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Mr. Matthew Zappulla
Technical Director
Auditing and Assurance Standards Board
PO Box 204
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Via e-mail: enquiries@auasb.gov.au

Dear Matthew,

Preliminary informal staff feedback

We provide below, our preliminary views on the Consultation Paper: *Exposure of the IAASB's Proposed Narrow Scope Amendments to International Standards on Quality Management; International Standards on Auditing; and International Standard on Review Engagements 2400 (Revised), Engagements to Review Historical Financial Statements as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code (ED)*.

The below comments are CPA Australia staff views which may change as we finalise our submission to the International Auditing and Assurance Standards Board (IAASB) on this ED.

CPA Australia commends the collaborative efforts of the IAASB and the International Ethics Standards Board for Accountants (IESBA) in aligning definitions and terminology, and we generally support the proposed changes. While we recognise the significance of establishing a common objective to guide differential requirements across the IAASB standards and the IESBA Code, we have identified certain concerns regarding the terminology's usage within the context of audit objectives.

We express reservations in our response regarding the terminology surrounding standards aimed at meeting heightened stakeholder expectations for Public Interest Entities (PIEs). We believe that the current terminology may exacerbate existing expectation gaps. Specifically, we propose changing the term "stakeholders" to "intended users of the financial report", aligning it with the terminology used in paragraph 3 of ISA 200 (Revised) *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (ISA 200)*.

Ensuring consistency and clarity in the use of terminology will facilitate better understanding and implementation of the standards, ultimately enhancing the effectiveness of the audit and review engagements.

Objective for Establishing Differential Requirements for PIEs

CPA Australia neither wholly agrees nor disagrees with the proposal outlined in paragraphs A29A–A29B of ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (ISQM 1)* and paragraphs A81A–A81B of ISA 200 in the ED. In principle, we agree with the necessity of developing a common objective to underpin the establishment of differential requirements for entities across IAASB standards and the IESBA Code. However, we find the adoption of the objective in paragraph 400.8 of the IESBA PIE Revisions into ISQM 1 and ISA 200 to be problematic.

Our concern arises from the fact that Section 400 of the IESBA Code pertains to independence for audit and review engagements, whereas ISQM 1 and ISA 200 address audits more holistically. Thus, aligning the proposed wording with these IAASB standards would have broader implications beyond just independence for audit and review engagements. Therefore, we

urge the IAASB to reconsider its approach in adopting the objective directly from the IESBA Code. We strongly recommend revising the language to replace 'stakeholders' with 'intended users of financial reports' and 'meet' with 'address.' This adjustment would better align with and reflect the intended context of the IAASB standards.

Definitions of PIE and "Publicly Traded Entity"

CPA Australia agrees with adopting the definitions of PIE and "publicly traded entity" into ISQM 1 and ISA 200.

The use of the term "publicly traded entity" does not, in itself, seem to create any obvious issues or problems. Our membership is generally supportive of the proposed revised definition of a PIE as set out in proposed paragraph R400.17 of the IESBA Code including the new term 'Publicly Traded Entity'.

Differential Requirements in the ISQMs and ISAs - engagement quality reviews

CPA Australia is unable to definitively conclude on this matter.

We recognize the proposal's alignment with public interest objectives but urge the IAASB to adopt a proportional and scalable approach given the significant impact this may have on Small and Medium Practices (SMPs) and their clients. We understand that SMPs often serve smaller, less complex PIEs with straightforward business models and minimal risk factors, making the imposition of engagement quality reviews disproportionately burdensome for both entities and auditors. This could inflate audit costs for clients with little added value. We recommend the IAASB adopt a proportional and scalable approach, considering the size and complexity of entities alongside PIE classification would ensure that differential requirements add value without unduly burdening SMPs and their clients.

Should the IAASB proceed with extending the extant differential requirements for engagement quality reviews to apply to PIEs, we recommend allowing ample transition time for SMPs to implement changes to get such processes set up and embedded, which would allow them to comply with the new differential requirements.

Differential Requirements in the ISQMs and ISAs - communication with TCWG about the firm's system of quality management

CPA Australia supports the IAASB's proposal to extend existing differential requirements for communication with those charged with governance (TCWG) regarding the firm's quality management system to PIEs, as outlined in ISQM 1, paragraph 34(e) in this ED.

However, we find the proposed amendments in paragraph A128 of ISQM 1 to be unclear. We suggest that the IAASB clarify whether the proposed amendments to paragraph A128 intend to expand differentiation requirements for communication with TCWG to PIEs only or to all audit clients.

Differential Requirements in the ISQMs and ISAs - communicating about auditor independence

CPA Australia supports the IAASB's proposal to extend current differential requirements for communicating auditor independence to PIEs.

However, we found question 3C to be confusing. This question refers to extending the differential requirements for communicating about auditor independence to apply to PIEs only, whilst paragraph 42 of EM proposed that the revision should extend these requirements to all entities. We recommend the IAASB to clarify its position on this matter.

We believe the drafting of paragraph 17 of ISA 260 *Communication with Those Charged with Governance* (ISA 260) should be aligned with paragraph 40(b)(i) of ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements* (ISA 700) and urge the IAASB to clarify its intent and consider the unintended administrative burden this scope expansion may impose on auditors across all audits.

Differential Requirements in the ISQMs and ISAs - communicating KAM

CPA Australia opposes the IAASB's proposal to extend current differential requirements for communicating Key Audit Matters (KAM) to Public Interest Entities (PIEs).

Feedback from our outreach and [joint submissions to the AUASB](#) indicates no compelling reasons or immediate need to extend KAM reporting beyond listed entities in Australia. Given resource constraints in audit firms and increasing demand for services in areas like sustainability reporting, we urge careful consideration of whether the benefits of extending KAM reporting outweigh the costs.

Should the IAASB proceed with extending KAM communication to PIEs, we recommend allowing ample transition time for audit firms and entities to develop relevant, entity specific KAMs to avoid generic descriptions.

Differential Requirements in the ISQMs and ISAs - the name of the engagement partner

CPA Australia agrees with no further comments.

Differential requirements for listed entities in ISA 720 (Revised) to apply to "Publicly traded entity"

CPA Australia supports the IAASB's proposal to modify the applicability of the differential requirements in ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* (ISA 720) to apply to "publicly traded entities."

We also endorse the rationale provided in the explanatory memorandum (EM) for postponing amendments to the differential requirements of ISA 720 for Public Interest Entities (PIEs) at present. We agree that this discussion should be deferred until a comprehensive revision of ISA 720 is undertaken.

Proposed Revisions to ISRE 2400 (Revised)

CPA Australia agrees with the new requirement and application material in ISRE 2400 (Revised) *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* (ISRE 2400) to ensure alignment with the stipulations in paragraph 28(c) of ISA 700 (Revised).

However, we strongly recommend that the IAASB prioritises the inclusion of revisions to both ISRE 2400 (Revised) and ISRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ISRE 2410) in its work plan, as both standards are long overdue for an update. We are of the view that the revision of ISRE 2410 holds greater urgency compared to ISRE 2400, as interim review engagements conducted by independent auditors for PIEs under ISRE 2410 are more prevalent across jurisdictions, whereas reviews of historical financial statements of PIEs under ISRE 2400 (Revised) are relatively uncommon in practice. The clarity and alignment with concepts and principles from other standards would be welcomed by our members and other stakeholders.

We appreciate the IAASB's attention to these matters and urge swift action to ensure the continued effectiveness and relevance of international standards in the auditing profession.

Effective date

CPA Australia acknowledges the importance of coordinating effective dates with ongoing projects related to fraud and going concern, particularly in cases where revisions may impact on auditor reports. Aligning these efforts wherever feasible would be the most sensible approach.

However, as discussed in the earlier responses, extending the extant differential requirements to PIEs will disproportionately affect SMPs and their clients. Therefore, should the IAASB proceed with the proposals in this ED, we advocate for providing SMPs with ample transition time to implement necessary changes and integrate them into their processes effectively. This transition period is essential to ensure compliance with the extant differential requirements.

There remains a valid concern regarding whether the suggested 18 to 24-month transition period would afford SMPs with sufficient time to carry out these essential actions and considerations effectively. Therefore, we urge the IAASB to be mindful of this potential challenge and consider extending the transition period if deemed necessary to facilitate smoother implementation.

Australian Specific Questions

We support the AUASB's decision to adopt the APESB's definition of PIEs, and we believe that this adoption will not result in a requirement that is lesser than or in conflict with the IESBA definition proposed by the IAASB.

In line with our previous stance on Key Audit Matters (KAM), we oppose the proposal to broaden the applicability of ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (ASA 701) to all PIEs in Australia. We firmly believe that the discretion to extend KAM reporting beyond listed entities or publicly traded entities should remain within the purview of local jurisdictions. We refer you to our earlier comments on this matter for further details.

Should you have any questions about the matters raised in this preliminary informal staff feedback or wish to discuss them further, please contact Tiffany Tan, External Reporting and Assurance Policy Lead at tiffany.tan@cpaaustralia.com.au.