entities) at a minimum. However, because the definition of publicly traded entities is integral to the definition of PIE, we believe that any decisions to adopt the definition should not be made until the IAASB determines its direction for the PIE definition based on the challenges we outline above. We do not believe it would be appropriate for the IAASB to take a staged approach to revising the applicability of its differential requirements (e.g., by proceeding with implementation of changing applicability of the requirements from "listed entities" to "publicly traded entities" in the near term and then implementing a further change to "PIEs" after further outreach and evaluation).

Suggestions for potential path forward for the IAASB

Although we believe alignment is important between the IESBA Code and IAASB standards, we do not believe that the IESBA implementation approach is necessarily the right one for the ED-PIE for the



reasons explained above. As an immediate next step, it is important for the IAASB to publicly communicate (concurrently with the IESBA's issuance of its new FAQ, if possible) its point of view about the recent clarification of the IESBA implementation approach on the implementation approach for ED-PIE (refer to our response to Q6).

To move this project forward, we believe the IAASB needs to revisit the overarching objective of setting differential requirements in its standards for entities of significant public interest and further evaluate the criteria under which such differential requirements would be expected to apply, which we expect would include publicly traded entities at a minimum. Consistent with the view of IESBA, we continue to believe it is the jurisdictions and the national standard setters that are best placed to define PIEs. However, there may be cases when entities that may meet the strict definition of PIE in the jurisdiction do not meet the objectives of the differential requirements in the IAASB standards, in which case further clarifications may be needed by national standard setters.

Overall, it may not be feasible for the IAASB to determine, and for auditors to apply, a global baseline definition of PIE. A different approach or framework may need to be taken to provide a basis for setting differential requirements to meet "the heightened expectations of stakeholders regarding the audit engagement" for entities in which there is "significant public interest".³

We believe the IAASB should more formally engage with national standard setters to discuss their views about locally extending the applicability of the existing differential IAASB requirements to entities for which the national standard setter believes have significant public interest in the context of their jurisdiction. We believe that having the national standard setters leading these decisions is consistent with IESBA's and IAASB's belief that the relevant local bodies have the responsibility, and are also best placed, to assess and determine with greater precision which entities or types of entities should be treated as PIEs for the purposes of meeting the overarching objective.⁴

Whatever path forward is taken, it remains very important for the IAASB standards and the IESBA Code to be inter-operable by firms – and in a practical manner. In addition, the effects on the auditor's report of any differences between the treatment of entities for audit versus independence purposes should be specifically considered to avoid any expectation gap about the audit or the independence requirements applied.

³ Refer to the description of PIEs in ISQM 1 paragraphs A29A and A29B in the ED-PIE.

⁴ Refer to paragraphs 23 and 24 of the Explanatory Memorandum included in the ED-PIE.



Differential Requirements in the ISQMs and ISAs

Q3A. Do you agree with the IAASB's proposals for extending the extant differential requirements for engagement quality reviews to apply to PIEs (ISQM 1, paragraph 34(f) in the ED)? (EM Section 1-D, paragraphs 27-40 and Appendix 1)

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Disagree, with comments below

As stated in our response to Q2, on balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE.

We believe that the extension of the requirements related to engagement quality reviews to PIEs as proposed in the ED-PIE would be beneficial only if the individual jurisdictions consider the facts and circumstances in their jurisdiction and appropriately refine the definition of PIEs with specific consideration to those entities for which the differential requirements in the IAASB standards should apply. If jurisdictions do not refine this definition, there may be unintended consequences due to firms and auditors being required to apply the extended engagement quality review requirement in the IAASB standards to entities for which the increased audit cost outweighs the benefits of the incremental procedures.

In addition, under the IAASB standards, engagement quality reviews would be required for audits of PIEs as defined by the IAASB standards, but under the IESBA Code, the requirements related to rotation of engagement quality reviewers would only apply to audits of PIEs as defined by the IESBA Code. This will cause misalignment between the appointment of engagement quality reviewers under ISQM 2 and the rotation requirements for engagement quality reviewers in the IESBA Code.

Refer to our response to Q2 for suggestions for the potential path forward for the IAASB.

Q3B. Do you agree with the IAASB's proposals for extending the extant differential requirements for communication with TCWG about the firm's system of quality management to apply to PIEs (ISQM 1, paragraph 34(e) in the ED)? (EM Section 1-D, paragraphs 27-38 and Appendix 1)

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Disagree, with comments below

As stated in our response to Q2, on balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE.

Refer to our response to Q2 for suggestions for the potential path forward for the IAASB.

Q3C. Do you agree with the IAASB's proposals for extending the extant differential requirements for communicating about auditor independence to apply to PIEs (ISA 260 (Revised), paragraphs 17 and 17A, and ISA 700 (Revised), paragraph 40(b) in the ED)? (EM Section 1-D, paragraphs 27-38 and 41-45 and Appendix 1)

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Disagree, with comments below

As stated in our response to Q2, on balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE.

With respect to required communication with those charged with governance about auditor independence, if an entity is a PIE only for audit purposes, the statements in paragraph 44 of the EM related to achieving convergence with the IESBA Code and accommodating a "future-proof approach" to alignment in independence communications are not achieved. The ISA 260 requirement to communicate "all relationships and other matters" that "may reasonably be thought to bear on independence" may not include the matters required to be communicated by the IESBA Code for PIEs. Because the auditor's responsibility to communicate "all matters" that affect independence would be stated in the auditor's report due to the proposed conforming amendments to ISA 700 (Revised), this may be viewed as misleading when only the independence communications required under the IAASB standards are made (and not the communications that only apply to PIEs under the IESBA Code).

Refer to our response to Q2 for suggestions for the potential path forward for the IAASB.

In addition, we have concerns about the proposed expansion of paragraph 17 in ISA 260 (Revised) in the ED-PIE for audits of entities other than PIEs.

We question the necessity of expanding the applicability of the existing requirement in paragraph 17 of ISA 260 (Revised) regarding communicating a statement about the auditor's independence from audits of listed entities to audits of all entities because:

- This requirement was previously not a standalone communication; it provided context to the other required communications about independence for audits of listed entities (i.e., those communications now in paragraphs 17A(a) and (b) of ISA 260 (Revised) and applicable only to audits of public interest entities).
- When considering the requirement in paragraph 17 as redrafted together with the requirement in paragraph 20 of ISA 260 (Revised) for the auditor to communicate in writing "when required by" paragraph 17, the result is requiring a written statement for audits of entities other than PIEs.

- A statement about the auditor's independence is a required element of the auditor's report and therefore is already communicated in writing for all audits.
- This communication requirement change is also proposed to result in a change to the auditor's report for all audits (i.e., revisions to paragraph 40(b) of ISA 700 (Revised) that address the description of the auditor's responsibility). The change in the auditor's report provides little incremental informational value to users of the report in light of the existing required affirmative statement about independence in the Basis for Opinion section.

Overall, we do not understand the rationale for the change to paragraph 17 of ISA 260 (Revised) for audits of entities other than public interest entities, including whether additional communications to those charged with governance are expected beyond providing them the statement in the auditor's report. If this requirement is maintained, we recommend the IAASB provide application material about the intention of the requirement and, for audits of entities other than public interest entities, guidance on the nature and extent of information to be communicated.

In addition, we do not believe it is appropriate for a 'narrow scope' project specific to audits of public interest entities to impose significant new requirements for audits of entities other than public interest entities. The IAASB should be mindful of the implementation effort that will be involved by firms for such a minor change. See also our response to Q8 on the effective date.

Q3D. Do you agree with the IAASB's proposals for extending the extant differential requirements for communicating KAM to apply to PIEs (ISA 700 (Revised), paragraphs 30-31, 40(c) and ISA 701, paragraph 5 in the ED)? (EM Section 1-D, paragraphs 27-38 and 46 and Appendix 1)

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Disagree, with comments below

As stated in our response to Q2, on balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE.

We believe that the extension of the requirements related to KAMs to PIEs as proposed in the ED-PIE would be beneficial only if the individual jurisdictions consider the facts and circumstances in their jurisdiction and appropriately refine the definition of PIEs or the requirements for reporting KAM (e.g., certain jurisdictions do not require KAM for smaller listed entities). If jurisdictions do not refine this definition or the reporting requirements, there may be unintended consequences due to firms and auditors being required to apply the extended KAM requirements in the IAASB standards to entities for which the increased audit cost outweighs the benefits of the incremental procedures.

Refer to our response to Q2 for suggestions for the potential path forward for the IAASB.



Q3E. Do you agree with the IAASB's proposals for extending the extant differential requirements for the name of the engagement partner to apply to PIEs (ISA 700 (Revised), paragraphs 46 and 50(l))? (EM Section 1-D, paragraphs 27-38 and Appendix 1)

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Disagree, with comments below

As stated in our response to Q2, on balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE.

Refer to our response to Q2 for suggestions for the potential path forward for the IAASB.

Q4. Do you agree with the IAASB's proposal to amend the applicability of the differential requirements for listed entities in ISA 720 (Revised) to apply to "publicly traded entity"? If not, what do you propose and why? (EM Section 1-D, paragraphs 47-51)

Disagree, with comments below

As stated in our response to Q2, we support the concept of converging with the IESBA Code's definition of "publicly traded entity", replacing the existing definition of "listed entity", as we believe the proposed definition of "publicly traded entity" is capable of consistent implementation by auditors and will result in consistent implementation across jurisdictions regardless of the actions in the jurisdiction. However, because the definition of publicly traded entity is integral to the definition of PIE, we believe that any decisions to adopt the definition should not be made until the IAASB determines its direction of the PIE definition based on the challenges we outline in our response to Q2.

Proposed Revisions to ISRE 2400 (Revised)

Q5. Do you agree with the new requirement and application material in ISRE 2400 (Revised) to provide transparency in the practitioner's review report about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code? If not, what do you propose and why? (EM Section 1-E, paragraphs 52-57)

Agree (with no further comments)



Other Matters

Q6. Are there any other matters you would like to raise in relation to the ED? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

Yes, with comments below

Communication of the effects of the IESBA implementation approach on the ED-PIE

As explained in our response to Q2, the IESBA confirmed that compliance with the IESBA Code by firms *means first and foremost compliance with local laws and regulations*, whatever they may be at the time of the audit report. It is also our understanding that as a result of the 20 March plenary session, IESBA intends to further communicate this by issuing a new FAQ.

We strongly suggest that the IAASB publicly communicate (concurrently with the IESBA's issuance of its new FAQ, if possible) its views on the effects of the confirmed IESBA implementation approach on the ED-PIE and the IAASB's intended next steps. It would be helpful for the IAASB to explain to its stakeholders, and the respondents to the ED-PIE, the differences between the implementation of the IESBA and IAASB standards and the implications for entities and their auditors, as well as for users of the auditor's report.

Staff guidance on the applicability of the requirements for listed entities in the ISAs when IESBA Code revisions become effective

We believe it is important for the IAASB to emphasize that the "listed entity" definition in the IAASB standards remains in effect until revisions to that definition from the ED-PIE are effective. Reiterating the requirements that continue to apply to audits of listed entities in the form of staff guidance would be useful for firms and auditors so that these are appropriately factored into their implementation of the IESBA Code revisions. This guidance would also be useful to educate stakeholders on the differences to expect during the transition period.

For example, for an entity that is not a PIE under the IESBA Code, but remains a listed entity under the ISAs, the auditor's report will not include the statement required by ISA 700 paragraph 28 that the auditor is independent of the entity in accordance with the independence requirements applicable to audits of PIEs, but the auditor's report will continue to be required to include KAMs, the name of the engagement partner and reporting on Other Information.

Timely updates to the Authority of the ISA for LCE

We note that paragraph 10 of the ED-PIE acknowledges that the IAASB has considered the impact of the adoption of the PIE definition on the Authority of the ISA for Audits of Financial Statements of Less Complex Entity (the ISA for LCE). However, no further action is noted. We believe that the IAASB should deliberate and implement conforming amendments to the Authority of the ISA for LCE concurrently with the effective date of the ED-PIE. We believe the criteria in the Authority of the ISA for LCE would need to be aligned to any new definitions at the same time as the IAASB standards,



otherwise, illogical scenarios may occur (e.g., an entity not being permitted to use the ISA for LCE because they fall under the existing definition of listed entity, even when they are not a publicly traded entity or PIE under the new definitions).

Additional editorial comment for the IAASB's consideration

We suggest the following revision to ISA 260 paragraph A29A of the ED-PIE to clarify that both examples given are only applicable to PIEs:

A29A. Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance for matters that may reasonably be thought to bear on independence. For example, for audit clients that are public interest entities, the IESBA Code requires the auditor to communicate with those charged with governance information regarding fees and the provision of non-audit services ~~for audit clients that are public interest entities.~~

Q7. Translations—Recognizing that many respondents may intend to translate the final narrow scope amendments for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED.

No response

Q8. Effective Date—Given it is preferred to coordinate effective dates with the fraud and going concern projects, the IAASB believes that an appropriate effective date for the narrow scope amendments would be for financial reporting periods beginning approximately 18-24 months after approval of the final narrow scope amendments for Track 2. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the narrow scope amendments for Track 2 of the listed entity and PIE project.

See comments on effective date below

Allow sufficient time for additional IAASB outreach and firm implementation

As explained in our response to Q2, we do not believe that the IESBA approach is aligned with the implementation approach that the IAASB intended for the ED-PIE . We believe the next steps for the IAASB are to revisit the overarching objective of setting differential requirements in its standards for entities of significant public interest and engage in further outreach to jurisdictions to understand the conditions under which such differential requirements would be expected to apply. Therefore, any potential effective date for this project will depend on the next steps determined by the IAASB.

In determining an effective date, the IAASB should factor in the time needed for firms and jurisdictions to work through any issues in the inter-operability between the IAASB and IESBA standards and any other expected complexities in implementation.



Concerns with early adoption of revisions applicable to all entities

If the PIE-ED is finalized in the time frame proposed and the revisions applicable to all entities proposed in ISA 260 paragraph 17 and ISA 700 paragraph 40(b) remain (refer to our response to Q3c), we have concerns with allowing early adoption of these revisions. We suggest that the IAASB prohibit early adoption of these revisions or otherwise be clear that the implementation of the change to the auditor's report is intended to be implemented together with the auditor's report changes for fraud and going concern.

Alignment of effective dates with Fraud and Going Concern projects

Even though we agree with aligning the effective date of any auditor reporting enhancements that may result from this project, with the fraud and going concern projects, we believe the IAASB needs to consider the efforts for the way forward for this project before determining if this is possible.

We also suggest that the IAASB provide a comprehensive summary of all the anticipated and final changes to the auditor's report as an implementation aid to auditors when final standards are issued.

We would be pleased to discuss our comments with members of the International Auditing and Assurance Standards Board or its staff. If you wish to do so, please contact Eric Spiekman, Global Professional Practice (Eric.Spiekman@ey.com).

Yours sincerely,

Ernst + Young Global Limited